



Initiative #4: Managing the Cost of Growth

INITIATIVE INFORMATION

Business Unit/Division	Engineering Technology and Innovation/Financial Services Business Unit						
Initiative Executive Sponsor	Pawel Krupa/Paula Laschober						
Initiative Project Manager	Tuan Tran/Kristi Mauck/Kirsty Grainger						
Legally mandated/Required?	No						
(\$000's)	2019	2020	2021	2022	2023	2024	Total
O&M \$ Amount							
CIP \$ Amount							
Total \$							N/A
FTEs assigned							N/A

INITIATIVE SUMMARY

- A. Description:** This initiative will look at system expansion, customer connections, and other capital expenditures driven by regional growth and customer needs for new capacity. A comparison these costs with the revenues from fees for these services will inform any needed changes in policy, procedures, and charges.

- B. Context:** City Light’s service territory is growing rapidly, adding thousands of service connections each year. Customer-driven requests and system expansion represent significant capital cost. This initiative will look at what City Light can do to minimize these costs and ensure developers are reimbursing the utility appropriately. At a glance, contributions (contributions in aid of construction, or CIAC) and fee revenue appear to recover only about a third of "customer focused" capital costs. Is the utility appropriately recovering the costs of system expansion?

- C. Component(s) of initiative:**
 - **Audit:** Study fees and charges for customer-initiated construction services and determine if they yield sufficient revenue to recover the appropriate portion of costs. (No added cost or FTEs)
 - **Policy recommendations:** A proposal of new and amended policies that would dictate what components of system work are charged upfront, and what is added to rates.

- D. Business Value: This initiative could reduce base rates if costs that are not recovered through targeted fees become part of the general rate base and add to rate pressure.
- E. Opportunity for increased revenues and/or decreased costs: This initiative will not generate new revenues but may shift how costs for services are allocated. For example, increasing upfront fees for connections would reduce how much of these costs are included in the general rate base. It is not known what potential there is for cost shifts- but as a rough measure, the 2017 CIP includes \$100M in Customer-Focused expenditures, and Contributions are about \$50M, leaving about \$50M as an upper limit. However, since this is capital expenditure, the impact would be spread long term, and the single-year rate impacts would be small.

2019 - 2024 INITIATIVE MILESTONES AND DELIVERABLES

Milestone	Due Date	Deliverables and Comments
Initiative Start	6/30/2019	Preliminary analysis, identify areas of study, and scope. Include the review of results and recommendations from 2018 recovering cost of service connection work (pilot study underway).
Installation Charges	12/31/2019	Report on charges and recommend changes
Implement new installation charges	4/1/2020	New fees in DPPs approved
Study impact of major system expansions	6/30/2020	Report on upcoming major system expansions and potential costs
Implement recommended policy changes	4/1/2021	Implement policy changes in SMC and DPPs
Initiative Complete	Q1/2021	Report on current customer focused capital costs and expected contributions/revenue

SOCIAL EQUITY

This initiative could reduce cost impacts of development and urban growth on vulnerable populations.

METRICS

- Amount of revenue for various construction services and percentage of cost
- Increased revenue from fees (which would be CIAC) expected to be

STAKEHOLDER OR CUSTOMER IMPACT

Large changes in fees for certain services may be met with pushback from affected parties. Any changes should be supported by thorough research and documentation, clearly communicated through a public process,