



Staff Report

INFORMATION REGARDING A CITY ELECTRIC UTILITY SYSTEM

Honorable Mayor and Council Members:

Summary

The purpose of this report is to provide a high level overview of the issues surrounding the possible formation of a municipal electric utility district or system that can generate and/or distribute electricity to local customers. The report was requested by Councilmember Dickenson.

It is recommended that Council discuss the issue and provide direction to staff on the next steps, if any.

Background

The California Constitution and Public Utility Code allow public agencies to form public owned utilities to provide for the generation and distribution of electricity to the residents and businesses in an agency's boundaries. The utilities providing the electricity can take four forms:

- City Municipal Utility Department
- Municipal Utility District (MUD)
- Joint Powers Authority (JPA)
- Annexation into an existing Service Territory

The formation of any one of these utilities requires a detailed technical, financial and legal analysis. This report does not delve into these aspects of the process but does discuss the organizational options available, the basic steps required to form or become part of an electric utility system or district and the advantages and disadvantages/risks of pursuing a new utility.

Discussion

As outlined above, there are four options available to public agencies that provide electricity to local customers. The following is a summary of those options:

City Municipal Utility

This type of utility can be formed by a majority vote of the City Council. A new utility department can be formed or an existing department can provide the service. An appointed body (i.e. Utilities Commission) that acts in an advisory capacity to the City Council can be established. In this manner, the City Council retains all authority on decisions for the operation

of the utility.

If this type of system is formed, the City Council can chose from several options on what utility responsibilities the new system will undertake. These options range from how to acquire the existing distribution system, building a new distribution system, building its own generation (power plants) or working in partnership with existing public entities that provide power services.

An example of this type of system is the City of Palo Alto Utility Department. The department, formed in 1896 provides electric, water, wastewater and natural gas services to its customers. A more recent example is the City of Corona Utility Department formed in 2001. This department only serves new development.

Municipal Utility District (MUD)

This type of utility requires two or more public agencies to partner in the formation of a Municipal Utility District. The establishment of a MUD is contingent on voter approval by a majority of voters within each public agency. A simple majority of those voting is required to pass the measure, however a minimum of 2/3rds of voters in the entire proposed district must vote.

The process to form a MUD is more complex than the formation of a city municipal utility. The formation of a MUD is typically initiated by resolutions from the agencies involved, or by petition of 10% of the registered voters in the proposed service area. The petition is then presented to the County Board of Supervisors. In each case, before the Board of Supervisors can place the measure on the ballot it must be reviewed and approved by the Local Agency Commission (LAFCO). The LAFCO requirements for establishing a MUD are significant and include a lengthy review process. The boundaries of the entire MUD and Wards (areas with-in the District) must be submitted to the Board of Supervisors and LAFCO when the proposal is first submitted

If LAFCO approves the proposed formation of a MUD the Board of Supervisors must call for an election. If the formation of the MUD is approved by the voters the next step involves electing representatives from each Ward (typically 5) with-in the MUD.

An example of this type of system is the Sacramento Municipal Utility District (SMUD). SMUD was created in 1923 and began operations in 1946. SMUD serves 590,000 customers in Sacramento County. A more recently formed MUD is the Lassen Municipal Utility District (LMUD) which was formed in 1986 and began operations in 1988. LMUD acquired the existing electric distribution system from CP National Corporation.

In 2001 the Cities of San Francisco and Brisbane attempted to create a new MUD for both cities. The measure failed by a 48% yes/ 52% no vote.

Annexation into an Existing Service Territory

Another option is to request an existing city owned utility or MUD to annex a community into its service territory. The boundaries of the of the City wanting to be annexed need not be contiguous with the existing city utility or MUD, or even be in the same county. This option also requires the annexation go through the LAFCO process and ultimately a vote of the electorate.

A recent attempt at an annexation into an existing MUD was the 2006 effort in Yolo County, which included the cities of Davis, West Sacramento and Woodland, as well as territory between the three cities, to annex into SMUD. The effort was defeated at the polls by a 39% yes/ 61% no vote. PG&E spent over \$10 million dollars to defeat the measure.

Joint Powers Authority (JPA)

A final option is to create a Joint Powers Authority (JPA) with one or more other cities to provide electric service. A formation of a JPA that includes only cities does not require a vote of the electorate and would not be subject to the LAFCO review requirements. Although an advisory vote from the communities involved may be prudent. A majority of the elected officials in each of the public entities must vote to form or join a JPA. The governing board for a JPA consists of the public entities that established or later joined the JPA.

Once formed, a JPA would have responsibilities similar to those of a City Municipal Utility.

A recent example of this type of provider is the Southern California Public Power Authority. This JPA was formed in 1980 and consists of 10 municipal utilities and one irrigation district. The JPA serves 2 million customers.

Potential Advantages and Disadvantages/Risks of Forming a Public Utility

Advantages

- Local control in establishing policy, planning and operation of the system.
- May reduce cost of electric power.
- Enhanced maintenance and reliability of the system.
- Improved response times to system problems (outages).
- Maintain stable cost of power through long term contracts with energy generators.

Disadvantages/Risks

- Creates a new municipal bureaucracy.
- Securing capital for system start-up costs.
- Cost of acquiring the existing distribution system from the current provider.

- Small system size and customer base may make it difficult to purchase power at reduced rates.
- Developing and retaining the staff expertise to operate the system.
- Facing a strong and potentially expensive campaign from the current provider.

General Plan/Vision Statement

To provide public services efficiently and at a level adequate to serve an ultimate population of about 28,000.

Fiscal Impact

There is no fiscal impact associated with this report. If Council decides to proceed with further investigation of the issue staff recommends that the services of a consultant with expertise in this area be hired.

Public Contact

Posting of City Council agenda.

Recommendation

It is recommended that the City Council discuss the potential formation of a city utility system or district and provide additional direction to staff as necessary.

Alternatives

1. Take no action.
2. Refer back to staff for more information.

Attachments

None.

Respectfully submitted,

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