

EXECUTIVE BRIEF ELECTRIC UTILITY MEETING

AGENDA DATE: November 30, 2021

TITLE:

Establishing new Electric Utility Rates and Charges to be Effective on either January 1, 2022 or April 1, 2022

SUMMARY:

Proposed electric utility rate increases for all customer categories to reflect increases in operating costs, base energy costs, fuel, and purchased power costs.

BACKGROUND AND JUSTIFICATION:

Since 2014, City's electric utility reduced electric rates three times under the direction of the City Commission to achieve rate parity with the neighboring investor owned utility for the benchmark 1,000 kWhr/month customer. The last of the three electric rate decreases was implemented in February, 2018, with rates remaining unchanged since then. Today the City's electric utility's residential bills rank among the lowest in the state of Florida, most recent public data ranks our electric utility 8th out of 32 municipal utilities, and well below the statewide municipal utility average, and with actual bills for a benchmark 1,000 kWhr/month customer ~0.5% lower than the neighboring utility.

The electric utility has been able to operate without rate increases for three and a half years due to significant cost cutting efforts by Staff. These include implementing operating cost controls, renegotiated energy and capacity contracts, and refinancing of outstanding debt. Over the past four years the electric utility has also identified and brought in additional revenues from renegotiated pole attachment agreements and settlements for prior unauthorized attachments, customer growth, as well as bringing in new revenues from underutilized natural gas pipeline capacity assets. The electric utility's improved financial position has allowed it to embark on a robust series of projects aimed at improving reliability for its customers, referred to as System Hardening and Reliability Improvement Program (SHRIP).

In 2020, the City contracted with Leidos, a leading rates-consulting firm, to conduct a comprehensive Cost of Service Study and recommend adjustments to electric utility rates, where deemed advisable, to assure adequacy of revenues to cover increased costs going forward. The electric utility is currently operating under Resolution 69-2021 which continued previously set Electric Utility Rates and Charges for FY2022 without changes from FY2021 amounts.

On September 28, 2021, following budget workshops and detailed financial modeling by Stantec, the Electric Utility department Staff and Leidos' Staff presented the findings of the Cost of Service Study and suggested rate changes to the City Commission for discussion and questions. The City Commission informally agreed with the suggested rates by consensus, with an accompanying request that the rates proposal be brought forward for formal approval at the October 26, 2021 City Commission meeting with an effective date of April 1, 2022.

Resolution 74-2021 was submitted for consideration at the City Commission meeting on October 26, 2021 with proposed new Electric Utility Rates and Charges effective April 1, 2022, as

previously requested. At the October 26, 2021 meeting the City Commission requested that the matter be deferred to the November 30, 2021 meeting. In recognition of significantly increased natural gas prices beyond what was anticipated during the FY2022 budget process, Staff has reviewed the suggested rate increases yet again. Staff currently anticipates that increased natural gas prices will lead to wholesale power costs ~\$2.3 million higher than budget.

Natural gas is the fuel source for approximately 53% of electric utility's wholesale energy purchases, and while not the majority of the utility's fuel source for electric generation, the utility's cost of wholesale power does track with natural gas prices. The balance of the utility's energy supply portfolio is nuclear (38%), coal (8%) and solar (0.75%). The actual percentages are approximate and vary slightly year to year depending on generating unit dispatch costs and outages.

Beginning in late 2023, into 2024 and beyond, the electric utility's supply portfolio will change for the better with the addition of significant amounts of solar energy derived from existing purchase agreements with the Florida Municipal Power Agency (FMPA) Solar Projects for 36.55 Megawatts (MW). City's contract with FMPA for solar energy, combined with the planned retirement of the utility's source of coal energy, and the displacement of supplemental energy from natural gas sources, will yield significant reductions in CO2 emissions associated with the production of electricity to serve City's electric utility customers. A concomitant benefit of City's contract with FMPA for solar energy is a further reduction in City's exposure to fluctuations in natural gas prices, in essence a hedge against rising fuel prices.

At this time however, and in order to keep up with increases in operating costs, base energy costs, fuel, and purchased power costs Staff has proposed various alternatives for rate increases. In order to minimize the impact of rising fuel costs Staff has structured four potential options for consideration which spread the fuel cost recovery period over an eighteen to twenty-one-month period, using either Jan. 1, 2022 or April 1, 2022 as the effective date. Staff's proposals are also designed to yield residential customer bills for the benchmark 1,000 kWh/month residential customer that will remain below that of the local investor owned utility.

Staff is also proposing increases to streetlighting charges of 5.0% to 6.9% due to changed costs such as debt service and lower bulb wattages associated with the replacement of the City's streetlights to more energy efficient LED lighting in 2017. These changes were not previously reflected in rates.

There are four rate options for new Electric Utility Rates and Charges from which the Commission would select and approve one. The cases are summarized below at a high level, but are provided in detail in the backup material from Leidos, with Effective dates of January 1, 2022 or April 1, 2022

	Residential	Commercial	Residential 1,000 kWh
Case 1 - COS Apr 1, 2022	8.0%	5.0%	\$116.65
Case 2 - Even Apr 1, 2022	6.9%	6.9%	\$115.65
Case 3 - COS Jan 1, 2022	7.0%	4.0%	\$115.45
Case 4 - Even Jan 1, 2022	6.0%	6.0%	\$114.45

The existing Residential rate is \$107.99. The proposed Neighboring Utility rate will be \$119.37 in January 2022.

Staff will continue to monitor natural gas prices and purchased power costs monthly, and will advise the City Commission of the budget status regularly for it to determine what further adjustments (up or down) may be needed in its Power Cost Adjustment (PCA).

MOTION:

Move to approve/disapprove a request that Staff bring forward an Electric Utility Rates Resolution based on one of the four options (Case 1, Case 2, Case 3, or Case 4) establishing the new Electric Utility rates and charges, for a vote at the December 7, 2021 City Commission meeting.

ATTACHMENT(S):

Fiscal Impact Analysis - N/A

Davenport Ratings Presentation

Leidos Rates Presentation

Leidos Cost of Service Study (will be uploaded when finalized)

Existing Electric Utility Rates Resolution 69-2021

Proposed Rate Resolution