



# City of Palo Alto

## Utilities Advisory Commission Staff Report

(ID # 14201)

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Meeting Date: 6/8/2022

Report Type:

**Title: Informational Update on Utilities' Quarterly Financial Report for Q2 of FY2022**

**From: Director of Utilities**

**Lead Department: Utilities**

### **Recommendation**

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

### **Executive Summary**

Attached are the Q2 Fiscal Year (FY) 2022 financial results for the City's electric, gas, wastewater, water, and fiber utilities ([Attachment A](#)). This report on the utility financial positions is released when the City closes its accounting books for the quarter, which occurs after income and expenses are reconciled.

Items of special interest in this report are summarized below:

### **Electric Utility**

Sales for FY 2022 are expected to be 3.8% lower than projected in the FY 2022 Financial Plan due to residential electric use making up a larger share of revenue than commercial use, as compared to typical pre- pandemic levels. Expenses are expected to be higher than projected due to poor hydroelectric conditions. Electric Reserves are expected to be within guideline ranges at year end. Implementation of the Hydro rate Adjuster will help mitigate higher costs.

### **Gas Utility**

Sales are expected to be 1.5% higher than projected in the FY 2022 Financial Plan. Expenses have increased due to rising natural gas market prices, however, those higher market prices are passed through to customers each month. The Gas Operations Reserve is expected to be near the target level at year end. In addition, \$2.3 million was moved to a Cap and Trade reserve to separate it from the Operations Reserves.

### **Water Utility**

Water sales, revenue, and costs are expected to be lower than expected due to drought-related conservation. Water Operations Reserves Plan. Reservoir work and water main replacement projects have required increased funding. The Water Operations Reserve is expected to be

within the guideline range by the end of FY 2023.

### **Wastewater Collection Utility**

Wastewater revenues are expected to be 3.1% lower than projected in the FY 2022 Financial Plan due to the effects of the pandemic. Expenses are expected to be 2.4% higher than forecast due to increases in salaries and benefits. The Wastewater Collection Operations Reserve is projected to be below the target guideline at year end.

### **Fiber Optic Utility**

Fiber revenues are projected to be \$3.7 million or 14% lower than FY 2022 forecast of \$4.3M due to consolidation and closure of businesses during the pandemic. The Fiber Network Rebuild CIP project has been placed on hold pending results of the engineering designs by Magellan. Most of the consulting work will be completed in FY 2022. The Fiber Optic Utility Rate Stabilization Reserve is expected to remain unchanged at \$33.3 million at the end of FY 2022.

### **Attachments:**

- Attachment A: FY22-Q2 Financial Report

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# Utilities Quarterly Financial Update

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Second Quarter of Fiscal Year 2022

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June 2022

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**Utilities Quarterly Financial Update  
Second Quarter of FY 2022**

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## **Utility Financial Summary**

This section describes the unaudited actual financial results for the second quarter of fiscal year (FY) 2022<sup>1</sup> 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**

Total electric sales volume projected at the end of FY 2022 is 0.7% lower than sales volume forecasted in the FY 2022 Financial Plan. Sales revenue is projected to be lower by \$6.6 million, or 3.8%. The difference between unit sales and revenues lies in Covid-related customer class shifts, with residential use now accounting for a larger share of sales than before the pandemic. Expenses are expected to be about \$10 million, or 6.1% higher than forecasted in the FY 2022 Financial Plan. This is mainly due to increases in electric supply purchase costs resulting from both higher sales and poorer hydro conditions.

The Electric Operations Reserves are projected to remain within guideline ranges through FY 2022 but were low at the end of FY 2021. Because of this, staff did not make the projected \$1 million repayment of a 2018 short term \$10 million loan from the Electric Special Projects (ESP) reserve (\$5 million outstanding). In anticipation of continued dry conditions, \$4 million was moved to the Hydro Stabilization Reserve. Due to the very poor hydro conditions in California and projected higher electric purchase cost, up to \$15 million of the available Hydro Stabilization Reserve may be used to help offset costs. Council approved implementing the Hydro Rate adjuster mechanism at the \$0.013/kwh level effective April 1, 2022.

The Electric Utility CIP Reappropriation and Commitment Reserves totaled a projected \$30.1 million at the end of Q2 FY 2022.

### **Gas Utility Overview**

Gas sales volume is projected to be 1.5% higher at the end of FY 2022 than forecasted in the FY 2022 Financial Plan. Sales revenue is projected to be higher by \$2.9 million or 6.6%, mostly due to higher than expected gas market commodity prices, but this revenue is offset by higher expenses due to gas commodity purchase costs. These costs are passed through directly on customer bills, which do not impact reserves. Non-supply costs were \$550k lower, primarily the result of lower than projected administrative costs.

The Gas Operations Reserve was near the target level at the end of FY 2021 and is projected to remain within guideline ranges during FY 2022. In addition, \$2.3 million was moved to a Cap and Trade reserve in FY 2021 to separate it from the Operations Reserves. These funds are restricted for carbon reduction efforts per AB32. The Gas Utility CIP Re-appropriation and Commitment Reserves totaled \$3.8 million at the end of Q2 FY 2022.

### **Water Utility Overview**

Total water sales volume projected for FY 2022 is 4.2% lower than forecasted in the FY 2022 Financial Plan due to the water supply emergency declared by SFPUC, ongoing record dry conditions, and the voluntary water use reductions projected for the upcoming irrigation season. Sales revenue is similarly expected to be 4.8% lower

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<sup>1</sup> Fiscal Year 2022 runs from July 2021 to June 2022

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than forecasted in the FY 2022 Financial Plan. Staff projects water purchase costs to be 5% lower than forecasted in the FY 2022 Financial Plan. Staff projects operating expenses other than water purchases and CIP to be 2% higher than forecasted in the FY 2022 Financial Plan primarily as a result of increases in salaries and benefits and rent. However, a one-time \$5 million transfer from the Operations Reserve to the CIP Reserve that the FY 2022 Financial Plan forecasted to be needed in FY 2022 is no longer expected to be needed due to updated CIP forecast.

The Water Operations Reserve was above the reserve guideline levels at the end of FY 2021 and is within guideline levels at the end of Q2, FY2022. The Operations Reserve level dropped \$9.5 million during Q1 and Q2 of FY 2022 in part due to anticipated CIP funding needs. This can be seen by the increase in CIP Reappropriations/Commitments reserves of \$11.8 million during the same time period, bringing the projected end of FY 2022 CIP Reappropriations/Commitments Reserve to \$21.9 million. Capital funding needs in FY 2022 are primarily for the ongoing seismic reservoir replacement estimated at \$6.6 million in FY 2022 and Water Main Replacement 28 estimated at \$10.8 million in FY 2022. Staff projects the Operations Reserve to return to levels above the reserve guideline at the end of FY 2022 as construction on Water Main Replacement 28 continues into FY 2023. Reserve 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 further transfers will be re-evaluated at the end of FY 2022 when the year-end reserve balances are known.

**Wastewater Collection Utility Overview**

Wastewater revenues for FY 2022 are projected to be 3.1% lower than forecasted in the FY 2022 Financial Plan. This is, in part, due to expected reductions in non-residential sewer usage due to the impacts of the COVID-19 pandemic and lower expected connection and capacity fees and interest income. Wastewater expenses are projected to be 2.4% higher than projected in the FY 2022 Financial Plan. Although treatment costs were approximately \$0.2 million lower than forecasted in the FY 2022, Financial Plan operations costs such as salaries and benefits are expected to be approximately \$0.7 million higher. The expense comparison in Table 1 includes the \$2.2 million transfer from the Operations Reserve to the Capital Reserve in the actual expenses for FY 2022.

The Wastewater Collection Operations Reserve was within the guideline range at the end of FY 2021 and dropped below the minimum guideline level of \$4.1 million at the end of Q2, FY 2022. This is because funds were transferred to the CIP Reappropriations/Commitments reserve during Q1 and Q2, primarily to fund Sanitary Sewer Main Replacement 30 (SSR 30).. SSR 30 was approved by Council on December 13, 2021 and is scheduled to begin in FY 2022 with a total cost of \$4.6 million. Correspondingly, the Wastewater Collection CIP Reappropriation and Commitment Reserves increased by \$4.3 million, bringing the total CIP Reappropriation and Commitment Reserves to nearly \$6 million at the end of Q2, FY 2022. At year end FY 2022, if the projected Operations Reserve remains below guideline levels due to the CIP needs of the Collection system, Staff will request Council authorization to transfer funds from the CIP Reserve to replenish the Operations Reserve.

**Fiber Optic Utility Overview**

Total fiber retail revenues for FY 2022 are projected to be \$3.7 million or 14% lower than FY 2022 forecast of \$4.3M due to consolidation and closure of businesses during the pandemic. Even though the City has received an uptick of new dark fiber service connections, new revenue only partially offsets the high number of disconnections in FY 2021. Other revenues were \$0.1 million lower than projected due to lower than projected interest income. Fiber expenses were 10% or \$0.6 million lower than forecast due to lower than projected

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administrative and capital costs. The projected ending FY 2022 Fiber Optic Utility Rate Stabilization Reserve is expected to remain the same at \$33.3 million. In FY 2021, \$2.4 million was encumbered for the Magellan contract to complete the network engineering designs for the City backbone and FTTH, community engagement, and updated FTTH business plan. The majority of the consulting work will be completed in FY 2022.

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**Table 1: Utilities Financials, FY 2022 Projected**

	<b>Sales Volumes</b>	<b>Revenue \$ ,000</b>	<b>Expense \$ ,000</b>	<b>Net Reserve Change \$ ,000</b>
<b>Electric Utility</b>				
FY 2022 Financial Plan	812,790 MWh	173,486	(188,797)	(15,311)
FY 2022 Projected	807,182 MWh	166,853	(199,134)	(32,281)
Change from Financial Plan	(5,608 MWh) (0.7%)	(6,633) (3.8%)	(10,337) 5.5%	(16,970)
<b>Gas Utility</b>				
FY 2022 Financial Plan	25,426,000 Therms	43,856	(44,292)	(436)
FY 2022 Projected	25,813,000 Therms	46,731	(47,357)	(626)
Change from Financial Plan	387,000 Therms 1.5%	2,875 6.6%	(3,065) 6.9%	(190)
<b>Water Utility</b>				
FY 2022 Financial Plan	4,508,000 CCF	48,817	(50,148)	(1,332)
FY 2022 Projected	4,320,000 CCF	46,485	(49,333)	(2,848)
Change from Financial Plan	(188,000 CCF) (4.2%)	(2,332) (4.8%)	815 (1.6%)	(1,516)
<b>Wastewater Collection Utility</b>				
FY 2022 Financial Plan	N/A	21,452	(21,733)	(281)
FY 2022 Projected	N/A	20,793	(22,247)	(1,454)
Change from Financial Plan	N/A	(659) (3.1%)	(514) 2.4%	(1,173)
<b>Fiber Optic Utility</b>				
FY 2022 Financial Plan	N/A	5,215	(3,304)	1,911
FY 2022 Projected	N/A	4,515	(2,712)	1,803
Changes from Financial Plan	N/A	(700) (13.4%)	(592) (17.9%)	108

**Table 2: Operations Reserves, FY 2022 Projected (\$ ,000)**

	<b>Electric</b>	<b>Gas</b>	<b>Water</b>	<b>Wastewater Collection</b>	<b>Fiber*</b>
<b>FY 2022 Beginning</b>	29,903	11,981	20,773	6,578	33,343
<b>FY 2022 Changes</b>	(18,372)	(3,614)	(9,483)	(4,461)	(325)
<b>FY 2022 Ending (Projected)</b>	11,531	8,367	11,290	2,117	33,018
<b>Reserve Minimum</b>	31,900	8,100	9,700	4,100	500
<b>Reserve Maximum</b>	63,700	16,200	19,400	10,100	1,100

\* 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 April 2022					
Season	Usage (KWh/mo)	Palo Alto *	PG&E	Santa Clara	Roseville
Winter (Oct - May)	300	\$45.17	\$94.40	\$39.22	\$60.03
	453 (Median)	75.11	142.54	59.95	76.37
	650	115.82	219.54	86.65	104.80
	1200	229.49	436.54	161.17	190.63

\*Includes Hydro Rate Adjuster of \$0.013/kwh, effective April 1, 2022

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

As of April 2022				
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 (Apr - Oct)	15	\$31.70	\$29.49	\$30.86
	18 (Median)	35.86	36.74	38.11
	30	60.75	65.71	67.08
	45	93.91	101.92	103.29

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

As of April 2022						
Usage CCF/month	Palo Alto	Menlo Park	Redwood City	Mountain View	Santa Clara	Hayward
4	\$46.89	\$54.03	\$54.04	\$38.80	\$26.76	\$39.80
(Winter median) 7	70.28	77.71	76.09	60.07	46.83	61.34
(Annual median) 9	90.42	93.50	90.79	74.25	60.21	75.70
(Summer median) 14	140.77	136.35	138.94	109.70	93.66	119.80
25	251.54	241.76	267.39	230.19	167.25	216.82

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 April 2022						
Palo Alto	Menlo Park	Redwood City	Mountain View	Los Altos	Santa Clara	Hayward
\$43.32	\$104.58	\$89.28	\$46.40	\$40.83	\$44.53	\$37.17

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

As of April 2022						
Utility and Usage	Palo Alto	Menlo Park	Redwood City	Mountain View	Santa Clara	Hayward
Electricity (453 kWh/mo)	\$75.11	\$142.54	\$142.54	\$142.54	\$59.95	\$142.54
Gas (18 th/mo)	35.86	36.74	36.74	36.74	36.74	36.74
Water (9 CCF/mo)	90.42	93.50	90.79	74.25	60.21	75.70
Wastewater	43.32	104.58	89.28	46.40	44.53	37.17
TOTAL	244.71	377.36	359.35	299.93	201.43	292.15

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**Table 8: FY 2022 Q2 Utilities Fund Reserve Report ('000)**

	Beginning Reserve Balance as of 7/01/21 (FY 2022)	Changes to Reserves Summary	Current Projected Reserve Balance as of 12/31/2021 (FY 2022)
<b>Electricity</b>			
Supply/Dist Operations	\$ 29,903	\$ (18,372)	\$ 11,531
CIP Reappro/Commit	12,469	17,632	30,101
Hydro Stabilization	15,400		15,400
CIP Reserve	880		880
Rate Stabilization	-		-
Public Benefit	3,028		3,028
ESP	46,665		46,665
Low Carbon Fuel Standard	6,944		6,944
Cap & Trade	1,189		1,189
GASB 68 Pension Rsrv	(34,213)		(34,213)
GASB 75 OPEB Rsrv	(13,233)		(13,233)
All Others	5,449	3,615	9,064
Net Capital Investment	209,851	(408)	209,443
<b>Total</b>	<b>\$ 284,332</b>	<b>\$ 2,467</b>	<b>\$ 286,799</b>
<b>Gas</b>			
Operations Reserve	\$ 11,981	\$ (3,614)	\$ 8,367
CIP Reserve	3,820		3,820
Rate Stabilization	2,766	(1,510)	1,256
Cap & Trade	4,542		4,542
CIP Reappro/Commit.	7,112	1,502	8,614
GASB 68 Pension Rsrv	(14,792)		(14,792)
GASB 75 OPEB Rsrv	(5,849)		(5,849)
All Others	2,474	1,307	3,781
Net Capital Investment	107,440	720	108,160
<b>Total</b>	<b>\$ 119,494</b>	<b>\$ (1,595)</b>	<b>\$ 117,899</b>
<b>Water</b>			
Operations Reserve	\$ 20,773	\$ (9,482)	\$ 11,291
CIP Reserve	10,707		10,707
Rate Stabilization	9,069		9,069
CIP Reappro/Commit.	10,147	11,801	21,948
GASB 68 Pension Rsrv	(14,143)		(14,143)
GASB 75 OPEB Rsrv	(4,054)		(4,054)
All Others	3,391	1,144	4,535
Net Capital Investment	105,676	963	106,639
<b>Total</b>	<b>\$ 141,566</b>	<b>\$ 4,426</b>	<b>\$ 145,992</b>
<b>Fiber Optic</b>			
Rate Stabilization	\$ 33,343	\$ (325)	\$ 33,018
CIP Reappro/Commit.	2,055	(42)	2,013
GASB 68 Pension Rsrv	(2,238)		(2,238)
GASB 75 OPEB Rsrv	(1)		(1)
All Others	1,332	286	1,618
Net Capital Investment	9,310	277	9,587
<b>Total</b>	<b>\$ 43,801</b>	<b>\$ 196</b>	<b>\$ 43,997</b>
<b>WasteWater Collection</b>			
Operations Reserve	\$ 6,578	\$ (4,461)	\$ 2,117
CIP Reserve	3,178		3,178
Rate Stabilization	342		342
CIP Reappro/Commit.	830	5,138	5,968
GASB 68 Pension Rsrv	(8,368)		(8,368)
GASB 75 OPEB Rsrv	(2,236)		(2,236)
All Others	428	124	552
Net Capital Investment	92,639	(1,153)	91,486
<b>Total</b>	<b>\$ 93,391</b>	<b>\$ (352)</b>	<b>\$ 93,039</b>