TO:       HONORABLE CITY COUNCIL
FROM:     CITY MANAGER
DEPARTMENT: UTILITIES
DATE:     FEBRUARY 20, 2007
CMR:143:07
SUBJECT:  FINANCE COMMITTEE RECOMMENDATION ON CHANGES TO THE GUIDELINE LEVELS FOR THE UTILITIES RATE STABILIZATION RESERVES AND UTILITIES EMERGENCY PLANT REPLACEMENT RESERVES

RECOMMENDATION
The Finance Committee recommends that Council approve changes to certain Utilities reserve fund guidelines, detailed below. In addition, it recommends that the development of an assessment of the risks facing each fund be undertaken as part of the annual budget and retail rate development and approval process.

BACKGROUND
The table below summarizes the proposed changes to the Emergency Plant Replacement (EPR) and Rate Stabilization Reserve (RSR) guidelines.
<table>
<thead>
<tr>
<th>Reserve</th>
<th>Existing Guidelines</th>
<th>Proposed New Guidelines</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electric, Gas, Water and Wastewater Collection EPRs</td>
<td>No minimum (maximum, as stated in the City Charter, is = 5% of the book value of the fund’s capital in service)</td>
<td>Minimum = greater of: 1) the City’s liability insurance coverage deductible or 2) an amount covering the most expensive critical item</td>
</tr>
<tr>
<td>Electric Supply RSR</td>
<td>Maximum = 103% of purchase cost Minimum = half of maximum</td>
<td>Maximum = 100% of purchase cost Minimum = 50% of purchase cost</td>
</tr>
<tr>
<td>Gas Supply RSR</td>
<td>Maximum = 75% of purchase cost Minimum = half of maximum</td>
<td>Maximum = 75% of purchase cost Minimum = 35% of purchase cost</td>
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<tr>
<td>Electric Distribution RSR</td>
<td>Maximum = 38% of sales revenue Minimum = half of maximum</td>
<td>Maximum = 50% of sales revenue Minimum = 20% of sales revenue</td>
</tr>
<tr>
<td>Gas Distribution RSR</td>
<td>Maximum = 40% of sales revenue Minimum = half of maximum</td>
<td>Maximum = 50% of sales revenue Minimum = 20% of sales revenue</td>
</tr>
<tr>
<td>Water RSR</td>
<td>Maximum = twice the minimum Minimum = sum of: 1) 15% of sales revenue; plus 2) sales revenue decline due to abnormal weather</td>
<td>Maximum = 50% of sales revenue Minimum = 20% of sales revenue</td>
</tr>
<tr>
<td>Wastewater Collection RSR</td>
<td>Maximum = twice the minimum Minimum = sum of: 1) 15% of sales revenue; plus 2) sales revenue decline due to abnormal weather</td>
<td>Maximum = 50% of sales revenue Minimum = 20% of sales revenue</td>
</tr>
<tr>
<td>All RSRs</td>
<td>Target = midpoint between minimum and maximum</td>
<td>Target to be established following an annual evaluation of risks to each fund as part of budget preparation</td>
</tr>
</tbody>
</table>

COMMITTEE REVIEW AND RECOMMENDATIONS
At its January 17, 2007 meeting, the Finance Committee unanimously approved staff’s recommendations on changes to the Utilities Reserves Policies and Guidelines. In its discussion, the Finance Committee clarified that the annual risk assessment would not go back to the Committee separately, but as part of the budget and Utilities rates proposal.

POLICY IMPLICATIONS
Approval of the recommended changes is consistent with existing City policy, but would establish new Utilities practices and guidelines.
ATTACHMENTS

PREPARED BY: ________________________________
JANE RATCHYE
Senior Resource Planner

DEPARTMENT HEAD: ________________________________
VALERIE O. FONG
Director of Utilities

CITY MANAGER APPROVAL: ________________________________
EMILY HARRISON
Assistant City Manager