

## Legislation Text

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File #: 18-049, Version: 1

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### CITY COUNCIL AGENDA ITEM

#### **ACTION REQUESTED:**

Waive the applicable provisions of the Naperville Procurement Code and award Procurement 18-060, 2018 Comprehensive Electric Utility Cost-of-Service Rate Study, to Utility Financial Solutions, LLC for an amount not to exceed \$52,000.

**DEPARTMENT:** Electric Utility

**SUBMITTED BY:** Mark Curran, Director

#### **BOARD/COMMISSION REVIEW:**

PUAB concurred with staff's recommendation to waive the applicable provisions and proceed with a recommendation to City Council to award the 2018 Comprehensive Electric Utility Cost-of-Service Rate Study to Utility Financial Solutions.

#### **BACKGROUND:**

In 2015, the City contracted with Utility Financial Solutions (UFS) to perform a rate study. The study was a guide for the City in making appropriate financial decisions for the Electric Utility through 2018. UFS completed the rate study with the following financial goals:

- Restore the "capital" maintenance program to an appropriate level;
- Repay the \$13.2 million loan to the Water Utility; and
- Restore cash reserves to an appropriate level.

The developed rate design was approved by City Council on January 5, 2016 and was based on the following items:

1. Implement a phased approach to a "Capital" Maintenance Budget (\$8.3 million, \$8.3 million, \$10 million) over the next three years;
2. Implement a Purchased Power Adjustment (PPA) - A PPA is an adjustment made on an electric bill that is designed to recoup or credit the difference in costs associated with power purchases to help ensure customers are not over or under charged for power supply. This tool is used by approximately 75% of public power systems and all investor-owned utilities to address variability in the power market;
3. Complete a rate design that incorporates rate increases of 8.3% for all customer classes in 2016, from 0.4-4.4% in 2017 and 2018 depending on customer class and no issuance of debt. This option provides revenue for the repayment of the Water loan to begin in 2016 (\$3 million) and restores the cash balance of the Electric Utility to a projected \$22.5 million by the end of 2018, assuming a 5-year payback period of the Water loan;
4. Implement a gradual cost of service shift beginning in 2017 to align costs and revenues in each utility customer class with a goal of bringing costs into sync in a 5-7 year timeframe.

- Residential, small commercial, and transmission classes are currently not covering their cost of service and are being subsidized by larger commercial; and
5. Shift part of customers' energy costs to the customer charge portion of utility bills each year to provide a stable revenue source for fixed utility costs in the following amounts:
    - a. Residential: \$1.50 per month per year
    - b. Commercial: \$3.00 per month per year
    - c. Primary and Transmission: \$25.00 per month per year

This action was a measured approach, allowing the utility to slowly improve cash flow while also maintaining the City's competitive rate position with highly reliable service.

### **DISCUSSION:**

The Electric Utility is currently in the third and final year of the rate implementation. Staff recommends the City complete another rate study for the years 2019-2021 to verify the rates are appropriate to support the Electric Utility through the same financial goals as the previous study. During the last procurement process, the City received proposals from eight vendors. Following the proposal review and interviews, four vendors were shortlisted to submit cost proposals. UFS had the lowest quality adjusted cost and was recommended for award. The cost proposals ranged from \$78,500 - \$125,000. UFS was the lowest with the next closest at \$110,110. St. Charles Electric Utility recently awarded a rate study for \$80,000.

UFS proved to be an excellent partner in our last rate study. They have expertise in the market place, a positive and responsive team, familiarity of the electric rate model, and proven accuracy in the previous rate study. Projection from the 2015 rate study has aligned with actuals through 2017, even in a volatile market place. In 2015, UFS projected our cash balance at the end of 2018 to be \$22.5 million. Due to our very fiscally conservative approach in 2016 in capital spending, the cash balance at the end of 2018 is now projected to be \$25.2 million.

It should be noted that the Financial Advisory Board (FAB) will be reviewing the cash reserve policy over the next few months and that will be reflected in this rate study. In addition, UFS will be evaluating current rates, cost of service shift, and the customer charge to verify collection is still progressing as intended. The purchase power cost projected verses actual in the previous rate study were within -0.18% and 0.18% for year 2016 and 2017 respectively and is anticipated to be within 1.37% in 2018. The PPA will be a significant factor going forward. Since implemented in 2016, it has performed as designed in the 2015 rate study. Based on the actual cost of power, customers received a credit in 2016 and charge in 2017 and will again see a charge in 2018. With the PPA covering the shift in purchase power prices, it has proven to be a key tool to a fiscally sound budget. This study will determine the adjustment of the base PPA going forward.

Staff recommends waiving the procurement code and contracting with UFS for \$52,000 to complete a comprehensive cost-of-service rate study for the years 2019-2021.

### **FISCAL IMPACT:**

CIP #: N/A

The 2018 Comprehensive Electric Utility Cost-of-Service Rate Study is expensed to the professional service account below. A total of \$100,000 has been budgeted for the 2018 Electric Rate Study in CY2018. The requested award of \$52,000 is within the budgeted amount for this expense.

Account Number	Fund Description	Total Budget Amount
40101300-531309	Electric Utility Fund	\$100,000