

0150-11161-0000

TRANSMITTAL

TO David H. Wright, General Manager Department of Water and Power	DATE JUN 28 2018	COUNCIL FILE NO.
FROM The Mayor	COUNCIL DISTRICT	

**AGREEMENTS RELATING TO AN INTERIM RATE REVIEW OF THE WATER RATE
ORDINANCE 184130 AND ELECTRIC RATE ORDINANCE 184133**

Approved and transmitted for further processing including Council consideration.
See the City Administrative Officer report attached.


Ana Guerrero
MAYOR

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: June 28, 2018

CAO File No. 0150-11161-0000
Council File No.
Council District:

To: The Mayor

From: Richard H. Llewellyn, Jr., City Administrative Officer

Reference: Request from the Department of Water and Power dated June 7, 2018

Subject: **AGREEMENTS RELATING TO AN INTERIM RATE REVIEW OF THE WATER RATE ORDINANCE 184130 AND ELECTRIC RATE ORDINANCE 184133**

RECOMMENDATIONS

That the Mayor:

1. Approve the proposed resolution authorizing:
 - a. Agreement 47478A-8 with Navigant Consulting, Inc. providing a term of three years with an optional three year extension and a cost not to exceed \$3,307,083; and,
 - b. Agreement 47478B-8 with PA Consulting Group, Inc. providing a term of three years with an optional three year extension and a cost not to exceed \$1,272,142; and,
2. Return the proposed resolution to the Department for further processing, including City Council consideration.

SUMMARY

Approval of the proposed resolution from the Department of Water and Power (DWP; Department) authorizes two competitively bid contracts necessary for conducting an interim rate review (IRR) which includes a marginal cost study and a benchmarking study.

The IRR is required in accordance with Water Rate Ordinance 184130 and Electric Rate Ordinance 184133 (collectively referred to as "Rate Ordinances"), effective April 15, 2016. These studies will enable the DWP to realign its financial forecasts with actual conditions and to communicate any issues to the City Council, the DWP Board of Commissioners (Board), and the Office of Public Accountability (OPA). It is noted that a cost of service study is required by the Rate Ordinances prior to proposing any change to the Base Rates after June 30, 2019.

In accordance with the Rate Ordinances, DWP and the OPA shall each perform an IRR and submit their reports separately to the DWP Board and the City Council's Energy, Climate Change

and Environmental Justice (ECCEJ) Committee. DWP shall provide its IRR by February 1, 2019, and the OPA shall provide its IRR by April 1, 2019. Subsequently, the DWP Board is required to take action by resolution whether or not to order the Department to prepare possible revisions to the Rate Ordinances for consideration by the DWP Board no later than June 30, 2019.

Additionally, following receipt of the IRR, if any of the base rate revenue targets calculated for Fiscal Year (FY) 2018-19 and FY 2019-20 varies from the Base Rate Revenue Target stated in the Rate Ordinances, the DWP Board is required to take action by resolution to (i) increase or decrease the Base Rate Revenue Target by an amount not to exceed two-percent of the existing target or (ii) maintain the existing Base Rate Revenue Target without change.

The ECCEJ Committee shall review the results of both the IRR and the actions of the DWP Board. Subsequently, at its discretion, the ECCEJ Committee may pursue the following actions:

- Request additional information;
- Hold an ECCEJ Committee hearing with the DWP and the OPA;
- Make written recommendations to the DWP Board; and/or,
- Move that the City Council assert jurisdiction pursuant to Charter Section 245 relative to the actions of the DWP Board.

Each IRR is expected to contain the following sections:

- (i) Five-year Financial and Performance Outlook – Calculate a new five-year financial plan utilizing updated assumptions for revenues, expenditures, system load, and overall fiscal performance. Provide an analysis of the overall progress on the DWP Board Metrics, propose any revisions to the metrics, and analyze the review process itself.
- (ii) Base Rate Revenue Targets – Calculate base rate revenue targets for FY 2018-19 and FY 2019-20 using updated assumptions.
- (iii) City Council and Mayoral Requests for Reports and Recommendations – Determine the status of the DWP's progress in responding to and addressing any requests for reports and recommendations resulting from consideration of the Rate Ordinances.
- (iv) Material Misalignment with Forecast or Market – Provide an explanation and any alternatives to any element of the rate design that appears materially misaligned with the DWP's updated forecasts, assumptions, system load, financial performance, or with conditions in the California market for electricity sales to retail customers.

Navigant Consulting, Inc. (Navigant) will primarily provide rate design consulting services, advice on current rate structures, and future rate design for both the Water and Power Systems. The scope of work assigned to Navigant includes:

- Development of rate structures with efficient price signals;
- Development of tiered rate structures and pricing that reflects cost of service;

- Development of rates with consideration of water conservation, energy efficiency, and distributed energy resources;
- Development of approaches for setting usage allotments;
- Development of rates based upon equity, operations efficiency, and service reliability;
- Development of special rates, services, and other rate design approaches used in the utility industry including low-income and Lifeline programs;
- Providing reports as requested for delivery to the OPA;
- Submitting reports on revenue requirements and rates for both Water and Power Systems;
- Assisting DWP with public outreach and communications; and,
- Reviewing and analyzing future rate development options.

PA Consulting Group, Inc. (PA Consulting) will primarily provide marginal cost study and benchmarking services for both the Water and Power Systems. The scope of work assigned to PA Consulting includes:

- Providing technical analysis related to marginal costs and class allocation;
- Providing a benchmarking assessment of key areas identified in the 2015 Industrial, Economic, and Administrative (IEA) Report including staffing levels, labor costs, contractor costs, productivity, distribution operations and maintenance, accounts receivables, power system "non-technical" losses, and procurement;
- Determining the impacts of various programs on consumption, revenues, and costs;
- Reviewing the average embedded cost for both the Water and Power Systems;
- Assessing current equity metric indicators and providing short-term and long-term strategies to support the DWP Equity Metrics Data Initiative;
- Developing performance indicators and data analytics to measure equity and identify disparity in underserved communities;
- Providing reports as requested for delivery to the OPA; and,
- Submitting a marginal cost study report and benchmarking assessment for both Water and Power Systems.

It is noted that the OPA has been informed of these two proposed agreements and is provided an opportunity to collaborate with DWP on the interim rate review process.

CONTRACTING COMPLIANCE

The competitively bid agreements are a result of a Request for Proposal (RFP) 90401 which was published on July 21, 2017. DWP states that it received a total of three proposals by the due date of August 31, 2017. The RFP included a commitment of diversity in subcontracting with a requirement of 15.00 percent mandatory Small Business Enterprises/Disabled Veterans Business Enterprises (SBE/DVBE) participation. The proposals from Navigant and PA Consulting exceeded the requirement with a total commitment of 16.00 percent and 20.43 percent,

respectively. Additionally, the Local Business Preference Program was included in this RFP providing Navigant an additional eight percent towards the total evaluation score; however, it was not a determining factor in the evaluation or recommendation of award.

City Council approval is required pursuant to Charter Section 373. The time limit for Council action is 60 days. The City Attorney has approved the proposed resolution as to form and legality.

FISCAL IMPACT STATEMENT

Approval of the proposed resolution will impact the DWP Water Revenue Fund and DWP Power Revenue Fund. There is no fiscal impact to the City General Fund.

RHL:RR:10180099