

## **IMPACT OF ELECTRICITY RATES ON UTILITY USERS TAX (UUT) REVENUE**

### **RECOMMENDATION**

It is recommended that the City Council receive and file this report on the impact of electricity rates on utility user tax (UUT) revenue and direct staff to report back in January.

### **BACKGROUND**

On May 22, 2001, Councilmember Edgerton requested that staff report back on the impact of electricity rates on UUT revenue. On July 24, 2001, the City Council directed staff to evaluate such impact and report back in September.

### **ANALYSIS**

In an effort to stabilize the electricity market in California, a slight rate increase in electric rates was implemented temporarily in January, with a permanent "tiered" rate put into effect in June, 2001. The tiered structure was intended to encourage conservation by providing a 20% rebate for those customers who stayed within 130% of the baseline usage, with much higher rates for those over the baseline.

Southern California Edison (SCE) estimated, based on past usage, that approximately 50% of Hermosa Beach customers would receive only an 8-10% increase in their bills. SCE agreed to provide usage information for 2000 and 2001 to assist in evaluating the impact of the rate increases on tax revenue.

The comparative usage information provided for June, July and August suggests that residents and businesses are in fact conserving. As shown on the next page, kilowatt hour (kWh) usage overall for that period in 2001 declined by 2% from the prior year, with residential usage declining 3% and non-residential usage declining 1%.

If usage information from all of the ESP's were available, the data would likely show that conservation efforts are actually even higher since ESP's generated almost 20% of the revenue during June – August 2000 as compared to only 2% so far in 2001. In other words, since SCE's market share was about 80% (based on UUT revenue) in 2000 and is currently about 98%, usage for the months shown in 2000 would show higher usage than in 2001. Many of the ESP's are no longer in business.

### **SCE kWh Usage Comparison June – August 2000 to June – August 2001**

	<b>Residential kWh Usage</b>	<b>Change From Prior Year</b>	<b>Non- residential kWh Usage</b>	<b>Change From Prior Year</b>	<b>Total Usage</b>	<b>Change From Prior Year</b>
<b>2001</b>						
<b>June</b>	3,270,833	-5.68%	3,384,847	-0.95%	6,655,680	-3.34%
<b>July</b>	3,264,839	-3.09%	3,663,704	3.71%	6,928,543	0.39%

<b>August</b>	3,350,273	0.19%	3,520,438	-5.33%	6,870,711	-2.72%
<b>Total</b>	9,885,945	-2.89%	10,568,989	-0.93%	20,454,934	-1.89%

There is no “windfall” apparent from the tax on electricity at this time. UUT revenue from electric providers declined 5.2% in fiscal year 2000-01 from the prior year. Receipts from July and August 2001 did increase slightly by approximately \$1,300, however the 14-month total is still 4.6% less than the previous 14 months. Since SCE’s market share appears to be significantly different during June, July and August of 2000 than 2001, it would not make sense to compare only the UUT revenue from SCE during that time with usage data, as originally planned. There are timing differences between the amount providers remit to the City and the usage related to those amounts. Amounts are remitted based on receipts rather than the amount billed so there is a time lag between usage and receipts. Customers may wait 60 days to pay in some cases.

Since we only have one month’s revenue from all providers for which the rate increase was in effect (August), and since no windfall is apparent at this time, staff recommends that UUT revenue from electricity providers be monitored and that staff report back after several months have been received from all providers, perhaps in January, when we would have receipts for June through November.