



CITY OF BANNING STAFF REPORT

TO: CITY COUNCIL

FROM: Douglas Schulze, City Manager

PREPARED BY: Jim Steffens, Deputy Director of Electric
Art Vela, Public Works Director

MEETING DATE: November 12, 2024

SUBJECT: Consideration of Resolution 2024-175, Approving a Professional Services Agreement with NewGen Strategies and Solutions, LLC for the Banning Electric Utility Cost-of-Service Analysis and Rate Design Study in the Amount of \$164,600

RECOMMENDATION:

Adopt Resolution 2024-175.

BACKGROUND:

The City of Banning's Electric Utility ("Utility") is currently running a fiscal deficit and has negative cash on hand. One of the reasons for these financial issues is that the Utility has not implemented a true rate increase since 2013. The Utility is currently in the process of implementing an emergency rate increase to immediately address the inadequate revenue issues and mitigate the negative consequences of its current financial situation. However, the emergency rate increase is a stop-gap measure and is not a long-term solution. The proper long-term procedure is to have a Cost-of-Service Analysis and Rate Design Study ("Study") performed. The Study involves building a detailed financial model to determine the Utility's revenue requirements. Once the revenue requirements are determined, an analysis is performed to determine how the Utility's costs should be allocated amongst different customer classes based upon cost causation, thereby being in compliance with California regulations including Proposition 26. Different rate designs are then presented and analyzed. Once the optimal rate design is chosen, a model is developed to calculate the proper rates for each of the customer classes. Both the financial model and the rate model become the property of the Utility, allowing the Utility to utilize the models to update rates in the future.

A Request for Proposal ("RFP") for the Study was posted publicly on August 26, 2024 and sent to qualified consulting firms having experience in conducting a comprehensive Study. Two firms responded to the RFP and submitted proposals by the October 1, 2024 deadline. The consulting firms were evaluated based on the following factors: Qualifications (25%) Pricing (15%) Experience (20%) Professional References (10%) Approach and Methodology (25%) Value Added Services (5%).

Upon review of proposals, it was determined that NewGen Strategies and Solutions, LLC is the best qualified, as per the guidelines set forth in the RFP and based on the evaluation criteria as given in the aggregate scores below.

CONSULTANT

SCORE

NewGen Strategies and Solutions, LLC	86
Utility Financial Solutions, LLC	78

The proposed Study shall include, but not be limited to the following major tasks:

- Task 1: Kickoff Meeting/Study Objectives
- Task 2: Develop Utility Revenue Requirements
- Task 3: Cost of Service
- Task 4: Municipal Utility Rate Trends Review
- Task 5: Rate Design Model and Recommendation
- Task 6: Pro Forma Financial Model Development
- Task 7: Public Participation/Stakeholder Engagement
- Task 8: Policy/Resolution Review
- Task 9: Final Report

JUSTIFICATION:

The Utility is facing fiscal challenges, and one of the reasons for these challenges is that there hasn't been a true rate increase since 2013. There have been several rate restructurings, but these restructurings were intended to be revenue neutral. Although the Utility is currently implementing an emergency rate increase to address the immediate revenue shortfalls and to meet the Utility's bond covenants, a long-term solution is needed. Performing an updated Cost-of-Service Analysis and Rate Design Study is a vital step in developing a long-term solution.

The Study will perform a detailed financial analysis to determine the Utility's revenue requirements moving forward. The Study also analyzes the cost causation factors of each of the different customer classes, to determine which costs should be allocated to each of the customer classes. This cost analysis ensures that the Utility's new rates are compliant with California regulations, including Proposition 26. Different rate designs are presented and analyzed, and the optimal rate design is developed. Lastly, a final model is developed to calculate the appropriate rates that will ensure that (1) the Utility's ongoing revenue requirements are met, therefore maintaining long-term financial stability; (2) the Utility's rates are fair and defensible; (3) stakeholder interests are addressed; and (4) the rates consider arising issues such as rooftop solar penetration, EV charging, and the Utility's changing load profile.

NewGen Strategies and Solutions, LLC submitted the highest ranked proposals as a response to the City's RFP.

FISCAL IMPACT:

If approved, the professional services agreement with NewGen Strategies and Solutions, LLC in the amount of \$164,600 will be funded by Account No. 673-7000-473.33-11 (Professional Services), which has an available balance of \$274,999.65 for the remainder of fiscal year 2024/2025.

ALTERNATIVES:

Do not approve Resolution 2024-175 and provide alternative direction to staff.

BUDGETED?:

Yes

CONTRACT/AGREEMENT:

Yes

ATTACHMENTS:

- 1. [Resolution 2024-175, Electric COSA.docx](#)
- 2. [Exhibit A - C01088- NewGen PSA for Cost of Service Analysis.pdf](#)

3. [rfp_24_073_cost_of_service_analysis_and_rate_design_study-2024-10-24-16-37-38.pdf](#)
4. [Banning_RFP-24-073_COSA_and_Rate_Design_Study_NewGen_Proposal_10.01.24 \(9\).pdf](#)
5. [Banning_RFP-24-073_COSA_and_Rate_Design_Study_NewGen_Price_Proposal_10.01.24 \(9\).pdf](#)