



## City Council Agenda Item

**City Council Meeting Date:** April 18, 2023

**TO:** Dean Albro, City Manager

**FROM:** Christie Donnelly, Management Services Director  
c\_donnelly@ci.lompoc.ca.us

**SUBJECT:** Adoption of Resolution No. 6573(23) to Approve Stop-Gap Emergency Rate Increase to all Schedules and Tiers of Electric Fund 752 Customer Rates

---

### **Recommendation:**

Staff recommends the City Council adopt Resolution No. 6573(23) (attached) to increase electric rates for all rate schedules of customers at all tiers in the amount of 30%, with that rate increase to be implemented effective May 1, 2023, until such time that a full cost of service study for the Electric Fund can be completed and presented to the City Council for review, no later than June 30, 2024. Proposed rate schedules are presented in attached to the resolution.

### **Background:**

On November 3, 2009, the City Council adopted Resolution No. 5592(09) to modify electric utility rates. Between the years of 2009-2011, the City Council implemented annual rate increases of 8%, 8% and 6% respectively, in accordance with the adopted rate schedules in Resolution No. 5592(09). Then, on July 17, 2012, the City Council passed a temporary 3% rate reduction to become effective August 1, 2012, in lieu of the scheduled 3% increase for electric rates. For the following nine fiscal years (FY) of 2012-13 – 2020-21, rates did not increase or decrease. In FY 2021-22, the temporary 3% reduction in rates was rescinded, which reinstated the rates that were effective in 2011.

Until approximately October 2021, Electric Fund revenues generally matched or exceeded expenses and Electric Fund cash reserves remained steady. Beginning in approximately October 2021, staff observed that expenses began to outpace revenues and that cash reserves had to be utilized on occasion to cover the deficit. Due to that observation, plans were made to initiate a cost of service study to evaluate the efficacy of the current electric rate structure. Although the study began shortly thereafter, it was postponed to FY 2022-23 in order to prioritize the Solid Waste fund cost of service study and because of staff limitations. Beginning in approximately December 2022, and as a result of a significant increase in volatility observed in the energy markets and unprecedented increases in the costs of energy, the pace at which cash reserves had to be utilized to cover increased deficits rose exponentially. As a result, staff conducted an

analysis of projected cash reserve balance based on currently-observed volatility trends. The results of that analysis are presented in the discussion section of this staff report and have prompted staff recommendation to implement an emergency stop-gap rate increase effective May 1, 2023.

**Discussion:**

Lompoc is a founding member of the Northern California Power Agency (NCPA). NCPA consists of 16 member agencies representing more than 600,000 public power customers across Northern California and the Central Coast. NCPA provides cost-effective wholesale power, energy-related services and advocacy on behalf of its members. As such, the City utilizes the NCPA to manage its generation fleet and broker energy market purchases to be delivered to the citizens of Lompoc.

Energy is sold in the energy market as a commodity and measured in Mega-Watt/hours (MW/h). The energy market is a competitive marketplace where power suppliers sell the commodity to market participants at prices that vary with market conditions. Although the City purchases the majority of its power in advance, additional coverage is needed to match power supply to the City's current system load. That is accomplished by purchasing power in the marketplace with NCPA brokering energy purchase contracts. As such, the City is obligated to pay market prices for energy it purchases at those times.

December 2022 and January 2023 saw enormous market volatility, resulting in prices peaking at an average of \$250 MW/h, representing a five-fold increase year over year. That volatility saw wholesale energy prices in the market resulting in an additional \$3-billion in December and nearly \$1-billion in January, respectively, in extraordinary costs. Those extraordinary costs are passed along to market participants and ultimately to end-user customers. The City utilizes its cash reserves to augment fluctuations in the energy market. However, the recent market volatility is unprecedented and lacks explanation. As NCPA continues to investigate market volatility, the City must absorb the higher than planned costs.

*Analysis of Projected Electric Fund Cash Reserve Balance*

In December 2022, the City experienced a 70% increase, before related credits, in purchase power costs versus the same timeframe the prior year. The following month, there was an 82% year-over-year increase. These increases were unprecedented and the underlying causes for them are not fully understood even by industry experts at this time. Thankfully, the degree of the increase lessened in March 2023, and while costs that month were still significantly elevated over the prior year, the projections for the cash reserve are not as drastically impacted as anticipated just two months ago.

Chart 1 below shows the past two years of available revenues vs. power purchase expenses for the Electric Fund:

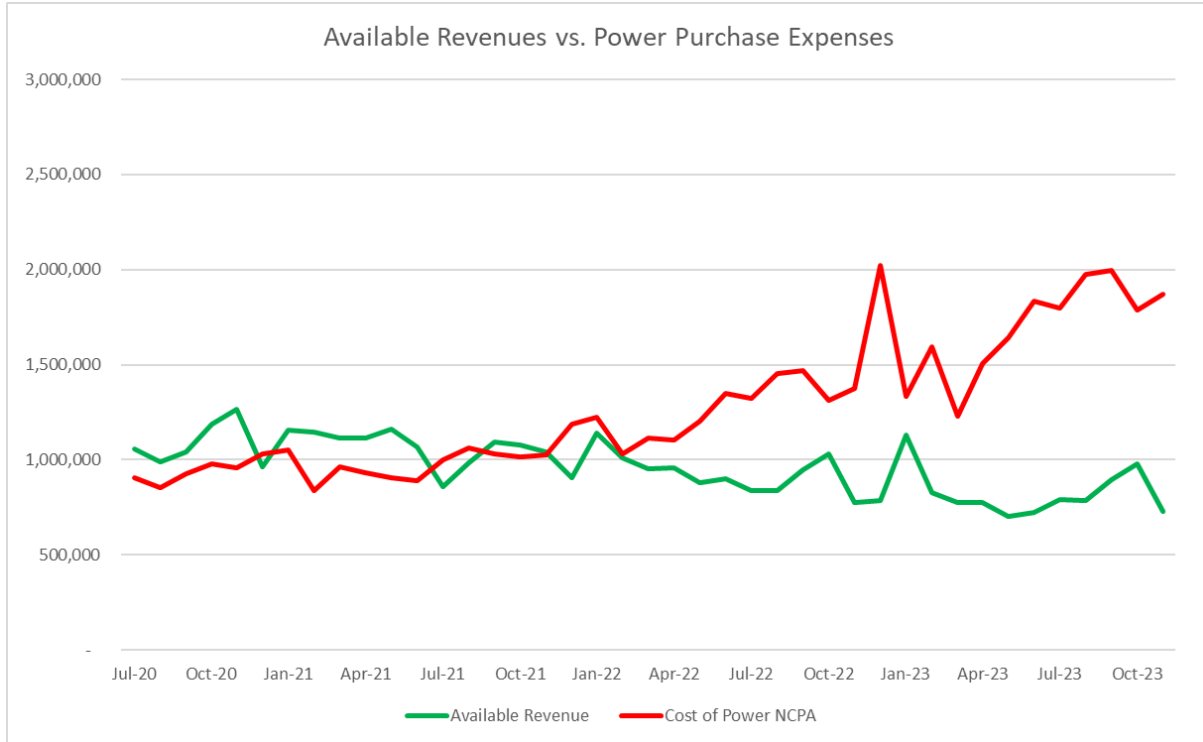


Chart 1

Chart 2 below shows the Operating cash balance history as it relates to cash reserves since July 2020, demonstrating the drastic usage of cash reserves since October 2021, the drastic increase in that usage since December 2022, and staff's projections for the cash balance over the next seven months.

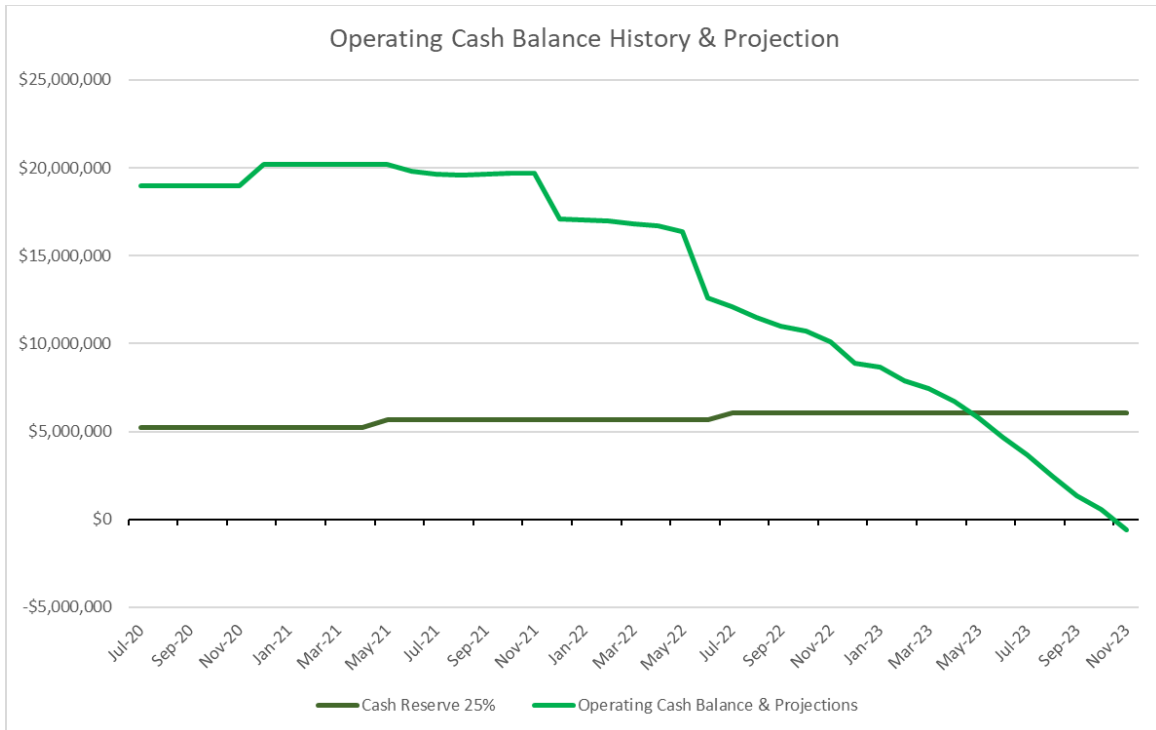


Chart 2

Chart 3 below zooms into the cash reserve balance since December 2022 and demonstrates the projected cash reserve balances at various levels of proposed rate increases: 10%, 25%, 33% and 50%. It also marks the 25% cash reserve policy line, and the zero cash balance axis.

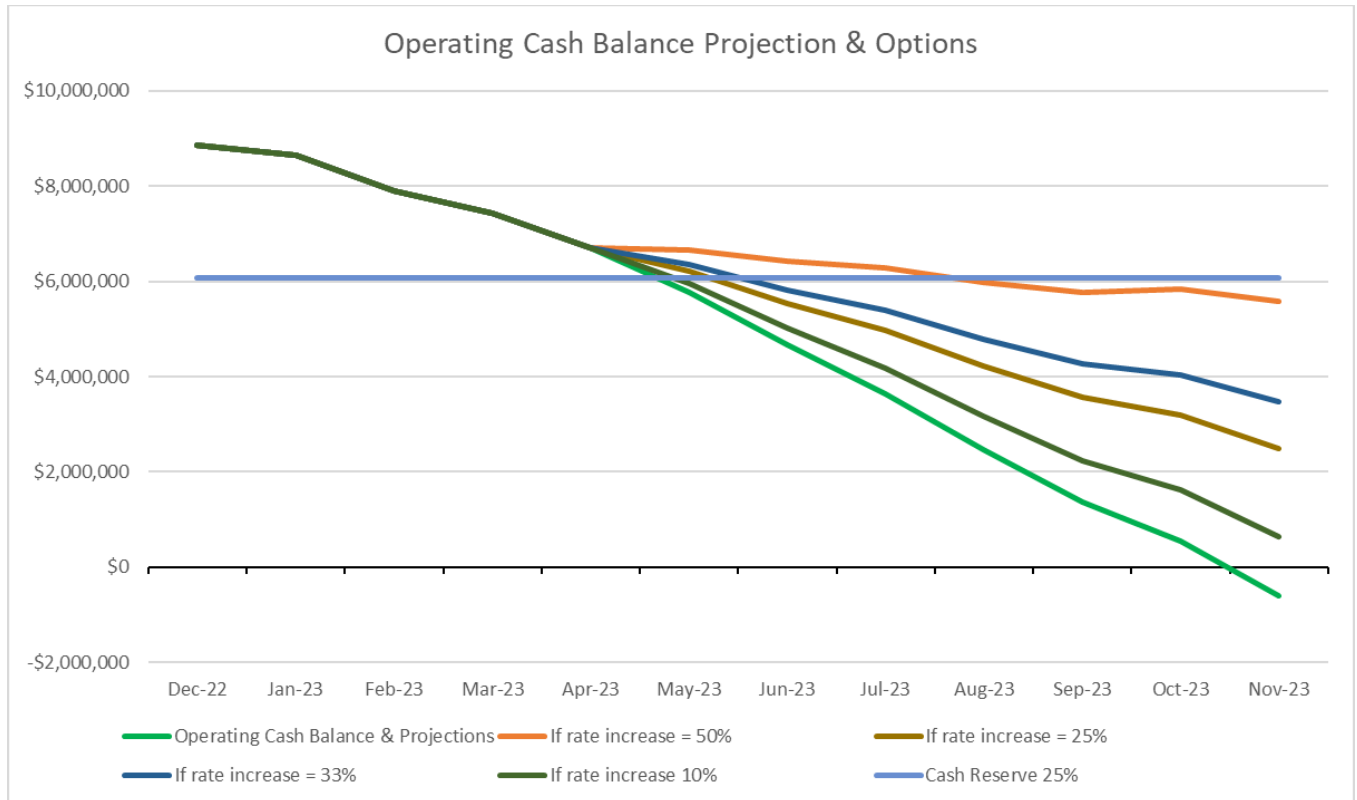


Chart 3

In addition to the charts presented above, Table 1 below summarizes the increased costs of power since April 2022. Months with increases lower than average suggest increased use of hydro power and the ability to leverage the sale of power via NCPA.

Month	Cost	Increase YOY
Apr-22	\$ 1,104,571	18.52%
May-22	1,204,440	32.94%
Jun-22	1,347,814	51.54%
Jul-22	1,321,283	31.98%
Aug-22	1,451,346	36.60%
Sep-22	1,467,006	42.22%
Oct-22	1,311,299	29.26%
Nov-22	1,374,539	34.16%
Dec-22	2,023,421	70.15%
Jan-23	1,331,335	8.92%
Feb-23	1,596,296	54.76%
Mar-23	1,231,503	10.73%

12 month avg 35.15%  
 4 month avg 36.14%

Table 1

Finally, a review of the change in consumer price index (CPI) over the past 13 years, since January 2010, demonstrates that the combined CPI increase in that time totals 38.1%.

Year (Jan)	Residential Base Rate	CPI	Increase YOY	CPI Adjusted Residential Base Rate
2010	0.18954	212.57		0.18954
2011		216.40	1.80%	0.19296
2012		223.22	3.15%	0.19903
2013		226.52	1.48%	0.20198
2014		230.04	1.55%	0.20512
2015		228.29	-0.76%	0.20356
2016		231.06	1.21%	0.20603
2017		236.85	2.51%	0.21120
2018		241.92	2.14%	0.21571
2019		245.13	1.33%	0.21858
2020		251.36	2.54%	0.22413
2021		255.30	1.57%	0.22764
2022		276.30	8.23%	0.24636
2023		293.57	6.25%	0.26176
<b>Combined Percentage Increase:</b>				<b>38.104%</b>

\*January CPI for Urban Wage Earners and Clerical Workers, based on U.S. city average

### *Alternative Rate Adjustments*

Considering that the proposed 30% rate adjustment is based upon both historical analysis and informed projections for future rates on an inherently volatile industry, alternative rate adjustments may be feasible options. Below are two options considered by staff prior to making the final recommendation of 30%,

25% or less – will hit zero cash balance before cost of service study is completed.

50% – more closely preserves cash reserves, however may be more than necessary given volatility, increased ability to utilize hydro power options, and recovery of the market.

### **Fiscal Impact:**

At the current projected pace of use of cash reserves, staff believes that with the 2011 rates in place currently, the Electric Fund will deplete its reserves by May 2023, and will reach a zero cash balance by November 2023.

By implementing the proposed 30% stop-gap rate increase in May 2023, and keeping it effective until a complete report based on a comprehensive cost of service study can be conducted, cash reserves will be used at a slower rate, and reaching a zero cash balance should be avoided. Expected increased revenue due to the increased rate is approximately \$529k per month. The extent to which reserves will be used and how close the cash balance gets to zero depends upon the extent of the volatility and price increases in the energy markets during the upcoming year. If costs of power increase above the projected average of approximately 35%, staff will return to the City Council with an updated report and analysis for additional discussion and review of the possible need for additional increased rates.

The anticipated average increase for residential and commercial customers would be \$16.81 and \$132.12 per month, respectively, however the actual increase for each customer will depend upon their monthly usage.

### **Conclusion:**

Given the unprecedented volatility in the energy market, coupled with the fact that the City's electric rates remain the same as they were in 2011, taking this rate adjustment into consideration with other recent rate increases the customer has had to carry, staff recommends a 30% electric rate increase to all electric customers to be effective May 1, 2023. Staff will restart the electric cost of service study in FY 2022-23 and will present its results no later than June 2024. The expectation is that the 30% rate increase will serve as a stop-gap increase until the full cost analysis can be completed and a data-driven, fully analyzed rate structure and adjustment can be presented and implemented.

April 18, 2023  
Emergency Electric Fund Rate Increase  
Page 8 of 8

Respectfully submitted,

---

Christie Donnelly, Management Services Director

**APPROVED FOR SUBMITTAL TO THE CITY COUNCIL:**

---

Dean Albro, City Manager

Attachment: Resolution No. 6573(23)