



PRELIMINARY FY 2026 RATE CHANGES

Finance Committee

December 3, 2024

www.cityofpaloalto.org

Preliminary Residential System Average Rate Projections

	FY 2025	FY 2026 (Projected)	FY 2027	FY 2028	FY 2029	FY 2030
Electric Utility ⁽¹⁾	\$7.00 9%	\$4.60 5%	\$4.80 5%	\$5.10 5%	\$5.30 5%	\$5.60 5%
Gas Utility ⁽²⁾	\$7.80 13%	\$4.10 6%	\$4.30 6%	\$4.70 6%	\$5.10 6%	\$5.00 6%
Wastewater	\$7.30 15%	\$10.10 18%	\$9.90 15%	\$11.40 15%	\$6.10 7%	\$6.50 7%
Water Utility	\$9.80 9%	\$16.20 14%	\$18.20 14%	\$15.40 10%	\$14.80 9%	\$15.40 9%
Refuse	\$0.00 0%	\$0.00 0%	\$1.50 3%	\$1.50 3%	\$1.60 3%	\$1.60 3%
Stormwater ⁽³⁾	\$0.40 3%	\$0.40 3%	\$0.50 3%	\$0.50 3%	\$0.50 3%	\$0.50 3%
Monthly Bill Change ⁽⁴⁾	\$34.50 9%	\$36.60 9%	\$40.60 9%	\$39.80 8%	\$34.70 7%	\$36.00 7%

- 1) FY 2025 incorporates results of cost-of-service analysis
- 2) Gas rate in FY 2026 based on General Fund transfer of 18% of gross revenue in FY 2024; changes shown with commodity rates held constant; actual gas commodity rates vary monthly
- 3) Stormwater fees increase by CPI index annually per approved 2017 ballot measure (2.6% in FY 2025)
- 4) Based on projected FY 2025 monthly residential bill of \$402





ONGOING COST CONTAINMENT for All Utilities

- Consistent with the Utilities Strategic Plan, cost containment is being instituted as an ongoing priority and annual cycle
- Ongoing management review of personnel actions
- Regular review of performance metrics and expenditures

RECENTLY IMPLEMENTED COST CONTAINMENT

- Expanded use of bank draft to reduce credit card fees
- Scheduled larger CIP projects every other year achieving efficient project management and lower construction costs (estimated \$50K per CIP project)
- Implemented mobile workforce applications, reducing administrative data entry time, freeing up staff for other work

Water Utility

- Agreement with Valley Water yielded \$16 million in funding for reverse osmosis facility to improve recycled water quality and \$250K to \$1M/year
- BAWSCA water bond refunding in 2023 achieved lower debt service payments (\$185K/year 2023-2034)

Electric Utility

- Selling surplus Resource Adequacy and Renewable Energy Credits (\$20+ million/year)
- Negotiated improvements to Western hydroelectric contract (\$2 million/year)
- Negotiated layoff of transmission asset generating \$550k/year

Water, Gas, and Wastewater

- Established cross-functional field crew to install water, gas, and sewer services simultaneously at new construction sites, reducing hours spent in the field by minimum 20%

FUTURE POTENTIAL COST CONTAINMENT

- Implement new customer information system with reduced support costs
- Increase water and energy end use technical training for Customer Service Representatives, reducing transferred phone calls and staff time

Electric Utility

- Prepay of renewable power purchase agreements to monetize municipal tax-exempt debt
- Optimize debt issuance timing and amount for Grid Modernization to minimize debt service costs to electric customers
- Additional value from Western federally-owned transmission (\$500K/year)
- Challenge transmission rates via Northern California Power Agency (\$500K/year)

Water, Gas, and Wastewater

- Cluster gas main replacements to reduce mobilization costs for construction contractors (\$5K-\$10K for each project group)



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ELECTRIC UTILITY (Preliminary)

Preliminary Electric Rate Projection

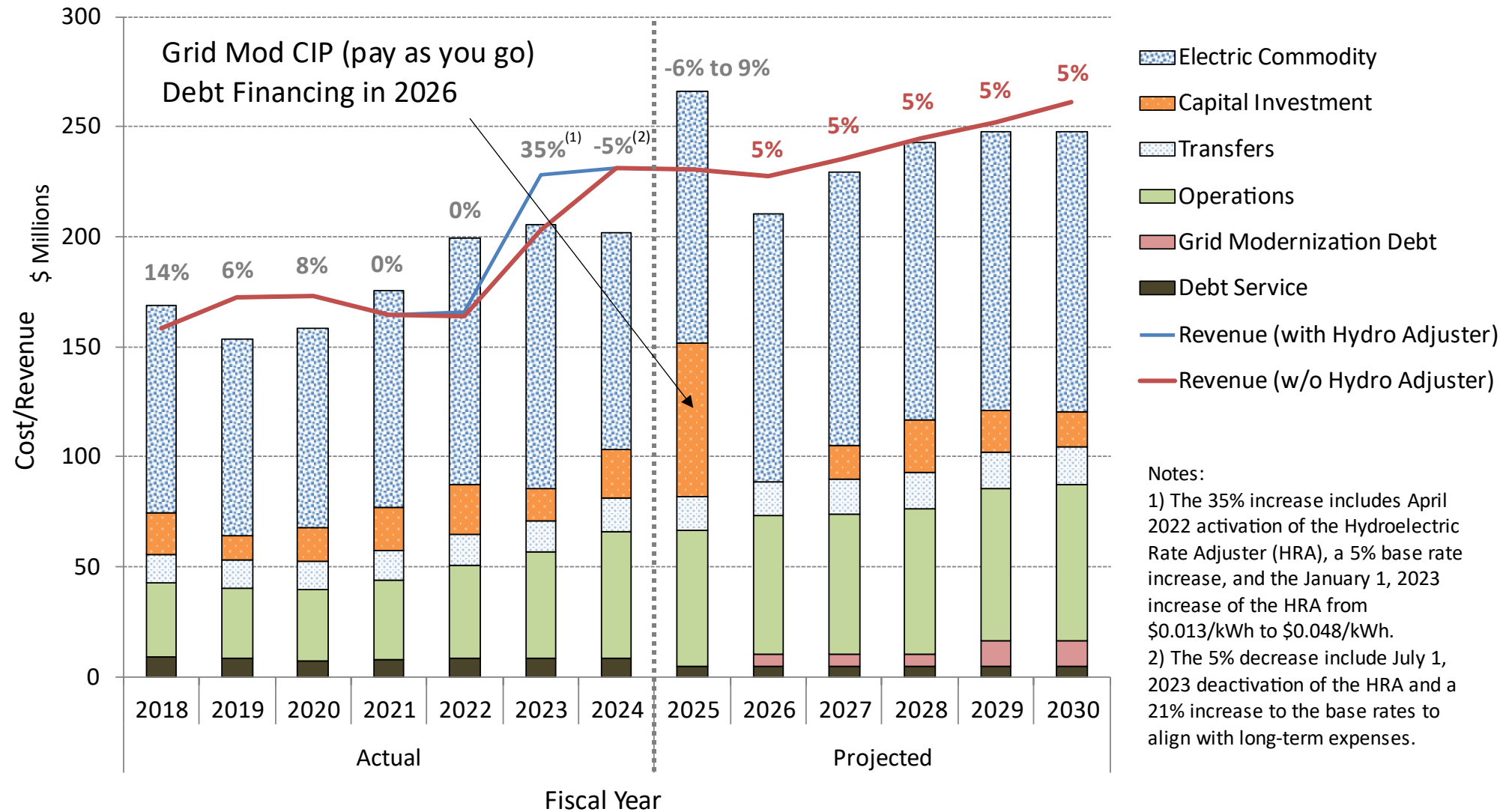
FY 2026 PRELIMINARY PROJECTION

- **5% rate increase across all customer classes in FY 2026**
- Significant investment in grid modernization, but able to delay bond issuance to FY 2026
- Reserves recovering from 2020-2022 drawdown
 - Repaid Hydroelectric Rate Stabilization in FY 2024
 - Repaying Electric Special Projects Reserves in FY 2025
- Net supply costs forecast in line with FY 2025 Financial Plan
 - Revenues from surplus system Resource Adequacy and Renewable Energy Certificates further reducing supply costs

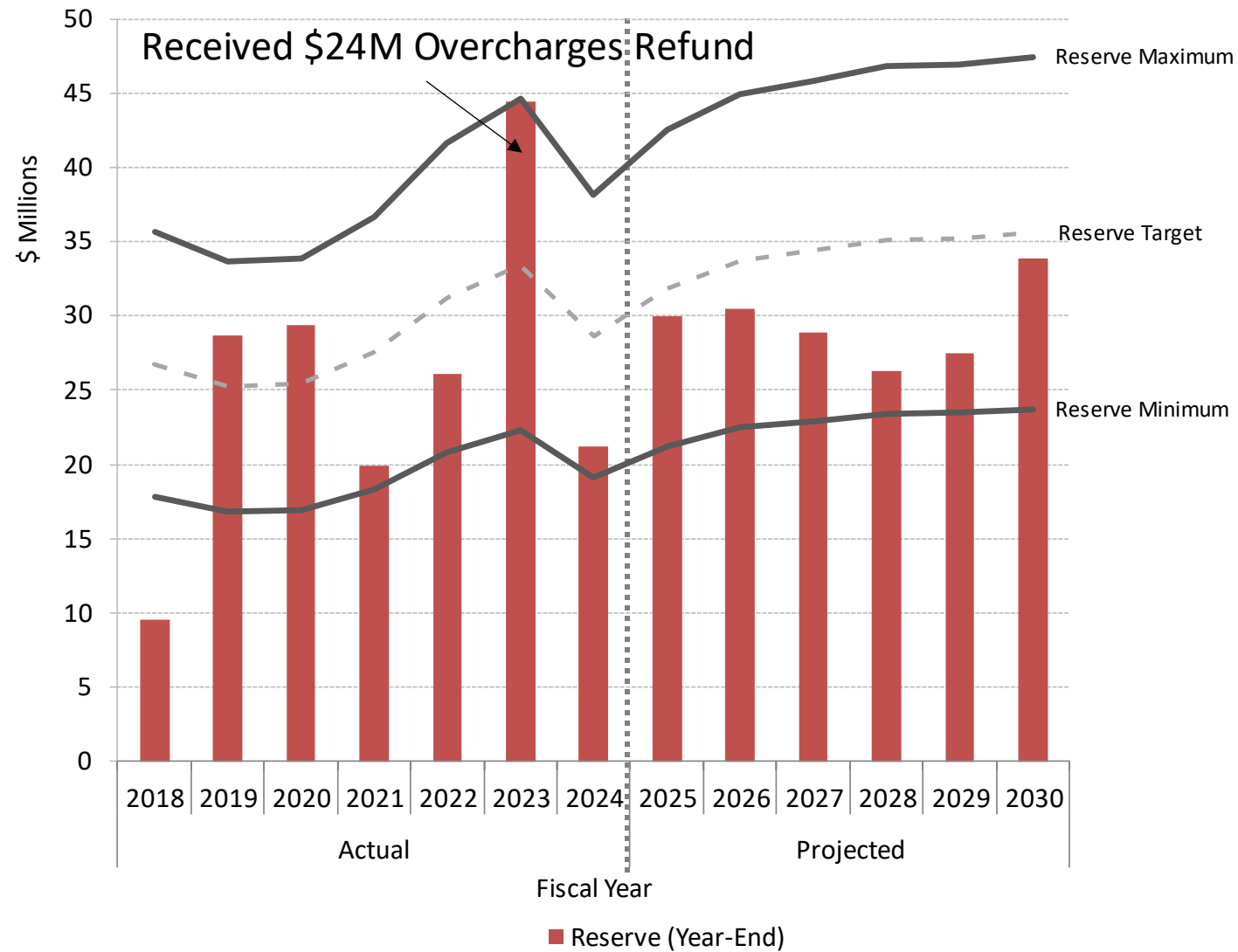
FUTURE YEARS

- 5% rate increase per year projected for FY 2027-FY 2030
- Issue debt for Grid Modernization in first half of FY 2026

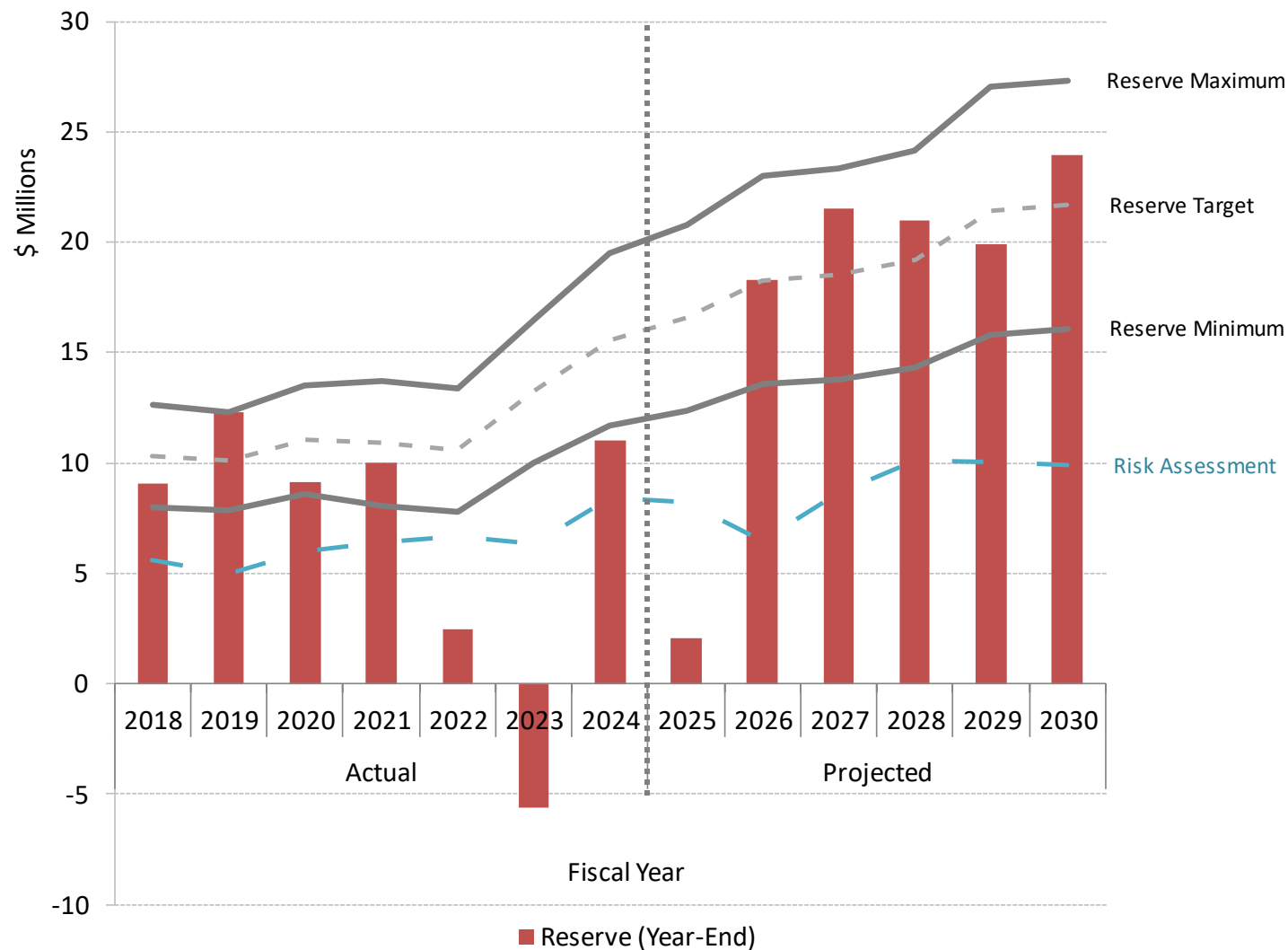
Preliminary Electric Cost and Revenue Projections



Preliminary Electric Supply Operating Reserve Projections



Preliminary Electric Distribution Operating Reserve Projections



Maintained rates with no increases in FY2021 and FY2022, and utilized the operating reserve to cover expenses

Electric Residential Bill Comparisons

Usage (kwh)	Palo Alto	PG&E/CCAs	Santa Clara
300	66.17	110.77	51.47
(Summer Median) 365	79.46	142.37	63.03
(Winter Median) 453	96.83	186.44	78.67
650	142.75	279.63	113.70
1200	269.03	547.02	211.49

Usage (kwh)	Palo Alto	Discount to PG&E/CCAs	Discount to Santa Clara
300	66.17	40%	-29%
(Summer Median) 365	79.46	44%	-26%
(Winter Median) 453	96.83	48%	-23%
650	142.75	49%	-26%
1200	269.03	51%	-27%

*PG&E and Santa Clara Rates Effective November 2024; Palo Alto proposed rates July 2025



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GAS UTILITY (Preliminary)



Preliminary Gas Rate Projections

FY 2026 PRELIMINARY PROJECTION

- 6% overall rate increase in FY 2026, due to 10% distribution rate increase
- 6% overall rate increases annually in FY 2027-30
- Gas General Fund Transfer in FY26 is estimated at \$9.735M, calculated from 18% of FY24 gross revenue

Drivers

- Reserves \$1.5 million lower than forecast due to lower retail sales and connection fee revenues
- Projection reflects lower sales projection, higher other operating costs

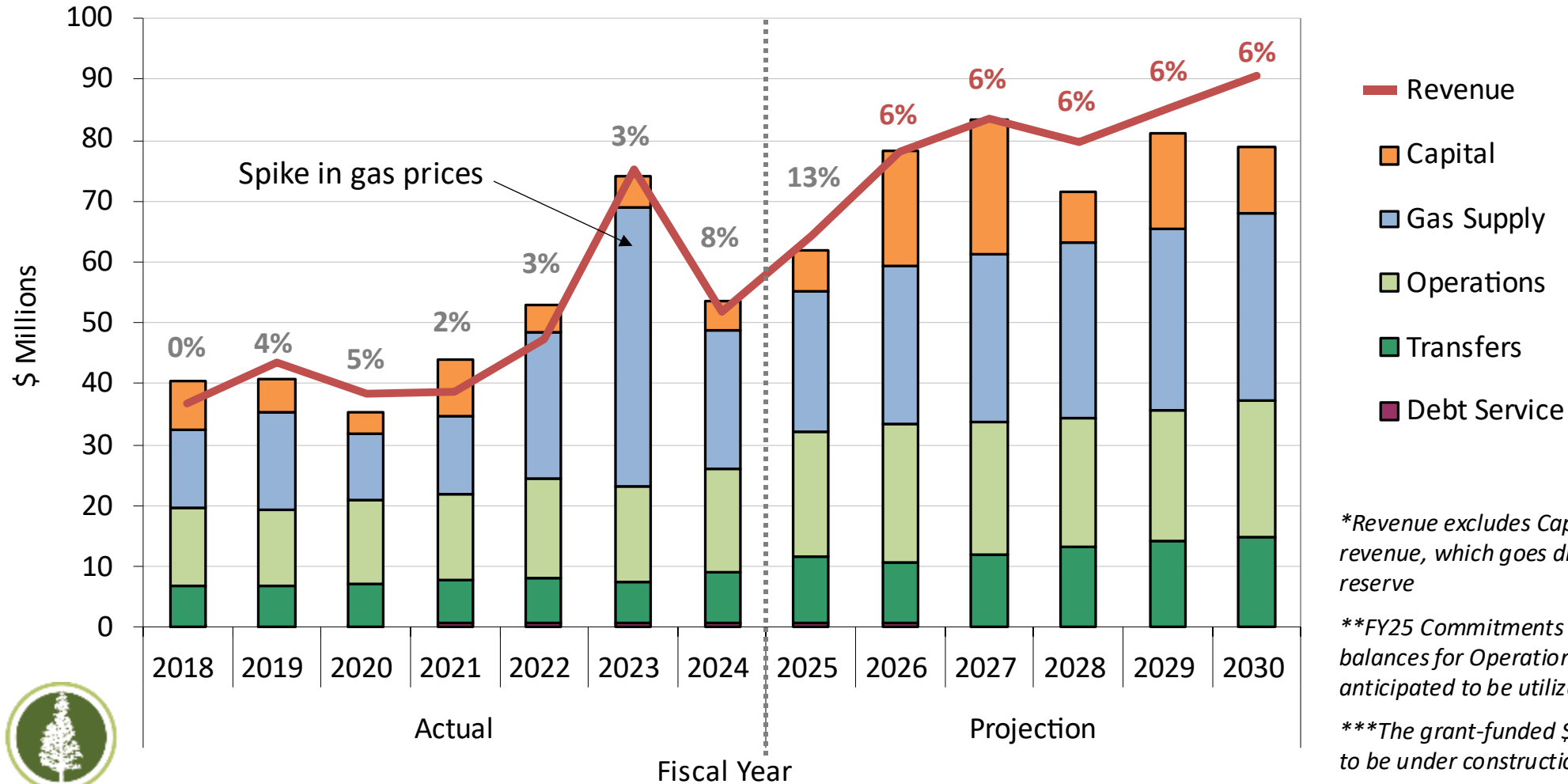
Projected Gas Overall Rate Trajectory *

Fiscal Year	2025	2026	2027	2028	2029	2030
Current Projection	13%	6%	6%	6%	6%	6%
FY 2025 Plan	13%	5%	6%	6%	5%	-

**excludes supply-related rate changes*

Preliminary Gas Cost and Revenue Projections

Note: Gas Revenue Rate % Changes (excludes supply -related rate changes)



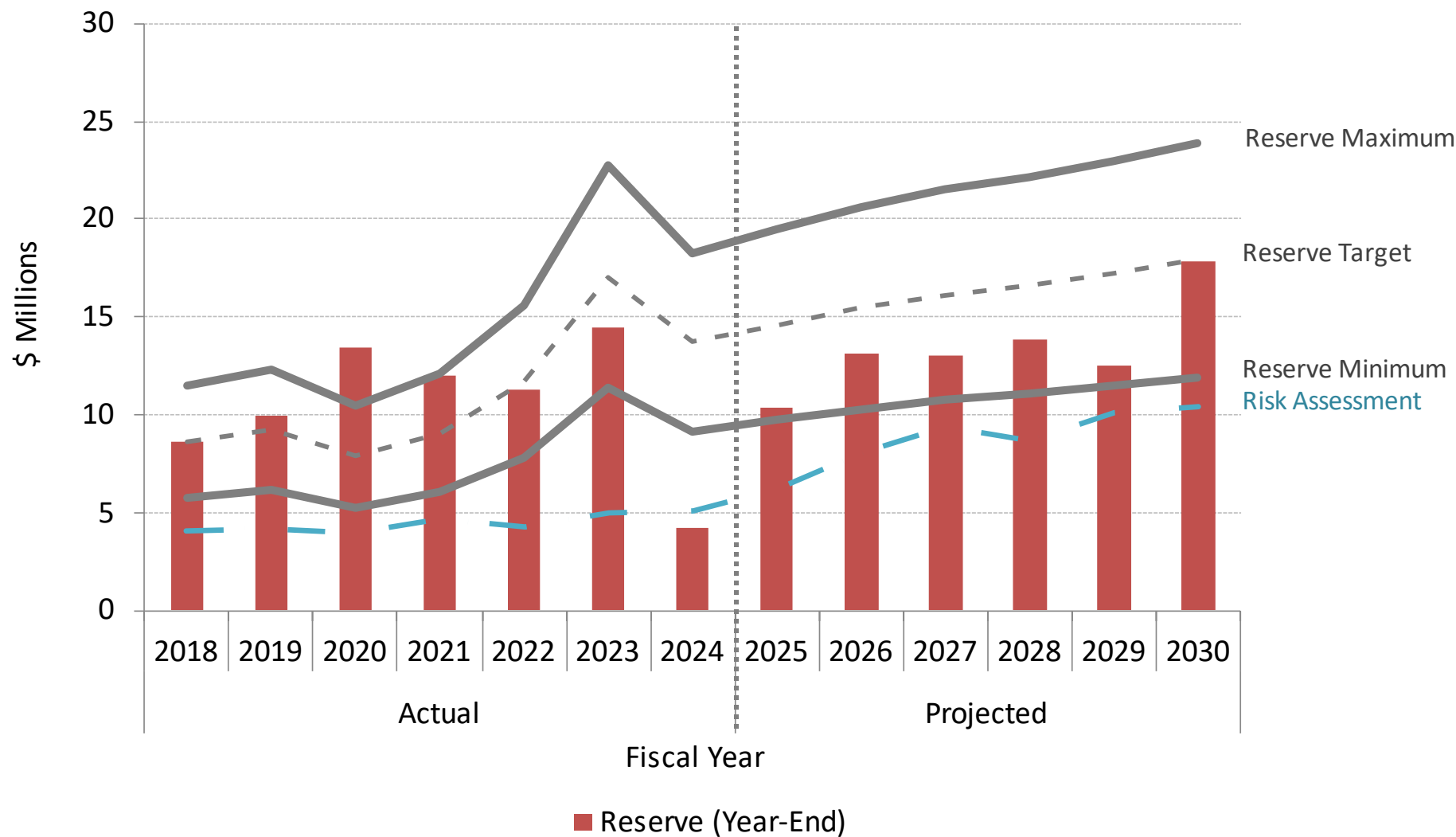
*Revenue excludes Cap-and-Trade auction sales revenue, which goes directly to the Cap-and-Trade reserve

**FY25 Commitments and Reappropriations reserves balances for Operations and Capital Investment are anticipated to be utilized in FY26 and FY27

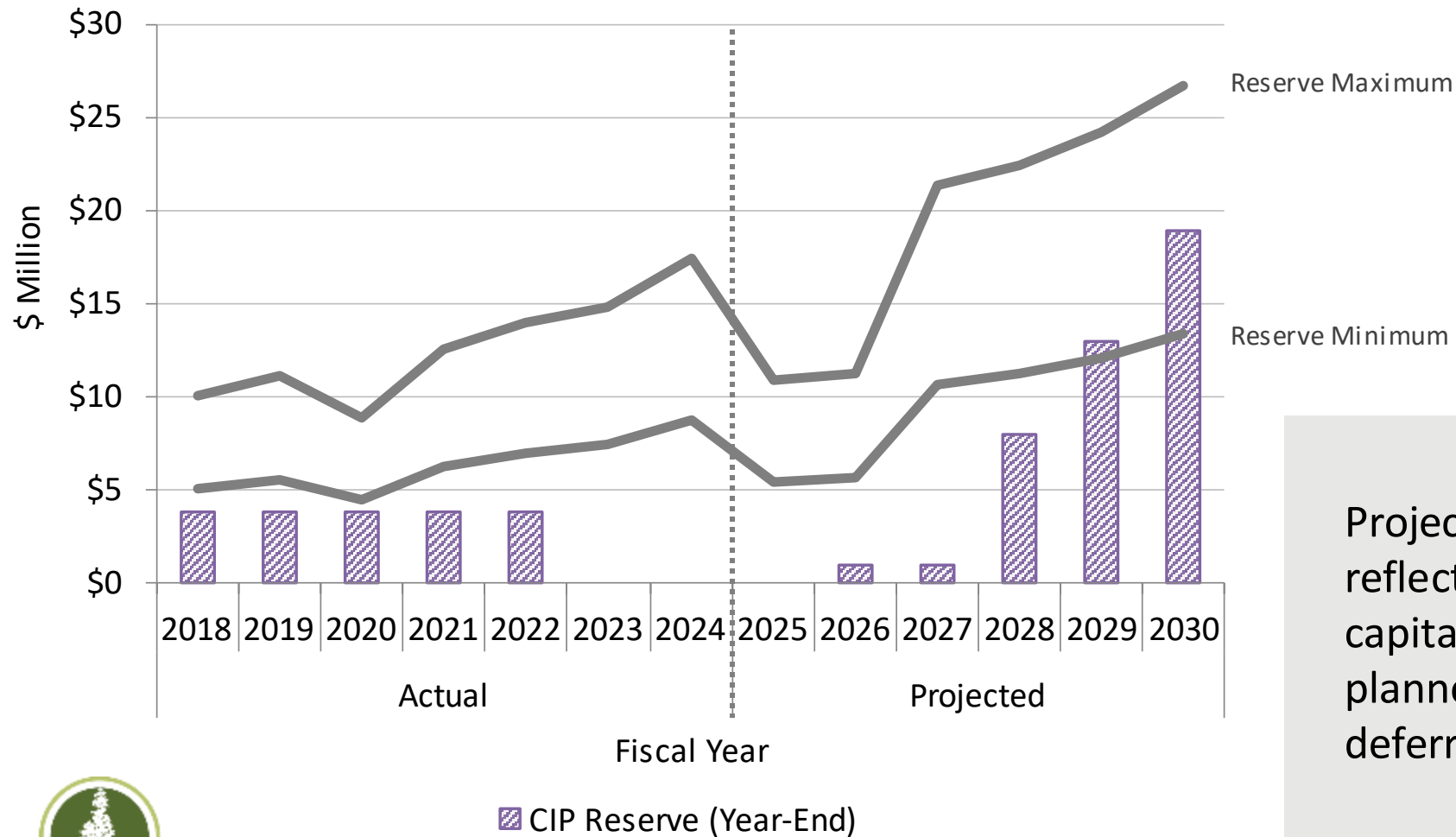
***The grant-funded \$16.5M CIP project is anticipated to be under construction in FY26 and FY27



Preliminary Gas Operations Reserve Projections



Preliminary Gas CIP Reserve Projections



Projections for reserve level needs reflect the significant increase in capital investment costs and prior planned projects in FY 2025 deferred to future years



Gas Bill Comparisons (\$/Mo.)

Staff is currently conducting a Cost-of-Service Study and will provide an update in 2025

Residential

Rate	Season	Usage (Therms)	Palo Alto	PG&E	PA/PG&E (%)
G-1	Summer	10	33.46	11.58	189%
		(Median) 17	45.03	29.20	54%
		30	78.84	66.35	19%
		45	122.85	109.22	12%
	Winter	30	64.75	81.27	(20%)
		(Median) 51	98.23	143.27	(31%)
		80	169.57	228.88	(26%)
		150	370.86	435.55	(15%)
	Annual	(Median) 31	67.20	76.73	(12%)

Commercial

Rate	Usage (Therms)	Palo Alto	PG&E	PA/PG&E (%)
G-2	280	682.38	540.65	26%
G-3	20,833	39,797.58	28,333.37	40%



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WATER UTILITY (Preliminary)

Preliminary Water Rate Projections

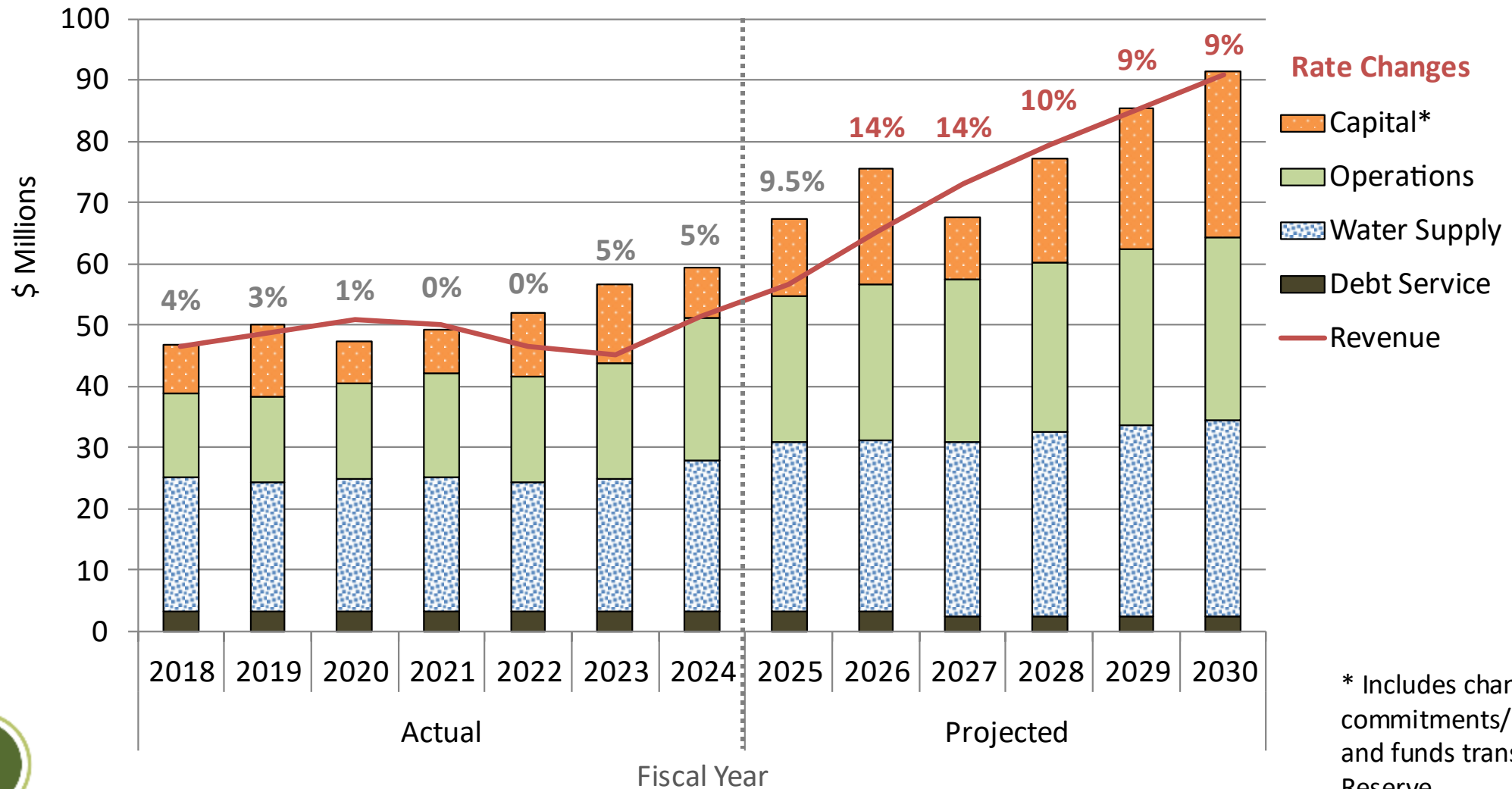
FY 2026 PRELIMINARY PROJECTION

- **14% overall rate increase in FY 26** (26% distribution rate increase)
- Operations Reserve and CIP Reserve projected to be below minimum guideline range in FY 2026 and return within guideline range in FY 2027
- Commodity rate increase projection: 0% in FY 2026, 3.4% in FY 2027, 7.5% in FY 2028 and 5.4% in FY 2029 (SFPUC rate notice April 2024); highly uncertain and subject to change

Projected Total Water Rate Trajectory						
Fiscal Year	2025	2026	2027	2028	2029	2030
Current Projection	9%	14%	14%	10%	9%	9%
FY 2025 Plan	10%	9%	9%	9%	9%	-

Projected Water Distribution Rate Trajectory						
Fiscal Year	2025	2026	2027	2028	2029	2030
Current Projection	10%	26%	21%	12%	11%	11%
FY 2025 Plan	10%	17%	14%	10%	11%	-

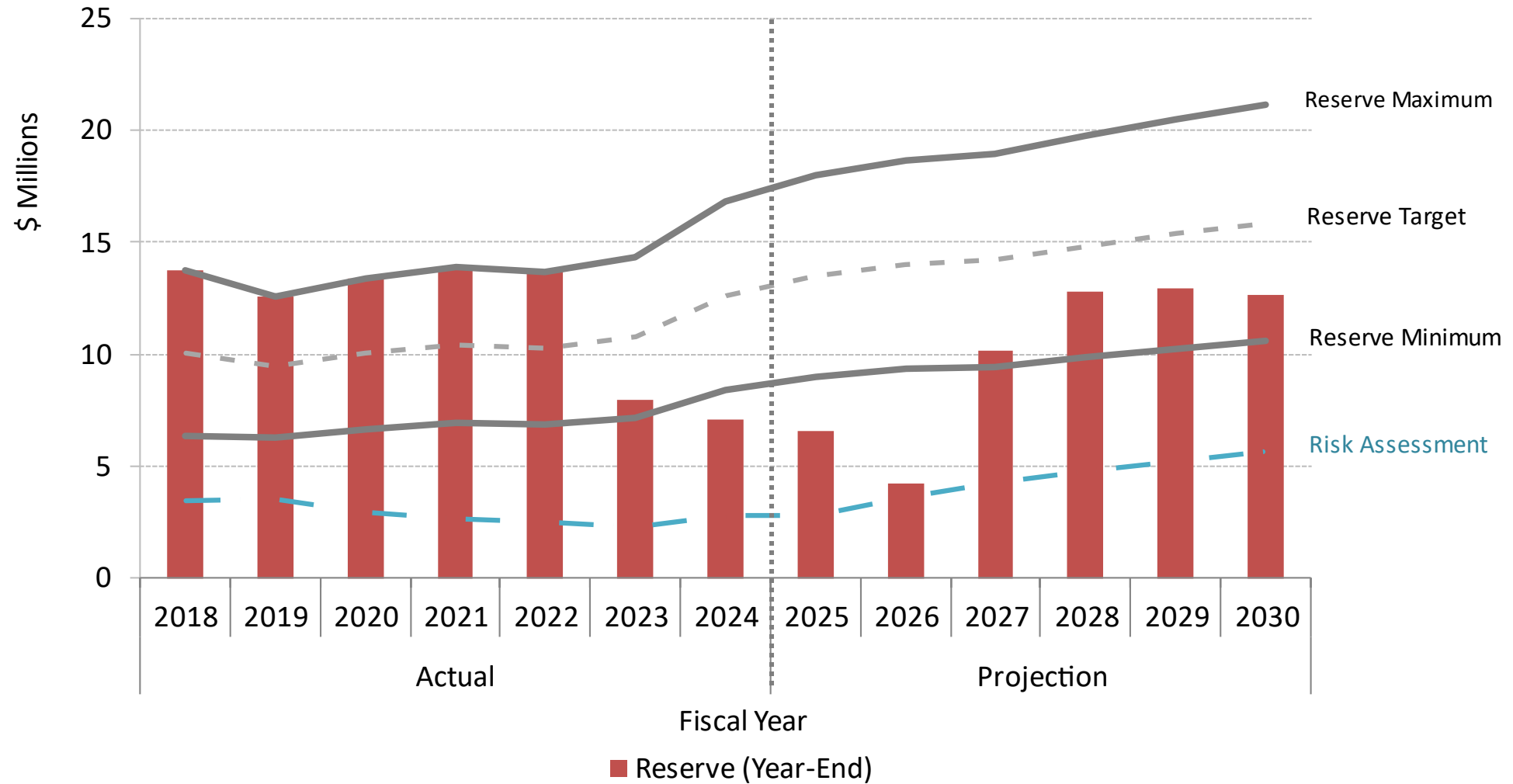
Preliminary Water Cost and Revenue Projections



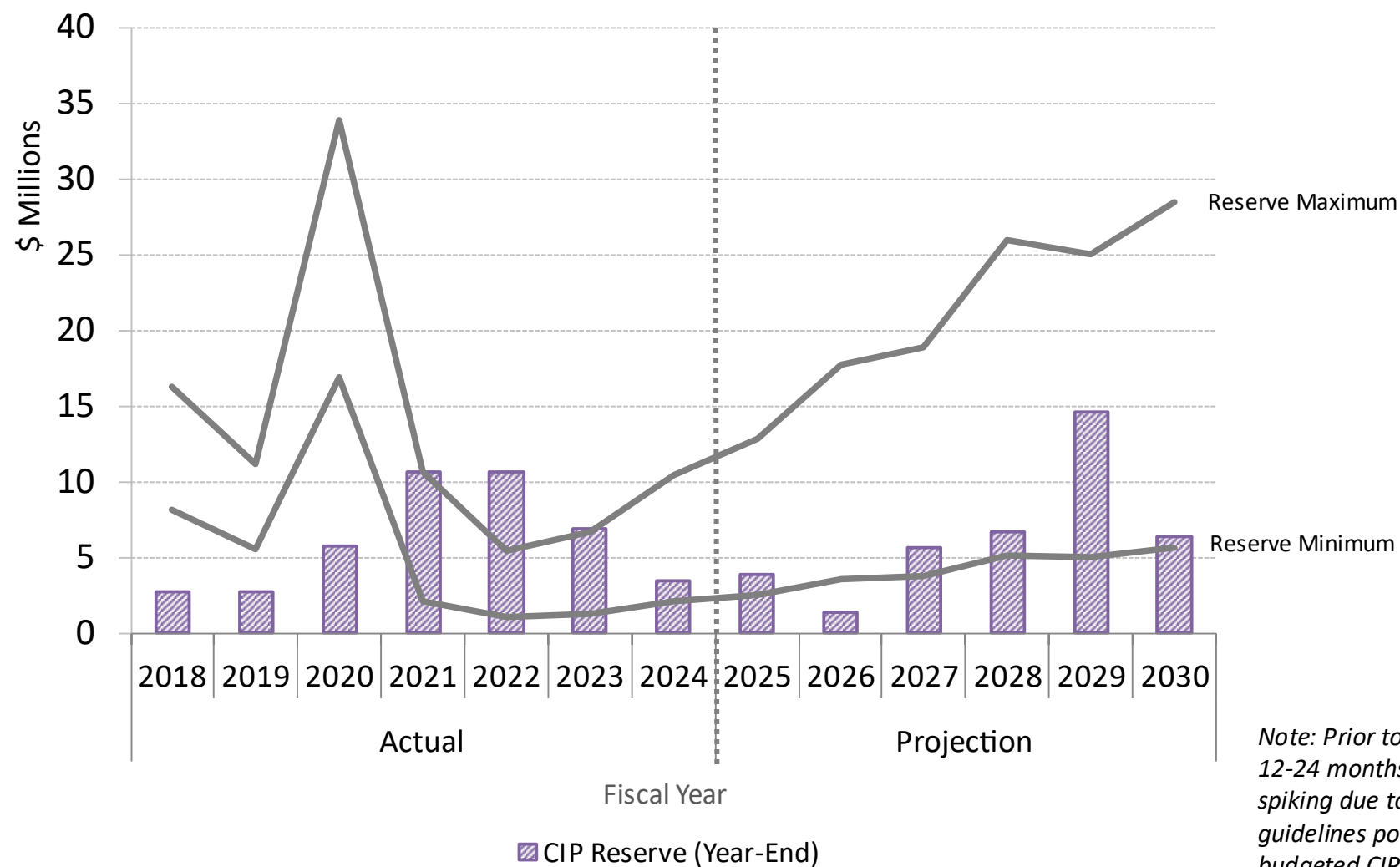
* Includes changes due to commitments/reappropriations and funds transferred to the CIP Reserve



Preliminary Water Operations Reserve Projections



Preliminary Water CIP Reserve Projections

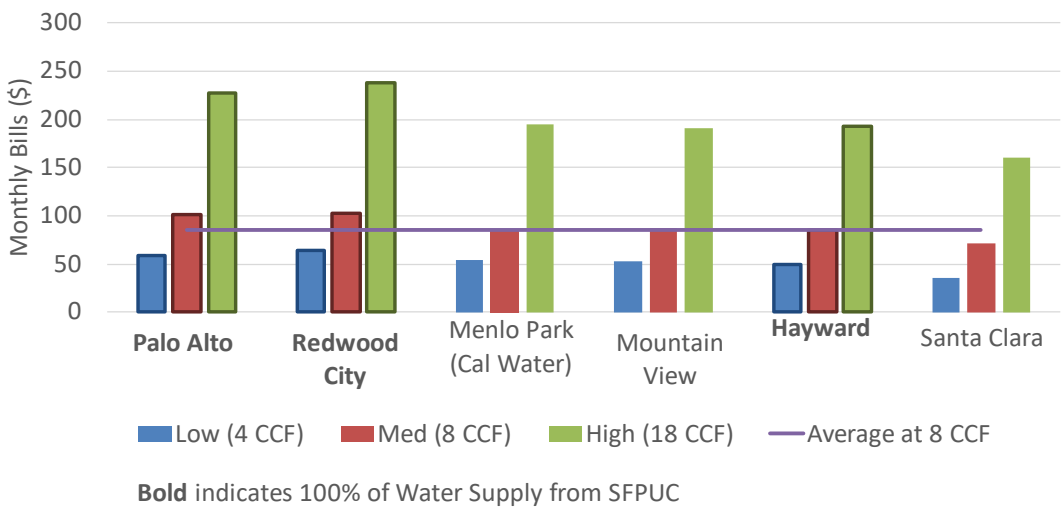


Note: Prior to FY21, CIP reserve guidelines were set at 12-24 months of budgeted CIP expenses, with FY20 spiking due to high CIP budgets. In FY21, the reserve guidelines policy updated to a 48-month of average budgeted CIP expenses



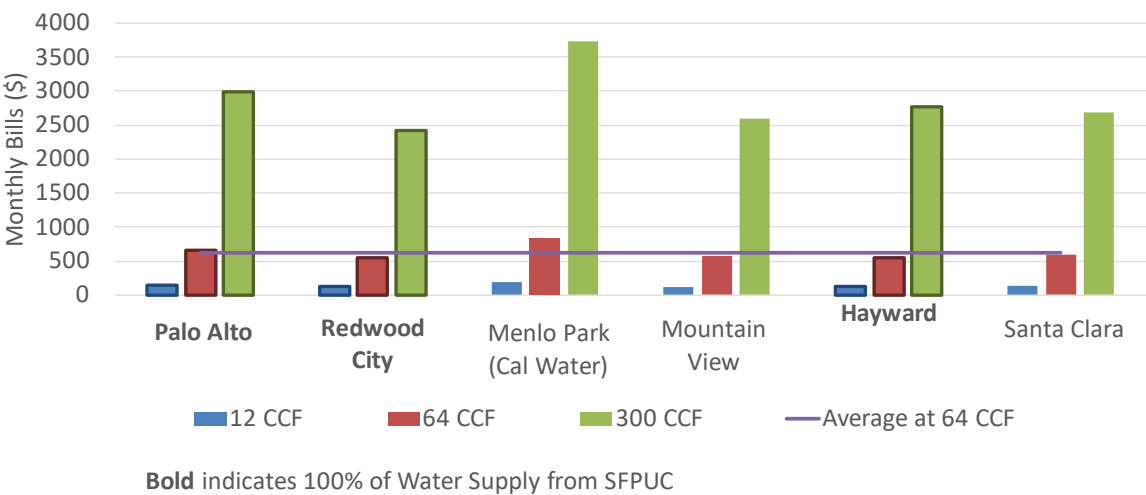
Water Bill Comparisons (\$/Month)

Single-Family Residential



Palo Alto is 18% above comparison city average

Commercial



Palo Alto is 6% above comparison city average



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WASTEWATER COLLECTION (Preliminary)

Preliminary Wastewater Rate Projections

FY 2026 PRELIMINARY PROJECTION

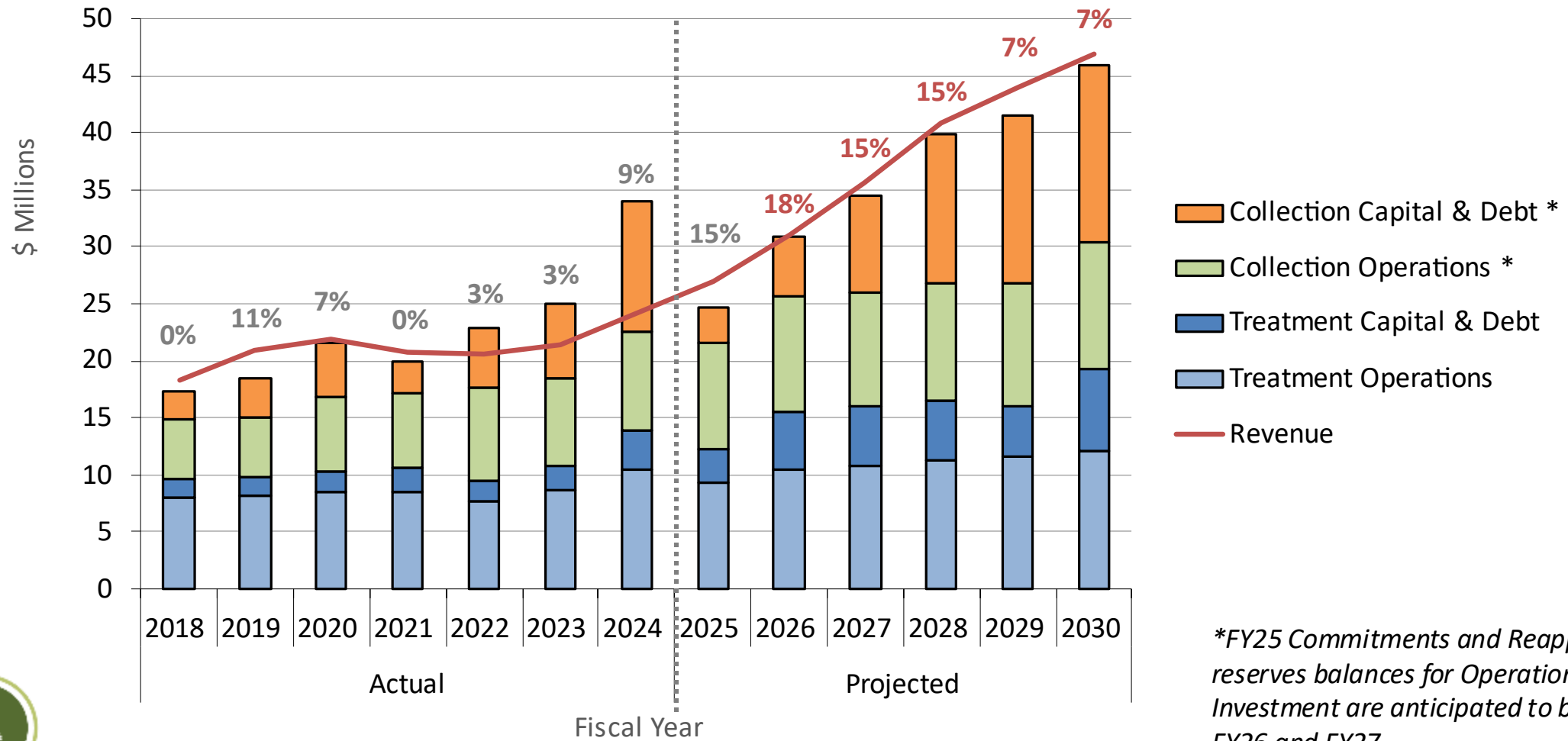
- **18% rate increase in FY 2026**, *approximately \$10/month increase for residential customers*
- 15% rate increase in FY 2027 and FY 2028, 7% in FY 2029 and FY 2030

Drivers

- Treatment operational cost increases (budgets uncertain and subject to change)
- Reserves very low, operations reserve balance negative \$1 million at year end, need to restore reserves to within guideline range

Fiscal Year	2025	2026	2027	2028	2029	2030
Current Projection	15%	18%	15%	15%	7%	7%
FY 2025 Plan	15%	9%	9%	8%	7%	-

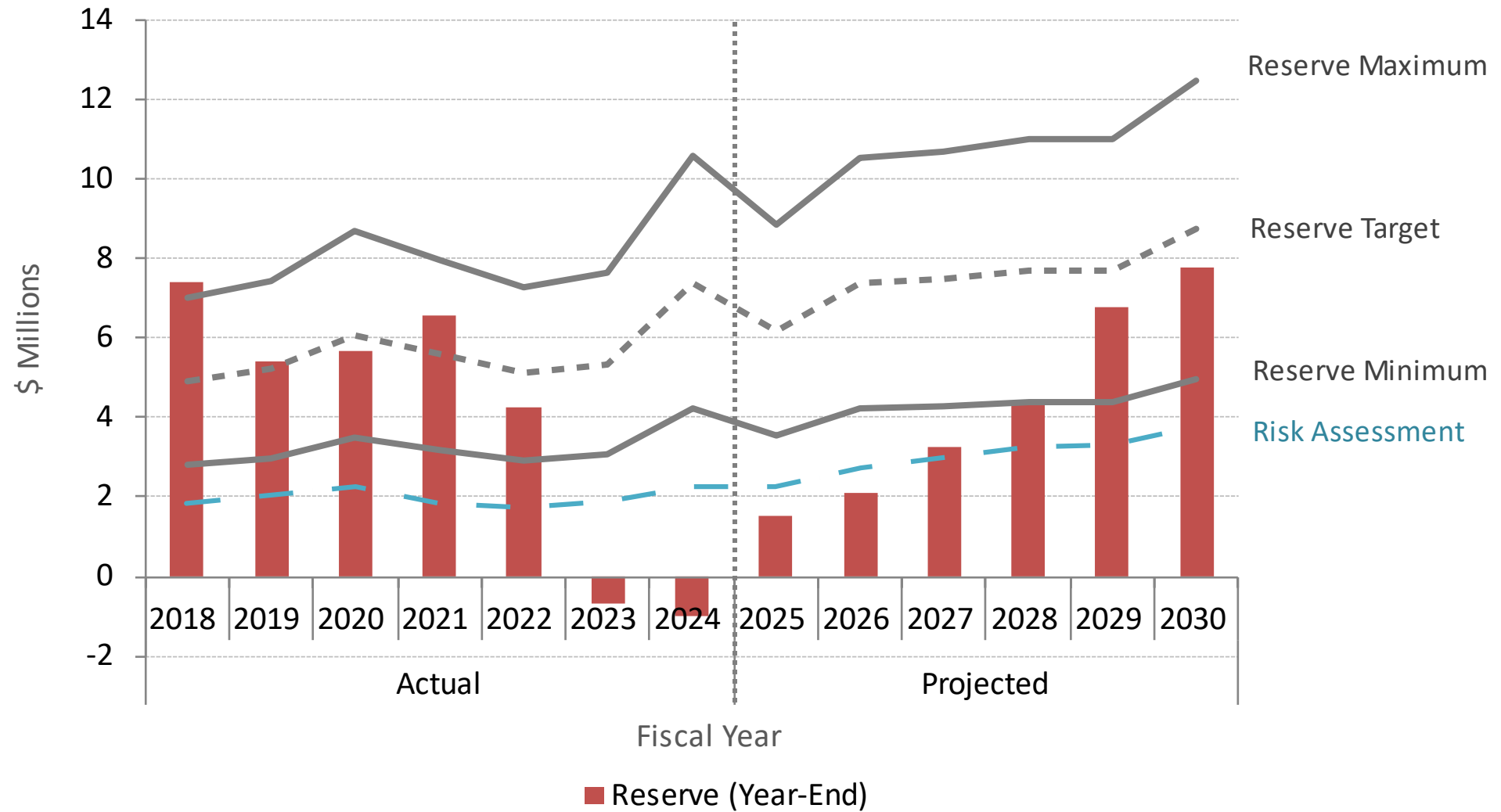
Preliminary Wastewater Cost and Revenue Projections



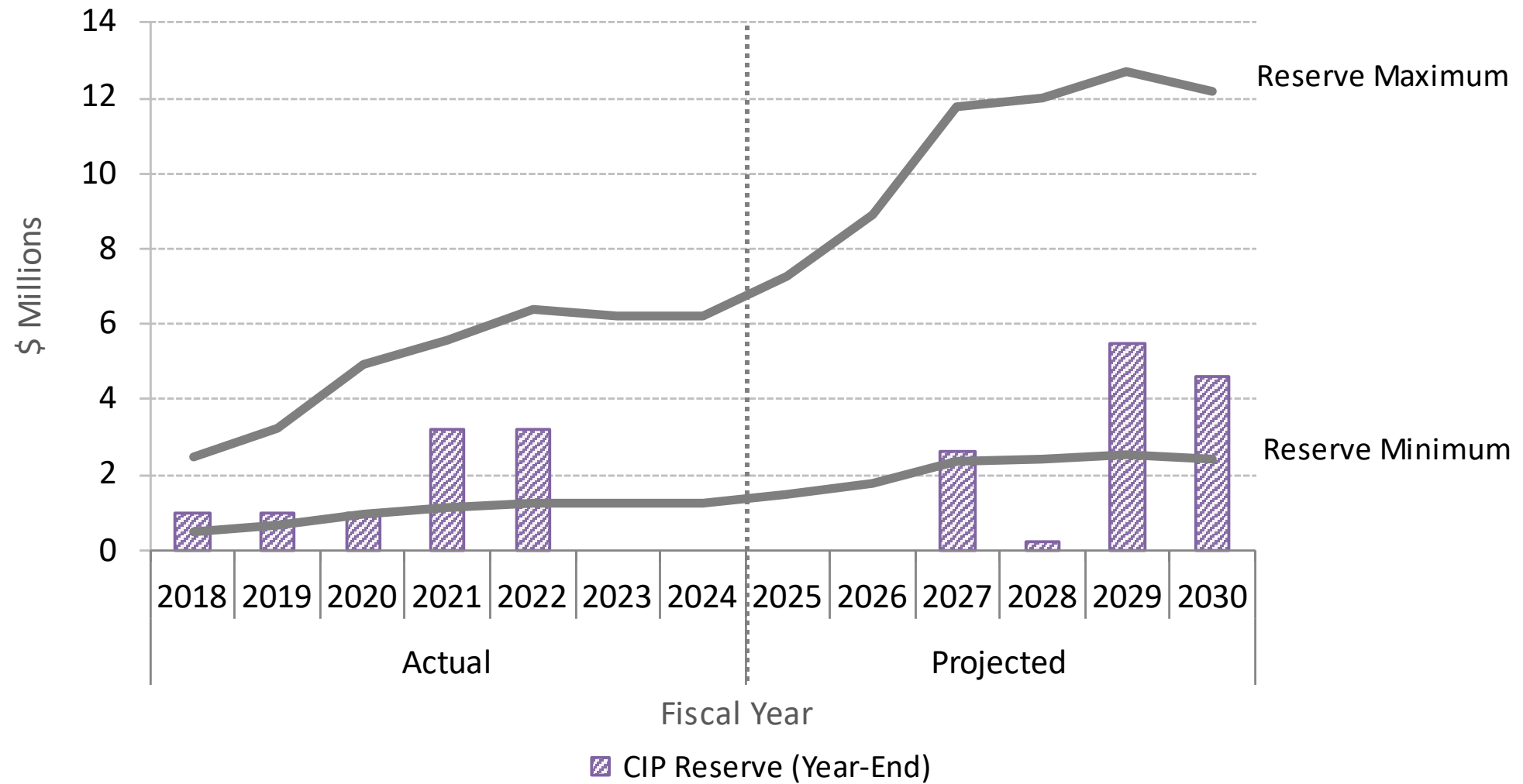
**FY25 Commitments and Reappropriations reserves balances for Operations and Capital Investment are anticipated to be utilized in FY26 and FY27*



Preliminary Wastewater Operations Reserve Projections



Preliminary Wastewater CIP Reserve Projections



Wastewater Bill Comparisons (\$/Month) *October 2024*

Residential

	Neighboring Community Average	Neighboring Communities					
		Menlo Park	Redwood City	Santa Clara	Mountain View	Los Altos	Hayward
Palo Alto	70.40	114.25	97.74	52.37	54.60	59.23	44.19
55.93							

Palo Alto is 21% below comparison city average

General Commercial

		Neighboring Community Average	Neighboring Communities					
			Menlo Park	Redwood City	Santa Clara	Mountain View	Los Altos	Hayward
General Commercial	146.16	129.35	154.70	157.59	92.54	167.44	103.03	100.80
Restaurant	592.04	639.73	884.26	1,065.51	608.38	538.08	279.67	462.46

**Palo Alto is 13% higher than comparison city average
Restaurant – Palo Alto is 7% below comparison city average**

