



City of Palo Alto

City Council Staff Report

(ID # 12240)

Report Type: Action Items

Meeting Date: 6/21/2021

Summary Title: FY 2022 Rates and Financial Plans

Title: Adoption of six Resolutions: 1) Approving the Fiscal Year (FY) 2022 Electric Utility Financial Plan, Including Proposed Reserve Transfers, and Amending Utility Rate Schedules E-EEC-1, E-NSE-1, E-2-G, E-4-G and E-7-G; 2) Amending Utility Rate Schedule E-HRA; 3) Approving the FY 2022 Gas Utility Financial Plan, Including Proposed Transfers, Amending the Gas Utility Reserve Management Practices, and Adopting a Gas Rate Increase by Amending Utility Rate Schedules G-1, G-2, G-3 and G-10; 4) Approving the FY 2022 Water Utility Financial Plan and Reserve Transfer; 5) Amending Utility Rate Schedule D-1 Increasing the Storm Water Management Fee by 2.0 Percent per Month per Equivalent Residential Unit for FY 2022; and 6) Amending Utility Rate Schedules EDF-1 and EDF-2 to Increase Dark Fiber Rates 2.0 Percent

From: City Manager

Lead Department: Utilities

Recommendation

- 1) Staff and the Finance Committee recommend that the City Council approve and adopt the following Resolutions:
 - a. Approving the Fiscal Year (FY) 2022 Electric Utility Financial Plan, including reserve transfers, and amending Utility Rate Schedules E-EEC-1, E-NSE-1, E-2-G, E-4-G and E-7-G ([Attachment A](#));
 - b. Amending Utility Rate Schedule E-HRA ([Attachment B](#));
 - c. Approving the FY 2022 Gas Utility Financial Plan, including reserve transfers, amending the Gas Utility Reserve Management Practices, and adopting a Gas Rate Increase by Amending Utility Rate Schedules G-1, G-2, G-3 and G-10 ([Attachment C](#));
 - d. Approving the FY 2022 Water Utility Financial Plan, and reserve transfer ([Attachment D](#)); and
 - e. Amending Utility Rate Schedules EDF-1 and EDF-2 to increase Dark Fiber Rates 2.0 percent ([Attachment F](#));
 - f. Amending Utility Rate Schedule D-1 increasing the Storm Water Management Fee by 2.0

percent per month per Equivalent Residential Unit for FY 2022 ([Attachment E](#));

- 2) On April 6, 2021, the Finance Committee introduced and recommended, with Staff's approval, that the City Council:
 - a. Direct Staff to return after the summer recess with a systematic communication plan to provide customers with rate histories, trends, and competitive standing compared to other jurisdictions and forward to the Utilities Advisory Commission for review and recommendation; and
 - b. Direct Staff to return after the summer recess with the evaluation of the Electric Bill Utility reliability history and comparative performance to other jurisdictions to the extent that is available and forward to the Utilities Advisory Commission for review and recommendation.

The recommendations for approval of the FY 2022 Wastewater Collection Utility Financial Plan, including reserve transfers, amending the Wastewater Collection Utility Reserve Management Practices, and the public hearing on rate approvals will be held on August 9, 2021.

Executive Summary

From February through April 2021, the Utilities Advisory Commission (UAC) and Finance Committee reviewed various rate changes recommended by staff for Fiscal Year 2022. This report summarizes the meetings that occurred, including all staff recommendations. This comprehensive utility rates report includes separate sections for each of the Utilities: electric, gas, water, dark fiber, and storm drainage and surface water. Estimates for retail revenue impacts are included in the FY 2022 budget assumptions. This report outlines the actions requested, transmits the resolutions from these reviews, and requests City Council approval and adoption. Approval of this item would result in the finalized rates for FY 2022, beginning July 2021.

Background

Electric

Utilities staff presented to the UAC on March 3, 2021 and the Finance Committee on April 6, 2021 a recommendation that Council amend the FY 2022 Electric Utility Financial Plan, propose the following transfers:

- a. Up to \$5 million from the Capital Improvement Project (CIP) Reserve to the Distribution Operations Reserve at the end of FY 2021;
- b. Up to \$1 million from the Supply Operations Reserve to the Electric Special Projects (ESP) reserve at the end of FY 2021; and
- c. Up to \$1.19 million from the Cap-and-Trade Program Reserve at the end of FY 2021 to be spent on local decarbonization programs;

In addition, staff recommended updating the Export Electricity Compensation (E-EEC-1) rate to reflect current projections of avoided cost, updating the Net Surplus Electricity Compensation (E-NSE-1) rate to reflect current projections of avoided cost, and updating 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 to reflect current costs ([Staff Report #11887](#)¹). The Finance Committee unanimously recommended approval of this proposal.

Gas

Utilities staff presented to the UAC on March 3, 2021 and the Finance Committee on April 6, 2021 a recommendation that the City Council amend the FY 2022 Gas Utility Financial Plan, increase gas utility rates by 3% overall (an 5% distribution rate increase) 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), revise the Gas Utility Reserve Management Practices, and include transfers of 1) Up to \$3.9 million from the Rate Stabilization Reserve to the Operation Reserve; and 2) Up to \$4.542 million from the Rate Stabilization Reserve to the Cap and Trade Program Reserve ([Staff Report #11888](#)²). The Finance Committee unanimously recommended approval of this proposal.

Water:

Utilities staff presented to the UAC on March 3, 2021 and the Finance Committee on April 6, 2021 a recommendation to approve the Fiscal Year (FY) 2022 Water Utility Financial Plan and approve a transfer of up to \$13.4 million from the Operations Reserve to the CIP Reserve in FY 2022 ([Staff Report #11889](#)³). No rate increase was recommended as part of this proposal. The Finance Committee recommended approval of these staff recommendations unanimously.

Storm Drain

On April 20, 2021, Public Works staff presented the Finance Committee with a recommendation that the City Council adopt a resolution amending Utility Rate Schedule D-1 (Storm and Surface Water Drainage) to implement a 2.0 percent rate increase consistent with the applicable Consumer Price Index, increasing the monthly charge per Equivalent Residential Unit by \$0.30, from \$15.04 to \$15.34 for Fiscal Year 2022 ([Staff Report #12169](#)⁴). The Finance Committee unanimously recommended approval of this proposal.

Wastewater

The recommendations for approval of the FY 2022 Wastewater Collection Utility Financial Plan, including reserve transfers, amending the Wastewater Collection Utility Reserve Management Practices, and the public hearing on rate approvals will be held August 9, 2021.

¹ <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/current-year/2021/id-11887.pdf>

² <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/current-year/2021/id-11888.pdf>

³ <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/current-year/2021/id-11889.pdf>

⁴ <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/current-year/2021/id-12169.pdf>

Discussion

From February through April 2021, the Utilities Advisory Commission and Finance Committee received and reviewed various utility financial plans, transfer requests, and rate changes recommended by staff. This report outlines the actions requested, transmits the resolutions from these reviews, and requests City Council approval and adoption.

Attached to this report are several documents, referenced throughout the recommendation language and the report. In addition, this report also includes links to the City's website for all the staff reports presented throughout the review process to the Utilities Advisory Commission, Finance Committee, and City Council.

Staff and the Finance Committee recommend that the City Council approve the Utility financial plans and rate changes listed below.

Proposed Rate Changes and Financial Plans

Electric Proposal

The FY 2022 Electric Utility Financial Plan (Attachment B) includes projections of the utility's costs and revenues through FY 2026. Staff projects costs for the Electric Utility to increase steadily through the forecast period. On the Supply side, rising transmission costs are the primary contributor to the increases. In Distribution, Operations costs are expected to increase at or near the inflation rate (2% to 3% per year) through the forecast period, and projected capital expenses are higher due to the rebuilding of existing underground districts, substation, the Foothills rebuild, and line voltage upgrades. The City is also evaluating the cost and scope of other system resiliency projects, such as pole replacements, which may increase costs as well as rates in the future. Revenue increases between 0% to 5% are projected to be necessary to keep revenues in line with expenses over the next five years.

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. This decline has been exacerbated by the COVID pandemic. Consumption is currently 5% to 10% below long-term consumption trends. Current models suggest that pandemic economic recovery will take place through 2021 and 2022, with electric consumption stabilizing on the long run average by 2023.

Staff is also proposing several transfers. A transfer from the CIP Reserve will help fund CIP projects, keep the Distribution Operations reserve above minimum guideline levels and balance year to year changes in capital investment. The transfer of up to \$1 million to the Electric Special Projects reserve will work towards repaying the remaining \$5 million of a \$10 million short-term loan taken from the ESP reserve in FY 2018, during the last drought. Repaying the

full \$5 million in FY 2021, which was part of last year's financial plan, is not recommended as the Supply Operations Reserve would likely go below the minimum guideline level in FY 2023 as a result. Also, this Financial Plan, and as described in [Staff Report #11556](#)⁵, staff is allocating Cap and Trade funds equivalent to 1/3 of the FY 2021 REC Exchange program revenues, or \$1.19 million, for future local decarbonization projects.

Based on the relative health of the various Electric reserve funds, staff is recommending no rate increase for FY 2022, however this will likely result in reserves falling close to the minimum guideline levels over the next two to three years

In addition, staff recommended making adjustments to several of the City's Electric rate schedules to reflect current costs ([Attachment G -Link A2](#)):

1. Customers on the City of Palo Alto's (CPAU) original Net Energy Metering (NEM) program, also called NEM 1, 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 compensation rate paid to these customers is increasing due to a small increase in the value of the energy and in the City's avoided transmission charges.
2. 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. 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. The compensation rate paid to these customers is also increasing due to a small increase in the value of the energy and in the City's avoided transmission charges.
3. 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. The PAG charge is a pass-through charge; the revenue collected through the PAG rate premium is set to fully recover the costs of administering the program. This change is increasing, reflecting a significant increase in the wholesale cost of Green-e certified RECs in the Western US market. The updated charge 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.

After deliberating the proposal, the three members of the Finance Committee voted unanimously in favor of the recommendations put forth by staff. Council Member Burt made a general comment regarding all utilities that staff should focus on communications regarding competitiveness with rates and reliability. A motion was made and unanimously approved that would recommend the City Council:

⁵ <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/current-year/2020/id-11566.pdf>

- a. Direct Staff to return after the summer recess with a systematic communication plan to provide customers with rate histories, trends, and competitive standing compared to other jurisdictions and forward to the Utilities Advisory Commission for review and recommendation; and
- b. Direct Staff to return after the summer recess with the evaluation of the Electric Bill Utility reliability history and comparative performance to other jurisdictions to the extent that is available and forward to the Utilities Advisory Commission for review and recommendation.

Electric – Hydroelectric Rate Adjuster information

In an effort to manage the financial impacts of the annual variability in production of the City's hydroelectric resources, and to allow for the City to maintain a lower target level for its Hydroelectric Stabilization (HS) Reserve, the City adopted a Hydroelectric Rate Adjuster (HRA) mechanism effective July 1, 2018 ([CMR 8962](#), March 19, 2018).

California precipitation has been lower than normal during FY 2021, and the projection is that hydroelectric generation levels will remain below normal for FY 2022. However, the beginning HS Reserve level for FY 2022 is currently projected to be \$15.4 million, and the target range for the HS Reserve is \$11 million to \$27 million. As such, Staff does not recommend the HRA's activation for FY 2022.

In addition, when Council adopted the HRA rate schedule in 2018, an average year's total hydro output level was 548 GWh. A re-evaluation of historical hydro facility output levels found that, based on changes in climatological conditions and environmental policies in recent years, the average annual generation had dropped to 480 GWh. Similarly, the +/- 1 standard deviation levels for the two projects had fallen from 364 GWh and 733 GWh, to 319 GWh and 642 GWh, respectively. Staff is recommending an amendment to the Electric Hydro Adjuster Rate (E-HRA) to update the stated hydro generation average and +/- one standard deviation values, which have changed since the schedules adoption in 2018 ([Attachment G – Link B1](#)).

Gas

The FY 2022 Gas Utility Financial Plan ([Attachment G – Link C1](#)) includes projections of the utility's costs and revenues for FY 2022 through FY 2026. Gas utility costs are made up of supply-related costs (27 percent of costs in FY 2020), which are collected through a pass-through supply rate that varies monthly, and distribution-related costs (73 percent of costs in FY 2020), which are collected through a distribution rate that is typically adjusted not more than one time per year.

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. Gas commodity costs are the most variable factor in customer gas bills, being subject to market forces, and are currently projected to grow by about 4 percent per year between FY 2022 and 2026 (which is equivalent to a 1.2%

increase in total gas rates). Much of this has to do with increased cost projections related to cap-and-trade allowance costs, carbon neutrality costs as well as transportation. Operations costs are projected to increase at 3 to 4 percent annually, partially due to inflation and salary and benefit increases, and partially due to a large one-time increase in costs to pay for phase two of a cross-bore safety verification program. 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 capital improvement costs to maintain a safe and reliable system. CIP expenditures for the last several years have been lower than normal while the City was completing the Upgrade Downtown project, but this current financial plan works to address these challenges in a way that will allow City of Palo Alto Utilities (CPAU) to meet its gas main replacement (GMR) needs. The next focus of the GMR program will be the replacement of all Polyvinyl Chloride (PVC) mains with Polyethylene (PE) mains.

The proposed FY 2022 Gas Utility Financial Plan includes an increase in distribution rates effective July 1, 2021 and will result in a 3 percent increase to the total system average gas rate if supply rates remain unchanged.⁶ This will be done 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 G – Link C3](#)). Additional 5 percent increases to the total system average gas rate are projected over the next three years.

In addition, staff proposes a transfer to the Operations Reserve of up to \$3.9 million from the Rate Stabilization Reserve to ensure adequate operating reserves. A transfer of \$4.542 million to the Cap-and-Trade Program Reserve from the Rate Stabilization Reserve is also proposed to account for revenues related to the State's Cap and Trade program that are required to be used for specific purposes. The Cap-and-Trade Program Reserve is new and included in an update to the Gas Reserves Management Practices ([Attachment G – Link C2](#))

In the interest of providing options to help the community keep its utility bills low during the economic crisis created by the COVID-19 pandemic, the Utilities Department also provided an alternative rate plan involving a 2 percent rate increase in FY 2022 and no more than 5% rate increases in the subsequent financial plan years. This alternative plan is projected to bring reserves below minimum guideline levels unless \$700,000 in budget cuts could be achieved between FY 2023 to FY 2025.

After deliberating the proposal, the three members of the Finance Committee voted unanimously in favor of the 3% rate increase proposal put forth by staff.

Water

The FY 2022 Water Utility Financial Plan ([Attachment G – Link D1](#)) includes projections of the utility's costs and revenues for FY 2021 through FY 2026. Operational costs for the water utility

⁶ Supply costs are forecasted to rise 1.2%, for an overall 4% rate increase, approximately. However, forecasts are uncertain, and these supply cost changes may be lower or higher than projected depending on market conditions.

have increased at approximately 3% per year for the last five years while capital costs have fluctuated from year to year. The financial plan conservatively projects that capital and operational costs will increase on average at approximately 3% per year over the next five years. Active use of the CIP Reserve will help keep the fluctuations in capital spending from impacting the Operations Reserve or customer rates. Although capital investment needs will fluctuate from FY 2021 through FY 2026, there are enough funds currently in reserves to leave rates unchanged in FY 2022 while still funding budgeted and essential capital investments.

In addition, the financial plan proposes a transfer of up to \$13.24 million from the Operations Reserve to the CIP reserve in FY 2022: up to \$5 million in FY 2022 for one-time costs related to seismic water system upgrades and replacements, and \$8.24 million in annual capital program contributions.

The Finance Committee reviewed the recommendations at the April 4, 2021 meeting and voted to pass them unanimously.

Wastewater Collection

The recommendations for approval of the FY 2022 Wastewater Collection Utility Financial Plan, including reserve transfers, amending the Wastewater Collection Utility Reserve Management Practices, and the public hearing on rate approvals will be held on August 9, 2021.

Storm Water and Surface Water Drainage

On April 11, 2017, a majority of Palo Alto property owners approved a ballot measure approving a monthly Storm Water Management Fee. This fee funds thirteen storm drainage capital improvement projects listed in the ballot measure, enhanced maintenance of the storm drainage system, and a variety of stormwater quality protection programs. The approved ballot measure allows for an annual adjustment based on the Consumer Price Index (CPI) or six percent, whichever is less. The Storm Water and Surface Drainage Rate (Attachment S) will increase 2.0 percent, increasing the monthly charge per Equivalent Residential Unit by \$0.30, from \$15.04 to \$15.34 for Fiscal Year 2022 effective July 1, 2021, to reflect the annual CPI change. See [Staff Report #12169](#)⁷ for more information.

Dark Fiber

Since 2007, the EDF-1 and EDF-2 rates for Dark Fiber ([Attachment G – Link F1](#)) customers have increased annually by the annual December change in the Consumer Price Index for All Urban Consumers (CPI-U) in the San Francisco area, as stated in their dark fiber agreements. Based on prior Utilities Advisory Committee and City Council direction, these rate changes are routinely included as part of the Budget adoption process and rather than in a separate staff report. This year's change in CPI-U was 2.0 percent, as reported by the Bureau of Labor Statistics.

⁷ <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/current-year/2021/id-12169.pdf>

Stakeholder Engagement

The UAC reviewed preliminary financial forecasts for the Electric, Gas, Water and Wastewater Collection utilities at its December 2, 2020 meeting ([Staff Report #11649](#)⁸), and the Finance Committee reviewed the same preliminary forecasts at its February 16, 2021 meeting ([Staff Report #11864](#)⁹).

The UAC reviewed staff's final recommendations for the Wastewater Collection utility at its February 3, 2021 meeting ([Staff Report #11882](#)¹⁰) and final recommendations for the following utilities at its March 3, 2021 meeting:

- a. Electric ([Staff Report #11883](#)¹¹)
- b. Gas ([Staff Report #11884](#)¹²)
- c. Water ([Staff Report #11885](#)¹³)

The Wastewater Collection recommendation was passed unanimously by the UAC (7-0). The Electric, Gas and Water recommendations were passed 6-0, with Commissioner Scharff absent.

The Finance Committee reviewed staff's proposals for the following utilities at its April 6, 2021 meeting, which were all passed unanimously (3-0):

- a. Wastewater Collection ([Staff Report #11886](#)¹⁴)
- b. Electric ([Staff Report #11887](#)¹⁵)
- c. Gas ([Staff Report #11888](#)¹⁶)
- d. Water ([Staff Report #11889](#)¹⁷)

The Finance Committee reviewed staff's proposals for the Stormwater Management rate ([Staff](#)

⁸ <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/utilities-advisory-commission/archived-agenda-and-minutes/agendas-and-minutes-2020/12-02-2020-special/id-11649-item-no-3.pdf>

⁹ <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/current-year/2021/id-11864.pdf>

¹⁰ <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/utilities-advisory-commission/archived-agenda-and-minutes/agendas-and-minutes-2021/02-03-2021-special/id-11882-item-no-1.pdf>

¹¹ <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/utilities-advisory-commission/archived-agenda-and-minutes/agendas-and-minutes-2021/03-03-2021-special/id-11883.pdf>

¹² <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/utilities-advisory-commission/archived-agenda-and-minutes/agendas-and-minutes-2021/03-03-2021-special/id-11884.pdf>

¹³ <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/utilities-advisory-commission/archived-agenda-and-minutes/agendas-and-minutes-2021/03-03-2021-special/id-11885.pdf>

¹⁴ <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/current-year/2021/id-11886.pdf>

¹⁵ <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/current-year/2021/id-11887.pdf>

¹⁶ <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/current-year/2021/id-11888.pdf>

¹⁷ <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/current-year/2021/id-11889.pdf>

[Report #12169](#)¹⁸) at its April 20, 2021 meeting, which was passed unanimously (3-0).

Timeline

Electric, Gas, Dark Fiber and Storm Water rates, as well as Utility Financial Plans

The electric, gas, dark fiber and storm drainage rates will be considered at the June 21, 2021 public hearing. Should the City Council take action to approve any or all of these rates, they will become effective July 1, 2021. The City Council will also consider changes to Financial Plans and/or Reserve Management Policies for electric, gas and water utilities, and should they take action to approve any or all of these Plans and/or Policies, they will also become effective July 1, 2021.

Resource Impact

Normal year sales revenues for the Gas Utility are projected to increase by roughly 3 percent or \$1.2 million as a result of the proposed rate increases, not including fluctuations in commodity revenue/cost. The 2.0 percent increase in Stormwater rates is expected to increase annual revenue to the Stormwater Management Fund by approximately \$152,000 and, if recommended, will be reflected in the Public Works Department Stormwater Management Fund Fiscal Year 2022 Operating Budget revenue. The 2.0 percent increase in EDF-1 fiber rate is expected to increase annual revenue by approximately \$11,000.

The Financial Plans and rate trajectories presented for the Electric, Gas, and Water funds are projected to keep their respective Operating Reserves with the minimum and maximum guideline levels over the entire forecast period.

Policy Implications

Policy Implications related to the proposed Gas and Electric rate actions are detailed fully in the linked Finance Committee reports.

There are no policy changes contained in the adoption of the proposed new Dark Fiber and Storm Drainage Rates.

Environmental Review

Adoption of the attached Financial Plans and budgeted transfers does not meet the California Environmental Quality Act's definition of a project, pursuant to Public Resources Code Section 21065 and CEQA Guidelines Section 15378(b)(4) and (5), because it is a governmental fiscal and administrative activity which will not cause a direct or indirect physical change in the environment. Adoption of the proposed gas, electric, storm water management fee, and dark fiber 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

¹⁸ <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/current-year/2021/id-12169.pdf>

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.

Attachments:

- Attachment A: Electric Resolution
- Attachment B: Hydroelectric Resolution
- Attachment C: Gas Resolution
- Attachment D: Water Resolution
- Attachment E: StormWater Resolution
- Attachment F: Dark Fiber Resolution
- Attachment G: Resolution Back-Up Information

* NOT YET APPROVED *

Resolution No. _____

Resolution of the Council of the City of Palo Alto Approving the Fiscal Year 2022 Electric Utility Financial Plan and Reserve Transfers and Amending Utility Rate Schedules E-EEC-1 (Export Electricity Compensation), E-NSE-1 (Net Surplus Electricity Compensation Rate), E-2-G (Residential Master-Metered and Small Non-Residential Green Power Electric Service), E-4-G (Medium Non-Residential Green Power Electric Service), and E-7-G (Large Non-Residential Green Power Electric 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. 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 21, 2021, 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 2022 Electric Utility Financial Plan.

SECTION 2. The Council hereby approves the following transfers as described in the FY 2022 Electric Utility Financial Plan:

1. Approve a transfer of up to \$5 million from the Capital Improvement Project Reserve to the Distribution Operations Reserve;
2. Approve a transfer of up to \$1 million from the Supply Operations Reserve to the Electric Special Project reserve;

* NOT YET APPROVED *

3. Approve an allocation of up to \$1.189 million from the Cap and Trade Program Reserve for local decarbonization programs.

SECTION 3. 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, 2021.

SECTION 4. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule E-NSE-1 (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, 2021.

SECTION 5. 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, 2021.

SECTION 6. 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, 2021.

SECTION 7. 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, 2021.

SECTION 8. 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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* NOT YET APPROVED *

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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 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

NOT YET APPROVED

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

R E C I T A L S

- A. Hydroelectric Rate Adjustment mechanisms are designed to modify customer rates, either up or down, such that overall sales revenue is aligned with supply costs for the electric utility.
- B. Hydroelectric Rate Adjustment mechanisms are intended to enable the electric utility to maintain a reasonably stable level of financial reserves, potentially at a lower average level.
- C. When Council adopted the HRA rate schedule in 2018, an average year's total hydro output level was 548 GWh. A re-evaluation of historical hydro facility output levels found that, based on changes in climatological conditions and environmental policies in recent years, the average annual generation had dropped to 480 GWh. Similarly, the +/- 1 standard deviation levels for the two projects had fallen from 364 GWh and 733 GWh, to 319 GWh and 642 GWh, respectively.
- D. Pursuant to Chapter 12.20.010 of the Palo Alto Municipal Code, the Council of the City of Palo Alto may by resolution adopt rules and regulations governing utility services, fees and charges.

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

SECTION 1. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule E-HRA (Electric Hydro Rate Adjuster) is added as attached and incorporated. Utility Rate Schedule E-HRA, as amended, shall become effective July 1, 2021.

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

SECTION 3. The Council finds that the fees and charges adopted by this resolution are charges imposed for a specific government service or product provided directly to the payor that are not provided to those not charged, and do not exceed the reasonable costs to the City of providing the service or product.

NOT YET APPROVED

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

INTRODUCED AND PASSED:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

ATTEST:

City Clerk

Mayor

APPROVED AS TO FORM:

APPROVED:

Assistant City Attorney

City Manager

Director of Utilities

Director of Administrative Services

* NOT YET APPROVED *
Resolution No. _____

Resolution of the Council of the City of Palo Alto Approving the Fiscal Year 2022 Gas Utility Financial Plan, Including Proposed Transfers and an Amendment to the Gas Utility Reserve Management Practices, 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. 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 21, 2021, 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 2022 Gas Utility Financial Plan.

SECTION 2. The Council hereby approves the transfer of up to \$3.9 Million from the Rate Stabilization Reserve to the Operations Reserve, and up \$4.542 Million from the Rate Stabilization Reserve to the Cap and Trade Program Reserve, as described in the FY 2022 Gas Utility Financial Plan approved via this resolution.

SECTION 3. The Council hereby approves the amendments to the Gas Utility Reserves Management Practices relating to the Cap and Trade Program Reserve.

* NOT YET APPROVED *

SECTION 4. 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, 2021.

SECTION 5. 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, 2021.

SECTION 6. 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, 2021.

SECTION 7. 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, 2021.

SECTION 8. 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 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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* NOT YET APPROVED *

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SECTION 10. The Council finds that approving the Financial Plan and amending the Gas 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 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.

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

* NOT YET APPROVED *

Resolution No. _____

Resolution of the Council of the City of Palo Alto Approving the FY 2022
Water Utility Financial Plan and Reserve Transfer

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. 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.

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

SECTION 1. The Council hereby approves the FY 2022 Water Utility Financial Plan.

SECTION 2. The Council hereby approves a transfer from the Operations Reserve to the Capital Improvement Projects Reserve of up to \$13,240,000 in FY 2022 as described in the FY 2022 Water Utility Financial Plan. Annual capital program contributions beyond FY 2022 will be approved by Resolution annually.

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* NOT YET APPROVED *

SECTION 3. The Council finds that the adoption of this resolution 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.

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

NOT YET APPROVED

Resolution No. _____

Resolution of the Council of the City of Palo Alto Amending Utility Rate Schedule D-1 (Storm and Surface Water Drainage) Increasing the Storm Water Management Fee by 2.0 Percent Per Month Per Equivalent Residential Unit for Fiscal Year 2022

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

SECTION 1. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule D-1 (Storm and Surface Water Drainage) is hereby amended to read in accordance with sheet D-1-1, attached hereto and incorporated herein. The foregoing Utility Rate Schedule, as amended, shall become effective July 1, 2021.

SECTION 2. The Council finds that this rate increase is being imposed to offset the effects of inflation on labor and material costs pursuant to the annual inflationary fee escalator provision of the Storm Water Management Fee ballot measure, which was approved by a majority of Palo Alto property owners on April 11, 2017.

SECTION 3. The Council finds that the revenue derived from the authorized adoption enumerated herein shall be used only for the purpose set forth in Article VII, Section 2, of the Charter of the City of Palo Alto.

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SECTION 4. The Council finds that the adoption of this resolution changing the Storm Water Management Fee 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 Public Works

Director of Administrative
Services

* NOT YET APPROVED *

Resolution No. _____

Resolution of the Council of the City of Palo Alto Adopting a Dark Fiber Rate Increase and Amending Rate Schedules EDF-1 (Dark Fiber Licensing Services) and EDF-2 (Dark Fiber Connection Fees)

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

SECTION 1. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule EDF-1 (Dark Fiber Licensing Services) is hereby amended to read as attached and incorporated. Utility Rate Schedule EDF-1, as amended, shall become effective July 1, 2021.

SECTION 2. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule EDF-2 (Dark Fiber Connection Fees) is hereby amended to read as attached and incorporated. Utility Rate Schedule EDF-2, as amended, shall become effective July 1, 2021.

SECTION 3. The Council finds that the revenue derived from the adoption of this resolution shall be used only for the purpose set forth in Article VII, Section 2, of the Charter of the City of Palo Alto.

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* NOT YET APPROVED *

SECTION 4. The Council finds that the adoption of this resolution increasing dark fiber rates by the Consumer Price Index 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

Resolutions are attached to the Staff Report ID 12240
Resolutions are linked within the Staff Report ID 12240 and below for reference
Each Resolution has reference information which has been linked below and
set inside the Resolution

[Attachment A:](#) [Resolution Approving the Fiscal Year \(FY\) 2022 Electric Utility Financial Plan, including reserve transfers, and amending Utility Rate Schedules E-EEC, E-NSE, E-2-G, E-4-G and E-7-G](#)

[Attachment B:](#) [Resolution Amending Utility Rate Schedule E-HRA](#)

[Attachment C:](#) [Resolution Approving the FY 2022 Gas Utility Financial Plan, including reserve transfers, amending the Gas Utility Reserve Management Practices, and adopting a Gas Rate Increase by Amending Utility Rate Schedules G-1, G-2, G-3 and G-10](#)

[Attachment D:](#) [Resolution Approving the FY 2022 Water Utility Financial Plan, including reserve transfers](#)

[Attachment E:](#) [Resolution Amending Utility Rate Schedule D-1 increasing the Storm Water Management Fee by 2.0 percent per month per Equivalent Residential Unit for FY 2022](#)

[Attachment F:](#) [Resolution Amending Utility Rate Schedules EDF-1 and EDF-2 to increase Dark Fiber Rates 2.0 percent](#)

[Linked A1:](#) [Fiscal Year \(FY\) 2022 Electric Utility Financial Plan](#)

[Linked A2:](#) [Utility Rate Schedules E-EEC, E-NSE, E-2-G, E-4-G and E-7-G](#)

[Linked B1:](#) [Utility Rate Schedule E-HRA](#)

[Linked C1:](#) [FY 2022 Gas Utility Financial Plan](#)

[Linked C2:](#) [Gas Utility Reserve Management Practices](#)

[Linked C3:](#) [Utility Rate Schedules G-1, G-2, G-3 and G-10](#)

[Linked D1:](#) [FY 2022 Water Utility Financial Plan](#)

[Linked E1:](#) [Utility Rate Schedule D-1](#)

[Linked F1:](#) [Utility Rate Schedules EDF-1 and EDF-2](#)