

**LODI CITY COUNCIL  
SHIRTSLEEVE SESSION  
CARNEGIE FORUM, 305 WEST PINE STREET  
TUESDAY, JANUARY 12, 2016**

A. Roll Call by City Clerk

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, January 12, 2016, commencing at 7:00 a.m.

Present: Council Member Johnson, Council Member Mounce, Council Member Nakanishi, Mayor Pro Tempore Kuehne, and Mayor Chandler

Absent: None

Also Present: City Manager Schwabauer, Deputy City Attorney Fukasawa, and Deputy City Clerk Farris

NOTE: Council Member Nakanishi arrived at 7:02 a.m.

NOTE: Council Member Kuehne left at 8:19 a.m. and Council Member Nakanishi left at 8:22 a.m.

B. Topic(s)

B-1 Discussion Regarding Meal Reimbursements/Payments (CM)

Deputy City Manager Jordan Ayers provided information on the meal reimbursements/payments portion of the City Travel Policy. Mr. Ayers explained the City is in the process of updating the travel policy, which currently reimburses all City employees for meal expenses based on actual cost. Assembly Bill 1234 requires elected and appointed officials to be reimbursed for meal expenses on an actual-cost basis; receipts must be submitted before reimbursement can be made. State law remains silent on other staff members, and many jurisdictions use a per diem reimbursement policy. The Council may decide to have all staff reimbursed for actual expenses or have a split system with elected and appointed officials reimbursed for actual expenses and other staff reimbursed on a per diem basis. Mr. Ayers explained the Federal General Services Administration publishes per diem rates for the entire country, and his recommendation would be to reference its rates in the revised policy to determine reimbursements, should Council ultimately decide to use per diem rates. The driving force behind switching to per diem reimbursements is the amount of staff and employee time being devoted to tracking and reporting actual expenses.

In response to Mayor Pro Tempore Kuehne, Mr. Ayers stated the rates depend upon the city to which an employee travels. The maximum daily reimbursement rate under current City policy is \$74; under the per diem system, it would be between \$51 and \$75, depending upon the city.

In response to Council Member Johnson, Mr. Ayers explained if a staff member is attending a conference, an itinerary is submitted and any included meals are subtracted from the per diem amount. Council Member Johnson commented he felt the per diem system is good and questioned why everyone is not currently on that system. Mr. Ayers reiterated all elected and appointed officials must be reimbursed based on actual expenses.

Mayor Pro Tempore Kuehne commented that the per diem system sounds reasonable.

Council Member Mounce stated she did not agree with the per diem system and felt strongly staff should be reimbursed only for the amount they spent.

Mayor Chandler stated he agrees with Council Member Mounce, as accountability is important.

Council Member Nakanishi commented either system is acceptable to him.

## B-2 Residential Electric Rate Design Options (EU)

Electric Utility Director Elizabeth Kirkley introduced Rates and Resources Manager Melissa Price and Anna Falcon of EES Consulting. Ms. Price and Ms. Falcon provided a PowerPoint presentation regarding residential electric rate design options. Specific topics of discussion included agenda, background, rate design methodology, historical data summary, current rate calculation, rate options, rate design goals, minimum bill, minimum bill impact, fixed charge, fixed charge - other agencies, fixed charge impact, simplify tiers, simplify tiers - other agencies, simplify tier impacts - four tiers, simplify tier impacts - three tiers, simplify tiers - two tiers, simplify tier impacts - flat rates, combination impact - \$10 fixed charge, combination impact - \$5 fixed charge, summary and conclusions, and next steps.

In response to Mayor Pro Tempore Kuehne, Ms. Price stated there are currently over 400 solar customers, up from 325 last year; more applications are submitted every day; and they are primarily residential customers.

In response to Council Member Nakanishi, Ms. Price commented all utilities are concerned about the revenue erosion cycle and their approaches to the problem vary, which will be addressed later in the presentation.

In response to Council Member Nakanishi, Ms. Price stated Lodi's tiers are in inclining blocks, so the customers in the first blocks pay the least per kW hour; the current five-tier system was modeled after PG&E's tier system; to her knowledge, there are no other publicly-owned utilities using a five-tier system; and the current system is a result of the energy crisis in 2001 when PG&E was forced to lock in rates for lower-end users and recoup rising costs through upper-end user charges. City Manager Stephen Schwabauer further clarified that whether or not the five-tier system helps or hurts low-income customers depends upon an individual customer's circumstances. A customer living in an apartment and using very little energy will benefit from the five-tier system, as they maintain a low-energy profile and are able to manage their bill by not using very much power. However, the five-tier system would be detrimental to a customer renting an older, non-energy-efficient house. The five-tier system may be beneficial to a wealthy customer who lives in a new, energy-efficient home. He added the point of the presentation is many wealthy customers are able to afford to install solar systems and benefit greatly from the five-tier system at the expense of customers who cannot.

Ms. Price provided an update on recent events regarding solar power and the solar industry, reminding Council about the previous presentation on net metering and the impact of solar customers, who, in the absence of a fixed charge, are not paying the distribution costs associated with operating the system. The federal solar tax credit, which was to expire in 2016, has been extended through 2021. The number of Lodi solar customers will continue to increase; on the positive side, this may benefit the City in regard to the renewable energy requirements in the future. Also, the California Public Utilities Commission (CPUC), which oversees the investor-owned utilities, recently released a proposed decision on its net metering successor program. The current net metering program was set to expire in 2016, but the CPUC does not foresee making any major changes to net metering for investor-owned utilities. There has been discussion regarding paying customers the value of solar energy, rather than compensating them at the retail rate, which is essentially what happens in a net metering system; however, it does not appear that will change. While the CPUC's decision, which is due at the end of the month, will not directly apply to publicly-owned utilities like Lodi, the California Energy Commission and the legislature will be watching the decision, and so it likely will impact the City in the future. The successor program will allow for larger solar systems than currently allowed, and, of even greater concern, the CPUC is considering the elimination of the cap at which utilities are no longer obligated to offer net metering. Currently, upon reaching the cap, utilities are no longer obligated to compensate solar users at the retail rate. Also, the successor program may jeopardize fixed charges. These are recent developments from mid-December, and the Northern California Power Agency continues to follow these issues and are actively in the discussion, so staff will keep Council updated. Mr. Schwabauer commented that while these issues are not before the legislature at this time, there is concern that they may eventually require utilities to have net

metering and further require retroactive changes should utilities not comply, so it is important to be proactive.

In response to Council Member Nakanishi, Ms. Price explained the Low Income category consists of customers who receive a 30 percent discount. That category could also contain customers who receive a combination of low income and medical discounts, with the medical discount providing an additional 5 percent. The Fixed Income category consists of customers who receive a 5 percent discount.

Mayor Pro Tempore Kuehne questioned why there is such a large difference in revenue generated between Tier 2 and Tier 3. Ms. Falcon explained there is a very small difference in the limits set for Tier 1 and Tier 2, with a larger amount for Tier 3. Ms. Price stated the tiers were modeled after PG&E's tier system and the revenue generated is a function of the tier model. Mr. Schwabauer further explained the average customer uses between 550 to 650 kWh, depending on the time of year; the tiers are set up to accommodate average customer use, with above-average use being charged more. The idea of tiered rates is to moderate consumption, with the rates being set so the above-average consumers pay more than people who consume less.

In response to Mayor Pro Tempore Kuehne, Ms. Price explained that everyone pays a California Solar Surcharge. Senate Bill 1 gave each utility a dollar amount to collect over a ten-year period to fund the solar incentive rebate program. In further response, Mr. Schwabauer stated the charge is designed to encourage people to install solar systems by funding a rebate program to subsidize the installation. Council Member Mounce expressed dissatisfaction that everyone has to pay into the fund but not everyone can afford to purchase a solar system. Mr. Schwabauer commented the rebate program is not radically different than the federal tax credit.

In response to Mayor Pro Tempore Kuehne, Ms. Falcon explained that the Energy Cost Adjustment (ECA) is the adjustment for the difference between the expected power cost and the actual power cost. The ECA will continue to be on future bills. It was not shown on the example as it is an adjustment and did not figure into the calculation.

In response to Council Member Mounce, Ms. Falcon stated ECA use is very prominent among other utilities, especially during the power crisis. Some utilities are now using it on non-power supply costs as well to recover the cost to run utilities, particularly now with the increase in solar users. Mr. Schwabauer added the ECA in Lodi has steadily dropped over the course of the past five to six years and rates are lower now; the ECA is not being misused by the City. Council Member Mounce requested an analysis of five households to show if the rates are lower today than five or six years ago.

Council Member Mounce stated raising the minimum monthly bill to \$10 would impact residents who vacation for months at a time or property owners who are making renovations to their rental property. Ms. Price added it would impact solar customers as well. In response to Mayor Pro Tempore Kuehne, Mr. Schwabauer reiterated the majority of customers who would be paying the minimum bill charge would be people who are not residing in their house or apartment for that full billing period, such as snowbirds or landlords making repairs; while there could be others, those are the most likely.

When discussing the \$10 fixed charge, Council Member Mounce reminded Council that not all rate payers make as much money and they need to keep that in mind when making decisions.

While discussing the impact of a fixed charge, Mr. Schwabauer stressed the issue being discussed was not raising rates, it was adjusting the rate design. A fixed charge would result in a decrease in usage rates; the same revenue would ultimately be raised and there would not be an increase in the base revenue. It is the same as when the City moved to usage-based rates for water and wastewater. Council Member Mounce stated bills would still increase for empty houses.

In response to Council Member Mounce, Ms. Falcon explained cost cutting is part of the budget process; rate design is the process where you reach the target set in the budget.

In response to Mayor Pro Tempore Kuehne, Mr. Schwabauer verified that, in the sample given, an average user would have an increase while an above-average user would see a decrease. Council Member Mounce pointed out the City would reward customers for high energy use.

In response to Mayor Pro Tempore Kuehne, Ms. Price stated the \$5.25 minimum bill has been in affect a long time, and Mr. Schwabauer confirmed it was in affect when he started with the City in 2000. Council Member Mounce stated keeping rates the same is part of the problem; no one wants to raise rates and waiting too long forces an agency to institute a huge raise rather than small increments, which are easier to absorb.

Ms. Price clarified a point in regard to rewarding higher-tier users with lower rates by explaining when the five tiers were structured, the City was mirroring PG&E and that system locked in the price for the lower tiers so when additional funds were needed, the rates for the upper tiers were raised. The City is now trying to allocate costs more equitably across the tiers. Ms. Falcon reiterated she is presenting options today, not a proposal; it is to demonstrate to Council the affect of different rate designs on customers' bills.

In response to Mayor Pro Tempore Kuehne, Ms. Price stated about 20 percent of customers use more than 1,000 kWh and about 4 percent use more than 1,400 kWh.

Ms. Falcon confirmed Council Member Mounce's observation that lower users will not see any change on the two-tier system; middle users will have the greatest impact; and the more power you use, the more you save in the second tier.

Ms. Price clarified staff is not recommending the flat rate option.

In response to Council Member Mounce, Ms. Price stated the two-tier and flat rate options do not provide a gradual change, and the bigger problem with flat rates is they do not provide an incentive to save energy. Staff included the flat rate in the presentation for Council information but does not recommend it.

Mr. Schwabauer commented on cost causation, who is being punished, and who is being rewarded. Staff has researched where the costs come from and where they are allocated. In rate design, utilities look to recover the base and fixed costs from users in a relatively equitable manner and then charge for the variable power purchase costs according to actual usage. It is very close to a 50/50 split between fixed and variable costs. When staff brings this topic back to Council, they will address how fixed costs are distributed; a customer paying a \$5 minimum bill is paying nowhere near their fair share of the fixed costs. Ms. Price agreed the current system is collecting most of the fixed cost from the upper tiers, with the lower tiers barely covering the variable costs. The majority of the fixed costs are being paid by a small percentage of customers. Ms. Kirkley added low-usage customers still need the distribution system maintained and it is important they contribute appropriately, and that is part of the cost causation discussion.

Council Member Mounce asked when the issue returns to Council with options to address low-income and fixed-income discounts that an effort be made to communicate to people regarding discounts. Many people do not realize they are eligible for discounts, and the City needs to reach out to these people, especially non-English speaking customers. Shut-ins and many seniors do not know about discounts and are not able to go to places like the Salvation Army to sign up for help. Ms. Price agreed to work with Business Development Manager Adam Brucker to get the information out to the public.

In response to Council Member Mounce's earlier inquiry, Ms. Price stated her recommendation would be the three-tier system with a \$10 fixed charge.

Council Member Nakanishi commented he understands this is a business decision but the public perception is the City is price gouging; it is a wise business decision but the public thinks the City

is just raising rates. Citizens are currently angry about the rate structure, so the City should move slowly. Council should institute the advisory committee to hash out the details and then move forward next year.

Mr. Schwabauer stated the citizens who have complained are the customers who are disadvantaged by the current rate structure, so they will want this change because as high-tier users, they are paying more than their share of the fixed costs. In response, Council Member Nakanishi stated while that may be true, the people may not realize that the new system will be to their advantage.

Council Member Mounce commented the budget affects how much income needs to be raised, which affects rates and the rate design structure; the City still needs to cut expenses; the people who complain about rates would agree that the City needs to cut expenses; and the budget and rates/rate design are not two separate issues.

In response to Mayor Chandler, Ms. Price stated while natural gas and power costs are currently low, there is the renewable energy requirement, and the City will be facing those costs starting in 2017 with the new Astoria solar project; and transmission costs, which make up \$8 to \$9 million of the \$40 million power budget, continue to go up.

Mayor Pro Tempore Kuehne stated the City needs to look at what it needs to do to be viable; the minimum charge has not been raised in 20 years, which does not make sense from a business standpoint; the City needs to do what is right for Lodi, not what someone else is doing; and it should move forward with Ms. Price's recommendation.

In response to Mayor Chandler, Ms. Price stated residential customers are approximately 40 percent of the total revenue, with commercial and industrial providing the other 60 percent.

Mayor Pro Tempore Kuehne rescinded his earlier comment regarding moving forward with Ms. Price's recommendation; stated he would like to see the whole package, including both residential and commercial/industrial; and suggested including an industrial representative on the advisory committee. Council Member Mounce suggested a representative from the Chamber to ensure changing the rate design does not affect jobs in the community.

Mike Lusk stated there are so many facets to the rate design plan that it is difficult for the public to understand where the Council is heading; there is the budget, bond reserves, fixed costs, overhead, and maintaining the system. The public does not understand why the City wants to change the rates. He pointed out the minimum bill is absorbed in the total bill but not the fixed charge, so a fixed charge will be an increase; whereas, a raise in the minimum bill is not an increase and would be more acceptable to the public. Utility customers already have a fixed charge for water and sewer. In previous rate discussions, it was indicated California law did not allow the City to charge solar customers a standby charge. Mr. Lusk questioned how that differs from charging a fixed rate fee. Mr. Schwabauer clarified this charge will apply to all rate classes equally, not just to solar customers; the law prohibits charging a fee specifically to solar customers. Mr. Lusk questioned if raising the minimum bill would help as much as a fixed charge, in regard to the solar issue. Mr. Schwabauer stated raising the minimum bill will help but not as much as a fixed charge. Ms. Falcon added the minimum bill would need to be increased significantly in order to realize the same benefit; the second part to remember in implementing the fixed charge is the Tier 1 energy rate will be reduced at the same time. Mr. Lusk commented the change in energy rate did not seem significant for the lower tiers and reducing the upper tiers defeats any incentive to conserve energy. Due to the complexity of the plan, he hoped Council did not rush toward a decision so the public would have a chance to offer input.

Solar City representative Gina Goodhill stated she appreciates Lodi's efforts to design a new rate, however, the company is concerned because some of the rate proposals focus primarily on cost causation and principles that just promote the utility's objectives but do not appropriately consider the principles that protect and benefit all rate payers. The fixed charge will allow the utility to collect revenue but it will discourage energy efficiency and significantly increase rates for some customers. Similarly, significant tiering of the rates could result in large bill impacts for some

customers. Solar City encourages Council to consider rate designs that balance the needs of the utility and protect the customers and to keep in mind how rate changes may negatively impact solar customers without taking into account the long-term benefits these customers provide to the community. In response to Mayor Chandler, Ms. Goodhill stated Solar City would recommend a minimum charge to help pay for the grid; current rates are providing enough revenue so the minimum bill should be increased rather than instituting a fixed charge. Solar City wants to see California continue to be a clean energy leader. The City of Turlock no longer has solar growth due to drastic rate changes in that city. Ms. Price clarified Turlock and Lompoc both still allow solar systems, but they are not obligated to offer a net metering rate because each has reached the 5 percent cap under current legislation.

C. Comments by Public on Non-Agenda Items

None.

D. Adjournment

No action was taken by the City Council. The meeting was adjourned at 8:27 a.m.

ATTEST:

Pamela M. Farris  
Deputy City Clerk