Electric Utility
Financial Plan &
Proposed Rate Changes for FY 2021

MAY 5, 2020
Electric Utility Projections

• FY 2021 proposal:
  • 0% rate increase
  • FY 2020 year-end Operations Reserves projected to be within guideline levels
  • Start payback of $10 million loan from Special Projects Reserve

• Alternate proposal:
  • 2% overall rate increase
Electric Utility Cost Structure

Electric Distribution costs (in green): $51 million 39%

Electric Distribution: The cost to distribute electricity within Palo Alto, including: maintaining and replacing electric infrastructure, customer service, billing, administration, etc.

Electric Supply: The cost to buy electricity and transport it to Palo Alto, including operational overhead (e.g. energy scheduling)

Electric Supply costs (in blue): $82 million 61%
Supply Cost Drivers

• Overhead costs have decreased as NCPA has sought revenue by providing services to more agencies.

• Transmission costs have increased dramatically – system replacement, new lines to integrate new generators. CPA partners with others to advocate for cost control.

• Renewable projects have come online. In the longer term, generation costs should stay fairly stable due to CPA’s long-term fixed price contracts
Distribution Cost Drivers

• Medical/retirement benefit costs and associated overhead costs continue to increase

• Increased capital investment in the electric distribution system needed due to system age

• Underground construction costs have increased substantially

• Additional contract expense for line crew until internally staffed
Monthly Residential Bill Comparison

Palo Alto is 34% below PG&E average

- PG&E Summer
- Palo Alto Summer
- PG&E Winter
- Palo Alto Winter

- Low (190 kWh)
- Median (365 kWh)
- High (755 kWh)
- Average (460 kWh)

- Low (230 kWh)
- Median (453 kWh)
- High (880 kWh)
- Average (540 kWh)
Electric Rate Proposal

• FY 2021 proposal:
  • 0% overall increase
  • One time cost reduction of $1.5 million may be needed to keep Operating Reserves above minimum guideline levels.
  • Some combination of reserve withdrawal or cost reduction may become necessary depending on the level of reduced consumption seen.
Proposal: Electric Cost and Revenue Projections

Rate Changes:

- Electric Commodity
- Capital Investment
- Transfers
- Operations
- Debt Service
- Revenue

FY 2015: Actuals
FY 2016: Actuals
FY 2017: Actuals
FY 2018: Actuals
FY 2019: Actuals
FY 2020: Actuals
FY 2021: Actuals
FY 2022: Actuals
FY 2023: Actuals
FY 2024: Actuals
FY 2025: Actuals
Proposal: Supply Operating Reserve Projections
Proposal: Distribution Operating Reserve Projections
Alternate: Electric Cost and Revenue Projections
Alternate: Electrics Rate Change Breakdown

0.8% supply cost increase net of 0.4% decrease from new supply revenues

Total Rate Increase: 2%

- Net Electric Supply Cost Increases
- CIP Cost and Investment Increases
- Operations cost increases
- Load loss
Alternate: Supply Operating Reserve Projections
Alternate: Distribution Operating Reserve Projections
## Alternate: Electric Bills – Current and Proposed

<table>
<thead>
<tr>
<th>Customers</th>
<th>Usage (KWh/mo)</th>
<th>Palo Alto (Current)</th>
<th>Palo Alto (Proposed)</th>
<th>PG&amp;E</th>
<th>Santa Clara</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>300</td>
<td>$41.27</td>
<td>$42.26</td>
<td>$70.74</td>
<td>$36.96</td>
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<tr>
<td>Residential Customers</td>
<td>365 (Summer Median)</td>
<td>52.18</td>
<td>51.59</td>
<td>92.04</td>
<td>45.27</td>
</tr>
<tr>
<td></td>
<td>453 (Winter Median)</td>
<td>69.22</td>
<td>70.61</td>
<td>106.82</td>
<td>56.50</td>
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<tr>
<td></td>
<td>650</td>
<td>107.37</td>
<td>109.24</td>
<td>164.73</td>
<td>81.66</td>
</tr>
<tr>
<td></td>
<td>1200</td>
<td>213.89</td>
<td>217.09</td>
<td>327.95</td>
<td>151.91</td>
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<tr>
<td>Non-Residential Customers</td>
<td>1,000</td>
<td>178</td>
<td>182</td>
<td>263</td>
<td>190</td>
</tr>
<tr>
<td></td>
<td>160,000</td>
<td>27,541</td>
<td>27,977</td>
<td>32,240</td>
<td>21,905</td>
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<tr>
<td></td>
<td>500,000</td>
<td>71,534</td>
<td>72,344</td>
<td>93,260</td>
<td>64,480</td>
</tr>
<tr>
<td></td>
<td>2,000,000</td>
<td>286,135</td>
<td>289,374</td>
<td>394,490</td>
<td>269,230</td>
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</table>
# Alternate: Electric Rates

<table>
<thead>
<tr>
<th></th>
<th>Current Rates</th>
<th>Proposed Rates (7/1/20)</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>$</td>
</tr>
<tr>
<td><strong>E-1 (Residential)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier 1 Energy ($/kWh)</td>
<td>0.13757</td>
<td>0.14087</td>
<td>0.00330</td>
</tr>
<tr>
<td>Tier 2 Energy ($/kWh)</td>
<td>0.19367</td>
<td>0.19609</td>
<td>0.00242</td>
</tr>
<tr>
<td>Minimum Bill ($/day)</td>
<td>0.3283</td>
<td>0.3344</td>
<td>0.0061</td>
</tr>
<tr>
<td><strong>E-2 &amp; E-2-G (Small Non-Residential)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Summer Energy ($/kWh)</td>
<td>0.20853</td>
<td>0.21430</td>
<td>0.00577</td>
</tr>
<tr>
<td>Winter Energy ($/kWh)</td>
<td>0.14624</td>
<td>0.14792</td>
<td>0.00168</td>
</tr>
<tr>
<td>Minimum Bill ($/day)</td>
<td>0.8359</td>
<td>0.8536</td>
<td>0.0177</td>
</tr>
<tr>
<td><strong>E-4 &amp; E-4-G (Medium Non-Residential)</strong></td>
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<td></td>
</tr>
<tr>
<td>Summer Energy ($/kWh)</td>
<td>0.12848</td>
<td>0.13792</td>
<td>0.00944</td>
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<tr>
<td>Winter Energy ($/kWh)</td>
<td>0.09946</td>
<td>0.10687</td>
<td>0.00740</td>
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<tr>
<td>Summer Demand ($/kW)</td>
<td>28.91</td>
<td>28.14</td>
<td>(0.77)</td>
</tr>
<tr>
<td>Winter Demand ($/kW)</td>
<td>18.97</td>
<td>14.64</td>
<td>(4.33)</td>
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<tr>
<td>Minimum Bill ($/day)</td>
<td>17.2742</td>
<td>17.4346</td>
<td>0.1604</td>
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<tr>
<td><strong>E-7 &amp; E-7-G (Large Non-Residential)</strong></td>
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<td></td>
</tr>
<tr>
<td>Summer Energy ($/kWh)</td>
<td>0.11432</td>
<td>0.11689</td>
<td>0.00257</td>
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<td>Winter Energy ($/kWh)</td>
<td>0.07738</td>
<td>0.08259</td>
<td>0.00521</td>
</tr>
<tr>
<td>Summer Demand ($/kW)</td>
<td>30.69</td>
<td>28.34</td>
<td>(2.35)</td>
</tr>
<tr>
<td>Winter Demand ($/kW)</td>
<td>17.05</td>
<td>17.18</td>
<td>0.13</td>
</tr>
<tr>
<td>Minimum Bill ($/day)</td>
<td>42.3648</td>
<td>42.7994</td>
<td>0.4346</td>
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</tbody>
</table>
Staff recommend that the Council:

- Adopt no rate increase effective July 1, 2020;
- Approve the FY 2021 Electric Utility Financial Plan;
- Amend the Electric Utility Reserves Management Practices;
- Approve the following transfers:
  - Up to a $5 million from the Supply Operations Reserve to the Electric Special Projects Reserve in FY 2020
  - Up to a $4 million from the Supply Operations Reserve to the Hydro Stabilization Reserve in FY 2020
  - Up to $7 million from the Distribution Operations Reserve to the CIP Reserve
  - Transfer $3.74 million from the Supply Operations Reserve to the LCFS Reserve
Recommendation (Alternate)

Staff and the UAC recommend the Council:

- Increase rates effective July 1, 2020 for a 2% increase in system average rates;
- Approve the FY 2021 Electric Utility Financial Plan;
- Amend the Electric Utility Reserves Management Practices;
- Approve the following transfers:
  - Up to $5 million from the Supply Operations Reserve to the Electric Special Projects Reserve in FY 2020
  - Up to $4 million from the Supply Operations Reserve to the Hydro Stabilization Reserve in FY 2020
  - Up to $7 million from the Distribution Operations Reserve to the CIP Reserve
  - Transfer $3.74 million from the Supply Operations Reserve to the LCFS Reserve