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CITY OF PALO ALTO

ELECTRIC UTILITY FINANCIAL PLAN AND PROPOSED RATE CHANGES FOR FY 2024

March 21, 2023

www.cityofpaloalto.org

Electric Rate Proposal

FY 2024 proposal:

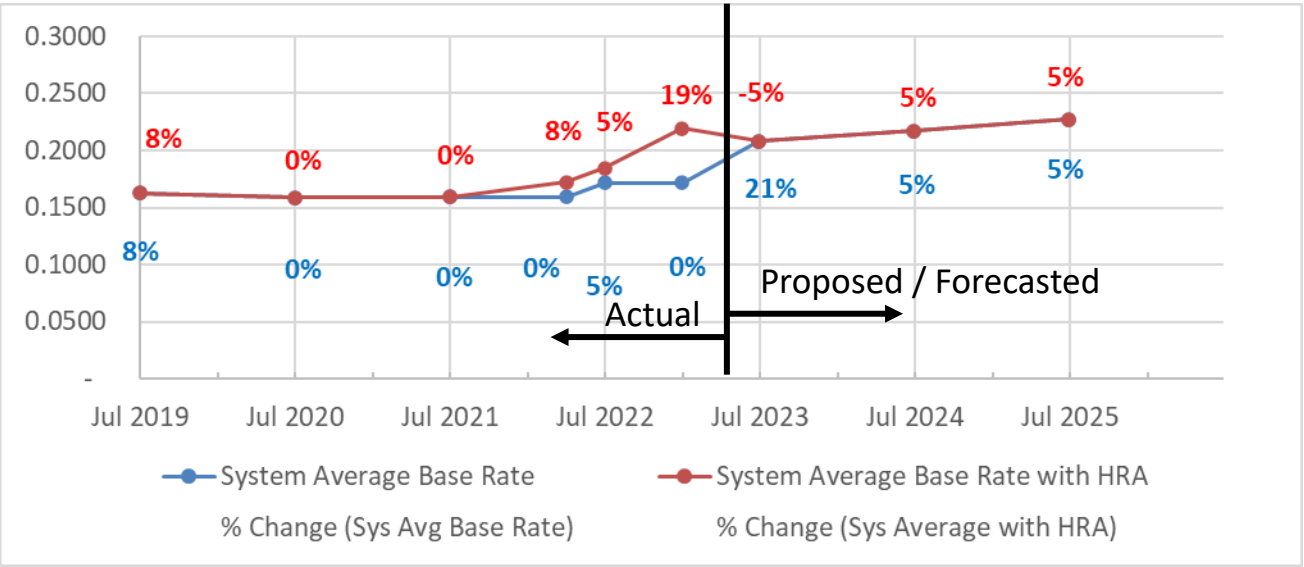
- **Total system average rate reduction of 5%**, which consists of a 21% base rate increase and deactivating the Hydroelectric rate adjuster (HRA)
- Payment from winning Central Valley Project Improvement Act Litigation will provide rate relief, increase hydro stabilization reserve, and repay loan to Electric Special Projects Reserve
- Operations Reserves will remain below minimum guidelines through FY 2025
- 21% base rate increase incorporates long-term hydroelectric and cost trends, and allows full removal of the HRA

Future years:

- FY 2025 – FY 2028 assumes 5% per year for grid modernization and electrification costs

Electric Rate Changes

- This chart shows recent rate changes in both the base electric rates and the hydroelectric rate adjuster (HRA).
- Base rate recovers costs for all routine utility expenses
- HRA recovers costs for additional expenses associated with low hydroelectric generation
- Recent rate increases driven by:
  - No rate increases during pandemic
  - Depleted reserves
  - Extended drought
  - High electricity market prices



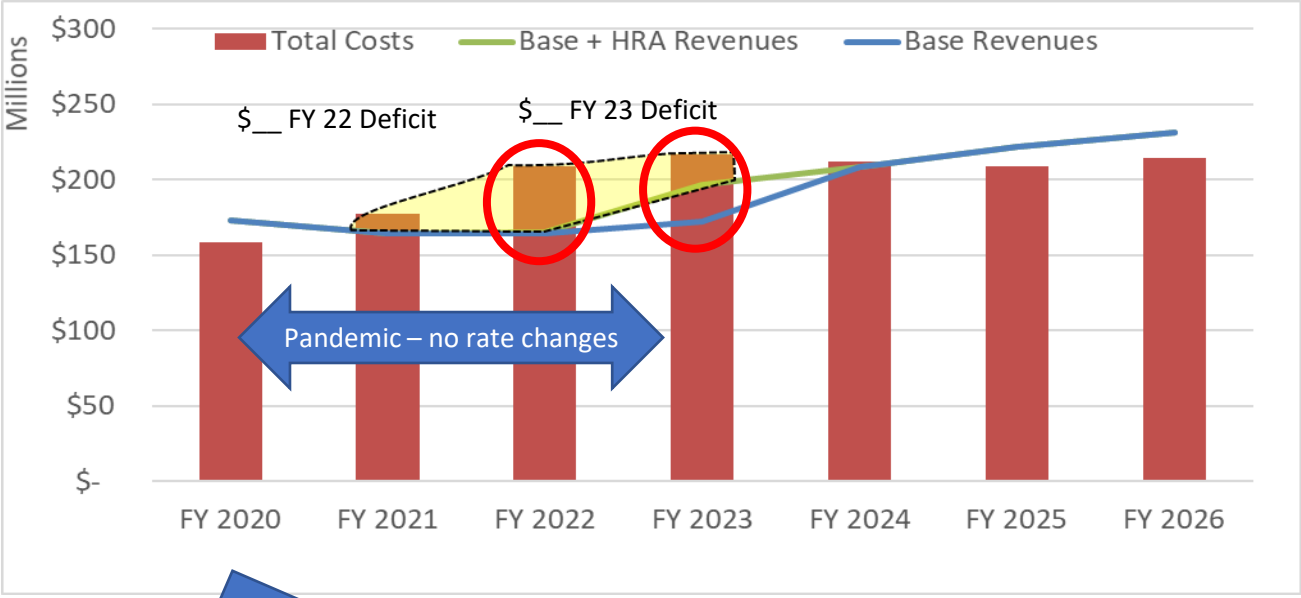
Current Proposal:

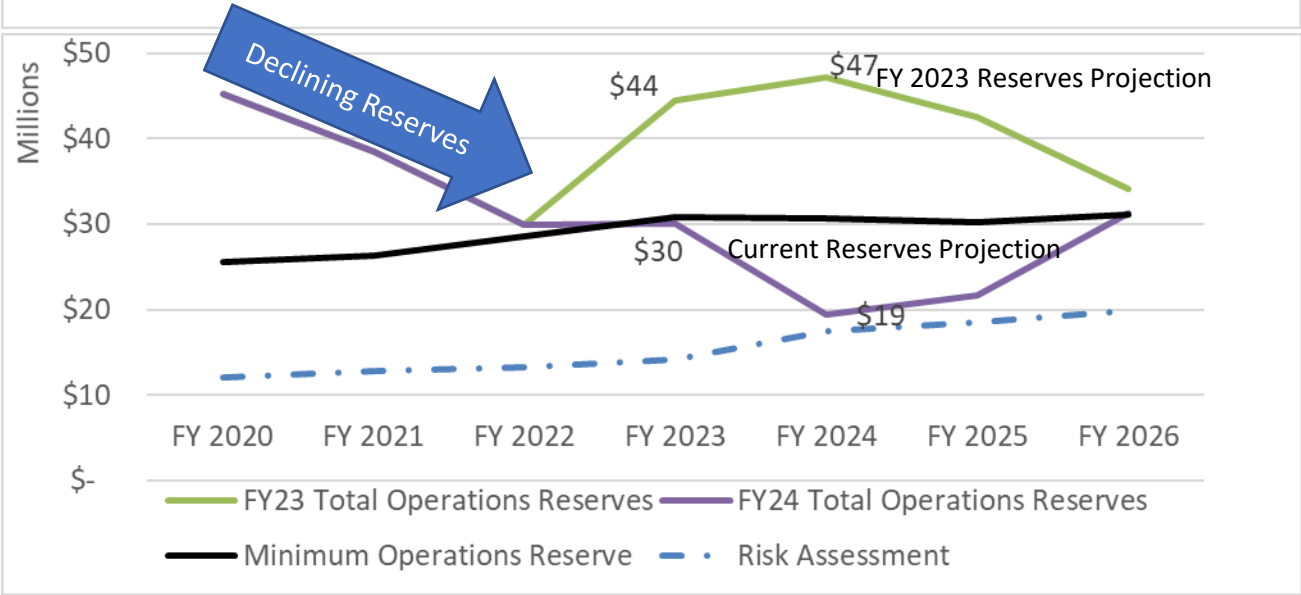
Overall FY 2024 rate reduction of 5%

HRA deactivated, base rate to increase 21%

Trends Driving Rate Changes – Depleted Reserves

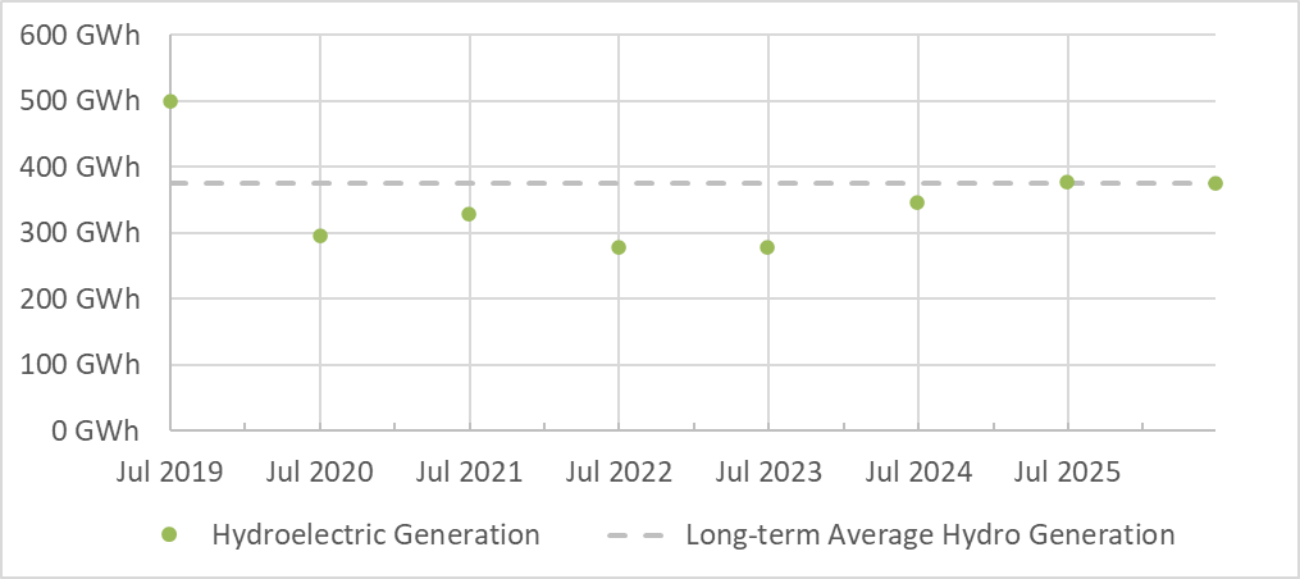
- Through the pandemic, the utility held its electric rates flat to help customers impacted by the pandemic.
- Costs continued to rise due to:
  - Rising electricity supply costs
  - Increasing operational costs
  - Construction inflation
  - Rising capital investment
- Costs are now well above revenues, requiring increases to base rates
- Reserves are much lower than was forecasted in last year's (FY 2023) Financial Plan due in part to extended drought and high electricity market prices
- The 5% rate reduction will be keep operations reserves below minimum guidelines through FY 2025
- CVPIA payment funds hydro stabilization reserve above minimum guideline, allowing low operations reserves

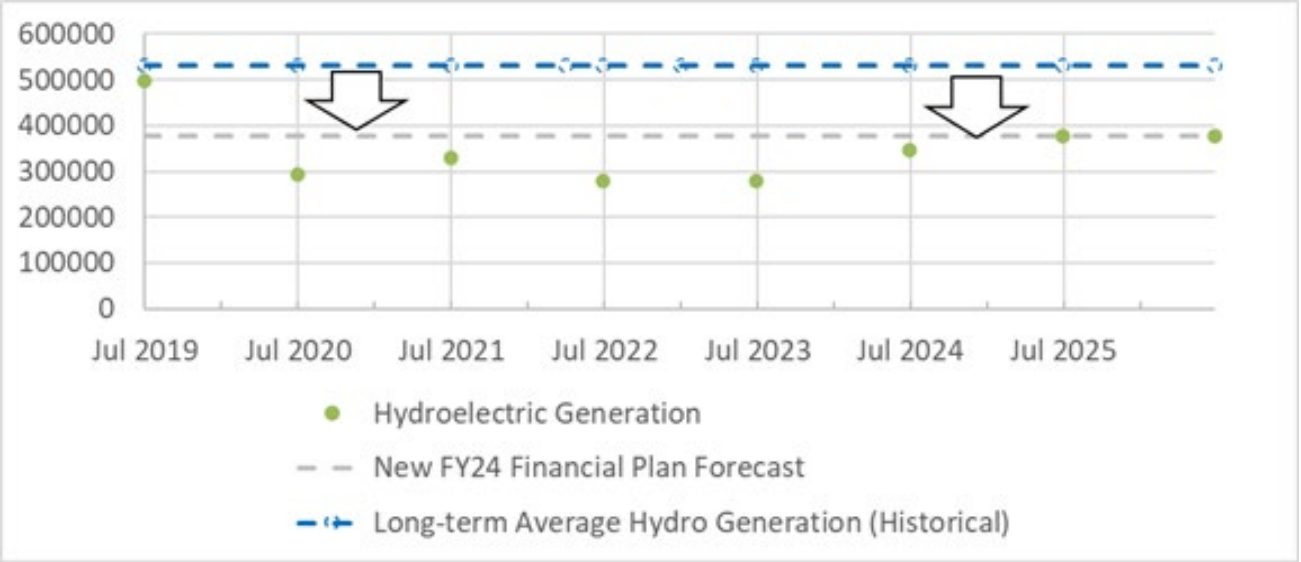




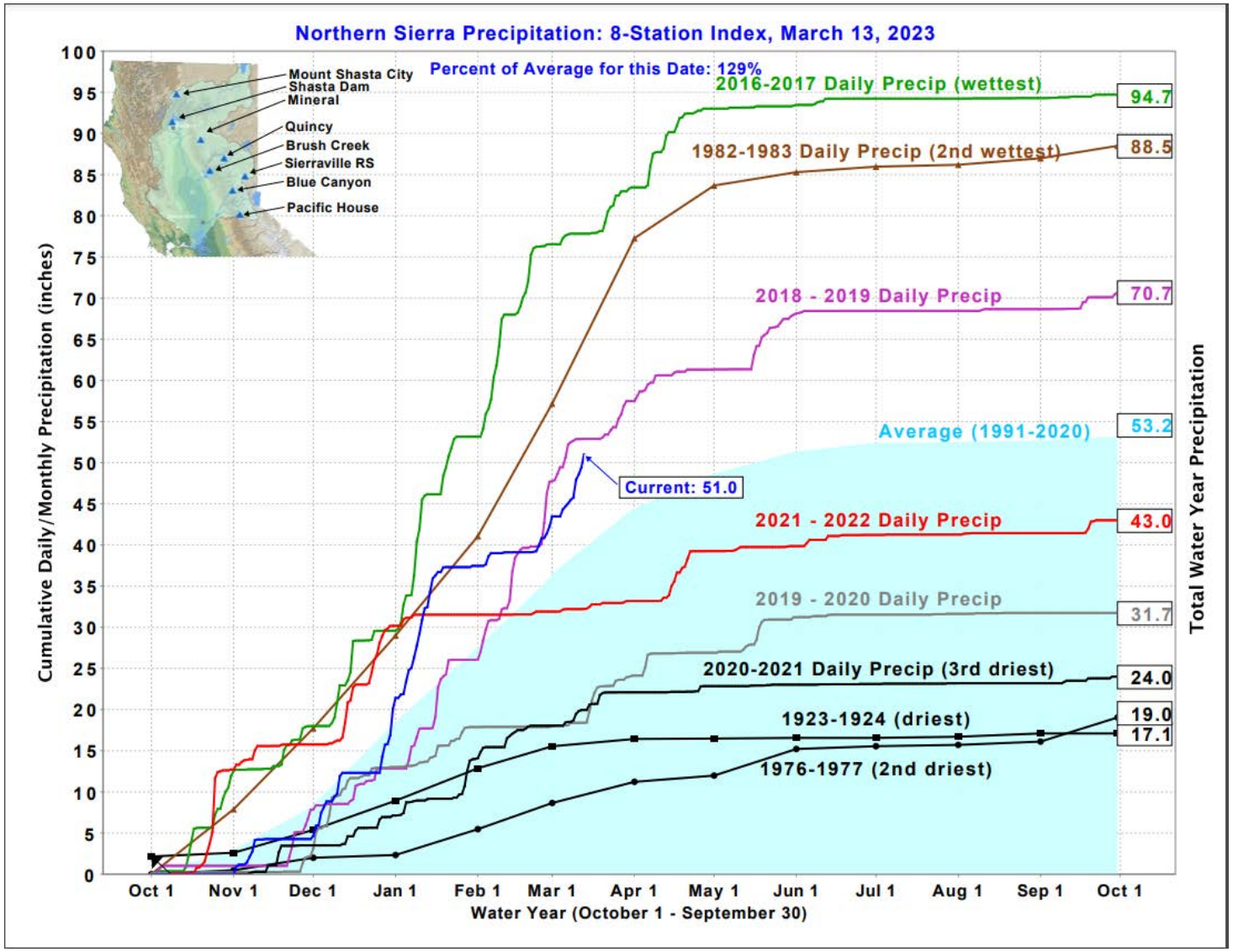
Trends Driving Rate Changes – Multiple Years of Drought

- Alongside pandemic, California experienced extreme drought
- Heavy rains in Dec 2022 - Mar 2023 helped. Drought significantly decreased, conditions vary by location in California.
- Years of drought mean significant runoff will likely be absorbed by the parched ground rather than going to hydroelectric generation.
- Activating the hydroelectric rate adjuster is intended to be a rare event, but staff believes declining average hydroelectric generation levels are making it more likely.
- Current forecasting methodology assumes higher average hydroelectric, increasing chance of activation
- Staff intends to use a lower hydroelectric forecast in this Financial Plan to reduce the likelihood of activating HRA in the future.



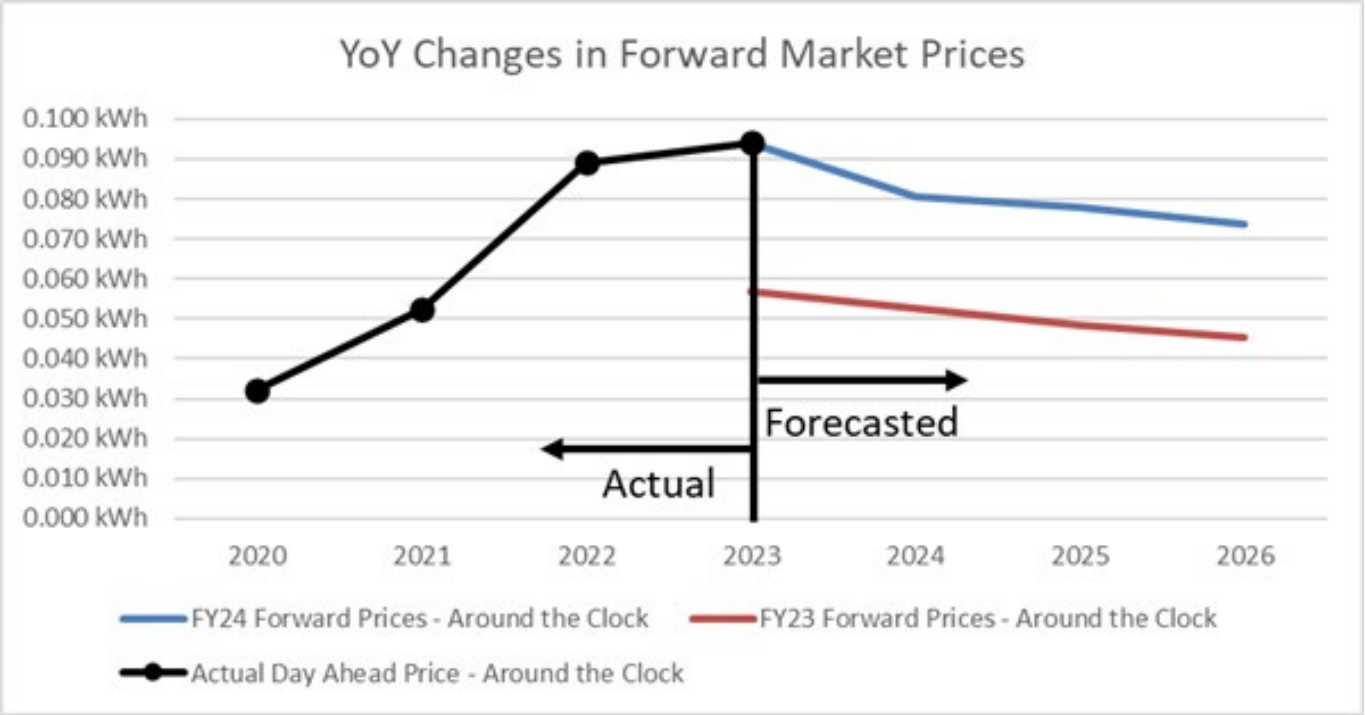


Trends Driving Rate Changes – Multiple Years of Drought



Trends Driving Rate Changes – High Electricity Prices

- Long-term electricity prices have been rising
- FY 2023 and FY 2024 forward power prices increased ~$0.025/kWh- $0.035/kWh compared to last year's projections
- Increases due to:
  - Drought decreasing hydroelectric generation across the West
  - High Natural Gas Prices
  - Generating capacity limitations leading to market price spikes
- High prices forecasted to continue, though not at FY 2023 levels.

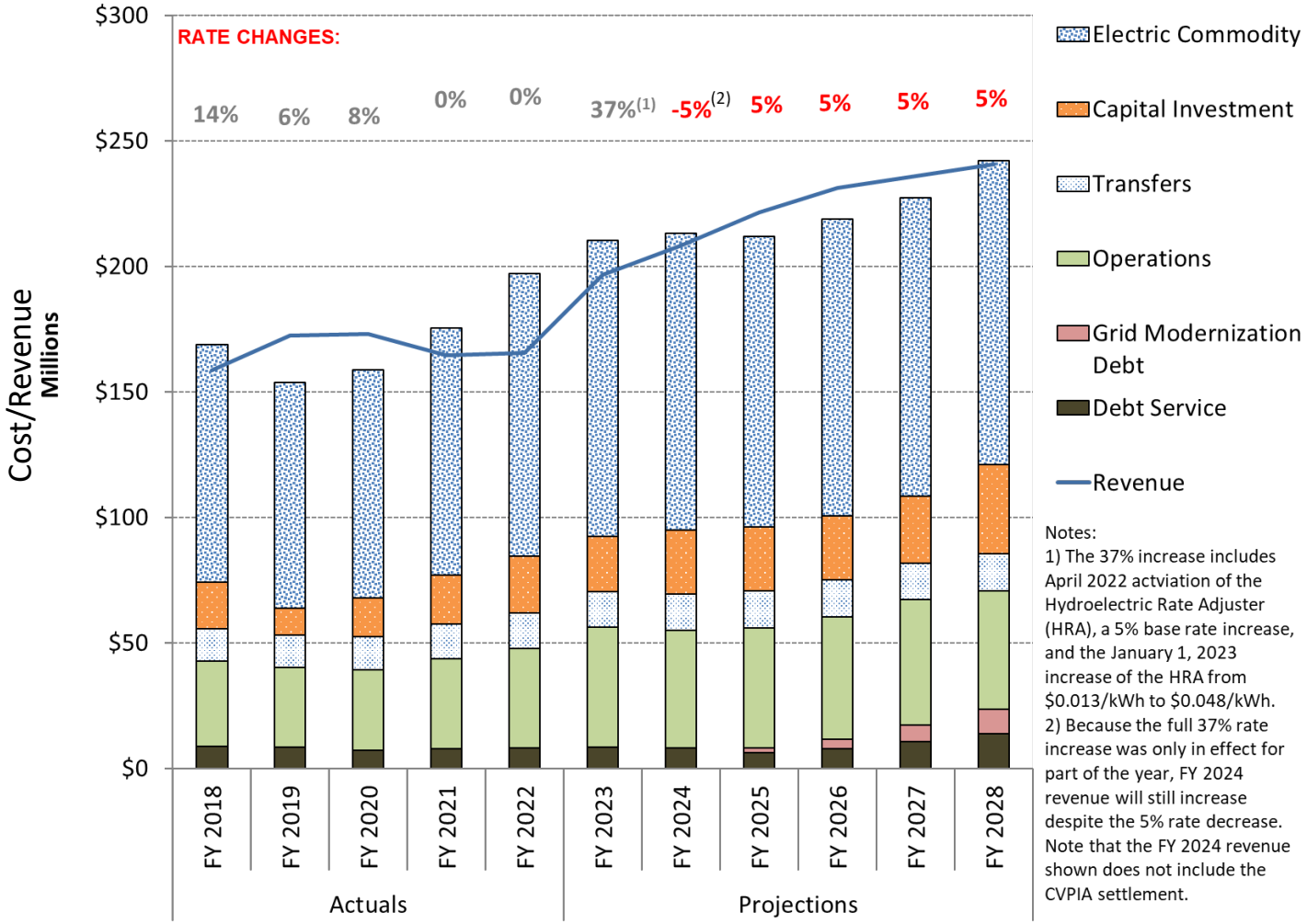


Trends Driving Rate Changes – Grid Modernization (Long-term)

Current financial plan assumes grid modernization and electric utility fiber backbone investment will start in FY 2024 and run through the course of the financial plan.

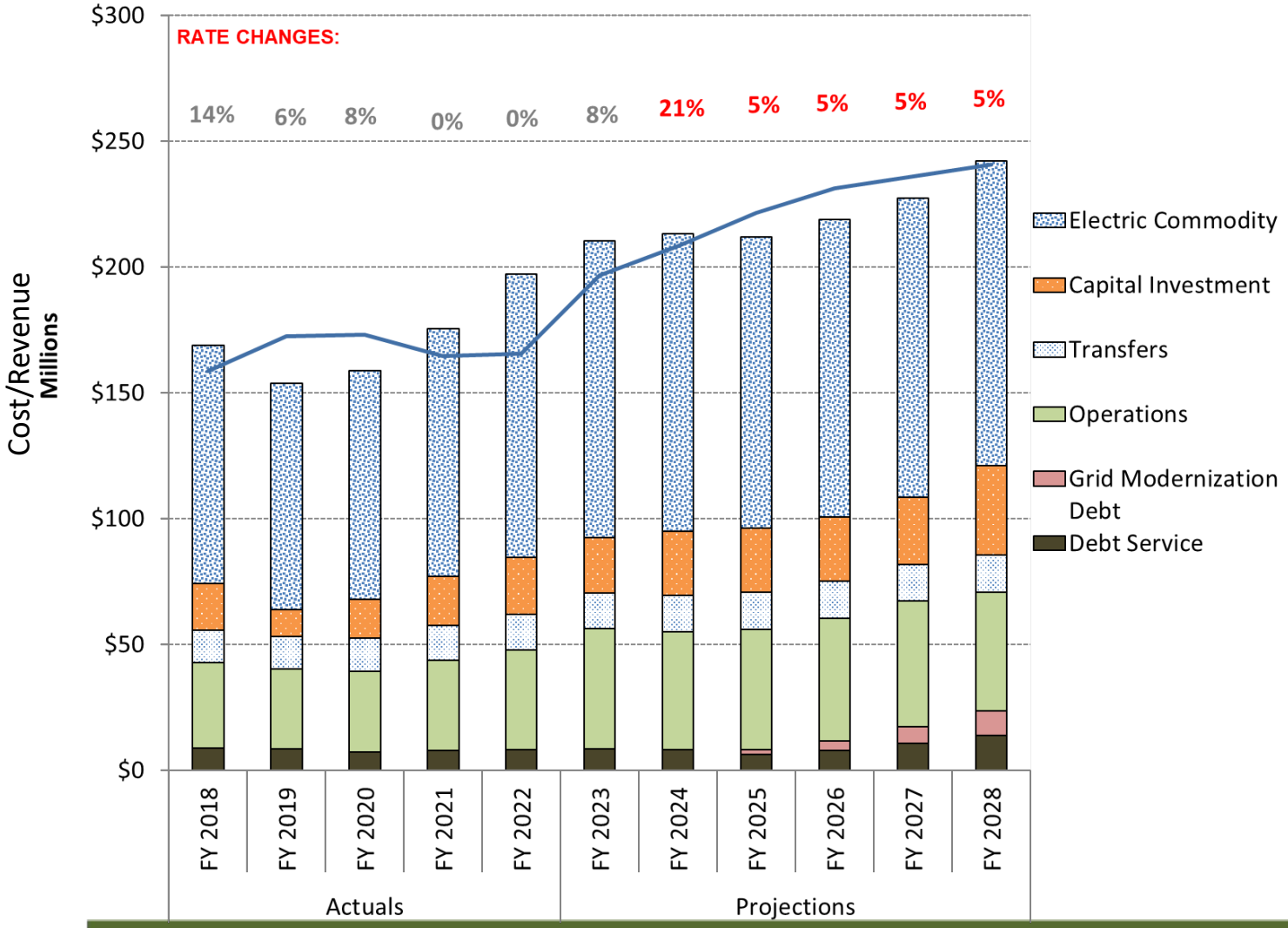
Expenses ($000)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Grid Modernization Projects	25,000	25,000	50,000	50,000	50,000
Electric Utility Fiber Backbone	13,000	0	0	0	0
TOTAL	38,000	25,000	50,000	50,000	50,000
Expenses ($000)	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**
Bond Proceeds	63,000	50,000	0	50,000	50,000
Debt Service Costs	0	-2,032	-3,632	-6,432	-9,632

Proposed: Electric Cost and Revenue Projections with HRA

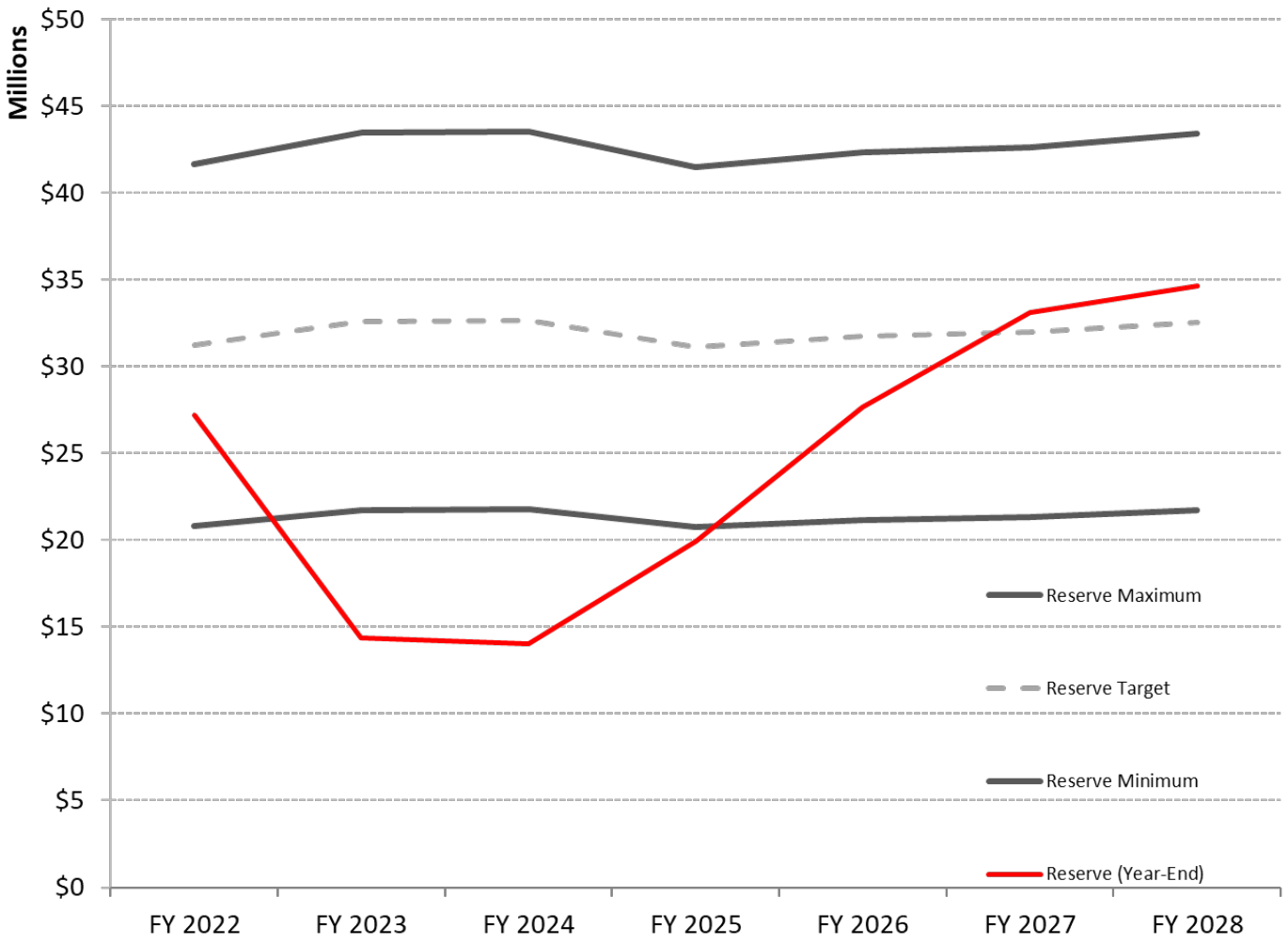


Notes:
1) The 37% increase includes April 2022 actviation of the Hydroelectric Rate Adjuster (HRA), a 5% base rate increase, and the January 1, 2023 increase of the HRA from $0.013/kWh to $0.048/kWh.
2) Because the full 37% rate increase was only in effect for part of the year, FY 2024 revenue will still increase despite the 5% rate decrease. Note that the FY 2024 revenue shown does not include the CVPIA settlement.

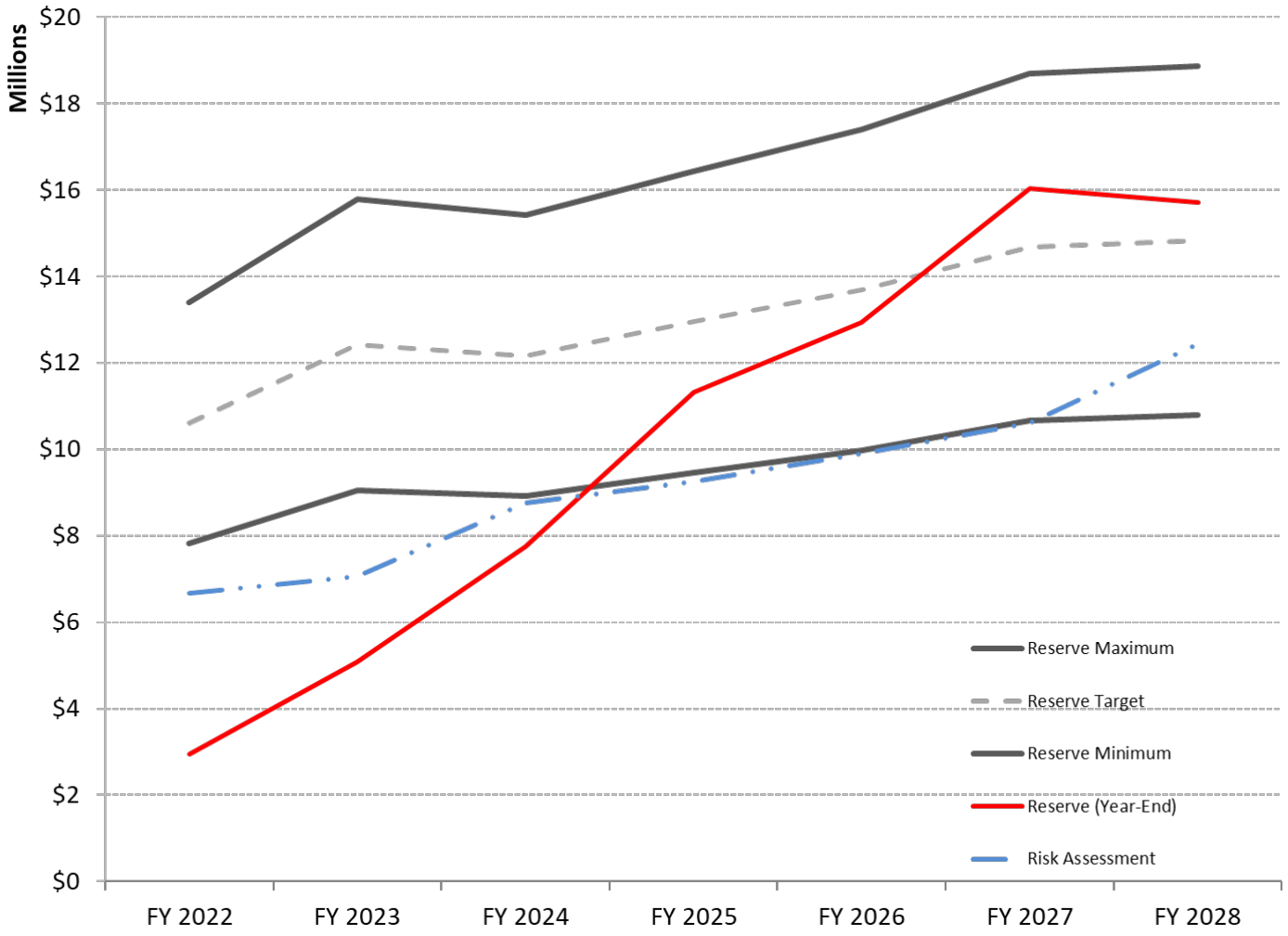
Proposed: Electric Cost and Revenue Projections (Base Rate only)



Electric Supply Operating Reserve Projections



Electric Distribution Operating Reserve Projections



Staff Recommendation

Staff recommends that the Finance Committee recommend the City Council adopt a Resolution:

1. Approving the Fiscal Year (FY) 2024 Electric Financial Plan modified to reflect the transfers and rate actions listed below in sections 2, 3, and 4;
2. Approving the following transfers at the end of FY 2023:
   a. Up to $12 million from the Supply Operations Reserve to the Distribution Operations Reserve; and
   b. Up to $4.5 million from the Supply Operations Reserve to the Cap and Trade Program Reserve; and
3. Approving the following transfers in FY 2024:
   a. Up to $10 million to the Electric Special Projects (ESP) reserve from the Supply Operations Reserve; and
   b. Up to $8 million to the Hydroelectric Stabilization Reserve from the Supply Operations Reserve; and
   c. Up to $3 million from the Supply Operations Reserve to the Cap and Trade Program Reserve; and

Staff Recommendation (continued)

Staff recommends that the Finance Committee recommend the City Council adopt a Resolution:

4. Approving the following rate actions for FY 2024:
    a. Deactivation of the hydroelectric rate adjuster from customer bills effective July 1, 2023;
    b. An increase to retail electric rates E-1 (Residential Electric Service), E-2 (Small Non-Residential Electric Service), E-4 (Medium Non-Residential Electric Service), E-4 TOU (Medium Non-Residential Time of Use Electric Service), E-7 (Large Non-Residential Electric Service), and E-7 TOU (Large Non-Residential Time of Use Electric Service) of 21% effective July 1, 2023;
    c. An increase to the Export Electricity Compensation (E-EEC-1) rate to reflect 2022 avoided cost, effective July 1, 2023;
    d. An increase to the Net Surplus Electricity Compensation (E-NSE-1) rate to reflect current projections of FY 2023 avoided cost, effective July 1, 2023; and
    e. An update to the Residential Master-Metered and Small Non-Residential Green Power Electric Service (E-2-G), the Medium Non-Residential Green Power Electric Service (E-4-G), and the Large Non-Residential Green Power Electric Service (E-7-G) rate schedules to reflect modified distribution and commodity components, effective July 1, 2023.