

STAFF REPORT
City Council Agenda
April 18, 2012

Date: April 10, 2012

To: Randal J. Mendosa

From: Karen T. Diemer, Deputy Director, Environmental Services Department

Subject: Council Consideration of a High Electricity Use Utility Tax

RECOMMENDATION

It is recommended that the City Council review the enclosed research on the potential for a High Energy Use Tax and provide staff direction for next steps.

INTRODUCTION

Per Council Goal, the Energy Committee was directed by the Council “to investigate a tiered taxation structure on energy utilities for excessive residential users within various categories” and to evaluate the feasibility of implementing a utility tax.

DISCUSSION

Electricity use within Arcata’s residential sector is growing at an alarming rate; over three times as fast as the State of California as a whole. Between 2000 and 2006, electricity usage in the City increased by approximately 9 million kilowatt-hours.¹ This represents a total increase of 30 percent. Furthermore, over this time per capita electricity consumption in Arcata has increased 24 percent,² while per capita electricity consumption for the rest of the State has remained constant over the past 30 years.³ An assessment of electricity use, conducted by the Schatz Energy Research Center, has revealed that the increase in use is attributable to a small number of residences that are using a significant amount of electricity.

In 2006, the City passed the *Community Greenhouse Gas Reduction Plan*, which established an emission reduction target of 20 percent below year 2000 levels by 2012. The startling discovery of excessive electricity use is seen as a serious challenge to the City’s efforts to decrease the amount of locally-generated greenhouse gas emissions. Per Council Goal #31 (2010) “to investigate a tiered taxation structure on energy utilities for excessive residential users within various categories⁴,” the Energy Committee, along with staff in the Environmental Services Department, has been examining the implementation of a *High Electricity Use Utility Tax*. The purpose of such a tax: 1) discourage excessive electricity use (i.e. disincentive), and 2) generate revenue to fund the City’s Energy Program (e.g., energy efficiency and renewable energy projects).

¹ City of Arcata. 2008. City of Arcata Updated Greenhouse Gas Inventory 2006. City of Arcata: Environmental Services Department [Internet].

² 2000 population figure of 16,651 from US census. 2006 figure estimated from the State of California Department of Finance Demographic Research Unit 2007 figure [Internet].

³ California Public Utilities Commission [Internet].

⁴ 2010 Arcata City Council Goals. p 258.

The Energy Committee has pondered several questions related to the feasibility and implementation of a *High Electricity Use Utility Tax*. These include: aggregate information regarding the usage in each tier in the City of Arcata; the number of CARE customers and the associated consumption by tier; scenarios other than indoor growing that would result in high energy use; how to integrate the tax into the PG&E billing cycle, and whether or not to expect associated charges from PG&E; whether 215 cardholders are eligible for PG&E's medical usage [discounted] rate (they are not eligible); and what would be necessary to prepare a ballot measure. A subcommittee comprised of Peter Alstone and Beckie Menten (former Energy Program Specialist for the City) devised various high electricity use tax scenarios (*see attachment: High Use Tax Scenarios*), impacts to customers (*see attachment: Customer Tax Impacts*), a Property-Assessed Clean Energy (PACE) analysis of high energy use tax, and a cost-analysis of indoor grow operations.

An investigation of the incorporation of the *High Electricity Use Utility Tax* into PG&E's billing structure has revealed additional and high costs potentially to complete implementation. To begin with, PG&E's billing system is not structured in a manner that would enable the City to charge a different rate to customers within a particular billing class. The only option that is offered through the current billing system is to charge Residential, Commercial or Industrial customers different rates, with each identified rate applying to all customers within that billing class.⁵ Specifically,

[T]he only option in [PG&E's] billing structure is to charge a different Utility Users Tax (UTT) rate by customer class. [PG&E] can charge Residential customers, Industrial customers or Commercial customers all a separate rate. However, [PG&E] cannot apply a different rate to customers within the customer class whose bill is in the top tier. The current setup is to charge the UUT rate associated with each customer class on Net Charges, and this calculation is not based on the usage.⁶

If the City wants to implement a high energy use tax (i.e. charge a subset of customer's within a customer class for high electricity use), PG&E would need to change its billing system to accommodate us. However, the City will have to pay an estimated \$500,000 to \$800,000 to restructure PG&E's billing system to allow for energy charges to be assessed based on individual usage (versus net energy use) and to charge a different rate to a subset of customers (versus all customers in the billing class).⁷ The components of the cost estimate include: Gathering and documenting system requirements; design of the technical specifications; development and/or programming changes; and system testing.

At the March 21, 2011 Energy Committee meeting, the Committee was asked to consider the following in order to make a recommendation to Council:

- Pick one of the tax scenarios proposed by Peter Alstone and Beckie Menten.
- Examine the payback periods of each and compare to PG&E's cost estimate to restructure its billing system to accommodate our request (tax).

⁵ Information provided by Jaime McBroom at PG&E (June 28, 2010).

⁶ Information provided by Jaime McBroom at PG&E (June 30, 2010).

⁷ Information provided by Jaime McBroom at PG&E (July 19, 2010).

- Recommend where the revenue generated by the tax would go (e.g., Energy Program, general energy-related capital improvements, expansion of renewable energy generation, paying for full-time Energy Program Specialist).

The Energy Committee review resulted in the following recommendation.

The Council should consider a change to the existing utility users' tax in an effort to raise funds to reduce the new greenhouse gas emission impacts that are associated with a large increase in energy usage in Arcata's residential sector. The Committee recommends a five cent per kilowatt hour increase to the existing utility users' tax only for residential households whose energy usage exceeds the 300% baseline allocation. The committee recommends that the council exclude both care customers and those who have medical provisions approved by PG&E. The committee strongly recommends that the funds be used to implement a more robust energy program that will work to offset this continued increase in greenhouse gas emissions resulting from the high energy usage in the residential sector.

BUDGET/FISCAL IMPACT

PG&E has quoted \$500,000 to \$800,000 to re-structure its billing system to accommodate the City's request.

ATTACHMENTS

“High Use Tax Scenarios” (Alstone and Menten)

“Customer Tax Impacts” (Alstone and Menten)