



**STUDY SESSION**  
**PROPOSED**  
**ELECTRIC, GAS, WATER,**  
**AND WASTEWATER**  
**FINANCIAL PLANS AND**  
**RATE CHANGES FOR FY 2024**

April 17, 2023

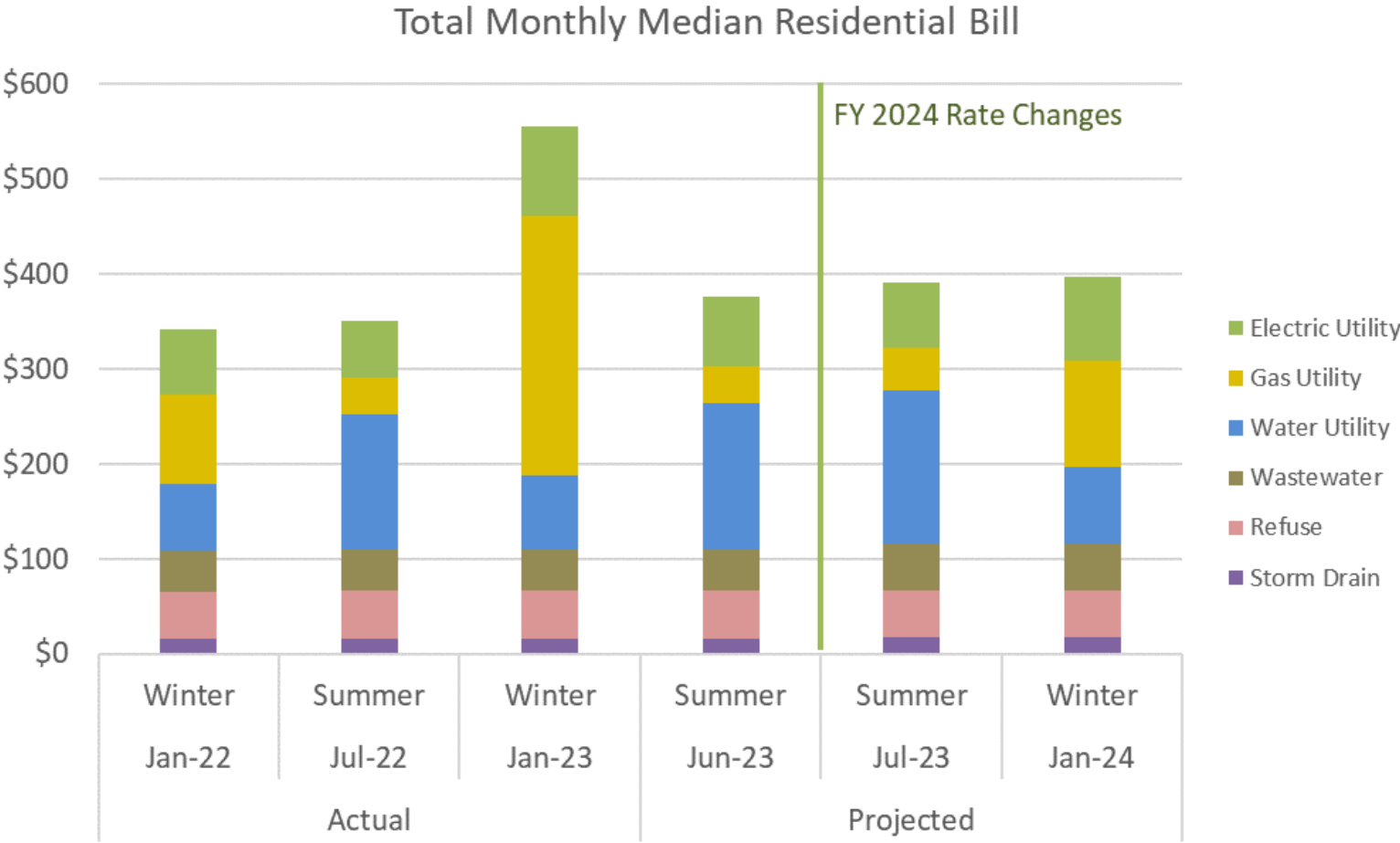
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# UTILITIES FY 2024 FINANCIAL PLAN OVERVIEW





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- Rate changes are complex this year because some trends are increasing rates while others are decreasing them
- Most notable current trend: skyrocketing winter energy prices
  - Highest recorded market prices due to high demand, supply constraints
  - Nearly every utility experienced highest prices on record in January
  - Various investigations of high winter gas prices underway
  - Staff to bring winter hedging program options to Council
  - City provided help with high winter gas bills (payment arrangements)
  - Council has approved rebates for electric and gas utilities
  - Commodity rate declined: Jan 2023=\$4/therm, April 2023 \$0.66/therm





# MONTHLY MEDIAN RESIDENTIAL BILLS – BY UTILITY



# UTILITIES FY 2024 FINANCIAL PLAN OVERVIEW

TREND	AFFECTS	BILL IMPACT
Energy prices declining from record 2022/2023 winter highs	Electric, Gas	
Long-term energy and water supply prices are higher	Electric, Gas, Water	
Revenues are currently below cost – rate held low during pandemic	Electric, Gas, Water, Wastewater	
Reserve levels are low – rate increases cannot be phased in slowly	Electric, Gas, Wastewater	

# UTILITIES FY 2024 FINANCIAL PLAN OVERVIEW

TREND	AFFECTS	BILL IMPACT
Continuing drought	Electric, Water	
Need to increase capital investment	Electric, Wastewater	
Inflation in construction and other costs	Electric, Gas, Water, Wastewater	
\$24 million CVPIA refund	Electric	

## POLICY CHOICES

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In addition to the drivers previously mentioned, there are some utility-specific policy choices to make that have some impact on rates:

- **Gas:** Staff is looking for a decision on the percentage to transfer to the General Fund under Measure L. To be discussed later in the agenda.
  - UAC (6-1) and Finance (2-1) recommended transferring 15.5%
- **Wastewater:** The rate of sewer system investment needs to be increased from 1 mile per year to 2.5 miles per year to be sustainable. Staff seeking a decision on how quickly to achieve this:
  - UAC (7-0) and Finance (3-0) recommended achieving this by 2026

# Projected Change in Residential Median Bill

	FY 2021	FY 2022	FY 2023 (Rates in effect Jan 1, 2023) <sup>1)</sup>	FY 2024 (Projected)	FY 2025	FY 2026	FY 2027	FY 2028
<b>Electric Utility</b>	\$0.00 0%	\$0.00 0%	\$22.70 37%	(\$4.20) -5% <sup>(2)</sup>	\$3.90 5%	\$4.10 5%	\$4.40 5%	\$4.60 5%
<b>Gas Utility 3)</b>	\$1.28 2%	\$1.60 3%	\$2.60 4%	\$5.20 8%	\$4.90 7%	\$3.70 5%	\$3.90 5%	\$4.10 5%
<b>Wastewater</b>	\$0.00 0%	\$2.00 3%	\$1.30 3%	\$4.00 9%	\$4.40 9%	\$4.80 9%	\$4.60 8%	\$3.10 5%
<b>Water Utility</b>	\$0.00 0%	\$0.00 0%	\$8.00 9%	\$5.90 6%	\$4.20 4%	\$3.30 3%	\$3.40 3%	\$5.80 5%
<b>Refuse</b>	\$0.00 0%	\$0.00 0%	\$0.00 0%	\$0.00 0%	\$1.50 3%	\$1.50 3%	\$1.60 3%	\$1.60 3%
<b>Storm Drain 4)</b>	\$0.40 3%	\$0.30 3%	\$0.60 4%	\$0.80 5%	\$0.70 4%	\$0.70 4%	\$0.70 4%	\$0.80 4%
<b>Monthly Bill Change 5)</b>	<b>\$1.68 1%</b>	<b>\$3.90 1%</b>	<b>\$35.20 11%</b>	<b>\$11.70 3%</b>	<b>\$19.60 5%</b>	<b>\$18.10 5%</b>	<b>\$18.60 4%</b>	<b>\$20.00 5%</b>

- 1) 37% increase includes 4/1/22 hydro rate adjuster (HRA) activation (10%), 7/1/22 5% rate increase, and 1/1/23 HRA increase (19%)
- 2) -5% change includes a 21% increase to base electric rates and removal of the HRA
- 3) Gas utility rates shown exclude gas market price changes. FY 24 bill forecast w/ market price changes is (-13%). Actual rates will vary.
- 4) Storm Drain fees increase by CPI index annually per approved 2017 ballot measure
- 5) Based on an FY 2023 average monthly bill of \$369



# ONGOING COST CONTAINMENT / REVENUE ENHANCEMENT

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- Consistent with the Utilities Strategic Plan, cost containment is being instituted as an ongoing priority and annual cycle
  - Fall completion of preliminary out-year rate forecasts
  - Review by all Divisions for alignment of multiyear strategies
- Ongoing management review of personnel actions
  - Review/revision of position classifications to match evolving needs
  - Addition/Deletion of positions to reflect organizational priorities
  - Review/approval to fill individual position vacancies in conjunction with ASD Budget Office and Human Resources
- Regular review of performance metrics and expenditures



## RECENTLY IMPLEMENTED COST CONTAINMENT & REVENUE ENHANCEMENT

- Maintained renewable energy exchange program (\$1.1M for FY 2022 and ~\$3M for FY 2023, ~\$1.5M/year for subsequent years)
- Advocated for improvements that resulted in additional Western resource value (\$2M/year)
- Participated in litigation to ensure more equitable allocation of Central Valley Project Improvement Act (CVPIA) costs , yielding approximately \$2M savings in FY21, \$3M savings in FY22, and \$4M in FY23.
- Implemented outsourcing of hedging and risk management to NCPA, first transactions to occur this spring
- Captured value of excess Redwood pipeline capacity (~\$300k/year) and continued participation in MuniGas program (~\$800k/year)
- Applied for \$9M grant from Pipeline and Hazardous Materials Safety Administration (2022)
- Utilized cross-functional field crews to install water, gas, and sewer services simultaneously at new construction sites, reducing hours spent in the field. Staff time freed up to be reallocated to sewer replacements.



## RECENTLY IMPLEMENTED COST CONTAINMENT & REVENUE ENHANCEMENT

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- Negotiated agreement with Valley Water - \$250K to \$1M/year + up to \$16 million in funding for reverse osmosis facility
- Implemented mobile workforce applications, reducing administrative data entry time, freeing up staff for other work
- Expanded use of bank draft to reduce credit card fees, particularly for large accounts
- Schedule larger CIP projects every other year to achieve efficiencies in project management and more competitive bids
- Cluster main replacements to reduce mobilization costs for construction contractors
- Procure materials for pipeline replacement in-house rather than having contractors buy them to reduce construction markups
- Modify scope when bid results exceed estimates to reduce overall project costs



## FUTURE POTENTIAL COST CONTAINMENT

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- Switch to new customer information system with reduced support costs
- Explore adding batteries to solar resources to improve value
- Increase water and energy end use technical training for Customer Service reps, reducing transferred phone calls
- BAWSCA water bond refunding to achieve lower debt service payments for wholesale customers, including Palo Alto beginning in 2023
- Apply for \$9M grant from Pipeline and Hazardous Materials Safety Administration (2023)
- Apply for approximately \$11M from Valley Water – specific use to be determined