



UTILITY FINANCIAL PLANS AND PROPOSED RATE CHANGES FOR FY 2025

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Residential System Average Rate Projections

	FY 2024 (effective July 1, 2023)	FY 2025 (Projected)	FY 2026	FY 2027	FY 2028	FY 2029
Electric Utility ⁽¹⁾	-\$5.80 -5%	\$7.00 9%	\$4.60 5%	\$4.80 5%	\$5.10 5%	\$5.30 5%
Gas Utility ⁽²⁾	\$5.20 8%	\$8.80 12.5%	\$3.90 5%	\$5.00 6%	\$5.30 6%	\$4.60 5%
Wastewater	\$4.00 9%	\$7.30 15%	\$5.00 9%	\$5.50 9%	\$5.30 8%	\$5.00 7%
Water Utility	\$5.20 5%	\$9.80 9.5%	\$10.60 9%	\$11.60 9%	\$12.30 9%	\$13.10 9%
Refuse	\$0.00 0%	\$0.00 0%	\$1.50 3%	\$1.50 3%	\$1.60 3%	\$1.60 3%
Stormwater ⁽³⁾	\$0.80 5%	\$0.40 2.6%	\$0.40 3%	\$0.50 3%	\$0.50 3%	\$0.50 3%
Monthly Bill Change ⁽⁴⁾	\$9.40 3%	\$34.50 9%	\$27.10 7%	\$29.90 7%	\$31.10 7%	\$31.40 6%

- 1) FY 2025 projection incorporates results of cost-of-service analysis
- 2) Based on general fund transfer of 14.5% of gross revenue in FY25; gas rate 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 an FY 2023 monthly residential bill of \$369

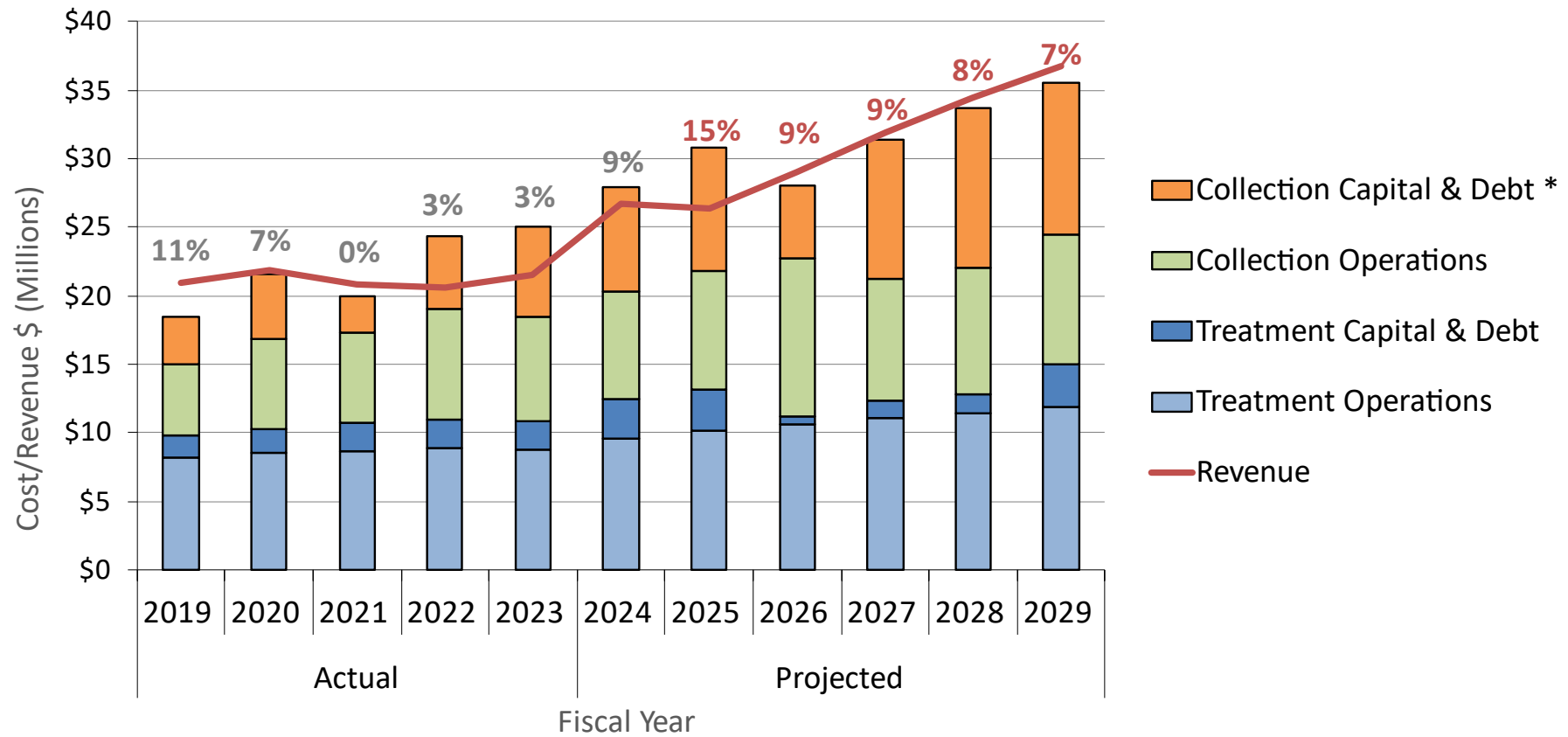




Wastewater Collection Proposal

- Staff Recommendation: 15% rate increase in FY 25, **\$7.29** per residential customer per month
 - Reduced-size sewer replacement (1.25 miles in FY 2026)
 - \$2M Pump station retrofit in FY 28
- Both staff recommendation and alternative will:
 - Resume 2.5 miles per year of sewer main replacement in FY 28
 - Recommend Council approval of a short-term loan from the Fiber Optics Fund Reserve to the Wastewater Collection Fund Operations Reserve not to exceed \$3 million for FY 24
- Staff re-evaluating the utility's cash and reserve requirements as the transition to 5-mile sewer replacements continues and may propose modifications in next year's Financial Plan

Wastewater Collection Cost and Revenue Projections



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

Note: assumes reduced size sewer replacement in FY 2025 and 2026 and \$3 million short-term loan from the Fiber Optics Fund in FY 2024 that is repaid in FY 2026.



Wastewater Collection Monthly Bill (\$) as of Nov 2023

Residential

Palo Alto is currently 26% below comparison city average

Palo Alto (FY 24)	Palo Alto (Proposed FY 25)	Neighboring Community Average	Neighboring Communities					
			Menlo Park	Redwood City	Santa Clara	Mountain View	Los Altos	Hayward
48.64	55.93	65.38	108.83	89.28	48.28	53.10	51.47	41.29

Non-Residential

Commercial: Palo Alto is currently 9% higher than comparison city average

Restaurant: Palo Alto is currently 7% below comparison city average

	Palo Alto (FY 24)	Palo Alto (Proposed FY 25)	Neighboring Community Average	Neighboring Communities					
				Menlo Park	Redwood City	Santa Clara	Mountain View	Los Altos	Hayward
General Commercial	127.12	146.16	116.17	147.28	117.74	82.18	166.18	89.54	94.08
Restaurant	514.90	592.04	553.44	842.08	765.70	520.60	517.18	243.02	432.06



Water Rate Proposal

- **Proposal FY 2025: 9.5% total water rate increase (10% distribution rate increase)**
 - FY 2023 year-end Operations Reserve near minimum guideline due to drought

Projected Water Distribution Rate Changes

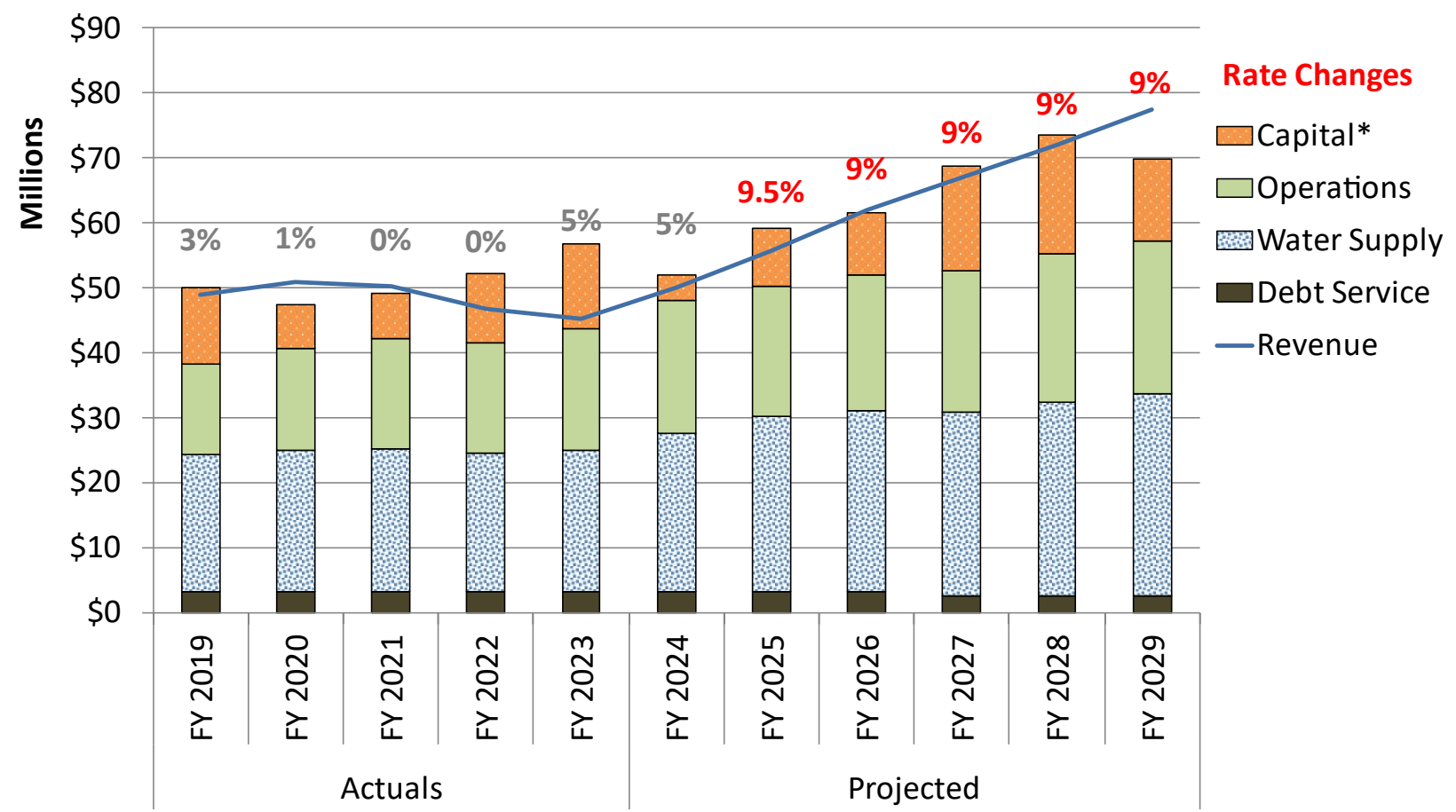
Fiscal Year	2024	2025	2026	2027	2028	2029
Current Projection	2%	10%	17%	14%	10%	11%
FY 2024 Plan	2%	7%	6%	6%	6%	-

Projected Total Water Rate Changes

Fiscal Year	2024	2025	2026	2027	2028	2029
Current Projection	5%	9.5%	9%	9%	9%	9%
FY 2024 Plan	5%	4%	3%	4%	6%	-

- Commodity rate projected to increase to \$5.67/CCF or 8.8% (per SFPUC April 12, 2024 rate notice)
- Proposal revised based upon Finance Committee Recommendation from 4/23/24

Water Cost and Revenue Projections



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



Gas Rate Proposal

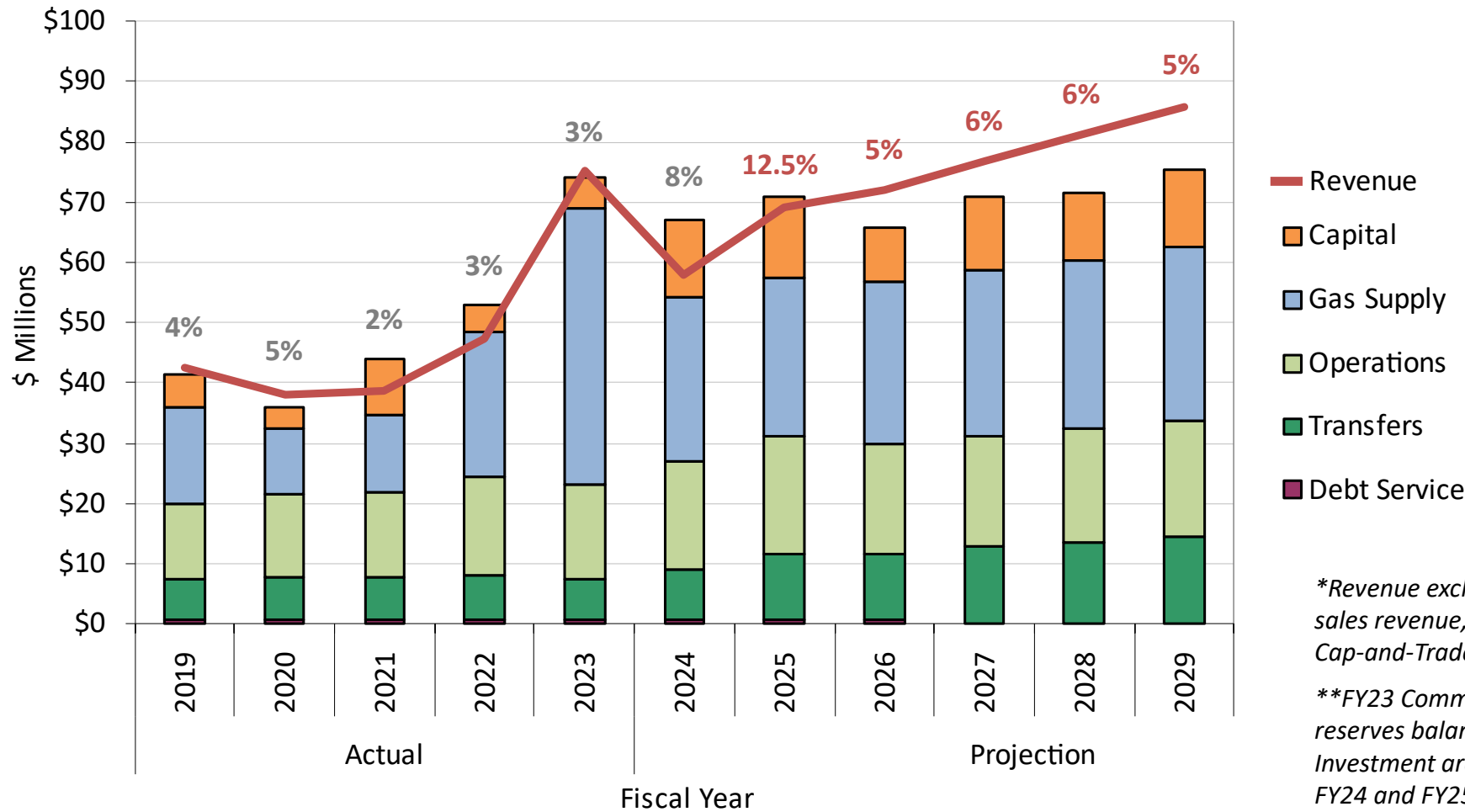
FY 2025 Rate Proposal

- 12.5% overall gas rate increase (20.9% distribution rate increase)
- 5% to 6% overall rate increase annually from FY 2026 to FY 2029
- Gas General Fund Transfer of 14.5% of FY 2023 gross revenue or \$10.917 million in FY 2025 (\$2 million in addition to the 11.9% transfer alternative)

Gas Cost and Revenue Projections

Transfer 14.5%

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

**FY23 Commitments and Reappropriations reserves balances for Operations and Capital Investment are anticipated to be utilized in FY24 and FY25

Electric Rate Proposal

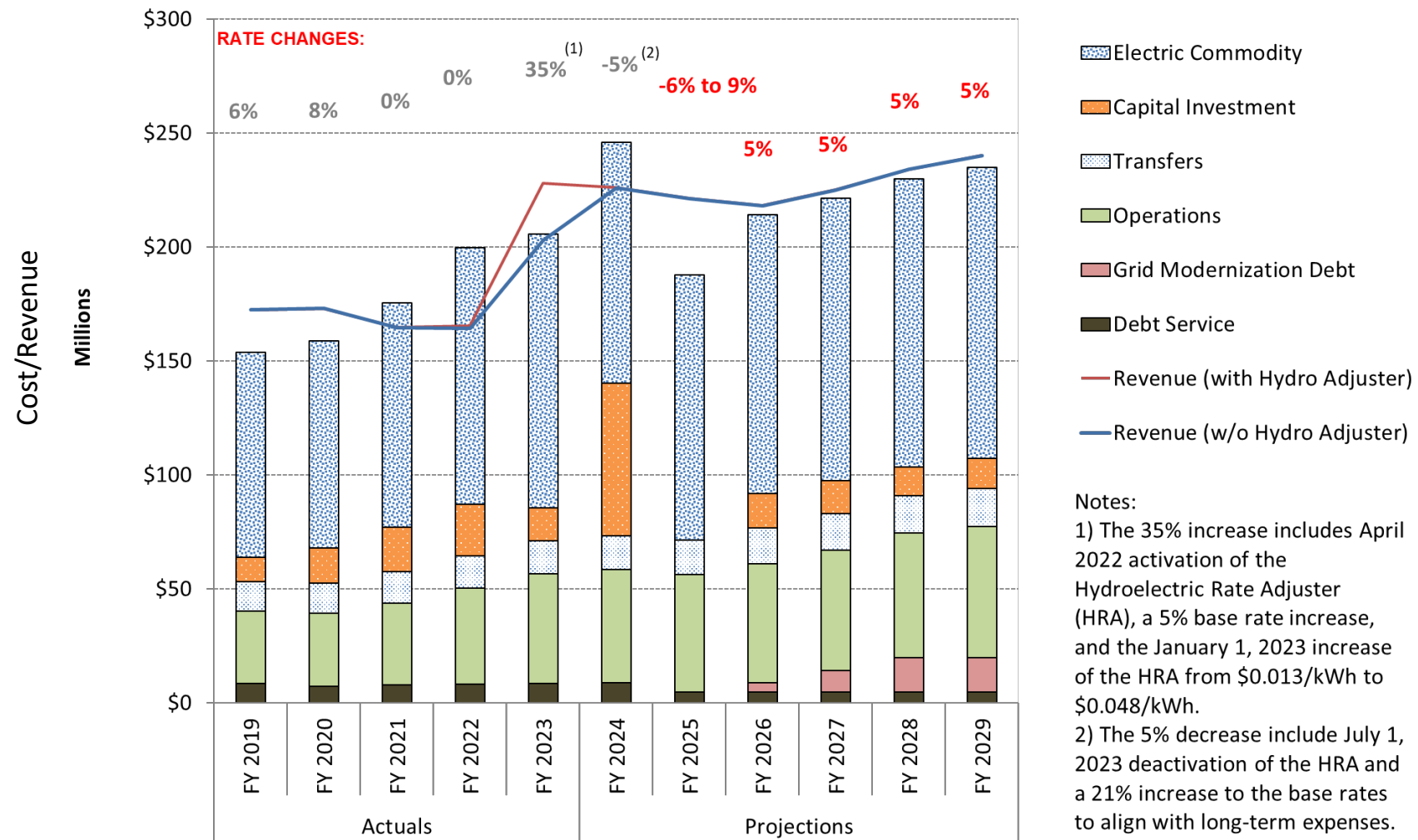
FY 2025 Proposal

- Cost of Service Analysis completed March 2024 – requires rate changes varying by customer class and consumption pattern to match the cost to serve
- 9% (\$7.00/month) increase for the median residential customer
- 0.5% increase in revenue – lower than last year's 5% forecasted revenue increase
 - This is manageable due to large one-time electric supply revenues in FY 2024 – FY 2026
 - Will mitigate the bill impacts of incorporating COSA changes

Future Years

- 5% rate increase per year projected for FY 2026-FY 2029
- Issue debt for Grid Modernization by end of FY25
- Reflects continuing transmission cost increases, other rising supply costs, grid modernization

Electric Cost and Revenue Projections



Recommendation

The Finance Committee recommends that the City Council adopt resolutions by approving:

Wastewater

- The FY 2025 Wastewater Collection Financial Plan (Attachment A, Exhibit 1), including approval of a short-term loan from the Fiber Optics Fund Reserve to the Wastewater Collection Fund Operations Reserve not to exceed \$3,000,000 for FY 2024; and
- Amending the Wastewater Collection Utility Rate Schedules Effective July 1, 2024 (FY 2025), (Attachment A, Exhibit 2)

Water

- The FY 2025 Water Utility Financial Plan (Attachment B, Exhibit 1); and
- Amending the Water Utility Rate Schedules Effective July 1, 2024 (FY 2025), (Attachment B, Exhibit 2)

Gas

- The FY 2025 Gas Utility Financial Plan (Attachment C, Exhibit 1), including amending the Gas Utility Reserve Management Practices (Attachment C, Exhibit 2); and
- Amending the Gas Utility Rate Schedules Effective July 1, 2024 (FY 2025), (Attachment C, Exhibit 3)

Electric

- Accepting the 2024 City of Palo Alto Electric Cost of Service and Rate Study (Attachment D, Exhibit 1.1); and
- The FY 2025 Electric Utility Financial Plan (Attachment D, Exhibit 2), including amending the Electric Utility Reserve Management Practices (Attachment D, Exhibit 4); and
- The reserve transfers in FY 2024 and FY 2025; and
- Amending the Electric Utility Rate Schedules Effective July 1, 2024 (FY 2025), (Attachment D, Exhibit 3)

Dark Fiber

- Amending the Fiber Optic Utility Rate Schedules Effective July 1, 2024 (FY 2025), (Attachment E, Exhibit 1), consistent with the applicable Consumer Price Index

Stormwater

- Amending the Stormwater Management Fee Rate Schedule Effective July 1, 2024 (FY 2025), (Attachment F, Exhibit 1), consistent with the applicable Consumer Price Index

Refuse

- There are no rate changes