



To: Honorable Public Utilities Board

Submitted by: / S /
Vidhi Chawla
AGM – Energy Resource Planning

From: Stephen Mariani
Energy Resources Analyst

Approved by: / S /
Nicolas Procos
General Manager

Subject: By Resolution, Approve Alameda Municipal Power’s Ratemaking Policy for Fiscal Year 2021 through Fiscal Year 2025

RECOMMENDATION

By resolution, staff recommends that the Public Utilities Board (Board) approve Alameda Municipal Power’s (AMP) Ratemaking Policy for Fiscal Year (FY) 2021 through FY 2025.

BACKGROUND

On January 26, 2015, AMP staff presented the Board with seven key ratemaking principles for FY 2016 through FY 2020:

1. Provide adequate revenue
2. Consider equity
3. Send appropriate price signals to customers
4. Reflect the community’s social priorities
5. Strive to be competitive
6. Adjust based on annual projections
7. Utilize successive five-year rate plans to implement principles

These ratemaking principles expanded upon the existing set of rate principles presented to the Board for information only on March 15, 2010. The Board subsequently adopted a set of Financial Guidelines for Rates, Revenues and Reserves on May 17, 2010. These guidelines established minimum working capital and non-designated reserves equal to 145 days of operating expenses, mandated a target debt service coverage ratio of 1.75, and required AMP to seek any necessary rate increases to ensure that adequate revenue, together with transfers from operating reserves, can recover AMP’s full cost of operations. The purpose of maintaining adequate reserves is to minimize the impact of the risks described in the Utility Energy Risk Quantification Update and to maintain operations in the event of unexpected events. The most recent Utility Energy Risk Quantification Update was presented to the Board on September 17, 2017, and a new update will be brought to the Board in 2020.

In addition to providing direction to staff in the ratemaking process, the ratemaking policy bears key implications for AMP’s credit rating procedure. This is the case because the financial targets included in the ratemaking policy are among the metrics used by agencies for their credit rating criteria. Based on a strong financial profile, AMP received credit rating upgrades from two credit rating agencies, Fitch and Standard & Poor’s in 2018 and 2019, respectively. AMP’s credit rating factors into the weighted average credit quality of bonds issued for Northern California Power Agency (NCPA) projects. This year, for example, NCPA’s hydroelectric project refinancing maintained a strong credit quality based on AMP’s and other participants’ ratings.

To uphold this strong financial profile and provide guidance to staff in future rate updates, this policy seeks to establish ratemaking principles and guidelines for FY 2021 through FY 2025.

DISCUSSION

AMP follows an annual planning cycle in preparation for the budgeting process and future financial and power supply activities. The planning cycle begins in December with the development of a 20-year load forecast and continues with a 10-year power cost estimate, as well as an update to a 10-year pro forma financial model. These combined analyses result in a rate recommendation for the subsequent fiscal year.

The Financial Guidelines for Rates, Revenues and Reserves are meant to ensure that AMP has adequate reserves to meet the Bond covenants of the 2010 AB, any NCPA requirements, and minimize the financial impact of risks, such as increased power costs due to drought conditions or a scenario in which AMP must replace key distribution system components in the event of a component failure. In addition to the guidelines requiring 145 days operating cash on hand and a 1.75 debt service coverage ratio, staff accounts for a reasonable amount of risk in its financial and power supply estimates. These risks are identified in the Utility Energy Risk Quantification Update, in which AMP staff analyzes several scenarios and market price conditions to determine AMP’s risk exposure and adjust the power cost estimates accordingly (Table 1). However, it should be recognized that AMP’s rates are not designed to cover all of the extreme risks identified in the Risk Quantification Update.

Table 1: Consolidation of discussed risk exposure for high and low market pricing

Risk event	Exposure - (\$000)					
	FY 2018		FY 2019		FY2020	
Market Price Factor	High	Low	High	Low	High	Low
Dry conditions Risk	\$2,300	\$1,700	\$2,400	\$1,800	\$2,400	\$1,800
Customer Loss Risk	\$2,300	\$1,900	\$2,400	\$2,000	\$2,600	\$2,200
Low Wind Years Risk	(\$20)	(\$40)	(\$20)	(\$40)	(\$10)	(\$40)
Uninsured Loss Risk	\$2,400		\$2,400		\$2,400	
Transmission and Dist. Risk	\$5,500		\$5,500		\$5,600	
Total Exposure	\$12,500	\$11,400	\$12,800	\$11,700	\$13,000	\$12,000

Staff keeps up to date on ratemaking developments and philosophy through its participation in the California Municipal Utilities Association's Rates Group and other forums. Staff also reviewed applicable literature, best practices, the rates of other utilities, and industry developments in revising the principles and guidelines that are proposed later in this report. A common theme from these resources is that basic ratemaking standards and rate structures set the stage for comprehensive rate design. The basic standards include:

- Collect sufficient revenue to meet operating expenses, requirements for cash on hand, and required amounts of new capital
- Incentivize customer demand and usage control by sending appropriate price signals
- Remain competitive in comparison with other utilities and service providers
- Meet societal goals by considering cost of service, fairness, community goals, customer programs, and environmental objectives

These standards provide high level considerations for the ratemaking analysis, while also allowing for a balance of strategies to serve a wide range of objectives and the rate-specific needs of policies and technologies. While too much granularity and specification could inhibit productive rate development, too little detail can deprive staff of communication and direction concerning the priorities of the community and the Board.

This report aims to reiterate the ratemaking principles included in previous reports to maintain a strong financial position and insure ratepayers, while also aligning them with the goals outlined in AMP's most recent Strategic Plan.

Ratemaking Policy

AMP shall align previous principles and guidelines with current strategies and practices to assure that rates:

1. Provide adequate revenue
 - Cover operating, non-operating, and capital expenditures
 - Ensure a reasonable level of working capital is available for unexpected events
 - Provide 145 days operating cash on hand
 - Provide 1.75 debt service coverage ratio
2. Consider equity
 - Support equity between and within customer classes
 - Support equity in discount, incentive, and rebate programs
3. Send price signals to customers
 - Reflect the cost of service
 - Fixed customer or meter charge for each rate class to help recover the costs of customer billing and overhead independent of energy usage
 - Be simple yet understandable
 - Encourage customer response to energy usage and consider different rate structures
 - Time-dependent rates
 - Tiered rates
 - Demand charges
4. Reflect the community's social priorities
 - Consider the social priorities found in the Strategic Plan
 - 100% Carbon-free portfolio
 - Energy efficiency and building electrification
 - Transportation electrification
 - Low-income and disadvantaged community programs
 - Customer assistance programs
 - Utility Underground Districts
 - Promote economic development
 - Include appropriate public goods charges (i.e. surcharge mandated by the Public Utilities Code to generate funds for (i) energy efficiency & conservation, (ii) new investment in renewables and related technologies, (iii) research, development, and demonstration programs to advance science and technology, and (iv) services for low-income electricity customers)
 - Consider additional funding sources (e.g. Renewable Energy Credit sales, Cap & Trade auction proceeds, and Low Carbon Fuel Standard credit sales)
5. Strive to be competitive
 - Continue to be competitive with rates for equivalent customers in neighboring communities

6. Are adjusted based on annual projections
 - Review financial projections, rates, and charges annually
 - Base rate changes on first five years of 10-year financial model results
 - Account for longer-term outlook of the Capital Improvement Plan (CIP) and other planning documents
 - Adjust rates to reflect changes in costs
 - Rate increases should be gradual (slow and steady)
 - No more than 5 percent on average per year, if possible
 - Enact annual rate changes effective July 1, unless otherwise required
 - Provide advance notice to customers

7. Utilize successive five-year rate plans to implement the preceding rate principles.

FINANCIAL IMPACT

There are no immediate financial impacts.

LINKS TO BOARD POLICY AND OBJECTIVES

Strategy 7: Set rates to meet environmental, reliability, community and fiscal health objectives while being equitable for all customer classes.

Strategic Plan Business Resiliency Strategy 2, Tactic 2:
Improve rate design to reflect AMP's Strategic Plan

EXHIBIT

A. Resolution

CITY OF ALAMEDA
ALAMEDA MUNICIPAL POWER

RESOLUTION NO. _____

**APPROVE ALAMEDA MUNICIPAL POWER'S
RATEMAKING POLICY
FOR FISCAL YEAR 2021 THROUGH FISCAL YEAR 2025**

WHEREAS, the Public Utilities Board (Board) hereby finds that the following policy provides reasonable principles and guidelines for the determination of rates;

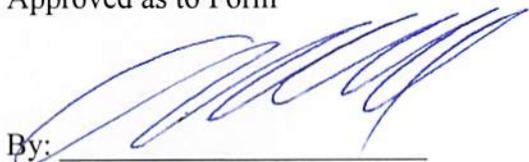
NOW THEREFORE BE IT RESOLVED that the Board hereby approves the following Ratemaking Policy:

AMP shall align previous principles and guidelines with current strategies and practices to assure that rates:

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 - Provide 145 days operating cash on hand
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Approved as to Form

By: 

Alan Cohen
Assistant City Attorney