RECOMMENDATION
Staff recommends that the City Council adopt the attached resolution to increase the electric base rate of Fiscal Year 04-05 by 8.5 percent, or approximately $5.7 million annually, to be effective July 1, 2004.

The Utilities Advisory Commission (UAC) recommends that the City Council approve the 8.5 percent electric base rate increase, but delay implementation until January 1, 2005, resulting in an annualized rate increase of approximately $2.9 million.

BOARD/COMMISSION REVIEW AND RECOMMENDATIONS
The UAC was presented with the staff recommendation of an 8.5 percent base rate increase at the May 5, 2004, UAC meeting.

Staff discussed two tactics undertaken by the Utilities Department: 1) to maintain the Supply Rate Stabilization Reserve (SRSR) balance at the upper range of the new Guideline established by Council in December, 2003 (CMR:483:03); and, 2) begin transitioning customers to higher wholesale electric costs, to begin with the expiration of the Western Area Power Administration (Western) supply contract in December, 2004.

On a 3-2 vote, the UAC recommended that Council delay the implementation of the staff-recommended 8.5 percent electric base rate increase until January 2005. The UAC felt that the rate increase, combined with the projected SRSR ending balance of $64 million for FY 04-05 (or 68 percent above the FY 04-05 Guideline Maximum of $38 million),
provided sufficient reserves for one-time contingencies and market volatility until FY 05-06. The UAC felt that delaying implementation would provide greater accuracy to the forecast and could result in a lower-than-projected rate increase for FY 05-06.

Staff stated that the rate increase was needed because the SRSR Maximum Guideline was artificially low for FY 04-05, when the existing Western contract would terminate December 31, 2004, and half the year would operate in new market conditions under the obsolete Guideline Range. Staff indicated that for a full year (FY 05-06), the new Reserve Guideline Range, pegged to 103 percent of projected wholesale purchase costs, would be $26 million to $52 million, with a SRSR ending balance at $55 million, or only 6 percent above the Guideline Maximum.

<table>
<thead>
<tr>
<th></th>
<th>FY 04-05 (50 percent existing Western, 50 percent “new” Western)</th>
<th>FY 05-06 (100 percent “new” Western)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected Supply Rate Stabilization Reserve (SRSR) Balance</td>
<td>$64 million</td>
<td>$55 million</td>
</tr>
<tr>
<td>Guideline Maximum</td>
<td>$38 million</td>
<td>$52 million</td>
</tr>
<tr>
<td>Guideline Minimum</td>
<td>$19 million</td>
<td>$26 million</td>
</tr>
</tbody>
</table>

**ALTERNATIVES**

Staff evaluated the impact of alternative rate proposals against the backdrop of maintaining electric supply reserves at the upper range of the Rate Stabilization Guideline and gradual increases in customer rates.

An increase larger than the proposed 8.5 percent would result in a total combined FY 04-05 rate increase (electricity, water, natural gas) that staff believes is too aggressive and would negatively impact customers, but would result in smaller future increases.

If Council adopts the delayed 8.5 percent base rate as recommended by the UAC, then staff’s next electric rate proposal, for FY 05-06, would take effect only six months later and the current projected electric base rate request of 17 percent for FY 05-06 would increase to a projected rate request of 26.1 percent.

**RESOURCE IMPACT**

Approval of the staff proposed rate increase will raise the Electric Fund base sales revenues by approximately $5.7 million for FY 04-05.

Approval of the UAC proposed rate increase will raise the Electric Fund base sales revenues by approximately $2.9 million for FY 04-05.
POLICY IMPLICATIONS
The staff recommendation remains consistent with the Council approved Utilities Strategic Plan to provide superior financial performance to the City and invest in utilities infrastructure to deliver reliable service.

The delay of 6 months for implementing the UAC rate proposal represents a departure in practice from past Utilities Department, UAC and Council actions, where Utilities rates are traditionally adopted on July 1 of the Fiscal Year (unless there are mitigating circumstances, as occurred during the natural gas crisis of 2000).

ENVIRONMENTAL REVIEW
The adoption of the resolution does not constitute a project under the California Environmental Quality Act. Therefore, no environmental assessment is required.

ATTACHMENTS
A: Resolution
B: Electric Rate Schedules E-1, E-1-G, E-2, E-2-G, E-4, E-4-G, E-4-TOU, E-7, E-7-G, E-7-TOU, E-14, E-16, E-18, and E-18-G
C: UAC Report from May 5, 2004
D: Minutes of the UAC meeting of May 5, 2004

PREPARED BY: Lucie Hirmina
Utilities Rates Manager
Girish Balachandran
Assistant Director, Resource Management
Tom Auzenne
Assistant Director, Customer Services

DEPARTMENT HEAD: JOHN ULRICH
Director of Utilities

CITY MANAGER APPROVAL: EMILY HARRISON
Assistant City Manager