



FINANCE COMMITTEE
Tuesday, April 19, 2022
Special Meeting
Council Chamber & Virtual
5:30 PM

Pursuant to [AB 361](#) Palo Alto City Council and Committee meetings will be held as “hybrid” meetings with the option to attend by teleconference/video conference or in person. To maximize public safety while still maintaining transparency and public access, members of the public can choose to participate from home or attend in person. Information on how the public may observe and participate in the meeting is located at the end of the agenda.

HOW TO PARTICIPATE

VIRTUAL PARTICIPATION

[CLICK HERE TO JOIN](https://cityofpaloalto.zoom.us/j/99227307235) (<https://cityofpaloalto.zoom.us/j/99227307235>)
Meeting ID: 992 2730 7235 Phone:1(669)900-6833

The meeting will be broadcast on Cable TV Channel 26, live on YouTube at <https://www.youtube.com/c/cityofpaloalto>, and streamed to Midpen Media Center at <https://midpenmedia.org>.

PUBLIC COMMENTS

Public Comments will be accepted both in person and via Zoom meeting. All requests to speak will be taken until 5 minutes after the staff’s presentation. Written public comments can be submitted in advance to city.council@cityofpaloalto.org and will be provided to the Committee 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 COMMUNICATIONS

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

ACTION ITEMS

1. Utilities Advisory Commission and Staff Recommendation That the Finance Committee Recommend the City Council Adopt a Resolution Approving the FY 2023 Wastewater Collection Utility Financial Plan Including Proposed Reserve Transfers and Increasing Wastewater Rates by Amending Rate Schedules S-1 (Residential Wastewater Collection and Disposal), S-2 (Commercial Wastewater Collection and Disposal), S-6 (Restaurant Wastewater Collection and Disposal) and S-

7 (Commercial Wastewater Collection and Disposal – Industrial Discharger)

2. Utilities Advisory Commission and Staff Recommendation That the Finance Committee Recommend the City Council Adopt a Resolution Approving the Fiscal Year 2023 Water Utility Financial Plan, Including Proposed Reserve Transfers, and Increasing Water Rates by Amending Rate Schedules W-1 (General Residential Water Service), W-2 (Water Service From Fire Hydrants), W-3 (Fire Service Connections), W-4 (Residential Master-Metered and General Non-Residential Water Service), and W-7 (Non-Residential Irrigation Water Service)
3. The Utilities Advisory Commission and Staff Request that the Finance committee Recommend City Council Adopt a Resolution Approving the Fiscal Year 2023 Gas Utility Financial Plan, Including Proposed Transfers, and Increasing Gas Rates by Amending Rate Schedules G-1 (Residential Gas Service), G-2 (Residential Master-Metered and Commercial Gas Service), G-3 (Large Commercial Gas Service), and G-10 (Compressed Natural Gas Service)
4. The Utilities Advisory Commission and Staff Recommend the City Council Adopt a Resolution Approving the Fiscal Year 2023 Electric Financial Plan and Proposed Reserve Transfers, Amending the Electric Utility Reserve Management Practices, and Amending Rate Schedules E-1 (Residential Electric Service), E-2 (Residential Master-Metered and Small Non-Residential Electric Service), E-2-G (Residential Master-Metered and Small Non-Residential Green Power Electric Service), E-4 (Medium Non-Residential Electric Service), E-4-G (Medium Non-Residential Green Power Electric Service), E-4 TOU (Medium Non-Residential Time of Use Electric Service), E 7 (Large Non-Residential Electric Service), E-7-G (Large Non-Residential Green Power Electric Service), E-7 TOU (Large Non-Residential Time of Use Electric Service), E-14 (Street Lights), E-NSE (Net Metering Net Surplus Electricity Compensation), and E-EEC (Export Electricity Compensation)

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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City of Palo Alto

Finance Committee Staff Report

(ID # 13971)

Meeting Date: 4/19/2022

Title: Utilities Advisory Commission and Staff Recommendation That the Finance Committee Recommend the City Council Adopt a Resolution Approving the FY 2023 Wastewater Collection Utility Financial Plan Including Proposed Reserve Transfers and Increasing Wastewater Rates by Amending Rate Schedules S-1 (Residential Wastewater Collection and Disposal), S-2 (Commercial Wastewater Collection and Disposal), S-6 (Restaurant Wastewater Collection and Disposal) and S-7 (Commercial Wastewater Collection and Disposal – Industrial Discharger)

From: City Manager

Lead Department: Utilities

RECOMMENDATION

The Utilities Advisory Commission (UAC) and staff request that the Finance Committee recommend that the City Council:

1. Adopt a resolution ([Attachment A](#)) approving:
 - a. The Fiscal Year (FY) 2023 Wastewater Collection Financial Plan ([Linked Document](#)); and
 - b. Transfer amount of up to \$5.33 million from the Capital Improvement Projects Reserve to the Operations Reserve in FY 2022; and
 - c. Increases to Wastewater Collection Utility Rates Via the Amendment of Rate Schedules S-1 (Residential Wastewater Collection and Disposal), S-2 (Commercial Wastewater Collection and Disposal), S-6 (Restaurant Wastewater Collection and Disposal) and S-7 (Commercial Wastewater Collection and Disposal – Industrial Discharger) ([Attachment B](#)).

EXECUTIVE SUMMARY

The FY 2023 Wastewater Collection Utility Financial Plan ([Linked Document](#)) includes projections of the utility's costs and revenues through FY 2027. The Financial Plan projects costs to rise over the forecast horizon due primarily to increasing treatment costs related to capital improvements and increasing operational costs at the Regional Water Quality Control Plant (RWQCP), as well as increasing collection system and Capital Improvement Program (CIP) costs.

A 3% overall revenue increase is needed in FY 2023, and staff projects overall revenue increases of approximately 5% annually through FY 2027 to cover current and projected costs.

BACKGROUND

Every year staff presents the Finance Committee with Financial Plans for the Electric, Gas, Water, and Wastewater Collection Utilities. The Financial Plans recommend rate adjustments if necessary to maintain the financial health of these enterprises. These Financial Plans include a comprehensive overview of the operations of each enterprise, both retrospective and prospective, and are intended to be a reference for UAC, Finance Committee and Council members as they review the budget and staff's rate recommendations. Each Financial Plan also contains a set of Reserves Management Practices describing the reserves for each utility and the management practices for those reserves.

The City's sewer system collects wastewater from Palo Alto residents and delivers it to the RWQCP for treatment. The City of Palo Alto runs the RWQCP, which also treats wastewater for five other partner agencies (Stanford, East Palo Alto Sanitary District, Los Altos Hills, Los Altos, and Mountain View). Some of the wastewater for certain partner agencies is also transported across the City's wastewater collection system.

The Wastewater Collection Utility has two main costs: the costs of operating the collection system and Palo Alto's share of the cost of running the RWQCP.¹ Both cost components have been increasing and are expected to continue to increase. The RWQCP has been in operation since 1934. Aging equipment, new regulatory requirements, and the movement to full sustainability will require rehabilitation, replacement and new processes. Palo Alto has seen increases in operational costs in recent years, and debt service for the plant is expected to increase substantially in coming years as a major rehabilitation and replacement plan adopted in 2012 ([Long Range Facilities Plan](#)) is implemented. Rehabilitation and replacement of plant equipment that has been in use for over 40 years is necessary to ensure the city can provide wastewater treatment safely and in compliance with regulatory requirements for the discharge of treated wastewater 24 hours a day. Collection system costs are also increasing, though not as much as treatment costs. This is primarily driven by increases in collection system capital costs. The cost of underground construction to replace aging sewer mains has nearly doubled since 2008. Other operational costs have also increased (e.g., salaries and benefits and administrative overhead), but more slowly than treatment and collection infrastructure-related costs.

This Financial Plan projects revenue reductions due to COVID-19 primarily from the Restaurant and Commercial customer classes. Staff expects annual revenue reductions related to COVID-19 to be highest during FY 2022 at approximately \$1 million and projects a linear recovery through

¹ The costs associated with the RWQCP are shared among Palo Alto and the partner agencies based primarily on wastewater flows and the composition of the wastewater each agency sends to the treatment plant. Palo Alto's share varies from year to year, but is roughly one third of the total cost.

FY 2025. Total revenue reductions included in the estimate is \$2.4 million from FY 2022 through FY 2025 for the Wastewater Collection utility.

DISCUSSION

Staff completes an annual assessment of the financial position of the City’s wastewater collection utility to ensure adequate revenue to fund operations, in compliance with the cost of service requirements set forth in the California Constitution (Proposition 218). This includes making long-term projections of market conditions, the physical condition of the system, and other factors that could affect utility costs, and setting rates adequate to recover these costs. The rates proposed in this Financial Plan were developed based on the Cost of Service and Rate Study completed by Raftelis Financial Consultants, Inc., the “[City of Palo Alto 2021 Wastewater COS Report](#).”²

Proposed Actions

- 1. Increase rates by 3% for Rate Schedules S-1 (Residential Wastewater Collection and Disposal), S-2 (Commercial Wastewater Collection and Disposal), S-6 (Restaurant Wastewater Collection and Disposal) and S-7 (Commercial Wastewater Collection and Disposal – Industrial Discharger); and
- 2. Transfer up to \$5.33 million from the CIP Reserve to the Operations Reserve in FY 2022.

The FY 2023 Wastewater Collection Financial Plan describes these proposed actions in detail. Staff proposes to adjust wastewater rates as shown in Table 1 below, effective July 1, 2022. The adjustments increase the system average rate by 3%. These proposed rate changes are included in the amended rate schedules ([Attachment B](#)). Residential customers pay a monthly fixed service charge while commercial customers are charged based on average winter water usage for the months of January, February and March, and applied in the following July to minimize the effects of irrigation. Restaurant customers are charged based on monthly water usage as they generally lack irrigation, but are charged higher rates due to higher grease and oil discharges necessitating additional treatment costs. Currently there are no customers on the S-7 (Industrial) rate schedule; however, CPAU continues to maintain the S-7 rate schedule in case of future need.

Table 1: Current and Proposed Wastewater Collection Charges

	Current (9/1/2021)	Proposed (7/1/2022)	Change	
			\$/mo.	%

² A cost of service study is a study using industry-standard techniques to determine how the costs of running the utility should be recovered from its customers. Charges to each customer are set in proportion to the cost of serving that customer.

Monthly Service Charges (\$/month)					
S-1 (Residential)	Service charge	\$43.32	\$44.62	\$1.30	3%
Quantity Rates					
S-2 (Commercial)	\$/CCF	8.09	8.33	0.24	3%
S-6 (Restaurant)	\$/CCF	12.07	12.43	0.36	3%

FY 2023 Financial Plan's Projected Rate Adjustments for the Next Five Fiscal Years

Table 3 shows the projected rate adjustments included in the Wastewater Collection Utility Financial Plans and their impact on a residential wastewater bill.

Table 3: Projected Rate Adjustments and Residential Bill Impact, FY 2023 to FY 2027

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Wastewater Collection Utility	3%	5%	5%	5%	5%
Estimated Bill Impact for Residential Customers (\$/mo)	\$1.30	\$2.24	\$2.35	\$2.47	\$2.59

As noted above, one of the main drivers for the increase in the Wastewater Collection Utility's costs (and therefore rates) over the next several years is the cost for wastewater treatment, which is projected to increase by about 7.7% per year from FY 2021 to FY 2027 as the City makes several upgrades to the RWQCP. A major project at the RWQCP, the Sludge Dewatering and Truck Loadout Facility, was completed in 2019 which allowed the retirement of the Plant's two sewage sludge incinerators in operation since 1972. Future projects include secondary treatment upgrades as well as replacement of the headworks facility. Beyond FY 2027 some of the upward pressure on treatment costs is expected to be relieved, as the projected growth in treatment costs decreases to approximately 2.3% on average annually between FY 2027 and FY 2032.

Wastewater Collection operations and CIP costs (excluding costs associated with treatment) are projected to increase by approximately 4.2% annually from FY 2021 to FY 2027; operations costs are expected to grow an average of 2.9% annually over the same time period. This plan reflects the same budget reductions for sanitary sewer main replacements that Council adopted in FY 2022. However, this budget does not continue with the deferrals of the next two upcoming sewer main replacement projects in order to maintain the City's sewer main replacement program. The Wastewater Collection Utility undertakes a larger main replacement project every other year. A project is occurring in the current year and the next project is scheduled for FY 2024. Undertaking a larger main replacement project every other year allows staff to continue replacing wastewater mains that are in poor condition, while easing scheduling difficulties for inspection coverage due to shared staffing across water, wastewater, gas and large development services projects. Over the last few years, main replacement costs have been increasing for utilities due to economic activity in the Bay Area causing construction cost inflation. It is likely that this trend will continue in the short term. Staff has not observed any dip in construction costs although more information will be known once the Utilities

Figure 2: Percentage of Cost Increase From FY 2016 to FY 2027 Attributed to Treatment, and Operations Costs

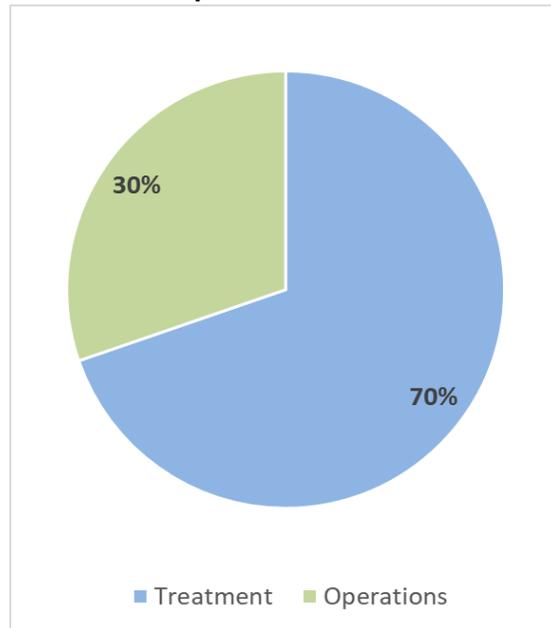


Figure 1 and 2 show that 70% of the increase from FY 2016 to FY 2027 is due to treatment cost increases, 30% is due to increases in operations costs; 13% of this is from distribution operations, 10% is from allocated charges, and 5% is from customer service, each of these are driven by increases in salaries and benefits. Collection capital costs are not expected to increase on average over this time period due to the reductions in size of sewer main replacement projects to keep rate increases to a minimum.

To promote rate stability and provide continuity in collection system CIP expenditure levels, this plan continues the steady annual capital program contribution to the CIP Reserve. The CIP Reserve will then absorb annual spending fluctuations, reducing or eliminating the impact on rates. Figure 3 below shows the projected CIP Reserve balances and Figure 4 below shows year-end reserve balance levels for each reserve from FY 2022 and projected through FY 2027.

Figure 3: Projected Capital Reserve Balances, FY 2022 to FY 2027

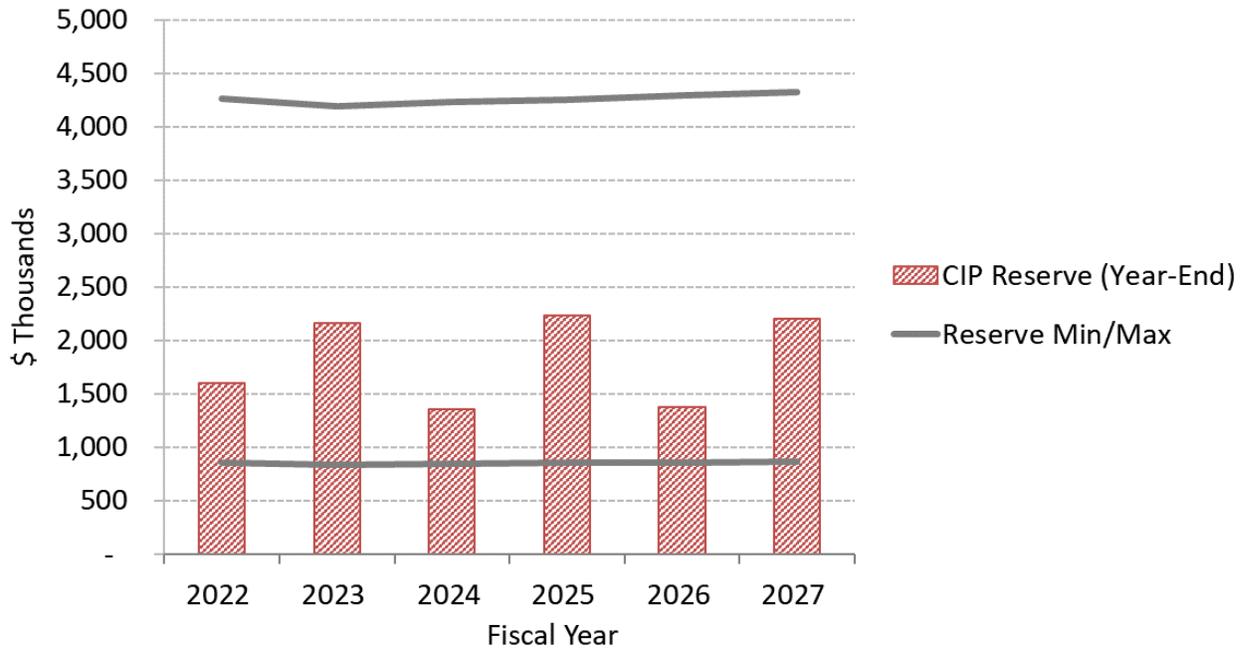


Figure 4: Wastewater Collection Utility Year-End Reserve Levels, FY 2021 to FY 2027

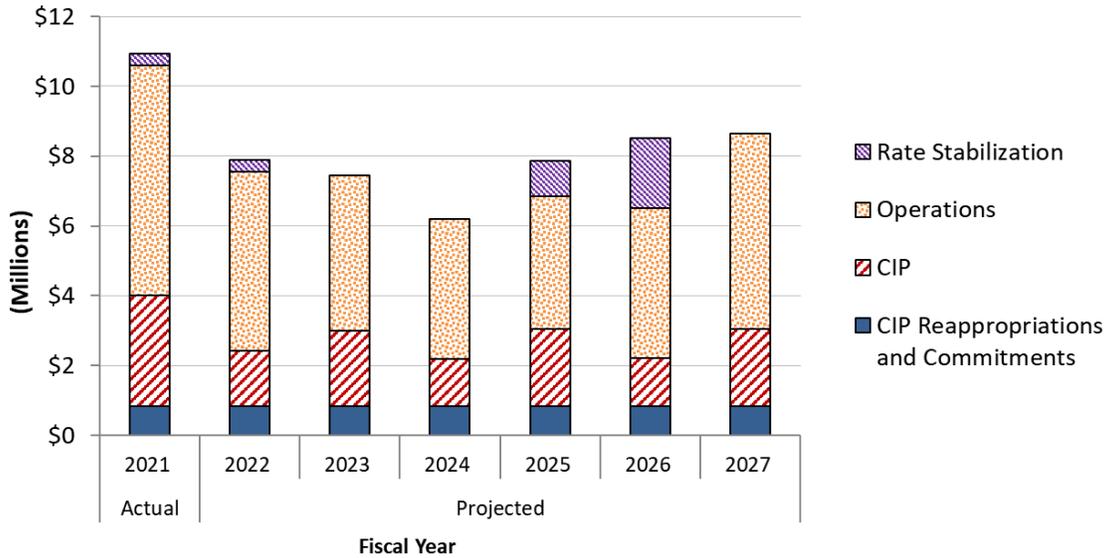


Table 4: Operations, Rate Stabilization and CIP Reserves Starting and Ending Balances, Revenues, Transfers To/(From) Reserves, Expenses, Capital Program Contribution To/(From) Reserves, and Operations Reserve Guideline Levels for FY 2022 to FY 2027 (\$000)

		FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
	Starting Balance						
(1)	Operations	6,578	5,124	4,443	4,020	3,801	4,316
(2)	Rate Stabilization	342	342	-	-	1,000	2,000
(3)	CIP	3,178	1,598	2,161	1,351	2,228	1,373
	Revenues						
(4)	Total Revenue	20,793	21,816	23,260	24,703	26,062	27,331
	Transfers						
(5)	Operations	-	342	-	(1,000)	(1,000)	2,000
(6)	Rate Stabilization	-	(342)	-	1,000	1,000	(2,000)
(7)	CIP	-	-	-	-	-	-
	Capital Program Contribution						
(8)	Operations	(3,750)	(3,750)	(3,750)	(3,750)	(3,750)	(3,750)
(9)	CIP	3,750	3,750	3,750	3,750	3,750	3,750
	Expenses						
(10)	Total Expenses other than CIP and Debt Service	(18,368)	(18,961)	(19,803)	(20,172)	(20,797)	(24,296)
(11)	Debt Service	(129)	(129)	(129)	-	-	-
(12)*	Planned CIP	(5,330)	(3,188)	(4,560)	(2,873)	(4,605)	(2,919)
	Ending Balance						
(1)+(4)+(5)+(8)+(10)+(11)	Operations	5,124	4,443	4,020	3,801	4,316	5,601
(2)+(6)	Rate Stabilization	342	-	-	1,000	2,000	-
(3)+(7)+(9)+(12)	CIP	1,598	2,161	1,351	2,228	1,373	2,204
	Operations Reserve Guideline Levels						
(13)	Minimum	2,781	3,231	3,143	3,460	3,278	4,130
(14)	Maximum	6,952	8,076	7,859	8,650	8,195	10,326

* Planned CIP (item 12) is reflected as an expense in the CIP Reserve and does not include CIP funded through Reappropriations or Commitments reserves. This Financial Plan requests Council approval to transfer the Planned CIP of \$5.33 million from the CIP Reserve to the Operations Reserve in FY 2022.

Capital Projects and Reserves

The CIP Reserve aims to stabilize uneven annual funding associated with ongoing CIP projects including sanitary sewer main replacements that are scheduled to occur every other year, and is a source for one-time or immediately needed projects. In June 2021 Council approved

consistent annual funding from the Operations to the CIP Reserve and approved a transfer of up to \$4.35 million from the Operations Reserve to the CIP Reserve in FY 2022 ([Resolution 9980](#)). This Financial Plan projects that a capital program contribution of \$3.75 million in FY 2022 (see line 9 of Table 8) from the Operations Reserve to the CIP Reserve will be sufficient based upon actual and projected revenue and expenses as well as FY 2021 year-end reserve balances.

Withdrawals from the CIP Reserve for use on capital projects require Council action.⁴ This Financial Plan therefore requests Council approval to transfer up to \$5.33 million from the CIP Reserve to the Operations Reserve to pay for estimated CIP in FY 2022. This figure is the portion of planned CIP that will not be paid for through funds collected in prior years (essentially the FY 2022 Capital budget, less funds available in the Reappropriations and Commitments Reserves), shown in line 12 of Table 4. The need for each of the transfers will be re-evaluated once the year end reserve balances for FY 2022 are known.

Wastewater Bill Comparison with Surrounding Cities

The annual sewer bill for a Palo Alto resident is \$519.84 under current rates, 28% lower than the average neighboring community. Table 5 shows the monthly sewer bills for residential customers compared to what they would be in surrounding communities. These communities are the same six cities that Palo Alto compares itself to in the annual budget across Water, Wastewater, Gas, and Electric utilities.

Table 5: Residential Monthly Equivalent Sewer Bill Comparison (\$)

Palo Alto	Neighboring Communities					
	Menlo Park	Redwood City	Santa Clara	Mountain View	Los Altos	Hayward
43.32	104.58	89.28	44.53	46.40	40.83	37.17

If Council adopts the proposed wastewater rate change, and assuming other agencies do not change their sewer rates, Palo Alto’s residential rates would remain 26% lower than the average neighboring community. Furthermore, under the attached Financial Plan, Palo Alto’s residential monthly bills would rise to \$54.27 per month in FY 2027 which is still under the current neighboring community average of \$60.47 per month. Staff has no information at this time as to whether or when the surrounding communities are planning wastewater rate changes. However, as most agencies are also requiring renovations to their respective treatment plants, increases at other agencies are likely. Note that as partners in the RWQCP, Mountain View and Los Altos will be affected by the same treatment cost increases as Palo Alto.

Table 6 shows the monthly sewer bills for Commercial and Restaurant customers. Palo Alto is less competitive with surrounding cities with regards to commercial sewer rates, but is not the

⁴ See Section 5(b) of the Wastewater Collection Utility Reserves Management Practices; Appendix C to the attached Wastewater Collection Financial Plan.

most expensive jurisdiction. Palo Alto's commercial bills are 7% higher than the neighboring community average while Palo Alto's restaurant bills are 14% below the neighboring community average. Table 6 assumes 14 units of water for general commercial and 56 units of water for restaurants.

Table 6: Non-Residential Monthly Equivalent Sewer Bill Comparison (\$)

	Palo Alto	Neighboring Communities					
		Menlo Park	Redwood City	Santa Clara	Mountain View	Los Altos	Hayward
General Commercial	113.26	141.54	117.74	74.06	144.90	70.13	85.54
Restaurant	675.92	1,192.8	1,128.40	845.04	665.28	280.51	627.20

Changes from Prior Financial Forecasts

Staff projects the need for ongoing annual wastewater rate increases from FY 2023 through FY 2027. Table 7 compares current rate projections to those projected in the last two year's Financial Forecasts. The proposed revenue increases for FY 2023 in this Financial Plan are the same compared with the rate projection from the FY 2022 Financial Plan but lower than projected in FY 2021. This is in part because of the reduction in size of sanitary sewer replacement projects to lower collection system costs. The FY 2023 projections reflect current information on capital improvement costs both in Palo Alto's sewer system as well as at the RWQCP.

Table 7: Proposed/Projected Wastewater Rate Changes for FY 2023 to FY 2027

Projection	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Current Plan (FY 2023)	3%	5%	5%	5%	5%
FY 2022 Financial Plan	3%	5%	5%	5%	N/A
FY 2021 Financial Forecast ⁵	5%	5%	5%	N/A	N/A

NEXT STEPS

The City Council will consider the proposed Financial Plans and amended rate schedules with the FY 2023 budget, expected in June, at which time the public hearing required by Article XIID of the State Constitution will be held. If Council approves the proposed rate increases, they will become effective July 1, 2022. Assuming the Finance Committee supports the proposed rate adjustments, staff will send notification of the potential rate increases to customers as required by Article XIID of the State Constitution (added by Proposition 218) expected in April 2022.

⁵ Presented to the Finance Committee, April 21, 2020.

RESOURCE IMPACT

Staff projects normal year revenues for the Wastewater Collection Utility to increase by approximately 3% (\$600,000) annually beginning in FY 2023 as a result of the proposed rate changes. The City is also a wastewater customer, and staff projects required general fund cost for wastewater service to increase in FY 2023 by approximately \$4,500 as a result of the proposed rate changes. Wastewater Collection Fund expense and revenue impacts and General Fund expense impacts from the recommendations in this report are programmed in the FY 2023 Proposed Operating Budget. If Council adopts rates that differ from those presented in this report, further budgetary adjustments may be brought forward as part of the annual budget process. See the FY 2023 Wastewater Collection Utility Financial Plan for a more comprehensive overview of projected cost and revenue changes for the next five years.

POLICY IMPLICATIONS

The proposed wastewater rate adjustments are consistent with Council-adopted Reserve Management Practices that are part of the Financial Plans. Staff developed the wastewater rate adjustments using a cost of service study and methodology that was completed in compliance with the cost of service requirements of Proposition 218.

STAKEHOLDER ENGAGEMENT

The UAC reviewed the preliminary financial forecasts at its December 1, 2021 meeting ([UAC Report #13659](#)) and the Finance Committee reviewed the preliminary financial forecasts at its February 1, 2022 meeting ([Staff Report 13839](#)).

The UAC reviewed staff's recommendation on the FY 2023 Wastewater Collection Utility Financial Plan, proposed transfers, and rate increases at its March 2, 2022 meeting ([Staff Report #13962](#)). At that meeting one Commissioner asked for more information about the projects at the treatment plant and the share that Palo Alto pays. One Commissioner asked about the salary and benefits increase and why it is different across each utility. The UAC unanimously approved staff's proposal 4-0. ([Attachment C](#)) includes the draft excerpted meeting minutes.

ENVIRONMENTAL REVIEW

The Finance Committee's review and recommendation to Council on the proposed FY 2023 Wastewater Collection Financial Plan and rate adjustments do 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: Resolution
- Attachment B: FY 2023 Rate Schedules S-1, S-2, S-6, and S-7
- Attachment C: Excerpted Draft UAC Meeting Minutes 3-2-22

* NOT YET APPROVED *

Resolution No. ____

Resolution of the Council of the City of Palo Alto Approving the FY 2023 Wastewater Collection Utility Financial Plan, Including Reserve Transfers, and Adjusting Wastewater Rates by Amending Rate Schedules S-1 (Residential Wastewater Collection and Disposal), S-2 (Commercial Wastewater Collection and Disposal), S-6 (Restaurant Wastewater Collection and Disposal) and S-7 (Commercial Wastewater Collection and Disposal – Industrial Discharger)

R E C I T A L S

A. Each year the City of Palo Alto (“City”) assesses the financial position of its utilities with the goal of ensuring adequate revenue to fund operations. This includes making long-term projections of market conditions, the physical condition of the system, and other factors that could affect utility costs, and setting rates adequate to recover these costs. It does this with the goal of providing safe, reliable, and sustainable utility services at competitive rates. The City adopts Financial Plans to summarize these projections.

B. The City uses reserves to protect against contingencies and to manage other aspects of its operations, and regularly assesses the adequacy of these reserves and the management practices governing their operation. The status of utility reserves and their management practices are included in Reserves Management Practices attached to and made a part of the Financial Plans.

C. 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.

D. On ____, 2022, the City Council held a full and fair public hearing regarding the proposed rate increase and considered all protests against the proposals.

E. As required by Article XIII D, Section 6 of the California Constitution and applicable law, notice of the _____ 2022 public hearing was mailed to all City of Palo Alto Utilities wastewater customers by _____, 2022.

F. The City Clerk has tabulated the total number of written protests presented by the close of the public hearing, and determined that it was less than fifty percent (50%) of the total number of customers and property owners subject to the proposed wastewater rate amendments, therefore a majority protest does not exist against the proposal.

The Council of the City of Palo Alto does hereby RESOLVE as follows:

SECTION 1. The Council hereby adopts the FY 2023 Wastewater Collection Utility Financial Plan.

* NOT YET APPROVED *

SECTION 2. The Council hereby approves the following transfer as described in the FY 2023 Wastewater Collection Utility Financial Plan:

- a. Up to \$5,330,000 in FY 2022 from the Capital Improvement Projects Reserve to the Operations Reserve.

SECTION 3. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule S-1 (Residential Wastewater Collection and Disposal) is hereby amended to read as attached and incorporated. Utility Rate Schedule S-1, as amended, shall become effective July 1, 2022.

SECTION 4. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule S-2 (Commercial Wastewater Collection and Disposal) is hereby amended to read as attached and incorporated. Utility Rate Schedule S-2, as amended, shall become effective July 1, 2022.

SECTION 5. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule S-6 (Restaurant Wastewater Collection and Disposal) is hereby amended to read as attached and incorporated. Utility Rate Schedule S-6, as amended, shall become effective July 1, 2022.

SECTION 6. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule S-7 (Commercial Wastewater Collection and Disposal – Industrial Discharger) is hereby amended to read as attached and incorporated. Utility Rate Schedule S-7, as amended, shall become effective July 1, 2022.

SECTION 7. The Council finds that the revenue derived from the wastewater rates approved by this resolution do not exceed the funds required to provide wastewater service, and the revenue derived from the adoption of this resolution shall be used only for the purposes set forth in Article VII, Section 2, of the Charter of the City of Palo Alto.

SECTION 8. 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.

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* NOT YET APPROVED *

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SECTION 9. The Council finds that the adoption of this resolution approving the FY 2023 Wastewater Financial Plan and Reserve transfers does not meet the California Environmental Quality Act’s definition of a project under Public Resources Code Section 21065 and CEQA Guidelines Section 15378(b)(5), because it is an administrative governmental activity which will not cause a direct or indirect physical change in the environment, and therefore, no environmental review is required. The Council finds that the adoption of this resolution changing Wastewater collection rates to meet operating expenses, purchase supplies and materials, meet financial reserve needs and obtain funds for capital improvements necessary to maintain service 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: Resolution (13971 : FY 2023 Wastewater Collection Financial Plans and Rates)

RESIDENTIAL WASTEWATER COLLECTION AND DISPOSAL
UTILITY RATE SCHEDULE S-1

A. APPLICABILITY:

This schedule applies to each Occupied Domestic Dwelling unit.

B. TERRITORY:

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

C. RATES:

Per Month

Each Occupied Domestic Dwelling unit.....
\$~~44.62~~~~43.32~~

D. SPECIAL NOTES:

1. Any dwelling unit being individually served by a Water, Gas, or Electric Meter will be considered continuously occupied.
2. For two or more Occupied Domestic Dwelling units served by one Water Meter, the monthly Wastewater charge will be calculated by multiplying the current Wastewater rate by the number of dwelling units.
3. Each developed separate lot shall have a separate service lateral to a sanitary main or manhole.

{End}

CITY OF PALO ALTO UTILITIES
Issued by the City Council

Supersedes Sheet No S-1-1
dated ~~9-7-1-2021~~~~1-9~~



Effective ~~7-9-1-2022~~~~1~~
Sheet No ~~S-1-1~~

COMMERCIAL WASTEWATER COLLECTION AND DISPOSAL

UTILITY RATE SCHEDULE S-2

A. APPLICABILITY:

This schedule applies to all commercial establishments other than those served under Utility Rate Schedule S-1 (Residential Wastewater Collection and Disposal), Rate Schedule S-6 (Restaurant Wastewater Collection and Disposal) or Rate Schedule S-7 (Commercial Establishments Wastewater Disposal – Industrial Discharger).

B. TERRITORY:

This schedule applies everywhere the City of Palo Alto provides Wastewater Services.

C. RATES:

Quantity Rate, per 100 cubic feet (See Section D.1) \$8.~~3309~~

D. SPECIAL NOTES:

1. The monthly charge for the quantity rate set forth in Section C of this rate schedule will be based upon the average Water usage for the months of January, February and March, and applied in the following July. If a Water Meter is identified as exclusively serving irrigation landscaping, such Meter will be exempted from Wastewater charge calculations. Customers without an applicable usage history will be rebuttably presumed to have usage of 4.8 ccf per month until such time as such usage may reasonably be established by the City of Palo Alto Utilities Department.
2. The City of Palo Alto Utilities Department may require Wastewater Metering facilities, in which case Service will be governed by terms of a special agreement between the City and the Customer.

{End}

CITY OF PALO ALTO UTILITIES

Issued by the City Council

Supersedes Sheet No S-2-1 dated ~~97-1-2021~~19



Effective ~~79-1-2022~~21 Sheet No S-2-1

RESTAURANT WASTEWATER COLLECTION AND DISPOSAL

UTILITY RATE SCHEDULE S-6

A. APPLICABILITY:

This schedule applies to all restaurants.

B. TERRITORY:

This schedule applies everywhere the City of Palo Alto provides Wastewater Services.

C. RATES:

Quantity Rates, per 100 cubic feet of monthly metered Water usage\$12.~~43~~⁶⁷

D. SPECIAL NOTES:

1. The City of Palo Alto Utilities Department may require Wastewater Metering facilities, in which case Service will be governed by terms of a special agreement between the City and the Customer.

{End}

CITY OF PALO ALTO UTILITIES

Issued by the City Council

Supersedes Sheet No S-6-1
dated ~~9-7-1-2021~~⁴⁻⁹



Effective ~~7-9-1-2022~~¹
Sheet No ~~S-6-1~~

**COMMERCIAL WASTEWATER COLLECTION AND DISPOSAL
– INDUSTRIAL DISCHARGER**

UTILITY RATE SCHEDULE S-7

A. APPLICABILITY:

This schedule applies to any establishment requiring sampling of industrial discharges in excess of 25,000 gallons per day, or special discharge monitoring, as defined in Rule 23, Section C.

B. TERRITORY:

This schedule applies everywhere the City of Palo Alto provides Wastewater Services.

C. RATES:

1. Collection System Operation, Maintenance, and Infiltration Inflow:
\$~~4.1402~~ per 100 cubic feet of metered water use.
2. Advanced Waste Treatment Operations and Maintenance Charge:
\$~~1.650~~ per 100 cubic feet of metered water use
3. \$~~202.23196.34~~ per 1000 pounds (lbs) of COD (Chemical Oxygen Demand)
4. \$~~487.58473.38~~ per 1000 lbs of SS (Suspended Solids)
5. \$~~3,369.05270.92~~ per 1000 lbs of NH₃ (Ammonia)
6. \$ 14,781.25 per 1000 lbs of toxics (chromium, copper, cyanide, lead, nickel, silver, and zinc)

D. SPECIAL NOTES:

1. Water usage will be determined as defined in Rule 23, Section C. If a Water Meter is identified as exclusively serving irrigation landscaping, such Meter will be exempted from Wastewater charge calculations.
2. The City of Palo Alto Utilities Department may require Wastewater Metering facilities, in which case Service will be governed by terms of a special agreement between the City of Palo Alto and the Customer.
3. Charges for large discharges will be determined on the basis of sampling as outlined in Utilities Rule 23, Section C. However, for purposes of arriving at an accurate flow estimate, discharge Meters, if installed, can be utilized to measure outflow for billing purposes. Annual charges will be determined and allocated monthly for billing purposes.

{End}

CITY OF PALO ALTO UTILITIES

Issued by the City Council

Supersedes Sheet No S-7-1
dated ~~9-7-1-2021~~¹⁴⁹



Effective ~~7-9-1-2022~~¹
Sheet No ~~S-7-1~~

Packet Pg. 21



DRAFT

UTILITIES ADVISORY COMMISSION MEETING EXCERPTED DRAFT MINUTES OF MARCH 2, 2022 MEETING

ITEM 7: ACTION: Staff Recommendation That the Utilities Advisory Commission Recommend the City Council Adopt a Resolution Approving the FY 2023 Wastewater Collection Utility Financial Plan Including Reserve Transfers and Increasing Wastewater Rates by Amending Rate Schedules S-1 (Residential Wastewater Collection and Disposal), S-2 (Commercial Wastewater Collection and Disposal), S-6 (Restaurant Wastewater Collection and Disposal) and S-7 (Commercial Wastewater Collection and Disposal – Industrial Discharger).

Lisa Bilir, Senior Resource Planner, announced that Staff proposes a 3 percent overall revenue increase in FY 2023 and a \$5.33 million transfer from the CIP Reserve to the Operations Reserves in FY 2022. Staff expected significant increases in the treatment plant debt service cost. To prepare for the debt service coming online, the plan transfers \$1 million in FY 2025 and FY 2026 to the Rate Stabilization Reserve and will use those funds in FY 2027 to smooth the increase. The Wastewater Utility was experiencing revenue impacts associated with reductions in usage for non-residents of \$1 million in FY 2022. Revenues were recovering but were 12 percent below pre-Covid-19 levels for commercial and 20 percent for restaurants. The Operation Reserve remained within the guideline range but was expected to drop close to the minimum level in FY 2025. The rate impact for customers was \$1.30 for residents, \$3.40 for commercial customers and \$20.28 for restaurants. Compared to nearby cities, Palo Alto was below the average wastewater bill by 28 percent for residents, 7 percent higher for commercial customers and 14 percent lower for restaurants. The CIP Reserve would dip close to minimum levels but remained within guideline levels throughout the forecasted period.

In answer to Commissioner Johnston’s query regarding what percentage is used for salary and benefit costs, Bilir clarified that the percentage is different for each utility and she estimated it was a 5 percent increase for FY 2023. Dean Batchelor, Director of Utilities, noted that salary and benefit-cost is based on a 4 to 5 percent increase which are spread across the operations for the Water, Gas, and Wastewater Utility. Dave Yuan, Strategic Business Manager, added that the Budget based the salary and benefits on employee salaries and benefits those employees chose.

In reply to Commissioner Metz’s query regarding the large capital projects, Bilir disclosed that the capital expenditures are shared and Palo Alto’s share is 33 to 34 percent of the total cost. Karin North, Assistant Director of Public Works explained that new regulations are coming into play to remove nutrients and the secondary treatment upgrade project will remove nitrogen before the water is discharged into the Bay. In response to Commissioner Metz’s inquiry regarding the headworks facility capital project, North summarized that the system protects the pumps and has to be rebuilt.

In answer to Chair Forssell’s request for Staff to define near terms for capital projects, North reported that the sedimentation tanks are under construction, the new outfall pipeline has reached 90 percent for design, the secondary treatment upgrades and the advanced water purification system are in the design phase, and work has not begun on the headworks facility and the lab building. She noted it takes a year to design a project and then begin construction.

ACTION: Commissioner Metz moved Staff requests that the Utilities Advisory Commission (UAC) recommend that the Council:

1. Adopt a resolution (Attachment A) approving:
 - a. The Fiscal Year (FY) 2023 Wastewater Collection Financial Plan (Linked Document); and
 - b. Transfer amount of up to \$5.33 million from the Capital Improvement Projects Reserve to the Operations Reserve in FY 2022; and
 - c. Increases to Wastewater Collection Utility Rates Via the Amendment of Rate Schedules S-1 (Residential Wastewater Collection and Disposal), S-2 (Commercial Wastewater Collection and Disposal), S-6 (Restaurant Wastewater Collection and Disposal) and S-7 (Commercial Wastewater Collection and Disposal – Industrial Discharger) (Attachment B)

Seconded by Commissioner Johnston

Motion carries 4-0 with Chair Forssell and Vice Chair Segal, Commissioners Johnston, Metz, voting yes.

Commissioners Bowie, Scharff, and Smith absent



City of Palo Alto

Finance Committee Staff Report

(ID # 13969)

Meeting Date: 4/19/2022

Title: Utilities Advisory Commission and Staff Recommendation That the Finance Committee Recommend the City Council Adopt a Resolution Approving the Fiscal Year 2023 Water Utility Financial Plan, Including Proposed Reserve Transfers, and Increasing Water Rates by Amending Rate Schedules W-1 (General Residential Water Service), W-2 (Water Service From Fire Hydrants), W-3 (Fire Service Connections), W-4 (Residential Master-Metered and General Non-Residential Water Service), and W-7 (Non-Residential Irrigation Water Service)

From: City Manager

Lead Department: Utilities

RECOMMENDATION

The Utilities Advisory Commission (UAC) and staff request that the Finance Committee recommend that the City Council:

1. Adopt a resolution (Attachment A):
 - a. Approving the Fiscal Year (FY) 2023 Water Utility Financial Plan ([Linked Document](#));
 - b. Approving a transfer of up to \$13.964 million from the Capital Improvement Program (CIP) Reserve to the Operations Reserve in FY 2022; and
 - c. Increasing Water Utility Rates Via the Amendment of Rate Schedules W-1 (General Residential Water service), W-2 (Water Service from Fire Hydrants), W-3 (Fire Service Connections), W-4 (Residential Master-Metered and General Non-Residential Water Service), and W-7 (Non-Residential Irrigation Water Service).

EXECUTIVE SUMMARY

The FY 2023 Water Utility Financial Plan ([Linked Document](#)) includes projections of the utility's costs and revenues for FY 2022 through FY 2027. Costs are projected to rise by about 4% per year over the next several years. Some capital projects were deferred in FY 2017 through FY 2021 leading to lower capital costs than budgeted. Many of these deferred capital projects are anticipated to be completed in FY 2022 and FY 2023, and a combination of funds from the Operations, CIP, CIP Reappropriations and Commitments reserve balances are available to provide funding. Additionally, the effects of the COVID-19 pandemic tended to increase overall

water use in Palo Alto, primarily from the residential sector. This, together with higher temperatures, led to higher revenues than forecasted in FY 2020 and FY 2021.

During the first half of FY 2022, water use in Palo Alto declined approximately 8% overall relative to FY 2020 levels as customers have responded to state, regional and local calls for water conservation during the ongoing drought. However, Water Utility reserve levels remain healthy at year end FY 2021: the CIP Reserve is at the maximum guideline level of \$10.7 million and the Operations Reserve is also at the maximum guideline level of approximately \$14 million with an additional \$7 million above the maximum that is considered unassigned. There is also \$9 million available in the Rate Stabilization Reserve at year end FY 2021. These reserve levels not only have allowed the Water Utility to hold rates flat for two years (FY 2021 and FY 2022), but also now allow the Water Utility to use these reserves to mitigate distribution rate increases (rates that cover the cost to deliver water within the City) to under 5% annually from FY 2023 through FY 2027 despite the ongoing drought conditions and the expected impact to water sales and revenue while still funding essential capital investments.

Customers have a separate commodity rate for purchased water from the San Francisco Public Utilities Commission (SFPUC) relative to the rest of the distribution-related portion of the volumetric rates. This commodity charge passes-through SFPUC rate increases to customers ([Resolution 9844](#)). The pass-through commodity rate is currently \$4.10 per hundred cubic feet (CCF), and it has remained at \$4.10 since FY 2017. On November 23, 2021, the SFPUC declared a local water shortage emergency by [Resolution No. 21-0177](#) calling for voluntary system-wide 10% water use reductions. SFPUC serves retail customers in San Francisco as well as Palo Alto and 25 other Wholesale Customers in the Bay Area. Wholesale Customers' collective voluntary water purchase cutback level is 13.7% from FY 2020 levels while Palo Alto's voluntary water purchase cutback level is 8% from FY 2020 levels. (Staff plans to request approval from Council for specific measures to implement these cutbacks in Palo Alto via a separate staff report). The cutback percentage varies amongst wholesale customers depending in part on each agency's Individual Supply Guarantee and seasonality of water usage.

As a result of these expected drought-related water purchase cutbacks, SFPUC provided a preliminary estimated range of wholesale rate increases from 15.1% to 25.1% for FY 2023 for the W-25 wholesale rate for agencies with long-term contracts; SFPUC could impose one or the other of the two rates at the end of the range, or potentially a rate in between. The current rate of \$4.10/CCF would increase on or around July 1, 2022 to between \$4.72/CCF and \$5.13/CCF. The SFPUC will not determine its final wholesale customer rate for FY 2023 until May or June, 2022. If SFPUC's final rate for FY 2023 does increase, Palo Alto will notify customers 30 days in advance of the pass-through rate increase via their billing statements. This commodity rate estimate is higher than SFPUC's previous estimates, and SFPUC reports that the reason for the change is the ongoing drought conditions and expected reductions in wholesale customer water use collectively. The total water rate increase range for Palo Alto customers is between 9% to 13% at the SFPUC commodity increase levels of 15.1% and 25.1%, respectively. This is equivalent to a monthly water bill increase of between \$7.77 and \$11.46 for residential

customers with annual median water usage at the SFPUC commodity increase levels of 15.1% and 25.1%, respectively.

BACKGROUND

Every year staff presents the Finance Committee with Financial Plans for the Electric, Gas, Water, and Wastewater Collection Utilities. The Financial Plans recommend rate adjustments required to maintain the financial health of these enterprises. These Financial Plans include a comprehensive overview of the operations of each enterprise, both retrospective and prospective, and are intended to be a reference for UAC and Council members as they review the budget and staff's rate recommendations. Each Financial Plan also contains a set of Reserve Management Practices describing the reserves for each utility and the management practices for those reserves.

All of the City's potable water comes from the SFPUC's Hetch Hetchy Regional Water System. This same system serves San Francisco and other Bay Area cities. San Francisco operates the system, but as much as two thirds of the water is used outside of San Francisco by 26 cities, water districts, and private utilities. These agencies, including the City, are frequently referred to as the "wholesale customers" (as compared to the SFPUC's "retail customers" in San Francisco). The Bay Area Water Supply and Conservation Agency (BAWSCA) represents the wholesale customers and negotiates with the SFPUC on their behalf. BAWSCA also ensures contract compliance through regular review of the SFPUC's accounting and capital expenditures.¹

The Water Utility has two main costs: water supply costs (primarily the cost of water delivered to Palo Alto from the Hetch Hetchy Regional Water System) and the costs of operating the distribution system (the system of pipes, pumps, reservoirs, and other infrastructure that carries water to Palo Alto customers). Both cost components have been increasing and are expected to continue to increase.

For many years, the largest cost increases have been on the water supply side. This is due primarily to major capital investments the SFPUC has made since 2010, partly due to pressure from wholesale customers. The Water System Improvement Program (WSIP) is a \$4.8 billion capital improvement program, one of the largest in the country, to rehabilitate and seismically strengthen the lower portions of the Hetch Hetchy Regional Water System. One of the goals is to achieve the capability to return to service within 24 hours after a major earthquake. Although much of the work is complete (the program was 98.9% complete as of September 2021), some of the projects are still under construction and bond financing of WSIP projects over the next several years will continue to drive wholesale rates up. The program has greatly improved the resiliency of the Hetch Hetchy Regional Water System but has also led water supply costs to approximately double.

CPAU's operational costs for the water utility have increased by approximately 6.2% per year over the last five years; operations and maintenance costs and resource management costs were the main reasons for the increase, driven primarily by increases in salaries and benefits.

¹ For a video summary of BAWSCA's activities, see <https://vimeo.com/283596665/5619ce2c11>

Capital costs have fluctuated from year to year. This Financial Plan projects increases in capital and operational costs that align as much as possible with the City's Budget and Long-Range Financial Forecast and average approximately 3% per year over the next five years.

DISCUSSION

Staff's annual assessment of the financial position of the City's water utility is to plan for adequate revenue to fund operations, in compliance with the cost of service requirements set forth in the California Constitution (Proposition 218). This includes making long-term projections of market conditions, the physical condition of the system, and other factors that could affect utility costs, and setting rates adequate to recover these costs. The current rate proposals are also based on the cost of service (COS) methodology described in the 2012 *Palo Alto Water Cost of Service & Rate Study*, which was updated in 2015, the 2015 Drought Rate memorandum completed by Raftelis Financial Consultants, and the 2019 update titled "Proposed FY 2020 Water Rates," (see [Attachment Q](#) to staff report 10295.²)

Proposed Actions

1. Increase rates by 4% for Rate Schedules W-1 (General Residential Water service), W-2 (Water Service from Fire Hydrants), W-3 (Fire Service Connections), W-4 (Residential Master-Metered and General Non-Residential Water Service), and W-7 (Non-Residential Irrigation Water Service); and
2. Transfer up to \$13.964 million from the CIP Reserve to the Operations Reserve in FY 2022.

The FY 2023 Water Utility Financial Plan ([Linked Document](#)) describes these proposed actions in detail. Tables 1 through 3 below illustrate the current and proposed rates under this Financial Plan. The rates shown below are in addition to the pass-through commodity rate that is charged to customers based on SFPUC supply charges. The pass-through commodity rate is currently \$4.10 per CCF. However, with SFPUC's proposed rate increase range of 15.1% to 25.1%, the current rate would increase on or around July 1, 2022 to between \$4.72/CCF and \$5.13/CCF, with no additional increase projected in the SFPUC meter charge.

² A cost of service study (COS) is a study using industry-standard techniques to determine how the costs of running the utility should be recovered from its customers; charges to each customer are set in proportion to the cost of serving that customer.

Table 1: Current and Proposed Water Consumption Charges

	Current (7/1/2019)	Proposed (7/1/2022)	Change (\$/CCF)	Change (%)
W-1 (Residential) Volumetric Rates (\$/CCF)				
Tier 1 Rates	2.56	2.67	0.11	4%
Tier 2 Rates	5.97	6.21	0.24	4%
W-2 (Construction) Volumetric Rates (\$/CCF)				
Uniform Rate	3.61	3.76	0.15	4%
W-4 (Commercial) Volumetric Rates (\$/CCF)				
Uniform Rate	3.61	3.76	0.15	4%
W-7 (Irrigation) Volumetric Rates (\$/CCF)				
Uniform Rate	5.50	5.72	0.22	4%

Table 2 and Table 3 show the current monthly service charges for rate schedules W-1, W-4 and W-7.

Table 2: Current and Proposed Monthly Service Charges for Residential W-1

Meter Size	Monthly Service Charge (\$/month based on meter size)		Change	
	Current (7/1/2019)	Proposed (7/1/2022)	\$	%
5/8"	20.25	21.06	0.81	4%
3/4"	20.25	21.06	0.81	4%
1"	20.25	21.06	0.81	4%
1 ½"	65.40	68.02	2.62	4%
2"	101.17	105.22	4.05	4%
3"	214.44	223.02	8.58	4%
4"	381.37	396.63	15.26	4%
6"	780.79	812.03	31.24	4%
8"	1,436.57	1,494.04	57.47	4%
10"	2,271.20	2,362.05	90.85	4%
12"	2,986.60	3,106.07	119.47	4%

Table 3: Current and Proposed Monthly Service Charges for W-4 and W-7

Meter Size	Monthly Service Charge (\$/month based on meter size)		Change	
	Current (7/1/2019)	Proposed (7/1/2022)	\$	%
5/8"	17.71	18.42	0.71	4%
3/4"	23.67	24.62	0.95	4%
1"	35.59	37.02	1.43	4%
1 1/2"	65.40	68.02	2.62	4%
2"	101.17	105.22	4.05	4%
3"	214.44	223.02	8.58	4%
4"	381.37	396.63	15.26	4%
6"	780.79	812.03	31.24	4%
8"	1,436.57	1,494.04	57.47	4%
10"	2,271.20	2,362.05	90.85	4%
12"	2,986.60	3,106.07	119.47	4%

Table 4 shows the current and proposed monthly service charges for rate schedule W-3.

Table 4: Current and Proposed Monthly Service Charges for Fire Services (W-3)

Meter Size	Monthly Service Charge (\$/month based on meter size)		Change	
	Current (7/1/2019)	Proposed (7/1/2022)	\$	%
2"	\$4.17	\$4.34	0.17	4%
4"	\$25.81	\$26.85	1.04	4%
6"	\$74.96	\$77.96	3.00	4%
8"	\$159.74	\$166.13	6.39	4%
10"	\$287.27	\$298.77	11.50	4%
12"	\$464.02	\$482.59	18.57	4%

Bill Impact of Proposal

Table 5 and Table 6 show the impact of the proposed July 1, 2022 rate changes on the median residential, commercial and irrigation bills including the 4% City recommended rate increase and the SFPUC commodity pass-through rate increase of 15.1% and 25.1%.

Table 5: Impact of Proposed Water Rate Changes on Residential Bills

Usage (CCF/mo.)	Bill under Current Rates (7/1/2019)	Bill under Proposed Rates SFPUC 15.1% Rate Increase (7/1/2022)	Change		Bill under Proposed Rates SFPUC 25.1% Rate Increase (7/1/2022)	Change	
			\$/mo.	%		\$/mo.	%
4	\$46.89	\$50.62	\$3.73	8%	\$52.26	\$5.37	11%
(Winter median) 7	\$70.28	\$76.33	\$6.05	9%	\$79.20	\$8.92	13%
(Annual median) 9	\$90.42	\$98.19	\$7.77	9%	\$101.88	\$11.46	13%
(Summer median) 14	\$140.77	\$152.84	\$12.07	9%	\$158.58	\$17.81	13%
25	\$251.54	\$273.07	\$21.53	9%	\$283.32	\$31.78	13%

Table 6: Impact of Proposed Water Rate Changes on Commercial Bills

Usage (CCF/mo.)	Bill under Current Rates (7/1/2019)	Bill under Proposed Rates SFPUC 15.1% Rate Increase (7/1/2022)	Change		Bill under Proposed Rates SFPUC 25.1% Rate Increase (7/1/2022)	Change	
			\$/mo.	%		\$/mo.	%
Commercial (W-4) (5/8" meters)							
(Annual median) 12	\$110.23	\$120.18	\$9.95	9%	\$125.10	\$14.87	13%
(Annual average) 64	\$511.15	\$561.14	\$49.99	10%	\$587.38	\$76.23	15%
Irrigation (W-7) (1 1/2" meters)							
(Winter median) 9	\$151.80	\$161.98	\$10.18	7%	\$165.67	\$13.87	9%
(Summer median) 37	\$420.60	\$454.30	\$33.7	8%	\$469.47	\$48.87	12%
(Winter average) 56	\$603.00	\$652.66	\$49.66	8%	\$675.62	\$72.62	12%
(Summer average) 199	\$1,975.80	\$2,145.58	\$169.78	9%	\$2,227.17	\$251.37	13%

Median quantities of water use are expected to decrease from pre-drought levels, however, as calls for water conservation continue. Customers who conserve will experience less of a bill increase than those customers who are not reducing water consumption.

FY 2023 Financial Plan's Projected Rate Adjustments for the Next Five Fiscal Years

Table 4 shows the projected rate adjustments over the next five years and their impact on the annual median residential water bill for 5/8" customers. These projected rate adjustments include the impact of the range of projected changes to the pass-through commodity rate. Given the uncertainty surrounding drought water demand forecasts these projections are highly uncertain beyond FY 2024.

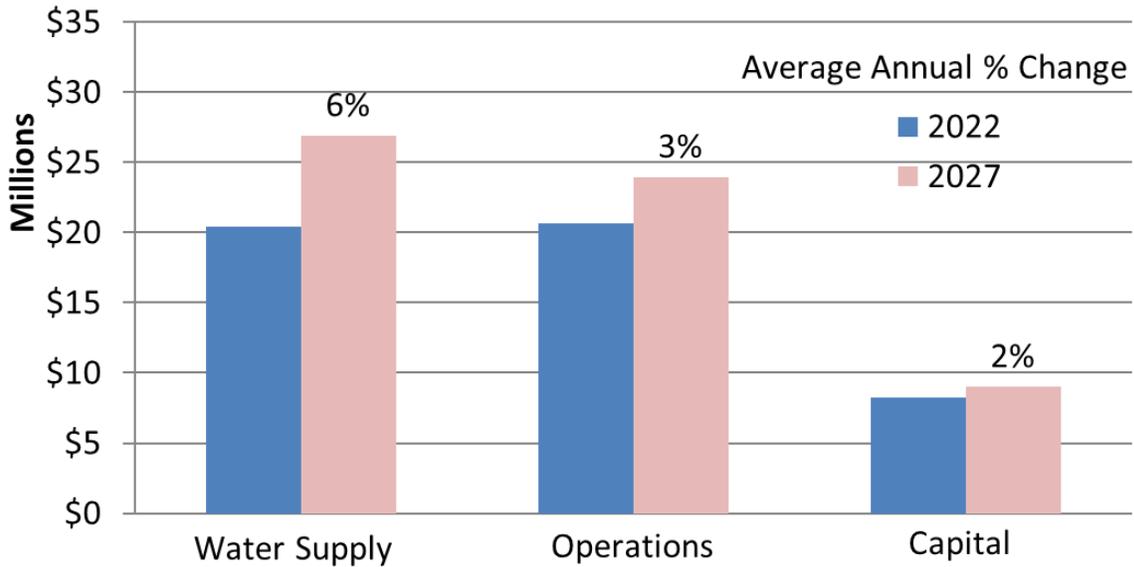
Table 7: Projected Rate Adjustments, FY 2023 to FY 2027 (5/8" meter)

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Water Utility (SFPUC 15.1% rate increase in FY 2023)	9%	9%	3%	2%	0%
Estimated Monthly Bill	\$98.19	\$107.03	\$110.25	\$112.46	\$112.46
Estimated Bill Impact (\$/mo) ¹	\$7.77	\$8.84	\$3.22	\$2.21	\$0
Water Utility (SFPUC 25.1% rate increase in FY 2023)	13%	4%	0%	5%	0%
Estimated Monthly Bill	\$101.88	\$105.96	\$105.96	\$111.26	\$111.26
Estimated Bill Impact (\$/mo) ¹	\$11.46	\$4.08	\$0	\$5.30	\$0

1) estimated impact on median residential water bill for customers with 5/8" meter, which is currently \$90.42.

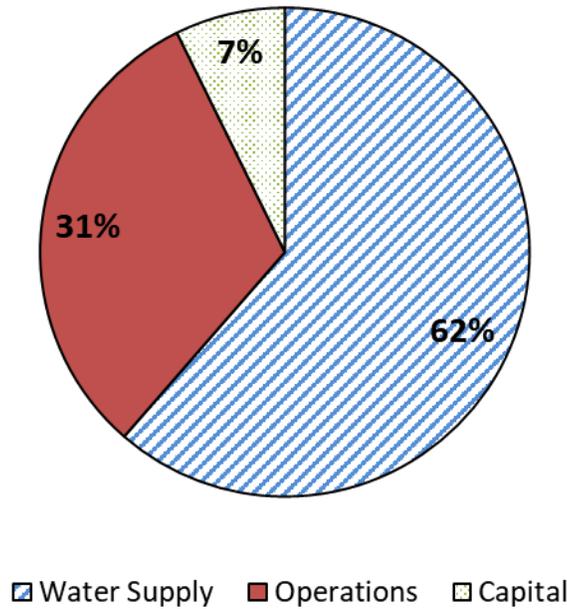
Figures 1 and 2 below illustrate the projected increases in the Water Utility’s costs between FY 2022 and FY 2027.

Figure 1: Projected FY 2022 and FY 2027 costs



**Figure 2: Percentage of Total Cost Increase From FY 2022 to FY 2027
Attributed to Supply, Capital, and Operations Costs**

**Contribution to FY 2022 to FY 2027
Cost Increases by Source**



The “Capital” bars on Figure 1 reflect the capital program contributions to the CIP Reserve. Additionally, this Financial Plan includes one-time transfers to the CIP Reserve to fund seismic reservoir replacement work. There are CIP funds available for projects that were budgeted in FY 2021 and prior years that are carried forward or reappropriated to FY 2022 and will be used to offset the new CIP funding needs.

The cost of water is a major driver for the increase in the water utility’s costs (and therefore rates) over the next several years. Wholesale water costs are adopted by the SFPUC, and generally have changed on an annual basis. Wholesale rates are projected to increase annually on average by 6% per year from FY 2023 to FY 2027. The SFPUC is currently engaged in a \$4.8 billion Water System Improvement Program (WSIP) for regional projects. As of September 30, 2021, 45 of the 52 regional projects were complete or in close-out while 5 of the regional projects were under construction.³ This has resulted and will continue to result in large increases in the annual debt service costs assigned to wholesale customers like Palo Alto. After

³ First Quarter FY 2021 - 2022 WSIP Regional Quarterly Report, https://sfpuc.org/sites/default/files/documents/Q1FY22_WSIP_Regional_Qtrly_Report.pdf; [two projects do not include construction: Long-Term Mitigation Endowment and Watershed and Environmental Improvement Program.](#)

each WSIP project is completed, wholesale customers must start paying the debt service costs within 3 to 4 years. For most of those costs, funded with bond financing, the costs will be paid off over approximately 30 years. The currently estimated WSIP completion date is June 30, 2023, as adopted by the SFPUC in April of 2020.

As WSIP projects are completed, SFPUC is pursuing a suite of other capital improvement work; dam safety improvements and Mountain Tunnel repairs are rate increase drivers during the next 10-year timeframe. Future and in-progress construction work will require bond funding, and the SFPUC's financial plans show debt service cost for the water enterprise growing by 32% between FY 2021 and FY 2026, and by 40% by FY 2028.⁴ Initial wholesale rate increase projections are 6% per year on average through FY 2027 to cover increasing costs, primarily debt service from ongoing capital investments.

Changes in usage due to drought, or recovery from drought, can make the magnitude of future increases difficult to predict. The SFPUC's costs to operate the Regional Water System are primarily fixed costs, so the water rate charged to wholesale customers like the City of Palo Alto is highly dependent on water usage by all users of the Regional Water System. The FY 2023 financial plan calculates rate impacts based upon the January 2022 rate range provided by SFPUC. However, the forecast is highly uncertain beyond FY 2024 because of the uncertainty surrounding drought assumptions.

The SFPUC has been accumulating funds in its Wholesale Customer Balancing Account due to a variety of factors, including: SFPUC sold more wholesale water than the sales projection it used for rate setting, there were cost savings in the wholesale revenue requirement due to the SFPUC's debt refinancing, and BAWSCA's annual review of the wholesale revenue requirement resulted in credits applied to the balancing account. The SFPUC has been returning these funds to wholesale customers by using them to offset the required revenues from wholesale customers and holding rates constant since FY 2017. Because of the water use reductions expected during the ongoing drought conditions and calls for voluntary conservation (10% system-wide and 13.7% for the wholesale customers collectively), all of the available funding in the balancing account (approximately \$86 million at year end FY 2021) is expected to be returned to wholesale customers in FY 2022 and FY 2023 (\$43 million during the current fiscal year and an additional \$43 million in FY 2023). Without the use of the balancing account, SFPUC's rate range would be higher.

There remains some uncertainty in the forecasts of capital costs for the water utility in coming years. Water main replacement costs have risen substantially in recent years. The regional and even national focus on infrastructure improvement has created labor shortages, leading to higher bid prices than were seen in the past. Several factors go into main replacement cost, such as location as well as the length of main segments. Consistent with the FY 2022 Financial Plan, this plan includes larger main replacement construction projects every other year instead

⁴ FY 2018-19 & FY 2019-20 Adopted SFPUC Budget,
<https://sfwater.org/modules/showdocument.aspx?documentid=13147>

of smaller projects annually. This main replacement schedule will allow CPAU to meet its main replacement needs and addresses challenges in the current construction market while optimizing current staffing resources. Larger main replacement construction projects every other year are anticipated to attract more contractors to bid on the larger projects.

Capital Projects & Reserves

Higher bid cost and delays in project schedules resulted in a deferment of main replacement projects in FY 2017 through FY 2021, temporarily lowering CIP expenditures. This resulted in the Operations Reserve being filled to the maximum guideline level. For example, at year end FY 2021, an estimated \$7 million was above the maximum guideline level in the Operations Reserve, and was assigned to the Operations Reserve. The funds will be used to cover water utility operational and capital costs in FY 2022 and FY 2023. The capital budget includes one-time seismic water system upgrades and/or replacements for the Corte Madera, Park and Dahl reservoirs to improve earthquake resistance. This work will improve protection from water loss at these reservoirs in a seismic event.

This Plan updates the transfer proposals due to project cost increases and available reserve balances. Specifically, the proposed transfer from the Operations Reserve to the CIP Reserve is \$3.5 million in FY 2023 (see lines 6 and 8 in Table 8). \$4 million is projected to be transferred in FY 2026 from the Operations and Rate Stabilization Reserves to the CIP Reserve (see lines 6, 7 and 8 in Table 8). FY 2024 and FY 2026 transfers from the Rate Stabilization Reserve to the Operations Reserve will manage the trajectory of future year rate increases and provide sufficient funding for the seismic reservoir retrofits/replacements (see line 7 in Table 8).

Staff will request Council approval for the transfers in future Financial Plans, if needed, once the year-end FY 2022 reserve balances are known. The Operations Reserve levels are projected to be sufficient to support these transfers, together with the FY 2024 and FY 2026 transfers from the Rate Stabilization Reserve to the Operations Reserve described above.

Line 12 of Table 8 shows the anticipated CIP Reserve transfers in FY 2022 through FY 2027 from the CIP Reserve to the Operations/Unassigned Reserve. Line 10 of Table 8 shows the anticipated CIP Reserve transfers, or capital program contributions, in FY 2022 through FY 2027 from the Operations/Unassigned Reserve to the CIP Reserve. There is also approximately \$10.4 million in CIP that was budgeted in FY 2021 or prior years that is reappropriated or carried forward from previous years and is currently in the CIP Reappropriations and CIP Commitments Reserves. See Appendix B of the Water Utility Financial Plan for detailed information.

The CIP Reserve aims to stabilize uneven annual funding associated with ongoing CIP projects including water main replacements that are scheduled to occur every other year, and is a source for one-time or immediately needed projects. In June 2020 Council approved consistent annual funding from the Operations to the CIP Reserves ([Resolution 9904](#)) and in June 2021 approved a transfer of up to \$13.24 million from the Operations Reserve to the CIP Reserve in

FY 2022 ([Resolution 9974](#)); \$5 million of this was for one-time costs associated with reservoir replacements/rehabilitations. This Financial Plan projects that a capital program contribution of \$8.24 million in FY 2022 (see line 9 of Table 8) from the Operations Reserve to the CIP Reserve will be sufficient based upon actual and projected revenue and expenses as well as FY 2021 year-end reserve balances.

Withdrawals from the CIP Reserve for use on capital projects require Council action.⁵ This Financial Plan therefore requests Council approval to transfer up to \$13.964 million from the CIP Reserve to the Operations Reserve to pay for estimated CIP in FY 2022. This figure is the portion of planned CIP that will not be paid for through funds collected in prior years (essentially the FY 2022 Capital budget, less funds available in the Reappropriations and Commitments Reserves), shown in line 12 of Table 8. The need for each of the transfers will be re-evaluated once the year end reserve balances for FY 2022 are known. Figure 3 shows the CIP Reserve year end balances.

Rate Stabilization Reserve

The Rate Stabilization Reserve is projected to be used to buffer distribution rate increases as SFPUC initiates a series of large wholesale supply rate increases beginning in July 2022. In June 2020, Council approved a transfer of \$5 million from the Operations Reserve to the Rate Stabilization Reserve, bringing the balance in the reserve to \$9.07 million. CPAU expects to transfer \$6 million from the Rate Stabilization Reserve to the Operations Reserve in FY 2024 and an additional \$3 million in FY 2026. The use of the Rate Stabilization Reserve balances in this way, together with the cost and revenue projections in this Financial Plan, is expected to hold CPAU water rate increases to 5% or less annually over the next five years, while continuing to fund essential capital work. This Financial Plan projects that the Rate Stabilization Reserve will be exhausted by the end of FY 2026. Figure 4 illustrates the year end reserve balances for FY 2021 (actual) and projected through FY 2027.

⁵ See Section 5(b) of the Water Utility Reserves Management Practices; Appendix C to the attached Water Financial Plan.

Figure 3: Actual FY 2021 and Projected Capital Reserve Balances FY 2022 to FY 2027

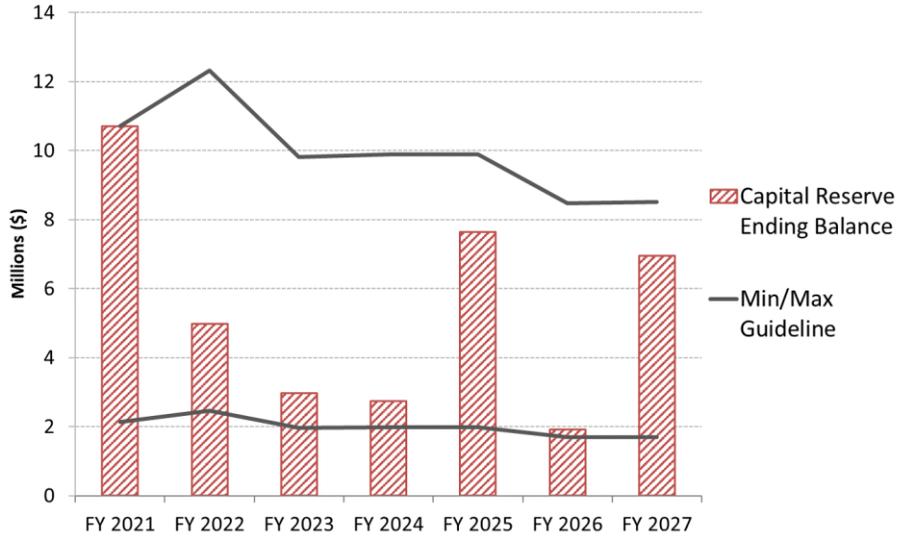


Figure 4: Actual Year End Reserve Levels for FY 2021 and Projections through FY 2027

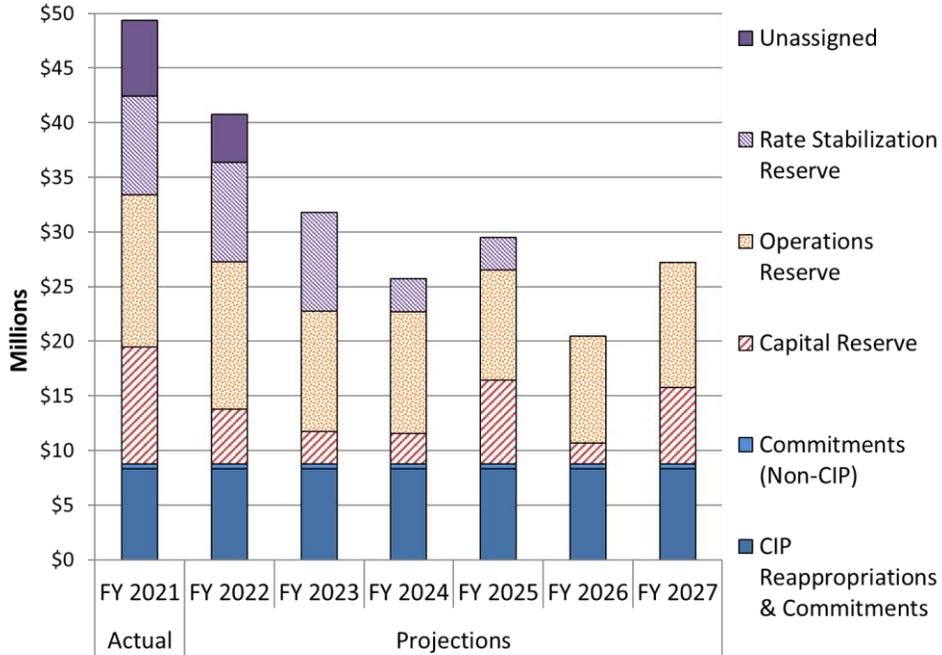


Table 8: Operations & Unassigned, Rate Stabilization and CIP Reserves Starting and Ending Balances, Revenues, Transfers To/(From) Reserves and Capital Program Contribution To/(From) Reserves Projected for FY 2022 to FY 2027 (\$000)

		FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
	Starting Balance						
(1)	Operations/Unassigned	20,774	17,926	10,981	11,179	10,102	9,747
(2)	Rate Stabilization	9,069	9,069	9,069	3,000	3,000	-
(3)	CIP	10,707	4,983	2,961	2,741	7,635	1,916
	Revenues						
(4)	Total Revenue	45,917	50,538	56,639	58,912	60,627	60,972
(5)	Transfers In	568	580	591	603	615	628
	Transfers						
(6)	Operations/Unassigned	-	(3,500)	2,569	-	(1,000)	-
(7)	Rate Stabilization	-	-	(6,069)	-	(3,000)	-
(8)	CIP	-	3,500	3,500	-	4,000	-
	Capital Program Contribution						
(9)	Operations/Unassigned	(8,240)	(8,487)	(8,742)	(9,004)	(9,004)	(9,004)
(10)	CIP	8,240	8,487	8,742	9,004	9,004	9,004
	Expenses						
(11)	Total Expenses other than CIP	(40,820)	(45,797)	(49,966)	(50,689)	(50,688)	(49,926)
(12)	Planned CIP	(13,964)	(14,010)	(12,462)	(4,109)	(18,723)	(3,980)
(13)	Transfers Out	(273)	(278)	(894)	(900)	(906)	(911)
	Ending Balance						
(1)+(4)+(5)+(6) +(9)+(11)+(13)	Operations/Unassigned	17,926	10,981	11,179	10,102	9,747	11,505
(2)+(7)	Rate Stabilization	9,069	9,069	3,000	3,000	-	-
(3)+(8)+(10)+ (12)*	CIP	4,983	2,961	2,741	7,635	1,916	6,940
	Operations Reserve Guideline Levels						
(14)	Minimum	6,755	7,574	8,361	8,480	8,481	8,357
(15)	Maximum	13,510	15,148	16,721	16,961	16,962	16,714

* Planned CIP (item 12) is reflected as an expense in the CIP Reserve and does not include CIP funded through Reappropriations or Commitments reserves. This Financial Plan requests Council approval to transfer the Planned CIP of \$13.964 million from the CIP Reserve to the Operations Reserve.

Water Bill Comparison with Surrounding Cities

Table 9 compares water bills for residential customers to those in surrounding communities as of October 2021 (under current the City's current water rates). Palo Alto customers have some of the highest monthly bills of the group, although bills for smaller water users are lower than in some surrounding communities. It is unclear at this time what water rate changes may be implemented in surrounding communities for FY 2023. The average community rate calculated in the following table is the mean of the six surrounding communities listed. These communities

are the same six that Palo Alto compares itself to in the annual budget across Water, Wastewater, Gas and Electric industries.

Table 9: Residential Monthly Water Bill Comparison

Usage (CCF/month)	Residential monthly bill comparison (\$/month)* As of January, 2021							
	Palo Alto	Menlo Park	Mountain View	Hayward	Redwood City	Santa Clara	Los Altos	Average of Surrounding Communities
4	\$46.89	\$50.83	\$38.80	\$39.80	\$54.04	\$26.76	\$44.03	\$42.38
(Winter median) 7	\$70.28	\$73.43	\$60.07	\$61.34	\$76.09	\$46.83	\$61.87	\$63.27
(Annual median) 9	\$90.42	\$88.49	\$74.25	\$75.70	\$90.79	\$60.21	\$73.77	\$77.20
(Summer median) 14	\$140.77	\$129.34	\$109.70	\$119.80	\$138.94	\$93.66	\$106.07	\$116.25
25	\$251.54	\$229.75	\$230.19	\$216.82	\$267.39	\$167.25	\$192.06	\$217.24

*Based on the FY 2013 BAWSCA survey, the percentage 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. Los Altos does not receive water supply from SFPUC.

Changes from Last Year's Financial Plan

Table 10 shows rate projections from the last two Financial Plans for FY 2021 and FY 2022 as well as the expected impact of SFPUC's range of rate increases for wholesale rates when combined with Palo Alto's distribution rate increase. If SFPUC's rate increase is 25.1% in FY 2023, the rate forecast is more variable with an overall rate increase for Palo Alto customers that is higher in FY 2023, and similar in FY 2026 to last year's projection, but lower in FY 2024 and FY 2025. Given the magnitude and range of the SFPUC wholesale rate increase as well as the uncertainty regarding drought conditions, the water rate forecast is highly uncertain in FY 2024 and beyond.

Table 10: Proposed and Projected Water Rate Changes for FY 2023 to FY 2027

Projection	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Current low range (SFPUC Rate Increase 15.1% in FY 2023)	9%	9%	3%	2%	0%
Current high range (SFPUC Rate Increase 25.1% in FY 2023)	13%	4%	0%	5%	0%
FY 2022 Plan	5%	5%	5%	5%	-
FY 2021 Plan	5%	5%	5%	-	-

Table 11 and Table 12 show the proposed water rate increases broken out into the needed increases to commodity revenues, to cover the costs of purchasing water from SFPUC at both ends of its preliminary estimated range and separately the distribution revenue increases to pay for the upkeep of Palo Alto's water distribution system.

Table 11: Proposed Commodity and Distribution Water Rate Changes FY 2023 to FY 2027 if SFPUC Wholesale Rate Increase is 15.1% in FY 2023

Projection	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Commodity Rate (SFPUC Wholesale Rate)	15%	15%	2%	0%	0%
Distribution Rate	4%	4%	4%	4%	0%
Total Rate	9%	9%	3%	2%	0%

Table 12: Proposed Commodity and Distribution Water Rate Changes FY 2023 to FY 2027 if SFPUC Wholesale Rate Increase is 25.1% in FY 2023

Projection	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Commodity Rate (SFPUC Wholesale Rate)	25%	5%	-4%	5%	0%
Distribution Rate	4%	4%	4%	4%	0%
Total Rate	13%	4%	0%	5%	0%

This plan uses the Rate Stabilization Reserve and CIP Reserve to stabilize rates while anticipating a series of large wholesale water rate increases and funding needed for water CIP budgets.

TIMELINE

The City Council will consider the proposed Financial Plans and amended rate schedules with the FY 2023 budget, expected in June, at which time the public hearing required by Article XIID of the State Constitution (added by Proposition 218) will be held. If Council approves the proposed rate increases, they will become effective July 1, 2022. Assuming the Finance Committee supports the proposed rate adjustments, staff will send notification of the potential rate increases to customers in April 2022.

RESOURCE IMPACT

Staff projects estimated revenue for the Water Utility in FY 2023 to increase within the range of approximately 9% (\$3.9 million), if the SFPUC wholesale rate increase is 15.1%, to 13% (\$5.6 million), if the SFPUC wholesale rate increase is 25.1%, as a result of the proposed rate changes. The City is also a water customer, and staff projects required general fund cost for water service to increase in FY 2023 by approximately \$0.21 million if the SFPUC wholesale rate increase is 15.1%, up to approximately \$0.26 million if the SFPUC wholesale rate increase is 25.1% as a result of the proposed rate changes. Water Fund expense and revenue impacts and General Fund expense impacts in this report from the distribution rate increase of 4% and the SFPUC wholesale rate increase of 25.1% are programmed in the FY 2023 Proposed Operating Budget. If the final rates adopted by Council in June differ from those proposed in this report, further adjustments may be brought forward as part of the annual budget process. See the FY 2023 Water Utility Financial Plan ([Linked Document](#)) for a more comprehensive overview of the projected cost and revenue changes for the next five years.

POLICY IMPLICATIONS

The proposed water rate adjustments are consistent with Council-adopted Reserve Management Practices that are part of the Financial Plans. Staff developed the water rate adjustments using a cost-of-service study and methodology consistent with the cost of service requirements of Proposition 218.

STAKEHOLDER ENGAGEMENT

The UAC reviewed the preliminary financial forecasts at its December 1, 2021 meeting ([UAC Report #13659](#)). The Finance Committee reviewed the preliminary financial forecasts at its February 1, 2022 meeting ([Staff Report 13839](#)).

The UAC reviewed staff's recommendation on the FY 2023 Water Financial Plan, proposed transfers, and rate increases at its March 2, 2022 meeting ([Staff Report #13660](#)). At that meeting one Commissioner requested that an updated table of all the rate increases be provided with each financial plan. One Commissioner recommended including planning in the out years for water demand associated with Regional Housing Needs Assessment. One Commissioner recommended doing more outreach to customers to make them aware of the increases anticipated from SFPUC. The UAC unanimously approved staff's proposal 4-0. Attachment C contains an excerpt of the draft meeting minutes.

ENVIRONMENTAL REVIEW

The Finance Committee's review and recommendation to Council on the FY 2023 Water Financial Plan and rate adjustments does not meet the definition of a project requiring California Environmental Quality Act (CEQA) review under Public Resources Code Section 21065 thus no environmental review is required.

Attachments:

- Attachment A: Resolution Adopting Water Utility Financial Plan
- Attachment B: Redlined Water Rate Schedules
- Attachment C: Excerpt Draft UAC Meeting Minutes 3-2-22

* NOT YET APPROVED *

Resolution No. _____

Resolution of the Council of the City of Palo Alto Approving the
FY 2023 Water Utility Financial Plan and Reserve Transfer, and
Increasing Water Rates by Amending Rate Schedules W-1
(General Residential Water Service), W-2 (Water Service from
Fire Hydrants), W-3 (Fire Service Connections), W-4 (Residential
Master-Metered and General Non- Residential Water Service),
and W-7 (Non-Residential Irrigation Water Service)

RECITALS

- A. Each year the City of Palo Alto (“City”) regularly assesses the financial position of its utilities with the goal of ensuring adequate revenue to fund operations. This includes making long-term projections of market conditions, the physical condition of the system, and other factors that could affect utility costs, and setting rates adequate to recover these costs. The City does this with the goal of providing safe, reliable, and sustainable utility services at competitive rates. The City adopts Financial Plans to summarize these projections.
- B. The City uses reserves to protect against contingencies and to manage other aspects of its operations, and regularly assesses the adequacy of these reserves and the management practices governing their operation. The status of utility reserves and their management practices are included in Reserves Management Practices attached to and made part of the Financial Plans.
- C. 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.
- D. On _____, 2022, the City Council held a full and fair public hearing regarding the proposed rate increase and considered all protests against the proposals.
- E. As required by Article XIII D, Section 6 of the California Constitution and applicable law, notice of the _____ 2022 public hearing was mailed to all City of Palo Alto Utilities water customers by _____, 2022.
- F. The City Clerk has tabulated the total number of written protests presented by the close of the public hearing, and determined that it was less than fifty percent (50%) of the total number of customers and property owners subject to the proposed water rate amendments, therefore a majority protest does not exist against the proposal.

The Council of the City of Palo Alto does hereby RESOLVE, as follows:

SECTION 1. The Council hereby adopts the FY 2023 Water Utility Financial Plan.

SECTION 2. The Council hereby approves a transfer from the Capital Improvement Program Reserve to the Operations Reserve of up to \$13,964,000 in FY 2022 as described in the FY 2023 Water Utility Financial Plan.

SECTION 3. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule W-1 (General Residential Water Service) is hereby amended to read as attached and incorporated. Utility Rate Schedule W-1, as amended, shall become effective July 1, 2022.

SECTION 4. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule W-2 (Water Service from Fire Hydrants) is hereby amended to read as attached and incorporated. Utility Rate Schedule W-2, as amended, shall become effective July 1, 2022.

SECTION 5. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule W-3 (Fire Service Connections) is hereby amended to read as attached and incorporated. Utility Rate Schedule W-3, as amended, shall become effective July 1, 2022.

SECTION 6. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule W-4 (Residential Master-Metered and General Non-Residential Water Service) is hereby amended to read as attached and incorporated. Utility Rate Schedule W-4, as amended, shall become effective July 1, 2022.

SECTION 7. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule W-7 (Non-Residential Irrigation Water Service) is hereby amended to read as attached and incorporated. Utility Rate Schedule W-7, as amended, shall become effective July 1, 2022.

SECTION 8. The City Council finds as follows:

- a. Revenues derived from the water rates approved by this resolution do not exceed the funds required to provide water service.
- b. Revenues derived from the water rates approved by this resolution shall not be used for any purpose other than providing water service, and the purposes set forth in Article VII, Section 2, of the Charter of the City of Palo Alto.
- c. The amount of the water rates imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the water service attributable to the parcel.

SECTION 9. 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.

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Attachment: Attachment A: Resolution Adopting Water Utility Financial Plan (13969 : FY 2023 Water Financial Plans and Rates)

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SECTION 10. The Council finds that the adoption of this resolution approving the Financial Plan and Reserve transfers does not meet the California Environmental Quality Act’s (CEQA) definition of a project under Public Resources Code Section 21065 and CEQA Guidelines Section 15378(b)(5), because it is an administrative governmental activity which will not cause a direct or indirect physical change in the environment, and therefore, no environmental review is required. The Council finds that the adoption of this resolution changing water rates to meet operating expenses, purchase supplies and materials, meet financial reserve needs and obtain funds for capital improvements necessary to maintain service 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

GENERAL RESIDENTIAL WATER SERVICE

UTILITY RATE SCHEDULE W-1

A. APPLICABILITY:

This schedule applies to separately metered single-family residential dwellings receiving Water Service from the City of Palo Alto Utilities.

B. TERRITORY:

This schedule applies everywhere the City of Palo Alto provides Water Services.

C. RATES:

<u>Monthly Service Charge:</u>	<u>Per Meter Per Month</u>
For meters 5/8-inch to 1 inch	\$ 20.25 <u>21.06</u>
For 1 1/2 inch meter	65.40 <u>68.02</u>
For 2-inch meter	101.17 <u>105.22</u>
For 3-inch meter	214.44 <u>223.02</u>
For 4-inch meter	381.37 <u>396.63</u>
For 6-inch meter	780.79 <u>812.03</u>
For 8-inch meter	1,436.57 <u>1,494.04</u>
For 10-inch meter	2,271.20 <u>2,362.05</u>
For 12-inch meter.....	2,986.60 <u>3,106.07</u>

<u>Volumetric Rates:</u> (To be added to Service Charge, applicable to all pressure zones.)	<u>Per Hundred Cubic Feet Per Month</u>
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Commodity Rate:

Water Delivery Charge from SFPUC	\$ 4.10 <u>4.72-5.13</u>
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Distribution Rate:

Tier 1 usage	\$256 <u>267</u>
Tier 2 usage (All usage over 100% of Tier 1)	597 <u>621</u>

CITY OF PALO ALTO UTILITIES

Issued by the City Council

Supersedes Sheet No W-1-1 dated 7-1-2019~~8~~



CITY OF PALO ALTO UTILITIES

Effective 7-1-2022~~19~~

Sheet No ~~W-1-1~~

Attachment: Attachment B: Redlined Water Rate Schedules (13969 : FY 2023 Water Financial Plans and Rates)

GENERAL RESIDENTIAL WATER SERVICE

UTILITY RATE SCHEDULE W-1

Drought Surcharges (deactivated):

A drought surcharge will be added to the Customer’s applicable commodity rate for Tier 1 and Tier 2 Water usage when the City Council has determined that a Water reduction level is in effect for the City as described in Section D.43. The drought surcharges in the table below are measured in dollars per hundred cubic feet (ccf).

Water Usage Reduction level	Level 1 (10/15%)	Level 2 (20%)	Level 3 (25%)
Tier 1	0.20	0.43	0.64
Tier 2	0.58	1.21	1.85

Temporary Service – Developers

Temporary unmetered service to residential subdivision developers, per connection \$6.00

D. SPECIAL NOTES:

1. Calculation of Cost Components

The actual bill amount is calculated based on the applicable rates in Section C above and adjusted for any applicable discounts, surcharges and/or taxes. On a Customer’s bill statement, the bill amount may be broken down into appropriate components as calculated under Section C.

2. Commodity Rate

The Commodity Charge is based on the water delivery rate per the San Francisco Public Utility Commission (SFPUC) Water Rate Schedule W-25: Wholesale Use with Long-Term Contract. The Commodity Charge will be passed through automatically via periodic rate adjustments to account for increases in wholesale water charges, as well as inflation. The pass-through period will be effective for fiscal years 2020 through 2024, inclusive. Customers will be provided notice of any adjustments via their billing statements.

3. Calculation of Usage Tiers

CITY OF PALO ALTO UTILITIES

Issued by the City Council

Supersedes Sheet No W-1-2 dated 7-1-2019~~8~~



CITY OF PALO ALTO UTILITIES

Effective 7-1-2022~~19~~

Sheet No ~~W-1-2~~

Attachment: Attachment B: Redlined Water Rate Schedules (13969 : FY 2023 Water Financial Plans and Rates)

GENERAL RESIDENTIAL WATER SERVICEUTILITY RATE SCHEDULE W-1

Tier 1 Water usage shall be calculated and billed based upon a level of 0.2 ccf per day rounded to the nearest whole ccf, based on Meter reading days of Service. As an example, for a 30 day bill, the Tier 1 level would be 0 through 6 ccf. For further discussion of bill calculation and proration, refer to Rule and Regulation 11.

4. Drought Surcharge

During period of Water shortage or restrictions on local Water use, the City Council may, by resolution, declare the need for citywide Water conservation at the 10/15%, 20% or 25% level. While such a resolution is in effect, a drought surcharge will apply. The purpose of the drought surcharge is to recover revenues lost as a result of reduced consumption.

{End}

CITY OF PALO ALTO UTILITIES

Issued by the City Council

Supersedes Sheet No W-1-3
dated 7-1-201~~98~~



CITY OF PALO ALTO
UTILITIES

Effective 7-1-20~~21~~²⁴
Sheet No ~~W-1-3~~

WATER SERVICE FROM FIRE HYDRANTS

UTILITY RATE SCHEDULE W-2

A. APPLICABILITY:

This schedule applies to all Water taken from fire hydrants for construction, maintenance, and other uses in conformance with provisions of a Hydrant Meter Permit.

B. TERRITORY:

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

C. RATES:

1. Monthly Service Charge.

METER SIZE

5/8 inch	50.00
3 inch	125.00

2. Volumetric Rate: (per hundred cubic feet)

Commodity Rate:
Water Delivery Charge from SFPUC ~~\$4.10~~4.72-5.13

Distribution Rate:.....~~\$3.61~~3.76

4. Drought Surcharges (deactivated):

A drought surcharge will be added to the Customer’s applicable Commodity rate when the City Council has determined that a Water reduction level is in effect for the City as described in Section D.65. The drought surcharges in the table below are measured in dollars per hundred cubic feet (ccf).

Water Usage Reduction level	Level 1 (10/15%)	Level 2 (20%)	Level 3 (25%)
Surcharge	0.26	0.53	0.77

D. SPECIAL NOTES:

CITY OF PALO ALTO UTILITIES
Issued by the City Council

Supersedes Sheet No W-2-1
dated 7-1-2019~~98~~



Effective 7-1-2022~~19~~
Sheet No ~~W-2-1~~

Attachment: Attachment B: Redlined Water Rate Schedules (13969 : FY 2023 Water Financial Plans and Rates)

WATER SERVICE FROM FIRE HYDRANTS

UTILITY RATE SCHEDULE W-2

1. Monthly charges shall include the applicable monthly Service Charge in addition to usage billed at the commodity rate.
2. The Commodity Charge is based on the water delivery rate per the San Francisco Public Utility Commission (SFPUC) Water Rate Schedule W-25: Wholesale Use with Long-Term Contract. The Commodity Charge will be passed through automatically via periodic rate adjustments to account for increases in wholesale water charges, as well as inflation. The pass-through period will be effective for fiscal years 2020 through 2024, inclusive. Customers will be provided notice of any adjustments via their billing statements.
3. Any person or company using a hydrant without first obtaining a valid Hydrant Meter Permit shall pay a fee of \$50.00 for each day of such use in addition to all other costs and fees provided in this schedule. A hydrant permit may be denied or revoked for failure to pay such fee.
4. A Meter deposit of \$750.00 may be charged any applicant for a Hydrant Meter Permit as a prerequisite to the issuance of a permit and Meter(s). A charge of \$50.00 per day will be added for delinquent return of hydrant Meters. A fee will be charged for any Meter returned with missing or damaged parts.
5. Any person or company using a fire hydrant improperly or without a permit, or who draws Water from a hydrant without a Meter installed and properly recording usage shall, in addition to all other applicable charges be subject to criminal prosecution pursuant to the Palo Alto Municipal Code.
6. During period of Water shortage or restrictions on local Water use, the City Council may, by resolution, declare the need for citywide Water conservation at the 10/15%, 20% or 25% level. While such a resolution is in effect, a drought surcharge will apply. The purpose of the drought surcharge is to recover revenues lost as a result of reduced consumption.

{End}

Attachment: Attachment B: Redlined Water Rate Schedules (13969 : FY 2023 Water Financial Plans and Rates)

CITY OF PALO ALTO UTILITIES

Issued by the City Council

Supersedes Sheet No W-2-2
dated 7-1-2019~~8~~



CITY OF PALO ALTO
UTILITIES

Effective 7-1-2022~~19~~
Sheet No. ~~W-2-2~~

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FIRE SERVICE CONNECTIONS

UTILITY RATE SCHEDULE W-3

A. APPLICABILITY:

This schedule applies to all public fire hydrants and private fire Service connections.

B. TERRITORY:

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

C. RATES:

1. Monthly Service Charges

Public Fire Hydrant..... \$5.00

Private Fire Service:

2-inch connection.....	\$4.174.34
4-inch connection.....	25.8126.85
6-inch connection.....	74.9677.96
8-inch connection.....	159.74166.1
10-inch connection.....	287.27298.7
12-inch connection.....	464.02482.5

2. Commodity (To be added to Service Charge unless Water is used for fire extinguishing or testing purposes.)

Per Hundred Cubic Feet

All water usage \$10.00

D. SPECIAL NOTES:

1. Service under this schedule may be discontinued if Water is used for any purpose other than fire extinguishing or testing and repairing the fire extinguishing facilities. Using hydrants and fire Services for other purposes is illegal and will be subject to the commodity charge as noted above, fines, and criminal prosecution pursuant to the Palo Alto Municipal Code.
2. For a combination Water and fire Service, the Water Service schedule shall apply.

CITY OF PALO ALTO UTILITIES

Issued by the City Council

Supersedes Sheet No W-3-1 dated 7-1-2019~~8~~



CITY OF PALO ALTO UTILITIES

Effective 7-1-2022~~19~~
Sheet No W-3-1

Attachment: Attachment B: Redlined Water Rate Schedules (13969 : FY 2023 Water Financial Plans and Rates)

FIRE SERVICE CONNECTIONS**UTILITY RATE SCHEDULE W-3**

3. Utilities Rule and Regulation No. 21 provides additional information on Automatic Fire Services.
4. Repairs and testing of fire extinguishing facilities are not considered unauthorized use of Water if records and documentation are supplied by the Customer.

{End}

Attachment B: Redlined Water Rate Schedules (13969 : FY 2023 Water Financial Plans and Rates)

CITY OF PALO ALTO UTILITIES

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Supersedes Sheet No W-3-2
dated 7-1-201~~9~~8

**CITY OF PALO ALTO
UTILITIES**

Effective 7-1-20~~21~~19
Sheet No ~~W-3-2~~

Packet Pg. 53

**RESIDENTIAL MASTER-METERED AND
GENERAL NON-RESIDENTIAL WATER SERVICE**

UTILITY RATE SCHEDULE W-4

A. APPLICABILITY:

This schedule applies to Water Services to non-residential buildings, and multi-family residential dwellings served through a Master-Meter.

B. TERRITORY:

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

C. RATES:

<u>Monthly Service Charge</u>	<u>Per Meter Per Month</u>
For 5/8-inch meter	\$ 17.71 <u>18.42</u>
For 3/4-inch meter	23.67 <u>24.62</u>
For 1-inch meter	35.59 <u>37.02</u>
For 1 1/2-inch meter	65.40 <u>68.02</u>
For 2-inch meter	101.17 <u>105.22</u>
For 3-inch meter	214.44 <u>223.02</u>
For 4-inch meter	381.37 <u>396.63</u>
For 6-inch meter	780.79 <u>812.03</u>
For 8-inch meter	1,436.57 <u>1,494.04</u>
For 10-inch meter	2,271.20 <u>2,362.05</u>
For 12-inch meter	2,986.60 <u>3,106.07</u>

<u>Volumetric Rates: (to be added to Service Charge, applicable to all pressure zones)</u>	<u>Per Hundred Cubic Feet Per Month</u>
Commodity Rate:	
Water Delivery Charge from SFPUC	\$ 4.10 <u>4.72-5.13</u>
Distribution Rate:	3.61 <u>3.76</u>

Drought Surcharges (deactivated):

CITY OF PALO ALTO UTILITIES
Issued by the City Council

Supersedes Sheet No W-4-1
dated 7-1-201~~9~~8



Effective 7-1-202~~19~~24
Sheet No ~~W-4-1~~

Attachment: Attachment B: Redlined Water Rate Schedules (13969 : FY 2023 Water Financial Plans and Rates)

**RESIDENTIAL MASTER-METERED AND
GENERAL NON-RESIDENTIAL WATER SERVICE**

UTILITY RATE SCHEDULE W-4

A drought surcharge will be added to the Customer’s applicable commodity rate when the City Council has determined that a Water reduction level is in effect for the City as described in Section D.32. The drought surcharges in the table below are measured in dollars per hundred cubic feet (ccf).

Water Usage Reduction level	Level 1 (10/15%)	Level 2 (20%)	Level 3 (25%)
Surcharge	0.26	0.53	0.77

D. SPECIAL NOTES:

1. Calculation of Cost Components

The actual bill amount is calculated based on the applicable rates in Section C above and adjusted for any applicable discounts, surcharges and/or taxes. On a Customer’s bill statement, the bill amount may be broken down into appropriate components as calculated under Section C.

2. Commodity Rate

The Commodity Charge is based on the water delivery rate per the San Francisco Public Utility Commission (SFPUC) Water Rate Schedule W-25: Wholesale Use with Long-Term Contract. The Commodity Charge will be passed through automatically via periodic rate adjustments to account for increases in wholesale water charges, as well as inflation. The pass-through period will be effective for fiscal years 2020 through 2024, inclusive. Customers will be provided notice of any adjustments via their billing statements.

3. Drought Surcharge

During period of Water shortage or restrictions on local Water use, the City Council may, by resolution, declare the need for citywide Water conservation at the 10/15%, 20% or 25% level. While such a resolution is in effect, a drought surcharge will apply. The purpose of the drought surcharge is to recover revenues lost as a result of reduced consumption.

CITY OF PALO ALTO UTILITIES

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Supersedes Sheet No W-4-2
dated 7-1-2019~~8~~



**CITY OF PALO ALTO
UTILITIES**

Effective 7-1-2022~~19~~
Sheet No ~~W-4-2~~

**RESIDENTIAL MASTER-METERED AND
GENERAL NON-RESIDENTIAL WATER SERVICE**

UTILITY RATE SCHEDULE W-4

{End}

Attachment: Attachment B: Redlined Water Rate Schedules (13969 : FY 2023 Water Financial Plans and Rates)

CITY OF PALO ALTO UTILITIES
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dated 7-1-201~~9~~8



Effective 7-1-20~~21~~22
Sheet No ~~W-4-3~~

NON-RESIDENTIAL IRRIGATION WATER SERVICE

UTILITY RATE SCHEDULE W-7

A. APPLICABILITY:

This schedule applies to non-residential Water Service supplying dedicated irrigation Meters.

B. TERRITORY:

This schedule applies everywhere the City of Palo Alto provides Water Services.

C. RATES:

<u>Monthly Service Charge</u>		<u>Per Meter Per Month</u>
For 5/8-inch meter	.....	\$ 17.71 18.42
For 3/4-inch meter	.....	23.67 24.62
For 1-inch meter	.....	35.59 37.02
For 1 1/2 inch meter	.....	65.40 68.02
For 2-inch meter	.....	101.17 105.22
For 3-inch meter	.....	214.44 223.02
For 4-inch meter	.....	381.37 396.63
For 6-inch meter	.....	780.79 812.03
For 8-inch meter	.....	1,436.57 1,494.04
For 10-inch meter	.....	2,271.20 2,362.05
For 12-inch meter	.....	2,986.60 3,106.07

Per Hundred
Cubic Feet
Per Month

Volumetric Rates: (to be added to Service Charge, applicable to all pressure zones)

Commodity Rate:	
Water Delivery Charge from SFPUC.....	\$ 4.10 4.72-5.13
Distribution Rate:.....	5.50 5.72

Attachment: Attachment B: Redlined Water Rate Schedules (13969 : FY 2023 Water Financial Plans and Rates)

CITY OF PALO ALTO UTILITIES

Issued by the City Council

Supersedes Sheet No W-7-1
dated 7-1-2019



CITY OF PALO ALTO
UTILITIES

Effective 7-1-2022
Sheet No. W-7-1

NON-RESIDENTIAL IRRIGATION WATER SERVICE

UTILITY RATE SCHEDULE W-7

Drought Surcharges (deactivated):

A drought surcharge will be added to the Customer's applicable commodity rate when the City Council has determined that a Water reduction level is in effect for the City as described in Section D.32. The drought surcharges in the table below are measured in dollars per hundred cubic feet (ccf).

Water Usage Reduction level	Level 1 (10/15%)	Level 2 (20%)	Level 3 (25%)
Surcharge	0.53	1.25	2.02

D. SPECIAL NOTES:

1. Calculation of Cost Components

The actual bill amount is calculated based on the applicable rates in Section C above and adjusted for any applicable discounts, surcharges and/or taxes. On a Customer's bill statement, the bill amount may be broken down into appropriate components as calculated under Section C.

2. Commodity Rate

The Commodity Charge is based on the water delivery rate per the San Francisco Public Utility Commission (SFPUC) Water Rate Schedule W-25: Wholesale Use with Long-Term Contract. The Commodity Charge will be passed through automatically via periodic rate adjustments to account for increases in wholesale water charges, as well as inflation. The pass-through period will be effective for fiscal years 2020 through 2024, inclusive. Customers will be provided notice of any adjustments via their billing statements.

3. Drought Surcharge

During period of Water shortage or restrictions on local Water use, the City Council may, by resolution, declare the need for citywide Water conservation at the 10/15%, 20% or 25% level. While such a resolution is in effect, a drought surcharge will apply. The purpose of the drought surcharge is to recover revenues lost as a result of reduced consumption. *{End}*

CITY OF PALO ALTO UTILITIES

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Supersedes Sheet No W-7-2
dated 7-1-2019~~8~~



CITY OF PALO ALTO
UTILITIES

Effective 7-1-2022~~19~~
Sheet No ~~W-7-2~~

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DRAFT

UTILITIES ADVISORY COMMISSION MEETING MINUTES OF MARCH 2, 2022 MEETING

CALL TO ORDER

Chair Forssell called the meeting of the Utilities Advisory Commission (UAC) to order at 6:03 p.m.

Present: Chair Forssell, Vice Chair Segal, Commissioners Johnston, Metz, and Smith
Absent: Commissioner Bowie and Scharff

NEW BUSINESS

ITEM 6: ACTION: Staff Recommendation That the Utilities Advisory Commission Recommend the City Council Adopt a Resolution Approving the Fiscal Year 2023 Water Utility Financial Plan, Including Reserve Transfers, and Increasing Water Rates by Amending Rate Schedules W-1 (General Residential Water Service), W-2 (Water Service From Fire Hydrants), W-3 (Fire Service Connections), W-4 (Residential Master-Metered and General Non-Residential Water Service), and W-7 (Non-Residential Irrigation Water Service).
Dean Batchelor, Director of Utilities, introduced Lisa Bilir who presented the item to the UAC.

Lisa Bilir, Senior Resource Planner, stated the proposal is for a 4 percent distribution rate increase for Fiscal Year (FY) 2023 with a 4 percent annually increase in subsequent years. The rate increases are to fund seismic upgrades for three reservoirs, main replacements and generators for wildfire and emergencies. Due to drought, the forecast assumed a net reduction of approximately \$2.6 million in revenue in FY 2022. The San Francisco San Francisco Public Utilities Commission (SFPUC) estimated in February 2023 that they will increase their rates by 15.9 percent. Staff proposed to use the reserves to mitigate the distribution rate increases. The Operation Reserve was at the maximum guideline level with an additional \$7 million above the maximum level. Those funds will be used within 1-year to pay for the operational cost and capital cost of the Water Utility. The Rate Stabilization Reserve had an additional \$9 million which will be used to mitigate the rate increases on the distribution side of the utility. The recommendation for the Capital Improvement Project (CIP) Reserve was to transfer \$13.96 million out of the fund to pay the remaining balance for the CIP-planned projects for the year 2022. Staff predicted that SFPUC will issue a notice of the rate increase in March 2022 and the rate increase will go to their Commission in May 2022. Staff will notify residents of the increase and it will be a pass-through charge to Palo Alto customers. The driver for SFPUC to increase their rate was due to the projected drop in sales for wholesale customers. Staff provided an alternative scenario with a worsening drought for year 2023. This scenario would result in an additional \$4.2 million net reduction in revenues in the year 2023 and require a 5 percent distribution rate increase. The average annual median bill for customers will increase by 9 to 13 percent and commercial customers can expect an increase between 9 to 13 percent.

In answer to Chair Forssell's request for the distribution rate increase percentage, Bilir confirmed that it is a 4 percent distribution rate increase.

Bilir continued with the monthly water bill comparison. The City of Palo Alto was 14 percent above comparable cities averages for residential and 2 percent above comparable cities averages for commercial.

Commissioner Johnston remarked that the City has to increase its water rate due to SFPUC increasing its water supply cost. Bilir agreed that in December 2021, SFPUC was looking at a 5 percent increase and now they will be using a 15.9 percent increase. Another reason was Staff has refined the rate model, the CIP Budget, and the assumptions to reflect the Long Range Financial Forecast. In answer to Commissioner Johnston's query regarding what opportunities the City has to push back on SFPUC's proposed increase, Bilir clarified that SFPUC was not changing its revenue requirement. SFPUC was experiencing a significant reduction in sales. SFPUC would apply the credit of \$86 million in the balancing account to the year 2022 and 2023 to help mitigate the rate increase. In response to Commissioner Johnston's query regarding a 15.9 percent increase and customer's bills, Bilir answered a customer's bill will increase by 9.5 percent. Commissioner Johnston stated it is helpful to look at the overall impact of all of the rate increases for all utilities on a customer's bill. He concluded that the rate increase is justified, but it would be helpful to see it in context.

Commissioner Metz understood from Staff that the housing mandates that the City faces are not baked into the financial plans. Those mandates could have a significant impact on all utilities and he requested that out-year planning incorporate those mandates.

Vice Chair Segal commented that the City must do better job of letting folks know there will be a large increase in their water bill. Karla Dailey, Assistant Director of Utilities, concurred that Staff did do outreach regarding the large increase in the gas commodity and suggested using those outreach methods to warn customers about the water increases.

In response to Chair Forssell's request for clarification regarding why \$13.9 million has to be transferred from the CIP Reserve, Bilir answered that the money cannot be spent directly from the CIP Reserve.

ACTION: Commissioner Johnston moved Staff requests that the Utilities Advisory Commission (UAC) recommend that the Council:

1. Adopt a resolution (Attachment A):
 - a. Approving the Fiscal Year (FY) 2023 Water Utility Financial Plan (Linked Document);
 - b. Approving a transfer of up to \$13.964 million from the Capital Improvement Program (CIP) Reserve to the Operations Reserve in FY 2022; and
 - c. Increasing Water Utility Rates Via the Amendment of Rate Schedules W-1 (General Residential Water service), W-2 (Water Service from Fire Hydrants), W-3 (Fire Service Connections), W-4 (Residential Master-Metered and General Non-Residential Water Service), and W-7 (Non-Residential Irrigation Water Service)

Seconded by Commissioner Metz.

Motion carries 4-0 with Chair Forssell and Vice Chair Segal, Commissioners Johnston, Metz voting yes.

Commissioners Bowie, Scharff, and Smith absent



City of Palo Alto

Finance Committee Staff Report

(ID # 13840)

Meeting Date: 4/19/2022

Title: The Utilities Advisory Commission and Staff Request that the Finance committee Recommend City Council Adopt a Resolution Approving the Fiscal Year 2023 Gas Utility Financial Plan, Including Proposed Transfers, and Increasing Gas Rates by Amending Rate Schedules G-1 (Residential Gas Service), G-2 (Residential Master-Metered and Commercial Gas Service), G-3 (Large Commercial Gas Service), and G-10 (Compressed Natural Gas Service)

From: City Manager

Lead Department: Utilities

Recommendation

Staff and the Utilities Advisory Commission (UAC) request that the Finance Committee recommend that City Council adopt a resolution ([Attachment A](#)):

- a. Approving the fiscal year (FY) 2023 Gas Utility Financial Plan ([Linked Document](#)); and
- b. Transferring up to \$3 million from the Operations Reserve to the CIP Reserve in FY 2022; and
- c. Transferring up to \$2.766 million from the Rate Stabilization Reserve to the Operations Reserve in FY 2022; and
- d. Increasing gas rates by amending Rate Schedules G-1 (Residential Gas Service), G-2 (Residential Master-Metered and Commercial Gas Service), G-3 (Large Commercial Gas Service), and G-10 (Compressed Natural Gas Service) ([Attachment B](#)).

Executive Summary

The FY 2023 Gas Utility Financial Plan includes projections of the utility's costs and revenues for FY 2023 through FY 2027. Gas utility costs are made up of supply-related costs (30 percent of costs in FY 2021), which are collected through a supply rate that varies monthly, and distribution-related costs (70 percent of costs in FY 2021), which are collected through a distribution rate that is typically adjusted not more than one time per year. Distribution rates were last increased on July 1, 2021, which resulted in a roughly 3 percent increase in the total system average gas rate (the supply rates plus the distribution rates). This Financial Plan projects overall gas costs to increase from FY 2022 through FY 2027 at about 2% per year on average. Commodity prices have increased markedly in the last few months and are projected to increase by about 3% per year going forward, although weather and/or economic forces can shift this course rapidly.

The proposed FY 2023 Gas Utility Financial Plan includes an increase in distribution rates effective July 1, 2022 and will result in a 4 percent increase to the total system average gas rate if supply rates remain unchanged. Additional 4 percent increases to the total system average gas rate are projected over the next three years. Capital Improvement Project (CIP) expenditures for the last several years were lower than normal while the City was completing the Upgrade Downtown project, and much of this increase is due to the Gas Utility resuming ongoing main replacement projects and the cross-bore safety verification program.

The City's natural gas rates are based on the 2019 Natural Gas Cost of Service and Rates Study, updated with current and proposed operating costs. With the onset of the COVID-19 pandemic, usage amongst businesses dropped to reflect people working and staying at home rather than going to the workplace, as well as restrictions to business operations. Businesses have been operating at minimum staffing conditions or fully remote during the pandemic. City of Palo Alto staff have endeavored to reduce cost increases, and some capital project work has been moved out or restructured to keep costs from rising too much during this time. However, costs related to the Gas Utility's resumption of main replacement projects and the cross-bore safety verification program are increasing. In order to move towards full cost recovery while minimizing rate impacts in light of pandemic-related economic challenges, staff recommends a distribution rate increase to all customer classes of 6%, which staff estimates will result in a 4% system average rate increase, if supply rates remain unchanged. If, after the pandemic, usage and/or spending looks to be moving in a different direction, staff will suggest a re-balancing of rates for the next fiscal year.

While staff is recommending that the distribution component of the rates be increased by 6%, distribution rates comprise about 70% of the overall rate, which consists of commodity (supply) and distribution components. Supply-related costs include the cost of the natural gas itself, gas transmission, and gas environmental charges. It's not possible to precisely predict commodity rates, which make up approximately 30% of overall retail gas rates. Market prices are monitored monthly and automatically incorporated into monthly supply rate adjustments, which are passed directly to customers as a line item on their utility bills.

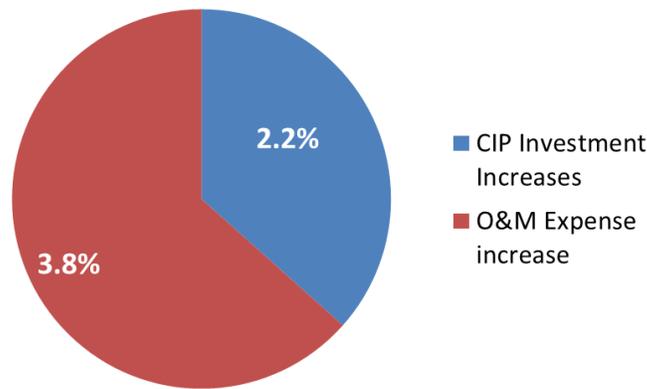
Because it is not possible to exactly predict what supply rates will be during the planning horizon, the overall rate increases (commodity plus distribution) referenced in this report assume that the commodity portion of the overall rate remains unchanged. The net effect is a proposed 4% overall rate increase. Recent market indications have led staff to project supply cost increases of about 3% per year for the forecast horizon, but these circumstances could change based upon market conditions, as well as trends in the cost of environmental offsets and PG&E's revised projections for transmission costs.

Table 1: Revenue and Rate Increases by Customer Class

Cost of Service Analysis FY 2023	Rate Increase needed for Distribution Charges	Assumed Commodity Rate Changes	Net Rate Increase for Combined Commodity and Distribution Charges
G1 - Residential	6%	0%	4%
G2 - Small Commercial	6%	0%	4%
G3 - Large Commercial	6%	0%	4%
TOTAL	6%	0%	4%

Figure 1 below shows the primary drivers for the proposed rate change, which are split about 60/40 between increasing operating and capital improvement expenses. The increases are discussed in greater depth in the attached FY 2023 Gas Financial Plan.

Figure 1: Allocation of 6% Distribution Rate increase



Background

Every year staff presents the Finance Committee with Financial Plans for its Electric, Water, Gas, and Wastewater Collection Utilities and recommends any rate adjustments required to maintain their financial health. These Financial Plans include a comprehensive overview of the utility’s operations, both retrospective and prospective, and are intended to be a reference for UAC and Council members as they review the budget and staff’s rate recommendations. Each Financial Plan also contains a set of Reserves Management Practices describing the reserves for each utility and the management practices for those reserves.

The City’s gas is purchased from a variety of marketers who source gas from throughout the Western United States and Canada. The City pays Pacific Gas and Electric (PG&E) to transport the gas across its gas transmission system to Palo Alto, which is then delivered to customers through Palo Alto’s gas distribution system.

The Gas Utility's costs are divided into two main categories: gas supply costs (which includes the cost of the gas itself, the cost of transmitting the gas to Palo Alto, and environmental costs¹) and the costs of running the business and operating the distribution system. As noted above, gas supply costs vary with the market, and the costs are passed through to customers through a gas supply rate component that varies monthly.

The Finance Committee reviewed preliminary financial forecasts at its February 1, 2022 meeting ([Staff Report 13839](#)²).

Discussion

Staff's annual assessment of the financial position of the City's gas utility is completed to ensure adequate revenue to fund operations, including reserves, and to ensure that the City's rates comply with cost-of-service requirements set forth in the California Constitution and applicable law. The assessment includes making long-term projections of market conditions, of costs associated with the physical condition of infrastructure, and of other factors that could affect utility costs. Rates are then proposed that will be adequate to recover projected costs.

Proposed Actions for FY2022 and FY 2023:

The FY 2023 Gas Utility Financial Plan includes the following proposed actions:

1. Amend gas rate schedules ([Attachment B](#)) to increase distribution rates by 6 percent, resulting in an estimated 4 percent increase on overall rates, and increasing the cap on the Transportation charge to \$0.25/therm from \$0.15/therm; and
2. Transfer up to \$3.0 million from the Operations Reserve to the CIP Reserve in FY 2022; and
3. Transfer up to \$2.766 million from the Rate Stabilization Reserve to the Operations Reserve in FY 2022.

These proposed actions are described in more detail below and in the FY 2023 Gas Financial Plan ([Linked Document](#)).

Proposed Gas Rates

Staff proposes to adjust gas rates as shown in Table 2 and Table 3 below, effective July 1, 2022. These changes are projected to increase the distribution rate by 6% resulting in a total system average gas rate (total of supply and distribution) by roughly 4 percent for all classes. These rate changes are included in the proposed amended rate schedules in ([Attachment B](#)).

¹ These are the costs of complying with the State's Cap and Trade system and procuring offsets under the City's Carbon Neutral Gas program.

² <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/finance-committee/2022/20220201/20220201pfscm-final-linked.pdf>

Table 2: Current and Proposed Monthly Service Charges

Rate Schedule	Monthly Service Charge (\$/month)		Change	
	Current (as of 7/1/21)	Proposed for FY 2023	(\$)	(%)
G-1 (Residential)	\$10.89	\$11.54	\$0.65	6%
G-2 (Small Commercial)	100.85	106.90	6.05	6%
G-3 (Large Commercial)	461.43	489.12	27.69	6%
G-10 (CNG)	68.21	72.30	4.09	6%

Table 3: Current and Proposed Gas Distribution Charges

	Current (as of 7/1/21)	Proposed for FY 2023	Change	
			(\$)	(%)
G-1 (Residential)				
Tier 1 Rates	\$0.5290	\$0.5607	\$0.0317	6%
Tier 2 Rates	1.3526	1.4338	0.0812	6%
G-2 (Residential Master-Metered and Small Commercial)				
Uniform Rate	0.6948	0.7365	0.0417	6%
G-3 (Large Commercial)				
Uniform Rate	0.6879	0.7292	0.0413	6%
G-10 (Compressed Natural Gas)				
Uniform Rate	0.0113	0.0120	0.0007	6%

Another component of the City's supply cost is the Transportation Charge, which is the cost that PG&E charges CPAU for transporting gas to Palo Alto via PG&E's pipelines. This charge applies to Palo Alto and other cities and agencies who procure natural gas for resale. In October 2016 Council adopted a resolution listing this pass-through of PG&E's Gas Transportation Rate separately on the City's gas rate schedules, and setting a cap of \$0.15/therm on this rate. Effective January 1, 2022, PG&E increased their G-WSL rate to \$0.15/therm. The transportation charge continues to increase as PG&E collects costs related to improving storage facilities, decommissioning older facilities, wildfire mitigation, and greenhouse gas mitigation costs. Based on PG&E's estimates, prices are going to continue to escalate between 6 to 22% between 2023 and 2026, so staff is recommending raising the cap on the Transportation Charge to \$0.25/therm. Current and historic per therm rates for the Transportation Charges are posted on the City Utilities website.

Bill Impact of Proposed Rate Changes

Table 4 shows the impact of the proposed July 1, 2022, rate changes on residential bills for various usage levels. The average increase for the residential class is roughly 4 percent based on last year's commodity prices. As the price of commodities changes monthly, the actual increase may be higher or lower than the 4% average. Table 4 shows a representative Winter period (November thru March) and Summer period (April through October) bill comparison:

Table 4: Impact of Proposed Gas Rate Changes on Residential Bills

Usage (Therms/month)	Bill under Current Rates	Bill under Proposed Rates	Change	
			\$/mo.	%
Winter (Using November 2021 commodity prices)				
30	\$ 55.62	\$ 57.22	\$ 1.60	2.9%
54 (median)	91.40	93.76	2.36	2.6%
80	146.63	152.79	6.16	4.2%
150	308.64	320.48	11.84	3.8%
Summer (Using October 2021 commodity prices)				
10	\$ 25.47	\$ 26.44	\$ 0.97	3.8%
18 (median)	37.13	38.35	1.22	3.3%
30	62.31	64.41	2.10	3.4%
45	96.53	99.85	3.31	3.4%

Table 5 shows the impact of the proposed July 1, 2022 rate changes on various representative commercial customer bills. The overall increases for the G-2 and G-3 classes are projected to be about 3-4 percent on an annual basis assuming commodity prices stay flat.

Table 5: Impact of Proposed Gas Rate Changes on Commercial Bills
(Using December 2021 commodity prices)

Usage (Therms/month)	Bill under Current Rates	Bill under Proposed Rates	Change
			%
500	870	897	3.1%
5,000	7,792	8,007	2.8%
10,000	15,483	15,906	2.7%
50,000	77,029	79,121	2.7%

FY 2023 Financial Plan's Projected Rate Adjustments for the Next Five Fiscal Years

Table 6 shows the projected rate adjustments over the next five years and their impact on the annual median residential gas bill (54 therms per month in winter, 18 therms per month in summer).

Table 6: Projected Rate Adjustments, FY 2023 to FY 2027

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Gas Utility	4%	4%	4%	4%	3%
Estimated Bill Impact (\$/mo)*	\$1.70	\$2.09	\$2.17	\$2.26	\$1.76

* estimated impact on median residential gas bill, which was \$50.45 for CY 2021

One of the main drivers for the increase in the Gas Utility's short-term costs (and therefore rates) over the next several years are increases in CIP expenditures needed to maintain a safe and reliable system. FY 2017 included replacements of gas mains on University Avenue, a project that has evolved into the Upgrade Downtown project, involving a coordinated replacement of several different types of infrastructure to avoid multiple disruptions to the business district. This was a multi-year planning effort, completed in 2019, which did not allow for design of other new projects. Also, as government agencies regionally and nationally spend more on infrastructure improvement, contractor bids for underground construction have risen greatly from where they were in years past.

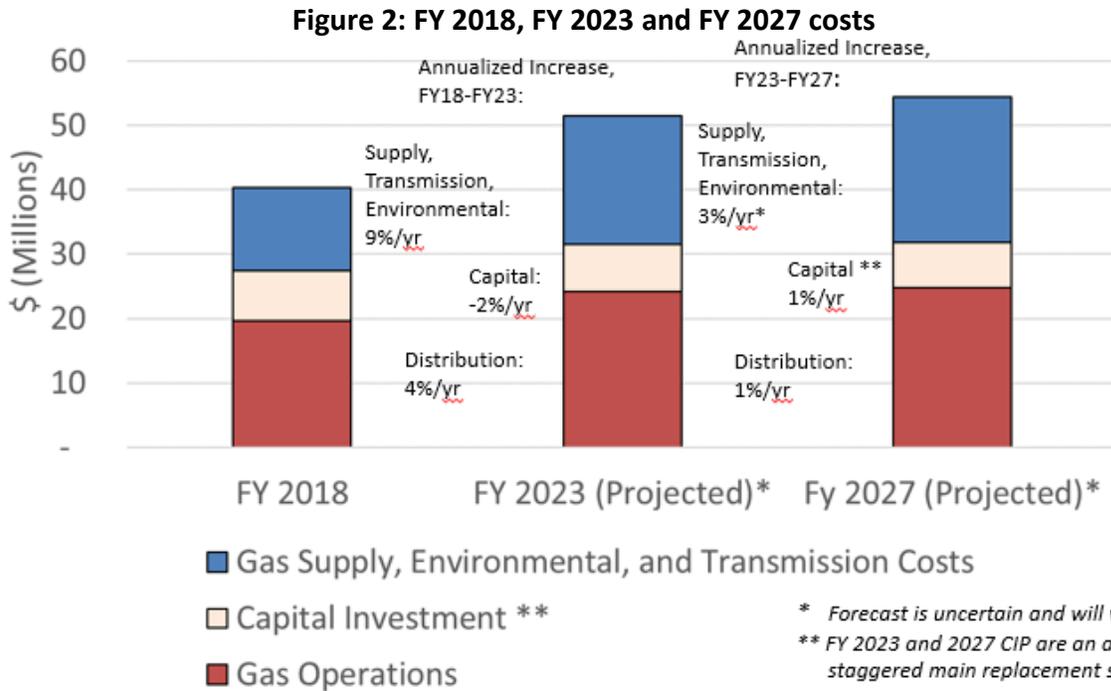
This Financial Plan addresses these challenges in a way that will allow City of Palo Alto Utilities (CPAU) to meet its gas main replacement (GMR) targets. The next phase of the GMR program will be the replacement of all Polyvinyl Chloride (PVC) mains with Polyethylene (PE) mains. CPAU installed PVC pipes from the early 1970s to mid-1980s. Some of the City's PVC pipe is approaching 50 years of service, and according to industry data, PVC pipes have a much higher leakage rate than PE mains after 20 years of service due to potential disbandment of fittings and joints. This Financial Plan includes approximately \$7 to 9 million every other year for main replacement construction instead of \$5 to 6 million annually. This shift to larger main replacement construction projects every other year will slightly lengthen the amount of time needed to replace all PVC pipes in the system but will ideally attract more contractors and better bid pricing on the larger projects. Additionally, this gas main replacement project will be staggered with water and wastewater (water and wastewater construction every even year and gas construction every odd year), which will ease scheduling difficulties for staff coverage of inspections. This arrangement is likely to be a short-term solution (3-5 years) until project capacity can be increased and upward pressure on utility rates has eased.

Table 7 below shows the reserve balance changes for each reserve from FY 2022 and projected through FY 2027.

Table 7: Operations, Rate Stabilization and CIP Reserve Starting and Ending Balances, Revenues, Transfers To/(From) Reserves, Capital Program Contribution To/(From) Reserves, and Reserve Guideline Levels for FY 2022 to FY 2027 (\$000)

		FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
	Starting Reserve Balances						
1	Operations Reserve	11,981	11,569	8,017	8,842	8,653	10,436
2	CIP Reserve	3,820	6,820	3,820	4,820	1,820	4,320
3	Cap and Trade	5,905	7,427	9,660	12,260	15,165	18,353
4	Rate Stabilization	2,766	-	-	-	-	-
	Revenues						
5	Total Revenues	45,209	47,890	50,223	52,360	54,541	56,805
6	Cap and Trade	1,522	2,232	2,600	2,905	3,188	3,540
	Transfers						
7	Operations Reserve	(234)	3,000	(1,000)	3,000	(2,500)	2,000
8	CIP Reserve	3,000	(3,000)	1,000	(3,000)	2,500	(2,000)
9	Cap and Trade						
10	Rate Stabilization	(2,766)					
	Expenses						
11	Non-CIP Expenses	(40,713)	(44,225)	(44,138)	(45,252)	(46,108)	(47,221)
12	Planned CIP	(4,674)	(10,217)	(4,261)	(10,297)	(4,150)	(10,150)
	Ending Reserve Balances						
1+5+7+11+12	Operations Reserve	11,569	8,017	8,842	8,653	10,436	11,870
2+8	CIP Reserve	6,820	3,820	4,820	1,820	4,320	2,320
3+6+9	Cap and Trade	7,427	9,660	12,260	15,165	18,353	21,892
4+10	Rate Stabilization	-	-	-	-	-	-
	Operations Reserve Guidelines						
13	Minimum	7,016	7,270	7,255	7,439	7,651	7,762
14	Maximum	14,033	14,540	14,511	14,877	15,301	15,525
	CIP Reserve Guidelines						
15	Minimum	1,725	1,920	1,775	1,989	1,856	1,909
16	Maximum	8,627	9,601	8,874	9,946	9,280	9,547

Figures 2 below illustrates the projected long run changes in the Gas Utility's costs. Cost increases over the FY 2018 to FY 2027 time period are mainly from supply costs, followed by operations and capital expenses.



Over the longer term, gas commodity costs are the most variable factor in customer gas bills, being subject to market forces. Prices have risen dramatically in the current winter months, and are projected to increase by about 3% percent per year between FY 2023 and 2027.

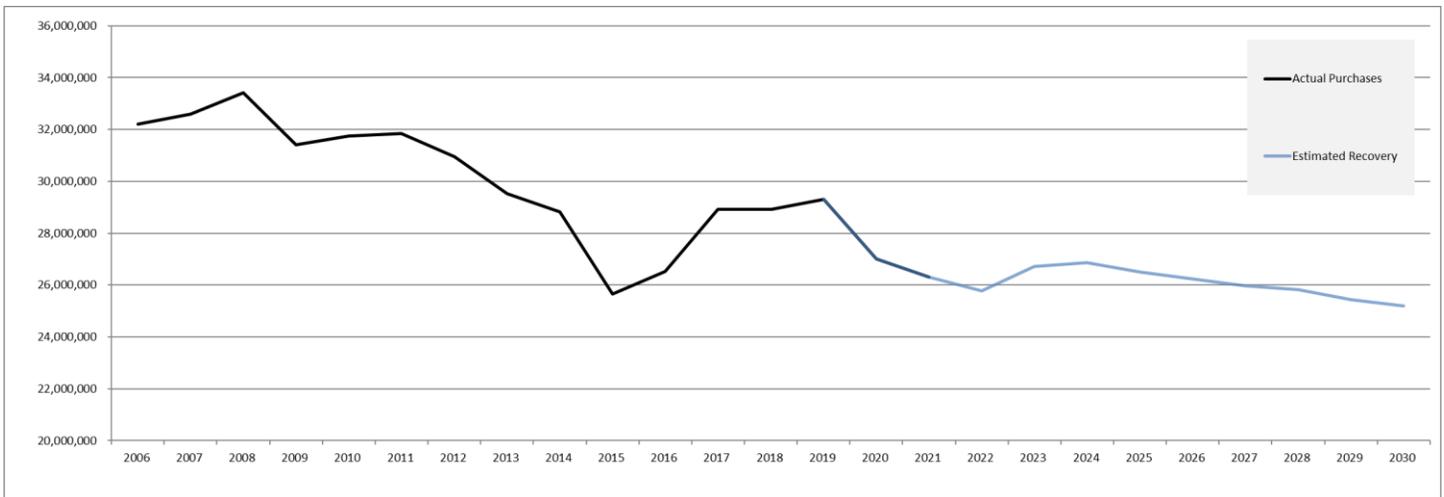
Operations costs are projected to increase by about 2 percent annually, due to inflation and salary and benefit increases. A large one-time increase in costs to pay for phase two of a cross-bore safety verification program occurs in FY 2023. The cross-bore safety program ensures that gas pipelines have not crossed through sewer laterals, which is rare but possible during trenchless installation. This is referred to as a “cross-bore,” and while they are very rare, if they exist, they pose a risk of gas leaks if a plumber uses a cutting tool to clear a sewer line and accidentally cuts the gas line. The project will video inspect, determine, and repair any unintended conflicts between gas service pipelines and sewer laterals. Phase two of this program is estimated to require \$1 million per year in FY’s 2022 and 2023, although the project may require additional funding depending on what inspections show.

The COVID pandemic has resulted in gas usage decreasing by about 8 to 10%, similar as what has been seen in electric. Declines have come mainly in the commercial sectors as a result of many businesses operating with remote staffing. It is uncertain how long this trend will last. Staff worked with Northern California Power Agency (NCPA), the City’s electric load forecaster, to incorporate UCLA’s Anderson School GDP forecast into its electric load forecast for Palo Alto, which estimates the economic trend impacts to last through December 2022. The same recovery pattern was used in Figure 3 below to forecast various possible levels of gas usage recovery. As seen with prior economic and drought gas usage declines, it is likely that consumption will not return to pre-conservation/pandemic levels but will likely stabilize closer

to the longer-run historical decline in gas usage. Further changes, such as the voluntary replacement of gas appliances with electric appliances, building electrification of new construction as mandated by the 2019 Reach Code, and customer behavior are also expected to lower long run usage, and this forecast will be revised accordingly as more customers adopt these measures.³ Staff has also done a preliminary analysis of the impacts of Sustainability and Climate Action Plan (S/CAP) goals on gas use and presented it to the UAC in January of 2021.⁴

The usage scenario used to develop the proposed rates is shown in Figure 3. A generally warm winter and continuing COVID impacts has contributed to lower gas usage in the short term. However, rapidly declining gas consumption will put upward pressure on rates, as a generally increasing cost to operate and distribute gas will be spread across fewer units of sale.

Figure 3: Forecast Gas Consumption



Gas Bill Comparison with Surrounding Cities

Table 8 presents winter and summer residential bills for Palo Alto and PG&E at several usage levels for commodity rates in effect as of October 2021 (to illustrate a summer month bill) and November 2021 (to illustrate a winter month bill). The annual gas bill for the median residential customer for calendar year 2021 was \$605, about 12% lower than the annual bill for a PG&E customer with the same consumption. PG&E’s distribution rates for gas have increased substantially to collect for needed system improvements for pipeline safety and maintenance. The bill calculations for PG&E customers are based on PG&E Climate Zone X, an area which includes the surrounding communities.

³ The City’s Sustainability and Climate Action Plan (S/CAP) is currently being updated. As building electrification goals in the S/CAP are updated, they will be modeled in this load forecast.

⁴ January 6, 2021 UAC Meeting, Discussion of Projected Electrification Impacts on Gas Utility System Average Rates: <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/utilities-advisory-commission/archived-agenda-and-minutes/agendas-and-minutes-2021/01-06-2021-special/01-06-21-uac-item-1.pdf>

Table 8: Residential Monthly Natural Gas Bill Comparison (\$/month)

Season	Usage (therms)	Palo Alto	PG&E Zone X	% Difference
Winter (November 2021)	30	\$ 55.62	62.48	-11.0%
	(Median) 54	91.40	116.08	-21.3%
	80	146.63	182.76	-19.8%
	150	308.64	362.30	-14.8%
Summer (October 2021)	10	\$ 25.47	19.52	30.5%
	(Median) 18	37.13	36.48	1.8%
	30	62.31	65.69	-5.1%
	45	96.53	102.20	-5.5%

Table 99 shows the monthly gas bills for commercial customers for various usage levels for rates in effect as of December 2021. Bills for CPAU customers at the usage levels shown can vary from 11% lower to 8% higher for commercial customers than for PG&E customers. This is a substantial improvement over the calendar year 2013 bill comparison, when commercial gas bills for CPAU customers were 27% to 44% higher than for PG&E customers. This is primarily attributable to PG&E's higher distribution rates as the commodity rates for CPAU and PG&E are very similar, both being based on spot market gas prices.

**Table 9: Commercial Monthly Average Gas Bill Comparison
(for Rates in Effect December 2021)**

Usage (therms/mo)	Gas Bill (\$/month)		% Difference
	Palo Alto	PG&E	
500	870	938	(7%)
5,000	7,792	8,786	(11%)
10,000	15,483	16,008	(3%)
50,000	77,029	71,217	8%

Timeline

The City Council will consider the FY 2023 Gas Financial Plan, transfers and rate adjustments as part of the FY 2023 budget review and adoption process. If Council approves the proposed rate changes, they will become effective July 1, 2022.

Resource Impact

Normal year sales revenues for the Gas Utility in FY 2023 are projected to increase by roughly 4 percent or \$1.5 million as a result of the proposed rate increases, not including fluctuations in

commodity revenue/cost. The City is also a gas customer and the rate increase impact to the City's General fund, based on prior sales trends, is estimated to be about \$17,000 in FY 2023. Gas Fund expenses and revenue impacts and General Fund expense impacts resulting from the recommendations in this report are programmed in the FY 2023 Proposed Operating Budget. If the final rates adopted by Council in June differ from those proposed in this report, further adjustments may be brought forward as part of the annual budget process. The FY 2023 Budget is being developed concurrent with these rates and, if Council adopts rates that differ from those presented here, budget adjustments may be brought forward as part of the annual budget process. See the attached FY 2023 Gas Financial Plan for a more comprehensive overview of projected cost and revenue changes for the next five years.

Policy Implications

The proposed gas rate adjustments are consistent with Council-adopted Reserve Management Practices that are part of the Financial Plan and were developed using a cost-of-service study and methodology consistent with the California constitution and industry-accepted cost of service principles.

Stakeholder Engagement

The UAC reviewed preliminary financial forecasts at its December 1, 2021 meeting, and the Finance Committee reviewed the preliminary forecasts at its February 1, 2022 meeting.

The UAC reviewed staff's recommendation on the FY 2023 Gas Financial Plan, proposed transfers and rate increases at its March 2, 2022 meeting. At that meeting, there was a question as to how future gas rates and expenditures reflect S/CAP goals for reduced carbon emissions. Staff responded that these efforts were still being evaluated, but that those efforts must be balanced with the need for gas system safety.

The UAC voted to approve staff's proposal 4-0, with Commissioners Bowie, Scharff and Smith absent. If approved, the Finance Committee's recommendation on the FY 2023 Gas Financial Plan, proposed transfers and rate increases will be presented to City Council in June during the budget adoption process. ([Attachment C](#))

Environmental Review

The Finance Committee's review and recommendation to City Council on the FY 2022 Gas Financial Plan and rate adjustments does not meet the California Environmental Quality Act's definition of a project, pursuant to Public Resources Code Section 21065, thus no environmental review is required.

Attachments:

- Attachment A: Resolution
- Attachment B: Rate Schedules
- Attachment C: Excerpt Draft Minutes

* NOT YET APPROVED *
Resolution No. _____

Resolution of the Council of the City of Palo Alto Approving the Fiscal Year 2023 Gas Utility Financial Plan, Including Proposed Transfers, and Increasing Gas Rates by Amending Rate Schedules G-1 (Residential Gas Service), G-2 (Residential Master-Metered and Commercial Gas Service), G-3 (Large Commercial Gas Service), and G-10 (Compressed Natural Gas Service)

R E C I T A L S

A. Each year the City of Palo Alto (“City”) regularly assesses the financial position of its utilities with the goal of ensuring adequate revenue to fund operations, including reserves. This includes making long-term projections of market conditions, the physical condition of the system, and other factors that could affect utility costs, and setting rates adequate to recover these costs. It does this with the goal of providing safe, reliable, and sustainable utility services at competitive rates. The City adopts Financial Plans to summarize these projections.

B. 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.

C. On ____, 2022, the City Council heard and approved the proposed rate increase at a noticed public hearing.

The Council of the City of Palo Alto does hereby RESOLVE as follows:

SECTION 1. The Council hereby adopts the FY 2023 Gas Utility Financial Plan.

SECTION 2. The Council hereby approves the transfer of up to \$2.766 Million from the Rate Stabilization Reserve to the Operations Reserve, and up \$3 Million from the Operations Reserve to the CIP Reserve, as described in the FY 2023 Gas Utility Financial Plan approved via this resolution.

SECTION 3. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule G-1 (Residential Gas Service) is hereby amended to read as attached and incorporated. Utility Rate Schedule G-1, as amended, shall become effective July 1, 2022.

SECTION 4. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule G-2 (Residential Master-Metered and Commercial Gas Service) is hereby amended to read as attached and incorporated. Utility Rate Schedule G-2, as amended, shall become effective July 1, 2022.

* NOT YET APPROVED *

SECTION 5. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule G-3 (Large Commercial Gas Service) is hereby amended to read as attached and incorporated. Utility Rate Schedule G-3, as amended, shall become effective July 1, 2022.

SECTION 6. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule G-10 (Compressed Natural Gas Service Service) is hereby amended to read as attached and incorporated. Utility Rate Schedule G-10, as amended, shall become effective July 1, 2022.

SECTION 7. The City Council finds as follows:

- a. Revenues derived from the gas rates approved by this resolution do not exceed the funds required to provide gas service.
- b. Revenues derived from the gas rates approved by this resolution shall not be used for any purpose other than providing gas service, and the purposes set forth in Article VII, Section 2, of the Charter of the City of Palo Alto.

SECTION 8. 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 9. The Council finds that approving the Financial Plan does not meet the California Environmental Quality Act’s (CEQA) definition of a project under Public Resources Code Section 21065 and CEQA Guidelines Section 15378(b)(5), because it is an administrative governmental activity which will not cause a direct or indirect physical change in the environment, and therefore, no environmental assessment is required. The Council finds that changing gas rates to meet operating expenses, purchase supplies and materials, meet financial reserve needs and obtain funds for capital improvements necessary to maintain service 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.

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* NOT YET APPROVED *

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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

RESIDENTIAL GAS SERVICE

UTILITY RATE SCHEDULE G-1

A. APPLICABILITY:

This schedule applies to the following Customers receiving Gas Service from City of Palo Alto Utilities:

- 1. Separately-metered single-family residential Customers.
- 2. Separately-metered multi-family residential Customers in multi-family residential facilities.

B. TERRITORY:

This schedule applies anywhere the City of Palo Alto provides Gas Service.

C. UNBUNDLED RATES:

Per Service

Monthly Service Charge:\$~~10.89~~11.54

Tier 1 Rates:

Per Therm

Supply Charges:

- 1. Commodity (Monthly Market Based)..... \$0.10-\$2.00
- 2. Cap and Trade Compliance Charge \$0.00-\$0.25
- 3. Transportation Charge \$0.00-\$0.
~~525~~
- 4. Carbon Offset Charge \$0.00-\$0.10

Distribution Charge:..... \$0.~~529~~5607

Tier 2 Rates: (All usage over 100% of Tier 1)

Supply Charges:

- 1. Commodity (Monthly Market Based)..... \$0.10-2.00
- 2. Cap and Trade Compliance Charge \$0.00-\$0.25
- 3. Transportation Charge \$0.00-\$0.~~4525~~
- 4. Carbon Offset Charge \$0.00-\$0.10

Distribution Charge:.....
.....\$~~1.352~~61.4

338

CITY OF PALO ALTO UTILITIES

Issued by the City Council

Supersedes Sheet No G-1-1
dated 7-1-20201



Sheet No **G-1-1**
Effective 7-1-20212

Attachment: Attachment B: Rate Schedules (13840 : FY 2023 Gas Financial Plans and Rates)

RESIDENTIAL GAS SERVICE**UTILITY RATE SCHEDULE G-1****D. SPECIAL NOTES:****1. Calculation of Cost Components**

The actual bill amount is calculated based on the applicable rates in Section C above and adjusted for any applicable discounts, surcharges and/or Taxes. On a Customer's bill statement, the bill amount may be broken down into appropriate components as calculated under Section C.

The Commodity Charge is based on the monthly natural gas Bidweek Price Index for delivery at PG&E Citygate, accounting for delivery losses to the Customer's Meter.

The Cap and Trade Compliance Charge reflects the City's cost of regulatory compliance with the state's Cap and Trade Program, including the cost of acquiring compliance instruments sufficient to cover the City's Gas Utility's compliance obligations. The Cap and Trade Compliance Charge will change in response to changing market conditions, retail sales volumes and the quantity of allowances required.

The Carbon Offset Charge reflects the City's cost to purchase offsets for greenhouse gases produced in the burning of natural gas. The Carbon Offset Charge will change in response to changing market conditions, changing sales volumes and the quantity of offsets purchased within the Council-approved per therm cap.

The Transportation Charge is based on the current PG&E G-WSL rate for Palo Alto, accounting for delivery losses to the Customer's Meter.

The Commodity, Cap and Trade Compliance, Carbon Offset and Transportation Charges will fall within the minimum/maximum ranges set forth in Section C. Current and historic per therm rates for the Commodity, Cap and Trade Compliance, Carbon Offset and Transportation Charges are posted on the City Utilities website.¹

2. Seasonal Rate Changes:

The Summer period is effective April 1 to October 31 and the Winter period is effective from November 1 to March 31. When the billing period includes use in both the Summer

¹ Monthly gas and commodity and volumetric rates are available here, or by visiting <https://www.cityofpaloalto.org/files/assets/public/utilities/rates-schedules-for-utilities/monthly-gas-commodity-rates.pdf>

CITY OF PALO ALTO UTILITIES

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dated 7-1-2020¹



Sheet No G-1-2
Effective 7-1-2021²

RESIDENTIAL GAS SERVICE**UTILITY RATE SCHEDULE G-1**

and the Winter periods, the usage will be prorated based on the number of days in each seasonal period, and the charges based on the applicable rates for each period. For further discussion of bill calculation and proration, refer to Rule and Regulation 11.

3. Calculation of Usage Tiers

Tier 1 natural gas usage shall be calculated and billed based upon a level of 0.667 therms per day during the Summer period and 2.0 therms per day during the Winter period, rounded to the nearest whole therm, based on meter reading days of service. As an example, for a 30 day bill, the Tier 1 level would be 20 therms during the Summer period and 60 therms during the Winter period months. For further discussion of bill calculation and proration, refer to Rule and Regulation 11.

{End}

CITY OF PALO ALTO UTILITIES

Issued by the City Council

Supersedes Sheet No G-1-3
dated 7-1-202~~0~~1



Sheet No **G-1-3**
Effective 7-1-202~~1~~2

RESIDENTIAL MASTER-METERED AND COMMERCIAL GAS SERVICE

UTILITY RATE SCHEDULE G-2

A. APPLICABILITY:

This schedule applies to the following Customers receiving Gas Service from the City of Palo Alto Utilities:

- 1. Commercial Customers who use less than 250,000 therms per year at one site.
2. Master-metered residential Customers in multi-family residential facilities.

B. TERRITORY:

This schedule applies anywhere the City of Palo Alto provides Gas Service.

C. UNBUNDLED RATES:

Table with 2 columns: Description and Rate. Includes rows for Monthly Service Charge, Supply Charges (Commodity, Cap and Trade, Transportation, Carbon Offset), and Distribution Charge. Rates are shown in dollars and cents, with some values crossed out and replaced with new ones.

D. SPECIAL NOTES:

1. Calculation of Cost Components

The actual bill amount is calculated based on the applicable rates in Section C above and adjusted for any applicable discounts, surcharges and/or Taxes. On a Customer's bill statement, the bill amount may be broken down into appropriate components as calculated under Section C.

The Commodity Charge is based on the monthly natural gas Bidweek Price Index for delivery at PG&E Citygate, accounting for delivery losses to the Customer's Meter.

The Cap and Trade Compliance Charge reflects the City's cost of regulatory compliance with the state's Cap and Trade Program, including the cost of acquiring compliance instruments sufficient to cover the City's Gas Utility's compliance obligations. The Cap and Trade Compliance Charge will change in response to changing market conditions, retail sales volumes and the quantity of allowances required.

CITY OF PALO ALTO UTILITIES

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RESIDENTIAL MASTER-METERED AND COMMERCIAL GAS SERVICE

UTILITY RATE SCHEDULE G-2

The Carbon Offset Charge reflects the City's cost to purchase offsets for greenhouse gases produced in the burning of natural gas. The Carbon Offset Charge will change in response to changing market conditions, changing sales volumes and the quantity of offsets purchased within the Council-approved per therm cap.

The Transportation Charge is based on the current PG&E G-WSL rate for Palo Alto, accounting for delivery losses to the Customer's Meter.

The Commodity, Cap and Trade Compliance, Carbon Offset and Transportation Charges will fall within the minimum/maximum ranges set forth in Section C. Current and historic per therm rates for the Commodity, Cap and Trade Compliance, Carbon Offset and Transportation Charges are posted on the City Utilities website.¹

{End}

Attachment: Attachment B: Rate Schedules (13840 : FY 2023 Gas Financial Plans and Rates)

¹ Monthly gas and commodity and volumetric rates are available here, or by visiting <https://www.cityofpaloalto.org/files/assets/public/utilities/rates-schedules-for-utilites/monthly-gas-commodity-rates.pdf>

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CITY OF
PALO ALTO
UTILITIES

Effective 7-1-2021²
Sheet No. G-2-2

Packet Pg. 80

LARGE COMMERCIAL GAS SERVICE

UTILITY RATE SCHEDULE G-3

A. APPLICABILITY:

This schedule applies to the following Customers receiving Gas Service from the City of Palo Alto Utilities:

- 1. Commercial Customers who use at least 250,000 therms per year at one site.
- 2. Customers at City-owned generation facilities.

B. TERRITORY:

This schedule applies anywhere the City of Palo Alto provides Gas Service.

C. UNBUNDLED RATES:

Per Service

Monthly Service Charge: \$~~461.43~~489.12

Per Therm

Supply Charges:

	1. Commodity (Monthly Market Based).....	\$0.10-\$2.00
	2. Cap and Trade Compliance Charges	\$0.00-0.25
	3. Transportation Charge	\$0.00-
\$ 0.15 <u>25</u>	4. Carbon Offset Charge	\$0.00-\$0.10

Distribution Charge:\$~~0.68~~797.29

D. SPECIAL NOTES:

1. Calculation of Cost Components

The actual bill amount is calculated based on the applicable rates in Section C above and adjusted for any applicable discounts, surcharges and/or Taxes. On a Customer's bill statement, the bill amount may be broken down into appropriate components as calculated under Section C.

The Commodity Charge is based on the monthly natural gas Bidweek Price Index for delivery at PG&E Citygate, accounting for delivery losses to the Customer's Meter.

CITY OF PALO ALTO UTILITIES

Issued by the City Council



LARGE COMMERCIAL GAS SERVICE

UTILITY RATE SCHEDULE G-3

The Cap and Trade Compliance Charge reflects the City's cost of regulatory compliance with the state's Cap and Trade Program, including the cost of acquiring compliance instruments sufficient to cover the City's Gas Utility's compliance obligations. The Cap and Trade Compliance Charge will change in response to changing market conditions, retail sales volumes and the quantity of allowances required.

The Carbon Offset Charge reflects the City's cost to purchase offsets for greenhouse gases produced in the burning of natural gas. The Carbon Offset Charge will change in response to changing market conditions, changing sales volumes and the quantity of offsets purchased within the Council-approved per therm cap.

The Transportation Charge is based on the current PG&E G-WSL rate for Palo Alto, accounting for delivery losses to the Customer's Meter.

The Commodity, Cap and Trade Compliance, Carbon Offset and Transportation Charges will fall within the minimum/maximum ranges set forth in Section C. Current and historic per therm rates for the Commodity, Cap and Trade Compliance, Carbon Offset and Transportation Charges are posted on the City Utilities website.¹

2. Request for Service

A qualifying Customer may request service under this schedule for more than one account or meter if the accounts are located on one site. A site consists of one or more contiguous parcels of land with no intervening public right-of- ways (e.g. streets).

3. Changing Rate Schedules

Customers may request a rate schedule change at any time to any applicable City of Palo Alto full-service rate schedule.

{End}

¹ Monthly gas and commodity and volumetric rates are available here, or by visiting <https://www.cityofpaloalto.org/files/assets/public/utilities/rates-schedules-for-utilities/monthly-gas-commodity-rates.pdf>

CITY OF PALO ALTO UTILITIES

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CITY OF
PALO ALTO
UTILITIES

Effective 7-1-2021²
Sheet No. C-3-2

Packet Pg. 82

COMPRESSED NATURAL GAS SERVICE

UTILITY RATE SCHEDULE G-10

A. APPLICABILITY:

This schedule applies to the sale of natural gas to the City-owned compressed natural gas (CNG) fueling station at the Municipal Service Center in Palo Alto.

B. TERRITORY:

Applies to the City’s CNG fueling station located at the Municipal Service Center in City of Palo Alto.

C. UNBUNDLED RATES:

Per Service

Monthly Service Charge:\$~~68.21~~72.30

Per Therm

Supply Charges:

Commodity (Monthly Market Based)..... \$0.10-\$2.00
Cap and Trade Compliance Charges..... \$0.00 to \$0.25
Transportation Charge \$0.00-\$0.~~15~~25
Carbon Offset Charge \$0.00-\$0.10

Distribution Charge.....\$0.~~011~~30120

D. SPECIAL CONDITIONS

1. Calculation of Cost Components

The actual bill amount is calculated based on the applicable rates in Section C above and adjusted for any applicable discounts, surcharges and/or Taxes. On a Customer’s bill statement, the bill amount may be broken down into appropriate components as calculated under Section C.

The Commodity charge is based on the monthly natural gas Bidweek Price Index for delivery at PG&E Citygate, accounting for delivery losses to the Customer’s Meter.

The Cap and Trade Compliance Charge reflects the City’s cost of regulatory compliance with the state’s Cap and Trade Program, including the cost of acquiring compliance instruments sufficient to cover the City’s Gas Utility’s compliance obligations. The Cap and Trade Compliance Charge will change in response to changing market conditions, retail sales volumes and the quantity of allowances required.

CITY OF PALO ALTO UTILITIES

Issued by the City Council



COMPRESSED NATURAL GAS SERVICE

UTILITY RATE SCHEDULE G-10

The Carbon Offset Charge reflects the City's cost to purchase offsets for greenhouse gases produced in the burning of natural gas. The Carbon Offset Charge will change in response to changing market conditions, changing sales volumes and the quantity of offsets purchased within the Council-approved per therm cap.

The Transportation Charge is based on the current PG&E G-WSL rate for Palo Alto, accounting for delivery losses to the Customer's Meter.

The Commodity, Cap and Trade Compliance, Carbon Offset and Transportation Charges will fall within the minimum/maximum range set forth in Section C. Current and historic per therm rates for the Commodity, Cap and Trade Compliance, Carbon Offset and Transportation Charges are posted on the City Utilities website.¹

{End}

Attachment: Attachment B: Rate Schedules (13840 : FY 2023 Gas Financial Plans and Rates)

¹ Monthly gas and commodity and volumetric rates are available here, or by visiting <https://www.cityofpaloalto.org/files/assets/public/utilities/rates-schedules-for-utilites/monthly-gas-commodity-rates.pdf>

CITY OF PALO ALTO UTILITIES

Issued by the City Council

Supersedes Sheet No G-10-2
dated 7-1-2020¹



CITY OF
PALO ALTO
UTILITIES

Effective 7-1-2021²
Sheet No. **G-10-2**

Packet Pg. 84



DRAFT

UTILITIES ADVISORY COMMISSION MEETING MINUTES OF MARCH 2, 2022 MEETING

CALL TO ORDER

Chair Forssell called the meeting of the Utilities Advisory Commission (UAC) to order at 6:03 p.m.

Present: Chair Forssell, Vice Chair Segal, Commissioners Johnston, Metz, and Smith
Absent: Commissioner Bowie and Scharff

NEW BUSINESS

ITEM 8: ACTION: Staff Recommendation That the Utilities Advisory Commission Recommend the City Council Adopt a Resolution Approving the Fiscal Year 2023 Gas Utility Financial Plan, Including Proposed Transfers, and Increasing Gas Rates by Amending Rate Schedules G-1 (Residential Gas Service), G-2 (Residential Master-Metered and Commercial Gas Service), G-3 (Large Commercial Gas Service), and G-10 (Compressed Natural Gas Service).

Dean Batchelor, Director of Utilities, introduced Eric Keniston who presented to the UAC the Gas Utility Financial Plan.

Eric Keniston, Senior Resource Planner, reported that the proposal is to have a 4 percent overall increase for FY 2023 and then a 4 percent rate increase for subsequent years. The Operating Reserves were projected to remain near the targeted guideline levels. Gas commodity prices remain high, but future projections have those prices decreasing slightly. The City continued to have a lower rate than Pacific, Gas and Electric Company (PG&E) by 14 percent for residential customers.

Vice Chair Segal recalled that the City's approach is to have larger capital projects done every other year, but the budget has not increased to reflect that approach. Keniston noted that there are other CIP projects besides main replacements. Dave Yuan, Strategic Business Manager, confirmed that Vice Chair Segal is correct but the City budgets every year to smooth out the rates. In summary, the rates will raise \$5 million annually and then large capital projects will be constructed every other year. Batchelor added that the annual \$5 to \$6 million is added to the \$7 to \$9 million for capital projects. Karla Dailey, Acting Assistant Director of Utilities, recalled that the every other year model was not able to be implemented over the last 2-years due to the Covid-19 Pandemic. Keniston noted that is not true. The City continued to plan through the pandemic a main replacements every other year.

Commissioner Metz suggested that the new housing mandates and the City's push to electrify should be baked into the financial forecast. Keniston noted that Staff is working on how to factor those two items into the plan for the future.

In reply to Chair Forssell's query regarding Council's direction, Keniston remarked that until a template is established on how to downsize mains and reduce the use of the Gas Utility. It is difficult to include the City's electrification plans into the financial forecast. Gas usage continued to decrease but at a slow rate. Commissioner Metz remarked UAC could seek direction from Council to help Staff with the process.

Keniston added that Staff is working on components of the Sustainability and Climate Action Plan (S/CAP) and will be bringing those forward soon. Batchelor agreed that through more discussion with Council the plan will become clearer. Silvia Santos, Utilities WGW Manager, agreed that Staff could choose a block or neighborhood to electrify and discontinue gas to that area. Staff must to evaluate whether the transformer for that block or neighborhood can accommodate the electrical load.

In answer to Chair Forssell's question regarding the reserve transfers, Keniston confirmed that the Rate Stabilization Transfer is to mitigate a large rate increase. The funds will be transferred from the Operations Reserve to the CIP Reserve and held in the CIP Reserve. Then transferred back to the Operations Reserve when the capital project is ready. In reply to Chair Forssell's question regarding a time delay for the pass-through commodity charge for the Gas Utility, Keniston explained that the gas price is published on the first day of each month. Daily added that the City purchases gas at the market rate.

Council Member Cormack appreciated the comments regarding S/CAP. She acknowledged that the City's infrastructure cannot accommodate electrification and the City must maintain the Gas Utility infrastructure until the electrical grid is modernized. She mentioned that there are teams working on different aspects of the S/CAP and a UAC Member may be able to be involved in the work of the community scaling team looking at electrification.

ACTION: Vice Chair Segal moved Staff requests that the Utilities Advisory Commission (UAC) recommend that the Council adopt a resolution (Attachment A):

- a. Approving the fiscal year (FY) 2023 Gas Utility Financial Plan (Linked Document); and
- b. Transferring up to \$3 million from the Operations Reserve to the CIP Reserve in FY 2022; and
- c. Transferring up to \$2.766 million from the Rate Stabilization Reserve to the Operations Reserve in FY 2022; and
- d. Increasing gas rates by amending Rate Schedules G-1 (Residential Gas Service), G-2 (Residential Master-Metered and Commercial Gas Service), G-3 (Large Commercial Gas Service), and G-10 (Compressed Natural Gas Service) (Attachment B)

Seconded by Commissioner Johnston

Motion carries 4-0 with Chair Forssell and Vice Chair Segal, Commissioners Johnston, Metz voting yes.

Commissioners Bowie, Scharff and Smith absent



City of Palo Alto

Finance Committee Staff Report

(ID # 13970)

Meeting Date: 4/19/2022

Title: The Utilities Advisory Commission and Staff Recommend the City Council Adopt a Resolution Approving the Fiscal Year 2023 Electric Financial Plan and Proposed Reserve Transfers, Amending the Electric Utility Reserve Management Practices, and Amending Rate Schedules E-1 (Residential Electric Service), E-2 (Residential Master-Metered and Small Non-Residential Electric Service), E-2-G (Residential Master-Metered and Small Non-Residential Green Power Electric Service), E-4 (Medium Non-Residential Electric Service), E-4-G (Medium Non-Residential Green Power Electric Service), E-4 TOU (Medium Non-Residential Time of Use Electric Service), E 7 (Large Non-Residential Electric Service), E-7-G (Large Non-Residential Green Power Electric Service), E-7 TOU (Large Non-Residential Time of Use Electric Service), E-14 (Street Lights), E-NSE (Net Metering Net Surplus Electricity Compensation), and E-EEC (Export Electricity Compensation)

From: City Manager

Lead Department: Utilities

Recommendation

The Utilities Advisory Commission (UAC) and Staff recommend that the Finance Committee recommend that City Council adopt a Resolution ([Attachment A](#)):

1. Approving the Fiscal Year (FY) 2023 Electric Financial Plan ([Linked Document](#));
2. Amending the Electric Fund Reserve Management Practices, specifically amending Section 6: Electric Special Projects Reserve, as follows:
 - a. Amend part e) setting the goal to commit ESP funds by the end of FY 2025; and
 - b. Amend part f) setting the date to revert uncommitted funds to the Electric Supply Operations Reserve to five years after the commitment date (FY 20230)
3. Approving the following transfers at the end of FY 2022:
 - a. Up to \$15 million from the Hydro Stabilization Reserve to the Supply Operations Reserve;
 - b. Up to \$5 million from the Electric Special Projects (ESP) reserve to the Supply Operations Reserve; and
 - c. As discussed in Staff Report #11556ⁱ, approve an allocation of Cap and Trade funds up to 1/3 of REC revenue to the Cap and Trade Program Reserve to be

- spent on local decarbonization programs;
4. Approving the following rate actions for FY 2023:
 - a. An increase to retail electric rates E-1 (Residential Electric Service), E-2 (Small Non-Residential Electric Service), E-4 (Medium Non-Residential Electric Service), E-4 TOU (Medium Non-Residential Time of Use Electric Service), E-7 (Large Non-Residential Electric Service), E-7 TOU (Large Non-Residential Time of Use Electric Service) and E-14 (Street Lights) of 5% effective July 1, 2022;
 - b. An update to the Export Electricity Compensation (E-EEC-1) rate to reflect current projections of avoided cost, effective July 1, 2022;
 - c. An update to the Net Surplus Electricity Compensation (E-NSE-1) rate to reflect current projections of avoided cost, effective July 1, 2022; and
 - d. An update to the Palo Alto Green program pass-through premium charge on the Residential Master-Metered and Small Non-Residential Green Power Electric Service (E-2-G), the Medium Non-Residential Green Power Electric Service (E-4-G), and the Large Non-Residential Green Power Electric Service (E-7-G) rate schedules ([Linked Document](#)) to reflect current costs, effective July 1, 2022.

Executive Summary

The FY 2023 Electric Utility Financial Plan includes projections of the utility's costs and revenues through FY 2027. Staff projects costs for the Electric Utility to increase steadily through the forecast period. Revenue increases of 5% to 6% over the forecast horizon, along with a significant use of Hydro Stabilization and Electric Special Project Reserves, are projected to be necessary to keep operating reserves within guideline levels. Short-term impacts to electric costs arising from dry hydro conditions are a main driver of the need for revenue increases, as well as rising operations costs for contract line-crews and capital costs for infrastructure improvement. Long run increases to rates are driven by increasing transmission costs, and the City anticipates the need for significant infrastructure upgrades over the next ten to fifteen years to meet S/CAP and electrification goals.

As projected in the FY 2021 Financial Plan, the lack of precipitation and resulting poor reservoir levels have increased purchase costs and necessitate the utilization of funds from the Hydroelectric Rate Stabilization Reserve. An additional loan may be required from the Electric Special Projects reserve to help keep the Operations Reserve above minimum guideline levels.

Operations costs are expected to increase by about 2% per year through the forecast period. Projected capital expenses are higher due to the rebuilding of existing underground districts, substation upgrades, the Foothills rebuild, utility pole replacements and line voltage upgrades.

While specific grid-modernization and electrification projects have not been included in the capital plan as yet, staff has included an assumption that Council approved upgrades will start around FY 2024 or 2025 and require bond funding to complete. Staff has assumed around \$150 million in projects to be done over the course of 10 years, starting in 2025, with an initial bond measure of \$50 million and similar sized bonds every three years. Based upon estimates from

the City's financial advisors, Staff has estimated annual payments of \$3.2 million related to these bonds. This means bond repayments are assumed to be \$3.2 million starting in 2025, rising to \$9.6 million in 2031 once all three bond issuances have been completed. This is a simplified set of assumptions intended as a placeholder, and actual costs are likely to vary. Staff will have better information for next year's Electric Financial Plan (FY 2024) once progress has been made on the grid modernization study.

The UAC report of March 2, 2022 ([CMR 13961](#)¹) assumed 5% rate increases through the forecast horizon. While the inclusion of these new grid-modernization and electrification costs does not impact the rate proposal for FY 2023, staff has changed anticipated future rates from 5% to 6% going forward. The City is also evaluating the cost and scope of other system resiliency projects which may increase costs and rates in the future.

Electric loads have been gradually decreasing and are expected to continue to decrease in the long-term, mainly due to declining consumption in the commercial sector, putting gradual upward pressure on rates. Electrification will likely reverse some of this trend, although the pace of that impact is uncertain at this time. This decline has been exacerbated by the continuing COVID pandemic. Consumption is currently around 10% below long-term consumption trends. Current models suggest that pandemic economic recovery will take place through 2022 and 2023, with electric consumption stabilizing on the long run average by 2025.

Based on the relative health of the various Electric reserve funds, staff is recommending at least a 5% rate increase for FY 2023, however this will likely result in reserves being close to the minimum guideline levels over the next several years.

Background

Every year staff presents the Finance Committee with Financial Plans for its Electric, Gas, Water, and Wastewater Collection Utilities and recommends any rate adjustments required to maintain their financial health. These Financial Plans include a comprehensive overview of the utility's operations, both retrospective and prospective, and are intended to be a reference for UAC and Council members as they review the budget and staff's rate recommendations. Each Financial Plan also contains a set of Reserves Management Practices describing the reserves for each utility and the management practices for those reserves.

Discussion

Staff's annual assessment of the financial position of the City's electric utility is completed in compliance with cost of service requirements set forth in the California Constitution and applicable statutory law. The assessment includes making long-term projections of market conditions, of costs associated with the physical condition of infrastructure, and of other factors that could affect utility costs. Rates are then proposed that will move towards adequate cost

¹ <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/utilities-advisory-commission/archived-agenda-and-minutes/agendas-and-minutes-2022/03-02-2022/03-02-2022-packet.pdf>

recovery, based on the models developed in the 2016 Electric Cost of Service and Rates Study², updated with current and proposed operating costs.

Proposed Actions for FY 2022 and FY 2023:

The FY 2023 Electric Utility Financial Plan ([Linked Document](#)) includes the following proposed actions:

1. Approving the Fiscal Year (FY) 2023 Electric Financial Plan ([Linked Document](#));
2. Amending the Electric Fund Reserve Management Practices, specifically amending Section 6: Electric Special Projects Reserve, as follows:
 - a. Amend part e) setting the goal to commit ESP funds by the end of FY 2025; and
 - b. Amend part f) setting the date to revert uncommitted funds to the Electric Supply Operations Reserve to five years after the commitment date (FY 2030);
3. Approving the following transfers at the end of FY 2022:
 - a. Up to \$15 million from the Hydro Stabilization Reserve to the Supply Operations Reserve;
 - b. Up to \$5 million from the Electric Special Projects (ESP) reserve to the Supply Operations Reserve; and
 - c. As discussed in CMR 11556, approve an allocation of up to \$1 million from the Cap and Trade Program Reserve to be spent on local decarbonization programs;
4. Approving the following rate actions for FY 2023:
 - a. An increase to retail electric rates E-1 (Residential Electric Service), E-2 (Small Non-Residential Electric Service), E-4 (Medium Non-Residential Electric Service), E-4 TOU (Medium Non-Residential Time of Use Electric Service), E-7 (Large Non-Residential Electric Service), E-7 TOU (Large Non-Residential Time of Use Electric Service) and E-14 (Street Lights) of 5% effective July 1, 2022;
 - b. An update to the Export Electricity Compensation (E-EEC-1) rate to reflect current projections of avoided cost, effective July 1, 2022;
 - c. An update to the Net Surplus Electricity Compensation (E-NSE-1) rate to reflect current projections of avoided cost, effective July 1, 2022; and
 - d. An update to the Palo Alto Green program pass-through premium charge on the Residential Master-Metered and Small Non-Residential Green Power Electric Service (E-2-G), the Medium Non-Residential Green Power Electric Service (E-4-G), and the Large Non-Residential Green Power Electric Service (E-7-G) rate schedules ([Linked Document](#)) to reflect current costs, effective July 1, 2022.

The transfer from the Hydro Stabilization Reserve will help mitigate rising purchase costs resulting from poor hydro conditions and keep the Supply Operations reserve above minimum guideline levels.

² https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2016/final-staff-report-id-6857_electric-utility-financial-plan-and-rate-changes.pdf

The transfer from the ESP reserve will also help mitigate rising costs resulting from electric purchases, as well as the cost of contract labor required to complete Capital Improvement Projects (CIP) and ongoing operations and maintenance. Staff anticipates repaying the balance of outstanding loans to this reserve starting in FY 2025, or earlier should economic situations permit.

The City of Palo Alto (City or Palo Alto) maintains a Cap and Trade Program Reserve within the Electric fund to hold revenues from the sale of carbon allowances freely allocated by the California Air Resources Board to the City's electric utility. Cap and Trade Program revenues are provided to the electric utility to support a wide variety of carbon reducing activities, including local decarbonization.

In accordance with Council's August 2020 direction, ([Staff Report #11556](#))³ the City has also exchanged certain types of renewable energy to take advantage of market conditions to reduce supply costs, fund electric utility programs and capital investment, and raise funds for local decarbonization. The revenues received from these REC exchanges are kept in the Electric Supply Reserve. With this Financial Plan, and as described in [Staff Report #11556](#), staff is allocating Cap and Trade funds equivalent to 1/3 of the FY 2022 REC Exchange program revenues, or up to an estimated \$1 million, for future local decarbonization projects.

Table 1 below shows the effects of the proposed transfers on reserve funds, as well as changes to the CIP min/max guidelines. The attached Electric Financial Plan ([Linked Document](#)) discusses these reserve changes in greater detail:

Table 1: Reserves Starting and Ending Balances, Revenues, Expenses, Transfers To/(From) Reserves, Operations and Capital (CIP) Reserve Guideline Levels for FY 2022 to FY 2027 (\$000)

		FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
	Starting Reserve Balances								
1	Supply Operations	28,709	29,429	19,875	33,046	34,973	29,382	24,726	24,431
2	Distribution Opera	16,536	9,109	10,028	11,450	12,135	13,937	12,817	15,390
3	CIP	880	5,880	880	880	2,880	2,880	880	880
4	Electric Special P	41,665	46,665	46,665	29,649	14,649	11,649	17,649	23,649
5	Hydro Stabilization	11,400	15,400	15,400	400	400	400	400	400
6	Low Carbon Fuel \$	-	6,340	6,944	6,050	5,028	3,956	3,388	2,935
7	Cap and Trade Prd	-	-	1,189	1,760	6,183	9,148	11,878	14,337
	Revenues								
8	Supply	115,131	112,134	113,983	126,595	123,423	123,033	125,944	130,810
9	Distribution	57,476	52,172	55,845	60,564	69,352	77,848	82,495	84,197
	Transfers								
10	Supply Operations	(15,340)	(1,189)	19,429	3,577	(2,965)	(8,730)	(8,459)	(8,212)
11	Distribution Opera	(5,000)	5,000	-	(2,000)	-	2,000	-	-
12	CIP	5,000	(5,000)	-	2,000	-	(2,000)	-	-
13	Electric Special P	5,000	-	(5,000)	(8,000)	-	6,000	6,000	6,000
14	Hydro Stabilization	4,000	-	(15,000)	-	-	-	-	-
15	Low Carbon Fuel \$	6,340	-	-	-	-	-	-	-
16	Cap and Trade Program	-	1,189	571	4,423	2,965	2,730	2,459	2,212
	Capital Program Contribution								
17	Distribution Opera	-	-	-	-	-	-	-	-
18	CIP Reserve	-	-	-	-	-	-	-	-
	Expenses								
19	Supply Expenses	(99,070)	(120,499)	(120,242)	(128,244)	(126,050)	(118,958)	(117,780)	(119,107)
20	Distribution Non-C	(44,363)	(34,766)	(35,758)	(35,760)	(44,956)	(55,247)	(60,689)	(62,213)
21	Planned CIP	(15,540)	(21,487)	(18,664)	(22,120)	(22,594)	(25,721)	(19,233)	(22,620)
22	ESP funded	-	-	(12,016)	(7,000)	(3,000)	-	-	-
23	Hydro funded	-	-	-	-	-	-	-	-
24	LCFS funded	-	604	(893)	(1,022)	(1,072)	(568)	(453)	(453)
	Ending Reserve Balance								
1+8+10+19	Supply Operations	29,429	19,875	33,046	34,973	29,382	24,726	24,431	27,922
2+9+11+17+20+21	Distribution Opera	9,109	10,028	11,450	12,135	13,937	12,817	15,390	14,754
3+12+18	CIP	5,880	880	880	2,880	2,880	880	880	880
4+13+22	Electric Special P	46,665	46,665	29,649	14,649	11,649	17,649	23,649	29,649
5+14+23	Hydro Stabilization	15,400	15,400	400	400	400	400	400	400
6+15+24	Low Carbon Fuel \$	6,340	6,944	6,050	5,028	3,956	3,388	2,935	2,482
7+16	Cap and Trade Prd	-	1,189	1,760	6,183	9,148	11,878	14,337	16,549
	Operations Reserve Guidelines (Supply)								
25	Minimum	16,957	18,346	19,170	18,843	19,470	19,293	19,430	19,651
26	Maximum	33,914	36,691	38,340	37,686	38,941	38,586	38,860	39,301
	Operations Reserve Guidelines (Distribution)								
27	Minimum	8,622	8,052	8,574	9,451	9,337	9,512	10,121	10,436
28	Maximum	13,522	13,746	14,739	16,444	16,135	16,433	17,600	18,176
	CIP Reserve Guidelines								
29	Minimum	2,554	4,143	4,455	4,483	4,508	4,510	3,162	3,718
30	Maximum	5,109	20,716	22,275	22,417	22,542	22,551	21,942	23,125

While the continuing COVID-19 pandemic and economic hardships created by it continue to put pressure on City of Palo Alto Utility (CPAU) customers, given the rising costs and weakening reserve health of the Electric fund, staff is proposing a 5% rate increase for FY 2023 and anticipating 6% rate increases for the rest of the forecast period. Under this scenario, utility reserves are projected to drop to near their minimum guideline levels. Possible program and service cuts may be needed to make up the difference if the utility's financial position is worse than forecasted.

Table 2 below compares current rate projections to those projected in last year's Financial Plan.

Table 1: Projected Electric Rates, FY 2023 to FY 2027

Projection	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Current	5%	6%	6%	6%	6%
Last Year	5%	5%	2%	1%	N/A

FY 2023 Financial Plan Projected Rate Adjustments for the Next Five Fiscal Years

Table 3 shows the projected rate adjustments over the next five years and their impact on annual median residential electric bill (453 kwh per month in winter, 365 kwh per month in summer).

Table 3: Projected Rate Adjustments, FY 2022 to FY 2026

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Electric Utility	5%	6%	6%	6%	6%
Estimated Bill Impact (\$/mo) *	\$3.04	\$3.82	\$4.05	\$4.30	\$4.55

* Estimated impact on median residential electric bill, which is currently \$60.70 for CY 2021

The rate increases are related to several factors: low hydro supply increasing FY 2022 and FY 2023 purchase costs, increasing transmission costs over the longer term, the need for substantial additional capital investment in the electric distribution system, and increasing operations costs due to larger contracting needs to complete electric distribution system maintenance and capital improvement work. Revenues have also declined as customer usage has decreased, requiring larger rate increases to cover fixed expenses and offset the shortfalls.

Historically, total electric utility costs (excluding short-term drought impacts) were roughly \$120 million per year, allowing the electric utility to go without a rate increase from July 1, 2009 to July 1, 2016. From FY 2016 to FY 2018, annual costs (net of energy supply related revenue, like surplus energy sales) increased to roughly \$140 million per year (costs were unusually low in FY 2019 due to some one-time savings from surplus energy sales). Costs are projected to increase to roughly \$175 million by FY 2027 (net of surplus energy sales).

Figure 1 shows the overall electric utility's costs (net of surplus sales revenues) in FY 2018, FY 2023, and FY 2027. Costs for the electric supply portfolio decreased slightly between FY 2018 and FY 2023, but much of this is due to surplus electric supply revenues that are not expected to continue while hydro supplies are low. Additionally, customer sales declined by 1.5% to 2% annually over the past several years. Assuming normal hydro conditions going forward, the continuing trend of load loss, and continually increasing transmission charges, total costs are projected to increase by about 3% annually during the forecast period.

The cost of managing the distribution system (e.g. maintenance, capital investment, customer service, billing, etc.) has increased by about 6% per year and is projected to be about 2% to 3% per year in the next five years once some larger capital projects are completed. FY 2023 capital costs are higher due in part to the Smart Grid Technologies project, but these costs have been

approved by Council to come from the ESP Reserve and will not impact rates. FY 2018 capital costs were low relative to FY 2023, but similar to outer years of the financial plan.

Overall, costs are projected to increase by about 2% to 3% per year over the forecast horizon, but declining loads will necessitate rate increases greater than this to maintain the financial health and enhance system reliability of the utility.

Figure 1: Electric Utility Costs, FY 2018 Actual vs. FY 2023 and FY 2027 Projections

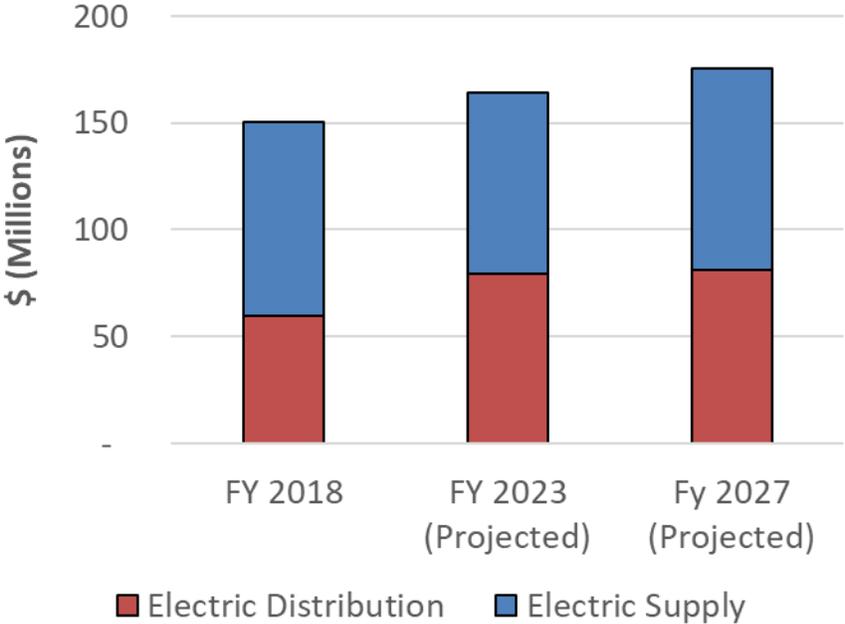


Figure 2 shows distribution costs. Capital costs have increased by about 6% per year on average over the last five years but are skewed in this graph due to a large (\$7 million) Smart Grid Technology project budgeted for FY 2023 as well as relatively low spending during FY 2018. Larger investments related to underground district rebuilds, substation upgrades, and the rebuilding of the Foothills system are budgeted to occur in the next three years. In the last few years, the City has experienced a higher number of outages in underground districts due to aging equipment and infrastructure. To address this problem, distribution system-related operational spending is projected to increase by about 2% annually. Some of this is due to projected increases in costs of labor and materials. If there are higher than anticipated staff vacancies, more expensive external contracts will be needed to complete necessary electric system maintenance. As mentioned above, staff has also included anticipated bond payments starting in 2025 to finance grid modernization and electrification measures.

Figure 2: Electric Distribution Costs, FY 2018 vs. FY 2023 and FY 2027 Projections

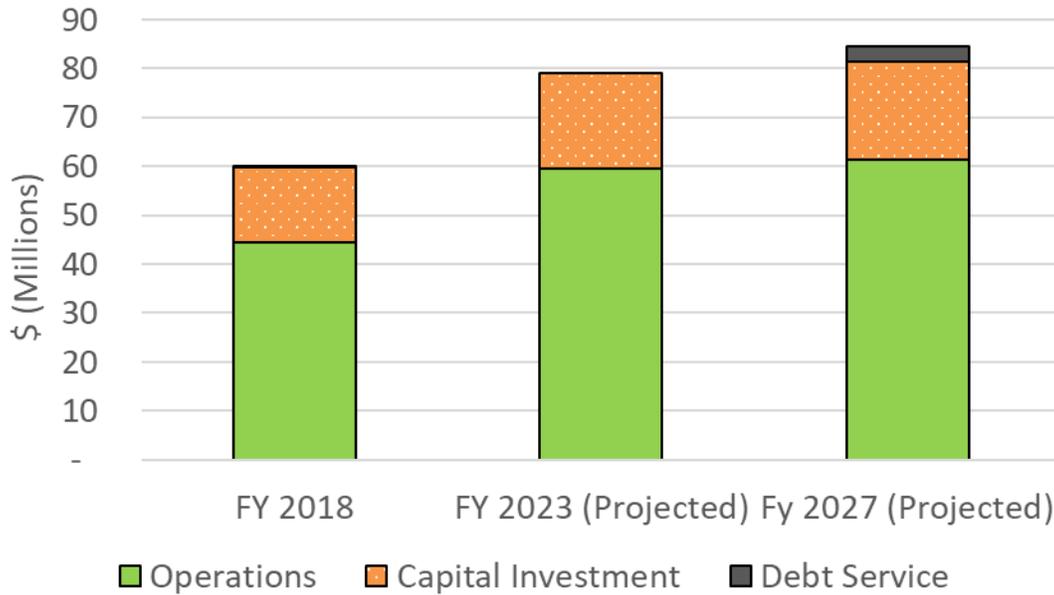
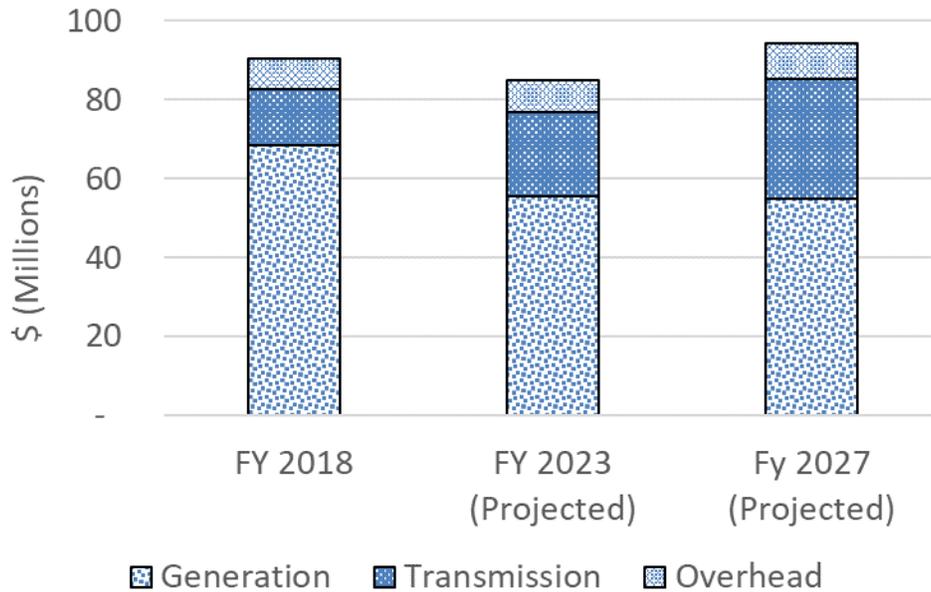


Figure 3 shows commodity costs. While net electric supply portfolio costs stayed relatively stable and even decreased slightly from FY 2018 to FY 2023, this was mainly due to surplus energy revenues and decreasing loads. Transmission costs increased by 8% annually in the same timeframe and are projected to increase by about 9% annually in future years. These increases are due to rehabilitation and replacement of the statewide electric transmission system as well as expansion of that system to accommodate new generation, mostly renewable.

Staff works to contain transmission costs through partner agencies, including the Transmission Agency of Northern California (TANC) and Northern California Power Agency (NCPA), and through direct partnerships with other local utilities (the Bay Area Municipal Transmission group, BAMx). These groups intervene in transmission proceedings at the Federal Energy Regulatory Commission (FERC) and the California Independent System Operator (CAISO), and have achieved some reductions in long-term transmission costs. Staff is developing strategies to achieve cost savings in electric supply and will discuss these strategies in greater detail at future meetings.

Figure 3: Electric Supply Costs, FY 2018 Actual vs. FY 2023 and FY 2027 Projections



Staff also recognizes the importance of managing operating costs and maximizing efficiency in order to minimize rate increases. As discussed above, staff is working on cost containment measures related to transmission and renewable energy costs. Utility consumers also see some long-term cost savings from City-wide efforts to manage personnel costs. As reflected in the Utilities Strategic Plan, staff is exploring additional ways to effectively use available resources, particularly across Divisions.

Electric Bill Comparison with Surrounding Cities

For the median consumption level, the annual CPAU residential electric bill for calendar year 2021 was \$728, which was 41% lower than the annual bill for a PG&E customer with the same consumption (\$1,237) and approximately 16% higher than the annual bill for a City of Santa Clara customer (\$629). The bill calculations for PG&E customers are based on PG&E Climate Zone X, which includes most surrounding comparison communities.

Table 4 presents sample median residential bills for Palo Alto, PG&E, and the City of Santa Clara (Silicon Valley Power) for several usage levels. Rates used to calculate the monthly bills shown below were in effect as of January 1, 2022.

Over the next several years low usage customers in PG&E territory are expected to continue to see higher percentage rate increases than high usage customers as PG&E compresses its tiers from the highly exaggerated levels that have been in place since the energy crisis. This is likely to make the bill for the median Palo Alto consumer look even more favorable compared to most PG&E customers. Even with the compressed tiers, bills for high usage Palo Alto consumers are likely to remain substantially lower than the bills for high usage PG&E customers.

Table 4: Residential Monthly Electric Bill Comparison (Effective 1/1/2022, \$/mo.)

Season	Usage (kwh)	Palo Alto	PG&E	Santa Clara
Winter	300	41.27	84.72	39.22
	453 (Median)	69.22	127.93	59.95
	650	107.37	197.16	86.65
	1200	213.89	392.28	161.17
Summer	300	41.27	87.11	39.22
	(Median) 365	52.18	110.17	48.03
	650	107.37	211.27	86.65
	1200	213.89	406.39	161.17

Table 5 shows the average monthly electric bill for commercial customers for various usage levels.

Table 5: Commercial Monthly Electric Bill Comparison (1/1/2022, \$/mo.)

Usage (kwh/mo)	Palo Alto	PG&E	Santa Clara
1,000	177	303	196
160,000	24,795	34,211	21,472
500,000	77,477	86,456	66,937
2,000,000	273,431	333,240	267,523

Proposed Rate Changes

The City adopted the current rates effective July 1, 2019, when CPAU increased electric rates by 8%. With the onset of the COVID-19 pandemic, usage amongst all customer classes has decreased. Many businesses have been operating at minimum staffing conditions or fully remote. City of Palo Alto staff have reduced expenses where possible, but costs related to ongoing distribution system work have increased, as staffing shortages have required contract crews to complete required maintenance and CIP work.

In order to move towards full cost recovery while minimizing rate impacts in light of pandemic-related economic challenges, staff recommends a rate increase to all customer classes of 5%. If, after the pandemic, usage and/or spending looks to be moving in a different direction, staff will suggest a re-balancing of rates for the next fiscal year.

Staff is also engaging the services of consultants to review and revise the Electric Utility's Cost of Service study and rates. This study will examine how costs are allocated among the residential and commercial classes and realign them if needed and will develop cost-based rates for several emerging groups, such as: all-electric customers, DC-fast charging facilities, and micro-grid customers. When staff brought the COSA guidelines to the UAC, Finance and Council, there was a directive for staff to propose residential rates to support electrification, prior to a COSA. Staff's response to that request is provided as Attachment C.

The current rates and proposed rates for FY 2023, and are reflected in Table 6 below:

Table 6: Current and Proposed Electric Rates

	Current Rates	Proposed Rates (7/1/2022)	Change	
			\$	%
E-1 (Residential)				
Tier 1 Energy (\$/kWh)	0.13757	0.14445	0.00688	5%
Tier 2 Energy (\$/kWh)	0.19367	0.20335	0.00968	5%
Minimum Bill (\$/day)	0.3283	0.3447	0.0164	5%
E-2 & E-2-G (Small Non-Residential)				
Summer Energy (\$/kWh)	0.20853	0.21896	0.01043	5%
Winter Energy (\$/kWh)	0.14624	0.15355	0.00731	5%
Minimum Bill (\$/day)	0.8359	0.8777	0.0418	5%
E-4 & E-4-G (Medium Non-Residential)				
Summer Energy (\$/kWh)	0.12848	0.13490	0.00642	5%
Winter Energy (\$/kWh)	0.09946	0.10443	0.00497	5%
Summer Demand (\$/kW)	28.91	30.36	1.45	5%
Winter Demand (\$/kW)	18.97	19.92	0.95	5%
Minimum Bill (\$/day)	17.2742	18.1379	0.8637	5%
E-7 & E-7-G (Large Non-Residential)				
Summer Energy (\$/kWh)	0.11432	0.12004	0.00572	5%
Winter Energy (\$/kWh)	0.07738	0.08125	0.00387	5%
Summer Demand (\$/kW)	30.69	32.22	1.53	5%
Winter Demand (\$/kW)	17.05	17.90	0.85	5%
Minimum Bill (\$/day)	49.1139	51.5696	2.4557	5%

Table 7 shows the impact of the proposed July 1, 2022 rate changes on the residential and non-residential bills for various consumption levels.

Table 7: Impact of Proposed Electric Rate Changes on Customer Bills

Rate Schedule	Usage (kWh/mo)	Bill under Current Rates (\$/mo)	Bill Under Rates Proposed 7/1/22 (\$/mo)	Change	
				\$/mo	%
E-1 (Residential)	300	\$41.27	\$43.34	\$2.07	5%
	(Summer Median) 365	52.18	54.79	2.61	5%
	(Winter Median) 453	69.22	72.68	3.46	5%
	650	107.37	112.74	5.37	5%
	1200	213.89	224.58	10.69	5%

E-2 (Small Non-Residential)	1,000	177	186	9	5%
E-4 (Medium Non-Residential)	160,000	24,795	26,035	1,240	5%
	500,000	77,477	81,352	3,873	5%
E-7 (Large Non-Residential)	2,000,000	273,431	287,095	13,664	5%

Net Energy Metering Buyback Rates

The City operates two Net Energy Metering (NEM) programs. Solar customers served by the CPAU's original NEM program, also called NEM 1, are compensated at retail rates for net electricity they export to the grid, and solar customers served by the NEM successor program, or NEM 2 (effective after the City reached its NEM 1 cap at the end of 2017), are compensated at the Export Electricity Compensation (E-EEC-1) rate for exported electricity.

Customers on the NEM 1 program who have chosen to have the value of any annual net generation they produced over the past 12 months credited back to their account do so under the Net Metering Net Surplus Electricity Compensation (E-NSE-1) rate, which is calculated using the utility's avoided costs from the prior year. The Net Surplus Electricity Compensation rate represents the value of the City's avoided costs or value of customer-generated electricity in Palo Alto during the prior calendar year, including compensation for the energy, avoided capacity charges, avoided transmission and ancillary service charges, avoided transmission and distribution (T&D) losses, and renewable energy credits (RECs), or environmental attributes. Staff proposes increasing the E-NSE-1 rate to \$.1026/kWh based on updated avoided cost calculations for 2021.

Under the City's NEM 2 successor program, participating solar customers are billed at the current retail rate for electricity drawn from the grid, and receive a credit for electricity they export to the grid at the Export Electricity Compensation (E-EEC-1) buyback rate. This buyback rate also reflects the avoided cost or value of customer-generated electricity in Palo Alto, calculated on a forward-looking basis for the upcoming fiscal year. As shown in the table below, the current avoided cost for solar generation in Palo Alto is 10.45 cents/kWh, which is slightly lower than the avoided cost on the current NEM buyback rate (10.78 cents/kWh). This slight decrease in the overall avoided cost is driven by a small decrease in the value of the RECs generated by these solar systems.

Table 6: NEM Compensation Rates – Current vs. Proposed

Rate	Current \$/kWh	Proposed \$/kWh
Net Surplus Electricity (E-NSE-1)	\$0.0992	\$0.1026
Export Electricity (E-EEC-1)	\$0.1078	\$0.1045

Palo Alto Green (PAGreen) Program

The PaloAltoGreen (PAG) program provides CPAU's commercial customers an opportunity to voluntarily pay a premium to receive renewable electricity credits to match their energy usage. Under this program, CPAU staff purchase and retire Green-e certified RECs in the wholesale market on behalf of PAG customers. This enables participating commercial customers to claim credit for the REC purchases in order to satisfy their corporate sustainability goals and meet federal "green certification" requirements.

The PAG charge is a pass-through charge; the revenue collected through the PAG rate premium is intended to fully recover the costs of administering the program. The PAG program has very low overhead costs (e.g., the cost of hiring an auditor to carry out an annual Green-e verification process for the program), so the vast majority of the program cost is the purchase cost of the RECs. In the past year the wholesale cost of Green-e certified RECs in the Western US market has continued to increase (from approximately \$6/REC to \$7.5/REC). As such, the PAG rate premium needs to be raised from \$6 per 1,000 kWh block (.6 cents/kWh) to \$7.5 per 1,000 kWh block (.75 cents/kWh). This change will be reflected on the Residential Master-Metered and Small Non-Residential Green Power Electric Service (E-2-G), the Medium Non-Residential Green Power Electric Service (E-4-G), and the Large Non-Residential Green Power Electric Service (E-7-G) rate schedules ([Linked Document](#)).

Reserve Management Practice Changes: Electric Special Projects (ESP) Reserve

In November 2011, Council changed the name of the Calaveras Reserve to the Electric Special Project (ESP) Reserve and adopted ESP Reserve Guidelines to ensure the reserve funds were spent to benefit electric ratepayers. The guidelines were established to provide a framework for evaluating projects and set deadlines for committing the funds, to ensure progress was made in expending the funds and returning benefits to the electric ratepayers. Consistent with the guidelines, funds have been used for several initiatives including funding studies and pilot programs in support of bigger initiatives. In addition, Council has approved loans of uncommitted ESP reserve funds to help stabilized Operations Reserves. Per Council approval, \$10 million was transferred from the Electric Special Projects (ESP) Reserve to the Operations Reserve in FY 2018 to mitigate higher supply costs due to the drought occurring then, with \$5 million having been repaid to date. Staff is requesting an additional \$5 million loan to help with the current drought as well as high Operations and CIP expenses.

In 2015, Staff recommended to the Utilities Advisory Commission (UAC) and Council two projects to be funded by the ESP: the implementation of smart grid systems, and transmission system upgrades. At the time, given the uncertain timeline and cost of both projects, both the UAC and Council recommended that timelines for evaluation and use of ESP funds be extended.

Today, the Smart Grid project is underway with Council-approved ESP funding, anticipated to be \$22 million over the next five years. Approximately half of the \$22M funding will be repaid

to the ESP reserve by the gas and water utilities over five years post AMI deployment. Transmission system upgrades and negotiations have been slower to develop, and in the interim staff is developing a list of other projects which may be applicable for ESP funding. Staff will discuss proposals for using ESP funds with the UAC budget sub-committee in 2022.

Given this, staff is requesting that the timelines for evaluation be extended, with a goal to commit funds by the end of FY 2025, and to have any uncommitted funds revert to the Electric Supply Operations Reserve five years after that (FY 2030).

If Council does not approve this change, the remaining ESP Reserve funds will revert to the Operations Reserve at the end of FY 2022.

Timeline

The Finance Committee is scheduled to review the FY 2023 Electric Financial Plan ([Linked Document](#)) in April 2022. The City Council will consider adopting the Financial Plan and rate amendments as part of the FY 2023 budget review and adoption process.

Stakeholder Engagement

The UAC reviewed preliminary financial forecasts at its December 1, 2021 meeting, and the Finance Committee reviewed the preliminary forecasts at its February 1, 2022 meeting.

The UAC reviewed staff's recommendation on the FY 2023 Electric Financial Plan ([Linked Document](#)), proposed transfers and rate increases at its March 2, 2022 meeting. At that meeting, staff informed the UAC that grid modernization measure were not included as part of the analysis presented, but that including it would not change staff's recommendation for a 5% rate increase in FY 2023. Future estimated rate increases would change, however, and be included in the Finance and Council documents. The UAC expressed approval that staff would be factoring those early estimates into the rate proposal.

The UAC voted to approve staff's proposal 4-0, with Commissioners Bowie, Scharff and Smith absent. ([Attachment C](#)).

Staff and the UAC's recommendation on the FY 2023 Electric rate increases will go to the Finance Committee in April and be presented to City Council in June during the budget adoption process.

Resource Impact

The estimated FY 2023 revenue impact of the recommendations in this report would be an increase of \$7.9 million in the Electric Fund. The City is a utility customer, so rate increases will also result in estimated City expense increases of about \$287,000, approximately \$100,000 of that being in the General Fund. Resource impacts to City departments and funds of the recommended rate adjustments are programmed in the FY 2023 Proposed Operating Budget. If the final rates adopted by Council in June differ from those proposed in this report, further

adjustments may be brought forward as part of the annual budget process.

Environmental Review

The UAC's review and recommendation to Council on the FY 2023 Electric Financial Plans and rate adjustments does not meet the California Environmental Quality Act's definition of a project, pursuant to Public Resources Code Section 21065, thus no environmental review is required.

Attachments:

- Attachment A: Resolution
- Attachment B: Early Electric Rate Change Memo
- Attachment C: Draft Excerpt UAC Minutes

¹ <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2020-2/id-11566.pdf>

Yet to be Passed

Resolution No. _____

Resolution of the Council of the City of Palo Alto Approving the Fiscal Year 2023 Electric Utility Financial Plan and Reserve Transfers, Amending the Electric Utility Reserves Management Practices and Amending Utility Rate Schedules E-1 (Residential Electric Service), E-2 (Residential Master-Metered and Small Non-Residential Electric Service), E-2-G (Residential Master-Metered and Small Non-Residential Green Power Electric Service), E-4 (Medium Non-Residential Electric Service), E-4-G (Medium Non-Residential Green Power Electric Service), E-4 TOU (Medium Non-Residential Time of Use Electric Service), E 7 (Large Non-Residential Electric Service), E-7-G (Large Non-Residential Green Power Electric Service), E-7 TOU (Large Non-Residential Time of Use Electric Service), E-14 (Street Lights), E-NSE (Net Surplus Electricity Compensation Rate), and E-EEC (Export Electricity Compensation)

RECITALS

A. Each year the City of Palo Alto (“City”) regularly assesses the financial position of its utilities with the goal of ensuring adequate revenue to fund operations. This includes making long-term projections of market conditions, the physical condition of the system, and other factors that could affect utility costs, and setting rates adequate to recover these costs. It does this with the goal of providing safe, reliable, and sustainable utility services at competitive rates. The City adopts Financial Plans to summarize these projections.

B. The City uses reserves to protect against contingencies and to manage other aspects of its operations, and regularly assesses the adequacy of these reserves and the management practices governing their operation. The status of utility reserves and their management practices are included in Reserves Management Practices attached to and made part of the Financial Plans.

C. 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.

D. On June __, 2022, the City Council heard and approved the proposed rate increase at a noticed public hearing.

The Council of the City of Palo Alto does hereby RESOLVE as follows:

SECTION 1. The Council hereby approves the FY 2023 Electric Utility Financial Plan.

SECTION 2. The Council hereby approves amendments to Section 6 (Electric Special Projects Reserve) of the Electric Utility Reserves Management Practices to read as attached and incorporated.

SECTION 3. The Council hereby approves the following transfers to be made by the end of FY 2022, as described in the FY 2023 Electric Utility Financial Plan:

- a. Approve a transfer of up to \$15 million from the Hydro Stabilization Reserve to the Supply Operations Reserve;
- b. Approve a transfer of up to \$5 million from the Electric Special Projects (ESP) reserve to the Supply Operations Reserve; and
- c. Approve an allocation of up to \$1 million from the Cap and Trade Program Reserve to be allocated to local decarbonization programs); and

SECTION 4. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule E-1 (Residential Electric Service) is hereby amended to read as attached and incorporated. Utility Rate Schedule E-1, as amended, shall become effective July 1, 2022.

SECTION 5. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule E-2 (Residential Master-Metered and Small Non-Residential Electric Service) is hereby amended to read as attached and incorporated. Utility Rate Schedule E-2, as amended, shall become effective July 1, 2022.

SECTION 6. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule E-2-G (Residential Master-Metered and Small Non-Residential Green Power Electric Service) is hereby amended to read as attached and incorporated. Utility Rate Schedule E-2-G, as amended, shall become effective July 1, 2022.

SECTION 7. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule E-4 (Medium Non-Residential Electric Service) is hereby amended to read as attached and incorporated. Utility Rate Schedule E-4, as amended, shall become effective July 1, 2022.

SECTION 8. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule E-4-G (Medium Non-Residential Green Power Electric Service) is hereby amended to read as attached and incorporated. Utility Rate Schedule E-4-G, as amended, shall become effective July 1, 2022.

SECTION 9. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule E-4 TOU (Medium Non-Residential Time of Use Electric Service) is hereby amended to read as attached and incorporated. Utility Rate Schedule E-4 TOU, as amended, shall become effective July 1, 2022.

Attachment A

SECTION 10. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule E-7 (Large Non-Residential Electric Service) is hereby amended to read as attached and incorporated. Utility Rate Schedule E-7, as amended, shall become effective July 1, 2022.

SECTION 11. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule E-7-G (Large Non-Residential Green Power Electric Service) is hereby amended to read as attached and incorporated. Utility Rate Schedule E-7-G, as amended, shall become effective July 1, 2022.

SECTION 12. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule E-7 TOU (Large Non-Residential Time of Use Electric Service) is hereby amended to read as attached and incorporated. Utility Rate Schedule E-7 TOU, as amended, shall become effective July 1, 2022.

SECTION 13. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule E-14 (Street Lights) is hereby amended to read as attached and incorporated. Utility Rate Schedule E-14, as amended, shall become effective July 1, 2022.

SECTION 14. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule E-NSE (Net Surplus Electricity Compensation Rate) is hereby amended to read as attached and incorporated. Utility Rate Schedule E-NSE-1, as amended, shall become effective July 1, 2022.

SECTION 15. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule E-EEC-1 (Export Electricity Compensation) is hereby amended to read as attached and incorporated. Utility Rate Schedule E-EEC-1, as amended, shall become effective July 1, 2022.

SECTION 16. The Council makes the following findings:

- a. 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.
- b. 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.

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Attachment A

SECTION 17. The Council finds that approving the Financial Plan and Reserve transfers does not meet the California Environmental Quality Act’s (CEQA) definition of a project under Public Resources Code Section 21065 and CEQA Guidelines Section 15378(b)(5), because it is an administrative governmental activity which will not cause a direct or indirect physical change in the environment, and therefore, no environmental assessment is required. The Council finds that changing electric rates to meet operating expenses, purchase supplies and materials, meet financial reserve needs and obtain funds for capital improvements necessary to maintain service 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

MEMORANDUM

DATE: March 2, 2022

SUBJECT: Evaluation of Implementing an All-Electric rate prior to COSA

Executive Summary

During the Finance Committee ([CMR 13544](#)¹) and City Council ([CMR 13546](#)²) meetings to review and recommend guidelines for an Electric Cost of Service Analysis (COSA), set to commence in FY 2022 and anticipated for completion in FY 2023, the Finance Committee passed the following motion:

Direct staff to study options for an interim modification to (residential electric) tiers that would support electrification, and return to the Utilities Advisory Commission, the Finance Committee and City Council at a future date.

Setting rates without a COSA in place can be responsibly accomplished through implementation of a pilot rate; staff recommends against using that mechanism. This conclusion was drawn after reviewing the City's adopted and published COSA ([CMR 6857](#)³) and evaluating the resource impacts and technical and operational challenges of developing a pilot rate.

Discussion

Palo Alto's Rate-setting Process

Palo Alto's rates are designed to collect revenues sufficient to cover the cost to serve each customer or customer group. It is industry practice to periodically perform a COSA to ensure that a utility's rates meet this requirement. Proposition 26 (2010) amended the California Constitution, which defines all government-imposed charges, including electric rates, as taxes requiring voter approval, unless certain exceptions are met. Cost-based electric rates may be adopted by the City Council. The COSA helps the utility ensure that rates represent the cost to serve customers.

Council-adopted COSA Guidelines

¹ <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/finance-committee/2021/20211005/20211005pfcs.pdf>

² <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/city-council-agendas-minutes/2021/11-november/20211101pccs-amended.pdf>

³ https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2016/final-staff-report-id-6857_electric-utility-financial-plan-and-rate-changes.pdf

The Electric Utilities' last published COSA and was approved by City Council on June 13, 2016 ([CMR 6932⁴](#)). In preparation for that study, Council adopted a set of guidelines ([CMR 6061⁵](#)) including:

“For this cost of service study, and to the extent feasible, energy charges should be based on existing rate structures. This includes: a tiered rate design structure for residents.”

Prior to the study, Palo Alto's residential rates had three tiers. The results of the study indicated a reduction in the number of tiers from three to the current two was necessary to adequately reflect the cost to provide service. Based upon an analysis of median residential baseload energy use, the daily allowance of energy per household allocated for the first tier was increased from 10 kwh/day to 11kwh/day.

Alternative rate structures, such as a uniform/single-tier rate structure, were not addressed in the report, nor was the creation of different classes of residential customer (such as all-electric or Electric Vehicle (EV) specific rates).

The Utilities Department is planning to update the COSA model, commencing in FY 2022 and completing the work in FY 2023. Several options for residential rates will be evaluated including: (1) whether better or alternative cost allocation methods could be utilized, (2) whether tiered rates should be changed (increased, lowered, or condensed to a single tier), and (3) whether multiple rate options could be available to customers within a rate class (residential, etc.) while still maintaining adequate and equitable revenue collection for the rate class as a whole.

Pilot Rate Option

It is possible to create a separate rate for customers pursuing electrification under a 'pilot' or test-case program. Pilot rates are designed to study the impact of the rate design on customer behavior.

Resource Constraints

Implementing rate changes will require staff time and resources. Staff estimates three to four months needed to analyze and determine new rates, configuration, design and testing of the billing system, customer service training, and outreach.

This resource need will be in direct competition for the need to complete an updated COSA. It is anticipated this effort will take two to three months followed by three months to analyze, design configure and test new rates. These changes will also require staff resources for billing system changes, customer outreach, etc. Dividing work on these two tasks will lengthen the time to complete the COSA.

Technical and Operational Constraints

. Typically an all-electric rate or electric vehicle rate would encourage customers to consume more electricity in off-peak vs. on-peak hours. Since Palo Alto does yet have time of use or interval metering, that kind of study is infeasible at this time.

⁴ <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2016/6932-merged.pdf>

⁵ https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2015/final-staff-report-id-6061_adoption-of-design-guidelines-for-electric-cost-of-service-analysis.pdf

Many administrative challenges exist for a pilot rate study. Determining customer eligibility for a pilot rate (such as not having a gas meter, EV ownership, etc.) will be difficult. Additional administrative challenges such as managing caps on participation (pilot rates are limited in size), monitoring pilot vs. non-participant behaviors, and making sure there are no unanticipated revenue changes arising from rate switching are require a significant investment of staff time.



DRAFT

UTILITIES ADVISORY COMMISSION MEETING MINUTES OF MARCH 2, 2022 MEETING

CALL TO ORDER

Chair Forssell called the meeting of the Utilities Advisory Commission (UAC) to order at 6:03 p.m.

Present: Chair Forssell, Vice Chair Segal, Commissioners Johnston, Metz, and Smith
Absent: Commissioner Bowie and Scharff

NEW BUSINESS

ITEM 9: ACTION: Staff Recommendation That the Utilities Advisory Commission Recommend the City Council Adopt a Resolution Approving the Fiscal Year 2023 Electric Financial Plan and Reserve Transfers, Amending the Electric Utility Reserve Management Practices, and Amending Rate Schedules E-1 (Residential Electric Service), E-2 (Residential Master-Metered and Small Non-Residential Electric Service), E-2-G (Residential Master-Metered and Small Non-Residential Green Power Electric Service), E-4 (Medium Non-Residential Electric Service), E-4-G (Medium Non-Residential Green Power Electric Service), E-4 TOU (Medium Non-Residential Time of Use Electric Service), E 7 (Large Non-Residential Electric Service), E-7-G (Large Non-Residential Green Power Electric Service), E-7 TOU (Large Non-Residential Time of Use Electric Service), E-14 (Street Lights), E-NSE (Net Metering Net Surplus Electricity Compensation), and E-EEC (Export Electricity Compensation).

Eric Keniston, Senior Resource Planner, reported that the proposal is a 5 percent rate increase with projected 5 percent rate increases in the subsequent years. To accommodate a 5 percent rate increase, the Hydro Stabilization Reserve will be depleted. The Hydro Rate Adjuster will be activated and will add \$0.013 per kilowatt-hour in revenue. Staff predicted that hydro conditions will not improve in FY 2023. Starting in FY 2024 and FY 2025, there may be a rate increase of 6 percent due to electrification and S/CAP implementation. The Operating Reserve will increase due to the influx of funds from the Hydro Stabilization Reserve and then will decrease rapidly. Staff requested that the Electric Special Project Reserve remain active through FY 2027 and not sunset at the end of FY 2022.

Commissioner Johnston appreciated that Staff did the work to spread the cost increases out and supported the proposal. In response to his understanding that CIP projects are not to modernize the electrical grid, Keniston confirmed that is correct. Commissioner Johnston emphasized that it is important to begin exploring what the costs will be to modernize the grid to meet the S/CAP goals.

In reply to Chair Forssell's inquiry regarding changes to the Hydro Rate Adjuster, Keniston explained that the changes would allow Staff to activate the Hydro Rate Adjuster quickly. In answer to Chair Forssell's question regarding local solar and if it is factored into the financial forecast, Keniston answered that local solar does not affect the general load. More efficient technologies have accelerated the path of general load decline. Chair Forssell requested that Staff provide a list of what districts have been undergrounded, which are planned for undergrounding, and which substations are being upgraded. Batchelor confirmed that Staff will provide that information in an email to the UAC.

In answer to Council Member Cormack's question regarding who decides how to spend Cap and Trade Program funds, Keniston shared historically the City used the funds for renewable resources. If the funds are not spent, the City has 10-years to spend the funds on appropriate programs. Jonathan Abendschein, Assistant Director of Utilities, added that how funds are spent is under the purview of the City Manager. In response to Council Member Cormack's request to explain Item 8 and 9 of Staff's recommended motion, Keniston explained that the changes reflected the avoided cost of electricity and is the same methodology the City has used historically. The discussions in the news regarding NEM 3.0 do not affect the City. For folks under the NEM1 Program, they are grandfathered in under a provision that the energy they generate. The City compensates those folks at the full retail rate. Under the NEM2 Program, there is no subsidy.

In answer to Chair Forssell's query regarding what the price for kilowatt-hour is for the electricity compensation rate, Keniston predicted \$0.10. In reply to Chair Forssell's query regarding the difference between the export electricity compensation and the net surplus electricity compensation rate, Keniston answered that one is used for NEM1 customers and one is used for NEM2 customers.

ACTION: Commissioner Johnston moved Staff requests that the Utilities Advisory Commission (UAC) recommend that the Council adopt a Resolution (Attachment A):

1. Approving the Fiscal Year (FY) 2023 Electric Financial Plan (Linked Document);
2. Amending the Electric Fund Reserve Management Practices, specifically amending Section 6: Electric Special Projects Reserve, as follows:
 - a. Amend part e) setting the goal to commit ESP funds by the end of FY 2023; and
 - b. Amend part f) setting the date to revert uncommitted funds to the Electric Supply Operations Reserve to five years after the commitment date (FY 2028)
3. Approving the following transfers at the end of FY 2022:
 - a. Up to \$15 million from the Hydro Stabilization Reserve to the Supply Operations Reserve;
 - b. Up to \$5 million from the Electric Special Projects (ESP) reserve to the Supply Operations Reserve; and
 - c. As discussed in Staff Report #11556i, approve an allocation of Cap and Trade funds up to 1/3 of REC revenue to the Cap and Trade Program Reserve to be spent on local decarbonization programs;
4. Approving the following rate actions for FY 2023:
 - a. An increase to retail electric rates E-1 (Residential Electric Service), E-2 (Small Non-Residential Electric Service), E-4 (Medium Non-Residential Electric Service), E-4 TOU (Medium Non-Residential Time of Use Electric Service), E-7 (Large Non-Residential Electric Service), E-7 TOU (Large Non-Residential Time of Use Electric Service) and E-14 (Street Lights) of 5% effective July 1, 2022;
 - b. An update to the Export Electricity Compensation (E-EEC-1) rate to reflect current projections of avoided cost, effective July 1, 2022;
 - c. An update to the Net Surplus Electricity Compensation (E-NSE-1) rate to reflect current projections of avoided cost, effective July 1, 2022; and
 - d. An update to the Palo Alto Green program pass-through premium charge on the Residential Master-Metered and Small Non-Residential Green Power Electric Service (E-2-G), the Medium Non-Residential Green Power Electric Service (E-4-G), and the Large Non-Residential Green Power Electric Service (E-7-G) rate schedules (Attachment B) to reflect current costs, effective July 1, 2022

Seconded by Commissioner Metz

Motion carries 4-0 with Chair Forssell and Vice Chair Segal, Commissioners Johnston, Metz voting yes.

Commissioners Bowie, Scharff, and Smith absent