INDUSTRY PUBLIC UTILITIES COMMISSION
CITY OF INDUSTRY

REGULAR MEETING AGENDA
APRIL 9, 2015 8:30 A.M.

President Tim Spohn
Commissioner Jeff Parriott
Commissioner John P. Ferrero
Commissioner Roy Haber, III
Commissioner Pat Marcellin

Location: City Council Chamber, 15651 East Stafford Street, City of Industry, California

Addressing the Commission:

- ***Agenda Items:*** *Members of the public may address the Commission on any matter listed on the Agenda. Anyone wishing to speak to the Commission is asked to complete a Speaker's Card which can be found at the back of the room and at the podium. The completed form should be submitted to the City Clerk prior to the Agenda item being called and prior to the individual being heard by the Commission.*

- ***Public Comments (Non-Agenda Items):*** *Anyone wishing to address the Commission on an item not on the Agenda may do so during the "Public Comments" period. In order to conduct a timely meeting, there will be a three-minute time limit per person for the Public Comments portion of the Agenda. State law prohibits the Commission from taking action on a specific item unless it appears on the posted Agenda. Anyone wishing to speak to the Commission is asked to complete a Speaker's Card which can be found at the back of the room and at the podium. The completed card should be submitted to the City Clerk prior to the Agenda item being called and prior to the individual being heard by the Commission.*

Americans with Disabilities Act:

- *In compliance with the ADA, if you need special assistance to participate in any City meeting (including assisted listening devices), please contact the City Clerk's Office (626) 333-2211. Notification of at least 48 hours prior to the meeting will assist staff in assuring that reasonable arrangements can be made to provide accessibility to the meeting.*

Agendas and other writings:

- *In compliance with SB 343, staff reports and other public records permissible for disclosure related to open session agenda items are available at City Hall, 15625 East Stafford Street, Suite 100, City of Industry, California, at the office of the City Clerk during regular business hours, Monday through Friday 9:00 a.m. to 5:00 p.m. Any person with a question concerning any agenda item may call the City Clerk's Office at (626) 333-2211.*

1. Call to Order

2. Flag Salute

3. Roll Call

4. Public Comments

5. **BOARD MATTERS**

5.1 Consideration of Register of Demands.

RECOMMENDED ACTION: Approve the Register of Demands and authorize the appropriate City Officials to pay the bills.

5.2 Consideration of the minutes of the February 12, 2015 regular meeting.

RECOMMENDED ACTION: Approve as submitted.

5.3 Report from General Manager for the La Puente Valley County Water District.

5.4 Presentation of the City's electric utility operations, customer savings, operating profit, new customer additions, and solar implementation for Fiscal Year 2014-2015.

RECOMMENDED ACTION: Direct staff as necessary.

6. Adjournment. Next regular meeting: Thursday, May 14, 2015 at 8:30 a.m.

INDUSTRY PUBLIC UTILITIES COMMISSION

ITEM NO. 5.1

Industry Public Utilities Commission
Authorization For Payment of Bills
Meeting of April 9, 2015

FUND	DESCRIPTION	DISBURSEMENTS
560	Industry Public Utilities	24,726.27
	TOTAL ALL FUNDS	24,726.27

BANK	NAME	DISBURSEMENTS
BOFA	Bank of America	24,726.27
	TOTAL ALL BANKS	24,726.27

Industry Public Utilities Commission

Board Meeting

April 9, 2015

Check	Date		Payee Name	Check Amount
IPUC.CHK - IPUC Water BofA Checking				
40221	03/10/2015		**SO CALIFORNIA EDISON COMPANY**	$19,813.86
	Invoice	Date	Description	Amount
	2015-00001120	03/04/2015	01/30-03/03/15 SVC - 1991 WORKMAN MILL U	$19,813.86
40222	04/09/2015		**CNC ENGINEERING**	$645.01
	Invoice	Date	Description	Amount
	43140	03/12/2015	RELOC OF WATER SVC METERS/HYDRANTS	$488.13
	43223	03/26/2015	ON-CALL WATER SYS MAINT PROGRAM	$156.88
40223	04/09/2015		**INDUSTRY PUBLIC UTILITIES**	$1,400.00
	Invoice	Date	Description	Amount
	MAR-15	03/30/2015	REIMBURSE PAYROLL - MARCH 2015	$1,400.00
40224	04/09/2015		**ROWLAND WATER DISTRICT**	$2,867.40
	Invoice	Date	Description	Amount
	I-02282015-A	03/04/2015	CONTRACT SVC - FEBRUARY 2015	$1,484.59
	I-02282015-B	03/04/2015	CONTRACT SVC - FEBRUARY 2015	$1,382.81

Checks	Status	Count	Transaction Amount
	Total	**4**	**$24,726.27**

INDUSTRY PUBLIC UTILITIES COMMISSION

ITEM NO. 5.2

CALL TO ORDER

The Regular Meeting of the Industry Public Utilities Commission of the City of Industry, California, was called to order by President Tim Spohn at 8:30 a.m. in the City of Industry Council Chamber, 15651 East Stafford Street, California.

FLAG SALUTE

The flag salute was led by President Tim Spohn.

ROLL CALL

PRESENT: Tim Spohn, President
Roy Haber, Commissioner
John P. Ferrero, Commissioner
Jeff Parriott, Commissioner
Pat Marcellin, Commissioner

STAFF PRESENT: Kevin Radecki, Executive Director; Michele Vadon, General Counsel; John Ballas, Engineer; and Jodi L. Scrivens, Secretary.

PUBLIC COMMENTS

There were no public comments.

CONSIDERATION OF REGISTER OF DEMANDS

MOTION BY COMMISSIONER HABER, AND SECOND BY COMMISSIONER FERRERO TO APPROVE THE REGISTER OF DEMANDS AND AUTHORIZE THE APPROPRIATE CITY OFFICIALS TO PAY THE BILLS. MOTION CARRIED 5-0.

CONSIDERATION OF THE MINUTES OF THE DECEMBER 11, 2014 REGULAR MEETING

MOTION BY COMMISSIONER FERRERO, AND SECOND BY COMMISSIONER HABER TO APPROVE THE MINUTES AS SUBMITTED. MOTION CARRIED 5-0.

REPORT FROM GENERAL MANAGER FOR THE LA PUENTE VALLEY COUNTY WATER DISTRICT

General Manager Galindo presented a report to the Commission.

ADJOURNMENT

There being no further business, the Industry Public Utilities Commission adjourned.

TIM SPOHN, PRESIDENT

CECELIA DUNLAP,
ASSISTANT SECRETARY

INDUSTRY PUBLIC UTILITIES COMMISSION

ITEM NO. 5.4

INDUSTRY PUBLIC UTILITIES COMMISSION
P.O. BOX 3366 • CITY OF INDUSTRY • CALIFORNIA 91744
(626) 333-2211 • Fax (626) 961-6795 • www.cityofindustry.org

MEMORANDUM

To: Industry Public Utilities Commission Board Members

From: JD Ballas

Date: April 2, 2015

Subject: **STATUS UPDATE OF ELECTRIC UTILITY**

In April, 2002, the City of Industry established an electric utility primarily to serve the industrial developments located easterly of Brea Canyon Road. The utility has grown to include properties along Anaheim Puente Road in the vicinity of the San Jose Creek, which serve the recycled water pump station No.2. Most recently, the utility has begun service to the Pacific Palms Resort. The total number of retail services has increased to 92 with a peak load of about 6.4 MW. The annual budget for the utility is $4.4 million. Periodically, it is beneficial to provide the Board with an update of the utility. Mr. Richard Mrlik of Intertie will provide a presentation on the following items.

Review of Operations

- Review IPUC Operating & Financial Data for 2014 (7/2013-6/2014);
- Compare against Historical Operating and Financial Data from past 5 years;
- Show detail of operating costs and purchased power cost items;
- Supplier cost comparison (Shell fixed block vs Noble spot)

Customer Savings vs IPUC Operating Profit

- Calculate customer electric cost savings from taking service from IPUC versus SCE.
- Compare customer electric cost savings to IPUC operating profit. Show historical split.
- Comparison provides the basis for setting IPUC rates. IPUC historical policy has been to split savings with customers. Re-evaluate the customer savings/IPUC profit ratio given that SCE has increased rates over the past four years while IPUC rates have remained flat.

Why SCE Rates Have Increased and Why Increases Expected to Continue

- Increase in renewable generation costs;
- Increase in SCE T&D costs as system mostly built immediately after World War II and to accommodate renewable;
- San Onofre write-off and decommissioning expenses;

- Dependent on natural gas for about 65% of their generation. Cap-and-Trade will add cost of emissions to fossil fuel (e.g. gas).

Fundamentals Ahead

- SCE rate increases have occurred during a time period of low natural gas prices. SCE's conventional generation costs are sensitive to natural gas prices.
- Sixty-five percent of IPUC's purchased power is from gas-fired generation, so need to pay attention to what is happening in the longer-term gas market.
- Sufficient US supply should keep gas prices low, however LNG exports could move US gas pricing to global market where prices are higher.

Solar Strategy – Need to Implement

IPUC is meeting its SBX1 2 requirement to buy 25% renewable energy by 2016 via the purchase of renewable energy credits (RECs) from the market. Pursuant to SBX1 2, the renewable requirement for California electric utilities increases to 33% by 2020, which inadvertently caused excess renewable supplies for the compliance period 2014 – 2016, which resulted in competitively priced RECs which IPUC procured to comply in the most cost-effective manner. Beyond 2016, the 33% legislative requirement should balance renewable supplies with demand, and likely will raise REC prices. To prepare itself for the likelihood of increased REC prices, IPUC needs to give a serious consideration at procuring a long-term direct renewable supply from a project via ownership or power purchase arrangement. Local solar is the best option for economic reasons and to satisfy IPUC's Senate Bill 1 Solar Funding requirement. Pursuant to SB1, IPUC has an obligation to incentivize 264 kW of solar installation within the electric utility's service territory by 2017. IPUC has set aside approximately $450,000 in revenues for SB1 incentive funds which could either be used by the utility or offered as rebates to IPUC customers. These funds must be used or they are lost. The City should begin to evaluate solar projects that could utilize the SB1 funds and help satisfy its long-term RPS requirements. Given the solar investment tax credit expires at the end of 2016, the timing is ideal for the City to sponsor a solar project that could help to satisfy two legislative requirements.

Integration of New Customer – Pacific Palms Hotel

- On December 17, 2014, IPUC began serving its now largest customer, Pacific Palms hotel.
- Pacific Palms will comprise about 25% of IPUC's load.

Staff recommends upon completion of the presentation, that direction be given to staff to evaluate a possible rate increase and to further investigate locations within the utility area for the installation of a solar facility which uses SB1 incentive funds and tax credits offered through private ownership of such facility with energy delivered to the City by a long term purchase power agreement.

INDUSTRY PUBLIC UTILITIES COMMISSION

ITEM NO. 5.4

HANDOUT ITEM

2015 IPUC Operational Review & Strategic Planning

Presentation to City Council

Industry
Public
Utility
Commission

City of Industry
California

April 9, 2015

Agenda

Review of Operations

Shared Benefit - Customer Savings vs Operating Profit

SCE Rates Have Increased Should Continue to Rise

Fundamentals Ahead

Need to Implement Solar Strategy

New Customer – Pacific Palms

Review of Utility Operations

Table 1 - IPUC SELECTED FINANCIAL DATA

Description	Year Ending 30-Jun-07	30-Jun-08	30-Jun-09	30-Jun-10	30-Jun-11	30-Jun-12	30-Jun-13	30-Jun-14
OPERATING DATA								
Sales, MWh	26,458	32,680	27,918	27,306	27,679	27,304	27,517	28,860
Purchases, MWh			32,112	31,474	31,175	31,204	30,911	32,707
Peak Customer Load, MW		8.10	7.30	7.20	9.09	7.32	7.96	8.21
Ave. IPUC Rate, c/kWh	10.69	10.58	10.88	11.39	11.47	11.48	11.46	11.61
Ave. SCE Rate, c/kWh	13.37	12.87	13.17	13.27	13.79	13.57	14.43	15.38
CUSTOMER SAVINGS	711,293	746,985	638,777	510,887	640,446	$ 571,590	$ 819,573	$ 1,089,658
Cummulative Savings	*2,468,293*	*3,215,278*	*3,854,055*	*4,364,942*	*5,005,388*	*$ 5,576,978*	*$ 6,396,551*	*$ 7,486,209*
PROFIT & LOSS								
REVENUES	2,827,045	3,458,233	3,038,761	3,111,394	3,175,713	$ 3,134,132	$ 3,152,269	$ 3,349,481
OPERATING EXPENSES								
Energy	1,579,174	2,671,341	2,094,344	1,728,623	1,567,645	$ 1,289,069	$ 1,600,093	$ 1,830,280
Transmission & Control Area Svc	235,368	300,000	309,524	381,481	368,104	$ 330,054	$ 444,843	$ 482,500
Total Purchased Power	1,814,542	2,971,341	2,403,868	2,110,104	1,935,749	$ 1,619,123	$ 2,044,936	$ 2,312,780
Power Cost per kWh sold, c/kW	*6.86*	*9.09*	*8.61*	*7.73*	*6.99*	*5.93*	*7.43*	*8.01*
SCE Wholesale Distribution	130,746	119,740	130,703	139,962	142,160	$ 142,690	$ 142,690	$ 142,690
Operations and Maintenance	61,651	65,819	91,976	84,636	108,152	$ 255,483	$ 172,966	$ 90,545
General & Administrative	67,228	52,931	50,570	75,512	113,141	$ 89,323	$ 101,541	$ 109,316
Total Operating Expenses	2,074,167	3,209,831	2,677,117	2,410,213	2,299,202	$ 2,106,619	$ 2,462,133	$ 2,655,330
OPERATING PROFIT	752,878	248,402	361,645	701,181	876,511	$ 1,027,513	$ 690,136	$ 694,151
Cummulative Operating Profit	*2,225,739*	*2,474,141*	*2,835,786*	*3,536,967*	*4,413,478*	*$ 5,440,991*	*$ 6,131,127*	*$ 6,825,278*
Public Benefits	80,571	98,560	86,605	88,675	90,508	89,323	$ 89,840	$ 95,460

- Energy sales and rates have been flat over past 3 years, while operating profit has decreased and customer savings increased

Utility Operations – Purchased Power Cost

Supplier	Contract Type Source	Purchased Quantity	Total Cost	Cost ($/MWh) Per MWh Bought	Per MWh Sold
Energy Costs					
Shell	5-Yr Fixed	14,736	$ 967,418	$ 65.65	$ 74.40
	SP15 Basis Charge		$ 30,946	$ 2.10	$ 2.38
		14,736	$ 998,364	$ 67.75	$ 76.78
Noble	Spot Market	17,971	$ 831,916	$ 46.29	$ 52.46
Subtotal Energy		32,707	$ 1,830,280	$ 55.96	$ 63.42
Transmission & Control Area Costs					
CAISO	Transmission per Tarif	32,707	$ 276,558	$ 8.46	$ 9.58
Control Area Services	Per CAISO Tariff		$ 150,943	$ 4.61	$ 5.23
Scheduling Fee	Noble Americas		$ 55,000	$ 1.68	$ 1.91
Subtotal TCAS		32,707	$ 482,500	$ 14.75	$ 16.72
Total Purchased Power Costs		32,707	$ 2,312,780	$ 70.71	$ 80.14
Wholesale Distribution	SCE WDAT Tariff		$ 142,690	$ 4.36	$ 4.94
Power Cost to IPUC Distributon System			$ 2,455,470	$ 75.07	$ 85.08

Detailed Look at Purchased Power Costs Show

- Energy cost the cause of reduced IPUC operating profit and spot market continues to be lower cost option;
- CAISO costs continue to increase while SCE WDAT is a bargain.

Customers now save much more than IPUC makes

IPUC Customer Savings versus applicable SCE rate

YE June 30 2014 Rate Comparison by Customer Class

IPUC Customer Description	Applicable SCE Rate Schedule	No.	Max Dmnd kW	Energy MWhs	Average Rate SCE	Average Rate IPUC	Δ SCE %	IPUC Cust Savings
Large Com. & Ind.	TOU8 (> 500 kW)	2	1,399	7,970	$ 0.138	$ 0.113	22.1%	$ 199,895
Medium C&I	GS3 - (500 > kW > 200)	13	3,900	10,673	$ 0.152	$ 0.115	32.6%	$ 399,420
Small C&I	GS2 - (200 > kW >20)	37	2,646	9,689	$ 0.167	$ 0.118	40.6%	$ 466,052
Other	Other (<20 kW)	25	178	528	$ 0.185	$ 0.139	33.0%	$ 24,291
TOTAL		77	8,123	28,860	$ 0.154	$ 0.116	32.5%	$1,089,658

Annual Increase in IPUC Revenue (Δ IPUC) Assuming 20% Lower Rate for all Customer Classes

IPUC Customer Description	Applicable SCE Rate Schedule	No.	Max Dmnd kW	Energy MWhs	Average Rate SCE	Average Rate IPUC	Δ SCE %	Δ IPUC Rev, $
Large Com. & Ind.	TOU8 (> 500 kW)	2	1,399	7,970	$ 0.138	$ 0.115	20.0%	15,919
Medium C&I	GS3 - (500 > kW > 200)	13	3,900	10,673	$ 0.152	$ 0.127	20.0%	128,849
Small C&I	GS2 - (200 > kW >20)	37	2,646	9,689	$ 0.167	$ 0.139	20.0%	197,051
Other	Other (<20 kW)	25	178	528	$ 0.185	$ 0.154	20.0%	7,982
TOTAL		77	8,123	28,860	$ 0.154	$ 0.128	20.0%	349,801

- Current rate structure causing disparity in savings by customer size – savings ranges from 22% to 41%;
- Propose modifying rate structure that gives customers 20% discount to their applicable SCE rate schedule, would add $350,000 profit to IPUC;

What is happening with SCE's electric rates

SCE under cost-of-service regulatory compact where rate is based on grid supplied electric cost plus legislated costs

Look at Rate Factors that Impacted SCE's Rates	Impacts IPUC
↑ Increase in renewable generation costs	√
↑ Increase in capacity costs due to renewable mix;	√
↑ Increase in SCE T&D costs as system mostly built immediately after WWII and to accommodate increasing levels of renewable;	
↑ Plants retirements, decommission (e.g. SONGs)	
↑ Distributed generation, EE & programs that shift costs to non participants	
↑ Cap-and-Trade will add cost of emissions to gas generation	√
↓ Decrease in conventional generation cost due to low natural gas prices	

Rate increases would have been much higher if natural gas prices rose

SCE Rates should continue to rise – IPUC faces same issue

Main Drivers of California Electric Prices over next Decade

1) Natural Gas Prices

- 60% of electricity generated in California comes from natural gas;
- most new power plants being planned are gas turbines, √

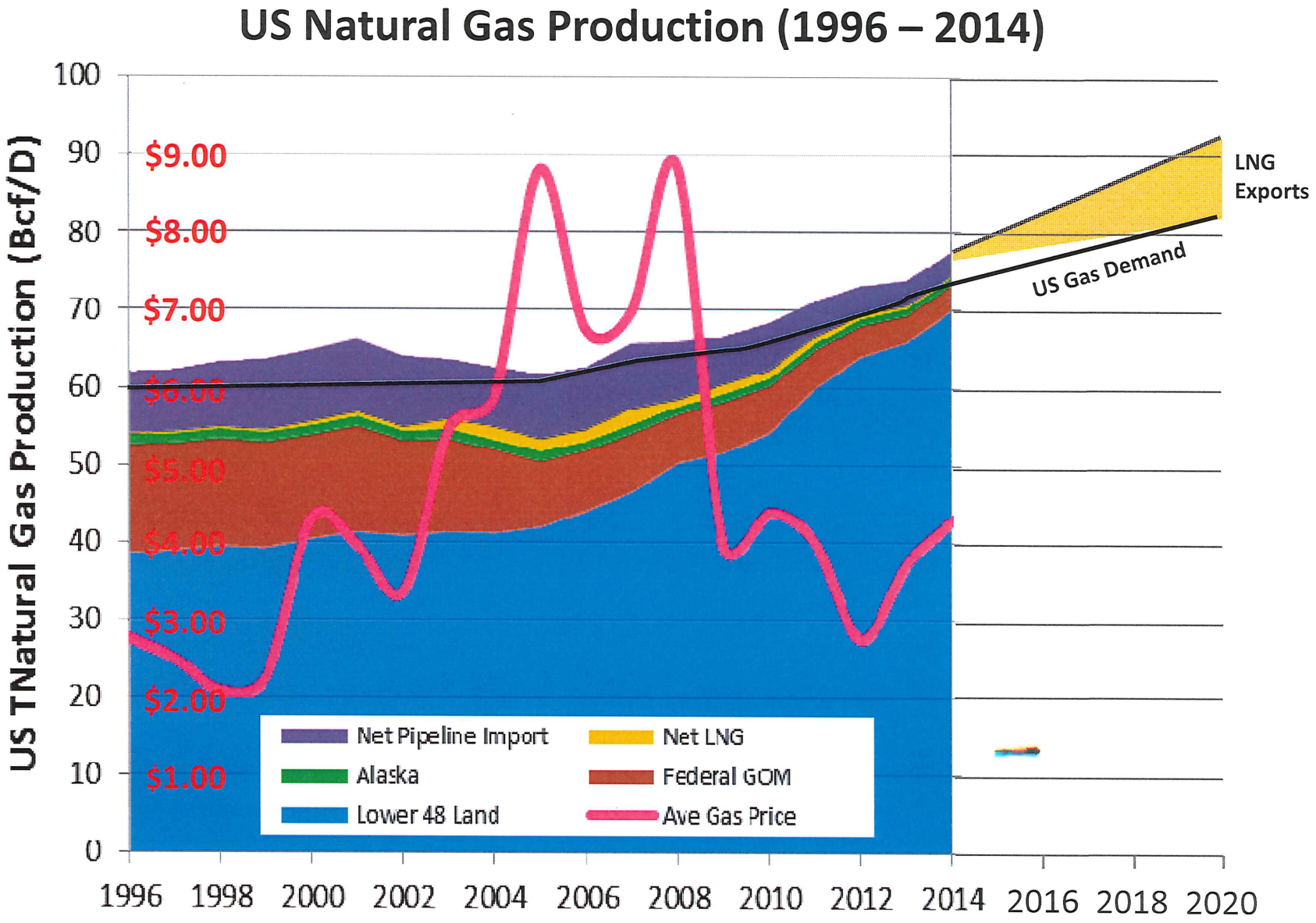
2) Costs associated with 33% renewable

- Grid-supplied renewable costs more than gas or coal; √
- Additional investments needed to maintain grid reliability with larger shares of intermittent generation; √
- California Solar Initiative will total 2,916 MW by 2020 with NEM generation forecast to be $1.1 billion/yr or 3.1% of SCE's revenue requirement, costs shift to customers (who don't have NEM generation) as utilities adjust rates to compensate for shortfall

3) Price of emission allowances in Cap-and-Trade

- Natural gas not as clean as advertised and SCE will soon be paying for GHGs from gas generation √

Natural Gas Price Follow Fundamentals – Price Going Up



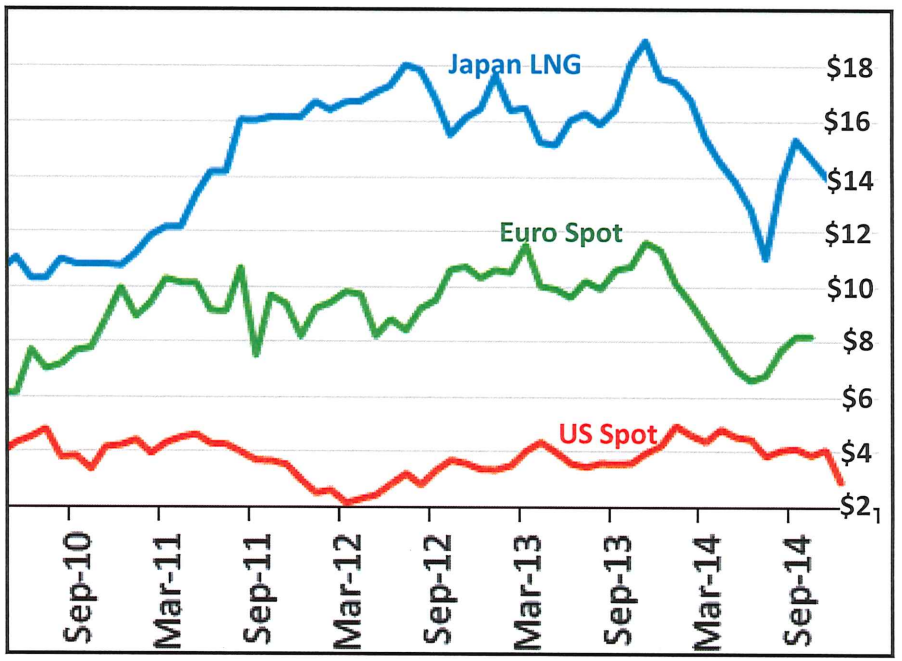
- LNG Exports will change US gas market fundamentals

Natural Gas Price Follow Fundamentals – Price Going Up

- Supply / demand fundamentals drives price;
- US gas prices tripled (1998 to 2006) due to tight gas supplies and inability to grow production despite price signals;
- Fracking was game changer. US supplies grew 2.6 BCF/D/Yr since 2006, eliminated LNG imports and reduced pipeline imports.
- US demand grew 1.6 BCF/D/Yr over same period - growth in gas fired generation (fuel switch from coal) and petrochemicals;

- Oversupplied US market kept gas prices low;
- Seven LNG export terminals licensed by US DOE, forecasted to export 10 BCF/D by 2020.
- LNG exports will remove excess capacity.
- **US gas pricing should move closer to global pricing which means higher prices.**

Global Natural Gas Prices



Why IPUC Needs a Solar Strategy

RPS (SBX1 2) Compliance

Requires utilities to supply customers with 25% renewable by 2016, 33% by 2020

IPUC in compliance through 2016 via REC purchases. No RPS secured after 2016

- Excess supply of RPS resources during 2014-16 compliance period due to 33% target in 2020;
- Was less expensive to buy Renewable Energy Credits or RECs during this period (paid $19.1/MWh for RECs);
- Supply and demand should be in better balance for 2020, expect REC prices to rise.

Solar Initiative (SB1) Compliance

SB1 requires utilities to incentivize local solar, funded by public benefit charges in rates

CEC specified IPUC must incentivise 264 kW solar by 2017. No concrete plan in place.

- IPUC has accrued $450,000 of public benefit charges, earmarked to satisfy IPUC's Senate Bill 1 Solar Funding requirement;
- Funds must be used to incentivize a local solar project within the utility.

Propose Local Solar Project by YE 2016

Why a Local Solar Project

- Local solar project(s) can utilize SB1 funds and meets RPS requirements, objective is to satisfy two legislative requirements simultaneously;
- Direct renewable supply from a local project provides a long-term hedge for increased REC prices.
- Right local project may provide similar PPA price to current cost of landed power ($85) plus RPS ($19), particularly after 2016.

City's Commitment

- Minimal upfront cash, but long-term obligation to buy power at fixed price from 3rd party who builds, finances and operates solar project;
- Facilitates project development within utility, negotiates with host customer and provides interconnection;

Timing

- Must move quickly for 3rd party to take advantage of 30% solar investment tax credit set to expire 12/31/2016.
- Identify potential host sites, complete conceptual plan and prepare competitive solicitation from 3rd party solar firms.

Project Structure & Role of Participants

IPUC Grid

PV kWh generation

Investor
- Receives ROI from electric sales, incentives
- Provides capital, owns 99% to 100% of system for 6 or more years

Financing

Return on Investment

IPUC
- Receives power in its grid from solar project at PPA price
- Provides electric service to Host Customer
- Shaded parking is benefit

6-20 Yr PPA

Solar Service Provider
- Management for SPE
- Brings in Investor
- Coordinates Financing, Design, EPC

IPUC Electric Service

Regular kWh service

Special Purpose Entity (SPE)
Executes all PPA and EPC contracts
- Owns Systems
- Hires O&M
- Processes all payments via bank

EPC

Installer
- Designs and installs PV project for Solar SPE
- Manages equipment warranties

Host Customer
- Provides parking area for canopy & PV system
- Main benefit is shaded parking and EV charging

O&M Services

Equipment Sales & Warrantees

O&M Provider
Hired by Solar Service Provider

Equipment Providers
- Sells system components
- Manages equipment warranties
- Provides Warrantees

Key Takeaways

- Lower operating profits and higher customer savings;
- Customers now save more than IPUC makes – need to change rate structure that offers same discount to applicable SCE rate;
- Future rate increases will be needed to offset higher CAISO, renewable energy and emissions costs;
- Natural gas prices (the main driver of California electric prices) will likely go up around 2020;
- Need to implement solar strategy now
  - Use or lose solar incentive funds from public benefit accrual
  - Hedge against higher RPS costs
  - Fixes a portion of purchased power cost
- Pacific Palms up and running. IPUC's largest customer, will increase revenues by 25%.