PORT OF OAKLAND

7/11/2024

AGENDA REPORT

<u>PROPOSED ACTION</u>: Ordinance: Approval of Proposed Utilities Rates and Charges and Master Utility Fee Schedule to Restructure and Modify the Port's Electric Rates with Rate Increases for All Rate Classes Serving the San Francisco Bay Oakland International Airport and All Except One Rate Class Serving the Port of Oakland Seaport for Fiscal Year 2025; and Adoption into Chapter 10.03 and Appendix F of the Port of Oakland Administrative Code by Amending and Restating Port Ordinance Nos. 3439, 3521, 3621, 3651, 3674, 3714, 3727, 2798, 3926, 3944, 3950, 3982, 4028, 4034, 4064, 4143, 4225, 4260, 4339, 4354, 4468 and Resolution Nos. 02410 and 05181; and Amending Sections 10.01.020 and 10.01.100 of Chapter 10.01 (Utilities Rules and Regulations); and Finding that the Proposed Action is Exempt Under the California Environmental Quality Act.	
<u>Submitted By</u>: Kristi McKenney, Chief Operating Officer; Danny Wan, Executive Director	
<u>Parties Involved</u>: Port of Oakland Electric Utility Customers.	<u>Amount</u>: Approx. $6.8 Million (Revenue)
<u>EXECUTIVE SUMMARY</u>: In addition to other activities, the Port of Oakland (Port) is also a publicly owned utility (POU) supplying power and providing electric utility services to the Port and certain Port tenants. Port Staff have conducted an extensive cost of service and rate study to analyze Port Utility rates and forecast expenses and calculate appropriate rates for Fiscal Year 2025. Port Staff is recommending the Board adopt an ordinance (Chapter 10.03(Utility Rates and Charges) and Appendix F (Master Utility Fee Schedule) in the Port of Oakland Administrative Code (POAC)) restructuring and modifying electric rates, including a proposed average rate increase of approximately 26% for Port Utility customers at the San Francisco Bay Oakland International Airport (OAK or Airport) and an average increase of approximately 13% for Utility customers in the Seaport. Importantly 1) the Port has neither increased its rates nor modernized its rate structure for approximately 14 years and 2) the new rates will still be substantially lower than both Pacific Gas & Electric Company (PG&E) and Ava (formerly East Bay Community Energy) rates. The rate changes will not affect tenants served directly by PG&E or Ava as a retail customer. With the proposed restructuring and rate increases, it is anticipated that the Port Utility will be able recover its expenses and meet FY 2025 financial metrics including Debt Service Coverage Ratio (DSCR) and Days Cash on Hand (DCOH). Port Staff intends to bring updated rate increases for Board of Port Commissioner (Board) consideration on a more frequent basis going forward.	

<u>BACKGROUND & ANALYSIS</u>

The Port is a publicly owned utility supplying power and providing electric utility services to the Airport and Seaport. Port Utility has over 300 utility service connections to customers operating within the Port. The Port of Oakland is the only POU in California that also operates and serves an Airport and a Seaport. While our neighboring utilities have increased their rates significantly over the years, the Port has not adjusted its electric rates since 2010.

Current Port Electric Rates

The Port's current rate *classes and structures* are similar to those offered by PG&E, with the actual rates being significantly lower cost. The current electric rates and charges for the Airport and Seaport include: Airport, Maritime-HTC, (which have customer, distribution, demand and energy charges for different rate classes); Maritime-OAB; vessel commissioning and shore power charges; an environmental surcharge (which will not change); a cost of service (capacity) charge for the Airport; and a cost of service (capacity) charge for the Seaport.

Cost of Service and Rate Study

New rates are required to ensure the division fully supports its expenses and other Port financial metrics as part of the multiyear process to segregate Port Utilities into a separate revenue division. In December 2023, the Port retained NewGen Strategies and Solutions, LLC (NewGen) to develop the 2024 Cost of Service (COS) and Rate Study (Study). The Study determined the total cost of providing electric services, the allocation of costs to the various customer classes, and the design of rates for existing and projected customer classes. The total cost of providing electric services predominately includes the cost of energy and transmission, operations and maintenance (O&M) expenses, including power supply, as well as debt service and capital outlays required to operate and maintain the Port's power distribution system consistent with good utility practice.

The Port provides electric service to most of the Seaport and the Airport, each with direct and allocated revenues, expenses, and individual customers. Each area supports its expenses through cost recovery from its customers, including Port electricity usage at both the Airport and the Seaport. The Study includes an analysis of projected revenue requirements for the Airport and Seaport areas separately, as well as for the combined system (Port Utility), for Fiscal Year (FY) 2025 (July 1, 2024 through June 30, 2025). This is known as the Test Year (TY) for the purpose of the Study.

Port Staff is only proposing one set of rate design changes for adoption in July 2024 but may recommend further rate adjustments in future years reconciled by a true-up at the end of FY 2025.

Summary of Rate Study Results and Proposed Rates

1. The Cost of Service (COS) (Net Revenue Requirement) for the TY (FY 2025) is approximately $27.0 million for Port Utility, which includes approximately $15.4 million for the Seaport and $11.6 million for the Airport. The projected rate revenue for the TY at current rates is approximately $20.2 million for the system, $13.1 million for the Seaport,

and $7.1 million for the Airport. This represents an approximate $2.3 million shortfall for the Seaport, or about 17%, and an approximate $4.5 million shortfall for the Airport, or about 64%.

2. Long-term projections (FY 2025-29) include significant investment in capital projects. The Port's financial plan assumes a mix of financing mechanisms to pay for these investments, including capital paid from retained earnings (rates), grants and debt issues. For the debt issues, the debt service will be paid with revenue from rates recovered from customers within each division. To be able to finance these capital projects, Port Utility will need to increase rates each year over a longer period to ensure sufficient revenues are generated from rates to pay for operating and capital costs including debt service payments on bonds issued to fund Port Utility capital projects.

3. The COS results suggest that some classes are under-collecting relative to their projected TY COS, however, Port Staff does not recommend approval of the long-term rate plan at this juncture due to uncertainties in costs as well as anticipated load. Port Staff recommends approval of the FY 2025 rates as described herein and an annual review of projected costs and revenues thereafter before additional rate recommendations are provided.

4. The Port is transitioning Utility to a new revenue division within the Port effective July 1, 2024. Historically, the Port (Seaport and Airport) has not been charged directly for the power provided by the Port Utility. This is proposed to change with the creation of the Utility department as its own standalone revenue division.

5. The existing Time-of-Use (TOU) rate structures do not reflect the costs incurred by the Port to serve its customers. The proposed rate plan includes changes to the rate structures to simplify the rate offerings. This includes collapsing the distribution and energy rates into one energy rate ($/kilowatt hour [$/kWh]) as well as reducing the TOU rates for larger customers into a single energy or demand rate ($/kilowatt [$/kW]).

6. The recommended average rate increases result in rate increases of approximately 26% at the Airport and approximately 13% at the Seaport. The rate currently charged to customers in the Oakland Army Base (OAB) area is recommended to be eliminated and those customers will pay the rate classes used by all other Seaport customers. This is expected to reduce the rates for OAB customers. The Port Utility's rate revenue for FY 2025 is projected to be approximately $27.0 million with the new rates. With these proposed rate changes, it is anticipated that the Port Utility will be able to meet its FY 2025 financial metrics for both DSCR, DCOH and maintain a reasonable cash reserve to fund a portion of future Capital Improvement Program as approved by the Port Board of Commissioners. The recommended rate changes allocate costs to provide a fair and reasonable relationship to the regulation of Port Utility customers, and the rates do not exceed the estimated actual costs of providing the product or service and would reimburse the Port for services and products provided.

7. Port Staff recommends restructuring the existing one-time capacity (or buy-in) charge (referred to as the cost of service charge in the Port's existing ordinances) for customers in the Airport to match the current methodology used at the Seaport. The one-

time cost-of-service charge is similar to how utilities (electric, water, or sewer) charge for new customers that will be utilizing existing capacity on their system. The use of a capacity or buy-in charge results in downward pressure on electric rates for existing customers who have been paying for the surplus capacity that is available for the new customer. This recognizes the prior contributions of existing customers to the electric system's ability to accommodate new customers. Charging a capacity fee is common in the electric utility industry and supports a general approach of having “growth pay for growth.” With this approach, the new customer load should not result in increased electric rates for existing customers, by recovering an appropriate and reasonable upfront capacity charge on new customers.

8. Port Staff recommends adopting a Direct Assignment Charge for customers in the Airport and Seaport. The Direct Assignment Charge is an upfront payment for improvements or portions of improvements owned by the Port Utility that are solely a result of, and in response to, an existing or new customer's request. The Direct Assignment Charge is similar to a “Line Extension Policy” adopted by many publicly owned utilities and can be applied in conjunction with the cost of service (capacity) charge described herein. The requested infrastructure improvements directly benefit the customer making the request and are assigned for the customer's use at a point of interconnection. These infrastructure needs are above and beyond those that the Port may need to construct or install to meet its distribution system needs. These improvements must be owned, constructed, and installed by the Port to interconnect and serve the customer's requests at the point of interconnection, and the customer is responsible for the entire cost of requested improvements.

The Rate Study Results and Proposed Rates are shown on **Exhibit A – 2024 NewGen Rate Study Results and Recommendations**.

Port Utility will review and re-evaluate its revenues from electricity sales on a monthly and annual basis to ensure projections of usage and estimated revenues provided herein are tracking with expectations. Additionally, customer demand and approach for charging of zero emission equipment will be evaluated for consideration in future rate structures. Port Utility will continue to invest in infrastructure, equipment, and personnel to ensure its ability to build resilience and maintain reliable power to its customers.

Incorporation Into POAC

On March 24, 2022, the Board adopted the POAC to serve as the public repository of all policies approved by Board ordinance that apply generally to the public, the Port’s stakeholders, and/or Port employees. The POAC is available at https://library.municode.com/ca/port_of_oakland.

This action also proposes to incorporate the provisions relating to Utilities Rates and Charges into the POAC as Chapter 10.03 and Appendix F, according to the table of contents previously planned for the POAC. After such incorporation, the prior ordinances and resolutions regarding Utilities rates and charges would be amended and restated and the POAC would be the authoritative source of the provisions relating to the Rates and

Charges. This will serve to provide increased transparency and customer service for Port Utility customers.

The proposed Rates and Charges to be incorporated in the POAC are contained in Attachments A and B to the Ordinance. Attachment C to the Ordinance reflects the proposed clean-up amendments to Chapter 10.01 (Utilities Rules and Regulations) of the POAC to ensure consistency with Chapter 10.03.

OTHER FINDINGS AND PROVISIONS

ENVIRONMENTAL REVIEW

The proposed action was analyzed under the California Environmental Quality Act (CEQA) and was found to be:

☐ Categorically exempt under the following CEQA Guidelines Section:

Choose an item.

☐ Not a "Project" under CEQA, as defined in Public Resources Code § 21065.

☒ Other/Notes: Statutorily Exempt under Section 15273 – Rates, Tolls, Fares and Charges.

BUDGET

☐ Administrative (No Impact to Operating, Non-Operating, or Capital Budgets); OR

☒ Operating ☐ Non-Operating ☐ Capital

Analysis: There is no impact to FY 2025 operating budget as budgeted operating revenue for the Utilities division already account for the proposed rate increases. Delays in adopting the new rates may result in less revenues than budgeted.

STAFFING

☒ No Anticipated Staffing Impact.

☐ Anticipated Change to Budgeted Headcount.

Reason:

☐ Other Anticipated Staffing Impact (e.g., Temp Help).

Reason:

MARITIME AND AVIATION PROJECT LABOR AGREEMENT (MAPLA): Applies? No (Other) - see explanation below. ☐ Additional Notes:	**LIVING WAGE** (City Charter § 728): Applies? No (Not Covered Entity) – proposed action involves entity not covered by Living Wage requirements because it is not a covered service provider or tenant, does not employ at least 21 employees, or receive from or pay to Port at least $50,000. ☐ Additional Notes:
SUSTAINABLE OPPORTUNITIES: Applies? **No.**	**GENERAL PLAN** (City Charter § 727): Conformity Determination:

Reason: There are no sustainability opportunities related to this proposed action because it doesn't involve a development project, purchasing of equipment, or operations that represents sustainability opportunities.	No Project – conformity determination not required because proposed action does not change use of or make alterations to an existing facility, or create a new facility.

STRATEGIC PLAN. The proposed action would help the Port achieve the following goal(s) and objective(s) in the Port's Strategic Business Plan:

☒ Grow Net Revenues	☐ Modernize and Maintain Infrastructure
☒ Improve Customer Service	☐ Pursue Employee Excellence
☐ Strengthen Safety and Security	☐ Serve Our Community
☐ Care for Our Environment	