



City of Palo Alto

Utilities Advisory Commission Staff Report

(ID # 13545)

UAC MEETING

October 06, 2021

Received Before Meeting
Staff: Eric Wong

Info

Report Type: New Business

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Title: Informational Update on the Utilities Quarterly Financial Report for Q3 Fiscal Year 2021

From: City Manager

Lead Department: Utilities

Recommendation

This report is for information only. No action is required.

Executive Summary

Attached are the Q3 FY 2021 financial results for the City's electric, gas, wastewater, water, and fiber utilities (Attachment A). Final financial results for FY 2021 are not yet available, but this report provides a summary of projected year-end FY 2021 financial results based on Q3 FY 2021 financial results.

This report is different from previous Utilities quarterly reports. It contains only information on the financial position of each utility. A separate quarterly report providing utility updates on other topics was delivered at the September 2021 Utilities Advisory Commission (UAC) meeting and will be delivered quarterly going forward (Report #13437). This report on the utility financial positions, on the other hand, is released only when the City closes its accounting books for the quarter, which does not happen on a regular quarterly basis.

Items of special interest in this report are summarized below:

Electric Utility

Electric Reserves are projected to be within guideline ranges at year end FY 2021. Sales are higher than projected, though lower than pre-pandemic sales levels. However, expenses have also been higher than projected due to poor hydroelectric conditions, meaning reserves are expected to be lower than previously projected in the FY 2021 Financial Plan.

Gas Utility

Gas Operations Reserves are projected to be within guideline ranges at year end FY 2021. Sales are lower than projected in the FY 2021 Financial Plan, though these lower sales were taken into account in the FY 2022 Financial Plan. However, expenses for the year are forecasted to be significantly lower. So while the FY 2021 Financial Plan projected a \$6.1 million reduction in

reserves for FY 2021, the actual reserve reduction is now projected to be \$2.7 million, a \$3.4 million improvement.

Water Utility

Water Operations Reserves are projected to be above the guideline range at year end FY 2021. Sales have been higher than projected in the FY 2021 Financial Plan due to the drought, leading to a projected additional \$2.9 million in revenue. Transfers from the Operations Reserve to other reserves to fund CIP projects are expected to reduce the Operations Reserve to within the guideline range by the end of FY 2023.

Wastewater Collection Utility

Wastewater revenues are projected to be nearly 5% lower than projected in the FY 2021 Financial Plan due to the effects of the pandemic. However, expenses are also projected to be lower due to deferred CIP spending and lower treatment costs than forecasted. The net effect is a projected increase to reserves of \$3 million. The FY 2021 Financial Plan projected no change in reserves. However, the projected increase is expected to fund the cost of deferred CIP projects in future years.

Fiber Optic Utility

Fiber utility revenues are projected to be \$1 million lower than projected in the FY 2021 Financial Plan. Expenses are also projected to be \$1 million lower due to deferral of the Fiber Network Rebuild CIP, which is on hold pending Magellan Advisor's detailed fiber network expansion design. The Fiber Optic Utility Rate Stabilization Reserve is projected to be \$34 million by the end of FY 2021.

Attachments:

- Attachment A: Financial Report

Utilities Quarterly Financial Update

Third Quarter of Fiscal
Year 2021

October 2021

Quarterly Update for Third Quarter of FY 2021
October 2021

Utilities Quarterly Update
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Utility Financial Summary

This section describes the unaudited actual financial results for FY 2021 for all Utilities funds. The Council-adopted long-term [Financial Plans](#) for the Electric, Gas, and Water Funds and the [Financial Plan](#) for the Wastewater Collection Fund for FY 2021 – FY 2022 during the budget review process.

Electric Utility Overview

Sales for the Electric Utility in FY 2021 are projected to be 6.2% higher than forecasted in the FY 2021 Financial Plan. Revenues are also projected to increase by \$7.3 million or 4.5% higher than forecasted; this is due to higher sales as well as increasing Electric Master Agreements (EMA)/Market sales (sales of surplus energy) as well as REC sales revenue. Staff projects expenses to be \$11 million higher than forecasted in the FY 2021 Financial Plan. This is mainly due to projected increases in electric supply purchase costs (\$6.7 million) resulting from both higher sales but poorer hydro conditions. Also increasing are salary, benefit and administration cost projections based on higher FY 2020 actuals, and new funding for the City's Low Carbon Fuel Standard (LCFS) budget, which did not show in the FY 2021 adopted budget. LCFS spending is funded by LCFS revenues rather than ratepayer funding or other funding sources. The impact to reserves in FY 2021 is due to the segregation of these funds into a separate LCFS reserve.

The Electric Reserves were within guideline ranges at the beginning of FY 2021 and are projected to be within guideline ranges at the end of FY 2021. In addition, staff will plan on a continued \$1 million repayment of a 2018 short term \$10 million loan from the Electric Special Projects (ESP) reserve, but may withdraw funds from the Capital Reserve to help maintain Operations reserve health. The remaining ESP loan balance is \$5 million for the Electric Utility. Additional reserve actions may be proposed based upon year end actual reserve figures.

The Electric Utility CIP Reappropriation and Commitment Reserves totaled a projected \$23 million at the end of Q3 FY 2021.

Gas Utility Overview

Sales for the Gas Utility in FY 2021 are projected to be 6.7% lower than originally forecast in the FY 2021 Financial Plan. Staff projects an increase of 5.5% in overall revenues, mainly due to increased projected market costs for natural gas itself, but also increased cost projections for transmission and Cap and trade related costs. These have corresponding cost increases, but because these charges are mostly passed through directly on customer bills, variations from budget will not have dramatic reserve effects. On the expense side, while commodity costs are increasing and salary and benefit costs continue to increase, overall O&M cost estimates were revised downward from the original FY 2021 forecast, mainly due to changes in cost estimates and timing for the gas cross bore project, effectively netting out much of the cost increase impact.

The Gas Operations Reserve was within the reserve guideline levels at the beginning of FY 2021 and is projected to be within the guideline levels at the end of FY 2021. The Gas Utility CIP Re-appropriation and Commitment Reserves totaled \$8.8 million at the end of Q3 FY 2021.

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Water Utility Overview

Staff projects sales for the Water Utility in FY 2021 to be 9.6% higher than forecasted in the FY 2021 Financial Plan. Similarly, sales revenue is expected to be 10% higher than forecasted in the FY 2021 Financial Plan. This is in part because the sales decreases forecasted in the FY 2021 Financial Plan, which were made in light of the COVID-19 pandemic and related economic impacts, have not materialized, and because of continued dry weather conditions. Staff projects overall FY 2021 revenue to be 6% higher than projected in the FY 2021 Financial Plan due to other revenue, including interest income, being lower. Expenses were 0.3% lower than anticipated in the FY 2021 Financial Plan; this does not reflect changes in the timing of CIP expenditures. In FY 2020 there was a deferral of water utility capital spending due to pursuing lower pricing for the Corte Madera tank replacement as well as removing a portion of Water Main Replacement 27 from the original scope. Changes in deferred CIP spending for FY 2021 will be reflected in the CIP Reserve at year end.

The Water Operations Reserve was above the reserve guideline levels at the beginning of FY 2021 and Table 2 below illustrates the reserve remaining above the maximum at year end FY 2021. Council approved up to an \$8 million transfer from the Operations Reserve to the CIP Reserve in FY 2021 to fund ongoing CIP work, and an additional \$13.24 million in transfers from the Operations Reserve to the CIP Reserve in FY 2022 to fund ongoing main replacements (WMR 28 is planned in FY 2022), as well as one-time seismic reservoir upgrades (one upgrade is ongoing and a second is planned for FY 2023). These transfers together with expected revenues and expenses are projected to bring the Operations Reserve to approximately target levels by the end of FY 2023. The need for the transfers will be re-evaluated at the end of FY 2021 when the reserve balances are known.

Approximately \$11 million in projects budgeted in FY 2020 or earlier will be re-appropriated to FY 2021, the largest being seismic water system upgrades, estimated at \$5 million. The Water Utility CIP Reappropriation and Commitment Reserves are projected to total \$14.4 million at the end of Q3 FY 2021.

Wastewater Collection Utility Overview

Staff projects Wastewater revenues for FY 2021 to be 4.6% lower than forecasted in the FY 2021 Financial Forecast. This is in part due to expected reductions in non-residential sewer usage due to the impacts of the COVID-19 pandemic and also because of updated reduced projections for other revenue from connection and capacity fees and interest. Staff projects expenses to be 18.9% lower than projected in the FY 2021 Financial Forecast. This is in part due to treatment cost projection reductions of \$1.2 million as well as deferrals of CIP spending. Treatment cost projections declined in part because of lower treatment operations and maintenance expense projections and also because Palo Alto's wastewater flow declined relative to the flow of other partners. Sewer System Replacement 30 is planned for FY 2022 with an estimated cost of \$4.1 million. Any surplus from FY 2021 and prior years will be used to provide funding for the sewer replacement in FY 2022. Additionally, the approved FY 2022 Financial Plan implements an annual capital program contribution from the Operations Reserve to the CIP Reserve beginning in FY 2022 as well as a one-time transfer of \$2.2 million in FY 2021. Staff expects these changes to minimize Operations Reserve fluctuations due to the timing of Wastewater Collection CIP.

The Wastewater Collection Utility CIP Reappropriation and Commitment Reserves totaled \$4.8 million at the end of FY 2020. In addition to these previously budgeted funds, the FY 2021 Financial Plan estimated the additional CIP funding needed for FY 2021 to be \$4.6 million while the current projection is for only \$1.2 million.

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The Wastewater Collection Operations Reserve was within the guideline range at the beginning of FY 2021 and the projected Q3 and year end balances both are projected to remain within the guideline range.

Fiber Optic Utility Overview

Fiber revenue is projected to be 18.0% or \$1 million lower than forecasted in the FY 2021 Financial Plan. Due to impacts of the pandemic, several businesses have either closed or relocated their offices. In addition, one of the City's few remaining EDF-1 promotional rate customers have converted to the EDF-3 rate which results in a decrease of \$280,000 of annual fiber leasing revenue. Fiber expenses are projected to be 23.0% or \$1 million lower than forecast which offsets the projected revenue decrease in FY 2021. The Fiber Network Rebuild CIP project has been placed on hold pending completion of Magellan Advisors' detailed fiber network expansion design for the City's fiber backbone and fiber-to-the-home (FTTH). The new proposed fiber backbone will provide high capacity fiber to City departments (Utilities, Public Works, Office of Emergency Services, Transportation, Information Technology, and Community Services). The backbone will be routed through neighborhoods and business districts and serve as a springboard to FTTH. The projected ending FY 2021 Fiber Optic Utility Rate Stabilization Reserve is \$34.3 million.

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Table 1: Utilities Financials, FY 2021 Projections

	Sales Volumes	Revenue \$,000	Expense \$,000	Net Reserve Change \$,000
Electric Utility				
FY 2021 Financial Plan	766,625 MWh	163,139	(167,097)	(3,958)
FY 2021 Projections	813,884 MWh	170,470	(178,105)	(7,635)
Change from Financial Plan	47,259 MWh 6.2%	7,331 4.5%	11,008 6.6%	(3,677)
Gas Utility				
FY 2021 Financial Plan	27,411,000 therms	39,108	(45,176)	(6,068)
FY 2021 Projections	25,579,000 therms	41,260	(43,951)	(2,691)
Change from Financial Plan	(1,832,000) therms (6.7%)	2,152 5.5%	1,225 (2.7%)	3,377
Water Utility				
FY 2021 Financial Plan	4,355,000 CCF	48,832	(48,270)	562
FY 2021 Projections	4,771,000 CCF	51,774	(48,431)	3,343
Change from Financial Plan	416,000 CCF 9.6%	2,942 6%	(161) 0.3%	2,781
Wastewater Collection Utility				
FY 2021 Financial Plan	N/A	22,462	(22,660)	(198)
FY 2021 Projections	N/A	21,421	(18,382)	3,039
Change from Financial Plan	N/A	(1,041) (4.6%)	4,278 (18.9%)	3,237
Fiber Optic Utility				
FY 2021 Financial Plan	N/A	5,563	(4,345)	1,218
FY 2021 Projections	N/A	4,563	(3,345)	1,218
Changes from Financial Plan	N/A	(1,000) (18.0%)	(1,000) (23.0%)	0

Table 2: Operations Reserves, FY 2021 (\$,000)

	Electric	Gas	Water	Wastewater Collection	Fiber*
FY 2021 Beginning	38,538	13,450	19,841	5,661	33,065
Changes as of Q3	(8,312)	(3,501)	3,593	605	511
Q3 Balance	30,226	9,949	23,434	6,266	33,576
FY 2021 Change (Projected)	(3,792)	(1,067)	3,343	3,039	1,218
FY 2021 Ending (Projected)	34,746	12,383	23,184	8,700	34,283
Reserve Minimum	26,970	8,000	9,400	3,900	700
Reserve Maximum	50,145	16,000	18,900	9,800	1,400

* For Fiber Optics, the Reserve is the Rate Stabilization (not the Operations) Reserve

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Residential Bill Comparisons

Table 3: Residential Electric Bill Comparison (\$/month)

As of August 2021					
Season	Usage (KWh/mo)	Palo Alto	PG&E	Santa Clara	Roseville
Summer (May - Oct)	300	\$41.27	\$80.42	\$38.08	\$56.58
	365 (Median)	52.18	101.71	46.63	63.21
	650	107.37	195.05	84.12	99.82
	1200	213.89	375.18	156.48	183.61

Table 4: Residential Natural Gas Bill Comparison (\$/month)

As of July 2021				
Season	Usage (therms per month)	Palo Alto	Menlo Park, Redwood City, Mountain View, Los Altos, and Santa Clara (PG&E Zone X)	Roseville (PG&E Zone S)
Summer (June - Oct)	15	\$29.20	\$21.92	\$23.33
	18(Median)	32.86	27.66	29.16
	30	55.19	50.99	52.48
	45	85.85	80.14	81.64

Table 5: Residential Water Bill Comparison (\$/month)

As of July 2021						
Usage CCF/month	Palo Alto	Menlo Park	Redwood City	Mountain View	Santa Clara	Hayward
4	\$46.89	\$50.83	\$54.04	\$38.80	\$26.76	\$39.20
(Winter median) 7	70.28	73.43	76.09	60.07	46.83	60.62
(Annual median) 9	90.42	88.49	90.79	74.25	60.21	74.90
(Summer median) 14	140.77	129.34	138.94	109.70	93.66	112.51
25	251.54	229.75	267.39	230.19	167.25	205.02

Based on the FY 2013 BAWSCA survey, the fraction of SFPUC as the source of potable water supply was 100% for Palo Alto, 95% for Menlo Park, 100% for Redwood City, 87% for Mountain View, 10% for Santa Clara and 100% for Hayward.

Table 6: Residential Wastewater Collection (Sewer) Bill Comparison (\$/month)

As of July 2021						
Palo Alto	Menlo Park	Redwood City	Mountain View	Los Altos	Santa Clara	Hayward
\$41.37	\$104.58	\$89.28	\$46.40	\$40.83	\$44.53	\$35.81

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Table 7: Median Residential Overall Bill Comparison (\$/month)

As of July 2021						
Utility and Usage	Palo Alto	Menlo Park	Redwood City	Mountain View	Santa Clara	Hayward
Electricity (365 kWh/mo)	\$52.18	\$101.71	\$101.71	\$101.71	\$46.63	\$101.71
Gas (18 th/mo)	32.86	27.66	27.66	27.66	27.66	27.66
Water (9 CCF/mo)	90.42	88.49	90.79	74.25	60.21	74.90
Wastewater	41.37	104.58	89.28	46.40	44.53	35.81
TOTAL	216.83	322.44	309.44	250.02	179.03	240.08

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Table 8: FY 2021 Q3 Utility Fund Reserve Report ('000)

	Beginning Reserve Balance as of 7/01/20 FY 2021	Changes to Reserves Summary	Current Projected Reserve Balance as of 3/31/2021 FY 2021
Electricity			
Supply/Dist Operations	\$ 38,538	\$ (8,312)	\$ 30,226
CIP Reapro/Commit	9,521	13,443	22,964
Hydro Stabilization	15,400		15,400
CIP Reserve	5,880		5,880
Rate Stabilization	-		-
Public Benefit	1,905		1,905
ESP	46,665		46,665
GASB 68 Pension Rsrv	(33,747)		(33,747)
GASB 75 OPEB Rsrv	(13,741)		(13,741)
All Others	13,161	(368)	12,793
Net Capital Investment	205,613	541	206,154
Total	\$ 289,195	\$ 5,304	\$ 294,499
Gas			
Operations Reserve	\$ 13,450	\$ (3,501)	\$ 9,949
CIP Reserve	3,820		3,820
Rate Stabilization	8,420	(2,539)	5,881
CIP Reapro/Commit.	1,614	7,163	8,777
GASB 68 Pension Rsrv	(14,851)		(14,851)
GASB 75 OPEB Rsrv	(6,058)		(6,058)
All Others	2,918	4,023	6,941
Net Capital Investment	106,659	(1,079)	105,580
Total	\$ 115,972	\$ 4,067	\$ 120,039
Water			
Operations Reserve	\$ 19,841	\$ 3,593	\$ 23,434
CIP Reserve	5,726		5,726
Rate Stabilization	9,069		9,069
CIP Reapro/Commit.	11,036	3,354	14,390
GASB 68 Pension Rsrv	(14,114)		(14,114)
GASB 75 OPEB Rsrv	(4,215)		(4,215)
All Others	4,122	1,384	5,506
Net Capital Investment	103,463	(353)	103,110
Total	\$ 134,928	\$ 7,978	\$ 142,906
Fiber Optic			
Rate Stabilization	\$ 33,065	\$ 511	\$ 33,576
CIP Reapro/Commit.	1,011	528	1,539
GASB 68 Pension Rsrv	(2,154)		(2,154)
All Others	1,057	103	1,160
Net Capital Investment	9,333	(171)	9,162
Total	\$ 42,312	\$ 971	\$ 43,283
WasteWater Collection			
Operations Reserve	\$ 5,661	\$ 605	\$ 6,266
CIP Reserve	978		978
Rate Stabilization	342		342
CIP Reapro/Commit.	4,775	(269)	4,506
GASB 68 Pension Rsrv	(8,319)		(8,319)
GASB 75 OPEB Rsrv	(2,316)		(2,316)
All Others	132	180	312
Net Capital Investment	91,410	155	91,565
Total	\$ 92,663	\$ 671	\$ 93,334

Q3 FY 2021 Reserve Report 7/15/2021