City of Palo Alto (ID # 11162)

Utilities Advisory Commission Staff Report

Report Type: Agenda Items **Meeting Date: 4/15/2020**

Council Priority: Fiscal Sustainability

Summary Title: FY 2021 Electric Rates and Financial Plan

Title: Staff Recommendation That the Utilities Advisory Commission Recommend That the City Council Adopt a Resolution Approving the Fiscal Year 2021 Electric Financial Plan and Reserve Transfers, Amending the Electric Utility Reserve Management Practices, and Increasing Electric Rates by Amending the E-1, E-2, E-2-G, E-4, E-4-G, E-4 TOU, E-7, E-7-G, E-7 TOU, E-14, E-EEC and E-NSE Rate Schedules

From: City Manager

Lead Department: Utilities

Recommendation

Staff requests that the Utilities Advisory Commission (UAC) recommend that the Council adopt a resolution (Attachment A):

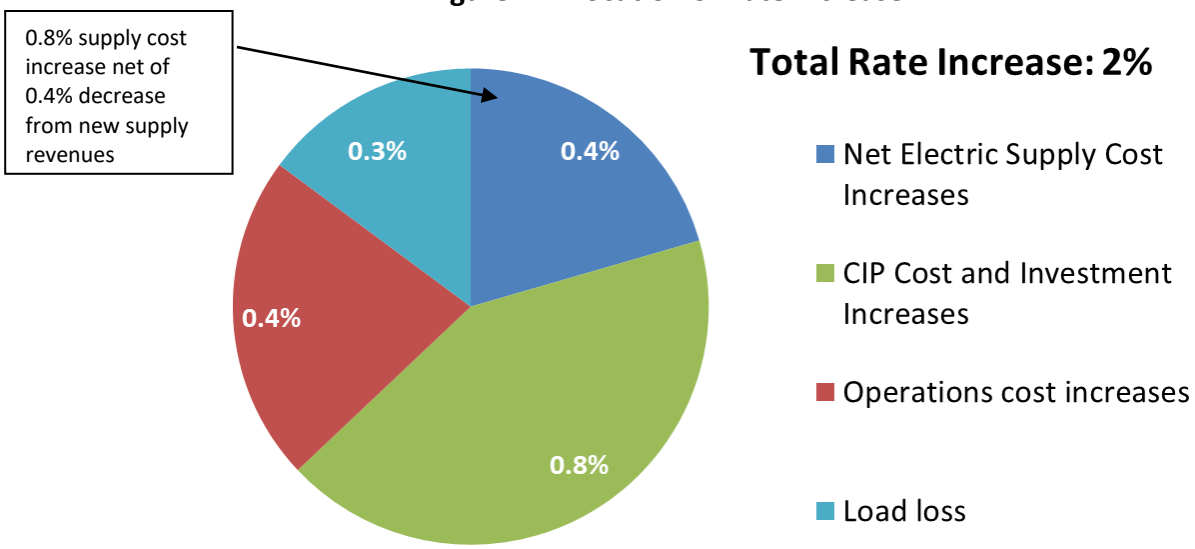
1. Approving the Fiscal Year (FY) 2020 Electric Financial Plan (Attachment B) and the following reserve transfers:
    a) Up to $4 million from the Supply Operations Reserve to the Hydroelectric Stabilization Reserve; and
    b) Up to $5 million from the Supply Operations Reserve to the Electric Special Projects (ESP) Reserve;
    c) Up to $7 million from the Distribution Operations Reserve to the Capital Improvement Project Reserve;
    d) $3.74 million from the Operations Reserve to the Low Carbon Fuel Standard (LCFS) Reserve
2. Amending the Electric Utility Reserve Management Practices relating to the CIP, Low Carbon Fuel Standard, and Rate Stabilization Reserves (as set forth in the Financial Plan) (Attachment C); and
3. Amending Rate Schedules E-1 (Residential Electric Service), E-2 (Small Non-Residential Electric Service), E-2-G (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) (Attachment D).

Executive Summary

The FY 2021 Electric Utility Financial Plan includes projections of the utility's costs and revenues through FY 2025. Costs are projected to rise substantially for the next several years for multiple reasons. Costs for electric supply purchases are increasing as a result of increases in transmission costs, and potentially dry hydro conditions may necessitate utilizing funds from the Hydro Rate Stabilization Reserve starting in FY 2021. Substantial additional capital investment in the electric distribution system is planned for FY 2021 through FY 2024. Operational costs in FY 2019 were lower than budgeted due to vacancies and difficulty hiring contractors, but are projected to increase in FY 2020 and beyond as vacancies are filled and new contracts for maintenance work are put in place. Electric loads have been decreasing, mainly in the commercial sector, putting upward pressure on rates. However, due to good hydro conditions in FY 2019 and corresponding surplus sales, revenues were above expenses in FY 2019 and are expected to remain that way in FY 2020. The good hydro conditions are a short-term phenomenon, though, and are not anticipated to continue. Figure 1 below shows the primary rate increase drivers.

Figure 1: Allocation of Rate increase



The short-term revenue increase has replenished Operations reserves, which had been lower than target levels. This provides flexibility to offset future one-time expense increases associated with future dry years. But because of the increases in annual expenses described above, along with decreased sales, an increase in sales revenues is still required to maintain long term financial health. A 2% rate increase is proposed for July 1, 2020, with 3 to 4%

increases in the following years. While 2% is the overall increase in average rates, different customer classes will see slightly different increases as shown in Tables 3 and 4. These variations are due to slight shifts in usage by customer class as well as relative demand by customer class. Staff calculated the rate increases using the 2016 cost of service analysis (COSA) model created for the City by EES Consulting, which was implemented on July 1, 2016, and updated based on the most recent historical data for FY 2019 and projected sales and demand for FY 2021.

Background

Every year staff presents the UAC 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.

The UAC reviewed preliminary financial forecasts at its December 4, 2019 meeting.

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 be adequate to recover projected costs.

Proposed Actions for FY 2020 and FY 2021:

The FY 2021 Electric Utility Financial Plan includes the following proposed actions:

4. Amend electric rate schedules (see Attachment D) to increase overall electric rates by approximately 2% effective July 1, 2020;
5. Amend the Electric Utility Reserve Management Practices relating to the CIP, Low Carbon Fuel Standard, and Rate Stabilization Reserves (as set forth in the Financial Plan) (Attachment C);
6. Transfer up to $4 million from the Supply Operations Reserve to the Hydroelectric Stabilization Reserve.
7. Transfer up to $5 million from the Supply Operations Reserve to the Electric Special Projects (ESP) Reserve;
8. Transfer up to $7 million from the Distribution Operations Reserve to the Capital Reserve; and,

9. Transfer $3.74 million from the Operations Reserve to the Low Carbon Fuel Standard (LCFS) Reserve.

The transfer to the Electric Special Projects reserve will repay half of a $10 million temporary loan taken from the ESP reserve in FY 2018, during the last drought. The transfer to the Capital Reserve will fund future year CIP increases and balance year to year changes in capital investment. The transfer to the hydroelectric reserve will bring the reserve closer to its target level. Both of these transfers will provide flexibility in preventing or mitigating rate spikes associated with future dry years. The creation of the LCFS Reserve and associated transfer is to better track and manage funds related to the City's participation in the state's LCFS program, which are currently contained in the Supply Operations Reserve balance.

Staff proposes modifications to the CIP Reserve, within the Electric Utility Reserves Management Practices. Because of the irregular dollar amounts and timing of CIP projects budgeted to occur during the forecast period, as well as the potential for new ongoing projects to be included in the CIP plan in later years, staff recommends that four years of budgeted CIP be used to calculate the reserve maximum levels, rather than the current four months (120 days) of budgeted expenses. The new minimum CIP Reserve level is 20% of the maximum CIP Reserve guideline level, rather than two months (60 days) of expenses. Staff also proposes that the Electric Utility Reserves Management Practices be amended to provide that if there are funds in this reserve in excess of the maximum level, staff must propose in the next Financial Plan to transfer these funds to another reserve, return the funds to ratepayers, or designate a specific use of the funds for CIP investments that will be made by the end of the next Financial Planning Period.

Although this Financial Plan includes a forecast period of five years, or 60 months, an even number of years (48 months or 4 years) is used for the CIP Reserve maximum calculation, because of the irregular size and funding of CIP projects. This maximum in FY 2021 is $19 million and the minimum in FY 2021 is $3.8 million, and the reserve is projected to remain within the min/max guidelines for the duration of the forecast. The CIP reserve will be above the old guideline levels in FY 2020, but within the guideline range in FY 2021.

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 (Attachment B) discusses these reserve changes in greater detail.

Table 1: Reserves Starting and Ending Balances, Revenues, Expenses, Transfers To/(From) Reserves, Operations and Capital Reserve Guideline Levels for FY 2020 to FY 2025 ($000)

			FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
	Starting Reserve Balances							
1		Supply Operations	28,709	30,673	23,773	24,870	24,666	25,275
2		Distribution Operations	16,536	10,758	10,712	11,865	11,714	11,968
3		CIP	880	7,880	11,880	11,880	11,880	11,880
4		Electric Special Projects	41,665	46,665	49,665	49,665	49,665	39,665
5		Hydro Stabilization	11,400	15,400	19,000	19,000	19,000	19,000
6		Low Carbon Fuel Standard (LCFS)	-	3,740	3,340	2,140	1,140	1,140
	Revenues							
7		Supply	117,499	117,603	114,725	113,373	113,429	112,227
8		Distribution	59,204	60,948	62,919	64,807	67,314	69,933
	Transfers							
9		Supply Operations	(12,740)	(16,600)	(4,000)	(3,000)	(2,000)	-
10		Distribution Operations	(7,000)	4,000	4,000	3,000	2,000	-
11		CIP	7,000	4,000	-	-	-	-
12		Electric Special Projects	5,000	5,000	-	-	-	-
13		Hydro Stabilization	4,000	3,600	-	-	-	-
14		Low Carbon Fuel Standard	3,740	-	-	-	-	-
	Capital Program Contribution							
15		Distribution Operations Reserve	-	-	-	-	-	-
16		CIP Reserve						
	Expenses							
17		Supply Expenses	(102,794)	(107,903)	(109,628)	(110,578)	(110,820)	(110,601)
18		Distribution Non-CIP Expenses	(42,665)	(43,661)	(47,680)	(48,532)	(39,640)	(50,394)
19		Planned CIP	(15,316)	(21,333)	(18,086)	(19,426)	(29,420)	(19,298)
20		ESP funded	-	(2,000)	-	-	(10,000)	-
21		Hydro funded	-	-	-	-	-	-
22		LCFS funded	-	(400)	(1,200)	(1,000)	-	-
	Ending Reserve Balance							
1 + 7 + 9 + 17		Supply Operations	30,673	23,773	24,870	24,666	25,275	26,901
2 + 8 + 10 + 15 + 18 + 19		Distribution Operations	10,758	10,712	11,865	11,714	11,968	12,208
3 + 11 + 16 + 19		CIP	7,880	11,880	11,880	11,880	11,880	11,880
4 + 12 + 20		Electric Special Projects	46,665	49,665	49,665	49,665	39,665	39,665
5 + 13 + 21		Hydro Stabilization	15,400	19,000	19,000	19,000	19,000	19,000
6 + 14 + 22		Low Carbon Fuel Standard	3,740	3,340	2,140	1,140	1,140	1,140
	Operations Reserve Guidelines (Supply)							
23		Minimum	16,898	17,803	18,218	18,342	18,217	18,181
24		Maximum	33,795	35,607	36,437	36,683	36,434	36,362
	Operations Reserve Guidelines (Distribution)							
25		Minimum	8,194	8,682	9,098	9,324	9,542	9,771
26		Maximum	12,890	13,822	14,494	14,860	15,217	15,586
	CIP Reserve Guidelines							
27		Minimum	2,518	3,813	3,811	3,900	3,950	4,031
28		Maximum	5,036	19,066	19,057	19,500	19,752	20,153

Proposed and Projected Sales Revenue Requirement, FY 2021 through FY 2025

The July 1, 2019 rate increase was the fourth and last increase in a series of substantial rate increases starting in FY 2017. Prior to the first increase on July 1, 2016, rates had not been increased since July 1, 2009. In FY 2021 to FY 2025, staff forecasts a series of increases of 2% to

4%. Table 2 shows the sales revenue increases needed to recover costs of operation over the forecast period in the FY 2021 Electric Financial Plan.

Table 2: Electric Rate Adjustments, FY 2017 to FY 2024

FY 2017 *Approved*	FY 2018 *Approved*	FY 2019 *Approved*	FY 2020 *Approved*	FY 2021 *Proposed*	FY 2022 *Projected*	FY 2023 *Projected*	FY 2024 *Projected*	FY 2025 *Projected*
11%	14%	6%	8%	2%	3%	4%	4%	4%

These retail rate increases are for the electric utility as a whole, but the rate changes will differ slightly for individual customer classes. Proposed rate increases for each customer class are discussed below.

Changes from Prior Financial Forecasts

This projection has changed slightly since the FY 2020 Electric Utility Financial Plan presented last year. Table 3 compares current rate projections to those projected in the last two year's Financial Plans. Nearer term forecasts have come down from prior years due to short-term surplus revenues resulting from better than forecast hydro in FY 2019 and the start of FY 2020. Increased infrastructure budgets are slightly increasing in the outer year projections.

Table 3: Projected Electric Rate Trajectory for FY 2020 to FY 2025

Projection	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Current (FY 2021 Financial Plan)	2%	3%	4%	4%	4%
Last year (FY 2020 Financial Plan)	4%	4%	4%	3%	3%
Two years ago (FY 2019 Financial Plan)	2%	0%	1%	1%	2%

FY 2021 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 electric bill (453 kwh per month in winter, 365 kwh per month in summer).

Table 4: Projected Rate Adjustments, FY 2021 to FY 2025

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Electric Utility	2%	3%	4%	4%	4%
Estimated Bill Impact ($/mo)*	$1.28	1.86	2.55	2.66	2.76

* Estimated impact on median residential electric bill, which is currently $60.70 for CY 2019

The rate increases are related to several factors: increasing transmission, substantial additional capital investment in the electric distribution system, and operations costs are increasing due to larger contracting needs. 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. Over the period from FY 2016 to FY 2018, though, 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 currently projected to increase to roughly $160 million by FY 2025 but will likely be higher as the impacts of some new capital improvement and replacement projects are accounted for in 2020.

Figure 1 shows the overall utility's costs (net of surplus sales revenues) in FY 2015, FY 2020, and FY 2025. Costs for the electric supply portfolio have decreased slightly between FY 2015 and FY 2020, but much of this is due to one-time surplus hydro revenues in FY 2020 as well as the fact that customer sales have declined by 1.5% to 2% annually during this time. Assuming normal hydro conditions going forward, as well as a continuing trend of load loss, costs are projected to increase by about 1% in the future. Costs for managing the distribution system (e.g. maintenance, capital investment, customer service, billing, etc.) have increased as well, growing by 2.6% per year on average in the past, but projected to grow by nearly 4% per year going forward. Overall, costs are projected to increase by 1.2% per year over the forecast horizon, but declining loads will necessitate rate increases greater than this to maintain financial health.

Figure 1: Electric Utility Costs, FY 2015 Actual vs. FY 2020 and FY 2025 Projections

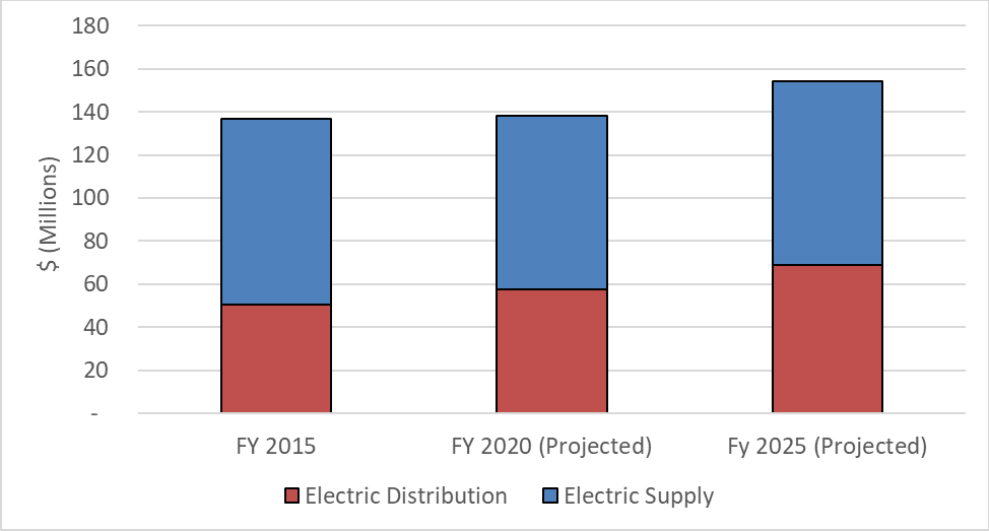
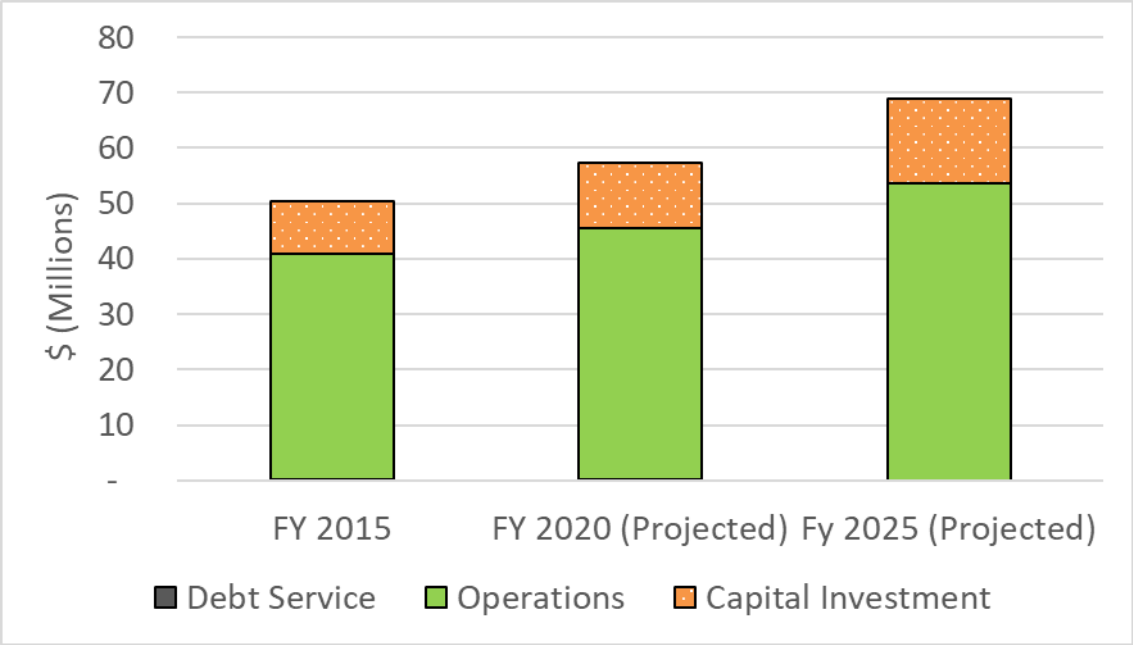


Figure 2 shows electric distribution costs specifically. Capital costs have increased by about 4% per year on average over the last five years and are projected to be more than 5% per year

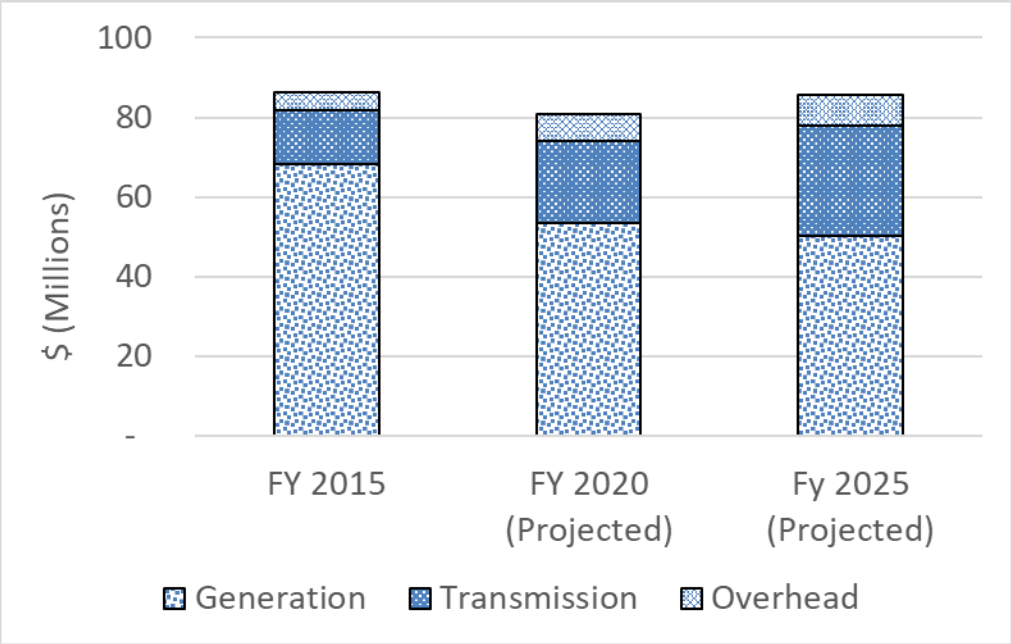
going forward. Increased costs are related to greater capital investment in the distribution system (e.g. underground district rebuilds, as well as substation and upgrades). In the last few years, the City has experienced a higher number of outages in underground districts due to aging equipment and infrastructure. Distribution system operational spending is projected to increase by about 3 to 4% annually. Some of this is due to projected increases in costs of labor and materials, but also due to higher than anticipated staff vacancies requiring external contracts.

Figure 2: Electric Distribution Costs, FY 2015 vs. FY 2020 and FY 2025



While net electric supply portfolio cost decreases from FY 2015 to FY 2020, this was mainly due to surplus energy revenues and decreasing loads driving down generation cost. Transmission cost increases and, to a lesser extent, operational overhead costs have increased by 8% to 9% annually in the same timeframe, as shown in Figure 3. In the future, staff forecasts that increased costs will continue largely come from transmission costs. These increases are the due to rehabilitation and replacement of the existing 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 beginning to look at strategies to achieve cost savings in electric supply and will discuss these strategies in greater detail through the ongoing Integrated Resource Planning (IRP) process.

Figure 3: Electric Supply Costs, FY 2015 Actual vs. FY 2020 and FY 2025 Projections



With a 2% rate increase, this Financial Plan will seek to maintain stable reserves and counter erosion to revenue from load.

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.

Rate Changes by Customer Class

Table 5 shows the rates that will be used to recover sale revenues for each customer class. The Street Lighting (E-14) class and the E-4 Time of Use (TOU) and E-7 TOU rates are not shown in the table but can be seen in the attached rate schedules (Attachment D).

Table 5: Electric Rates (Current and Proposed)

	Current Rates	Proposed Rates (7/1/20)	Change	
			$	%
E-1 (Residential)				
Tier 1 Energy ($/kWh)	0.13757	0.14087	0.00330	2.4%
Tier 2 Energy ($/kWh)	0.19367	0.19609	0.00242	1.2%
Minimum Bill ($/day)	0.3283	0.3344	0.0061	1.9%
E-2 & E-2-G (Small Non-Residential)				
Summer Energy ($/kWh)	0.20853	0.21430	0.00577	2.8%
Winter Energy ($/kWh)	0.14624	0.14792	0.00168	1.1%
Minimum Bill ($/day)	0.8359	0.8536	0.0177	2.1%
E-4 & E-4-G (Medium Non-Residential)				
Summer Energy ($/kWh)	0.12848	0.13792	0.00944	7.3%
Winter Energy ($/kWh)	0.09946	0.10687	0.00740	7.4%
Summer Demand ($/kW)	28.91	28.14	(0.77)	-2.7%
Winter Demand ($/kW)	18.97	14.64	(4.33)	-22.8%
Minimum Bill ($/day)	17.2742	17.4346	0.1604	0.9%
E-7 & E-7-G (Large Non-Residential)				
Summer Energy ($/kWh)	0.11432	0.11689	0.00257	2.2%
Winter Energy ($/kWh)	0.07738	0.08259	0.00521	6.7%
Summer Demand ($/kW)	30.69	28.34	(2.35)	-7.7%
Winter Demand ($/kW)	17.05	17.18	0.13	0.8%
Minimum Bill ($/day)	42.3648	42.7994	0.4346	1.0%

Table 6 shows the impact of the proposed July 1, 2020 rate changes on the residential and non-residential bills for various consumption levels. The rate changes for each customer class are similar and the overall rate change for the residential class is roughly 1.9%. Their usage as a class has been consistent from last year, leading to a rate increase that's the same as the overall increase. Small commercial (E-2) loads have decreased over time, but their use of the distribution system has become a little less efficient (e.g. higher peak usage relative to average usage), leading to a slightly higher overall increase (2.1%) Medium commercial usage has also decreased, but their peak demand has also dropped compared to their consumption, meaning a more efficient use of the overall system and thus a lower overall increase for the class of 1.2%. Large commercial customers have also improved the efficiency of the way they use the system, limiting the overall increase needed for this customer class to 1.1%.

Table 6: Impact of Proposed Electric Rate Changes on Customer Bills

Rate Schedule	Usage (kwh/mo)	Bill under Current Rates ($/mo)	Bill Under Rates Proposed 7/1/20 ($/mo)	Change	
				$/mo	%
E-1 (Residential)	300	$ 41.27	$42.26	$0.99	2.4%
	(Summer Median) 365	52.18	53.35	1.17	2.2%
	(Winter Median) 453	69.22	70.61	1.39	2.0%
	650	107.37	109.24	1.86	1.7%
	1200	213.89	217.09	3.19	1.5%
E-2 (Small Non-Residential)	1,000	178	182	4	2.1%
E-4 (Medium Non-Residential)	160,000	27,541	27,977	436	1.6%
E-7 (Large Non-Residential	500,000	71,534	72,344	810	1.1%
	2,000,000	286,135	289,374	3,239	1.1%

Cost of Service Analysis and Rate Study

The rates discussed in the previous section are based on the cost of service methodology established in the "City of Palo Alto Electric Cost of Service and Rate Study"[1] drafted by EES Consulting, Inc. in 2016. Staff updated the model sales and budget projections, including projected transmission and distribution costs, power supply costs and billing data, in order to update individual cost of service model components and determine the proposed rates.

Electric Bill Comparison with Surrounding Cities

Table 7 compares electric bills under current rates as of February 1, 2020 for residential customers to those in surrounding communities. Under current rates, CPAU's median residential bills are 39% lower than PG&E's but about 19% higher than Santa Clara's. Palo Alto's non-residential rates are lower than PG&E's as well, but Santa Clara's commercial rates are lower than Palo Alto's rates.

[1] Staff Report 6857 http://www.cityofpaloalto.org/civicax/filebank/documents/52274

Table 7: Average Electric Bill Comparison ($/month)

As of February 1, 2020					
Customers	Usage (KWh/mo)	Palo Alto (Current)	Palo Alto (Proposed)	PG&E	Santa Clara
Residential Customers	300	$ 41.27	$42.26	$ 70.74	$ 36.96
	365 (Summer Median)	52.18	53.35	92.04	45.27
	453 (Winter Median)	69.22	70.61	106.82	56.50
	650	107.37	109.24	164.73	81.66
	1200	213.89	217.09	327.95	151.91
Non-Residential Customers	1,000	178	182	263	190
	160,000	27,541	27,977	32,240	21,905
	500,000	71,534	72,344	93,260	64,480
	2,000,000	286,135	289,374	394,490	269,230

Timeline

The Finance Committee is scheduled to review the FY 2021 Electric Financial Plan in May 2020. The City Council will consider adopting the Financial Plan and rate amendments as part of the FY 2021 budget review and adoption process. If Council approves the proposed rate changes, they will become effective July 1, 2020.

Resource Impact

Net of load losses, the proposed July 1, 2020 rate changes are projected to maintain sales revenues at roughly FY 2020 levels. See the attached FY 2021 Electric Financial Plan for a more comprehensive overview of projected cost and revenue changes for the next five years.

Policy Implications

The proposed electric rate adjustments were developed using the 2016 cost of service study and methodology and are consistent with the Council adopted Reserve Management Practices that are part of the Financial Plan.

Stakeholder Engagement

The UAC reviewed preliminary financial forecasts at its December 4, 2019 meeting, and the Finance Committee reviewed the preliminary forecasts at its March 3, 2020 meeting. Staff and the UAC's recommendation on the FY 2021 Electric rate increases will go to the Finance Committee in May and be presented to City Council in June during the budget adoption process.

Environmental Review

The UAC's review and recommendation to Council on the FY 2021 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 Electric Rates Financial Plan Reserve Management

  Attachments B-D have been linked to conserve printing

- Attachment B: Electric Financial Plan
- Attachment C: Reserve Management Practices
- Attachment D: FY2021 Proposed Electric Rates

* NOT YET APPROVED *

Resolution No. _____

Resolution of the Council of the City of Palo Alto Approving the Fiscal Year 2021 Electric Utility Financial Plan, Including Proposed Reserve Transfers, Amending the Electric Utility Reserve Management Practices, and Increasing Electric Rates by 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)

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. 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 ____, 2020, 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 2021 Electric Utility Financial Plan.

SECTION 2. The Council hereby approves the following transfers as described in the FY 2021 Electric Utility Financial Plan:

a. Up to $4 million from the Supply Operations Reserve to the Hydro Stabilization Reserve;
b. Up to $5 million from the Supply Operations Reserve to the Electric Special Projects Reserve;
c. Up to $7 million from the Distribution Operations Reserve to the CIP Reserve.
d. $3.74 million from the Supply Operations Reserve to the Low Carbon Fuel Standard Reserve.

SECTION 3. The Council hereby approves amendments to the Electric Utility Reserves Management Practices, as shown in Appendix B to the Electric Utility Financial Plan.

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, 2020.

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, 2020.

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, 2020.

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, 2020.

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, 2020.

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, 2020.

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, 2020.

* NOT YET APPROVED *

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, 2020.

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, 2020.

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, 2020.

SECTION 14. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule E-NSE (Net Metering Net Surplus Electricity Compensation) is hereby amended to read as attached and incorporated. Utility Rate Schedule E-NSE, as amended, shall become effective July 1, 2020.

SECTION 15. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule E-EEC (Export Electricity Compensation) is hereby amended to read as attached and incorporated. Utility Rate Schedule E-EEC, as amended, shall become effective July 1, 2020.

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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SECTION 17. The Council finds that approving the Financial Plan and amending the Electric Utility Reserves Management Practices 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

* NOT YET APPROVED *

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