



AGENDA SUMMARY REPORT

SUBJECT: The City Council will consider Adoption of a Power Cost Surcharge Rider by Resolution.

DEPARTMENT: Electric Utility

PREPARED BY: Cindy Sauers, Electric Utility Director

PRESENTER: Cindy Sauers, Electric Utility Director

ATTACHMENTS:

1. Attachment 1 - 2022 Increase Approved Rate Tables
2. Attachment 2 - Ukiah Market Conditions - Summer 2022 Readiness 06-01-22 FINAL
3. Attachment 3 - Power Cost Surcharge
4. Attachment 4 - Resolution Adopting Power Cost Surcharge Rider

Summary: In accordance with Ukiah City Code Division 4, Chapter 6 Sections 3950 through 3957, the City Council will hold a public hearing on August 17, 2022, to receive the City Manager's Report and consider the adoption, by resolution, of the proposed Power Cost Surcharge Rider. The Agenda Summary Report and the City Manager's Report are to be considered the same report and have been amended hereto.

Background: In February, Council approved a yearly rate increase that incorporated projected energy cost numbers for five years. The increase is effective April 1st every year through 2026. The rate tables are included as Attachment 1.

In June, Council received a presentation (Attachment 2) on energy market conditions and the impact of drought, natural gas prices and inflation on the California energy market. Due to the drought, hydroelectric facilities in California are experiencing a decrease in water storage at levels around 50% of normal years. Less water storage translates to less electric generation for California consumers. Natural gas prices are elevated due to geopolitical pressure and reduced supply, and inflation has driven prices on the energy market up more than 32%. These increases have had a significant impact on the Utility's budget and far exceed the budget estimates prepared just six months ago.

In July, Council provided direction to Staff to move forward with a public notice and subsequent public hearing to consider the Power Cost Surcharge.

Discussion: Projections for the California energy market continue to be higher than average and are expected to be volatile. In an effort to mitigate the increased expense and volatility associated with procuring energy resources, Staff is recommending the implementation of a Power Cost Surcharge (Surcharge). The Surcharge will be applied to all electric rates and to every kilowatt-hour (kWh) that is sold. It will be calculated using a 12-month total of expenses divided by the total number of kWhs procured. The difference between the calculated value and the same value in January 2022 will be the applied Surcharge (\$/kWh). The implementation of the Surcharge will begin on October 1, 2022, effective immediately for all customers, and happen every six months thereafter. The value of the Surcharge can be positive or negative and will be based on actual costs to the Electric Utility. Therefore, as power costs decrease, customer bills will be reduced. A copy of the Surcharge Rider is included as Attachment 3.

Staff recommends adopting the Resolution (Attachment 4) establishing a Power Cost Surcharge Rider.

Recommended Action: Approve Resolution establishing the Power Cost Surcharge Rider.

BUDGET AMENDMENT REQUIRED: No

CURRENT BUDGET AMOUNT: N/A

PROPOSED BUDGET AMOUNT: N/A

FINANCING SOURCE: N/A

PREVIOUS CONTRACT/PURCHASE ORDER NO.: N/A

COORDINATED WITH: Sage Sangiacomo, City Manager, Dan Buffalo, Finance Director

Approved: 
Sage Sangiacomo, City Manager

City of Ukiah Electric Rates

Residential Service Electric Rate E1, E2*

Residential Service Electric Rate E1, E2*							
Rate Year	Rate effective date	Energy kWh Charge		Monthly Fixed Charge - per KWH level			Minimum monthly charge
		Kwh less than Baseline (\$/kWh)	kWh equal to or Greater than Baseline (\$/kWh)	Less than 200 kWh per month	201-550 kWh per month	Greater than 550 kWh per month	
1	April 1, 2022	\$0.14797	\$0.19395	\$1.00	\$1.75	\$2.75	\$5.00
2	April 1, 2023	\$0.16009	\$0.20983	\$2.00	\$3.19	\$4.56	\$5.00
3	April 1, 2024	\$0.17344	\$0.22733	\$3.00	\$4.63	\$6.38	\$5.00
4	April 1, 2025	\$0.18837	\$0.24691	\$4.00	\$6.06	\$8.19	\$5.00
5	April 1, 2026	\$0.20493	\$0.26861	\$5.00	\$7.50	\$10.00	\$5.00

(The amended rates will apply to the first full month's consumption following the rate's effective date)

BASELINE QUANTITIES (kWh PER MONTH)

	WINTER (Nov 1-Apr 30)	SUMMER (May 1 -Oct 31)
Basic Service (E1)	360	360
All Electric E2*	660	360

***All Electric Rate E2 was closed to new customers effective 1/1/2017.** Current customers will be allowed to stay on the rate no matter how they qualified. Other rate discounts and or adjustments to baseline quantities for various programs such as but not exclusive of senior and life support will remain the same. The minimum charge will be billed if the sum of the basic and the energy charges are less than the minimum charge amount.

City of Ukiah Electric Rates

Small Commercial Service Electric Rate E5, E6, C5, C6

This rate schedule is applicable to general commercial and non-commercial residential lighting, heating and all single phase and three phase alternating current loads in which energy use is less than 144,000 kWh per meter for 12 consecutive months. This schedule will not be applicable to commercial uses permitted by the City under a Home Occupation Permit.

Small Commercial Service Electric Rate E5, E6, C5, C6					
Rate Year	Rate effective date	Energy Charge (\$/kWh)		Monthly fixed charge (\$)	
		Winter	Summer	E5/C5	E6/C6
1	April 1, 2022	\$0.16090	\$0.20010	\$15.50	\$16.50
2	April 1, 2023	\$0.17619	\$0.21911	\$17.21	\$18.32
3	April 1, 2024	\$0.19292	\$0.23992	\$19.10	\$20.33
4	April 1, 2025	\$0.21125	\$0.26272	\$20.91	\$22.26
5	April 1, 2026	\$0.23132	\$0.28768	\$22.90	\$24.38

WINTER (Nov 1 – Apr 30)

SUMMER (May 1 – Oct 31)

***New electric accounts with intermittent loads (used infrequently) and disconnected within the last 12 months shall be charged \$50 in addition to all other new account fees**

City of Ukiah Electric Rates

Medium/Large Commercial Service with Demand Electric Rate E7, C7

This rate is applicable to commercial and non-residential lighting, heating, and all single phase and three phase loads in which energy use is 144,000 kWh or greater per meter for 12 consecutive months. The customer bill will consist of a basic month charge, energy and demand charges.

Demand Charge

The customer will be billed for demand according to the customer's "maximum kilowatt demand" each month. The number of kilowatt (kW) used will be recorded over 15-minute intervals: the highest 15-minute average kW use in the month will be the customer's maximum demand.

Medium/Large Commercial Service with Demand Electric Rate E7, C7						
Rate Year	Rate effective date	Energy Charge (\$/kWh)		Demand Charge (\$/kW)		Monthly Fixed Charge (\$)
		Winter	Summer	Winter	Summer	
1	April 1, 2022	\$0.11139	\$0.13834	\$5.48	\$8.10	\$114.62
2	April 1, 2023	\$0.12108	\$0.15037	\$6.42	\$8.85	\$137.54
3	April 1, 2024	\$0.13260	\$0.16470	\$7.03	\$9.69	\$150.61
4	April 1, 2025	\$0.14520	\$0.18030	\$7.70	\$10.61	\$164.92
5	April 1, 2026	\$0.15900	\$0.19740	\$8.43	\$11.62	\$180.59

WINTER (Nov 1 – Apr 30)

SUMMER (May 1 – Oct 31)

City of Ukiah Electric Rates

Industrial Service with Demand Electric Rate I1

This schedule is applicable to large industrial production, lighting, heating and all single and three phase loads in which energy use is an average of 75,000 kWh monthly or greater with a demand of 200 kW monthly or greater for at least six consecutive months (multiple meters at a single location will be combined).

The Industrial rate is applicable to large manufacturing facilities, defined as businesses or corporations that produce products for either wholesale or retail sales or businesses that contract to fulfill obligations to produce specific components.

Demand Charge

The customer will be billed for demand according to the customer's "maximum kilowatt demand" each month. The number of kilowatt (kW) used will be recorded over 15-minute intervals: the highest 15-minute average kW use in the month will be the customer's maximum demand.

Industrial Service with Demand Electric Rate I1 (Replaces EI Rate)						
Rate Year	Rate effective date	Energy Charge (\$/kWh)		Demand Charge (\$/kW)		Monthly Fixed Charge (\$)
		Winter	Summer	Winter	Summer	
1	April 1, 2022	\$0.08608	\$0.11300	\$5.29	\$8.10	\$143.27
2	April 1, 2023	\$0.09426	\$0.12374	\$5.92	\$8.83	\$179.09
3	April 1, 2024	\$0.10320	\$0.13550	\$6.48	\$9.67	\$196.10
4	April 1, 2025	\$0.11300	\$0.14840	\$7.10	\$10.59	\$214.73
5	April 1, 2026	\$0.12370	\$0.16250	\$7.77	\$11.60	\$235.13

WINTER (Nov 1 – Apr 30)

SUMMER (May 1 – Oct 31)

City of Ukiah Electric Rates

Ukiah Green Energy Program

For customers wishing to promote the development and use of renewable energy; the City of Ukiah offers a 100 % Green electric rate. This rate is available to all Ukiah electric customers.

The City will procure, on the customer's behalf, Renewable Energy to match the customer's monthly energy consumption. Customers choosing the Green Rate will incur an additional 2.021 cents per kWh for every kWh consumed during the billing period. The 100% Green Rate will be updated yearly and will be based on renewable energy cost, delivery costs and imposed fees. Customers may opt into the program anytime and may opt out any time after the second complete billing cycle on the program.

100% Green Energy Rate		
Program:	Ukiah Green Energy Rate:	Billing Period:
Ukiah Green Energy	0.02021 per kWh	Monthly

Summer Readiness 2022 & Market Conditions



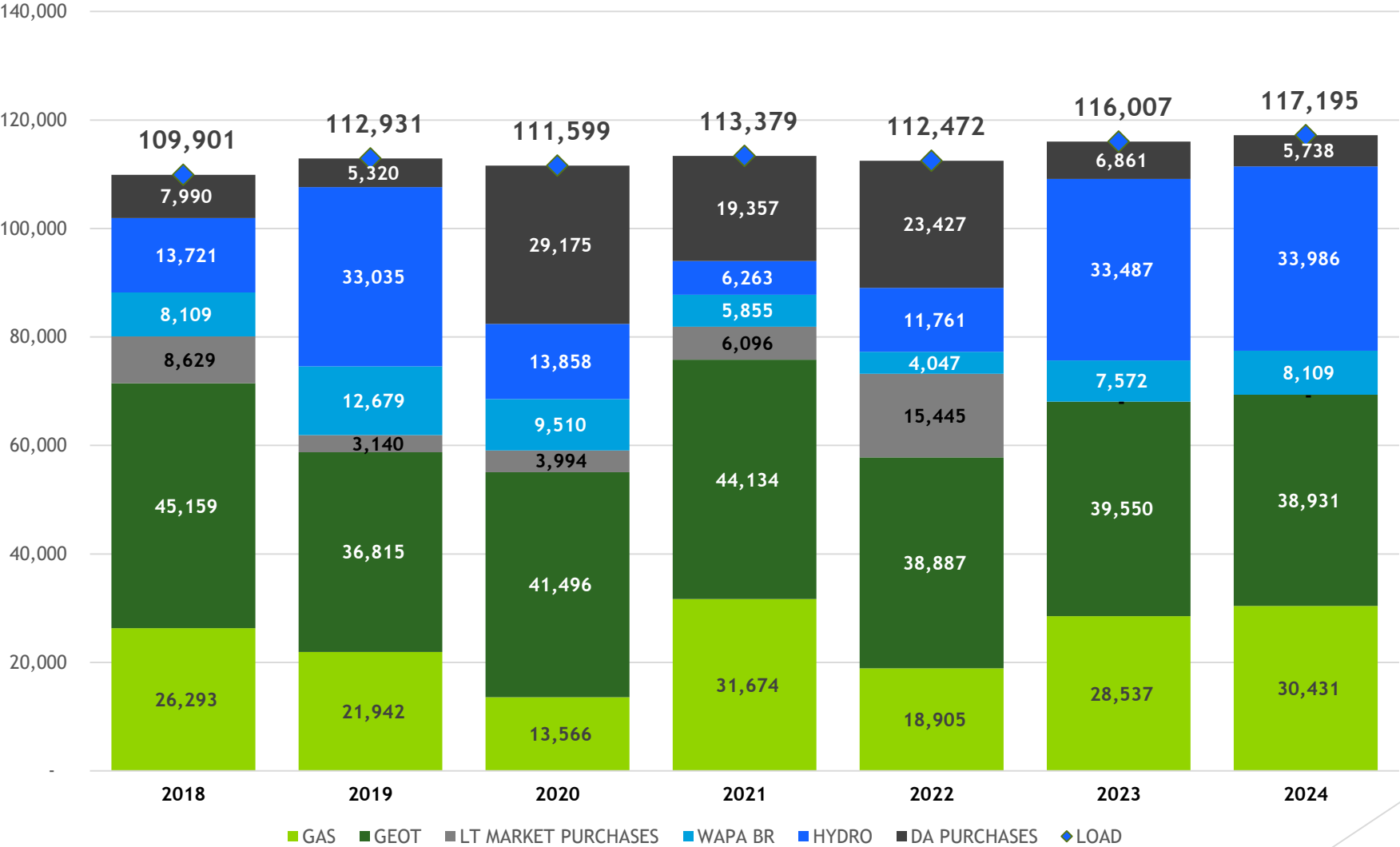
California Energy Policy

Among the most aggressive in the world

California projects a 1700MW shortage of energy this summer!

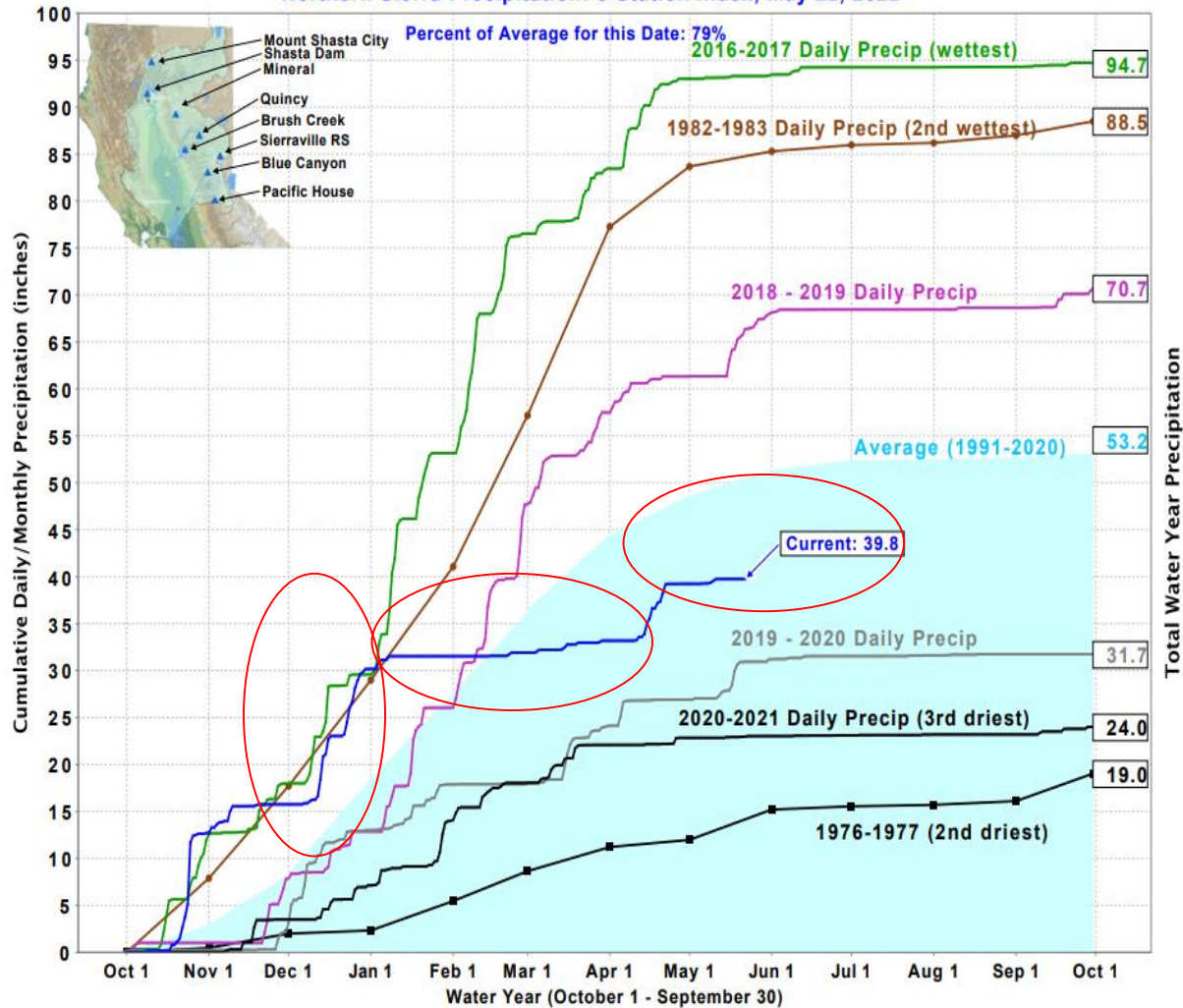
- 3700MW of natural gas plants scheduled for retirement in 2023
- 2280MW of nuclear generation scheduled for retirement in 2025
- \approx 12000MW of generation planned - not procured or built

UKIAH LOAD & RESOURCES
(MWh)

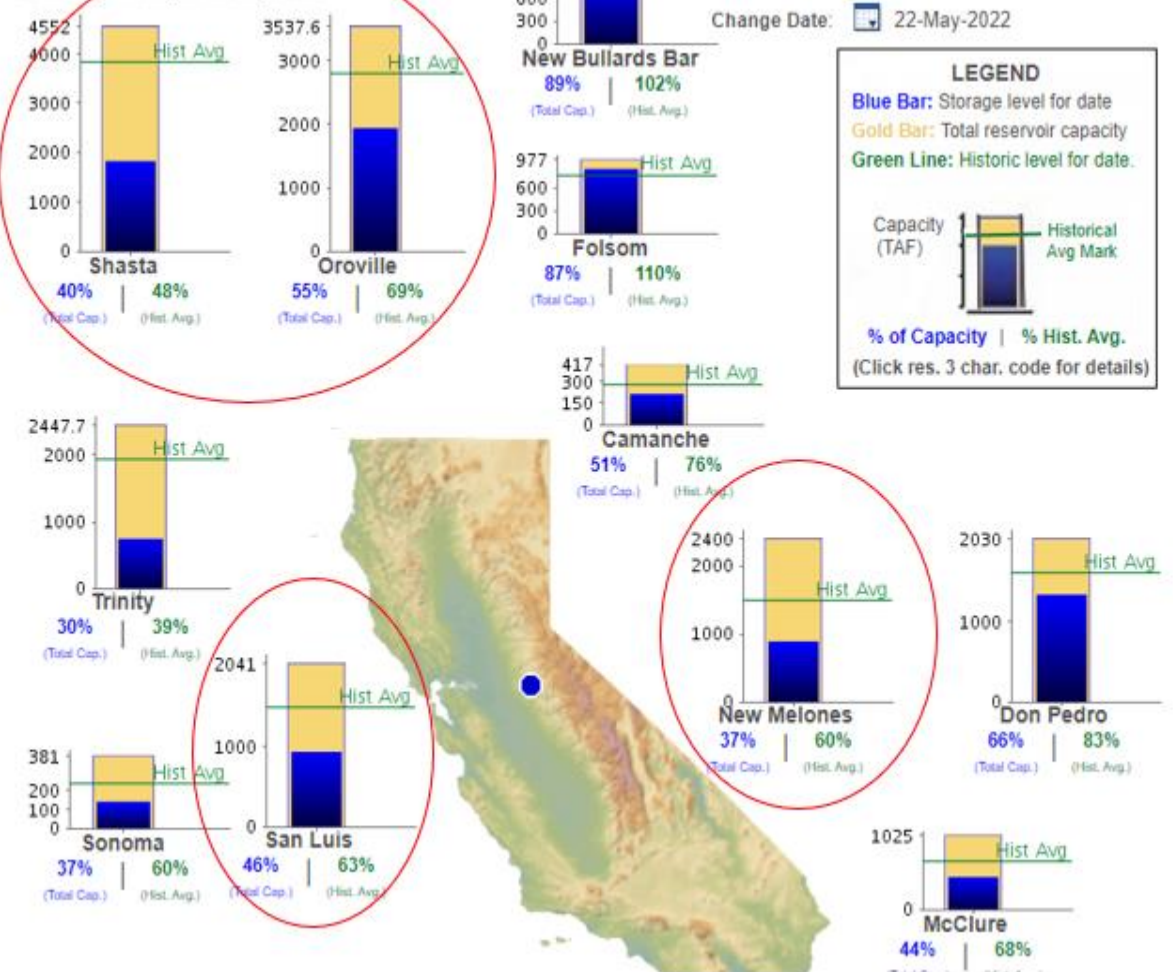


Market Pressures - Drought

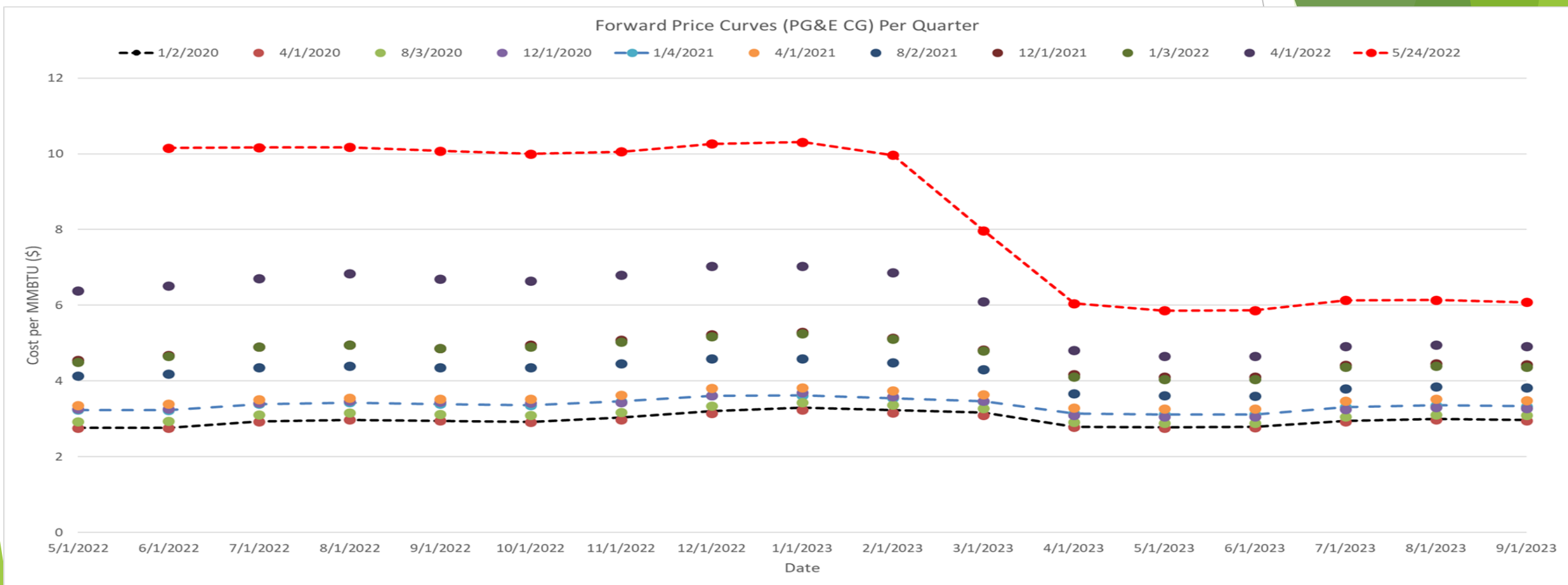
Northern Sierra Precipitation: 8-Station Index, May 22, 2022



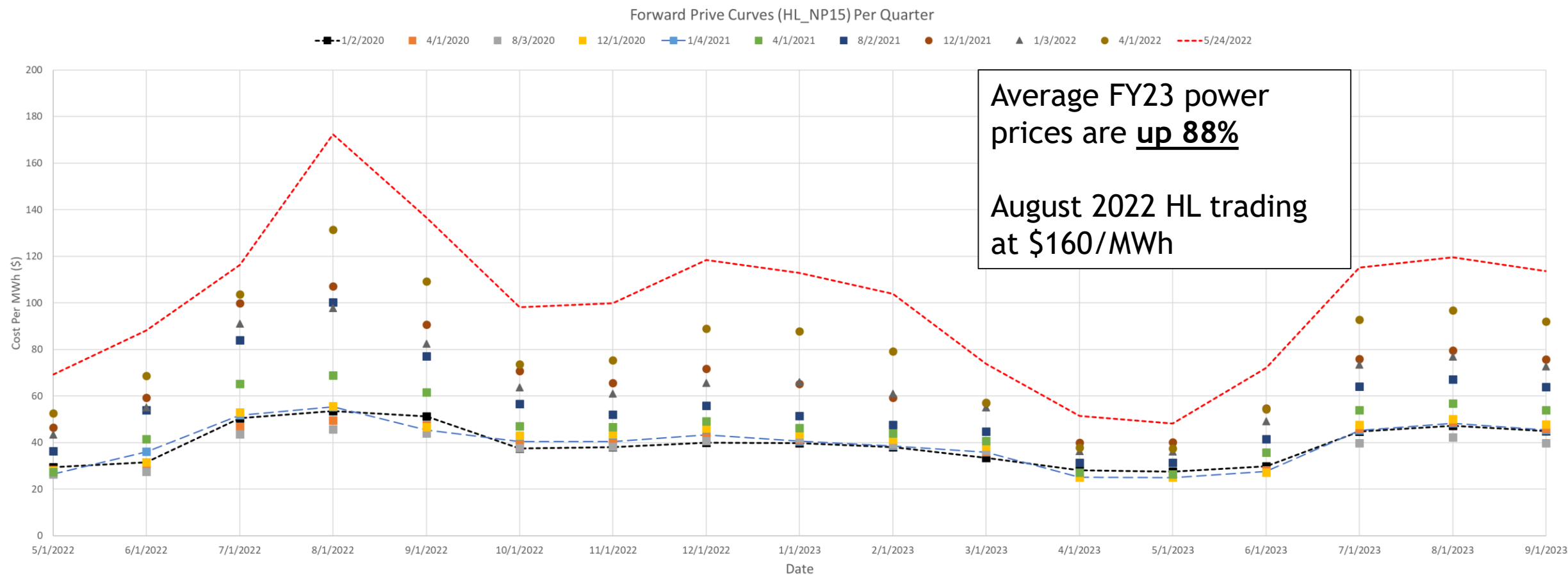
Data as of Midnight: 22-May-2022



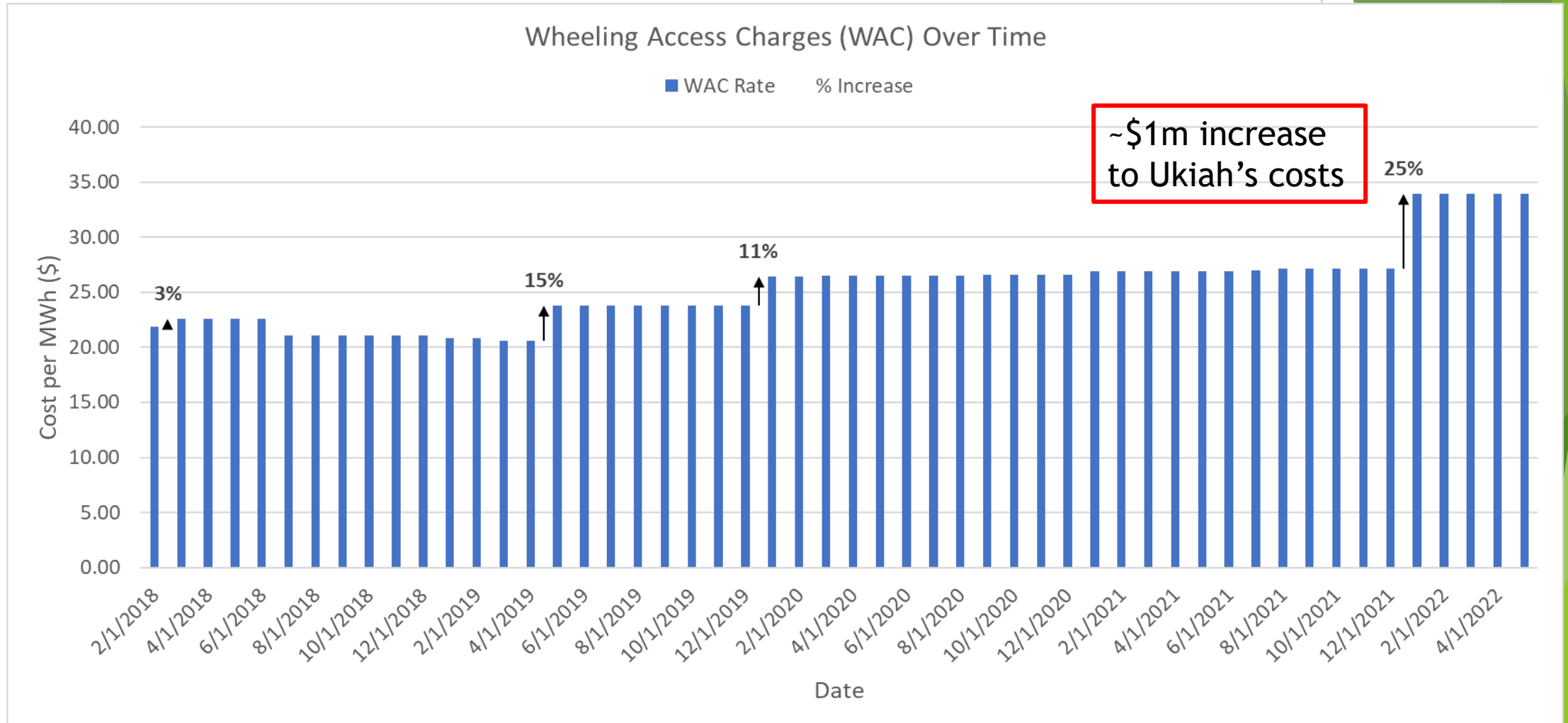
Market Pressures - Gas Forwards



Market Pressures - Electric Forwards

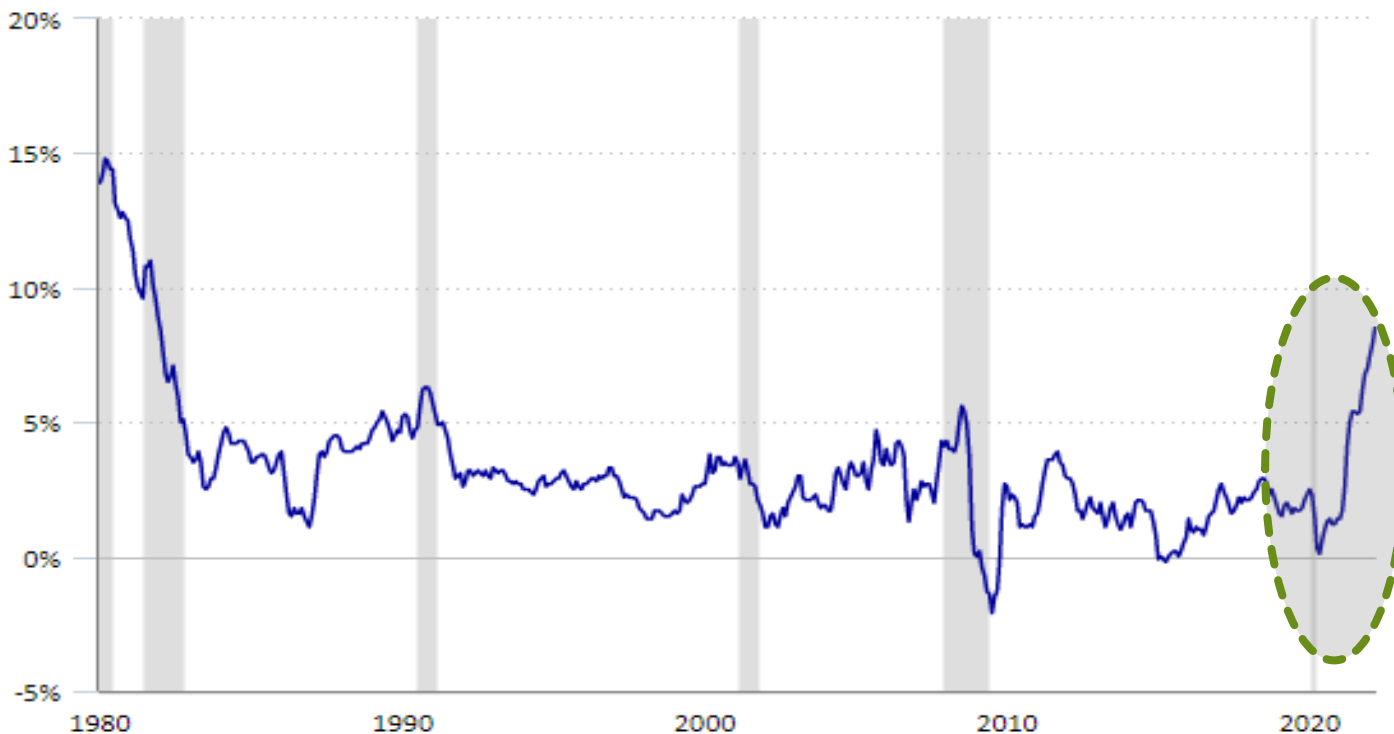


Budget Pressures - Transmission



Market Pressures - Inflation 8.3%

12-month percentage change in Consumer Price Index, January 1980–March 2022



Hover over chart to view data.

Shaded areas represent recessions as determined by the National Bureau of Economic Research.

Source: U.S. Bureau of Labor Statistics.

June 2021

Janet Yellen (Treasury Secretary and former Fed Chair) stated recent rise in prices was “transitory” and will subside

October 2021

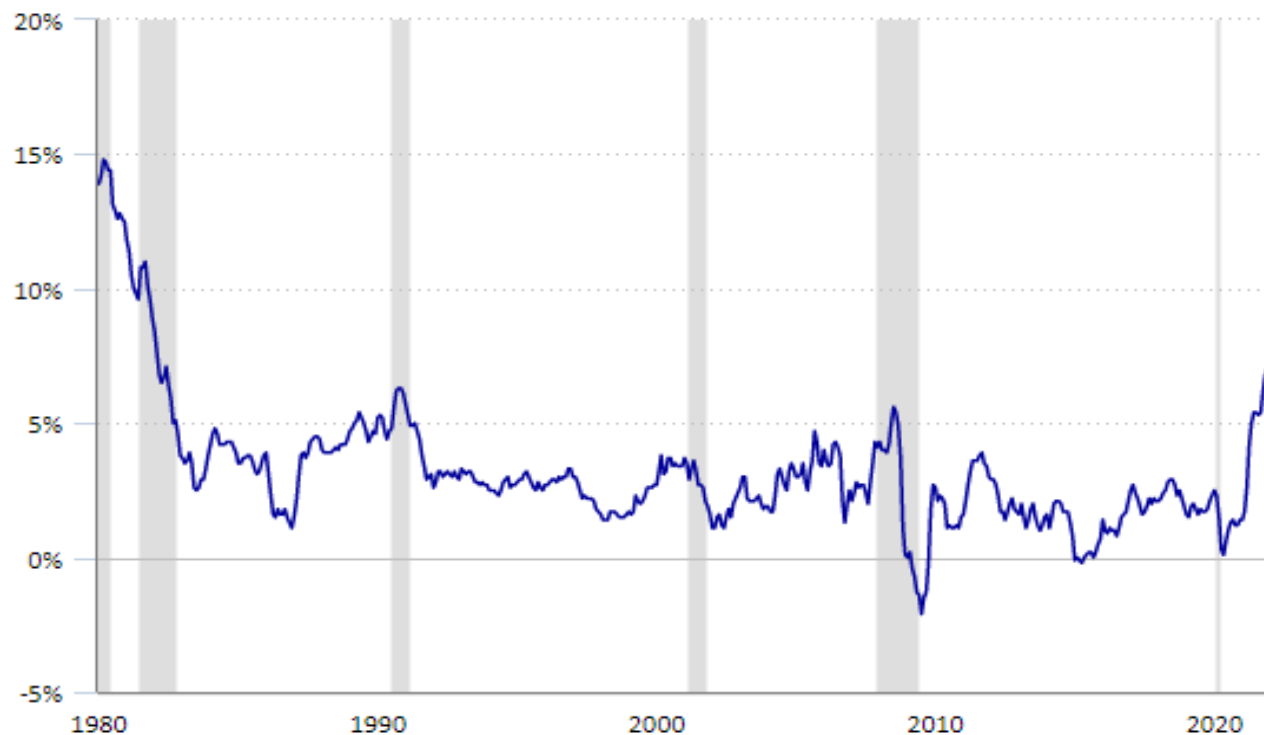
Janet Yellen said inflation would hit 3% but pricing pressures would be “transitory”

December 2021

Janet Yellen says it’s time to stop calling inflation “transitory”

Market Pressures - Inflation 8.3%, Energy 32% (BLS)

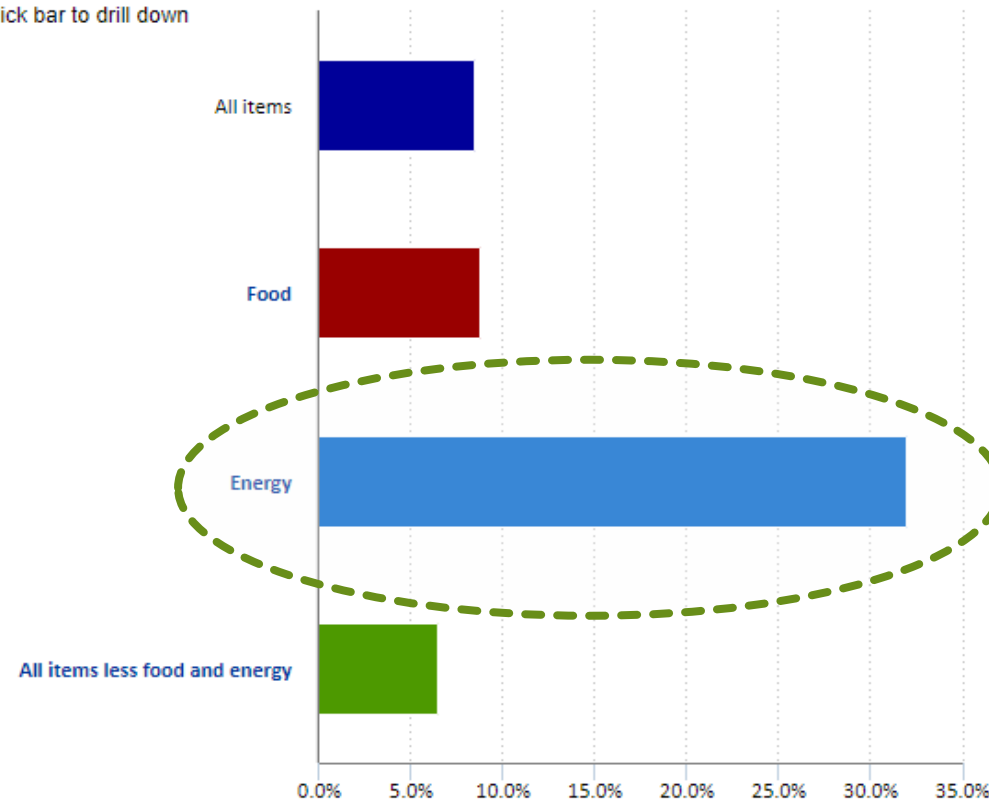
12-month percentage change in Consumer Price Index, January 1980–March 2022



Hover over chart to view data.
Shaded areas represent recessions as determined by the National Bureau of Economic Research.
Source: U.S. Bureau of Labor Statistics.

12-month percentage change, Consumer Price Index, selected categories, March 2022

Click bar to drill down



Hover over chart to view data.
Source: U.S. Bureau of Labor Statistics.

Market Pressures - Shrinking Supply

- ▶ NCPA's 10y forecast assumes a normal/average operating year; however
- ▶ NCPA adjusted forecasted Hydro generation down significantly
- ▶ Antelope 1B COD postponed due to Federal action on solar panels
- ▶ Western's May 2022 BR forecast was 21% less than its April 2022 forecast for May 2022 and 8% less for June 2022
- ▶ Lodi Energy Center (LEC) on outage through June 19th and derated for the balance of 2022 (at least) to ~225 MW
- ▶ Supply chain issues canceling or postponing new projects
 - ▶ CAISO - Elliot Mainzer, "unlikely we don't have outages in summer 2022"

Question: Are these elevated market prices here to stay?

Ukiah's NCPA Budget 2018-2023

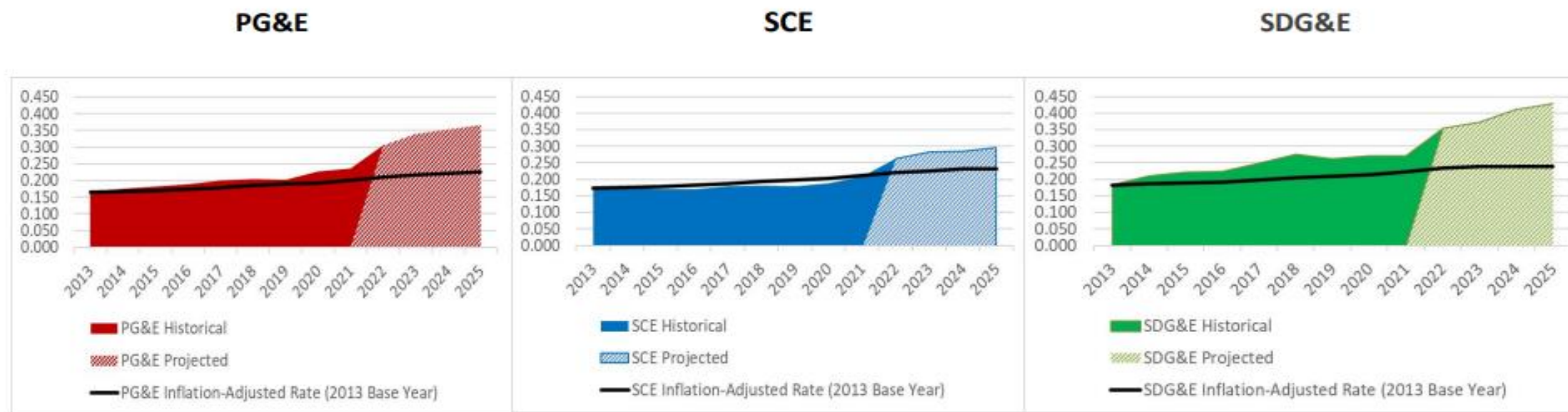
							June 2021 Forecast		
		FY18	FY19	FY20	FY21	FY22	FY23		
Generation Resources									
	Hydro, Geothermal, CT1, CT2, LEC	\$ 1,747,632	\$ 1,862,602	\$ 1,724,219	\$ 2,264,170	\$ 2,462,402	\$ 2,119,518		
	Resources, Western, Load Aggregation	4,342,786	4,261,661	3,295,981	4,048,140	4,435,368	4,868,271		
Total Generation Resources		6,090,418	6,124,263	5,020,200	6,312,310	6,897,770	6,987,789		
Transmission									
	CAISO	2,569,846	2,778,748	2,602,286	3,051,481	3,178,037	3,177,075		
Management Services									
	L&R	108,748	104,654	101,859	104,818	97,774	100,362		
	Judicial Action	24,048	18,991	16,484	12,141	7,573	7,752		
	Power Management	444,712	460,311	346,596	325,604	336,124	386,555		
	PM Service Revenue	(22,459)	(74,239)	(63,138)	(52,598)	(61,430)	(40,649)		
Total Management Services		555,049	509,717	401,801	389,965	380,041	454,020		
Passthrough									
	Passthrough Costs	19,156	25,149	21,139	22,159	28,973	29,661		
JPA Assessment									
	Credits to Participants	(645)	(799)	(1,415)	(1,223)	(758)	(894)		
Total		\$ 9,233,824	\$ 9,437,078	\$ 8,044,011	\$ 9,774,692	\$ 10,484,063	\$ 10,647,651		

Ukiah's NCPA Budget 2018-2023

							June 2021 Forecast	April 2022 Approved
		FY18	FY19	FY20	FY21	FY22	FY23	FY23
Generation Resources								
	Hydro, Geothermal, CT1, CT2, LEC	\$ 1,747,632	\$ 1,862,602	\$ 1,724,219	\$ 2,264,170	\$ 2,462,402	\$ 2,119,518	\$ 781,182
	Resources, Western, Load Aggregation	4,342,786	4,261,661	3,295,981	4,048,140	4,435,368	4,868,271	7,591,996
Total Generation Resources		6,090,418	6,124,263	5,020,200	6,312,310	6,897,770	6,987,789	8,373,178
Transmission								
	CAISO	2,569,846	2,778,748	2,602,286	3,051,481	3,178,037	3,177,075	4,091,786
Management Services								
	L&R	108,748	104,654	101,859	104,818	97,774	100,362	109,823
	Judicial Action	24,048	18,991	16,484	12,141	7,573	7,752	12,414
	Power Management	444,712	460,311	346,596	325,604	336,124	386,555	378,662
	PM Service Revenue	(22,459)	(74,239)	(63,138)	(52,598)	(61,430)	(40,649)	(53,227)
Total Management Services		555,049	509,717	401,801	389,965	380,041	454,020	447,672
Passthrough								
	Passthrough Costs	19,156	25,149	21,139	22,159	28,973	29,661	22,037
JPA Assessment								
	Credits to Participants	(645)	(799)	(1,415)	(1,223)	(758)	(894)	(1,834)
Total		\$ 9,233,824	\$ 9,437,078	\$ 8,044,011	\$ 9,774,692	\$ 10,484,063	\$ 10,647,651	\$ 12,932,839

Market Pressures - IOUs

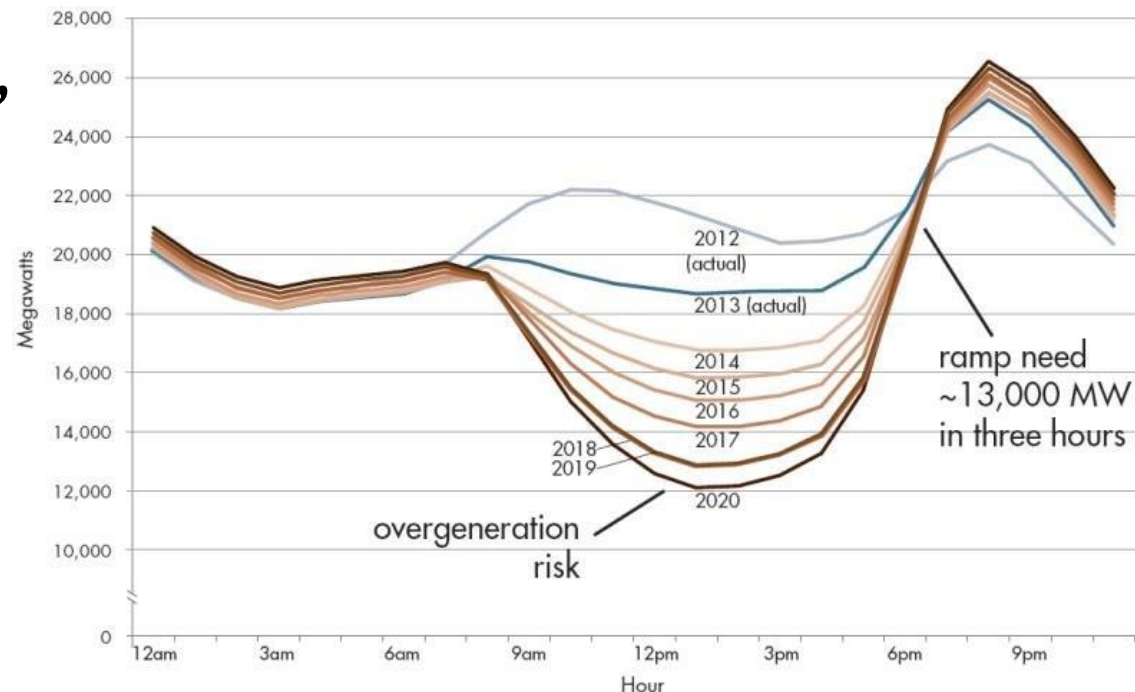
Projected Residential Rate Growth Expected for California IOUs (\$/kWh)



By 2030, bundled residential rates are forecasted to be approximately **40% (PG&E), 20% (SCE), and 70% (SDG&E) higher** than they would have been if 2013 rates for each IOU had grown at the rate of inflation.

What are Rolling Blackouts VS PSPS Events?

- CALISO - California Independent System Operator
 - Manages flow of electricity on CA's transmission lines / dispatch generation
- 4pm-10pm - High load, solar declining
- Need “spinning reserves”



Questions?



RESOLUTION NO. 2022-

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF UKIAH ADOPTING THE POWER COST SURCHARGE RIDER

WHEREAS: The City of Ukiah (“City”) provides electric utility services to residents and businesses in the City, and Ukiah Electric Utility is the City’s publicly owned electric utility with the City Council providing local governance and oversight; and

WHEREAS: The City has operated the municipal electric utility for more than 110 years and the electric rates are based on the cost to provide service; and

WHEREAS: In accordance with the Ukiah City Code Division 4, Chapter 6, Sections 3950 through 3957, the City Council will hold a public hearing on August 17, 2022, to receive the City Manager’s Report and consider adopting a resolution to establish a Power Cost Surcharge Rider. Legal notices were published successfully in accordance with City Code section 3953; and

WHEREAS: The cost of service rates established to provide Ukiah customers with power include generation, transmission, and distribution components; and

WHEREAS: The Electric Utility has experienced cost pressures brought upon by the California energy market’s price volatility due to drought, natural gas prices, inflation and geopolitical issues; and

WHEREAS: The Electric Utility rates and budgets were based on cost of energy projections in January 2022, but which fall short of the actual cost of energy purchased to provide Ukiah customer’s with electricity due to the market’s volatility; and

WHEREAS: To meet these challenges and ensure that the Utility is fully recouping the cost to deliver power to Ukiah customers, a Power Cost Surcharge will be implemented, adjusted bi-annually and effective October 1st and April 1st every year. The Power Cost Surcharge will be based on the actual difference of the cost to provide power less the cost projected in January 2022; and

WHEREAS: Under California Proposition 26, court rulings have indicated that electric rates must meet the cost of service requirements of the utility. The proposed Power Cost Surcharge, based on actual costs, will meet the Proposition 26 requirements; and

WHEREAS: The City Manager and Staff recommend proceeding with the proposed Power Cost Surcharge Rider as outlined in Exhibit A; and

WHEREAS: Beginning October 1, 2022, the Power Cost Surcharge will be applied to all customers usage and modified and applied, either up or down, based on actual costs on April 1st and October 1st every year, thereafter.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Ukiah hereby adopts the Proposed Power Cost Surcharge Rider, as set forth in Exhibit A.

BE IT FURTHER RESOLVED

PASSED AND ADOPTED at a regular meeting of the City Council of the City of Ukiah on the 17th day of August 2022, by the following roll call vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

Jim O. Brown, Mayor

ATTEST:

Kristine Lawler, City Clerk

Exhibit A

City of Ukiah Power Cost Surcharge Rider

The Power Cost Surcharge (Surcharge) is a per kilowatt-hour (kWh) charge that is used to ensure an adequate revenue stream to cover all power costs incurred by Ukiah Electric's system: including generation, management of Utility owned facilities, and transmission costs through Northern California Power Agency (NCPA). The Surcharge will be assessed to all customers as an additional charge per kWh to their standard rate.

Calculation:

A 12-month running sum of actual metered dollars invoiced and metered kWh of load for the previous 12 months of the NCPA Net All Resources Bill (ARB) will be maintained. The Surcharge Factor for a particular month will be calculated as the previous 12-month sum of actual metered NCPA net ARB invoiced amounts divided by the previous 12-month sum of the NCPA ARB metered kWh monthly loads adjusted for distribution losses. The Surcharge is set as the difference between Surcharge Factor of the semi-annual month and the January 2022 Surcharge Factor. The Surcharge can be negative or positive.

The Surcharge is implemented semi-annually on October 1st and April 1st, with the first Power Cost Surcharge to begin on October 1, 2022.

RESOLUTION NO. 2022-

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF UKIAH ADOPTING THE POWER COST SURCHARGE RIDER

WHEREAS: The City of Ukiah (“City”) provides electric utility services to residents and businesses in the City, and Ukiah Electric Utility is the City’s publicly owned electric utility with the City Council providing local governance and oversight; and

WHEREAS: The City has operated the municipal electric utility for more than 110 years and the electric rates are based on the cost to provide service; and

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WHEREAS: The Electric Utility has experienced cost pressures brought upon by the California energy market’s price volatility due to drought, natural gas prices, inflation and geopolitical issues; and

WHEREAS: The Electric Utility rates and budgets were based on cost of energy projections in January 2022, but which fall short of the actual cost of energy purchased to provide Ukiah customer’s with electricity due to the market’s volatility; and

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WHEREAS: The City Manager and Staff recommend proceeding with the proposed Power Cost Surcharge Rider as outlined in Exhibit A; and

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NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Ukiah hereby adopts the Proposed Power Cost Surcharge Rider, as set forth in Exhibit A.

BE IT FURTHER RESOLVED

PASSED AND ADOPTED at a regular meeting of the City Council of the City of Ukiah on the 17th day of August 2022, by the following roll call vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

Jim O. Brown, Mayor

ATTEST:

Kristine Lawler, City Clerk

Exhibit A

City of Ukiah Power Cost Surcharge Rider

The Power Cost Surcharge (Surcharge) is a per kilowatt-hour (kWh) charge that is used to ensure an adequate revenue stream to cover all power costs incurred by Ukiah Electric's system: including generation, management of Utility owned facilities, and transmission costs through Northern California Power Agency (NCPA). The Surcharge will be assessed to all customers as an additional charge per kWh to their standard rate.

Calculation:

A 12-month running sum of actual metered dollars invoiced and metered kWh of load for the previous 12 months of the NCPA Net All Resources Bill (ARB) will be maintained. The Surcharge Factor for a particular month will be calculated as the previous 12-month sum of actual metered NCPA net ARB invoiced amounts divided by the previous 12-month sum of the NCPA ARB metered kWh monthly loads adjusted for distribution losses. The Surcharge is set as the difference between Surcharge Factor of the semi-annual month and the January 2022 Surcharge Factor. The Surcharge can be negative or positive.

The Surcharge is implemented semi-annually on October 1st and April 1st, with the first Power Cost Surcharge to begin on October 1, 2022.

