

COUNCIL ACTION FORM

SUBJECT: AWARD CONTRACT FOR ELECTRIC SERVICES COST OF SERVICE AND RATE DESIGN STUDY

BACKGROUND:

Electric utilities periodically conduct cost-of-service and rate design studies to help make long-term financial plans, promote efficient use of resources, and provide fair and equitable rates for customers. Electric Services last completed a cost-of-service and rate design study in 2011. The 2011 study showed a need for a redesign of several rate classes and a need to raise overall revenue by 5%. In 2017, a 4% across-the-board rate increase was applied to all charges and all rate classes to maintain an adequate fund balance while managing operating costs and investing in power plant maintenance and capital improvement projects across generation, transmission, and distribution assets.

Electric Services does not anticipate an immediate need for increased revenue. The utility maintains an adequate reserve fund balance and is financially healthy. Careful management has allowed the Ames electric utility to go many years without the need to increase rates. **Although a rate increase is not called for as a result of recent or upcoming capital improvements, the utility's cost structure has changed over the past decade. Factors that have influenced the cost structure include shifting costs in fuel and purchased power, the addition of wind and solar generation, structural changes in the regional energy market, and the adoption of customer-owned generation. An updated study will recommend adjustments to send correct pricing signals and provide fair and equitable rates to better serve customers and create tools to help discourage new peak electric demand.**

Using utility cost principles and financial and customer data provided by City staff, the consultant selected to do this work will study the cost of the services the City of Ames Electric Utility provides to each customer class. The consultant will work with City staff to design cost-based electric rates to fairly allocate utility costs and help maintain long-term financial stability for the electric utility using the results of the cost-of-service study. **The consultant will be asked to design a Renewable Energy Rate – an optional rate for customers wishing to purchase 100% renewable energy for their home or business. The consultant will also evaluate the utility's existing Renewable Energy Buy Back Rates and interruptible Industrial Rate.**

Importantly, the consultant will also design a time-of-use rate. Time of use rates are important tools to help reflect the varying cost of energy depending on the time of day or week. Customers can be encouraged to use lower energy usage during peak usage periods when the cost of energy is high. A time of use rate allows for the utility cost

savings of this load shifting behavior to be rewarded. Time of use rates will be an especially important tools as the utility sees greater adoption of electric vehicles, customer-owned solar generation, and electrification of space and water heating.

On April 18, 2023, the City issued a Request for Proposals (RFP) through AmesBids, the City’s electronic bidding system. Fourteen firms viewed the RFP opportunity. On May 9, 2023, staff received competitive proposals from three firms. An evaluation committee consisting of staff from Electric Services and Finance reviewed the proposals. Below is a summary of the firms, average score, rank and fee proposal.

Firms	Average Score	Rank	Fee Proposal
Utility Financial Solutions, LLC, Holland, MI	387	1	\$66,240
Power System Engineering, Inc, St Paul, MN	381	2	\$51,500
Raftelis Financial Consultants, Charlotte, NC	364	3	\$84,948

The evaluation committee evaluated and scored all the proposals based on the following:

- Proposal methodology and demonstrated ability to meet the scope of work
- Prior experience and demonstrated technical capability
- Compliance with the RFP requirements
- Timely completion of the work
- Pricing

Based on these criteria, Utility Financial Solutions was selected as the firm that best meets the requirements of the study. Electric staff has requested that the vendor plan for at least one in-person presentation, which was not part of the original RFP scope. These additional travel expenses result in a total negotiated fee of \$70,240 for the contract with Utility Financial Solutions. The Electric Services Adjusted FY 2022/23 budget includes \$33,000, and the FY 2023/24 budget includes \$50,000 for the cost-of-service and rate study.

It is anticipated that results of the study and rate options will be reviewed with EUORAB and the City Council this fall, and that any new rate structure will not be implemented until 2024.

ALTERNATIVES:

1. Award a contract to Utility Financial Solutions, LLC of Holland, MI to conduct cost-of-service and rate design studies for the City's Electric Utility in the amount not to exceed \$70,240.
2. Award a contract to one of the other bidders.
3. Direct staff to review other alternatives for conducting cost-of-service and rate design studies for the City's Electric Utility.
4. Postpone conducting a cost-of-service study at this time.

CITY MANAGER'S RECOMMENDED ACTION:

Accurate identification of the cost of services for the City's Electric Utility and cost-based rate design are important steps in developing utility rates to help assure long-term financial stability and an equitable electric rate structure.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No.1, as described above.