

STAFF REPORT
City of Lancaster

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MVB

Date: February 24, 2015

To: Mayor Parris and Council Members

From: Barbara Boswell, Finance Director

Subject: Approval of Lancaster Choice Energy Customer Power Rates, FY 14/15 Budget, Position Classifications, Program Policies and Revised Implementation Plan

Recommendations:

- a. Adopt **Resolution No. 15-06**, establishing customer power generation rates for Lancaster Choice Energy Power.
- b. Adopt **Resolution No. 15-07**, adopting the proposed Lancaster Choice Energy Enterprise Fund Fiscal Year 2014-2015 Budget.
- c. Adopt **Resolution No. 15-08**, establishing the terms and conditions and authorizing the execution of a Promissory Note in favor of the General Fund of the City of Lancaster for the distribution of funds to Lancaster Choice Energy Enterprise Fund.
- d. Adopt **Resolution No. 15-09**, amending Resolution No. 14-64 establishing a Compensation Schedule for non-represented employees of the City.
- e. Adopt Administrative Policies LCE-001, LCE-002 and LCE-003.
- f. Adopt Revised Implementation Plan.

Fiscal Impact:

The rates have been developed to generate revenues sufficient to cover annual expenses, fund a 10% operating reserve and financial stability reserve, while saving customers a minimum of 3% per kWh as compared to SCE. A loan from the general fund is necessary to pay for initial start-up costs, which can be repaid within three years of operation.

Background:

RATE SETTING

Lancaster Choice Energy (LCE) will begin serving customers in May 2015 for municipal accounts and October 2015 for all other customers. An essential part of implementing LCE is rate setting. A fundamental requirement in setting rates is to ensure sufficient revenue is collected to cover the operating expenses of LCE and providing for reserves. In addition to meeting revenue requirements, LCE strives to provide rates stability to customers by only reviewing and adjusting rates once per year, and adopting rates that are lower than the current Southern California Edison (SCE) per kWh rate.

LCE will offer two electricity products, Clear Choice which is a 35% renewable energy product and Smart Choice a 100% renewable energy product. Customers will automatically be enrolled in our Clear Choice product, with the option to “Opt Up” to the Smart Choice product.

CLEAR CHOICE PRODUCT – 35% Renewable Energy

Based on current projections of customer base, electricity costs and program expenses, the proposed Clear Choice rates offer customers a discount of 3% over the current SCE rates, with the exception of those residential customers that are under the CARES program. Those customers will save 15% over the current SCE rates. Residents that qualify and participate in the SCE CARES program are not subject to the fees charged by SCE for customers that leave their service for LCE (PCIA Charges).

SMART CHOICE PRODUCT – 100% Renewable Energy

Customers who opt up to our 100% renewable product, Smart Choice, will be subject to a \$.015 per kWh premium to cover the additional cost of the product.

PERSONAL CHOICE PRODUCT – Net Energy Metering Option

LCE customers who have electricity generating facilities, such as roof top solar, will have the benefit of our Personal Choice Product. Under this program, customers whose facilities generate more energy than they use will receive a credit of \$.06 per kWh on their bill. This rate exceeds the current SCE NEM rate of \$.04742 per kWh, providing a greater benefit to our customers. In addition, customers who have a credit greater than \$100 as of October of each year will automatically receive a check for the amount of the credit. Those with a credit of less than \$100 will have that credit roll into the next billing cycle.

FISCAL YEAR 2014/15 BUDGET

With the kick-off of LCE providing electricity to municipal customers in May 2015, it is appropriate to adopt a budget that recognizes revenues to be collected and expenses incurred for the current fiscal year. These costs include specialized consultants, legal services, staff salaries and power procurement costs. The anticipated shortfall is to be covered by a loan from the General Fund to be repaid with future LCE revenues.

GENERAL FUND LOAN

LCE is a long term viable business that will provide a steady, predictable revenue stream to the city while saving our citizens money on their electricity generation rates. Similar to other start-up businesses, there are initial costs incurred that require start-up funds to cover. It is in the best interest of the city, and its residents, to fund those start-up costs with a loan from the general fund. This loan is to carry an interest rate of 3%, and will be paid back in three years.

NEW POSITIONS

LCE operations will require job duties and responsibilities not currently provided within the current classifications of the city. As a result, new positions are recommended to provide these new duties and responsibilities. The proposed classifications include Treasury Manager, IT/Customer Care Manager and Energy Manager. It is anticipated that these positions will be filled in April 2015 through internal recruitments.

ADMINISTRATIVE POLICIES

As part of the implementation of LCE, there are policies recommended that are unique to the operations of the utility. These include:

LCE-001 Prohibition Against Dissemination of Untrue or Misleading Information – This policy is in compliance with California Public Utilities Codes section 396.5 which requires a policy be adopted prohibiting the dissemination of untrue or misleading information by LCE.

LCE-002 Collections and Write Off Policy establishes the parameters regarding collection and write off of unpaid accounts.

LCE-003 Rate Setting and Rate Stabilization Policy sets the requirements for setting rates that result in long term financial viability and rate stabilization for LCE.

IMPLEMENTATION PLAN REVISION

The Implementation Plan is being revised to reflect the current phasing schedule and proposed rate schedule, to ensure the Implementation Plan (IP) reflects LCE as accurately as possible. The IP will be filed with the CPUC once approved.

Attachments:

Resolution No. 15-06

Resolution No. 15-07

Resolution No. 15-08

Resolution No. 15-09

Administrative Policy LCE-001

Administrative Policy LCE-002

Administrative Policy LCE-003

Revised Implementation Plan