



FINANCE COMMITTEE
Tuesday, February 1, 2022
Special Meeting
Virtual Meeting
6:00 PM

*****BY VIRTUAL TELECONFERENCE ONLY*****

[Click to Join](#) **Zoom Meeting ID: 992-2730-7235 Phone: 1(669)900-6833**

Pursuant to [AB 361](#), to prevent the spread of Covid-19, this meeting will be held by virtual teleconference only, with no physical location. The meeting will be broadcast on Midpen Media Center at <https://midpenmedia.org>. Members of the public who wish to participate by computer or phone can find the instructions at the end of this agenda. Members of the public may speak to agenda items; up to three minutes per speaker, to be determined by the presiding officer. All requests to speak will be taken until 5 minutes after the staff's presentation. Public comment may be addressed to the full Finance Committee via email at City.Council@cityofpaloalto.org and available for inspection on the City's website. Please clearly indicate which agenda item you are referencing in your email subject line.

CALL TO ORDER

ORAL COMMUNICATION

Members of the public may speak to any item NOT on the agenda.

ACTION ITEMS

1. Preliminary Rate Projections for Electric, Gas, Water and Wastewater Collection Utilities for Fiscal Year 2023, and Recommendation That Finance Committee Recommend Council Adopt a Resolution Amending Electric Rate Schedule E-HRA (Electric Hydro Rate Adjuster)

[Presentation](#)

FUTURE MEETINGS AND AGENDAS

ADJOURNMENT

PUBLIC COMMENT INSTRUCTIONS

Members of the Public may provide public comments to virtual meetings via email, teleconference, or by phone.

1. **Written public comments** may be submitted by email to city.council@cityofpaloalto.org.
2. **Spoken public comments using a computer or smart phone** will be accepted through the teleconference meeting. To address the Council, click on the link below to access a Zoom-based meeting. Please read the following instructions carefully.
 - You may download the Zoom client or connect to the meeting in- browser. If using your browser, make sure you are using a current, up-to-date browser: Chrome 30+, Firefox 27+, Microsoft Edge 12+, Safari 7+. Certain functionality may be disabled in older browsers including Internet Explorer. Or download the Zoom application onto your phone from the Apple App Store or Google Play Store and enter the Meeting ID below
 - You may be asked to enter an email address and name. We request that you identify yourself by name as this will be visible online and will be used to notify you that it is your turn to speak.
 - When you wish to speak on an Agenda Item, click on "raise hand." The Clerk will activate and unmute speakers in turn. Speakers will be notified shortly before they are called to speak.
 - When called, please limit your remarks to the time limit allotted.
 - A timer will be shown on the computer to help keep track of your comments.
3. **Spoken public comments using a phone** use the telephone number listed below. When you wish to speak on an agenda item hit *9 on your phone so we know that you wish to speak. You will be asked to provide your first and last name before addressing the Council. You will be advised how long you have to speak. When called please limit your remarks to the agenda item and time limit allotted.

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AMERICANS WITH DISABILITY ACT (ADA)

Persons with disabilities who require auxiliary aids or services in using City facilities, services or programs or who would like information on the City's compliance with the Americans with Disabilities Act (ADA) of 1990, may contact (650) 329-2550 (Voice) 48 hours or more in advance.



City of Palo Alto

Finance Committee Staff Report

(ID # 13839)

Meeting Date: 2/1/2022

Title: Preliminary Rate Projections for Electric, Gas, Water and Wastewater Collection Utilities for Fiscal Year 2023, and Recommendation That Finance Committee Recommend Council Adopt a Resolution Amending Electric Rate Schedule E-HRA (Electric Hydro Rate Adjuster)

From: City Manager

Lead Department: Utilities

Executive Summary

At the meeting staff will provide a presentation describing staff's preliminary rate projections for the Electric, Gas, Water and Wastewater Collection utilities. A similar presentation was provided to the Utilities Advisory Commission (UAC) at its December 1, 2021 meeting.

The preliminary retail rate forecast over the next five fiscal years is shown in the table below, along with the overall impact to the median residential bill. The rate changes shown are preliminary estimates. Actual rate changes will be based on updated financial data and the cost-of-service analyses (COSAs) for each utility and may differ by customer class and for individual customers depending on consumption patterns. COSAs were completed for Wastewater Collection in 2021, for Water and Gas in 2019, and for Electric in 2016.

Table 1: Projected Residential Rate Changes

	FY 2022 (Took effect July 1, 2021)	FY 2023 (Proposed for July 1, 2022)	FY 2024	FY 2025	FY 2026	FY 2027
Electric Utility	\$0.00 0%	\$2.90 5%	\$3.00 5%	\$3.20 5%	\$3.30 5%	\$3.50 5%
Gas Utility *	\$1.60 3%	\$2.60 4%	\$2.70 4%	\$2.80 4%	\$3.00 4%	\$2.30 3%
Wastewater	\$2.00 3%	\$1.30 3%	\$2.20 5%	\$2.30 5%	\$2.50 5%	\$2.60 5%
Water Utility	\$0.00 0%	\$3.60 4%	\$3.80 4%	\$4.90 5%	\$5.10 5%	\$4.30 4%
Refuse	\$0.00 0%	\$0.00 0%	\$1.50 3%	\$1.50 3%	\$1.60 3%	\$1.60 3%
Storm Drain **	\$0.30 3%	\$0.60 4%	\$0.40 3%	\$0.40 3%	\$0.40 3%	\$0.40 3%
Monthly Bill Change ***	\$3.90 1%	\$11.00 3%	\$13.60 4%	\$15.10 4%	\$15.90 4%	\$14.70 4%

* Gas rate changes shown with commodity rates held constant. Actual gas commodity rates vary monthly.

** Storm Drain fees increase by CPI index annually per approved 2017 ballot measure.

*** Based on and FY 2022 monthly bill of \$332.75

In an effort to provide financial assistance to Palo Alto's residents and businesses during the pandemic, the City has either kept rates flat or minimized rate increases for the past several years (FY 2021 and FY 2022). Utilities drew down reserves and deferring some capital improvement to avoid raising rates in prior years. As shown in Table 1, staff's preliminary rate increase recommendations are a 5% increase in the system average electric rate, 4% increases in gas and water rates, a 3% wastewater collection rate increase, and a 4.2% storm drain rate increase (based on December CPI). These rate adjustments will address increasing commodity costs and enable the continuation of capital investment in these systems.

Staff also recommends activating the E-HRA Electric Hydro Rate Adjuster (E-HRA) surcharge and making changes to the E-HRA schedule, to broaden the potential activation of the rate and help lower longer-term average rates, as well as maintain general reserve health. The Hydro Stabilization Reserve is used to stabilize electric rates when hydrological conditions are either poor, as is currently the case, or exceptionally good. Staff projects that if the E-HRA surcharge is not activated by April 2022, an 8% electric rate increase will likely be needed for FY 2023. Based on current hydrological conditions the E-HRA surcharge will most likely need to be activated for FY 2023 anyway. In either case (E-HRA surcharge applied in April 2022, or in FY 2023), the Hydro Stabilization Reserve is projected to be fully utilized and fall below the guideline level by the end of FY 2022. The proposed changes to the criteria for activation include an evaluation of projected as well as current Hydro Stabilization Reserve levels.

Based on these preliminary rate increase projections, FY 2023 Operations reserve levels are projected to remain within guideline levels with this proposal. Staff will continue to monitor customer consumption patterns and refine operating and capital cost projections over the coming months to determine whether any adjustment from this preliminary forecast is needed.

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, 2022. The proposed rate adjustment recommendations, along with each utility's Financial Plans, are scheduled to be presented to the Finance Committee in March 2022.

Background

Annually 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. Before providing recommended Financial Plans and rate changes, staff typically presents a preliminary forecast to get early feedback.

The current year (FY 2022) financial plan for the Electric utility (approved June 21, 2021) is available at: <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/2021/id-12240.pdf>

The current year (FY 2022) financial plan for the Gas utility (approved June 21, 2021) is available at: <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/2021/id-12240.pdf>

The current year (FY 2022) financial plan for the Water utility (approved June 21, 2021) is available at:

<https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/attachments/06-21-2021-id-12240-attachment-d1-fy-22-water-utility-financial-plan.pdf>

The most recent (FY 2022) financial plan for the Wastewater Collection utility (approved August 9, 2021) is available at:

<https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/attachments/08-09-2021-id-12378-att-c-fy22-wastewater-collection-utility-financial-plan.pdf>

Discussion

Rates Discussion

Electric Rates

Costs for electric supply purchases are projected to increase sharply during FY 2022 and FY 2023 as persistent drought conditions have reduced the amount of less expensive hydroelectric power available to Palo Alto, resulting in a need for more costly market purchases. Increases in

statewide transmission costs are also occurring as access is expanded to new renewable resources.

Capital spending and distribution system maintenance spending is also projected to increase over the next few years. Several critical infrastructure projects are anticipated within the next five years, including improvements to the overhead lines in and around Foothills park (EL-21001), replacement of aging utility poles throughout the City (EL-19004), and substation and general system improvements. Staffing shortages have prevented the electric utility from performing the scheduled levels of capital improvement and distribution system work, so contractors are performing these functions until full staffing can be reached. As such, operational and capital costs are projected to increase substantially over the forecast horizon until the utility can achieve its targeted staffing levels and capital and maintenance spending levels.

Electric loads have decreased approximately 10 percent as a result of the COVID pandemic, with most of the decrease occurring in the commercial customer sector. Staff has incorporated this into the load forecast as well as the costs of possible customer bill defaults, which have increased since the pandemic began. FY 2021 ending reserve levels for the Electric fund were lower than expected, and rate increases are required to keep reserves within minimum guideline levels.

Although the 2021-2022 water year is off to a very strong start (with the large volumes of rain and snow that California received in October and December 2021, cumulative precipitation totals in Northern and Central California are about 40% above average for this time of year, as of mid-January 2022), a lot more precipitation is needed to recover from the past several years of drought. Reservoir levels remain somewhat low – across Northern and Central California, most reservoirs are now about 30-40% full, which is about 50-75% of their average level for this point in time.

As a result, Palo Alto's hydroelectric projections for FY 2022 remain fairly low. Combined, these resources are only projected to produce around 310 GWh this fiscal year, which is about 38% of the City's total load and about 35% below the long-term average level of hydro output. If precipitation levels had been normal over the past several years, instead of incredibly dry, the strong start to this water year would likely have boosted the City's FY 2022 hydro projections to well over 500 GWh. This lost output – the direct result of several dry years depleting reservoirs and drying up groundwater supplies – will result in a supply cost impact of \$8-\$10 million for the City in FY 2022.

Staff is proposing broadening the E-HRA activation criteria and rate implementation during the final quarter of FY 2022 and continuing while poor hydro conditions and low Hydro Stabilization Reserve levels persist.

The E-HRA and the Hydro Stabilization Reserves are intended to be used to stabilize electric

rates when hydrological conditions are poor, as is currently the case, or exceptionally good. If the E-HRA surcharge is activated, E-HRA revenues will be used to fund the costs of providing electric service, resulting in annual electric rate increases of 5% during the forecast horizon. The alternative to activating the E-HRA surcharge is an 8% electric rate increase in FY 2023, a 7% increase in FY 2024 and a 6% increase in FY 2025, with 5% increases thereafter. Even in the alternative case, based on current hydro conditions, it is likely the E-HRA rate would need to be activated in FY 2023 anyway. Both scenarios fully draw down the Hydro Stabilization Reserve to help maintain Operations reserve health.

Activation of the E-HRA rate creates either a temporary 4% rate increase (at the \$0.0065/kWh level) or an 8% increase (at the \$0.013/kWh level). Based on projected current hydro conditions of 310 GWh/year, activation of the rate at the \$0.013/kWh rate is indicated. If this rate were activated as of March 2022, the Electric fund would gain additional revenues of approximately \$3.35 million in FY 2022 to help mitigate escalating supply purchase costs. If the E-HRA rate were to remain active in FY 2023, additional short-term revenues are estimated at \$5.25 million or \$10.25 million, depending on if the low or high surcharge were warranted. These revenues are considered short-term in that they are added on top of the regular customer rates, and can be discontinued quickly based on hydro conditions and projected Hydro Stabilization reserve balances.

Gas Rates

About 40% of gas fund expenses are for supply and about 60% are for distribution and capital. Most of the supply costs are pass-through charges on customers' bills that change monthly according to market conditions.

Staff is currently projecting a preliminary rate increase of 4%. The long-term gas rate increases shown in Table 1 will fund gas distribution system and capital improvements. Between FY 2018 and FY 2020 rates were steady because capital spending was low. Now that regularly scheduled main replacement has resumed with a large main replacement project planned for every other year, rate increases are necessary. In addition, construction costs have risen significantly.

Gas consumption during the COVID-19 pandemic has been around 10% lower compared to the period before the pandemic. This decrease in load is accounted for in the load forecast.

Water Rates

In FY 2021, revenues were higher than expected in the FY 2022 financial plan due to increased water sales during months impacted by the COVID-19 pandemic. Additionally, capital project expenses were lower than forecasted due to ongoing work on a reservoir replacement that is expected to be completed in FY 2022 instead of FY 2021. The increased revenue together with delays in capital spending resulted in a larger than expected ending reserve in FY 2021, which is expected to decrease as the reservoir replacement and scheduled water main replacement are completed in FY 2022 and additional reservoir seismic upgrades are scheduled in FY 2023.

Staff projects that a 4% rate increase is needed in FY 2023, due to the following conditions:

- 1) Drought conditions are ongoing; San Francisco Public Utilities Commission (SFPUC), the City's water supplier, declared a drought emergency on November 23, 2021. SFPUC's emergency declaration includes a 10% voluntary water use reduction system-wide for the Regional Water System from the FY 2019-2020 baseline demand. Since July 2021, Palo Alto customers have been conserving water in line with this request and staff expects that customers will continue to meet the voluntary water conservation levels. The rate forecast includes reduced water sales through July 2023.
- 2) SFPUC's latest available estimate forecasts a 5.4% increase in wholesale water rates. SFPUC also stated in November 2021 that the wholesale rate increase in July of 2022 would be higher than previously projected to achieve revenue stability; SFPUC is expected to issue a revised rate estimate in February 2022. SFPUC's rate increase will be passed through to Palo Alto water utility customers.

The alternate scenario provided assumes drought conditions continue and worsen, requiring 20% mandatory cutbacks beginning July 2022. A 5% overall water rate increase will be needed in FY 2023 under this alternate scenario.

Wastewater Collection Rates

Costs are projected to rise over the next several years due primarily to increasing treatment costs related to capital improvements costs and associated debt service at the Regional Water Quality Control Plant (RWQCP). Collection system CIP work is also increasing, but at a lower rate. Operations and maintenance costs for both Treatment and Collections are expected to increase between 2-4% annually for the duration of the forecast period.

Staff projects a 3% rate increase is needed in FY 2023 and 5% for the rest of the forecast period. The RWQCP has planned a series of large increases in treatment costs during the next five years to address aging infrastructure at the treatment plant and ongoing collection system infrastructure replacement needs. To mitigate the rate impacts, in FY 2022 staff decreased the size of each of the upcoming sanitary sewer replacement projects and deferred two upcoming sewer replacement projects. This preliminary rate projection includes those same reductions and deferrals.

Hydro Rate Adjuster Amendment Discussion

In 2018, Council adopted the E-HRA mechanism ([CMR 8962](#)) to manage the financial impacts of the annual variability in production of the City's hydroelectric resources and to allow the City to maintain a lower target level for its Hydro Rate Stabilization Reserve. Staff designed an E-HRA to maintain hydro rate stabilization reserve levels within a range (\$3 million to \$35 million) at least 80% of the time, based on historical hydro generation conditions. This balances the goal

of managing hydro variability using a combination of reserves and a rate adjuster while minimizing swings in customer rates. To date, the E-HRA has not been activated.

Activation of the E-HRA is based on staff's evaluation of hydro generation availability and the Hydro Rate Stabilization Reserve level. When the Hydro Stabilization Reserve falls below 25% of maximum (\$11 million), and hydro generation is projected to be below normal through the end of the current fiscal year, an electric rate surcharge will be applied:

- If hydro is projected to be between 319 and 480 GWh/year, the surcharge will be \$0.0065/kWh;
- If hydro is projected to be below 319 GWh/year, the surcharge will be \$0.013/kWh.

If the Hydro Stabilization Reserve goes above 75% of maximum (\$27 million), and projected hydro generation is projected to be above normal through the end of the current fiscal year, an electric rate discount will be applied:

- If hydro is projected to be between 480 and 642 GWh/year, the discount will be \$(0.0065)/kWh;
- If hydro is projected to be above 642 GWh/year, the discount will be \$(0.013)/kWh.

If the Hydro Stabilization Reserve goes above maximum (\$35 million), and projected hydro generation is projected to be above normal through the end of the current fiscal year, an electric rate discount will also be applied:

- If hydro is projected to be between 319 and 642 GWh/year, the discount will be \$(0.0065)/kWh;
- If hydro is projected to be above 642 GWh/year, the discount will be \$(0.018)/kWh

While current hydro generation is only projected to be about 310 GWh/year, the Hydro Stabilization Reserve level is currently \$15.4M, so conditions have not technically been met to activate the E-HRA surcharge according to Council's previously-approved criteria. However, the utility's financial projections, including drought impacts, indicate activation of the E-HRA surcharge this spring will mitigate higher supply costs. Thus, staff recommends E-HRA surcharge activation by the fourth quarter of FY 2022 as a financially responsible means to manage costs and keep long-term electric rate increases lower.

To that end, staff recommends Council amend the E-HRA methodology to take into account projected HRA reserve drawdowns over the next fiscal year, as well as current Hydro Stabilization Reserve levels. Specifically, staff recommends the following modifications to Section D of the E-HRA rate schedule:

1. Hydro Rate Adjustment

- a. The Hydro Rate Adjustment is a surcharge or discount applied to Electric rates based on the strength of the City's hydrological generation portfolio, applied to manage volatility in energy costs and generation and the impact of that volatility on Customer rates.

- b. The Hydro Rate Adjustment is determined based on the level of funding in the Hydro Stabilization Reserve, including transfers or withdrawals projected to be made in the current fiscal year according to the City's Electric Utility Reserve Management Practices, and on the forecasted amount of annual generation the City of Palo Alto Utilities will receive from its hydroelectric generation through the end of the current fiscal year.

2. Calculation of Hydro Rate Adjustment

- a. Staff calculates the Hydro Rate Adjustment surcharge or discount annually in May, or whenever hydrologic conditions are poor and Hydro Stabilization Reserves are projected to fall below the 25% level within the fiscal year.
- b. The Hydro Rate Adjustment will be applied to all Customers' Electric rate schedules upon Council approval, and re-evaluated annually.
- c. The Hydro Rate Adjustment will fall within the minimum/maximum range set forth in Section C, and applied as follows:

Hydro Rate Adjustment (\$/kWh) Levels

Hydro Stabilization Reserve Level	Projected Hydro Generation vs. Average Hydro Generation (GWh/year)			
	Less than 319	319 to 480	480 to 642	Over 642
Above Maximum (>\$35 million)	\$-	\$(0.0065)	\$(0.0065)	\$(0.018)
75% to 100% (\$27 to \$35 million)	\$-	\$-	\$(0.0065)	\$(0.013)
25% to 75% (\$11 to \$27 million)	\$-	\$-	\$-	\$-
25% and below (<\$11 million)	\$0.013	\$0.0065	\$-	\$-

Commission Review

The Utilities Advisory Commission (UAC) reviewed the preliminary financial forecasts at its December 1, 2021 meeting. No recommendation was requested at that meeting, but staff sought input from Commissioners regarding the preliminary rate adjustment recommendations. Commissioners asked about planning for a worsening drought scenario beyond FY 2024 for the electric and water utilities. For the electric utility, there was a request to see a more level rate increase path, which has been incorporated into the Finance presentation. For the water utility, a severe or prolonged drought scenario may require the use of drought surcharges. UAC members did not request staff revise any of the rate changes listed in Table 1 and concurred with staff's initial proposals.

An excerpt of the draft minutes from the UAC's December 1, 2021 meeting is located at the

UAC website.¹ Since the UAC meeting, staff updated the rate estimates with the latest available estimates for CIP and operating costs. For the water utility, the changes increased the preliminary rate estimate for FY 2023 from 3% to 4% primarily to cover increased capital costs including seismic reservoir upgrades, and generators for emergencies.

Next Steps

The UAC is scheduled to review the long-term Financial Plans and proposed rate adjustments for the Wastewater Collection utility in February and the Electric, Water, and Gas utilities in March or April.

The Finance Committee is tentatively scheduled to review the long-term Financial Plans and proposed rate adjustments in March or April (for the Wastewater Collection utility) and in April or May (for the Electric, Water, and Gas utilities). Once the Finance Committee has provided its recommendation, notification of any recommended Water and Wastewater Collection rate adjustments will be sent to customers, giving them the opportunity to protest the proposed changes 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 Council with the FY 2023 budget, at which time the public hearing required by Article XIID of the State Constitution will be held.

Environmental Review

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.

Stakeholder Engagement

Staff met with the Utilities Advisory Commission on December 1, 2021. Notices of proposed rate changes will be distributed throughout the City as recommendations are finalized.

FY 2023 Resource Impact

Based on the preliminary rate increases as shown in table 1, the estimated revenue impacts would be an increase of \$7.9 million in the Electric Fund, \$2.8 million in the Water Fund, \$1.5 million in the Gas Fund and \$1.0 million in the Wastewater Collection Fund. The City is a utility customer so rate increases will also result in City expense increases. Resource impacts to City departments and funds of the recommended rate adjustments carried in the FY 2023 proposed budget will be reflected in the annual budget process.

Attachments:

- Attachment A: Electric Hydro Rate Resolution
- Attachment B: E-HRA Rate Schedule

¹ <https://www.cityofpaloalto.org/Departments/Utilities/Utilities-Advisory-Commission/Current-UAC-Agendas-Minutes>

Resolution No.
Resolution of the Council of the City of Palo Alto Amending Electric
Rate Schedule E-HRA (Electric Hydro Rate Adjuster)

R E C I T A L S

A. Hydroelectric Rate Adjustment mechanisms are designed to modify customer rates, either up or down, such that overall sales revenue is aligned with supply costs for the electric utility.

B. Hydroelectric Rate Adjustment mechanisms are intended to enable the electric utility to maintain a reasonably stable level of financial reserves, potentially at a lower average level.

C. Under the current E-HRA rate schedule Staff calculates the Hydro Rate Adjustment annually in May. But E-HRA activation may be indicated at other times throughout the year, since hydroelectric conditions may change dramatically throughout the fiscal year, potentially creating higher supply costs and the need for earlier Hydroelectric Stabilization Reserve withdrawals, or lower supply costs and the potential to apply a discount to customer rates.

D. Therefore, staff recommends the Council broaden the E-HRA activation criteria and rate implementation to manage supply costs and minimize swings in customer rates in a more timely manner.

E. Pursuant to Chapter 12.20.010 of the Palo Alto Municipal Code, the Council of the City of Palo Alto may by resolution adopt rules and regulations governing utility services, fees and charges.

The Council of the City of Palo Alto hereby RESOLVES as follows:

SECTION 1. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule E-HRA (Electric Hydro Rate Adjuster) is added as attached and incorporated. Utility Rate Schedule E-HRA, as amended, shall become effective March 1, 2022.

SECTION 2. The Council finds that the revenue derived from the adoption of this resolution shall be used only for the purpose set forth in Article VII, Section 2, of the Charter of the City of Palo Alto.

SECTION 3. The Council finds that the fees and charges adopted by this resolution are charges imposed for a specific government service or product provided directly to the payor

that are not provided to those not charged, and do not exceed the reasonable costs to the City of providing the service or product.

SECTION 4. The Council finds that the adoption of this resolution changing electric rates to meet operating expenses and meet financial reserve needs is not subject to the California Environmental Quality Act (CEQA), pursuant to California Public Resources Code Sec. 21080(b)(8) and Title 14 of the California Code of Regulations Sec. 15273(a). After reviewing the staff report and all attachments presented to Council, the Council incorporates these documents herein and finds that sufficient evidence has been presented setting forth with specificity the basis for this claim of CEQA exemption.

INTRODUCED AND PASSED:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

ATTEST:

City Clerk

Mayor

APPROVED AS TO FORM:

APPROVED:

Assistant City Attorney

City Manager

Director of Utilities

Director of Administrative Services

Attachment: Attachment A: Electric Hydro Rate Resolution [Revision 1] (13839 : Preliminary Financial Forecast)

ELECTRIC HYDRO RATE ADJUSTER

UTILITY RATE SCHEDULE E-HRA

A. APPLICABILITY:

This schedule applies to all Customers receiving Electric Service from the City of Palo Alto Utilities.

B. TERRITORY:

This schedule applies everywhere the City of Palo Alto provides Electric Service.

C. RATES:

Per kWh

Hydro Rate Adjustment:(\$0.018) - \$0.013

D. SPECIAL NOTES:

1. Hydro Rate Adjustment

- a. The Hydro Rate Adjustment is a surcharge or discount applied to Electric rates based on the strength of the City’s hydrological generation portfolio, applied to manage volatility in energy costs and generation and the impact of that volatility on Customer rates.
- b. The Hydro Rate Adjustment is determined based on the level of funding in the Hydro Stabilization Reserve, including transfers or withdrawals projected to be made in the current fiscal year according to the City’s Electric Utility Reserve Management Practices, and on the forecasted amount of annual generation the City of Palo Alto Utilities will receive from its hydroelectric generation resources through the end of the current fiscal year.

2. Calculation of Hydro Rate Adjustment

- a) Staff calculates the Hydro Rate Adjustment surcharge or discount annually in May, or whenever hydrologic conditions are poor and Hydro Stabilization Reserves are projected to fall below the 25% level within the current fiscal year.
- b) The Hydro Rate Adjustment will be applied to all Customers’ Electric rate schedules upon Council approval, and re-evaluated annually.
- c) The Hydro Rate Adjustment surcharge or discount will fall within the minimum/maximum range set forth in Section C, and will be applied as follows:

Attachment: Attachment B: E-HRA Rate Schedule (13839 : Preliminary Financial Forecast)

CITY OF PALO ALTO UTILITIES

Issued by the City Council



ELECTRIC HYDRO RATE ADJUSTER

UTILITY RATE SCHEDULE E-HRA

Hydro Rate Adjustment (\$/kWh)

Hydro Stabilization Reserve Level	Projected Hydro Generation vs. Average Hydro Generation (GWh/year)			
	Less than 319	319 to 480	480 to 642	Over 642
Above Maximum	\$-	\$(0.0065)	\$(0.0065)	\$(0.018)
75% to 100%	\$-	\$-	\$(0.0065)	\$(0.013)
25% to 75%	\$-	\$-	\$-	\$-
25% and below	\$0.013	\$0.0065	\$-	\$-

{End}

Attachment: Attachment B: E-HRA Rate Schedule (13839 : Preliminary Financial Forecast)

CITY OF PALO ALTO UTILITIES

Issued by the City Council

Supersedes Sheet No EHRA-2
dated 7-1-2021



CITY OF
PALO ALTO
UTILITIES

Sheet No **E-HRA-2**
Effective 1/1/2022