

UAC MEETING

May 20, 2020

Received Before Meeting

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FY 2021 Utilities Proposed Operating and Capital Budgets

MAY 20, 2020

www.cityofpaloalto.org

Things to Know

- FY 2021 baseline budget reflects current service levels with rate projections prior to the COVID-19 emergency
- Utilities withdrew two new positions requests and froze five vacant non-critical positions post-COVID-19
- Projected ending FY 2021 operating reserves are above minimum guidelines and near target levels
- Essential Utilities services and infrastructure improvements will be maintained and continue

FY 2021 PROPOSED RATES SUMMARY

UTILITY	DEC 2019 (UAC)	MAR/APR 2020 (UAC)	MAY 2020 (FINANCE)	MAY 2020 (COUNCIL/UAC)
ELECTRIC	3%	2%	0%	0%
GAS	5%	3%	3%	2%
WATER	0%	0%	0%	0%
WASTEWATER	6%	0%	0%	0%
FIBER	2.5%	2.5%	0%	2.5%

FY 2021 BUDGET SUMMARY (UTILITIES – ELECTRIC)

Balancing Strategy

To achieve 0% rate increase in FY 2021 without large rate increases in future years, the Electric Fund would need to implement actions listed below.

Major Proposed Changes in Electric Fund

- Revenue loss from 0% rate increase and load reduction (~\$18 M)
- Freeze 1.85 FTE vacant positions (-\$379,000)
- Postpone non-critical capital investments: electric underground rebuilds (-\$3.6 M)
- Reevaluate renewable energy credit purchases and sales (+\$3 M to +\$6 M)

FY 2021-2025 Revenue Projections – Maximizing REC Exchanges

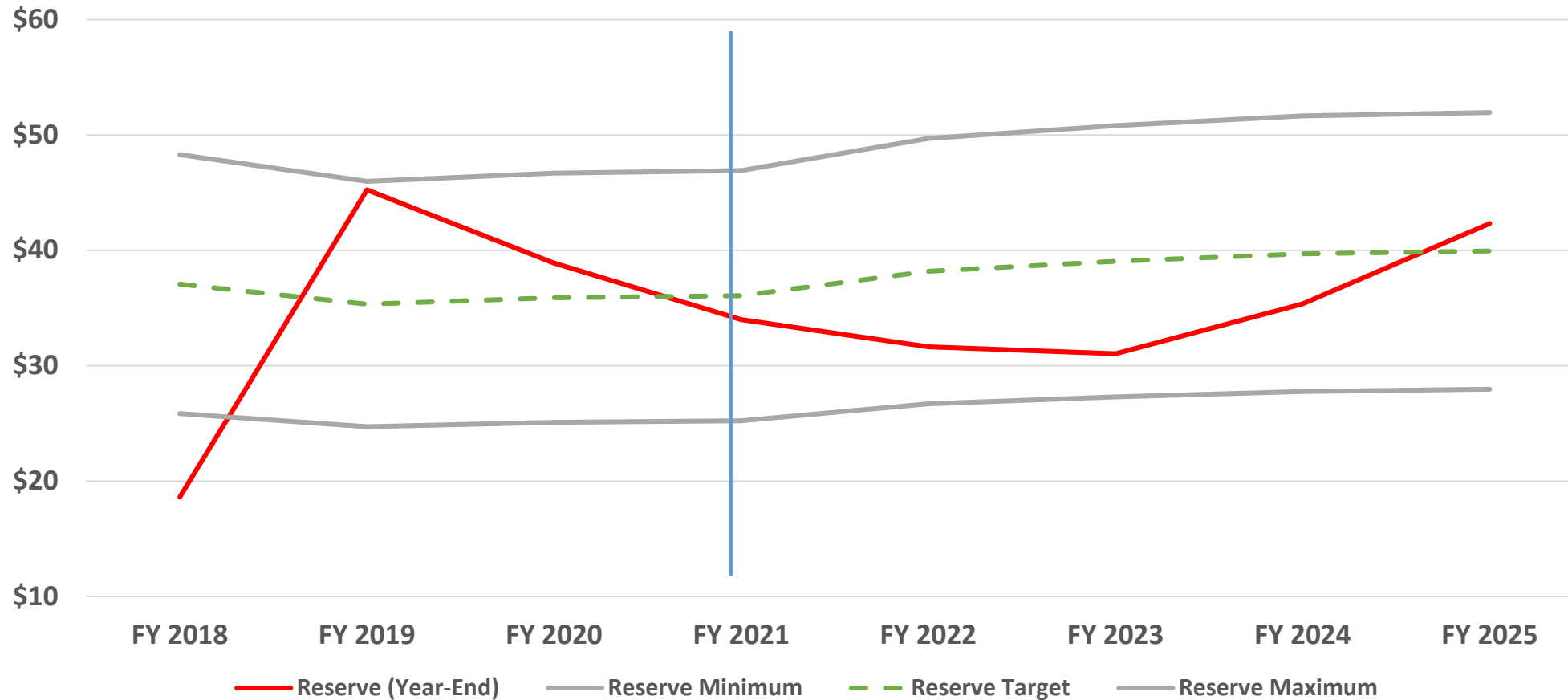
	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	Total
In-State Renewables Sales Revenue (\$000)	\$4,357	\$3,501	\$3,351	\$3,652	\$3,349	\$18,209
Out-of-State Renewables Purchase Cost (\$000)	\$582	\$410	\$227	\$158	\$98	\$1,473
Net Revenue (\$000)	\$3,775	\$3,091	\$3,125	\$3,494	\$3,251	\$16,735

- * Revenue projections are based on selling in-state (Bucket 1) renewables that exceed the City’s annual RPS compliance obligation, and replacing them with out-of-state (Bucket 3) renewables.
- * Revenue projections include revenue from the sale of Bucket 1 RECs down to the City’s annual load level.
- * Revenue projections are based on current hydro generation projections, load projections, and REC market prices.

Power Content Label Impact – Maximizing REC Exchanges

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Eligible Renewable	30%	32%	35%	37%	40%
Biomass & Biowaste	6%	8%	9%	10%	11%
Geothermal	0%	0%	0%	0%	0%
Small Hydroelectric	0%	1%	1%	1%	1%
Solar	17%	19%	21%	22%	23%
Wind	6%	5%	4%	4%	5%
Coal	0%	0%	0%	0%	0%
Large Hydroelectric	43%	49%	55%	56%	56%
Natural Gas	0%	0%	0%	0%	0%
Nuclear	0%	0%	0%	0%	0%
Other	0%	0%	0%	0%	0%
Unspecified Sources of Power	27%	19%	11%	7%	5%

Electric Operation Reserves (\$ millions)



FY 2021 DEPARTMENT OUTLOOK

(UTL – ELECTRIC)

- Maintain electrical services, invest in critical infrastructure, provide customer support and promote efficiency programs.
- Continue implementation of Sustainability and Climate Action Plan (S/CAP) – Electric Vehicle charger infrastructure, SMB energy efficiency and home energy report
- Capital improvement projects - substation equipment upgrades, advanced metering infrastructure and foothills distribution system rebuild

FY 2021 BUDGET SUMMARY (UTILITIES – FIBER)

Proposal

Fiber Fund recommends 2.5% CPI increase for pre-2006 EDF-1 customers. Majority of Fiber customers are on EDF-3 rates and unaffected by CPI increase.

Projected Ending Reserves of \$34M

Major Proposed Changes in Fiber Fund

- Reduce 0.25 FTE vacant positions (-\$69,000)
- Fiber Optics Network Rebuild CIP (+\$300,000)

FY 2021 DEPARTMENT OUTLOOK (UTL – FIBER)

Fiber Optic Network Expansion Plan – Phases 1 & 2

- Research Park business district
- Montebello reservoir in foothills
- AMI Collectors and SCADA switches

Fiber Optic Network Expansion Plan – Phases 3 & 4

- Fiber to the neighborhood
- Fiber to the premise

FY 2021 BUDGET SUMMARY (UTILITIES - GAS)

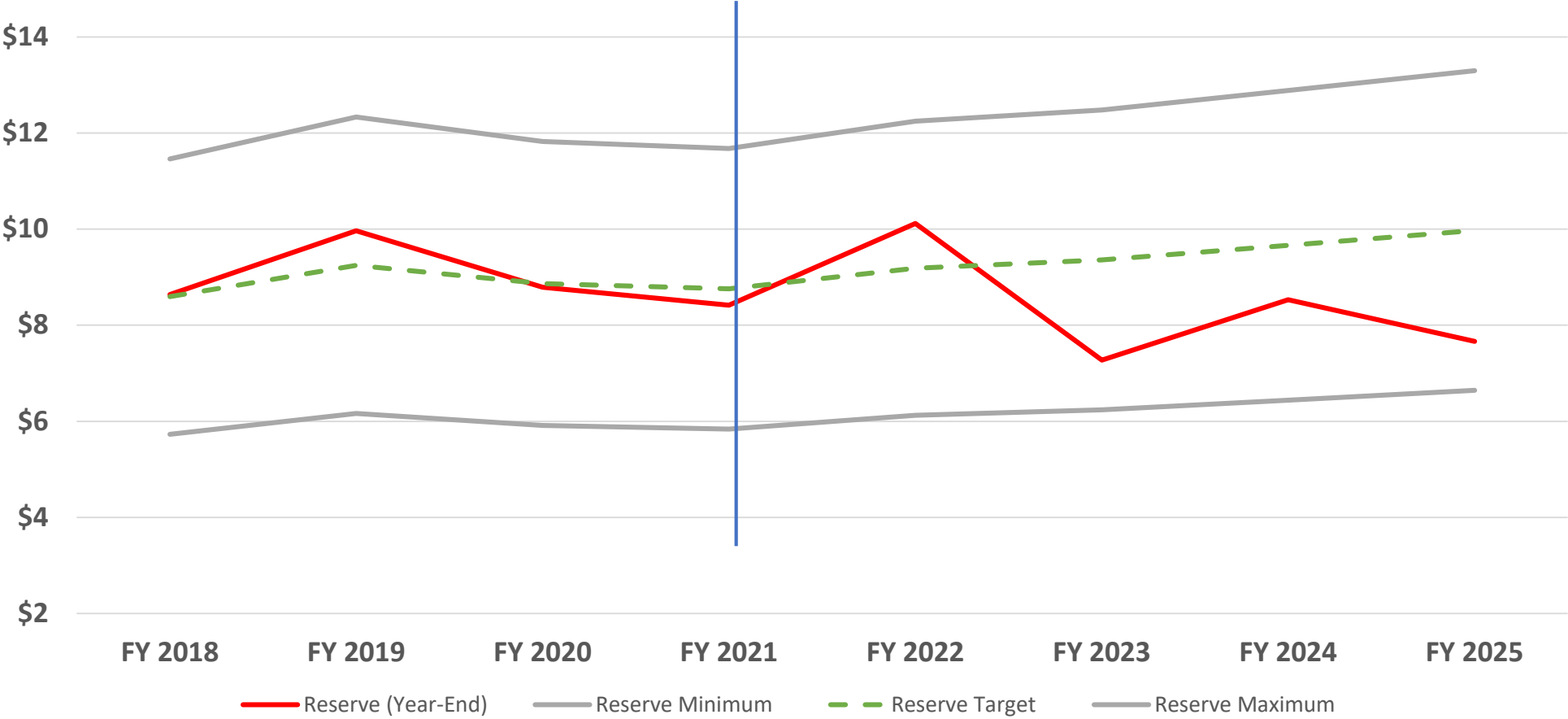
Balancing Strategy

For a 2% rate change, the gas utility would need to make a \$3 million reduction to maintain reserves near target level.

Major Proposed Changes in Gas Fund

- Revenue loss due to reduced rate change and load loss (-\$2 M)
- Reduce linear feet of gas main PVC pipe replacement (-\$3 M)
- Suspend the City's Carbon Neutral Gas carbon offset program (-\$1 M)
- Freeze 1.15 FTE vacant positions (-\$368,000)
- Postpone gas meter replacement (-\$650,000)

Gas Operation Reserves (\$ millions)



FY 2021 DEPARTMENT OUTLOOK (UTL – GAS)

- Maintain cross-bore safety inspection program
- Reduce linear footage by \$3M or 30% in the upcoming PVC main replacement project
- Increase frequency of citywide gas surveying (mobile and walking) for gas leaks
- Evaluate and elevate gas meter testing of aged meters for accuracy

FY 2021 BUDGET SUMMARY (UTILITIES – WASTEWATER COLLECTION)

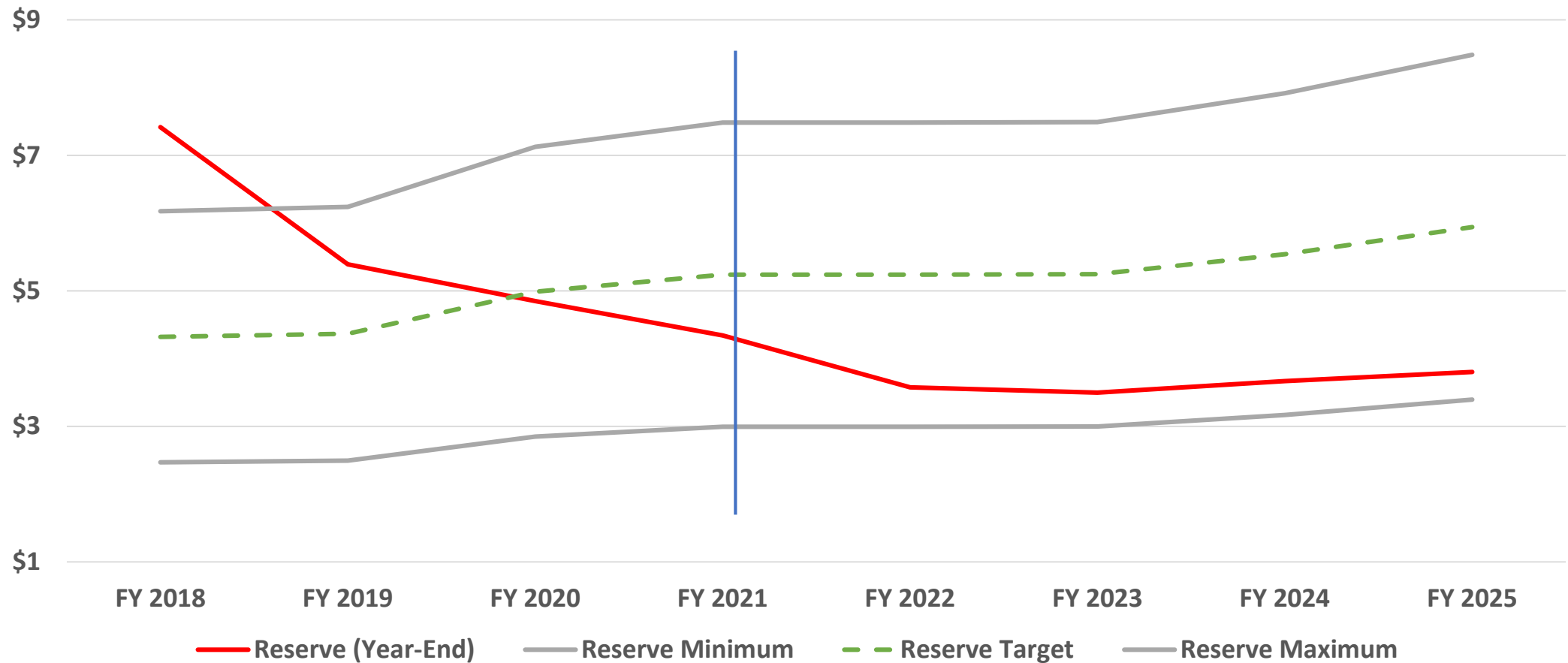
Balancing Strategy

To achieve a 0% rate change, City would reduce linear feet of future construction sewer main replacement project. Bond financing of CIP projects is an option to take advantage of potentially lower construction prices during a recession.

Major Proposed Changes in Wastewater Collection Fund

- Revenue loss from zero rate increase (-\$719,000)
- Reduce scope of construction for future Sewer Sanitary Rehabilitation project

Wastewater Collection Operation Reserves (\$ millions)



FY 2021 DEPARTMENT OUTLOOK (UTL – WWC)

- Complete 2020 cost of service study for the Wastewater Collection Utility
- Continue to assess and design future sewer main replacement projects
- Implement new mobile management software system
- Capital Improvement projects: sewer system rehabilitation and new construction equipment

FY 2021 BUDGET SUMMARY (UTILITIES - WATER)

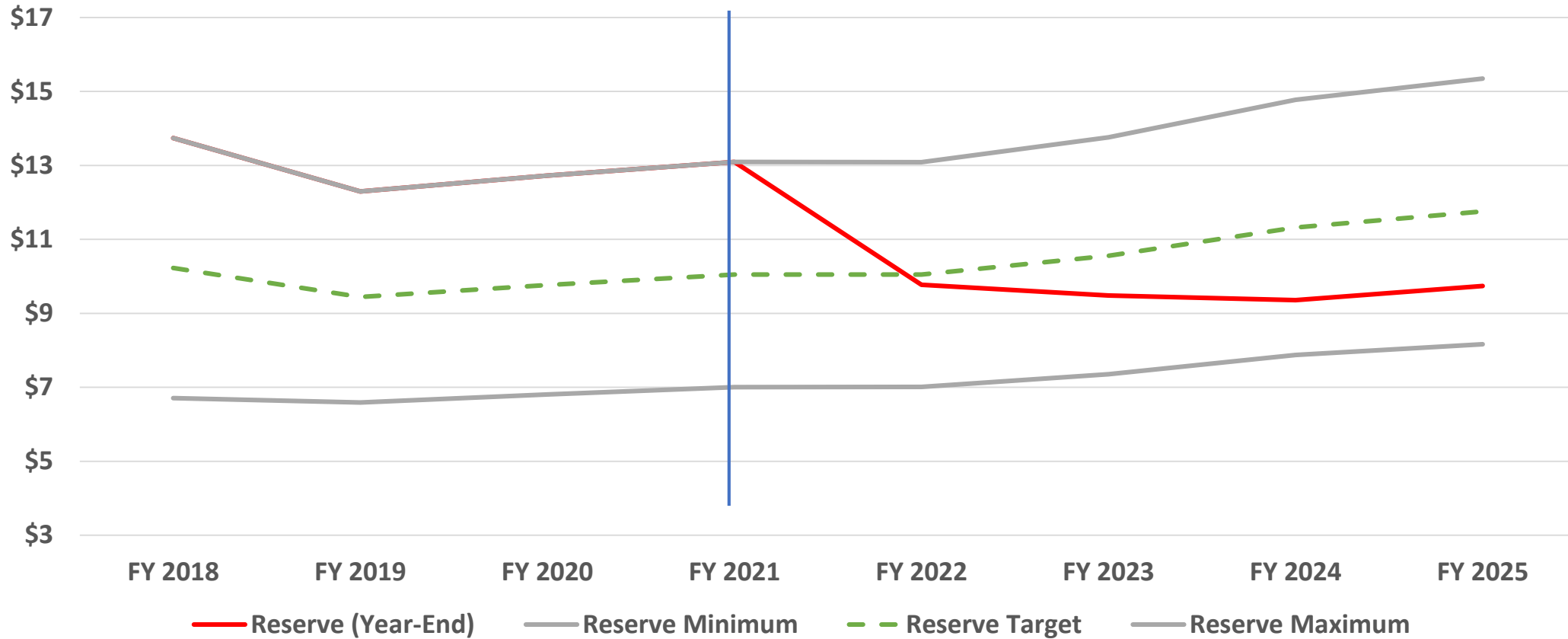
Balancing Strategy

Minimal reductions are proposed for the Water utility due to adequate CIP reserves and zero projected SFPUC supply rate increases until FY 2023.

Proposed Changes in Water Fund

- Freeze vacant 1.15 FTE positions (-\$268,000)
- Postpone water meter replacement related to AMI project (-\$1 M)
- Evaluate and elevate aged water meter testing for accuracy

Water Operation Reserves (\$ millions)



FY 2021 DEPARTMENT OUTLOOK (UTILITIES – WATER)

- Water Utility expects revenue losses due to reduced consumption and holding rates flat for two years
- SFPUC projects water supply rate increases of 9% and 13% in FY 2023 and FY 2024 respectively.
- Capital Improvement projects: seismic water tank replacement and water main replacement projects will continue as planned

Recommendation

1. Recommend Council approve proposed FY 2021 Utilities Operating Budget
2. Recommend Council approve proposed FY 2021 Utilities Capital Budget



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