

City of Palo Alto Utilities (CPAU) Proposed Rate Changes for Fiscal Year 2018

The City is proposing rate changes for electric, water and refuse services. As a public utility, the City's rates are cost-based, and set at the level required to provide service to customers. The Palo Alto City Council will review the proposed water and refuse rates on June 19, followed by consideration of the proposed electric rates on June 27, 2017. Public input is welcomed at both Council meetings.

If approved, the following changes will go into effect July 1, 2017:

Electric – 12%-14% Rate Increase:

- Costs rose in 2016 and 2017 due to an increase in transmission fees and new renewable projects coming online. Operating and capital costs are higher as the City is paying for needed maintenance and capital replacement projects.
- The 2016 and 2017 rate increases are the first in many years. Long-term costs did not increase significantly from 2009 through 2016, though one-time expenses related to the drought heavily affected the City's reserves.

Water – 2%-4% Rate Decrease:

- Staff is recommending a 3%-4% increase to base water rates, but the proposal to remove drought surcharges will result in an overall decrease in customer water bills by about 2%-4% (assuming similar usage).
- The rate increase is proposed to cover costs of SFPUC Hetch Hetchy water system infrastructure upgrades and reduced revenues from lower water usage during the drought.
- Costs have been rising for capital improvement, operations and maintenance required for the City to maintain a reliable water distribution system, and these costs are projected to increase over the long term.

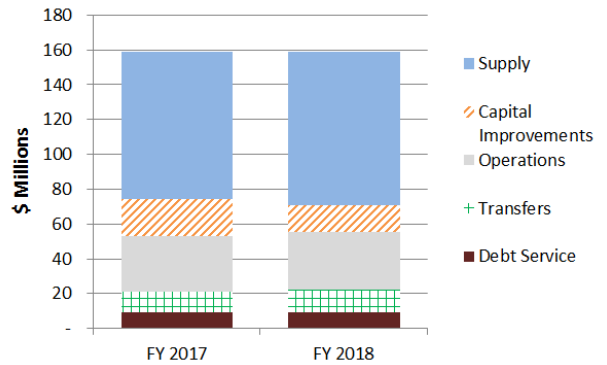
Gas – 4% Rate Increase for Carbon Neutral Gas Plan:

- The Council-approved Carbon Neutral Gas Plan adds a unit cost per therm which is used to purchase carbon offsets to neutralize emissions associated with natural gas use. This is estimated to add approximately 4% to customer gas bills.
- Distribution rates will not increase. Operations reserves ended higher than expected in 2016. In addition, capital and operating costs are lower than expected, as the City has a two year delay in starting new gas main replacement

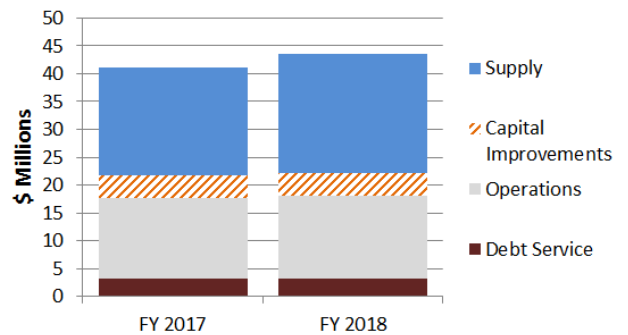
Wastewater Collection – No Rate Change:

- Treatment costs are projected to rise substantially over the forecast period due to increasing operating costs and capital replacement needs at the Regional Water Quality Control Plant. Capital and operating costs are gradually increasing for the wastewater collection system.
- However, the operating reserves are higher than required by the reserve guidelines due to a one-time savings resulting from delays in the utility's annual main replacement program.
- Staff proposes no change in the wastewater rate for 2017.

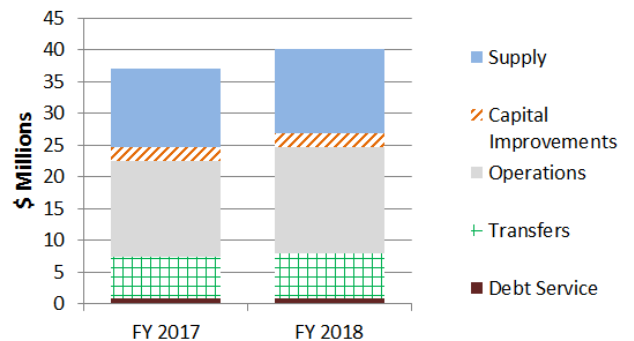
CPAU Electric Costs



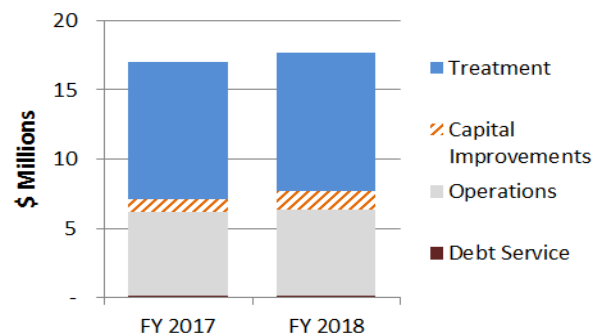
CPAU Water Costs



CPAU Gas Costs



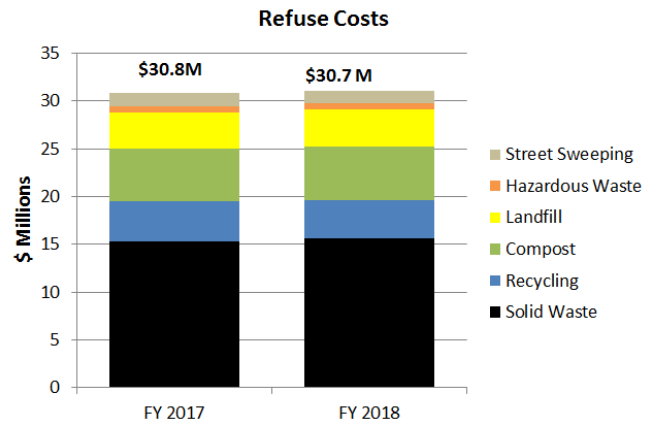
CPAU Wastewater Collection Costs



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Refuse – 5% Rate Increase for Residential Service, No Rate Change for Commercial Service:

- Residential rate increases reflect a three-year plan (2016-18) to balance residential sector revenues with expenses.
- There will be no changes to the commercial rates.



Q: Where can I get more information about the proposed rate changes?

A: Visit our website with rate information at www.cityofpaloalto.org/RatesOverview You may also email UtilitiesCustomerService@CityofPaloAlto.org or call (650) 329-2161.

Q: How will the proposed rate changes affect me?

A: The proposed utility rate increases for July 2017 will increase the average residential bill by about 2.5%, for a total increase of about \$6-7 per month for all six utilities.

Q: What is the new Stormwater Management Fee?

A: In April 2017, Palo Alto property owners voted to approve the Stormwater Management Fee, replacing the previous Storm Drain Fee. Effective June 1, 2017, the new Stormwater Management Fee for a typical homeowner will be \$13.65 per month, which is a 0.62 cent increase from the last fiscal year's Storm Drain Fee. For more information, please visit cityofpaloalto.org/stormwaterfee

Q: How do our utility rates compare with other agencies?

A: The overall utility bill for the median Palo Alto resident continues to be well below average. The City's rates for a number of utility services are lower than other neighboring public or private utility agencies. The table below provides a comparison of Palo Alto's utilities rates to those in neighboring communities.

Median Residential Overall Bill Comparison (\$/month) as of June 2017			
Utility and Usage (median)	Palo Alto		Neighboring Community Average
Electricity (330 kWh/summer mo.)	\$	36.40	\$ 67.99
Gas (18 therms/summer mo.)	\$	25.83	\$ 26.99
Wastewater	\$	34.83	\$ 50.12
Water (9 CCF/mo. - w/drought surcharge)	\$	87.24	\$ 62.50
TOTAL	\$	184.30	\$ 207.60

Proposed Utility Rate Adjustment Review and Approval Process in 2017

February 1: Utilities Advisory Commission (UAC) reviews preliminary financial forecasts for all utilities.

March 1: UAC reviews proposed financial plans and rates for Water and Wastewater Utilities.

March 21: Finance Committee reviews preliminary financial forecasts for all utilities.

April 4: Finance Committee reviews proposed financial plans and rates for Water and Wastewater Utilities.

April 5: UAC reviews proposed financial plans and rates for Electric and Gas Utilities.

May 5: Notice of proposed Water, Wastewater and Refuse rate changes mailed to customers.

May 18: Finance Committee reviews proposed financial plans and rates for Electric and Gas Utilities.

June 19: City Council public hearing on water and refuse rates.

June 27: City Council public hearing on electric rates.