



# City of Palo Alto

## Utilities Advisory Commission Staff Report

(ID # 13878)



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**Meeting Date: 2/2/2022**

**Title: Informational Update on Utilities' Quarterly Financial Report for Q4 of Fiscal Year 2021**

**From: Director of Utilities**

**Lead Department: Utilities**

### **Recommendation**

This report is for information only. No action is required.

### **Executive Summary**

Attached are the Q4 Fiscal Year (FY) 2021 financial results for the City's electric, gas, wastewater, water, and fiber utilities (Attachment A). This report on the utility financial positions is released when the City closes its accounting books for the quarter, which occurs after income and expenses are reconciled.

Items of special interest in this report are summarized below:

### **Electric Utility**

Sales were higher than projected, though lower than pre-pandemic sales levels. Expenses were higher than projected due to poor hydroelectric conditions. Electric Reserves were barely within guideline ranges at year end FY 2021, so a planned \$1 million repayment to the Electric Special Projects fund was deferred.

### **Gas Utility**

Sales were lower than projected in the FY 2021 Financial Plan, and expenses for the year were significantly lower. The Gas Operations Reserve was near the target level at the end of FY 2021. In addition, \$2.3 million was moved to a Cap and Trade reserve to separate it from the Operations Reserves. The Gas Utility CIP Re-appropriation and Commitment Reserves totaled \$7.1 million at the end of Q4 FY 2021.

### **Water Utility**

Water Operations Reserves were above the guideline range at year end FY 2021. Sales and revenue were higher than projected in the FY 2021 Financial Plan. Transfers from the Operations Reserve to other reserves to fund CIP projects are expected to reduce the Operations Reserve to within the guideline range by the end of FY 2023.

**Wastewater Collection Utility**

Wastewater revenues were 7.6% lower than projected in the FY 2021 Financial Plan due to the effects of the pandemic. Expenses were lower due to deferred CIP spending and lower than forecasted treatment costs. The Wastewater Collection Operations Reserve was within the guideline range at the beginning and end of FY 2021.

**Fiber Optic Utility**

Fiber revenues were \$1.4 million lower than projected in the FY 2021 budget. The Fiber Network Rebuild CIP project has been placed on hold pending results of the engineering designs by Magellan. The Fiber Optic Utility Rate Stabilization Reserve was \$33.3 million at the end of FY 2021.

**Attachments:**

- Attachment A: Utilities Financial Report FY21-Q4

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# Utilities Quarterly Financial Update

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Fourth Quarter of Fiscal  
Year 2021

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February 2022

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Quarterly Update for Fourth Quarter of FY 2021  
February 2022

Utilities Quarterly Update  
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## **Utility Financial Summary**

This section describes the unaudited actual financial results for FY 2021 for all Utilities funds. The Council-adopted long-term [Financial Plans](#) for the Electric, Gas, and Water Funds and the [Financial Plan](#) for the Wastewater Collection Fund for FY 2021 – FY 2022 during the budget review process.

### **Electric Utility Overview**

Sales for the Electric Utility in FY 2021 were 6.2% higher than forecasted in the FY 2021 Financial Plan, which had been revised steeply downward in anticipation of deeper COVID impacts. Sales revenues were higher by \$4.9 million, or 3.9%. The difference between unit sales and revenues lies in Covid-related customer class shifts, with residential now forming a larger share of sales than before. Other revenues were lower than projected by \$3.3 million, with the main factors being lower than projected interest income and service connection fees. Overall expenses were about \$10 million, or 6.1% higher than forecasted in the FY 2021 Financial Plan. This was mainly due to increases in electric supply purchase costs resulting from both higher sales but poorer hydro conditions.

The Electric Operations Reserves were within guideline ranges at the end of FY 2021, but only \$3.9 million above minimum. Because of this, and with Council approval via the FY 2022 Financial Plan, staff deferred the projected \$1 million repayment of a 2018 short term \$10 million loan from the Electric Special Projects (ESP) reserve (\$5 million outstanding). Staff had also chosen to move \$4 million to the Hydro Stabilization Reserve in preparation for continued dry conditions continuing into FY 2022 and beyond. In accordance with prior staff and Council-approved direction, staff also moved \$6.9 million and \$1.2 million to the Low Carbon Fuel Standard and Cap and Trade Reserves, respectively.

The Electric Utility CIP Reappropriation and Commitment Reserves totaled a projected \$12.5 million at the end of Q4 FY 2021.

### **Gas Utility Overview**

Sales for the Gas Utility in FY 2021 were 6.7% lower than originally forecast in the FY 2021 Financial Plan. These lower sales translated to about \$400k in lower distribution revenues. While there were about \$375k in lower commodity purchase costs, mainly related to transportation, these costs as well as the rest of the commodity components are mostly passed through directly on customer bills, and variations from budget do not have dramatic reserve effects. Other revenues were \$171k lower than projected in the FY 2021 plan. On the expense side, costs beyond purchases were \$1.8 million lower, primarily the result of lower than projected transfers out, rent, and general operations and maintenance expenses.

The Gas Operations Reserve was near the target level at the end of FY 2021. In addition, staff moved \$2.3 million to a Cap and Trade reserve to separate it from the Operations Reserves. This was done as these funds are restricted in purpose for carbon reduction efforts per AB 32. The Gas Utility CIP Re-appropriation and Commitment Reserves totaled \$7.1 million at the end of Q4 FY 2021.

### **Water Utility Overview**

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Water sales volume in FY 2021 was 9.6% higher than forecasted in the FY 2021 Financial Plan. Sales revenue was correspondingly 9.1% higher than forecasted in the FY 2021 Financial Plan. This is in part because the water sales decreases forecasted in the FY 2021 Financial Plan and related economic impacts, which were made in light of the COVID-19 pandemic, did not materialize and because of continued dry weather conditions. However, overall FY 2021 revenue was only 3.9% higher than projected in the FY 2021 Financial Plan due to lower interest income and other revenue. Water purchase costs were 4.5% higher than forecasted due to the higher water sales relative to forecasted levels. Water purchase costs were not as high as expected based on sales volumes. This results from a meter calibration and measurement issue with SFPUC's turnout meters. The issue was resolved as of November 2020. Operating expenses other than water purchases and CIP were 5% higher than forecasted as salary and benefit costs rose faster than anticipated. However, overall expenses were 2.2% lower than forecasted due to lower CIP costs in FY 2021.

The Water Operations Reserve was above the reserve guideline levels at the beginning of FY 2021 and Table 2 below illustrates the reserve remaining above the maximum at year end FY 2021. Council approved up to an \$8 million transfer from the Operations Reserve to the CIP Reserve in FY 2021 to fund ongoing CIP work. However, a transfer of \$4.98 million was completed to bring the CIP Reserve to the maximum guideline level. Capital funding needs were lower than anticipated in FY 2021 as ongoing work continued into FY 2022 on a reservoir replacement. Council approved an additional \$13.24 million in transfers from the Operations Reserve to the CIP Reserve in FY 2022 to fund ongoing main replacements (WMR 28 is planned in FY 2022), as well as one-time seismic reservoir upgrades (one upgrade is ongoing and a second is planned for FY 2023). These transfers together with expected revenues and expenses are projected to bring the Operations Reserve to approximately target levels by the end of FY 2023. The need for further transfers will be re-evaluated at the end of FY 2022 when the year-end reserve balances are known.

Approximately \$10 million in projects budgeted in FY 2021 or earlier were re-appropriated or encumbered to FY 2022, the largest being seismic water system upgrades, estimated at \$6 million.

**Wastewater Collection Utility Overview**

Wastewater revenues for FY 2021 were 7.6% lower than forecasted in the FY 2021 Financial Forecast. This is in part due to expected reductions in non-residential sewer usage due to the impacts of the COVID-19 pandemic and also because of updated reduced projections from connection and capacity fees and interest income. Wastewater expenses were 3.4% lower than projected in the FY 2021 Financial Forecast. This was primarily because treatment costs were \$1.6 million, or 14% lower than forecasted in the FY 2021 Financial Forecast even though wastewater collection operations costs such as salaries and benefits increased. The expense comparison in Table 1 includes the \$2.2 million transfer from the Operations Reserve to the Capital Reserve in the actual expenses for FY 2021.

The Wastewater Collection CIP Reappropriation and Commitment Reserves totaled \$0.83 million at the end of FY 2021. This amount together with the CIP Reserve will be used for capital work in FY 2022 and future years. Sanitary Sewer Main Replacement 30 is planned for FY 2022 with a total cost of \$4.5 million. The Wastewater Collection Operations Reserve was within the guideline range at the beginning and end of FY 2021.

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**Fiber Optic Utility Overview**

Fiber revenues for FY 2021 were 24% or \$1.4 million lower than forecasted in the FY 2021 budget. Due to impacts of the pandemic, several businesses have either closed or consolidated their offices. In addition, one of the City's few remaining EDF-1 promotional rate customers converted to the EDF-3 rate which results in a decrease of \$280,000 of annual fiber leasing revenue. Other revenues were lower than projected by \$0.6 million due to lower than projected interest income and service connection fees. Fiber expenses were 17.3% or \$1.0 million lower than forecast which partially offsets the revenue decrease in FY 2021. The Fiber Network Rebuild CIP project has been placed on hold pending completion of Magellan Advisors' detailed fiber network expansion design for the City's fiber backbone and fiber-to-the-home (FTTH). The new proposed fiber backbone will provide high capacity fiber to City departments (Utilities, Public Works, Office of Emergency Services, Transportation, Information Technology, and Community Services). The backbone will be routed through neighborhoods and business districts and serve as a springboard to FTTH. The ending FY 2021 Fiber Optic Utility Rate Stabilization Reserve is \$33.3 million. In FY 2021, \$2.4 million was encumbered for the Magellan contract to complete the network engineering designs for the City backbone and FTTH, community engagement, and updated FTTH business plan.

**Quarterly Update for Fourth Quarter of FY 2021  
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**Table 1: Utilities Financials, FY 2021 Actuals**

	<b>Sales Volumes</b>	<b>Revenue \$ ,000</b>	<b>Expense \$ ,000</b>	<b>Net Reserve Change \$ ,000</b>
<b>Electric Utility</b>				
FY 2021 Financial Plan	766,625 MWh	163,139	(167,097)	(3,958)
FY 2021 Actuals	813,881 MWh	164,673	(177,343)	(12,669)
Change from Financial Plan	47,256 MWh 6.2%	1,534 0.9%	(10,245) 6.1%	(8,711)
<b>Gas Utility</b>				
FY 2021 Financial Plan	27,411,000 Therms	39,108	(45,176)	(6,068)
FY 2021 Actuals	25,578,000 Therms	39,675	(43,008)	(3,333)
Change from Financial Plan	(1,833,000 Therms) (6.7%)	567 1.5%	2,168 (4.8%)	2,735
<b>Water Utility</b>				
FY 2021 Financial Plan	4,355,000 CCF	48,832	(48,270)	562
FY 2021 Actuals	4,771,000 CCF	50,728	(47,189)	3,540
Change from Financial Plan	416,000 CCF 9.6%	1,896 3.9%	1,081 (2.2%)	2,978
<b>Wastewater Collection Utility</b>				
FY 2021 Financial Plan	N/A	22,462	(20,560)	1,902
FY 2021 Actuals	N/A	20,765	(19,848)	917
Change from Financial Plan	N/A	(1,697) (7.6%)	712 (3.4%)	(985)
<b>Fiber Optic Utility</b>				
FY 2021 Financial Plan	N/A	4,990	(4,345)	825
FY 2021 Actuals	N/A	4,201	(2,712)	1,489
Changes from Financial Plan	N/A	(789) (15.8%)	1,453 (34.9%)	664

**Table 2: Operations Reserves, FY 2021 (\$ ,000)**

	<b>Electric</b>	<b>Gas</b>	<b>Water</b>	<b>Wastewater Collection</b>	<b>Fiber*</b>
<b>FY 2021 Beginning</b>	38,538	13,450	19,841	5,661	33,065
<b>FY 2021 Changes</b>	(8,635)	1,469	932	917	278
<b>FY 2021 Ending (Actual)</b>	29,903	14,919	20,773	6,578	33,343
<b>Reserve Minimum</b>	26,970	8,000	9,400	3,900	700
<b>Reserve Maximum</b>	50,145	16,000	18,900	9,800	1,400

\* For Fiber Optics, the Reserve is the Rate Stabilization (not the Operations) Reserve



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**Residential Bill Comparisons**

**Table 3: Residential Electric Bill Comparison (\$/month)**

As of August 2021					
Season	Usage (KWh/mo)	Palo Alto	PG&E	Santa Clara	Roseville
Summer (May - Oct)	300	\$41.27	\$80.42	\$38.08	\$56.58
	365 (Median)	52.18	101.71	46.63	63.21
	650	107.37	195.05	84.12	99.82
	1200	213.89	375.18	156.48	183.61

**Table 4: Residential Natural Gas Bill Comparison (\$/month)**

As of July 2021				
Season	Usage (therms per month)	Palo Alto	Menlo Park, Redwood City, Mountain View, Los Altos, and Santa Clara (PG&E Zone X)	Roseville (PG&E Zone S)
Summer (June - Oct)	15	\$29.20	\$21.92	\$23.33
	18(Median)	32.86	27.66	29.16
	30	55.19	50.99	52.48
	45	85.85	80.14	81.64

**Table 5: Residential Water Bill Comparison (\$/month)**

As of July 2021						
Usage CCF/month	Palo Alto	Menlo Park	Redwood City	Mountain View	Santa Clara	Hayward
4	\$46.89	\$50.83	\$54.04	\$38.80	\$26.76	\$39.20
(Winter median) 7	70.28	73.43	76.09	60.07	46.83	60.62
(Annual median) 9	90.42	88.49	90.79	74.25	60.21	74.90
(Summer median) 14	140.77	129.34	138.94	109.70	93.66	112.51
25	251.54	229.75	267.39	230.19	167.25	205.02

Based on the FY 2013 BAWSCA survey, the fraction of SFPUC as the source of potable water supply was 100% for Palo Alto, 95% for Menlo Park, 100% for Redwood City, 87% for Mountain View, 10% for Santa Clara and 100% for Hayward.

**Table 6: Residential Wastewater Collection (Sewer) Bill Comparison (\$/month)**

As of July 2021						
Palo Alto	Menlo Park	Redwood City	Mountain View	Los Altos	Santa Clara	Hayward
\$41.37	\$104.58	\$89.28	\$46.40	\$40.83	\$44.53	\$35.81

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**Table 7: Median Residential Overall Bill Comparison (\$/month)**

As of July 2021						
Utility and Usage	Palo Alto	Menlo Park	Redwood City	Mountain View	Santa Clara	Hayward
Electricity (365 kWh/mo)	\$52.18	\$101.71	\$101.71	\$101.71	\$46.63	\$101.71
Gas (18 th/mo)	32.86	27.66	27.66	27.66	27.66	27.66
Water (9 CCF/mo)	90.42	88.49	90.79	74.25	60.21	74.90
Wastewater	41.37	104.58	89.28	46.40	44.53	35.81
TOTAL	216.83	322.44	309.44	250.02	179.03	240.08

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**Table 8: FY 2021 Q4 Utility Fund Reserve Report ('000)**

	Beginning Reserve Balance as of 7/01/20 FY 2021	Changes to Reserves Summary ASD	Current Projected Reserve Balance as of 6/30/2021 FY 2021
<b>Electricity</b>			
Supply/Dist Operations	\$ 38,538	\$ (8,635)	\$ 29,903
CIP Reappro/Commit	9,521	2,948	12,469
Hydro Stabilization	15,400		15,400
CIP Reserve	5,880	(5,000)	880
Rate Stabilization	-		-
Public Benefit	1,905	1,123	3,028
ESP	46,665		46,665
Cap & Trade	-	1,189	1,189
GASB 68 Pension Rsrv	(33,747)	(466)	(34,213)
GASB 75 OPEB Rsrv	(13,741)	508	(13,233)
All Others	13,161	(768)	12,393
Net Capital Investment	205,613	4,238	209,851
<b>Total</b>	<b>\$ 289,195</b>	<b>\$ (4,863)</b>	<b>\$ 284,332</b>
<b>Gas</b>			
Operations Reserve	\$ 13,450	\$ (1,469)	\$ 11,981
CIP Reserve	3,820		3,820
Rate Stabilization	8,420	(5,654)	2,766
Cap & Trade	-	4,542	4,542
CIP Reappro/Commit.	1,614	5,498	7,112
GASB 68 Pension Rsrv	(14,851)	59	(14,792)
GASB 75 OPEB Rsrv	(6,058)	209	(5,849)
All Others	2,918	(444)	2,474
Net Capital Investment	106,659	781	107,440
<b>Total</b>	<b>\$ 115,972</b>	<b>\$ 3,522</b>	<b>\$ 119,494</b>
<b>Water</b>			
Operations Reserve	\$ 19,841	\$ 932	\$ 20,773
CIP Reserve	5,726	4,981	10,707
Rate Stabilization	9,069		9,069
CIP Reappro/Commit.	11,036	(889)	10,147
GASB 68 Pension Rsrv	(14,114)	(29)	(14,143)
GASB 75 OPEB Rsrv	(4,215)	161	(4,054)
All Others	4,122	(731)	3,391
Net Capital Investment	103,463	2,213	105,676
<b>Total</b>	<b>\$ 134,928</b>	<b>\$ 6,638</b>	<b>\$ 141,566</b>
<b>Fiber Optic</b>			
Rate Stabilization	\$ 33,065	\$ 278	\$ 33,343
CIP Reappro/Commit.	1,011	1,044	2,055
GASB 68 Pension Rsrv	(2,154)	(84)	(2,238)
GASB 75 OPEB Rsrv	-	(1)	(1)
All Others	1,057	275	1,332
Net Capital Investment	9,333	(23)	9,310
<b>Total</b>	<b>\$ 42,312</b>	<b>\$ 1,489</b>	<b>\$ 43,801</b>
<b>WasteWater Collection</b>			
Operations Reserve	\$ 5,661	\$ 917	\$ 6,578
CIP Reserve	978	2,200	3,178
Rate Stabilization	342		342
CIP Reappro/Commit.	4,775	(3,945)	830
GASB 68 Pension Rsrv	(8,319)	(49)	(8,368)
GASB 75 OPEB Rsrv	(2,316)	80	(2,236)
All Others	132	296	428
Net Capital Investment	91,410	1,229	92,639
<b>Total</b>	<b>\$ 92,663</b>	<b>\$ 728</b>	<b>\$ 93,391</b>