



# City of Palo Alto

## Finance Committee Staff Report

(ID # 6590)

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**Report Type: Action Items**

**Meeting Date: 3/1/2016**

**Summary Title: Preliminary Financial Forecasts and Utilities Rate Changes**

**Title: Preliminary Financial Forecasts and Rate Changes for Electric, Gas, Wastewater Collection, and Water Utilities for Fiscal Year 2017**

**From: City Manager**

**Lead Department: Utilities**

### **Recommendation**

This item is for discussion and no action is requested. Staff will use input from the Finance Committee on its preliminary rate projections for the Electric, Gas, Wastewater Collection, and Water utilities to finalize the Financial Plans and inform its formal recommendations on rates adjustments.

### **Executive Summary**

The attached presentation describes staff's preliminary forecasts for the Electric, Gas, Wastewater Collection, and Water Utilities. The presentation was provided to the Utilities Advisory Commission (UAC) at its February 3, 2016 meeting.

The preliminary retail rate forecast over the next five fiscal years is shown in the table below. The rate changes shown are approximate and are based on the system average rate. Rate changes will be based on the cost of service methodologies established by the cost of service studies for each utility and may differ by customer class. For example, a 10% overall rate increase may result in a higher (or lower) rate adjustment for residential customers than for non-residential customers.

**Preliminary Retail Rate Projections – FY 2017 through FY 2021**

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	
<b>Electric Utility</b>	10%	8%	2%	1%	1%	
<b>Gas Utility*</b>	7%	5%	5%	5%	3%	
<b>Wastewater Collection (sewer)</b>	9%	10%	10%	7%	5%	
<b>Water Utility</b>	9%	9%	9%	3%	3%	
<b>Refuse</b>	9%	8%	5%	3%	3%	
<b>Storm Drain **</b>	2 to 3%	2 to 3%	2 to 3%	2 to 3%	2 to 3%	
<b>Bill Change ***</b>						
	<b>(%)</b>	9%	9%	7%	5%	4%
	<b>(\$/mo)</b>	\$23.25	\$23.76	\$21.32	\$14.38	\$14.52

\* Gas rate changes are shown assuming constant commodity rates. Actual gas commodity rates will vary monthly with wholesale market fluctuations.

\*\* Storm drain rates increase annually by CPI; existing rates sunset in June 2017 unless reauthorized by a majority vote of property owners.

\*\*\*Median residential bill is \$245.23 as of July 1, 2015

Staff seeks input from the Finance Committee prior to finalizing the Utilities Financial Plans and developing recommendations for rate changes that would be effective July 1, 2016. The proposed Financial Plans and rate adjustment recommendations are currently scheduled to be presented to the Finance Committee in April for the Water and Wastewater Collection Utilities and in May for the Electric and Gas Utilities.

**Background**

Every year staff presents the UAC and Finance Committee with financial forecasts for the Electric, Gas, Water, and Wastewater Collection Utilities and recommends any rate adjustments required to maintain their financial health. These forecasts are memorialized in Financial Plans that comprehensively discuss the outlook for each utility.

**Commission Review**

The UAC reviewed the preliminary financial forecasts at its February 3, 2016 meeting. No recommendation was requested at that meeting, but staff sought input from Commissioners before finalizing the Financial Plans and rate adjustment recommendations.

Commissioners acknowledged that rate increases were anticipated in last year’s Financial Plans, but expressed concern about the level of rate increases projected for FY 2017. One commissioner requested that staff determine the minimum level of rate increase that would be possible while still holding all financial reserves at least at the minimum levels. Staff is in the process of completing that analysis and will have these figures for presentation to the Finance Committee. The draft minutes from the UAC’s February 3, 2016 meeting are provided as Attachment B.

**Next Steps**

The UAC is scheduled to review the long-term Financial Plans proposed rate adjustments for the Water and Wastewater Collection Utilities on March 2, 2016 and the Electric and Gas Utility on April 6, 2016.

The Finance Committee is tentatively scheduled to review the long-term Financial Plans and proposed rate adjustments in April (for the Water and Wastewater Collection Utilities) and in May (for the Electric and Gas Utilities). Once the Finance Committee has provided its recommendation, notification of any recommended Water, and Wastewater Collection rate increases and the opportunity to protest the proposed changes will be sent to customers as required by Article XIID of the State Constitution (added by Proposition 218). The Financial Plans and proposed new rate schedules will be considered by the City Council with the FY 2017 budget, at which time the public hearing required by Article XIID of the State Constitution will be held.

### **Environmental Impact**

The Finance Committee's review of the preliminary financial projections does not meet the definition of a project, pursuant to Section 21065 of the California Environmental Quality Act, thus no environmental review is required.

### **Attachments:**

- Attachment A: Presentation to UAC - FY 2017 Preliminary Financial Projections (PDF)
- Attachment B: Excerpted Draft Minutes of the February 3, 2016 UAC Meeting (PDF)

ATTACHMENT A

# Preliminary Financial Forecasts and Rate Changes for Electric, Gas, Wastewater Collection, and Water Utilities

Utilities Advisory Commission

February 3, 2016

# Financial Forecast Summary

- § Review of Financial Reserves
- § Review four funds: Electric, Gas, Water and Wastewater Collection
- § Refuse rate projections included for information
- § Staff projects need for Electric, Gas, Water, and Wastewater Collection rate increases for FY 2017
- § Rate increases slightly higher than projected last year
- Ø **The biggest driver for rate increases is the ongoing drought**
- § Communication plan prepared

# Review of the Financial Reserves

§ Reserve structure changed in FY 2015 in response to audit by City Auditor

§ Reserves Management Practices:

- Part of the Council-approved Financial Plans
- Guide staff in developing rate trajectories for financial forecast period
- Purpose of each reserve
- Minimum and Maximum reserve levels defined

# Review of the Financial Reserves

## Purpose of the Reserves:

- § Operating contingencies (Operations Reserves)
- § Rate stabilization (Rate Stabilization Reserves)
- § Cash flow management and contingencies related to capital improvement projects, or CIPs (CIP Reserves)
- § Commitments and Reappropriations of funds budgeted but not yet spent
  - Separate Commitment and Reappropriation reserves, possibly CIP reserve if CIP related

# Reserves Overview

## § Operations Reserves:

- Primary contingency reserve—used to manage annual variances from budget for operational and commodity expenses
- Target reserve level
  - Between 90 to 105 days of expenses, depending on the fund
  - Reserve should meet Target levels by the end of the forecast period
- Minimum reserve level
  - 60 days of expenses
  - If reserve falls below minimum level, a plan to reach minimum by following year is required. Alternative, longer term plans are allowable
- Maximum reserve levels
  - Between 120 to 150 days of expenses, depending on the fund
  - If reached, additional funds flow to the Unassigned Reserve
- Risk Assessment levels
  - Maximum revenue variance in previous 10 years
  - A 10% increase in planned CIP expenditures for a budget year



# Reserves Overview

## § Rate Stabilization Reserves:

- Intended to be empty unless one or more large rate increases are anticipated in the forecast period. These reserves will be drawn down to mitigate rate impacts.

## § Unassigned Reserve:

- Intended to be empty unless Operations reserve reaches maximum level. Plans for use of these funds must be provided for in the following Financial Plan.

## § CIP Reserves:

- Used to manage cash flow for capital projects and act as a reserve for capital contingencies
- Includes Commitments, or the amount of total remaining spending authority for existing CIP contracts

# Preliminary Rate Projections

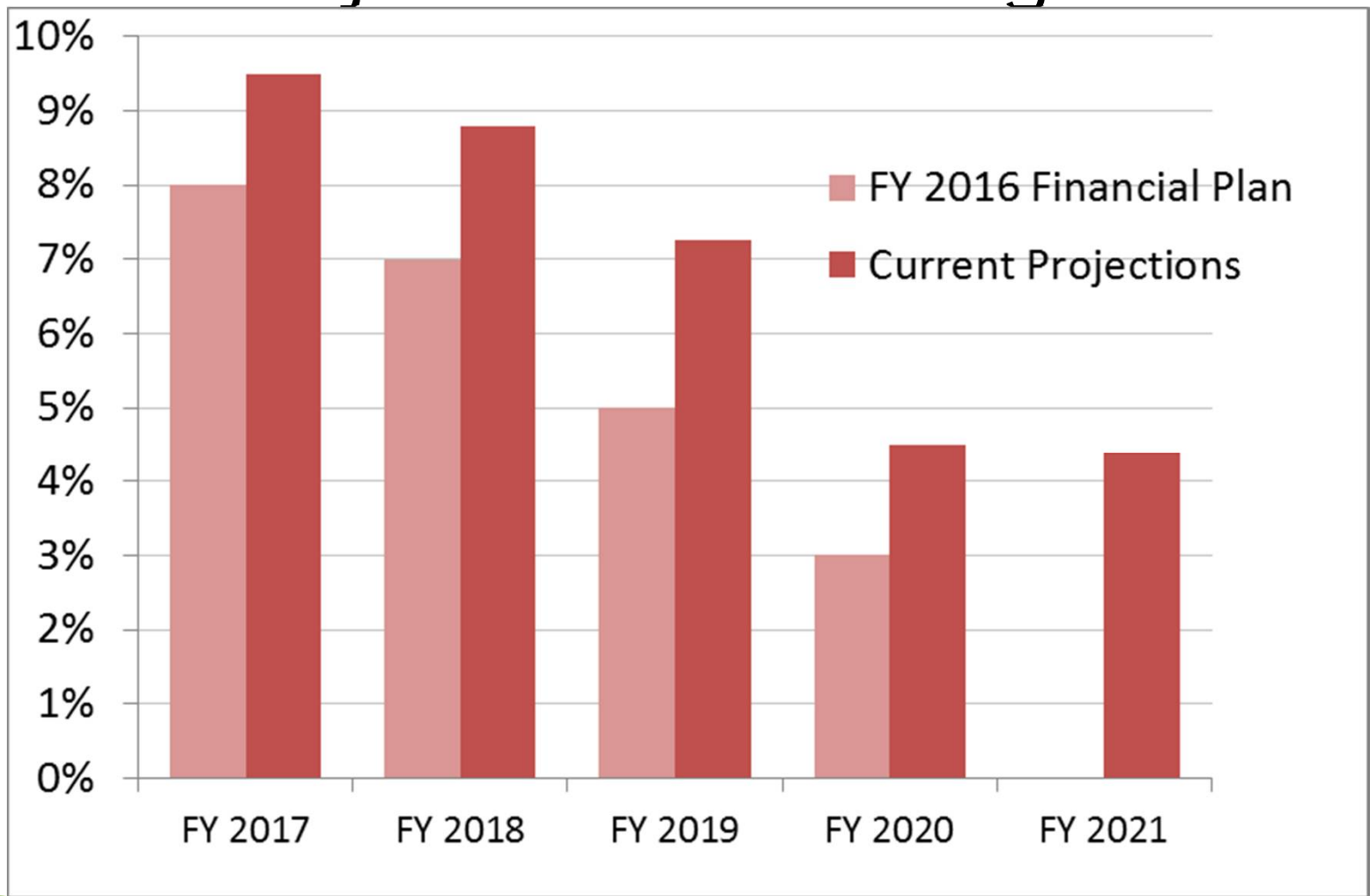
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	
Electric Utility	10%	8%	2%	1%	1%	
Gas Utility <sup>1</sup>	7%	5%	5%	5%	3%	
Wastewater	9%	10%	10%	7%	5%	
Water Utility	9%	9%	9%	3%	3%	
Refuse	9%	8%	5%	3%	3%	
Storm Drain <sup>2</sup>	2%to3%	2%to3%	2%to3%	2%to3%	2%to3%	
Bill Change <sup>3</sup>	(%)	9%	9%	7%	5%	4%
	(\$/mo)	\$23.25	\$23.76	\$21.32	\$14.38	\$14.52

(1) Gas rate changes are shown with commodity rates held constant. Actual gas commodity rates will vary monthly with wholesale market fluctuations

(2) Storm Drain Rates increase annually by CPI; existing rates sunset in June 2017 unless reauthorized by a majority vote of property owners

(3) Median residential bill is \$245.23 as of July 1, 2015 (does not include drought surcharge)

# Comparison to Last Year's Projected Bill Changes



# Communications Plan

Audiences - Our Customers & Other Stakeholders

§ Residents

§ Small Commercial

§ Key Accounts & City Facilities

§ Media—Radio, TV, Print, Online, Neighborhood, Community & School Groups

§ City Council

§ Utilities Advisory Commission (UAC)

§ Finance Committee

§ City of Palo Alto Executive Leadership Team

§ City of Palo Alto Staff

# Additional Outreach Methods – Supporting Activities & Education

- § Rates Webpage—[cityofpaloalto.org/RatesOverview](http://cityofpaloalto.org/RatesOverview)
- § Utility Bill Inserts—Value, Supplies, Infrastructure Benefits Information
- § Frequently Asked Questions—Web, Education for Customers, Elected & Appointed Officials & Staff
- § Press Releases & Media Alerts
- § Email Blast Newsletters
- § Meetings - Neighborhood, Community & Business Groups
- § Videos for Web, Social Media, TV Commercials
- § Social Media Posts—Twitter, Facebook, NextDoor
- § Internal Memo - FAQs, Presentation, Updates for City Staff

# Electric Utility Financial Projections FY 2017-FY 2023

# FY 2017 – FY 2023 Projections

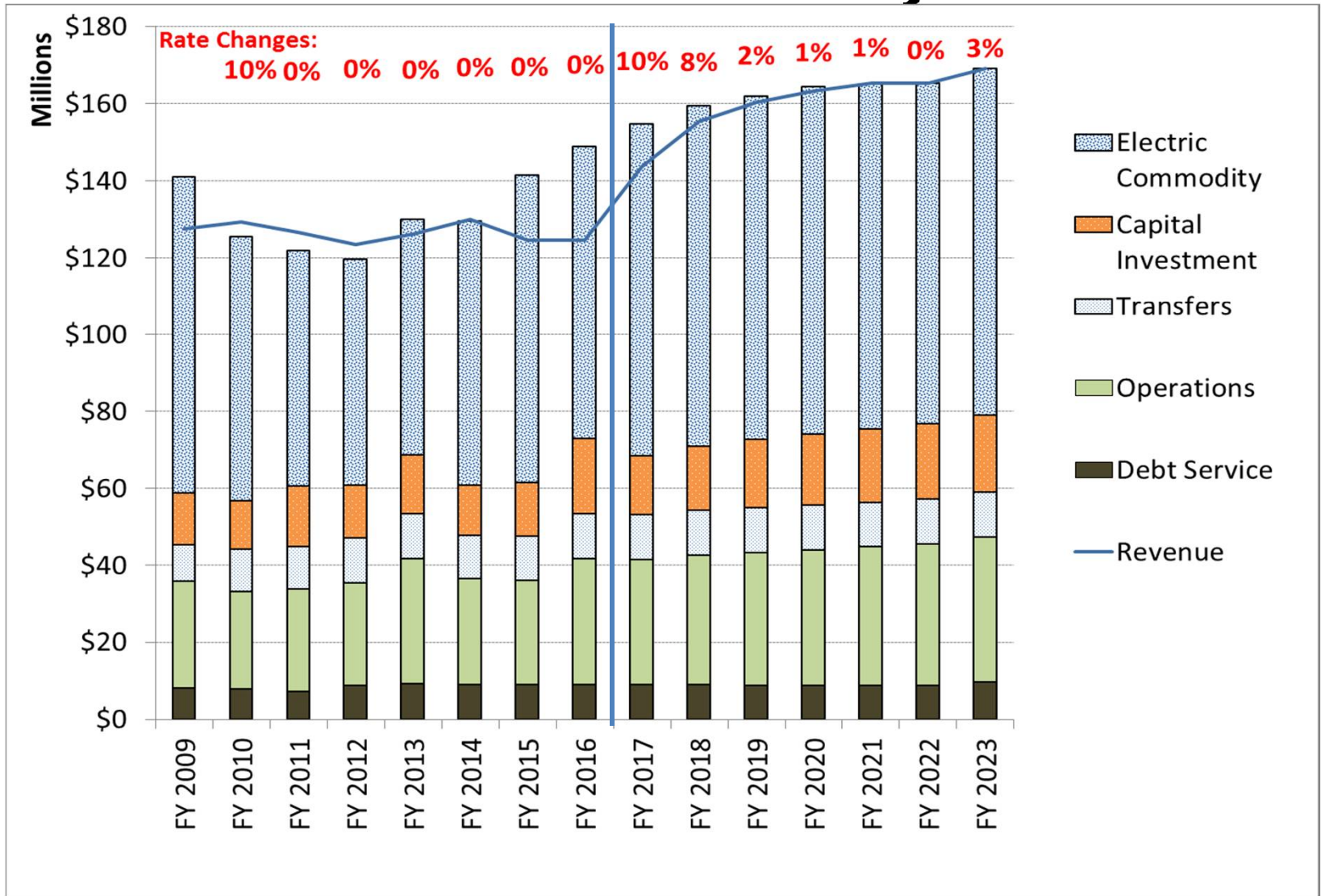
- § Distribution Operations Reserves below minimum guidelines due to cost increases
- § Supply Operations Reserves low
- § Last rate increase was July 2009
- § Rate increase projections:
  - 10% in FY 2017, 8% in FY 2018
  - Later years – 1-2%
  - COSA currently under development, may result in slightly different increases for different rate classes
- § Reserves transfers:
  - \$17M from hydro stabilization reserves over three years (FY 2016 through FY 2018)
  - \$14.4M from supply rate stabilization reserve over two years (FY 2016 through FY 2017)

# FY 2017 – FY 2023 Projections

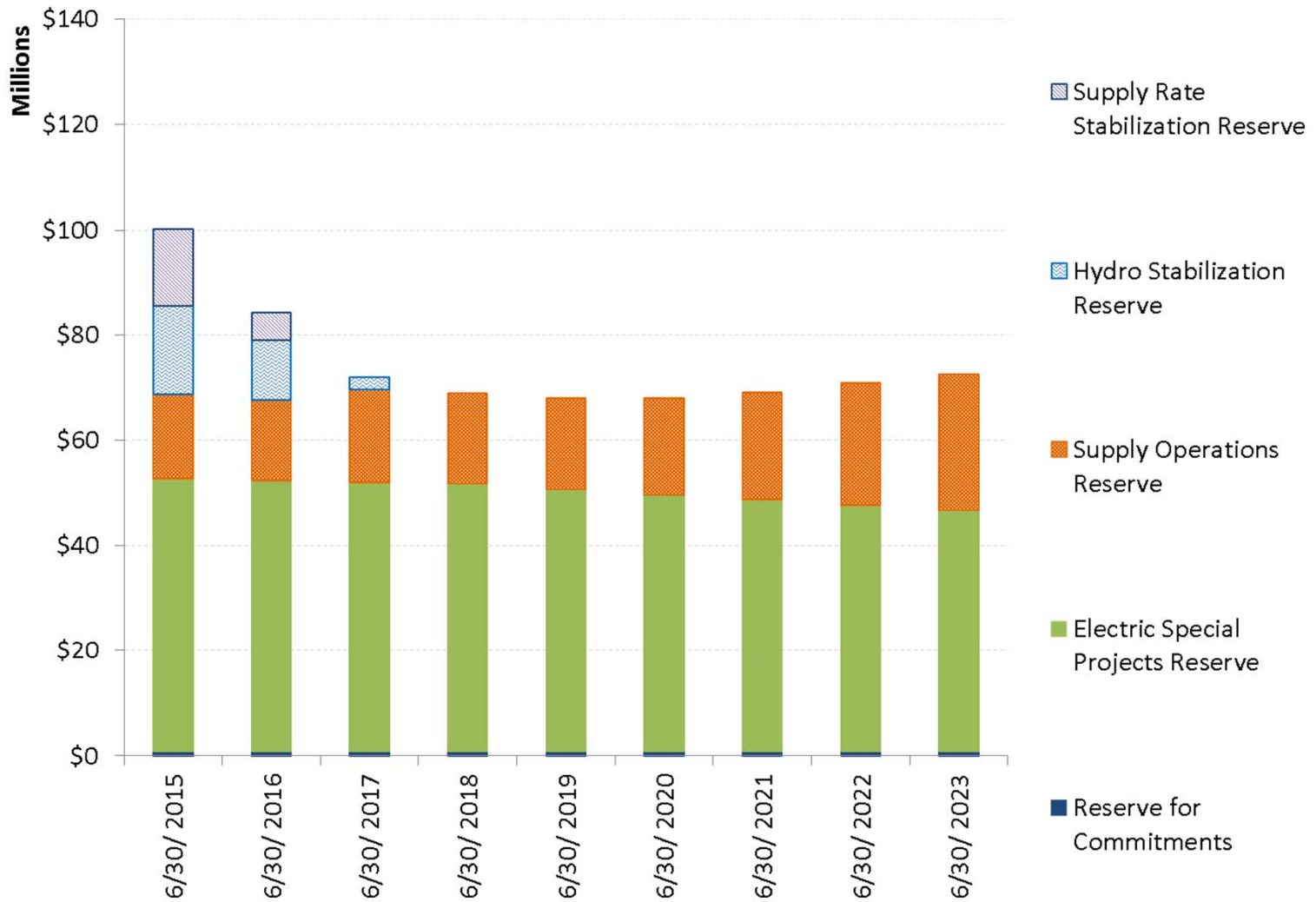
- § Develop hydro rate adjuster after COSA (mid FY 2017)
- § Use hydro rate adjuster in case of extended drought conditions
- § Smart Grid rollout (\$3M/yr starting in FY 2019):
  - Forecast assumes this is part funded by Water/Gas Funds.
  - Forecast assumes the remainder is funded by the Electric Special Projects Reserve.
- § Long-term cost increases over forecast period are primarily due to new renewable projects coming online. Drought produces short term cost impacts.



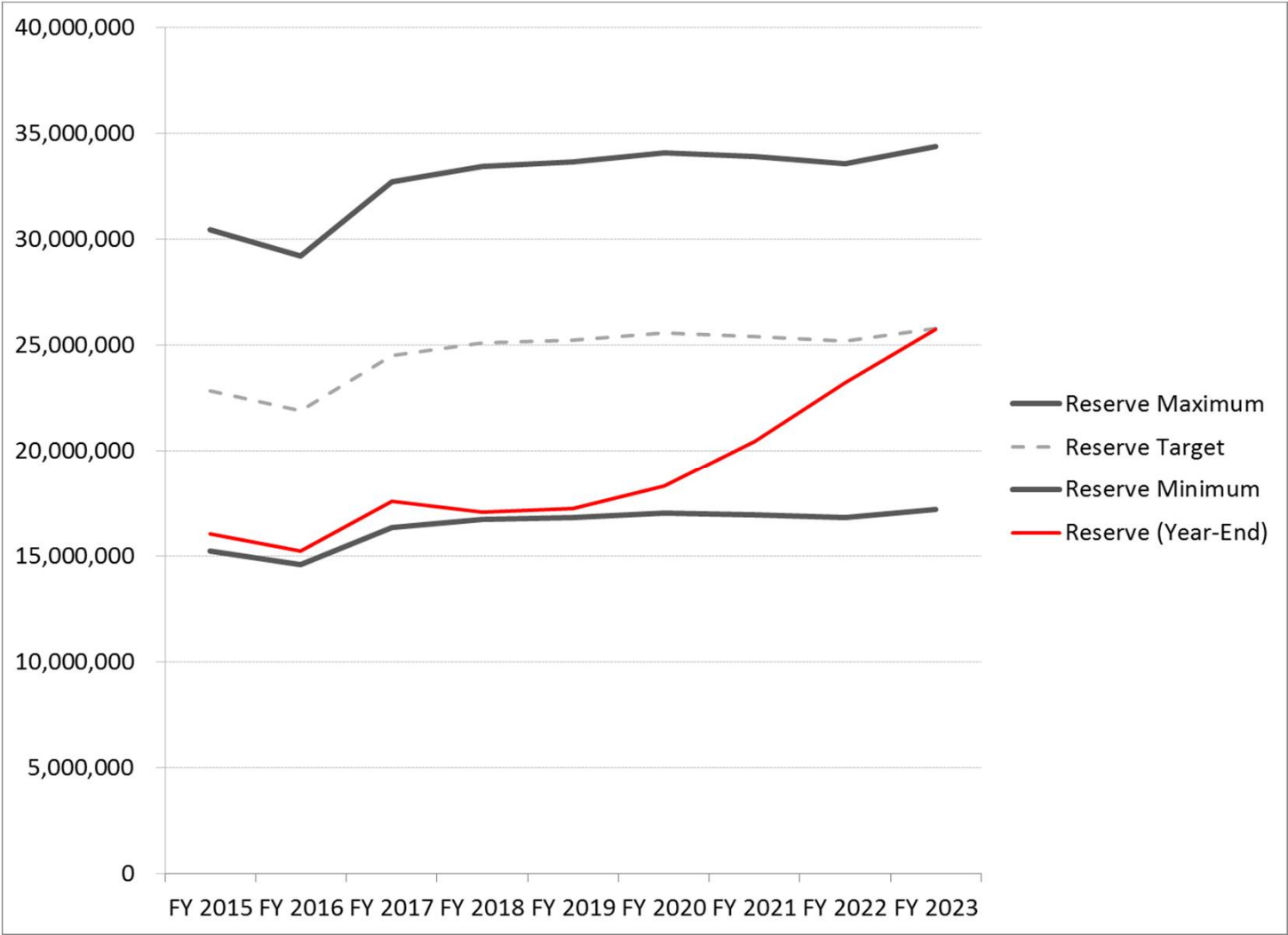
# Electric Utility FY 2017 – FY 2023 Projections



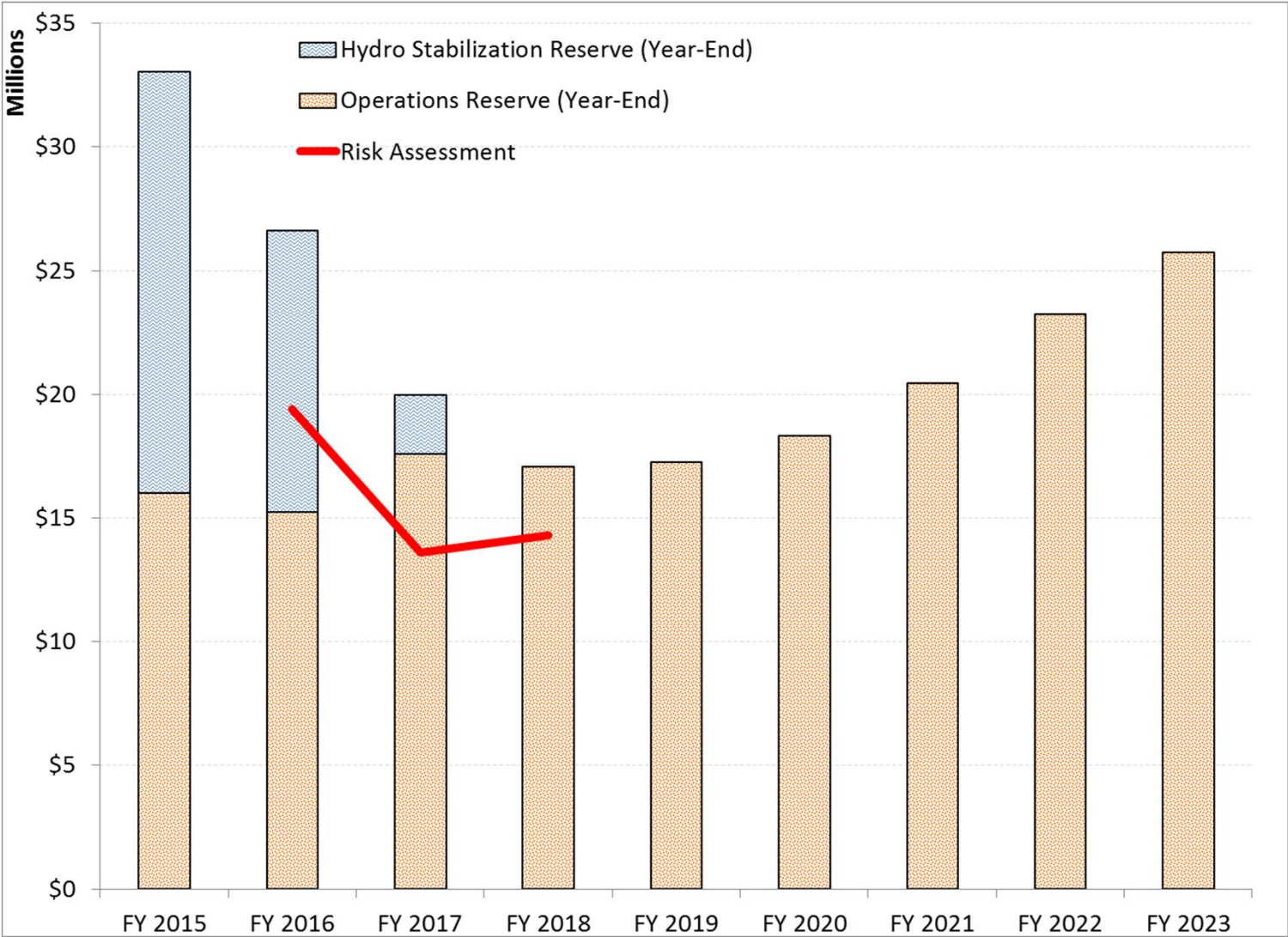
# Electric Utility FY 2017 – FY 2023 Supply Reserves



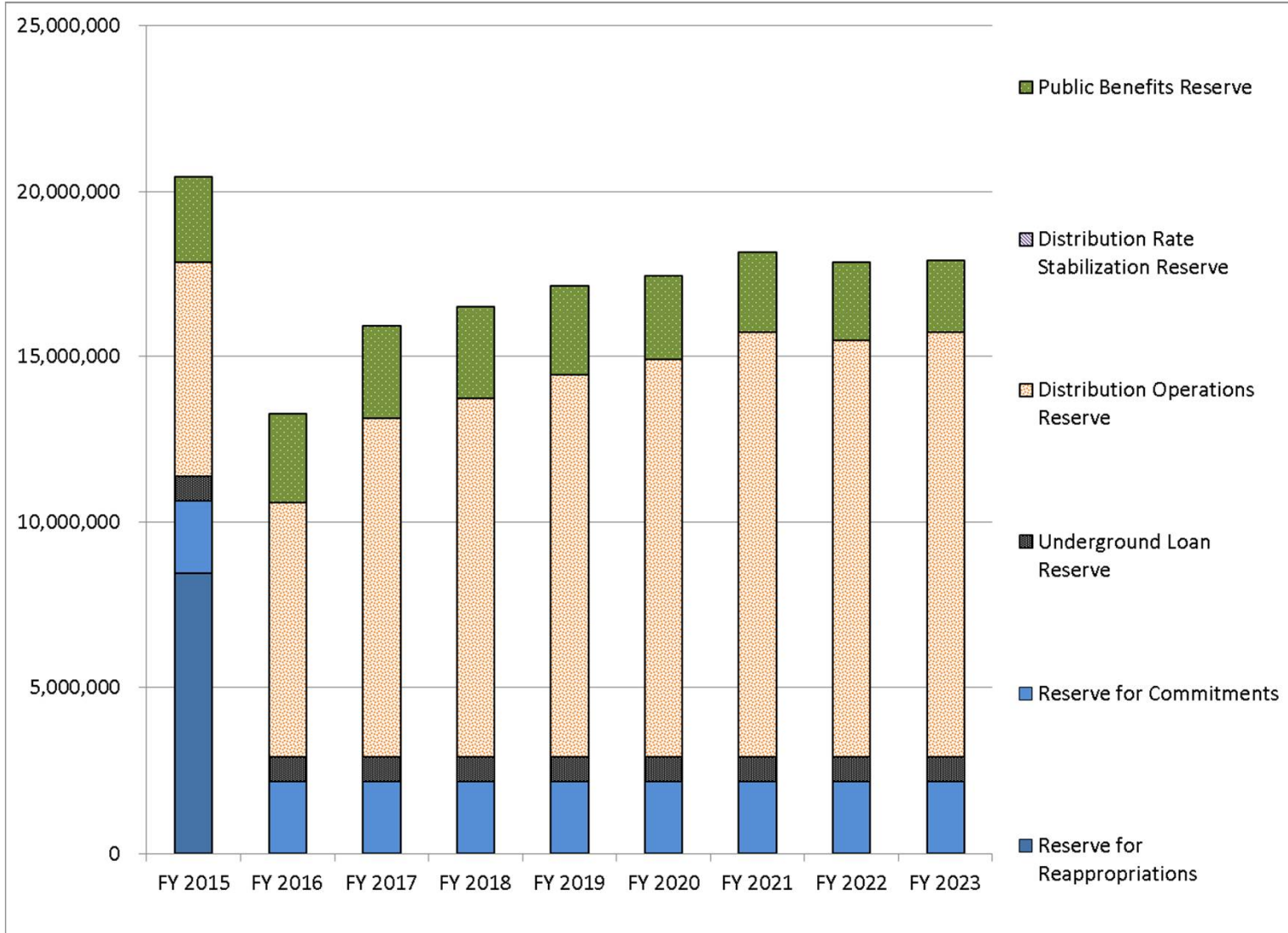
# Supply Operations Reserve



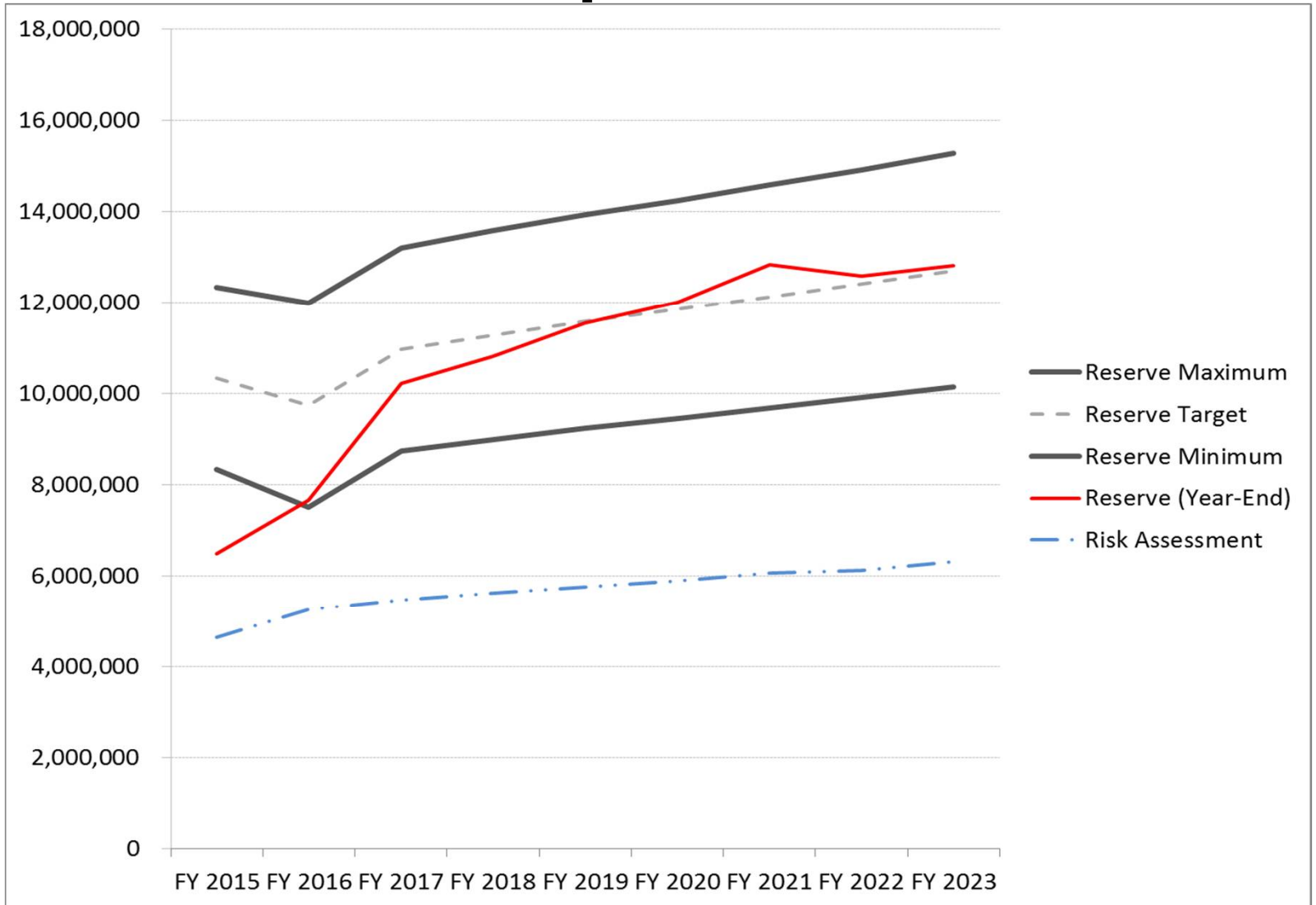
# Supply Reserve Adequacy



# Electric Utility FY 2017 – FY 2023 Distribution Reserves

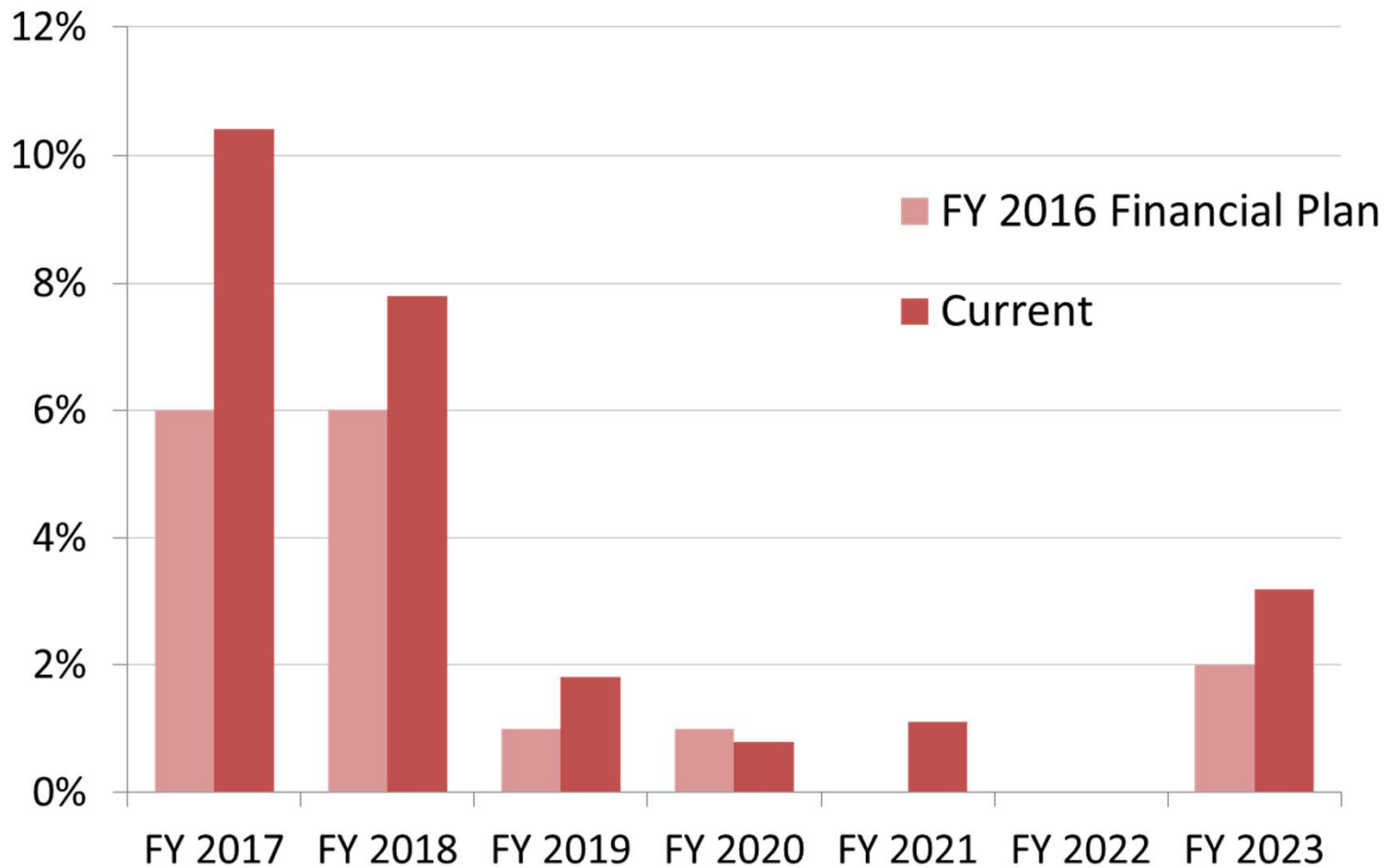


# Electric Utility Distribution Operations Reserve



# Projected Rate Changes

Comparison to FY 2016 Financial Plan Forecast



# Uncertainties

- § How long will the drought last?
- § Will second transmission line (resulting in Transmission Access Charge savings) be built?
- § Cost of Smart Grid implementation, use of Electric Special Projects Reserve
- § Increasing CIP costs



# Gas Utility Financial Projections FY 2017-FY 2021

# FY 2017 – FY 2021 Projections

§ FY 2017: 7% rate increase (assuming commodity prices are flat)

- PG&E Transportation costs projected to nearly double in FY 2016
- CIP and Cross-bore costs

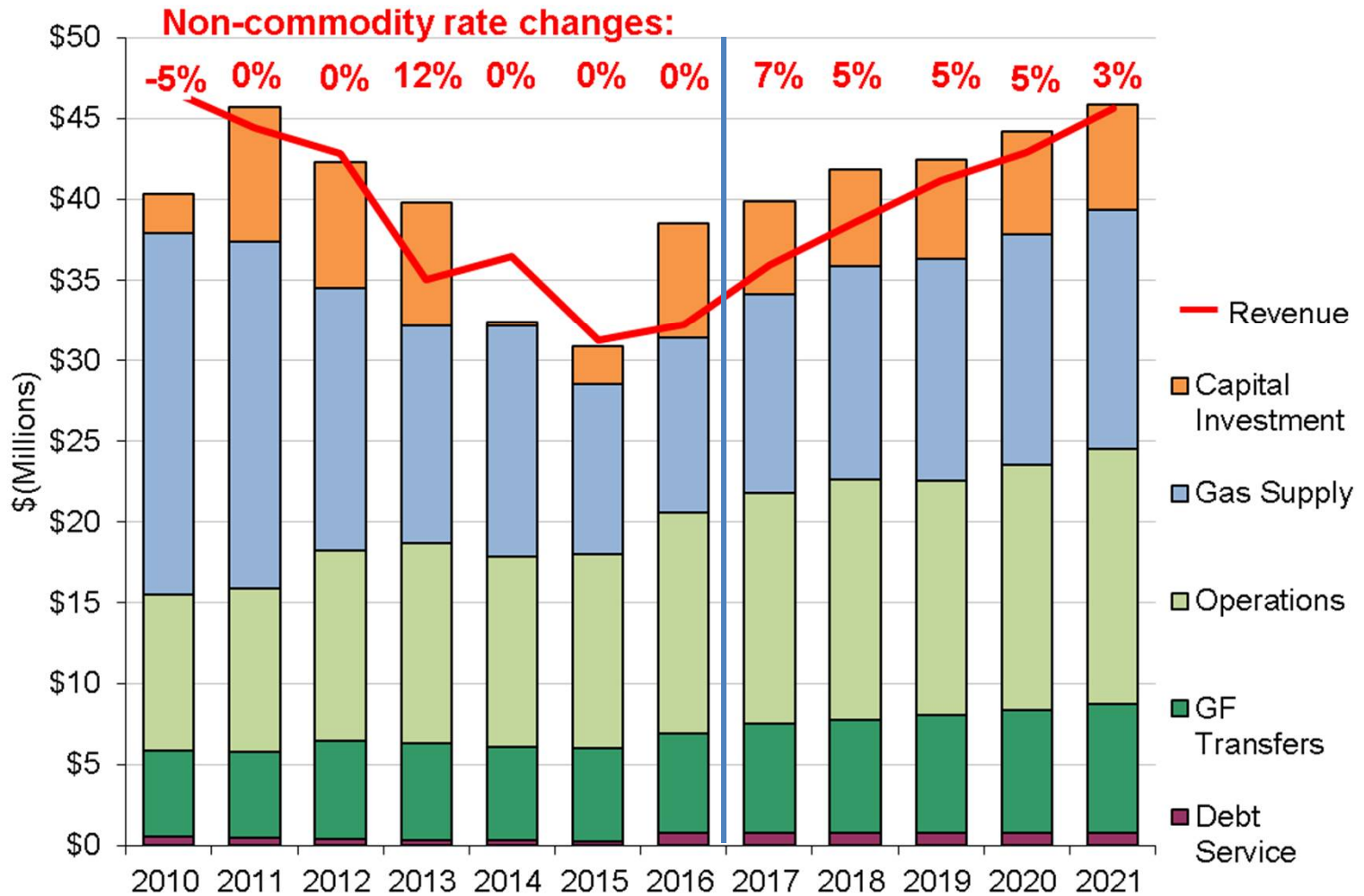
§ FY 2018 – FY 2021 projected actions

- Ongoing 5% non-commodity increases

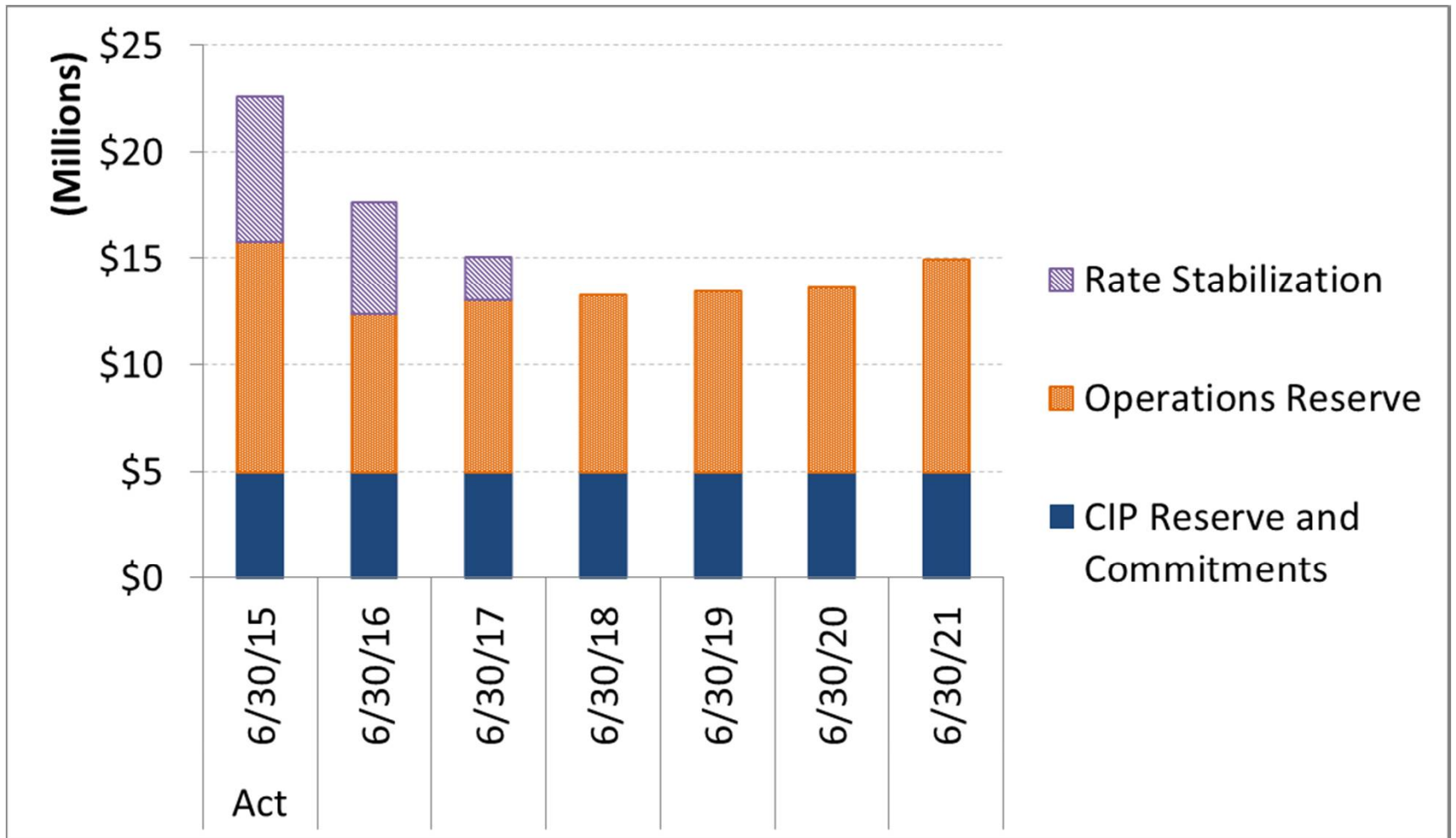
§ Reasons for increases:

- Higher ongoing CIP costs, primarily for gas main replacement

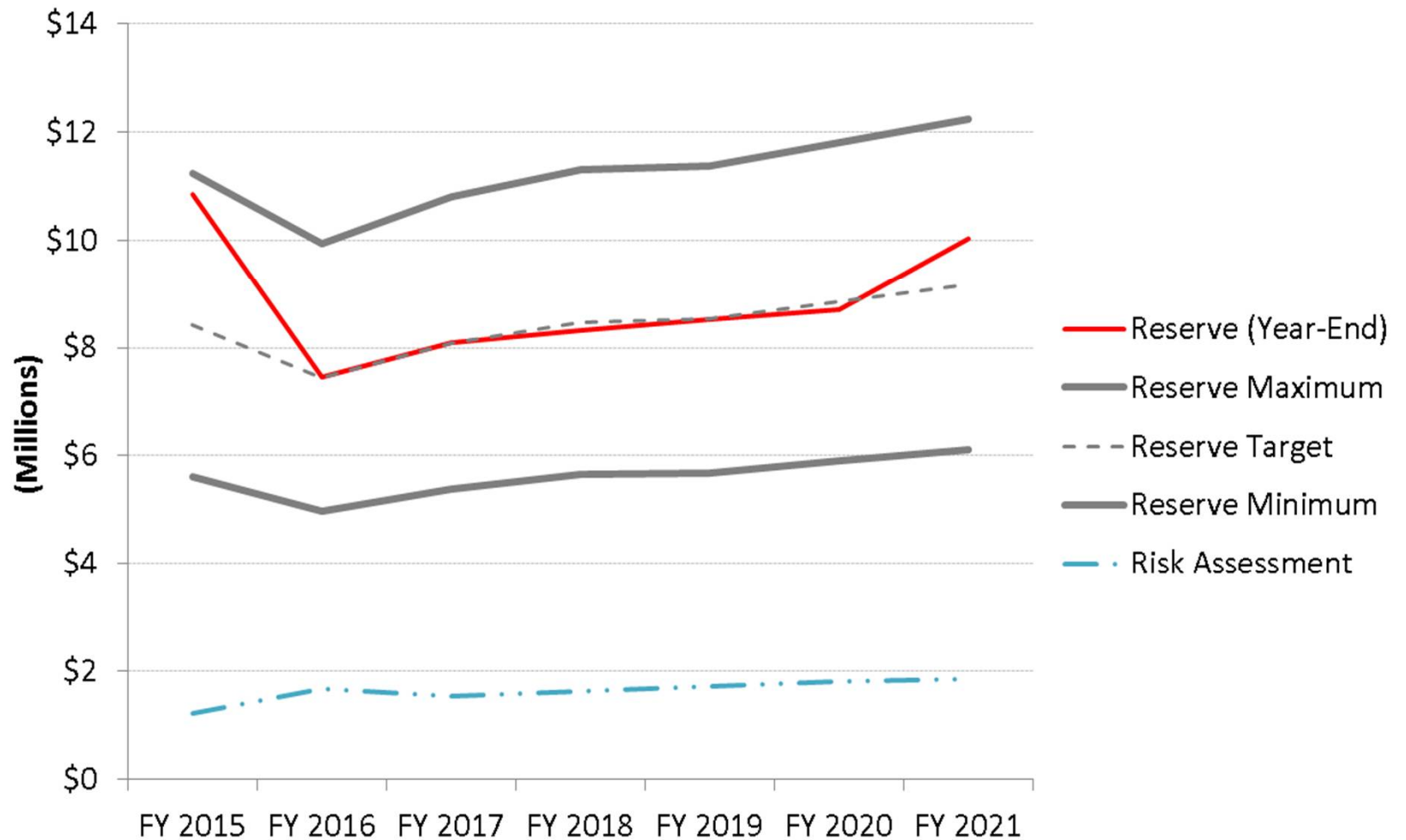
# FY 2017 – FY 2021 Projections



# FY 2017 – FY 2021 Reserves

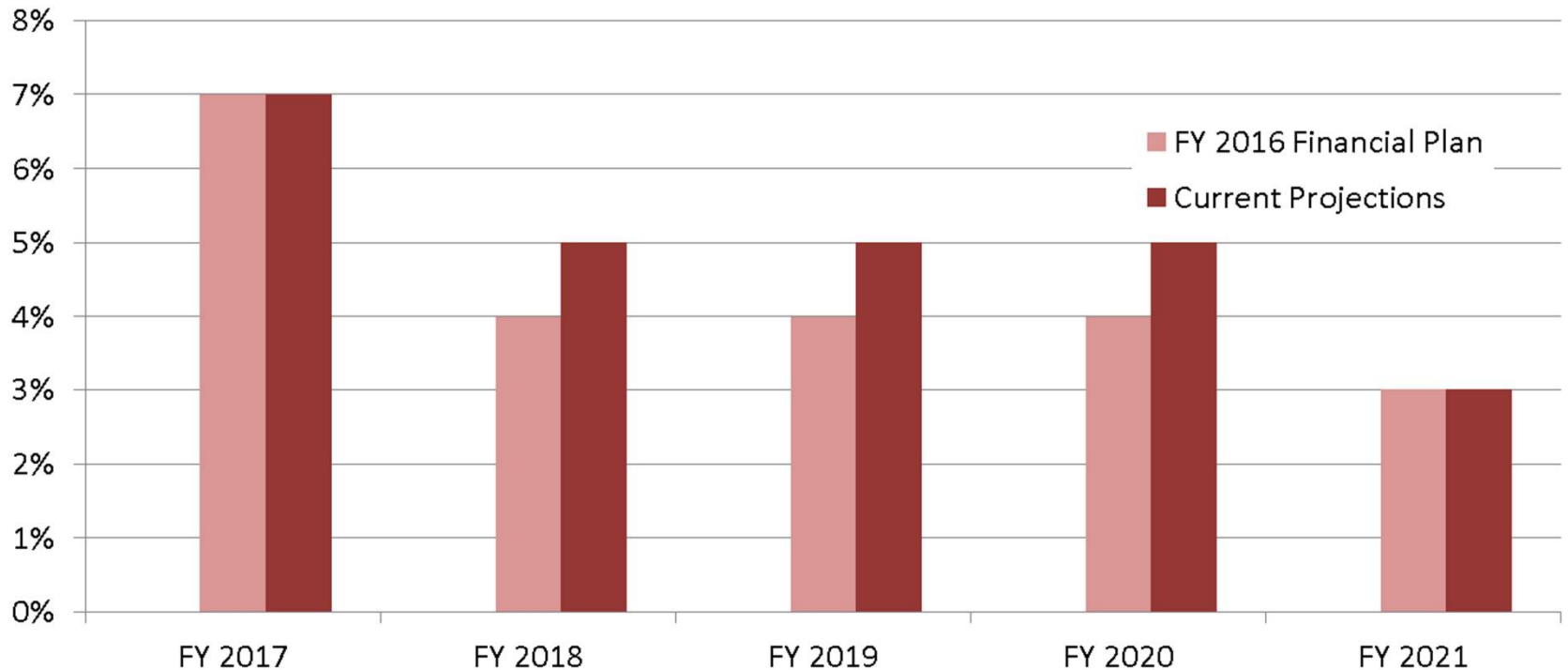


# Operations Reserve



# Projected Rate Changes <sup>Gas Utility</sup>

## Comparison to FY 2016 Financial Plan Forecast



Changes in assumptions:

§ Lower gas sales

# What Potential Costs aren't Included in the Forecast?

- § **Potential Revenue Loss:** Long term decrease in consumption due to fuel switching
  - **Solution:** This is a long-term policy issue requiring comprehensive analysis in the context of the Sustainability and Climate Action Plan policy making process.
- § **Potential Cost:** Changes in design of Cap-and-Trade Program allowance allocations after 2020.
  - **Solution:** Assume current design will continue, but if there are changes, pass through costs to customers.

# Wastewater Collection Utility Financial Projections FY 2017-FY 2021

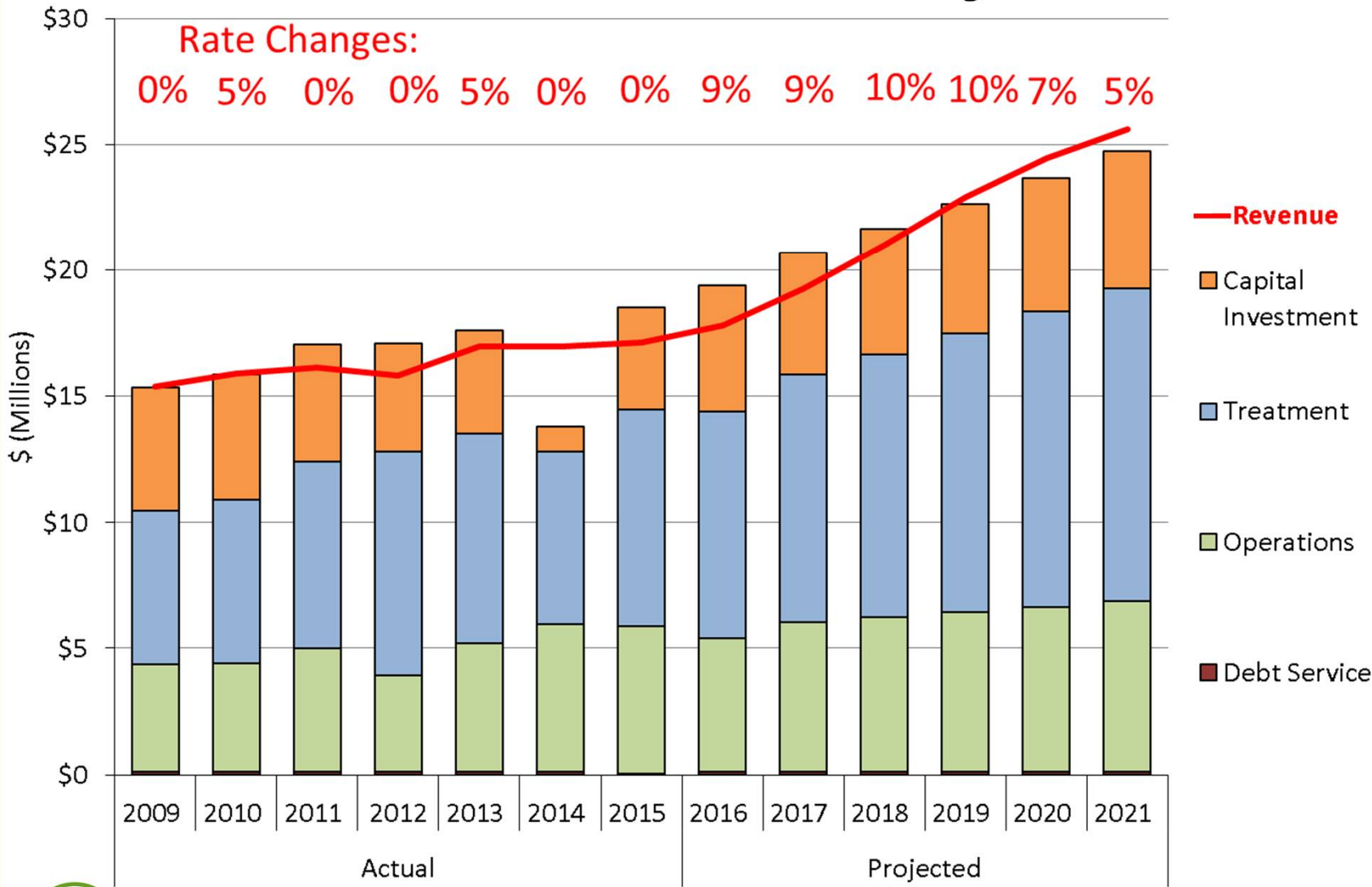


# Wastewater Collection Utility FY 2017 – FY 2021 Projections

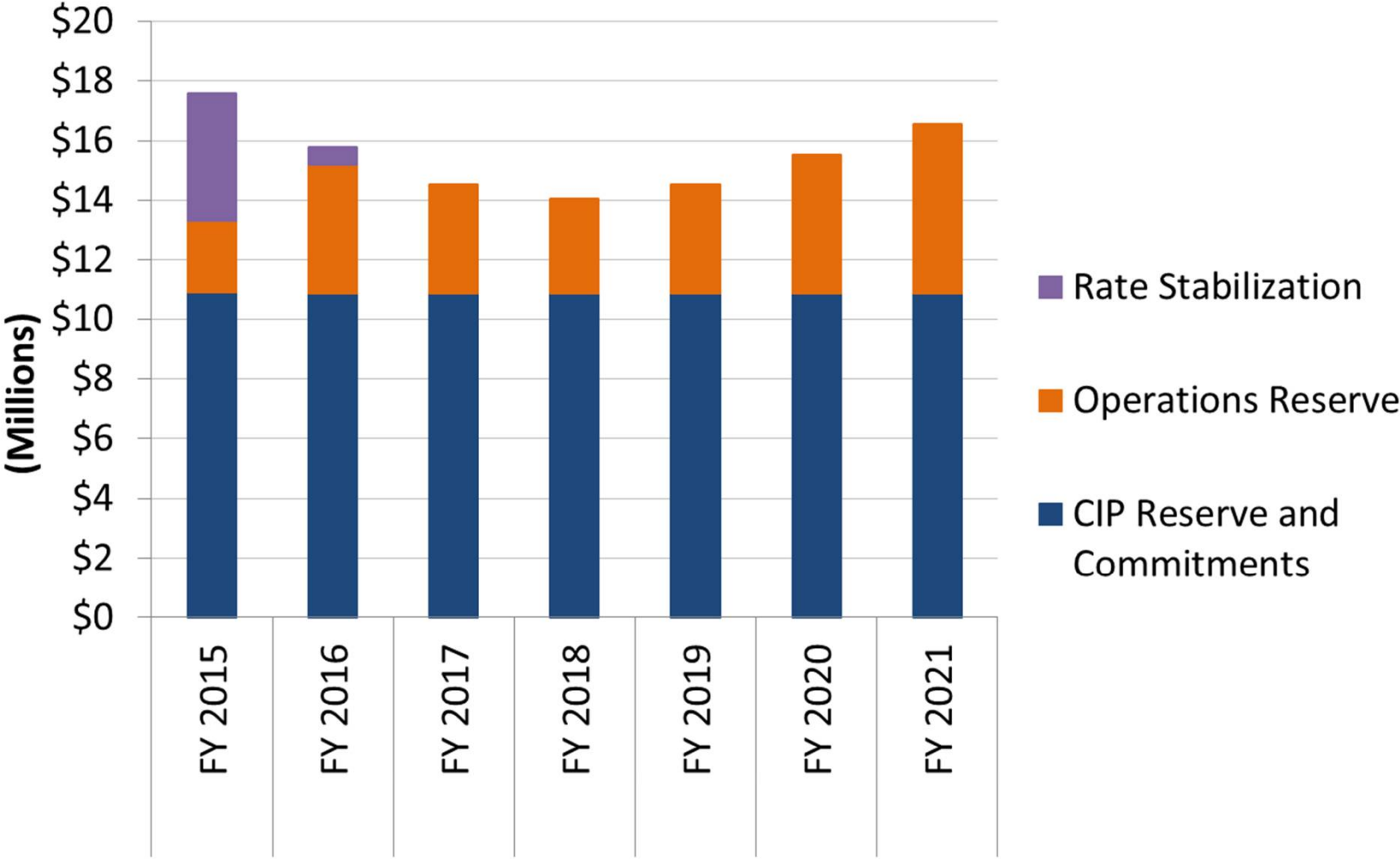
- § FY 2017 proposal: 9% rate increase
  - \$2.88 per month change on a residential bill
  - Treatment costs greater than projected
- § FY 2018 – FY 2021 projected actions
  - Increases of 10% for two years, tapering down to 7% in FY 2020
  - Assumes continuing increases in treatment costs, operational costs

# Wastewater Collection Utility

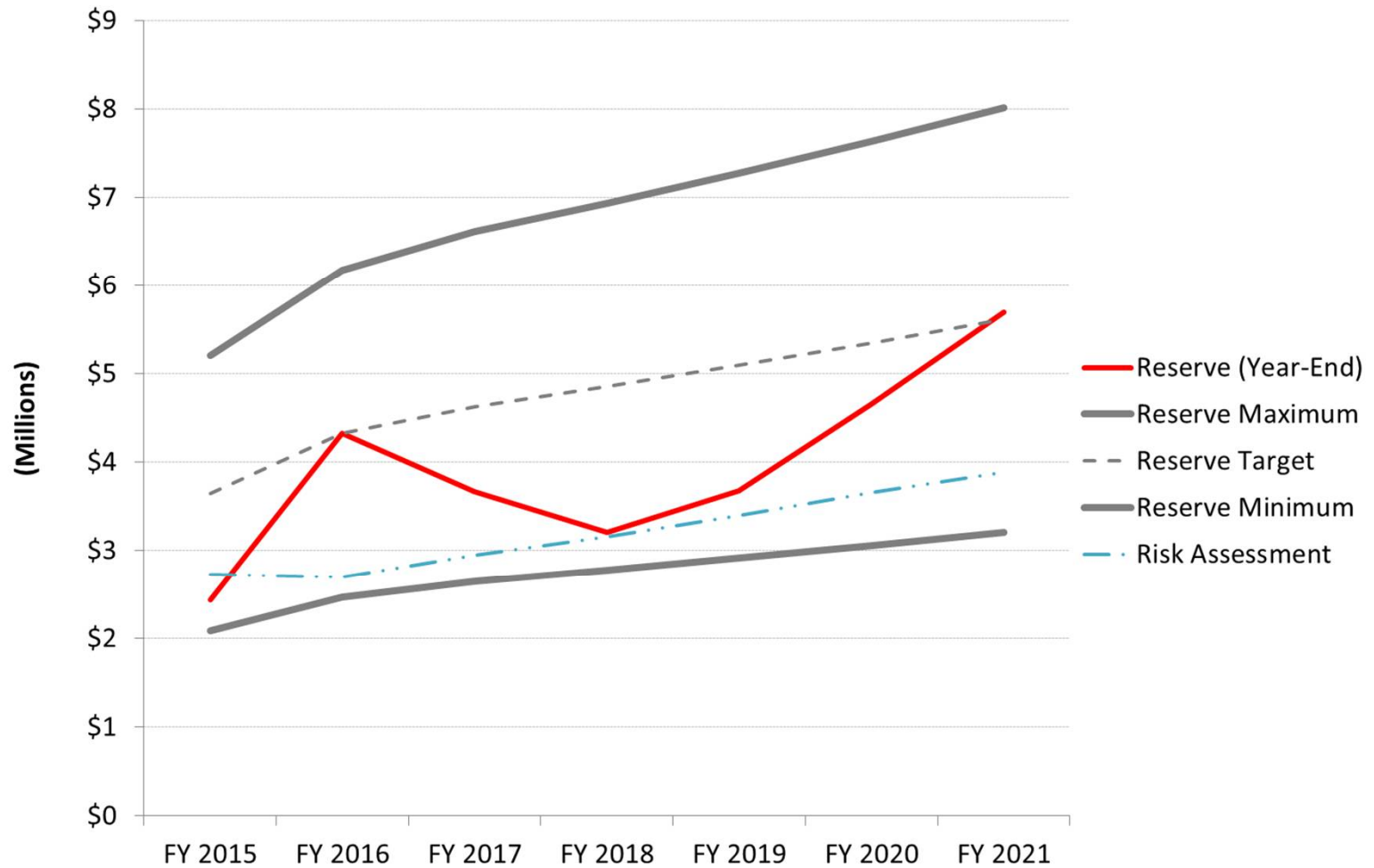
## FY 2017 – FY 2021 Projections



# FY 2016 – FY 2021 Reserves

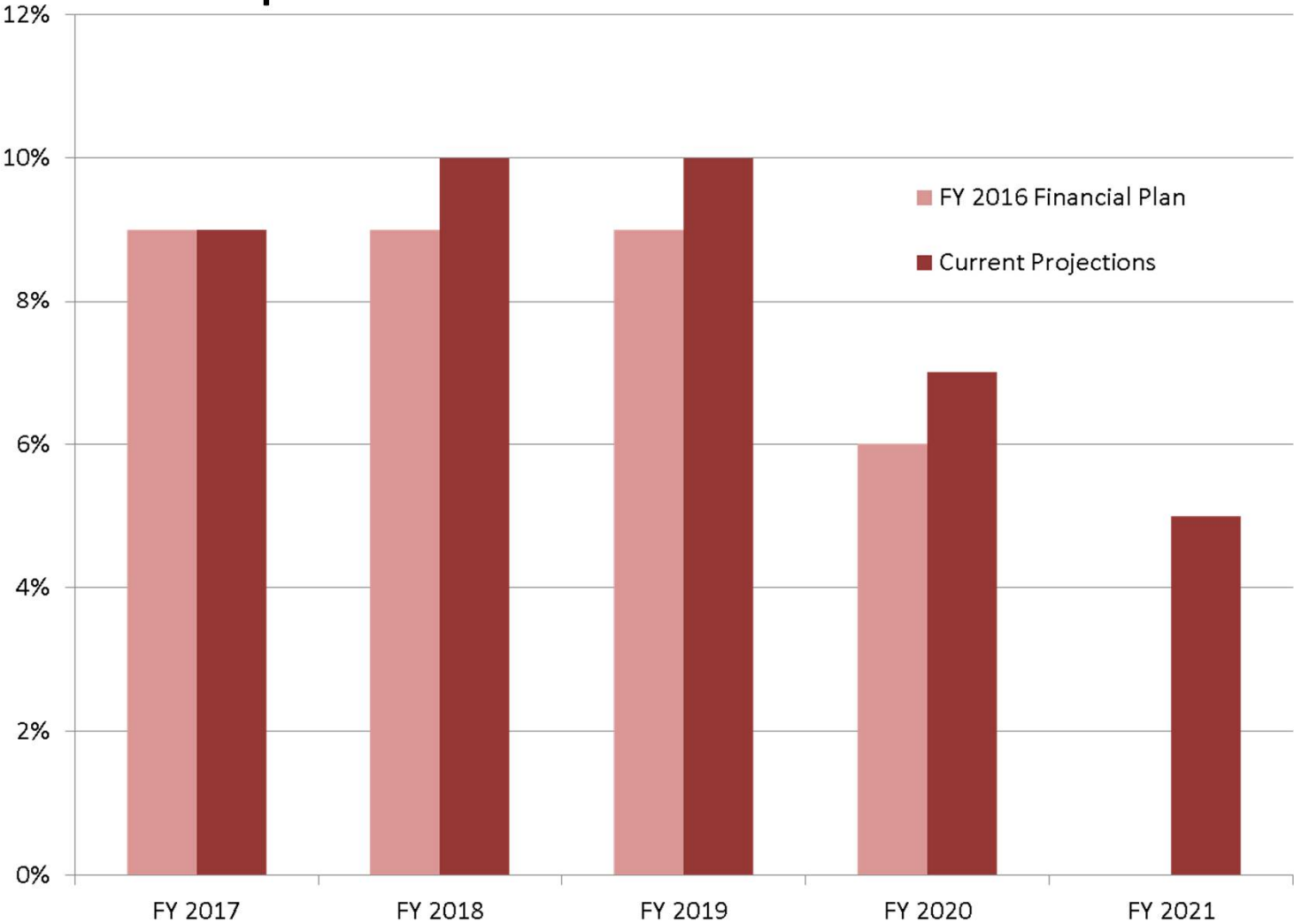


# Wastewater Collection Utility Operations Reserve



# Wastewater Collection Utility Projected Rate Changes

Comparison to FY 2016 Financial Plan Forecast



# Wastewater Collection Utility Uncertainties

- § Higher main replacement costs seen in water and gas occur here as well.
  - How long will it continue?
  - How high can it go?
- § Is current rate of main replacement optimal?
  - Wastewater System Master Planning Study planned.

# Water Utility Financial Projections FY 2017-FY 2021

# FY 2017 – FY 2021 Projections

## § FY 2017 proposal: 9% overall rate increase

- Create separate commodity rate component
- Increase commodity rate to match SFPUC wholesale rate (results in projected 9% overall rate increase)
- Do not increase revenue collected from distribution rates
- Continue drought surcharge until drought conditions cease

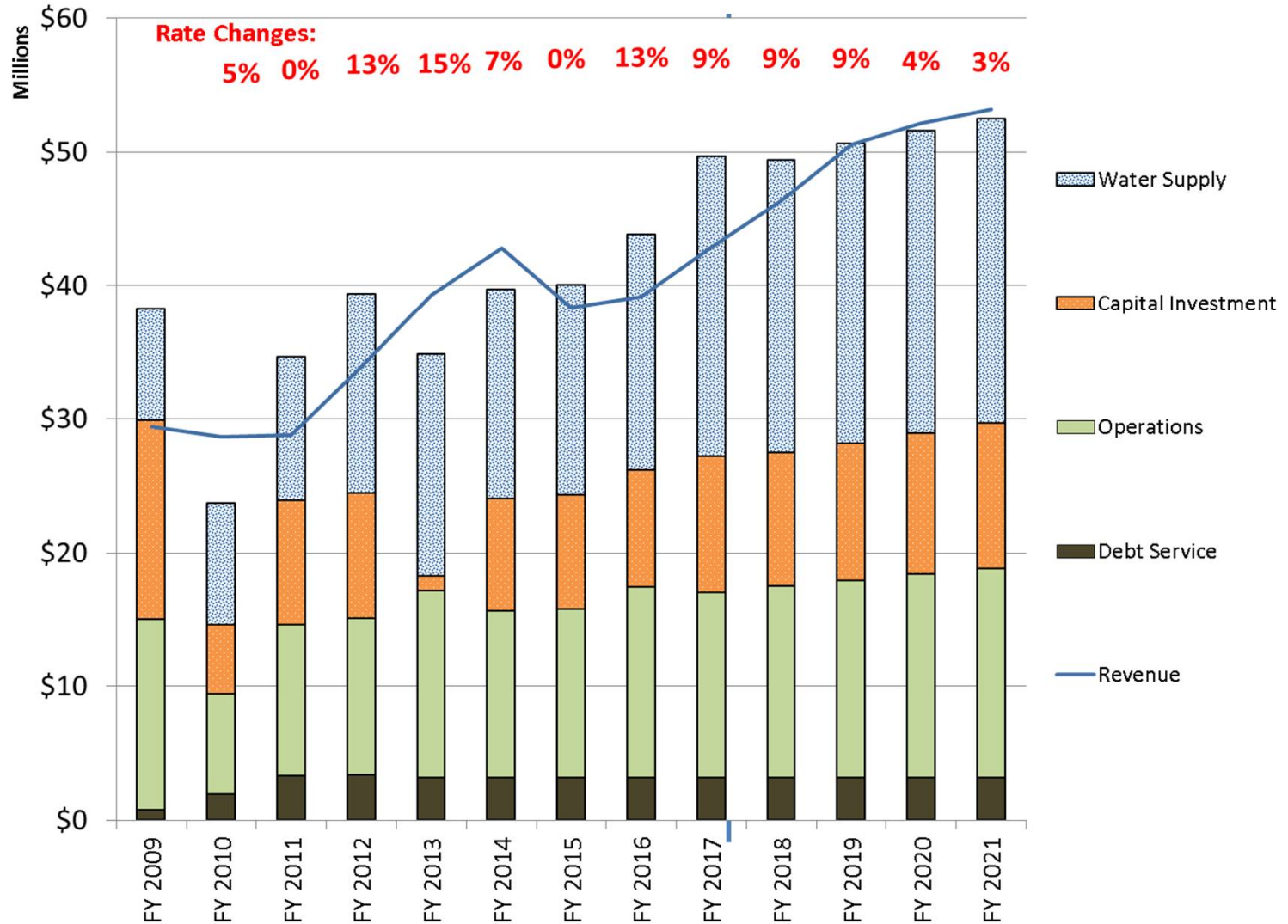
## § FY 2018 – FY 2021 projected actions

- Distribution and commodity increases each year
- Separate commodity rate will allow pass-through of changes to SFPUC rate, drought-related or otherwise



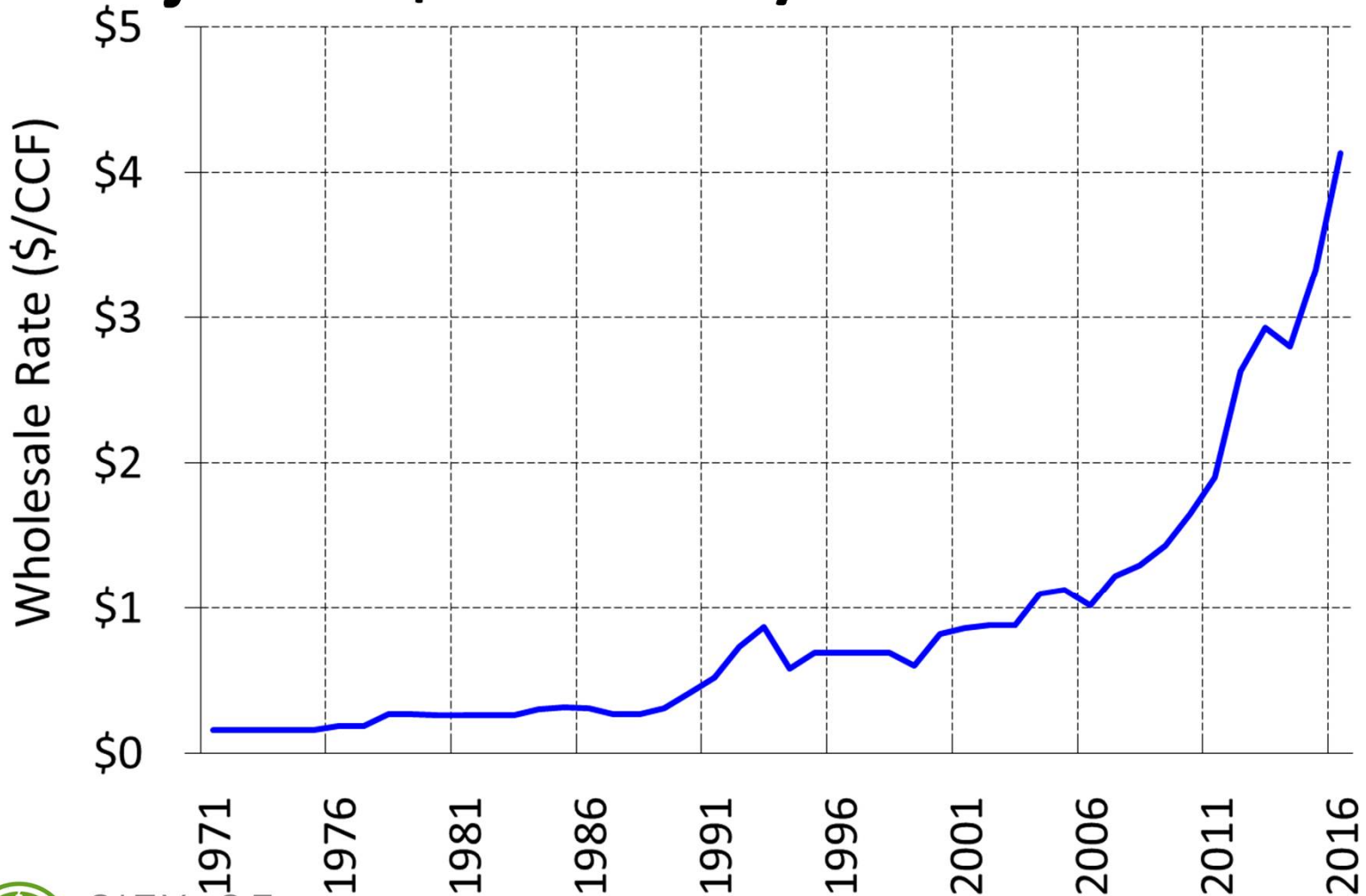
# FY 2017 – FY 2021 Projections

## Water Utility

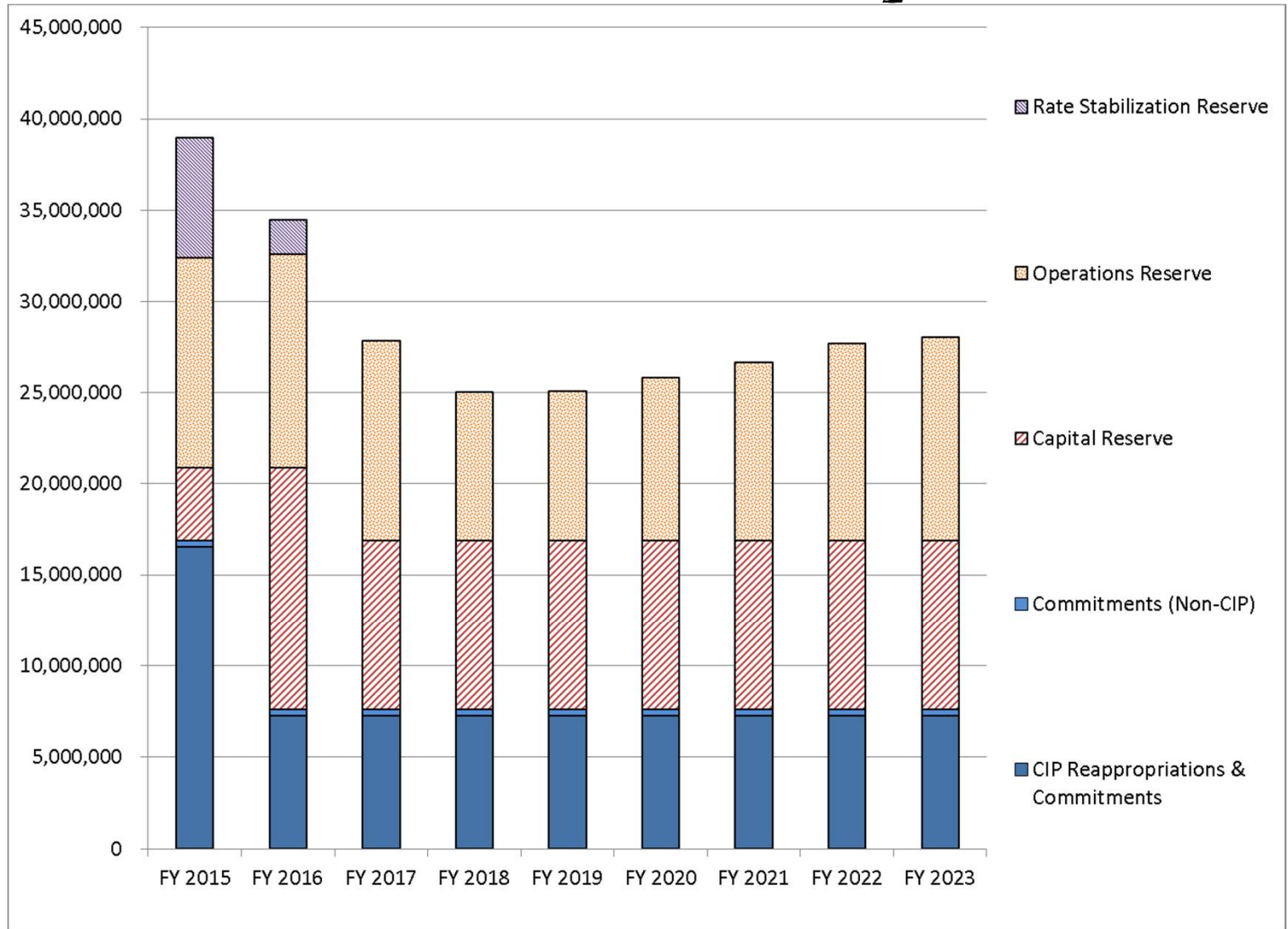


# SFPUC Wholesale Water Rates

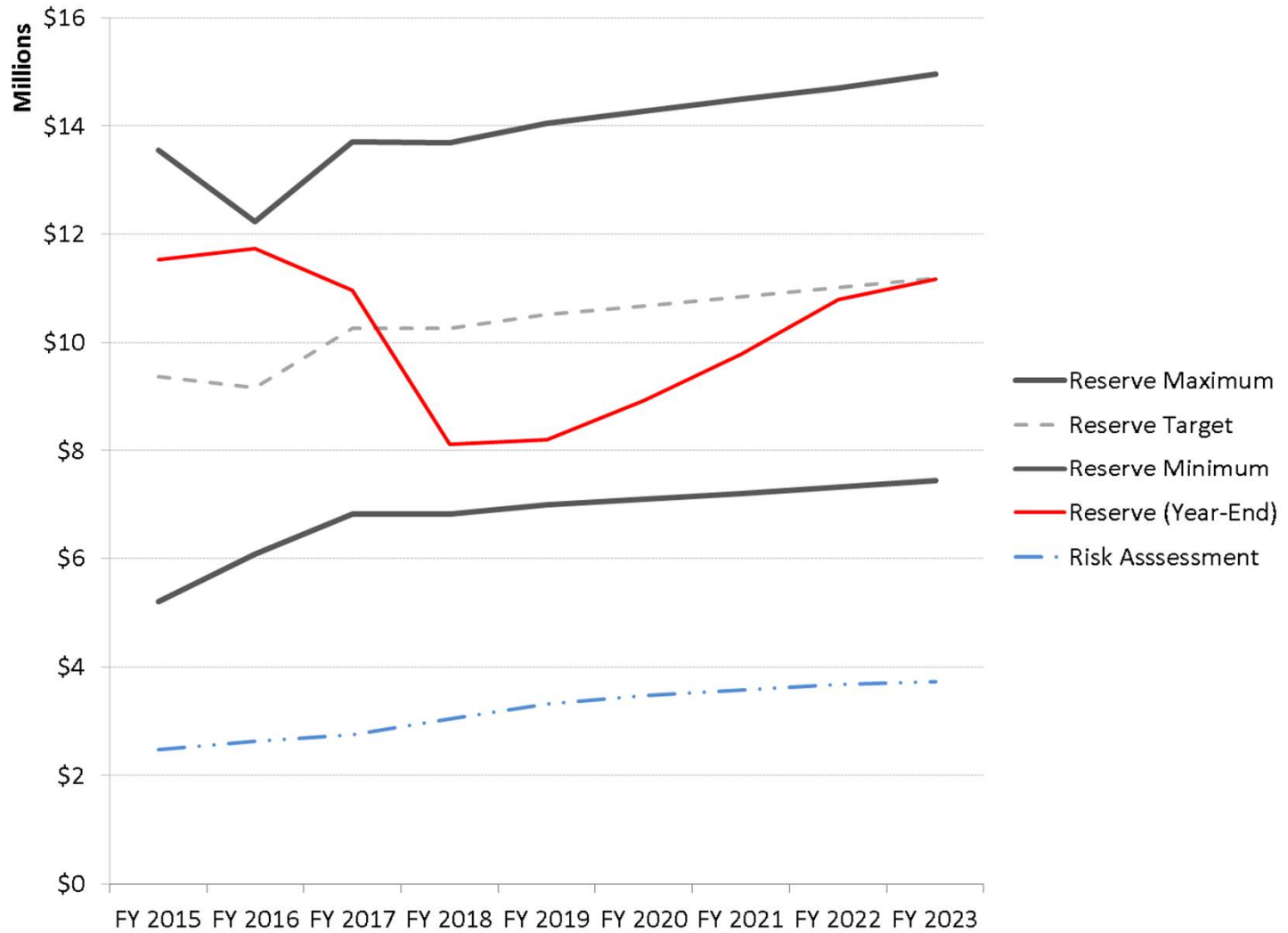
## Projected \$4.47-5.00/CCF for FY 2017



# Water Utility FY 2017 – FY 2021 Projections

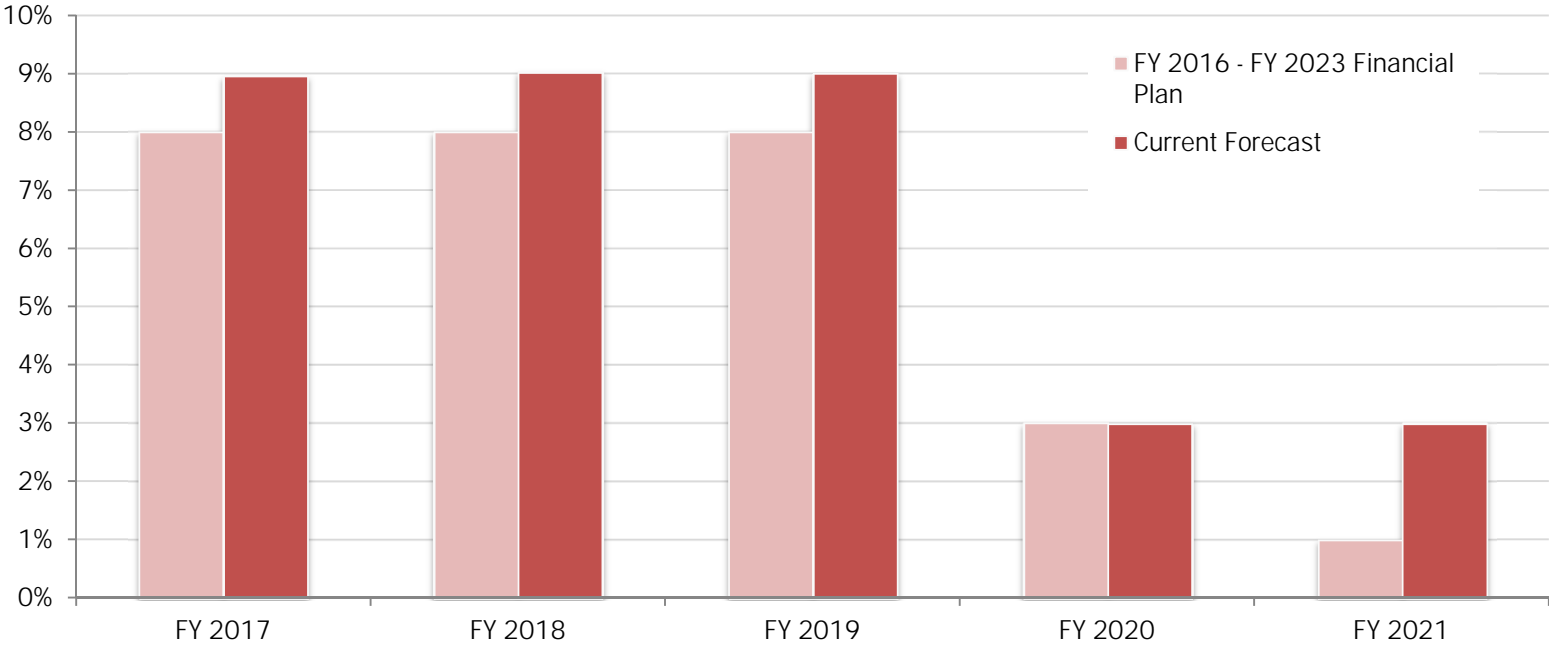


# FY 2017 – FY 2021 Projections



# Projected Rate Changes

Comparison to FY 2016 Financial Plan Forecast



### Changes in assumptions:

- § Higher purchase cost from SFPUC
- § Continuing lower load, uncertain level of recovery

# Uncertainties

## Capital Improvement Program Uncertainty:

Prices for main replacement are currently 50% higher than historical.

- How long will project costs remain higher.

**Sales Uncertainty:** How long will the drought last?

# What Potential Costs aren't Included in the Forecast?

- § **Potential Revenue Loss:** Drought continues, at higher or lower levels of mandatory reduction required by SFPUC and/or State
  - **Solution:** Impose drought rates
- § **Potential Cost:** Seismic rehabilitation work may be required on Foothills transmission line
  - **Solution:** Consultant investigating a solution in which the transmission line is not replaced, and CPAU installs a valve and hose system (under \$2M cost) to bypass earthquake breaks to do repairs
- § **Potential Cost:** SFPUC will likely proceed with Mountain Tunnel rehabilitation work
  - **Impact:** Would affect commodity rates in outer years (after 2020) and result in roughly a one time 3% rate increase.
- § **Potential Cost:** Recycled water project
  - **Impact:** Rate impact to be analyzed in 2016

# Conclusion



# Preliminary Rate Projections

		FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Electric Utility		10%	8%	2%	1%	1%
Gas Utility <sup>1</sup>		7%	5%	5%	5%	3%
Wastewater		9%	10%	10%	7%	5%
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Storm Drain <sup>2</sup>		2%to3%	2%to3%	2%to3%	2%to3%	2%to3%
Bill Change <sup>3</sup>	(%)	9%	9%	7%	5%	4%
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(1) Gas rate changes are shown with commodity rates held constant. Actual gas commodity rates will vary monthly with wholesale market fluctuations

(2) Storm Drain Rates increase annually by CPI; existing rates sunset in June 2017 unless reauthorized by a majority vote of property owners

(3) Median residential bill is \$245.23 as of July 1, 2015 (does not include drought surcharge)

# Timeline for Actions

## § March 2016:

- Water and Wastewater financial plans and rates to UAC

## § April 2016:


- Electric and Gas financial plans and rates to UAC
- Water and Wastewater financial plans and rates to Finance
- Proposition 218 notices sent to Water and Wastewater customers

## § May 2016:

- Electric and Gas financial plans and rates to Finance

## § June 2016:

- Council hearing/adoption of all rates to be effective July 1, 2016



# Preliminary Financial Forecasts and Rate Changes for Electric, Gas, Wastewater Collection, and Water Utilities

Utilities Advisory Commission

February 3, 2016

## ATTACHMENT B



### **EXCERPTED DRAFT MINUTES OF THE FEBRUARY 3, 2016 UTILITIES ADVISORY COMMISSION MEETING**

#### **ITEM 4. DISCUSSION: Preliminary Financial Forecasts and Rate Changes for Electric, Gas, Wastewater Collection and Water Utilities**

Assistant Director Jane Ratchye stated that this presentation is the annual initial review of the long-term cost drivers for each fund to give the UAC and the community an idea of the rate adjustments that are projected to be needed this year and the next several years. She said that the rate increases projected this year are slightly higher than projected last year and that much of that change can be attributed to the impacts of the drought. Ratchye cautioned that these projections are preliminary and things will change before they are finalized.

Ratchye reviewed that financial reserves that are managed for the Utilities funds and stated that the description and purpose of each reserve is described in detail in the Reserve Management Practices that are part of the long-term Financial Plans that are adopted by Council. As part of the annual preparation of the financial plans, staff conducts a risk assessment to determine the financial impact of a 10% loss of sales combined with an unexpected additional Capital Improvement Program (CIP) expense. This risk assessment level is generally slightly below the minimum level of the Operations Reserve for each fund.

Communications Manager Catherine Elvert explained that there is a comprehensive communications plan that includes reaching out to all stakeholders and communicating the value of the utility services as well as the reasons for the rate increases. She noted that many channels will be used for the communications.

Commissioner Hall asked how the drought impacts the wastewater and gas funds. Ratchye replied that the gas revenues have declined somewhat due to people reducing water use—including the use of hot water. Wastewater costs have increased as the concentration of constituents in the City sewage has increased due to the drought. In addition, some of the wastewater revenue is based on water usage for commercial customers and that revenue has declined while costs are fixed.

Commissioner Danaher noted that the rate increases will result in an increase of \$600 over two years for the average customers, which is not insignificant. He asked if we know the impact on low use customers. Ratchye responded that the Financial Plan will contain the impact on customers using different levels, but that this information isn't available at this time. He asked

if there are assistance programs for low income residents. Ratchye said that the City does offer financial assistance for electric and gas funds.

### Electric Fund

Acting Rates Manager Eric Keniston said that a 10% electric rate increase is required for Fiscal Year (FY) 2017. He said that additional information received since the preliminary projections were developed indicate that an even higher—possibly 12%—rate increase may be required. He said that a rate increase of 8% is projected for FY 2018. The last electric rate increase was implemented in July 2009 and the new cost of service analysis (COSA) is pointing to a higher increase for residential customers than for non-residential customers.

Keniston said that the primary driver for the cost increases are the drought over the last several years, which has used up most of the available reserves, and the increasing cost of renewable energy contracts coming on line over the forecast period as well as increasing transmission costs. The forecast calls for completing drawing down the Supply Rate Stabilization Reserve and Hydro Stabilization Reserve by FY 2018. With the preliminary rate projections, the supply Operations Reserve is near the minimum level for the next several years and the Distribution Operations Reserve is between the target and the minimum levels in FY 2017. Keniston stated that this year's rate increase projections of 10% and 9% for FY 2017 and FY 2018 are higher than last year's financial projections, which included rate increases of 6% per year for FY 2017 and FY 2018. The reason for the change is the ongoing drought conditions that have severely limited the availability of hydroelectric resources.

Keniston said that the uncertainties for the electric fund include how long the drought will last and CIP costs. In addition, the Electric Special Projects Reserve may be tapped for a second transmission line and smart grid projects.

The commissioners had no questions.

### Gas Fund

Keniston said that a 7% gas rate increase is planned for FY 2017 following by increases of 5% per year for the following several years. He said that transportation costs from PG&E are expected to double and CIP costs have increased. He noted that revenues have not covered costs in FY 2016 and that costs are expected to remain above revenues until FY 2021 by drawing down remaining funds in the Rate Stabilization Reserve by FY 2018. The Operations Reserve is expected to be at the target level for this fund throughout the forecast period. Keniston noted that the 7% rate increase for FY 2017 is exactly what was predicted last year. However, last year rate increases of 4% per year were anticipated in FY 2018 though FY 2020 instead of the 5% per year increases projected this year. Keniston noted that the Gas fund faces uncertainties including the extent to which sales volumes fall due to electrification. In addition, the cost for compliance with the cap-and-trade program are unclear after 2020.

Commissioner Schwartz asked if we have a take or pay contract for gas. Keniston replied that the City purchases all gas in the short-term markets and that gas commodity costs are passed on to the customers every month.

Commissioner Hall noted that it will be a communications challenge to explain the actual gas rate adjustment since commodity cost changes may make the actual rate increase seen by customers higher or lower than the stated rate change.

#### Wastewater Collection Fund

Keniston said that wastewater collection (sewer) rates are expected to increase by 9% in FY 2017 and 10% per year in FY 2018 and FY 2019. He said that updated projections for wastewater treatment costs and operations costs are higher than projected last year. Keniston noted that after a reprieve in FY 2014 when CIP costs fell so that staff could catch up with projects in the queue, revenues have not covered costs for several years. He said that the Operations Reserve was at the target level in FY 2016, but is projected to fall to just above the minimum level—but above the risk assessment level—by FY 2018. Keniston said that the 9% rate adjustment for FY 2017 is the same as what was predicted last year. However, the rate increases for FY 2018 and 2019 are higher than last year's projections of 9% per year.

Commissioner Schwartz said that she heard a news report on the issue regarding concentration of the constituents in sewage noting that this is not just an issue for Palo Alto, but many communities are dealing with the same issue and increased costs associated with sewage treatment.

Commissioner Hall asked when the treatment plant upgrade costs hit the sewer rates. He noted the need to be clear in communicating with the public about the ongoing cost increases.

Commissioner Eglash asked if the additional chemicals are part of treatment costs, or operational costs. He asked if the capital costs were for the treatment plant. Keniston explained that the operational and capital costs are for the Utilities wastewater collection system and the treatment cost category includes all costs that Utilities pays for treatment to the Regional Water Quality Control Plant (RWQCP). The treatment costs at the RWQCP do include capital and operating and maintenance costs for the operating the treatment plant.

Commissioner Ballantine warned against tying the rate increase to the drought too much since other costs are also driving up the rates. Ratchye clarified that the difference between this year and last year's rate adjustment is due to the drought, but the larger reason for the increases is due to the increasing treatment costs.

Commissioner Hall left meeting at the conclusion of the discussion of the Wastewater Collection Fund.

### Water Fund

Keniston stated that a 9% per year water rate increase is projected for FY 2017, FY 2018 and FY 2019. He indicated that staff plans to propose a small change to the rate structure by separating out the commodity portion of the rate similar to what is done with gas rates. This will enable the wholesale water rate from the San Francisco Public Utilities Commission (SFPUC) to pass through to customers. For FY 2017, there is no expected increase to the distribution components of the rate so that the entire rate increase is driven by increases in the cost of the water from the SFPUC. Keniston remarked that the final wholesale rate is not known until quite late in the rate development process—often as late as June—so separating the commodity part out will make for more ratemaking certainty. Keniston expects that the drought surcharge currently in place will need to continue.

Keniston said that water revenues were less than costs for FY 2015 and are expected to be lower than costs until FY 2019. This has resulted in the drawdown of available reserves including the Rate Stabilization Reserve and the Operations Reserve. Although the Operations Reserve is expected to be above the target level in FY 2016 and FY 2017, it is expected to dip below the target level until FY 2023.

Keniston noted that the 9% per year rate increases for FY 2017 through FY 2019 are slightly higher than the 8% per year increases projected in last year's financial plan. He said that the major reason for that is the higher cost for SFPUC water and continuing lowered sales volumes. Keniston indicated that the uncertainties for the Water Fund include CIP costs, the extent to which sales volumes increase after the drought is over, seismic rehabilitation work that may be required in the foothills pipeline used to access some of the City's stored water and other impending costs that are forecast for the SFPUC's regional water system.

Commissioner Schwartz said that the water costs more, not that it costs the same since customers are using less. She noted that this concept is difficult to explain, but that it is important for the overall communication plan.

Commissioner Eglash asked if staff has any indication of what the changes to the water rates will be and whether there would be a change to rate structure itself. Ratchye said that staff will rely on the cost of service study completed last year, which is compliant with the cost of service requirements of Proposition 218, and that a major adjustment to the rate structure or the tiered rates is not anticipated. She said that the actual rate proposals for both water and wastewater collection will be presented next month with the long-term financial plans for both funds.

### Overall

Keniston restated the overall preliminary rate projections for all funds for FY 2017: 10% electric rate increase, 7% gas rate increase, 9% wastewater collection rate increase, and 9% water rate increase. He said that with refuse rates increasing in FY 2017 by 9% and storm drain fees rising by 2-3%, the overall FY 2017 bill increase for the median resident is about \$23.25 per month. Keniston stated that the UAC and the Finance Committee will review the Water and

Wastewater Collection Financial Plans and proposed rates for implementation on July 1, 2017 in March and April, respectively. The Proposition 218 notification process for the water and wastewater rate changes will be sent to customers in April. The Gas and Electric Financial Plans and proposed rate adjustments will be reviewed by the UAC and Finance Committee in April and May, respectively. Council will consider the rate proposals and Financial Plans with the budget process in June.

Commissioner Eglash asked what the rate adjustments would be in FY 2017 if all the reserves were limited to the minimum levels. Keniston noted that the gas rate increase could come down a bit since there is some room in the gas reserves, but he hasn't done that analysis yet. Commissioner Eglash said that he sees a bit of wiggle room in gas and wastewater funds and, since it is a large impact, it would be best to know the minimum rate increases required. He said that the UAC may not support such a plan as that, but that having the information about those limits would be helpful. He added that it would be helpful to know the rate trajectory if all the financial reserves for each fund were to be at the target levels, too. This will provide context and more information when the UAC is faced with making recommendations on rate increases at its next two meetings.

Vice Chair Cook said that no one likes rate increases, but we want to maintain reliable and safe utility services. He said that the City needs to balance rate increases with running the utility well.