



City of Palo Alto

City Council Staff Report

(ID # 11341)

Report Type: Action Items

Meeting Date: 6/22/2020

Summary Title: FY 2021 Proposed Utility Rates and Financial Plans

Title: Staff Recommendation That the City Council Adopt the Following Five Resolutions: (1) Approving the Fiscal Year (FY) 2021 Electric Utility Financial Plan, Including Proposed Reserve Transfers, and Amending the Electric Utility Reserve Management Practices; (2) Approving the FY 2021 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; (3) Approving the FY 2021 Water Utility Financial Plan and Amending the Water Utility Reserve Management Practices; (4) Amending Utility Rate Schedule D-1 Increasing the Storm Water Management Fee by 2.5 Percent per Month per Equivalent Residential Unit for FY 2021; and (5) Amending Utility Rate Schedules EDF-1 and EDF-2 to Increase Dark Fiber Rates 2.5 Percent

From: City Manager

Lead Department: Utilities

Recommendation

Staff and the Finance Committee recommend that the City Council approve and adopt the following:

1. Resolutions of the City Council of the City of Palo Alto:
 - a. Approving the FY 2021 Electric Utility Financial Plan, including reserve transfers, and amending the Electric Utility Reserve Management Practices (Attachments A, B & C);
 - b. Approving the FY 2021 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 (Attachments D, E, F & G);
 - c. Approving the FY 2021 Water Utility Financial Plan, including reserve transfers, and amending the water Utility Reserve Management Practices (Attachments H, I & J);

- d. Amending Utility Rate Schedule D-1 increasing the Storm Water Management Fee by 2.5 percent per month per Equivalent Residential Unit for FY 2021 (Attachments K & L); and
- e. Amending Utility Rate Schedules EDF-1 and EDF-2 to increase Dark Fiber Rates 2.5 percent (Attachments M & N);

There are no proposed changes to the Wastewater Collection utility rates or Financial Plan at this time.

Executive Summary

During April and May 2020, the Finance Committee and City Council reviewed various rate changes recommended by staff for Fiscal Year 2021. This report summarizes the meetings that occurred, including all staff recommendations and changes to recommendations. This comprehensive utility rates report includes separate sections for each of the Utilities: electric, gas, water, wastewater collection, dark fiber, and storm drainage and surface water. Estimates for retail revenue impacts are included in the FY 2021 budget assumptions. This report outlines the actions requested, transmits the resolutions from these reviews, and requests City Council approval and adoption.

Background

Water:

On April 21, 2020, Utilities staff presented the Finance Committee with a recommendation to approve the Fiscal Year (FY) 2021 Water Utility Financial Plan, revise the Water Utility Reserves Management Practices relating to the CIP and Rate Stabilization Reserves, and approve transfers of 1) Up to a \$3 million from the Operations Reserve to the CIP Reserve in FY 2020; 2) Up to a \$5 million from the Operations Reserve to the Rate Stabilization Reserve in FY 2020; and 3) Up to an \$8 million capital program contribution from the Operations Reserve to the CIP Reserve in FY 2021 ([Staff Report #11051](#)¹). No rate increase was recommended as part of this proposal. The Finance Committee recommended approval of these staff recommendations unanimously.

On May 13, 2020, the City Council convened to review the proposed Utilities budget. At that time, they voted and affirmed that staff should bring no FY 2021 rate increases for the Water Utility.

Wastewater

On April 21, 2020, Utilities staff presented the Finance Committee with a recommendation that the Finance Committee recommend the City Council make no changes to Wastewater Rates for Fiscal Year 2021 ([Staff Report #11234](#)²). The Finance Committee recommended unanimous approval of this proposal.

¹ <https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?t=68049.89&BlobID=76149>

² <https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?t=68098.52&BlobID=76150>

On May 13, 2020, the City Council convened to review the proposed Utilities budget. At that time, they voted and affirmed that staff should bring no FY 2021 rate increases for the Wastewater Collection Utility.

Storm Drain

On April 21, 2020, 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 2.5 percent rate increase consistent with the applicable Consumer Price Index, increasing the monthly charge per Equivalent Residential Unit by \$0.36, from \$14.68 to \$15.04 for Fiscal Year 2021 ([Staff Report #11252](#)³). The Finance Committee recommended approval of this item 2-1, with Council Member Tanaka voting no.

On May 13, 2020, the City Council convened to review the proposed Utilities budget. At that time, they voted and affirmed that staff should bring forward the 2.5% proposed increase for the Storm Water Management Fee.

Electric

On May 5, 2020, Utilities staff presented the Finance Committee with a recommendation that Council amend the FY 2021 Electric Utility Financial Plan, revise the Electric Utility Reserve Management Practices relating to the CIP, Low Carbon Fuel Standard, and Rate Stabilization Reserves, and propose transfers of 1) Up to \$4 million from the Supply Operations Reserve to the Hydroelectric Stabilization Reserve; 2) Up to \$5 million from the Supply Operations Reserve to the Electric Special Projects (ESP) Reserve; 3) Up to \$7 million from the Distribution Operations Reserve to the Capital Improvement (CIP) Reserve; and 4) \$3.74 million from the Supply Operations Reserve to the Low Carbon Fuel Standard (LCFS) Reserve. ([Staff Report #11212](#)⁴) In addition, this staff report proposed increasing electric rates by 2%.

However, 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, in a May 5, 2020 [At-Places Memo](#),⁵ presented an alternative rate plan to the Finance Committee involving no rate increases for two years and no more than 5% rate increases in the subsequent three years.

The Finance Committee recommended 2-1 in favor of the alternative electric rate proposal with no rate increase for FY 2021.

On May 13, 2020, the City Council convened to review the proposed Utilities budget. At that time, they voted and affirmed that staff should bring no FY 2021 rate increases for the Electric fund. Staff has amended the FY 2021 Electric Utility Financial Plan to reflect the 0% rate

³ <https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?t=67997.92&BlobID=76146>

⁵ <https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?t=47640.24&BlobID=76453>

increase. The proposed transfers and amendments to the Electric Utility Reserve Management Practices remain the same as proposed and approved by the Finance Committee.

Gas

On May 5, 2020, Utilities staff presented the Finance Committee with a recommendation that the City Council amend the FY 2021 Gas Utility Financial Plan, increase gas utility rates by 3% overall (an 5% distribution rate increase), revise the Gas Utility Reserve Management Practices, including transfers of 1) Up to \$2.533 million from the Rate Stabilization Reserve to the Operation Reserve; and 2) Up to \$4.5 million from the Operations Reserve to the CIP Reserve ([Staff Report #11285](#)⁶).

However, 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, in a May 5, 2020 [At-Places Memo](#),⁷ presented an alternative rate plan to the Finance Committee involving no rate increases for two years and no more than 5% rate increases in the subsequent three years. It should also be noted that the gas rate increase was a modification to the original 5% proposal noted in the Financial Plans attached to the UAC and Finance Staff reports ([Staff Report #11145](#)⁸).

The Finance Committee recommended 2-1 in favor of amending gas rates by 3% overall (a 5% distribution rate increase).

On May 13, 2020, the City Council convened to review the proposed Utilities budget. At that time, Council did not approve the 3% Gas rate increase, instead requesting a 2% increase be brought back to them in June. The attached FY 2021 Gas Financial Plan and proposed rates have been amended to meet the 2% scenario.

Discussion

From March through May 2019, 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 a number of 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

⁶ <https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?t=63216.44&BlobID=76332>

⁷ <https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?t=47640.24&BlobID=76453>

⁸ <http://cityofpaloalto.org/civicax/filebank/documents/76109>

plans and rate changes listed below. These financial plans and rate changes were reviewed and approved by the Utilities Advisory Commission between March and April of 2020, and by the Finance Committee between April and May of 2020.

Proposed Rate Changes and Financial Plans

Electric

The FY 2021 Electric Utility Financial Plan (Attachment B) includes projections of the utility's costs and revenues through FY 2025. Costs are projected to rise by about 2.5% per year for the next several years. 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.

Staff's original proposal was to raise rates by 2% effective July 1, 2020. The Utilities Advisory Commission reviewed this proposal as well as an alternative 0% increase at its meeting on April 15, 2020. At that time, the UAC deliberated and chose to approve staff's 2% rate increase option (7-0).

However, with the continuation of shelter-in-place created by the COVID-19 pandemic, and in the interest of providing options to help the community keep its utility bills low during the resulting economic crisis, on May 5, 2020 staff presented an alternative rate plan to the Finance Committee involving no rate increases for two years and no more than 5% rate increases in the subsequent three years, in addition to the 2% proposal approved by the UAC. The 0% scenario also included more pessimistic outlooks regarding customers sales forecasts for the next three to five years and included projected increases in customer utility bill defaults. Staff will continue to monitor and change these projections and plans based upon economic recovery, changing consumption patterns as well as changes to operational costs over time.

Under this scenario, from FY 2021-FY 2024, Electric Utility revenues will not fully cover the Electric utility's costs to provide service, and reserves and possible program and service cuts will be needed to make up the difference. For example, with no increases for two years, staff estimates that \$1.5 million in one-time cost reductions may be needed within the next 5 years to keep reserves above the minimum guideline levels. Examples of the types of actions that could be taken by the Electric Utility to reduce costs without impacting safety, reliability, and infrastructure investment include:

- Postpone non-critical capital investment like utility undergrounding rebuilds (*\$2.2 million for FY 2021*)
- Release funds from the Electric Special Projects Reserve to offset economic impacts or to internally finance certain types of expenses. (*Reserve balance is currently \$41.6 million, of which \$5.0 million for FY 2021 and \$7.0 million for FY 2022*) is tentatively designated for the City's Advanced Metering Infrastructure (AMI) project.)
- Temporarily reduce utility efforts in energy efficiency in the sectors with longer payback periods for efficiency investments (residential and small and medium business customers). (*Exact amount subject to internal review of various programs to review payback periods. Total annual electric efficiency spending is approximately \$3.5 million per year.*)
- Postpone Utilities Department funding and support for building electrification for two to three years. Electric vehicle programs could be continued due to the availability of a separate state funding source (Low Carbon Fuel Standard program). (*~\$1 million for FY 2021 and FY 2022*)
- Reduce the amount of renewable energy purchased by the utility below 100% Carbon Neutral, while continuing to purchase enough to maintain compliance with the state's Renewable Portfolio Standard. (*~\$3 million to \$6 million per year for FY 2021 and FY 2022, depending on market prices and the amount sold.*)
- Two-year postponement of installation of advanced metering infrastructure (*\$12 million*) and phase 2 construction of the fiber network expansion to support AMI and SCADA. (*~\$2 million*)

The Finance Committee and City Council, along with staff input, will explore which possible cuts and changes are practical during the budget review process.

Staff also proposes modifications to the Electric Utility Reserves Management Practices specific to the CIP reserve. 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.

After deliberating the proposals, the three members of the Finance Committee split 2-1 in favor

of having no rate increase vs. the 2% increase option. Staff is providing an amended Financial Plan to reflect the alternative scenario, but will keep the proposed transfers as drafted, since they are requested in amounts 'up to' maximum amounts. Staff will determine what the appropriate levels should be based upon ending reserve values for FY 2020.

With the unprecedented financial crisis faced by the City after more than a month of shelter-in-place actions, and facing possible long-term financial uncertainties, the City Council chose to convene the full Council for Finance Committee discussions of the City and Utilities Budgets. At the Utilities Budget hearing on May 13, 2020, the full City Council reviewed both the expense and revenue projections for the Electric fund. At that time, Council made a recommendation to staff to not have an electric rate increase for FY 2021.

Gas

The FY 2021 Gas Utility Financial Plan includes projections of the utility's costs and revenues for FY 2021 through FY 2025. Gas utility costs are made up of supply-related costs (41 percent of costs in FY 2019) and distribution-related costs (59 percent of costs in FY 2019). Supply-related costs (and customer rates) vary monthly with the gas markets, but customer rates for gas distribution are evaluated annually and set by Council action like other utility rates. Gas rates related to distribution costs were last increased by 8 percent on July 1, 2019.

The FY 2021 Gas Utility Financial Plan originally proposed a 5 percent overall system rate (and bill) increase on July 1, 2020, which would have been done through an 8 percent increase in distribution rates (because distribution accounts for only 59 percent of the average customer's bill). CIP expenditures for the last several years have been lower than normal while the City was completing the Upgrade Downtown project, and much of this increase is due to the Gas Utility resuming ongoing main replacement projects.

Staff also brought forward an April 14, 2020 UAC [at-places memo](#)⁹ with a 3% overall rate increase proposal. This 3% overall rate increase was lower than the preliminary overall rate increase of 5% presented earlier to the Finance Committee on March 3, 2020. Understanding that rate increases during this time may be more difficult for residents and businesses to absorb, staff recommended an alternative, lower overall rate increase amount of 3% overall for gas. The UAC approved this alternative recommendation unanimously (7-0).

Considering the continuing COVID-19 pandemic and resultant shelter-in-place actions, on May 5, 2020, staff brought another alternative proposal to the Finance Committee, for two years of no rate increases, followed by rate increases of no more than 5% in outer years. This scenario would require a significant level of one-time cost reductions in order to keep reserves above minimum guideline levels (\$13.8 million). To make reductions this large, temporarily bond financing capital expenditures would typically be a reasonable option. But given the City's ambitious building electrification goals, long-term bond financing may not be prudent. This means that staff may need to temporarily make significant reductions in capital investment for

⁹ <http://cityofpaloalto.org/civicax/filebank/documents/76202>

this utility. Examples of the types of actions that might need to be taken by the Gas Utility include:

- Ending the City's Carbon Neutral Gas carbon offset program (*~\$1 million to \$1.5 million per year, depending on market prices*)
- Temporarily reduce utility efforts in energy efficiency in the sectors with longer payback periods for efficiency investments (residential and small and medium business customers). (*Exact amount subject to internal review of various programs to review payback periods. Total annual gas efficiency spending is approximately \$600,000 per year.*)
- Postponing or eliminating cross-bore¹⁰ inspections (*~\$1 million in FY 2021 and FY 2022*)
- Postpone installation of advanced metering infrastructure and gas meter replacement (*~\$3 million in FY 2022*)
- Cutting back on capital investment by postponing or reducing the project scope of work on the gas main PVC pipe replacement (*up to \$10 million*)
- The impacts of the above cost reductions would impede sustainability efforts, leave the City at some level of risk from cross-bores, delay customer availability of hourly usage data for several years, and slow down the rate of replacement of PVC gas mains, which have glued joints that are at higher risk of leakage during an earthquake. To mitigate the safety risk of these cost reductions, Utilities would increase the frequency of citywide gas surveying (mobile and walking) for gas leaks (*\$100,000*).

The Finance Committee and City Council, along with staff input, will explore which possible cuts and changes are practical during the budget review process. In addition, the plan proposes transfers to the Operations Reserve of up to \$2.5 million from the Rate Stabilization Reserve, and up to \$3.5 million to the CIP Reserve from the Operations Reserve, to ensure that there are appropriate financial reserves for contingencies, such as high construction costs and unplanned CIP replacement, as well as to provide initial funding for the CIP Reserve to operate as a functional reserve for CIP projects. This will allow the CIP reserve to absorb annual variations in capital cost, rather than the Operations reserve. The Rate Stabilization Reserve is projected to be at zero balance by the end of FY 2020, consistent with the Reserves Management Practices. As always, staff will continue to monitor and change these projections and plans based upon economic recovery, changing consumption patterns as well as changes to operational costs over time.

After deliberating the proposals, on May 5, 2020 the Finance Committee voted 2-1 to recommend the UAC recommended 3% overall increase (via a 5% distribution rate increase) proposal. While there were concerns voiced about raising any utility rates during this time of

¹⁰ Gas lines are usually installed through horizontal drilling. If a gas line is accidentally drilled through a sewer line, this is referred to as a "cross-bore." If a plumber clears the sewer line with a cutting tool, this can be dangerous if the gas line is also cut. The City has inspected a significant portion of its sewer lines for cross-bores and has found very few, but many sewer lines remain to be inspected.

economic uncertainty, the majority of commissioners felt that the level of cuts needed and possible negative impacts to reserves were too large absent a rate increase.

With the unprecedented financial crisis faced by the City after more than a month of shelter-in-place actions, and facing possible long-term financial uncertainties, the City Council chose to convene the full Council for Finance Committee discussions of the City and Utilities Budgets. At the Utilities Budget hearing on May 13, 2020, the full City Council reviewed both the expense and revenue projections for the Gas fund. At that time, Council made a recommendation to staff to not increase distribution rates by 5% (a 3% overall increase), but instead bring the overall increase to 2%. Under the 2% rate increase scenario, from FY 2021-FY 2023, Gas Utility revenues will not fully cover the utility's costs to provide service, and reserves and program and service cuts will be needed to make up the difference. This is described in detail in the attached Financial Plan, which has been adjusted to reflect the City Council-requested 2% overall (a 3% distribution rate) increase. The original 5% overall proposal, as well as the alternative 3% overall and various 0% options are also shown in *Section 5G – Alternative Rate Options* of the Gas Financial Plan.

Wastewater Collection

Staff's presentation to the Finance Committee on April 21, 2020 provided a general overview of the financial projections through FY 2025 for the Wastewater Collection Utility. Staff projects costs to rise substantially for the next several years due to increasing treatment costs related to capital improvements and increasing operational costs at the Regional Water Quality Control Plant (RWQCP), as well as increasing collection system costs for operations and capital. Staff recommends that the Council make no changes to Wastewater rates for July 1, 2020. For more information, see [Staff Report# 11234](#)¹¹ and recommendation approved by the Finance Committee on April 21, 2020.

Staff will present the full FY 2021 Wastewater Collection Utility Financial Plan and Cost of Service Study once complete, at a future meeting date. Staff will target a meeting date that is both after the COVID-19 emergency and that allows for full and in person customer attendance and participation in the public meetings and hearing to discuss any proposed rate changes.

Water

The FY 2021 Water Utility Financial Plan includes projections of the utility's costs and revenues for FY 2020 through FY 2025. At the end of FY 2019 the reserve levels were higher than anticipated due primarily to capital projects deferred in FY 2019 due to nonresponsive construction bids leading to lower capital costs than budgeted. Because of the reserve funding available for planned CIP, staff does not project the need for a rate increase in FY 2021.

The current rate proposals are based on the cost of service (COS) methodology described in the 2012 Palo Alto Water Cost of Service and Rate Study, the 2015 Study update, the 2015 Drought Rate memorandum, and the 2019 Study update titled "Proposed FY 2020 Water Rates" each

¹¹ <https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?t=68098.52&BlobID=76150>

completed by Raftelis Financial Consultants.

In addition, the financial plan proposes a transfer of up to \$3 million from the Operations Reserve to the CIP reserve in FY 2020 to fund one-time CIP work, and a transfer of up to \$5 million from the Operations Reserve to the Rate Stabilization Reserve in FY 2020 to provide rate stabilization associated with a series of large rate increases from the water supplier (SFPUC) beginning in FY 2023. Additionally, the financial plan proposes an annual capital program contribution from the Operations Reserve to the CIP Reserve of up to \$8 million in FY 2021 and associated Amendments to the Water Utility Reserves Management Practices relating to the CIP Reserve. Further information on the proposed transfers and changes to the Water Utility Reserves Management Practices can be found in the attached FY2021 Water Utility Financial Plan.

The Finance Committee reviewed preliminary financial forecasts at its March 3, 2020 meeting, and the Utilities Advisory Commission (UAC) reviewed the Water Financial Plan at its March 5, 2020 meeting. The UAC accepted staff's recommendation and approved the proposed FY 2021 Financial Plan unanimously. One Commissioner suggested that the Finance Committee consider a rate increase in FY 2021 to smooth out the rate increase trajectory over the coming five years. The Finance Committee reviewed the recommendations at the April 21, 2020 meeting ([Staff Report #11051](#)¹²), and voted to pass the 0% rate increase unanimously.

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 will fund 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 L) will increase 2.5 percent, effective July 1, 2020, to reflect the annual CPI change. See [Staff Report #11252](#)¹³ for more information.

Dark Fiber

Since 2007, the EDF-1 and EDF-2 rates for Dark Fiber (Attachment W) 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 contract 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 2.5 percent, as reported by the Bureau of Labor Statistics.

Timeline

¹² <https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?t=68049.89&BlobID=76149>

¹³ <https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?t=67997.92&BlobID=76146>

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

As there are no proposed changes to rates for the water or wastewater collection utilities, the process for collecting and evaluating a written majority protest as set forth by the California Constitution does not apply. The gas, dark fiber and storm drainage rates will be considered at the June 22, 2020 public hearing. Should the City Council take action to approve any or all of these rates, they will become effective July 1, 2020. The City Council will also consider changes to Financial Plans and Reserve Management Policies for electric, gas and water, and should they take action to approve any or all of these Plans and/or Policies, they will also become effective July 1, 2020.

Resource Impact

Resource impacts related to the proposed Water, Wastewater Collections, Electric, Gas, and Storm Drainage rate actions are detailed fully in the attached Finance Committee reports and are in alignment with assumptions used in the development of the FY 2021 budget that is to be considered by the City Council on June 22, 2020.

Policy Implications

Policy Implications related to the proposed Gas 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, 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 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: Resolution Approving FY 2021 Electric Financial Plan, Electric Reserve Management Practices and Transfers
- Attachment D: Resolution Approving FY 2021 Gas Financial Plan, Reserve Management Practices, Proposed Transfers and Rate Changes
- Attachment H: Resolution Approving FY 2021 Water Financial Plan, Reserve Management Practices and Proposed Transfers

- Attachment K: Resolution Amending Storm and Surface Water Drainage Rates
- Attachment M: Resolution Amending Dark Fiber Rates
- Attachment O: Hyperlink List

* 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 Reserve Transfers, and Amending the Electric Utility Reserve Management Practices

RECITALS

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

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

C. Pursuant to Chapter 12.20.010 of the Palo Alto Municipal Code, the Council of the City of Palo Alto may by resolution adopt rules and regulations governing utility services, fees and charges.

D. On June 22, 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.

* NOT YET APPROVED *

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. 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.

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 2021 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 (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 22, 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 adopts the FY 2021 Gas Utility Financial Plan.

SECTION 2. The Council hereby approves the transfer of up to \$2.533 Million from the Rate Stabilization Reserve to the Operations Reserve, and up \$3.5 Million from the Operations Reserve to the CIP Reserve, as described in the FY 2021 Gas Utility Financial Plan approved via this resolution.

SECTION 3. The Council hereby approves the amendments to the Gas Utility Reserves Management Practices.

* 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, 2020.

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, 2020.

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, 2020.

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, 2020.

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 *

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 2021
Water Utility Financial Plan, Including Reserve Transfers, and Amending
the Water Utility Reserves Management Practices

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 adopts the FY 2021 Water Utility Financial Plan.

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

- a. Up to \$3,000,000 in FY 2020 from the Operations Reserve to the Capital Improvement Projects Reserve;
- b. Up to \$5,000,000 in FY 2020 from the Operations Reserve to the Rate Stabilization Reserve;

SECTION 3. The Council hereby approves a capital program contribution to the Capital Improvement Projects Reserve from the Operations Reserve (system revenues) of up to \$8,000,000 in FY 2021. Annual rate-funded contributions beyond FY 2021 will be approved by Resolution annually.

SECTION 4. The Council hereby approves the amendments to the Water Utility Reserves Management Practices as shown in Attachment I.

* NOT YET APPROVED *

SECTION 5. The Council hereby approves the maintenance of a balance in the Rate Stabilization Reserve through FY 2028 in order to provide greater rate stabilization to customers.

SECTION 6. 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 2.5 percent Per Month Per Equivalent Residential Unit for Fiscal Year 2021

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, 2020.

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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NOT YET APPROVED

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

GENERAL STORM AND SURFACE WATER DRAINAGE

UTILITY RATE SCHEDULE D-1

A. APPLICABILITY:

This schedule applies to all Storm and Surface Water Drainage Service, excepting only those users and to the extent that they are constitutionally exempt under the Constitution of the State of California or who are determined to be exempt pursuant to Rule and Regulation 25.

B. TERRITORY:

Inside the incorporated limits of the City of Palo Alto and land owned or leased by the City.

C. RATES:

Per Month:

Storm Drainage Fee per Equivalent Residential Unit (ERU) \$15.04

D. SPECIAL NOTES:

1. An Equivalent Residential Unit (ERU) is the basic unit for computation of storm drainage fees for residential and non-residential Customers. All single-family residential properties shall be billed the number of ERUs specified in the following table, based on an analysis of the relationship between impervious area and lot size for Palo Alto properties.

RESIDENTIAL RATES (Single-Family Residential Properties)	
PARCEL SIZE (sq.ft.)	ERU
<6,000 sq.ft.	0.8 ERU
6,000 - 11,000 sq.ft.	1.0 ERU
>11,000 sq.ft.	1.4 ERU

All other properties will have ERU's computed to the nearest 1/10 ERU using the following formula:

$$\text{No. of ERU} = \frac{\text{Impervious Area (Sq. Ft.)}}{2,500 \text{ Sq. Ft.}}$$

2. For more details on the Storm Drainage Fee, refer to Utilities Rule and Regulation 25. *{End}*



* NOT YET APPROVED *

Resolution No. _____

Resolution of the Council of the City of Palo Alto Amending Utility Rate Schedules EDF-1 (Dark Fiber Licensing Services) and EDF-2 (Dark Fiber Connection Fees) to Increase Dark Fiber Rates 2.5 Percent

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, 2020.

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, 2020.

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

Staff Recommendation That the City Council Adopt the Following Five Resolutions: (1) Approving the Fiscal Year (FY) 2021 Electric Utility Financial Plan, Including Proposed Reserve Transfers, and Amending the Electric Utility Reserve Management Practices; (2) Approving the FY 2021 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; (3) Approving the FY 2021 Water Utility Financial Plan and Amending the Water Utility Reserve Management Practices; (4) Amending Utility Rate Schedule D-1 Increasing the Storm Water Management Fee by 2.5 Percent per Month per Equivalent Residential Unit for FY 2021; and (5) Amending Utility Rate Schedules EDF-1 and EDF-2 to Increase Dark Fiber Rates 2.5 Percent

[ATTACHMENT B - FY 2021 ELECTRIC UTILITY FINANCIAL PLAN FY 2021 TO FY 2025](#)

[ATTACHMENT C - ELECTRIC UTILITY RESERVES MANAGEMENT PRACTICES](#)

[ATTACHMENT E - FY 2021 GAS UTILITY FINANCIAL PLAN FY 2021 TO FY 2025](#)

[ATTACHMENT F - GAS UTILITY RESERVES MANAGEMENT PRACTICES](#)

[ATTACHMENT G - UTILITY RATE SCHEDULE G-1 - RESIDENTIAL GAS SERVICE](#)

[ATTACHMENT I - WATER UTILITY RESERVES MANAGEMENT PRACTICES](#)

[ATTACHMENT J - FY 2021 WATER UTILITY FINANCIAL PLAN FY 2021 TO FY 2025](#)

[ATTACHMENT L - UTILITY RATE SCHEDULE D-1 - GENERAL STORM AND SURFACE WATER
DRAINAGE](#)

[ATTACHMENT N - UTILITY RATE SCHEDULE EDF-1 - DARK FIBER LICENSING SERVICES](#)