



City Council Staff Report

From: City Manager
Report Type: PUBLIC HEARING
Lead Department: Utilities

Meeting Date: April 17, 2023
Staff Report: 2303-1235

TITLE

PUBLIC HEARING: Adoption of a Resolution Approving the Fiscal Year 2024 Electric Utility Financial Plan and Proposed Reserve Transfers, Deactivating Utility Rate Schedule E-HRA, and Amending Utility Rate Schedules E-1, E-2, E-2-G, E-4, E-4-G, E-4 TOU, E-7, E-7-G, E-7 TOU, E-NSE, and E-EEC; CEQA Status: Not a project under Public Resources Code 15378(b)(5) and exempt under Public Resources Code 15273(a)

RECOMMENDATION

The Finance Committee and Staff recommend the City Council adopt a Resolution (Attachment A):

1. Approving the FY 2024 Electric Financial Plan (Attachment B); and
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 from the Supply Operations Reserve to the Electric Special Projects (ESP) reserve; and
 - b. Up to \$8 million from the Supply Operations Reserve to the Hydroelectric Stabilization Reserve; and
 - c. Up to \$3 million from the Supply Operations Reserve to the Cap and Trade Program Reserve; and
4. Approving the following rate actions for FY 2024 (Attachment C):
 - 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

EXECUTIVE SUMMARY

On March 21, 2023 the Finance Committee reviewed the recommended Council actions above and unanimously recommended them for Council approval. The attached FY 2024 Electric Utility Financial Plan (Attachment B) and proposed rate changes (Attachment C) reflect the Finance Committee (and staff) recommendation. The actions above and rate changes included in Attachment C result in the deactivation of the hydroelectric rate adjuster and a 21% increase to the base electric rates, the net effect of which is a 5% decrease to the customer bill. Approval of this item would result in implementation of the finalized rates for FY 2024, beginning July 1, 2023.

BACKGROUND

Every year staff presents the Finance Committee with Financial Plans for its Electric, Gas, Water, and Wastewater Collection Utilities and recommends any rate adjustments required to maintain their financial health. These Financial Plans include a comprehensive overview of the utility's operations, both retrospective and prospective, and are intended to be a reference for UAC and Council members as they review the budget and staff's rate recommendations. Each Financial Plan also contains a set of Reserves Management Practices describing the reserves for each utility and the management practices for those reserves

ANALYSIS

Staff and the Finance Committee propose a set of electric utility rate changes that will decrease bills by 5%. The proposal involves deactivating the hydroelectric rate adjuster while increasing base electric rates 21%, for a net decrease in utility bills of 5%. This is in contrast to the original staff proposal recommended for approval by the UAC in March of this year, which involved a 50% reduction in the hydroelectric rate adjuster and a 14% increase in the base electric rates. The new proposal is made possible by the pending receipt of a \$24 million refund from the Bureau of Reclamation of overcharges associated with the Central Valley Project, where the City gets most of its hydroelectric power, due to a successful result in litigation the City participated in against the Federal Bureau of Reclamation over overcharges associated with the Central Valley Project.

Additional detail on the staff proposal is available in the study session staff report on tonight's Council agenda (Staff Report 2304-1247, April 17, 2023) and in the March 21, 2023 Finance Committee staff report ([Staff Report 2303-1109](#)).¹

FISCAL/RESOURCE IMPACT

The resource impact of the recommendations summarized in this report is the continued financial solvency of the electric utility and, as the City is a ratepayer, an increase to General Fund expenses (due to the rate increases) and revenues (due to the General Fund transfer). The estimated FY 2024 revenue impact of the recommendations in this report would be a \$12 million increase or 6% compared to FY 2023 levels in the Electric Fund (excluding expected monies to be received from the CVPIA payment). General Fund utility bill costs are expected to increase by \$0.14 million as a result of these rate changes.

POLICY IMPLICATIONS

The proposed electric rate adjustments are consistent with Council-adopted Reserve Management Practices that are part of the Financial Plan and were developed using a cost-of-service study and methodology consistent with the California constitution and industry-accepted cost of service principles. As noted in the Reserves Management Practices (Appendix C of Attachment B), if reserves fall below the minimum guidelines, Council approval is required for a rate plan that requires more than one year to return reserves to within guideline levels.

COMMITTEE AND COMMISSION REVIEW

Utilities staff presented a different proposal to the UAC on [March 1, 2023](#) which is summarized in the staff report presented to the UAC that evening.²

Staff presented to the Finance Committee on [March 21, 2023](#)³ a recommendation that Council approve the FY 2024 Electric Utility Financial Plan as follows, as detailed in staff report 2303-1141:

At the March 21 Finance Committee meeting, Staff recommended the following transfers at the end of FY 2023:

1. Up to \$12 million from the Supply Operations Reserve to the Distribution Operations Reserve; and
2. Up to \$4.5 million from the Supply Operations Reserve to the Cap and Trade Program Reserve; and

¹Council Staff Report 2303-1109

<https://cityofpaloalto.primegov.com/meeting/document/1854.pdf?name=Item%204%20Staff%20Report>

² Utilities Advisory Commission Staff Report <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/utilities-advisory-commission/archived-agenda-and-minutes/agendas-and-minutes-2023/03-mar-2023/03-01-2023-item-4.pdf>

³ Finance Committee Staff Report 2303-1141

<https://cityofpaloalto.primegov.com/Portal/Meeting?meetingTemplateId=11228>

In addition, Staff recommended the following transfers in FY 2024:

3. Up to \$10 million to the Electric Special Projects (ESP) reserve from the Supply Operations Reserve; and
4. Up to \$8 million to the Hydroelectric Stabilization Reserve from the Supply Operations Reserve; and
5. Up to \$3 million from the Supply Operations Reserve to the Cap and Trade Program Reserve; and

Staff also recommended the following rate actions for FY 2024:

6. Deactivation of the hydroelectric rate adjuster from customer bills effective July 1, 2023; and
7. An increase to retail Electric Utility 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; and
8. An increase to the Export Electricity Compensation (E-EEC-1) rate to reflect 2022 avoided cost, effective July 1, 2023; and
9. 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
10. 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

The Finance Committee unanimously recommended approval of this proposal on March 21, 2023.

STAKEHOLDER ENGAGEMENT

These recommendations were reviewed by the UAC and Finance Committee in public meetings. The public will be notified of the final rate changes adopted by Council through various channels, including social media, the website, utility bill inserts, and City newsletters. Published in the Palo Alto Daily on Friday, April 7th and 14th, 2023.

ENVIRONMENTAL REVIEW

The Council's approval of the Electric Financial Plan does not meet the California Environmental Quality Act's (CEQA) definition of a project under Public Resources Code Section 21065 and CEQA Guidelines Section 15378(b)(5), because it is an administrative governmental activity which will not cause a direct or indirect physical change in the environment, and therefore, no environmental assessment is required. The Council finds that changing electric rates to meet operating expenses, purchase supplies and materials, meet financial reserve needs and obtain funds for capital improvements necessary to maintain service is not subject to CEQA, pursuant to California Public Resources Code Sec. 21080(b)(8) and CEQA Guidelines section 15273(a). After reviewing the staff report and all attachments presented to Council,

the Council incorporates these documents herein and finds that sufficient evidence has been presented setting forth with specificity the basis for this claim of CEQA exemption.

ATTACHMENTS

Attachment A: Electric Resolution FY24

Attachment B: Electric FY 2024 Financial Plan

Attachment C: Rate Schedule Combined

APPROVED BY:

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Staff: Micah Babbitt