

Preliminary Financial Forecasts and Rate Changes for Electric, Gas, Wastewater Collection, and Water Utilities

Utilities Advisory Commission

February 1, 2017

Financial Forecast Summary

- Review of Financial Reserves
- Review four funds: Electric, Gas, Water and Wastewater Collection
- Refuse rate projections included for information
- Staff projects need for Electric, Water, and Wastewater Collection rate increases for FY 2018
- Rate increases slightly lower than projected last year
- Communication plan being prepared

Review of the Financial Reserves

- Reserve structure changed in FY 2015 in response to audit by City Auditor
- Reserves Management Practices:
 - Part of the Council-approved Financial Plans
 - Guide staff in developing rate trajectories for financial forecast period
 - Purpose of each reserve
 - Minimum and Maximum reserve levels defined

Review of the Financial Reserves

Purpose of the Reserves:

- Operating contingencies (Operations Reserves)
- Rate stabilization (Rate Stabilization Reserves)
- Cash flow management and contingencies related to capital improvement projects, or CIPs (CIP Reserves)
- Commitments and Reappropriations of funds budgeted but not yet spent
 - Separate Commitment and Reappropriation reserves, possibly CIP reserve if CIP related

Reserves Overview

■ Operations Reserves:

- Primary contingency reserve—used to manage annual variances from budget for operational and commodity expenses
- Target reserve level
 - Between 90 to 105 days of expenses, depending on the fund
 - Reserve should meet Target levels by the end of the forecast period
- Minimum reserve level
 - 60 days of expenses
 - If reserve falls below minimum level, a plan to reach minimum by following year is required. Alternative, longer term plans are allowable
- Maximum reserve levels
 - Between 120 to 150 days of expenses, depending on the fund
 - If reached, additional funds flow to the Unassigned Reserve
- Risk Assessment levels
 - Maximum revenue variance in previous 10 years
 - A 10% increase in planned CIP expenditures for a budget year

Reserves Overview

- **Rate Stabilization Reserves:**

- Intended to be empty unless one or more large rate increases are anticipated in the forecast period. These reserves will be drawn down to mitigate rate impacts.

- **Unassigned Reserve:**

- Intended to be empty unless Operations reserve reaches maximum level. Plans for use of these funds must be provided for in the following Financial Plan.

- **CIP Reserves:**

- Used to manage cash flow for capital projects and act as a reserve for capital contingencies
- Includes Commitments, or the amount of total remaining spending authority for existing CIP contracts

Preliminary Rate Projections

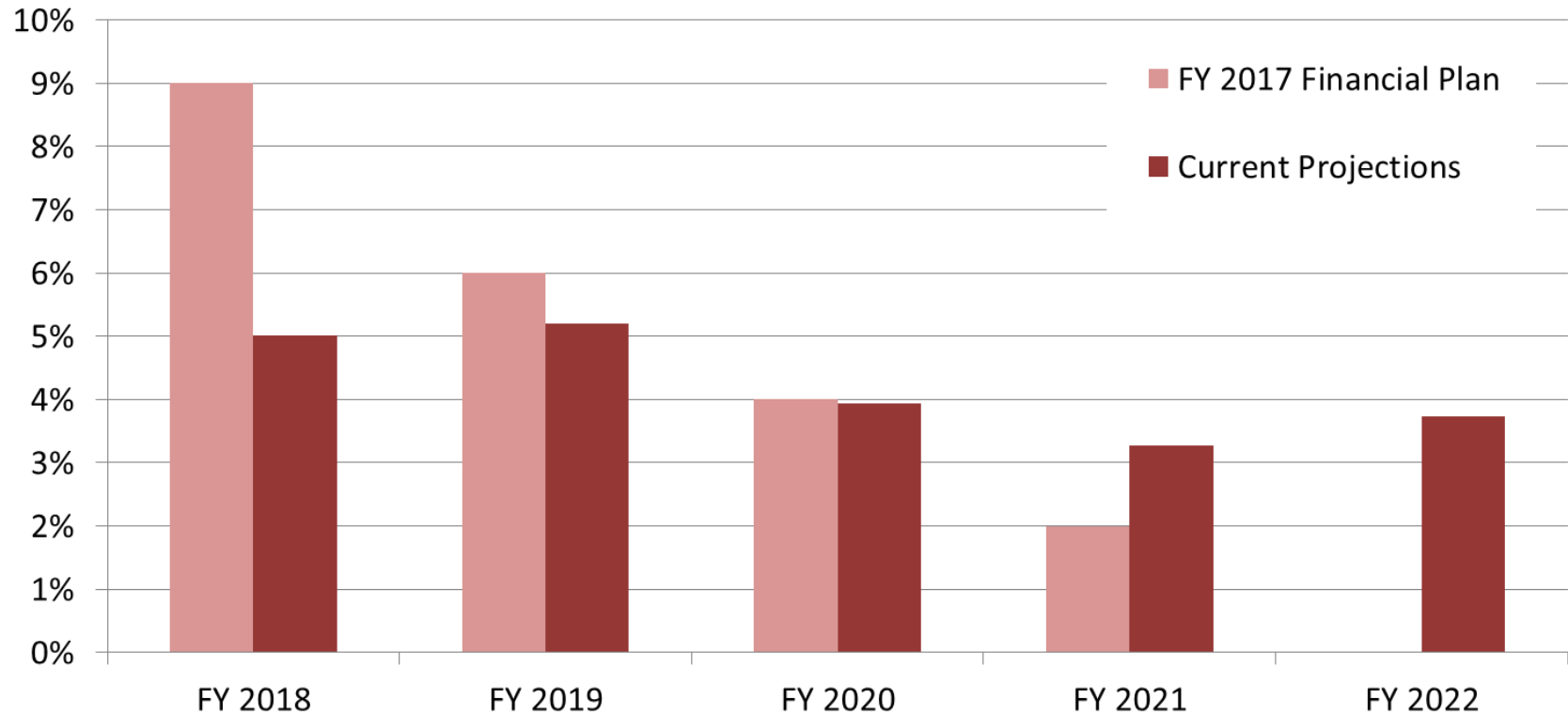
		FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Electric Utility		12%	9%	2%	-1%	-%
Gas Utility ¹		0%	2%	3%	1%	3%
Wastewater		2%	6%	6%	7%	6%
Water Utility		6%	6%	6%	6%	6%
Refuse		5%	3%	3%	3%	3%
Storm Drain ²		2%to3%	2%to3%	2%to3%	2%to3%	2%to3%
Bill Change ³	(%)	5%	5%	4%	3%	4%
	(\$/mo)	\$14.17	\$15.43	\$12.33	\$10.64	\$12.50

(1) Gas rate changes are shown with commodity rates held constant. Actual gas commodity rates will vary monthly with wholesale market fluctuations

(2) Storm Drain Rates increase annually by CPI; existing rates sunset in June 2017 unless reauthorized by a majority vote of property owners

(3) Median residential bill is \$282.78 as of July 1, 2016 (does not include drought surcharge)

Comparison to Last Year's Projected Bill Changes



Electric Utility Financial Projections FY 2018-FY 2022

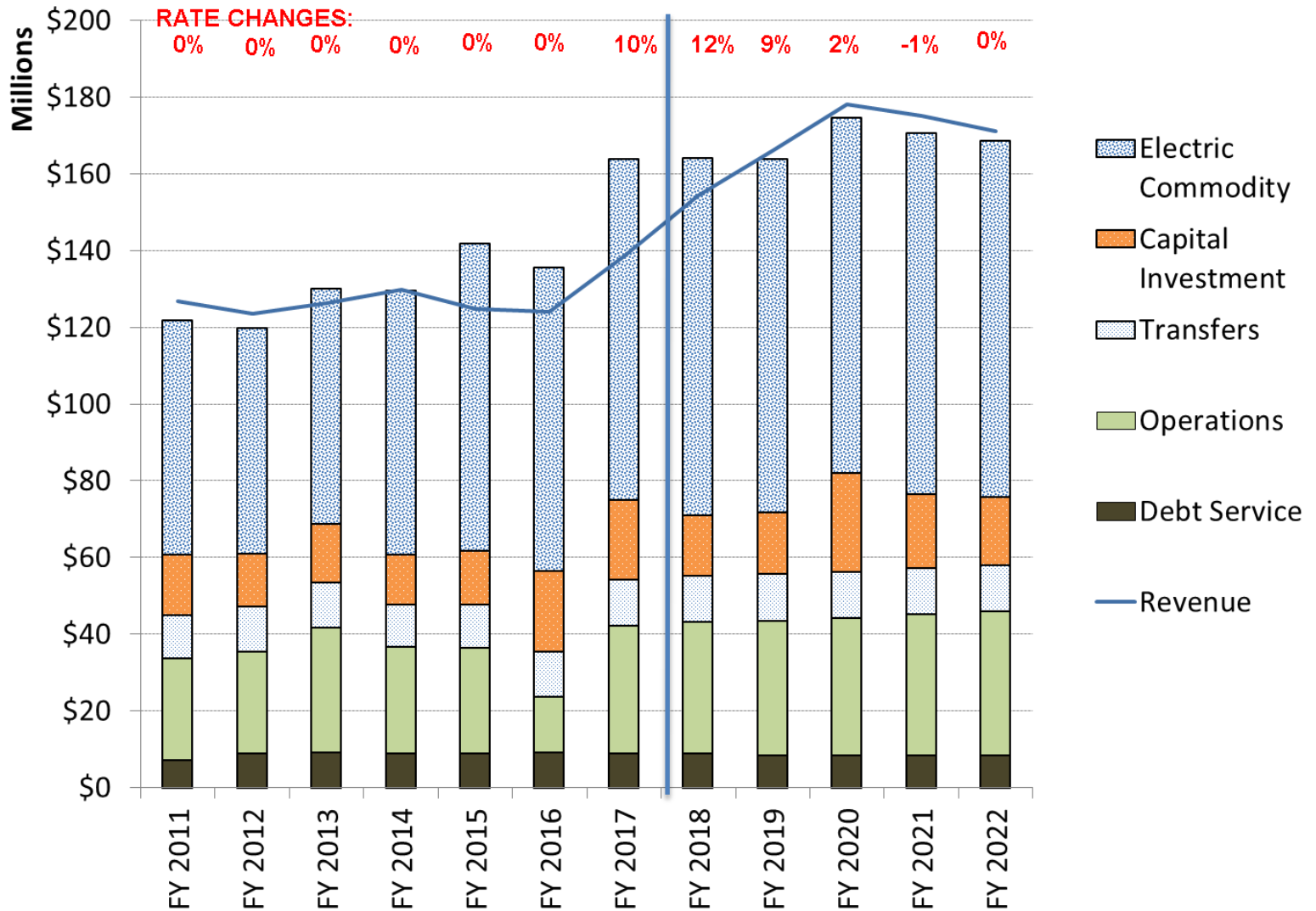
FY 2018 – FY 2022 Projections

- Operations Reserves below minimum guidelines due to cost increases
- Rate increase projections:
 - 12% in FY 2018, 8% in FY 2019
 - Later years – 1 to 3%
- Reserves transfers:
 - \$11.4M from hydro stabilization reserves over two years
 - \$9M from supply rate stabilization reserve over two years
 - \$10M transfer from Special Projects Reserve to Distribution Operations, to be repaid in FY20 & FY 21 (\$5M each)

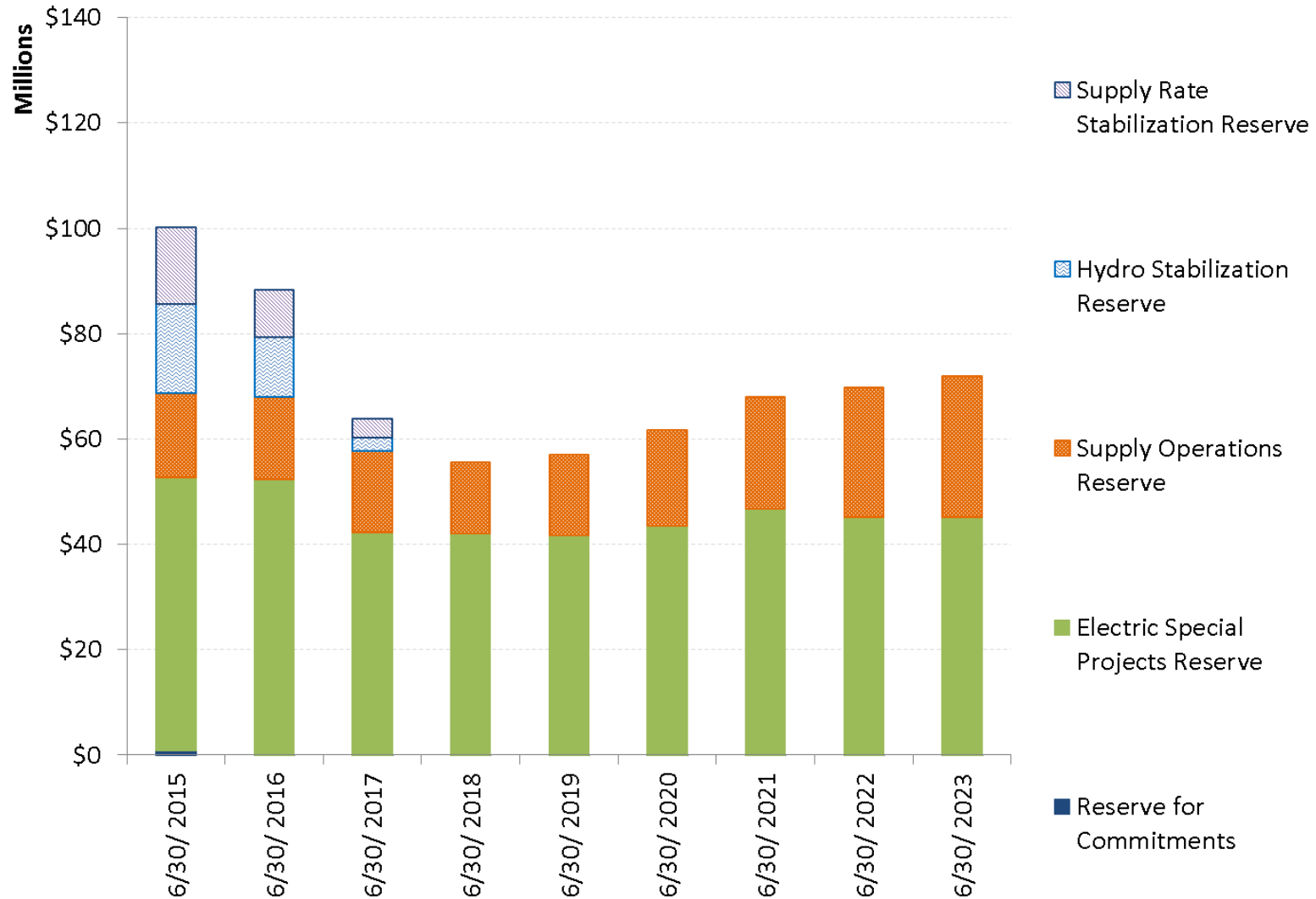
FY 2018 – FY 2022 Projections

- Develop hydro rate adjuster after COSA (mid FY 2017)
- Use hydro rate adjuster in case of extended drought conditions
- Smart Grid rollout (\$1M/yr starting in FY 2019):
 - Forecast assumes this is part funded by Water/Gas Funds.
 - Forecast assumes the remainder is funded by the Electric Special Projects Reserve.
- Long-term cost increases over forecast period are primarily due to new renewable projects coming online. Drought produces short term cost impacts.

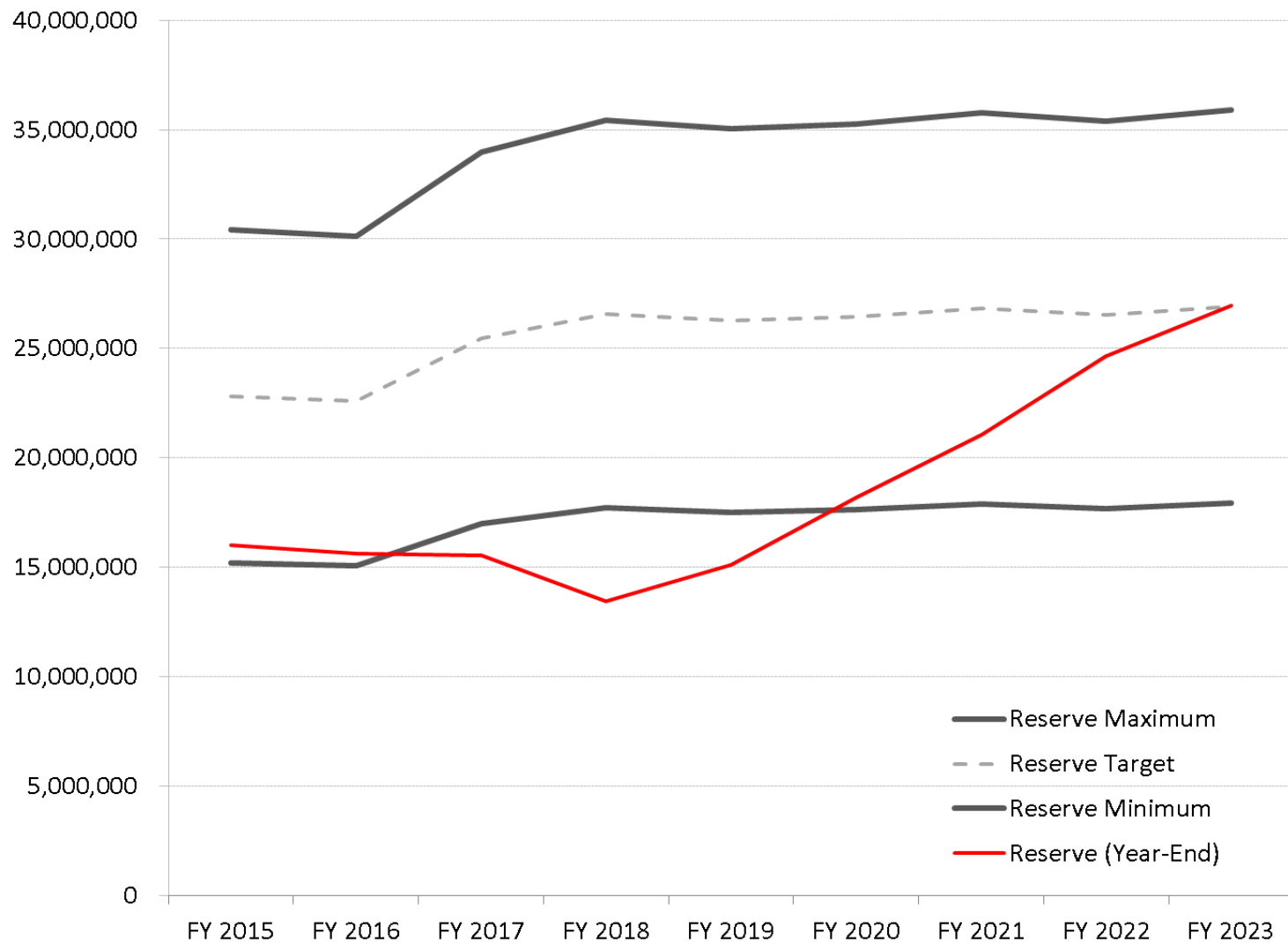
Electric Utility FY 2018 – FY 2022 Projections



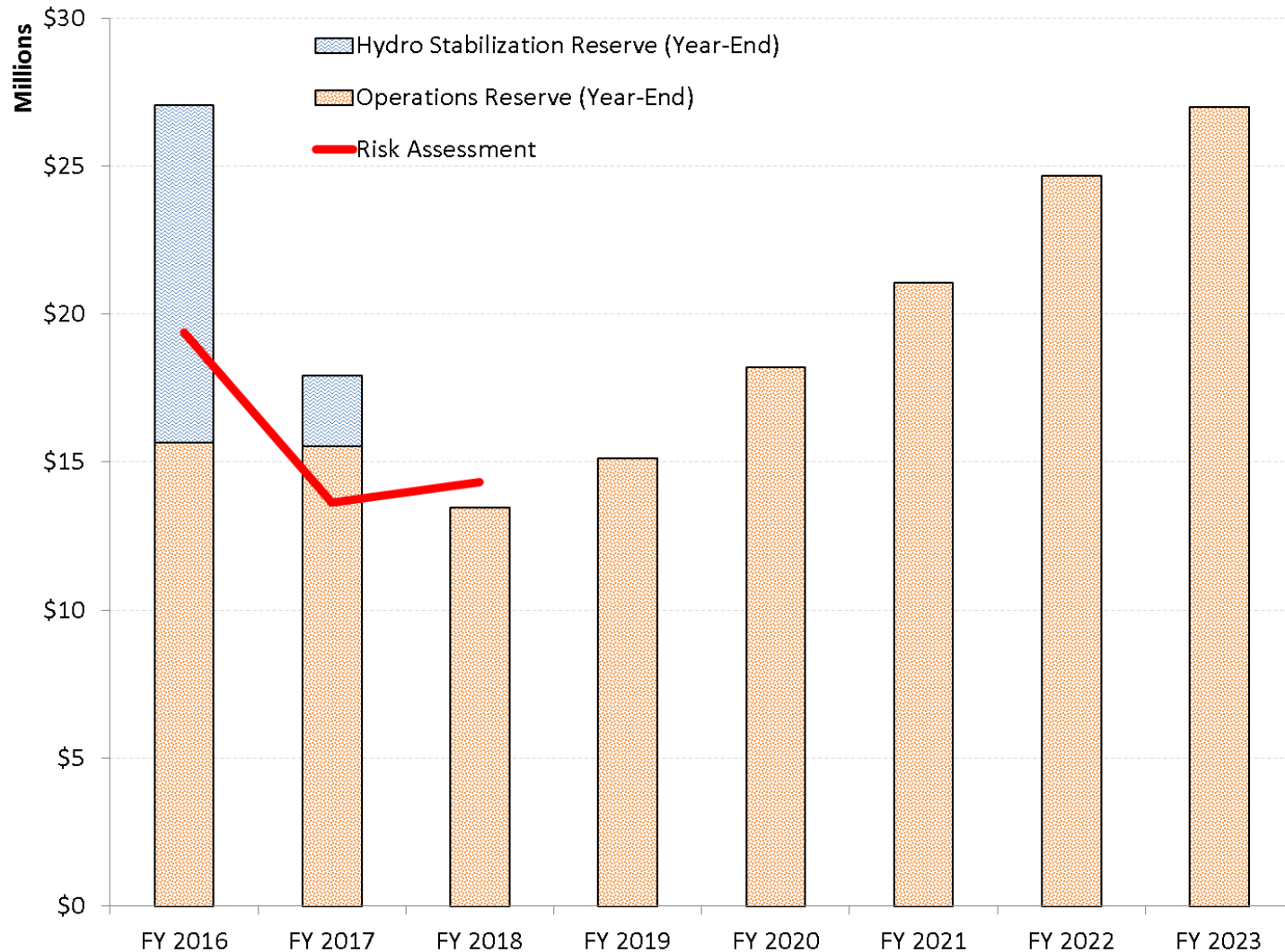
FY 2018 – FY 2022 Supply Reserves



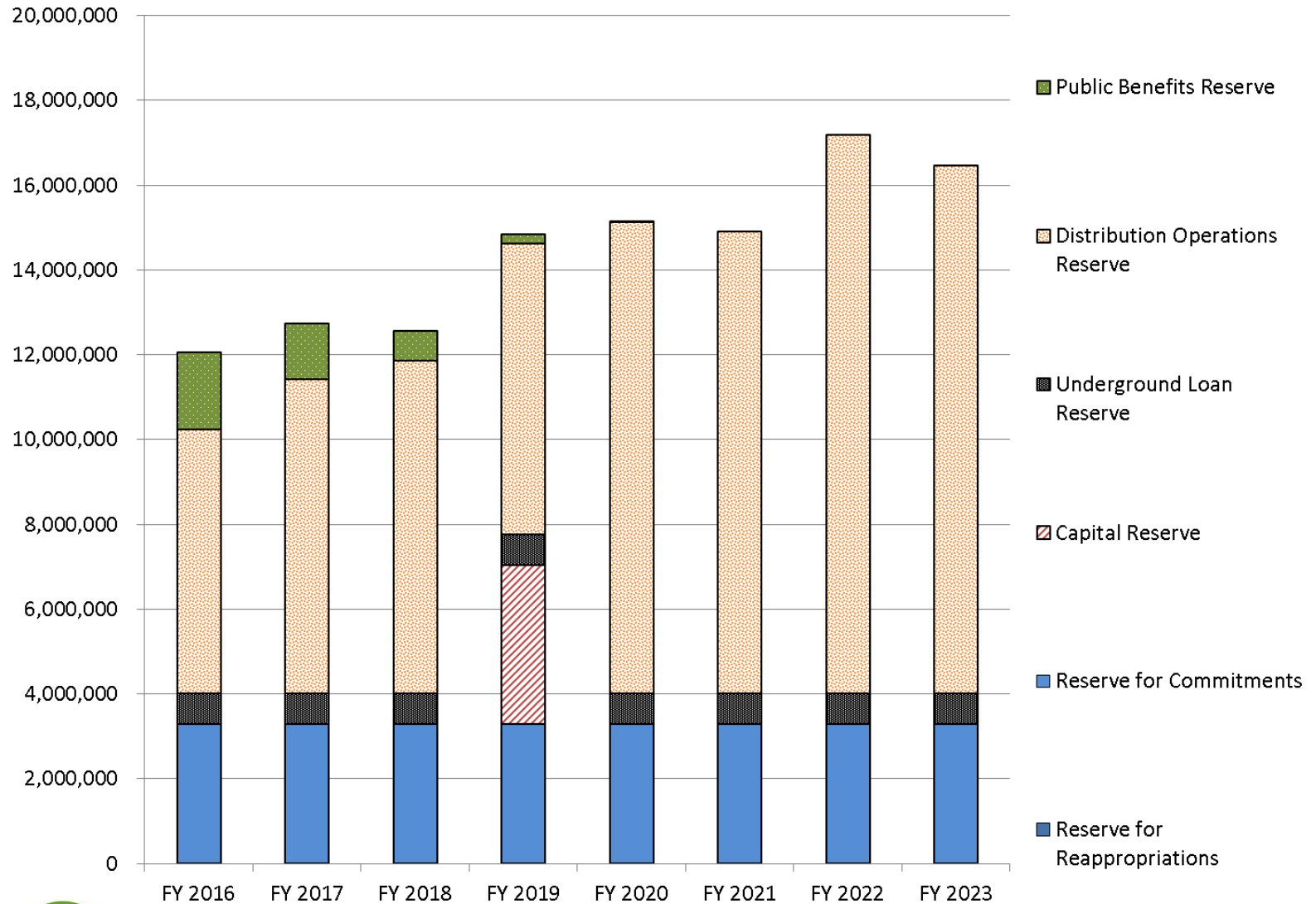
Supply Operations Reserve



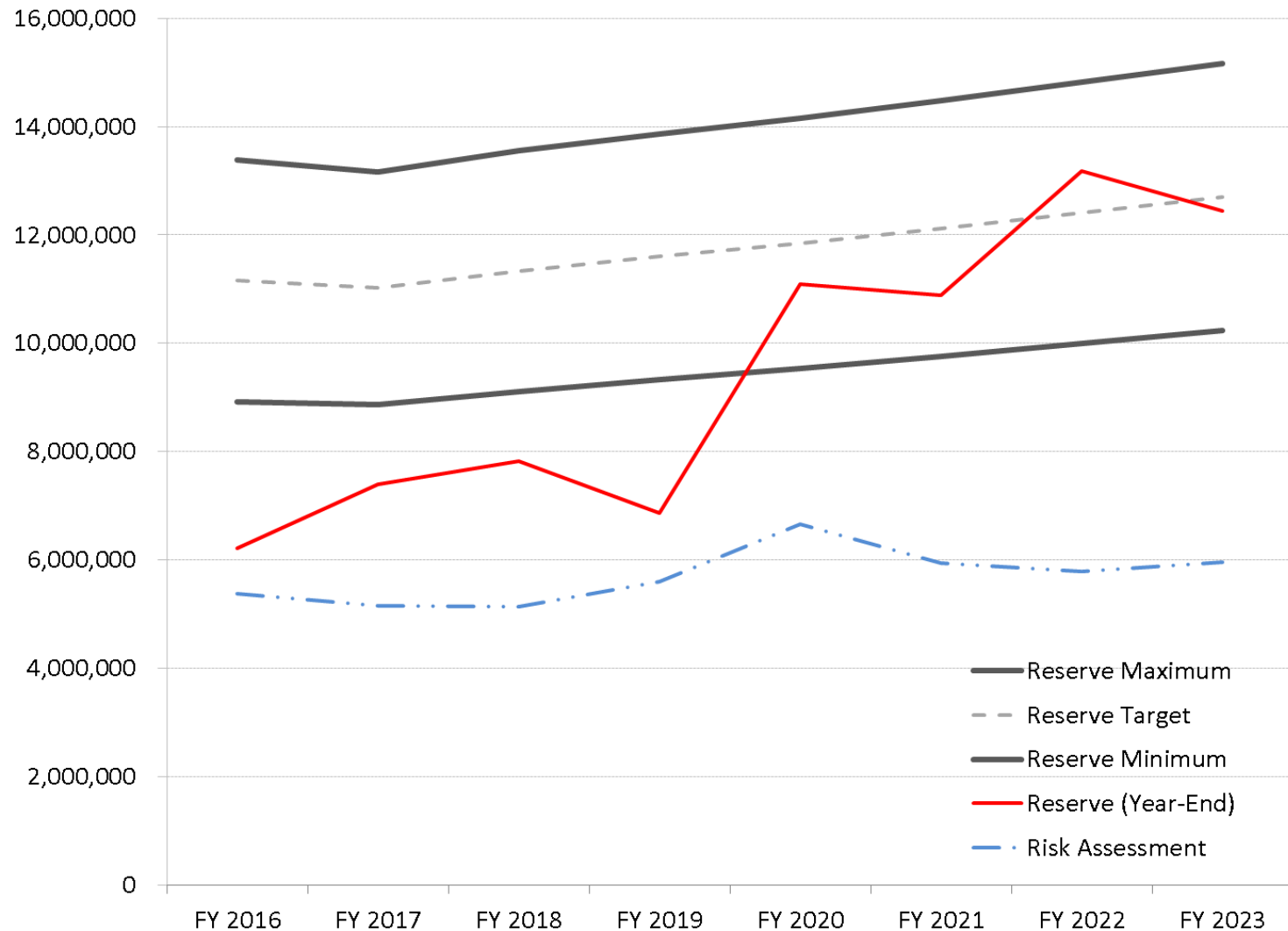
Supply Reserve Adequacy



FY 2018 – FY 2022 Distribution Reserves

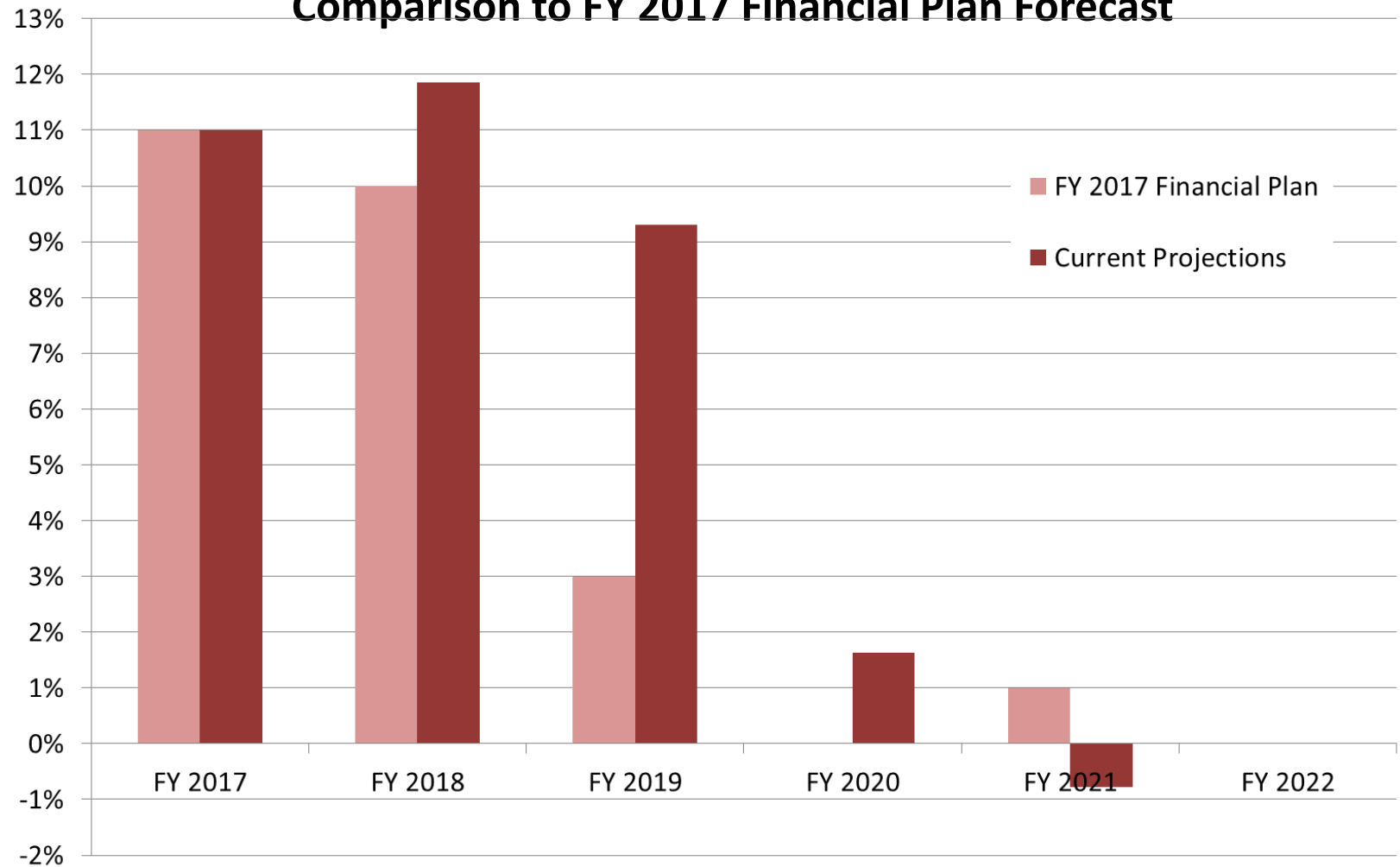


Electric Utility Distribution Operations Reserve



Projected Rate Changes

Comparison to FY 2017 Financial Plan Forecast



Uncertainties

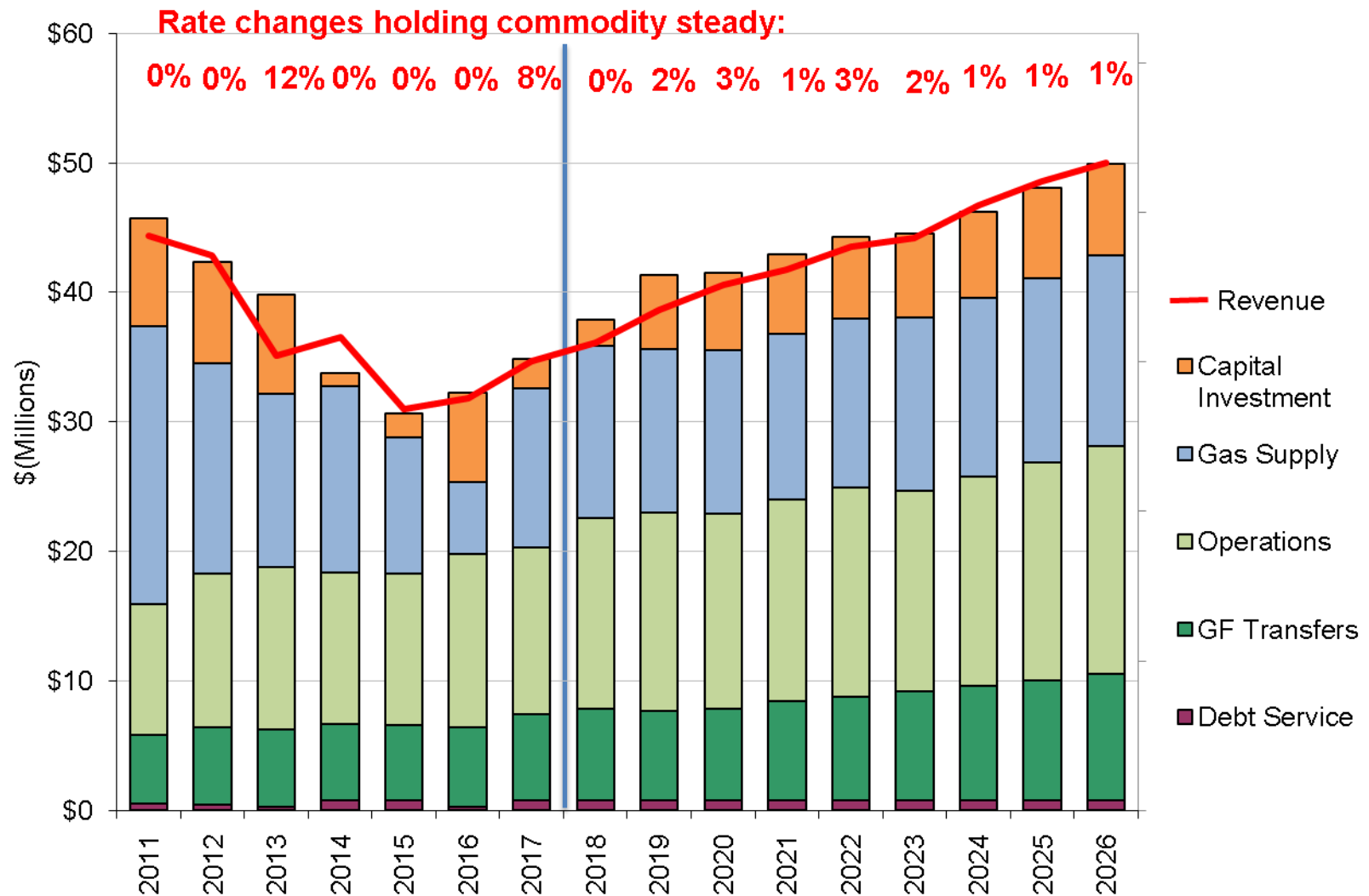
- How long will the drought last?
- Will second transmission line (resulting in Transmission Access Charge savings) be built?
- Cost of Smart Grid implementation, use of Electric Special Projects Reserve
- Increasing CIP costs

Gas Utility Financial Projections FY 2018-FY 2022

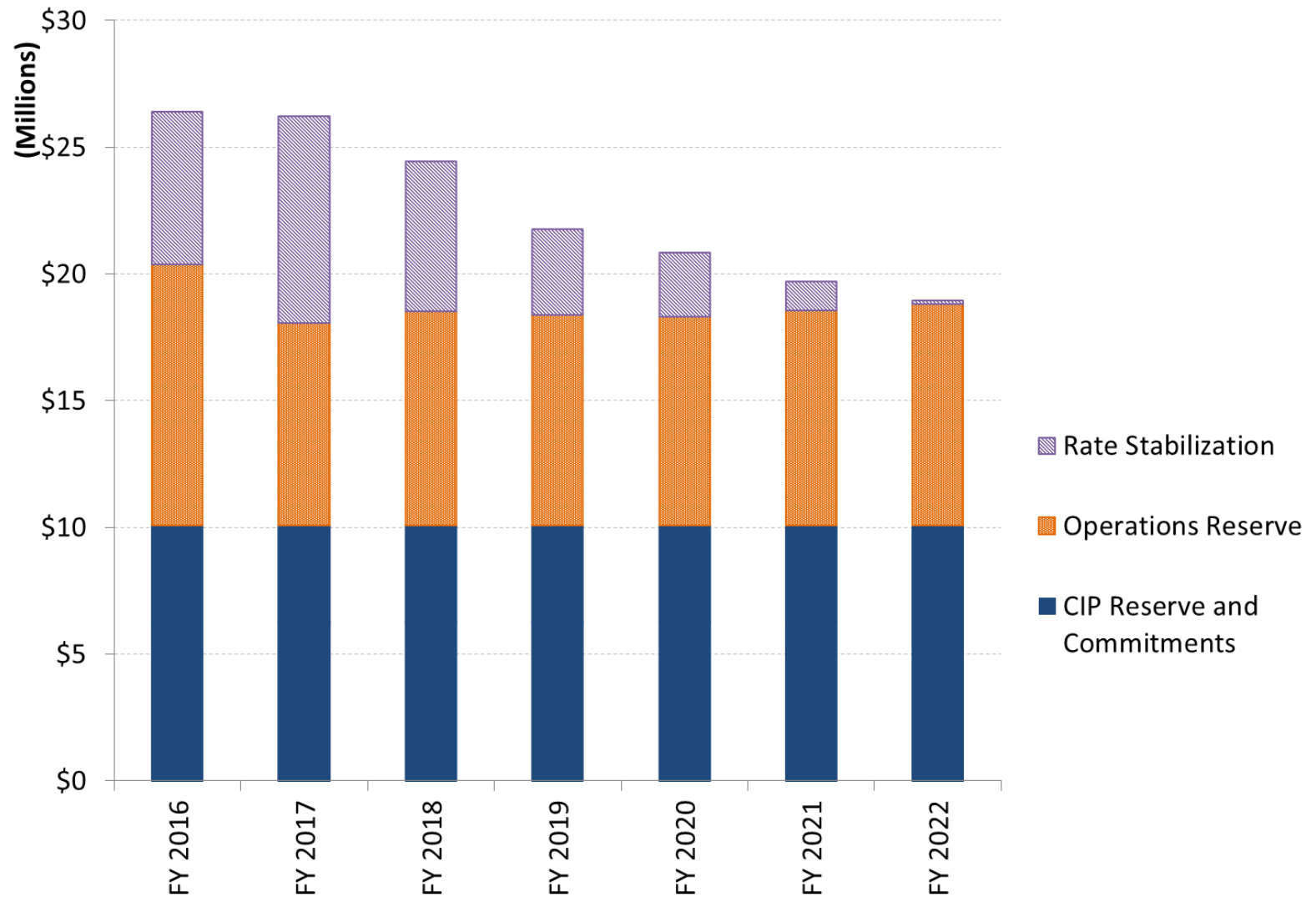
FY 2018 – FY 2022 Projections

- FY 2018: no rate increase required (assuming commodity prices are flat)
 - PG&E Transportation costs are now pass through
- FY 2019 – FY 2022 projected actions
 - Ongoing 2 to 3% non-commodity increases
- Reasons for change
 - CIP costs are temporarily lower due to project backlogs

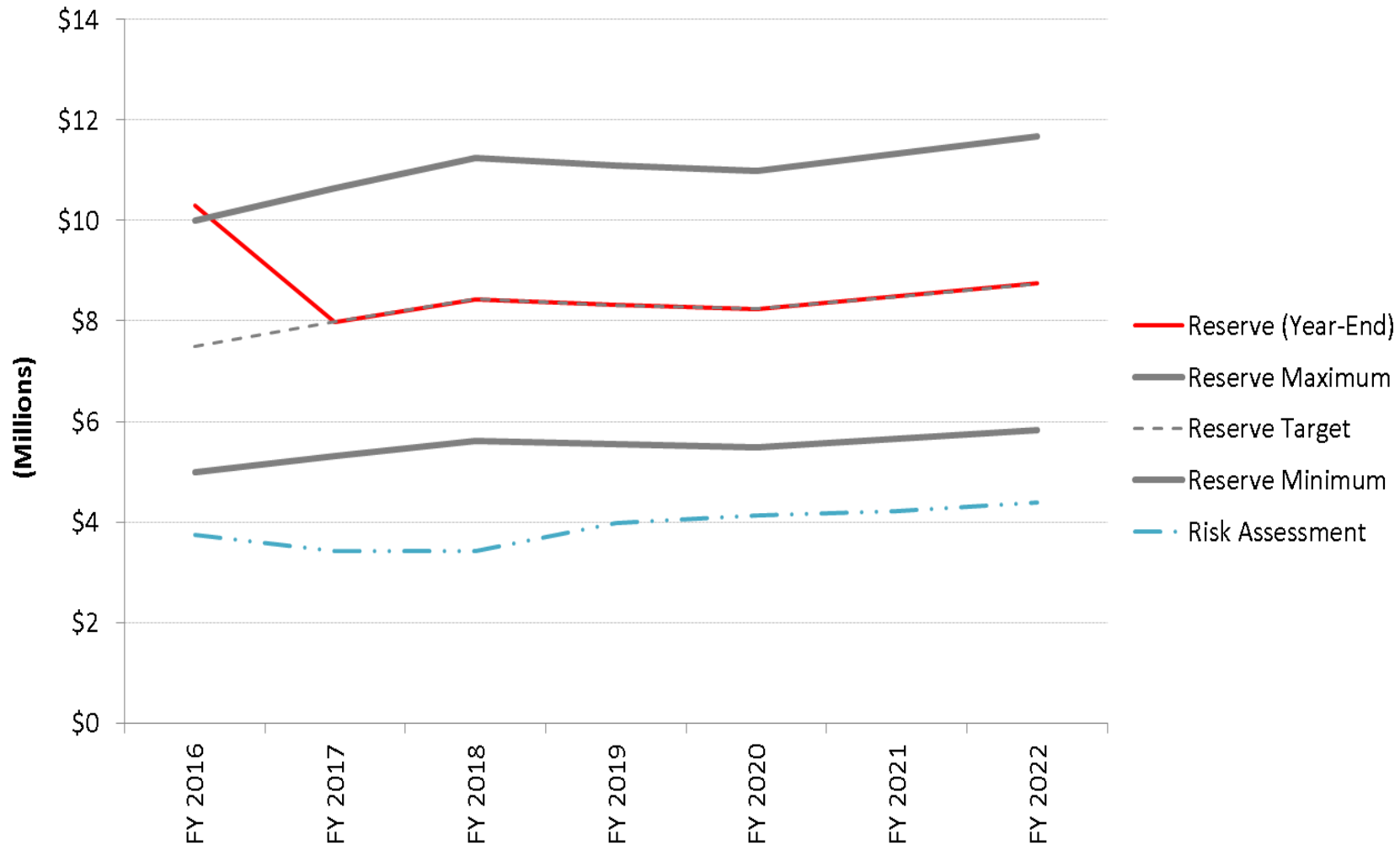
FY 2018 – FY 2022 Projections



FY 2018 – FY 2022 Reserves

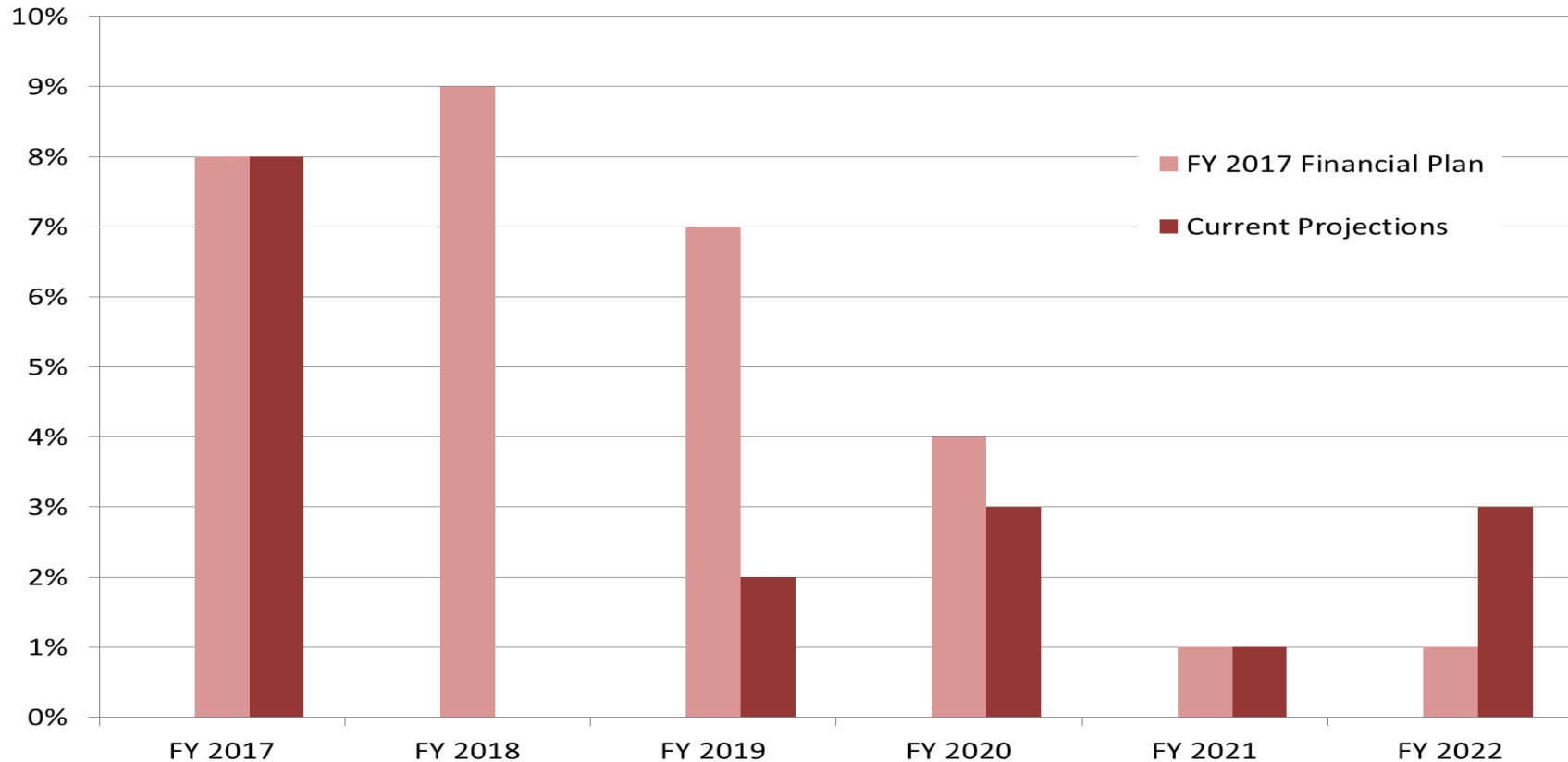


Operations Reserve



Projected Rate Changes ^{Gas Utility}

Comparison to FY 2016 Financial Plan Forecast



Changes in assumptions:

- CIP projects pushed out two years due to backlogs

What Potential Costs aren't Included in the Forecast?

- **Potential Revenue Loss:** Long term decrease in consumption due to fuel switching
 - **Solution:** This is a long-term policy issue requiring comprehensive analysis in the context of the Sustainability and Climate Action Plan policy making process.
- **Potential Cost:** Changes in design of Cap-and-Trade Program allowance allocations after 2020.
 - Current discussions centering around no allocated allowances after 2020. All allowances will need to be purchased, which will increase costs.

Wastewater Collection Utility Financial Projections FY 2018-FY 2022

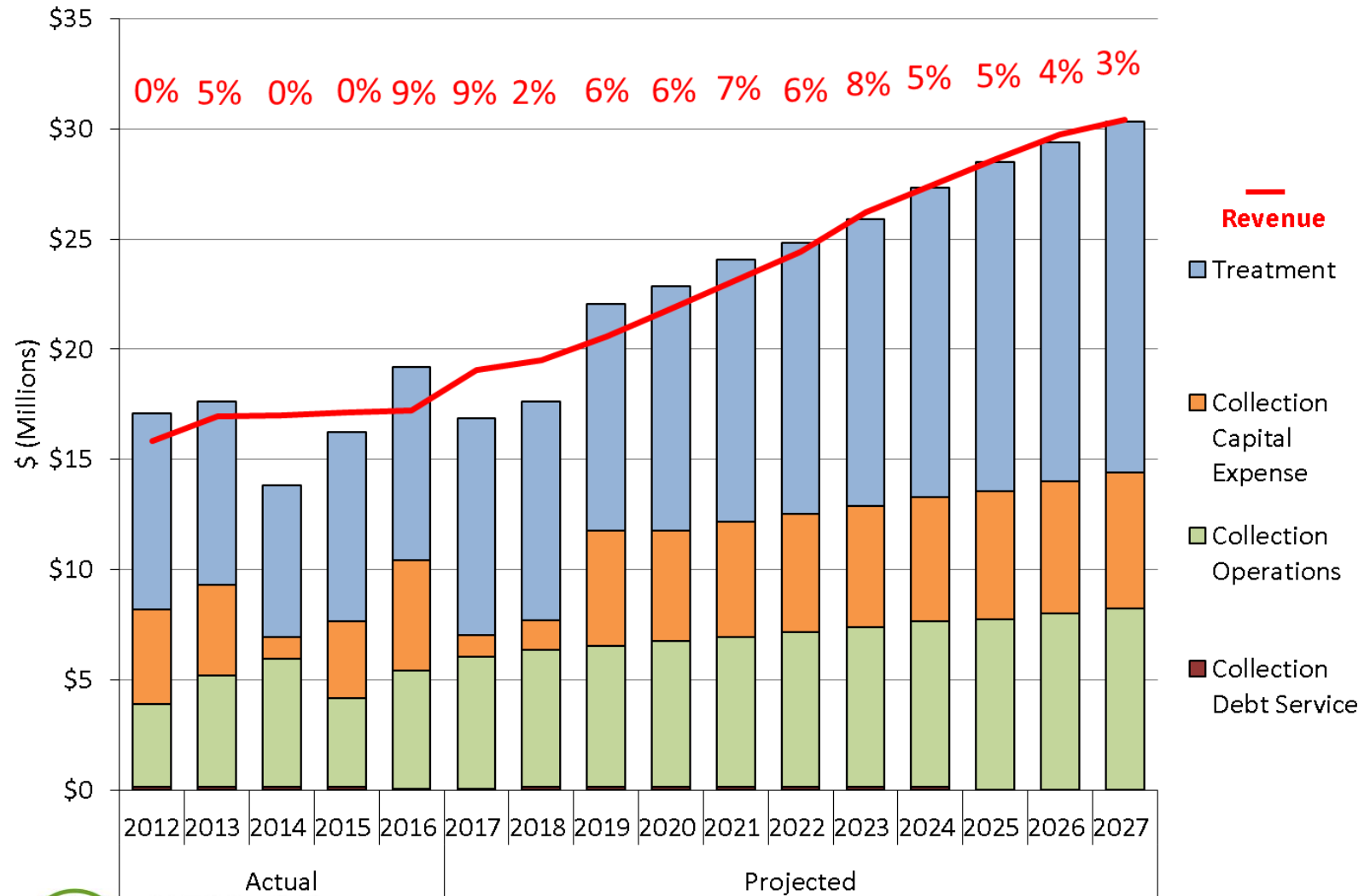
FY 2018 – FY 2022 Projections

- FY 2018 proposal: 2% rate increase
 - \$0.70 per month change on a residential bill
- FY 2019 – FY 2022 projected actions
 - Increases of 6 to 7% per year
 - Assumes continuing increases in treatment costs, operational costs

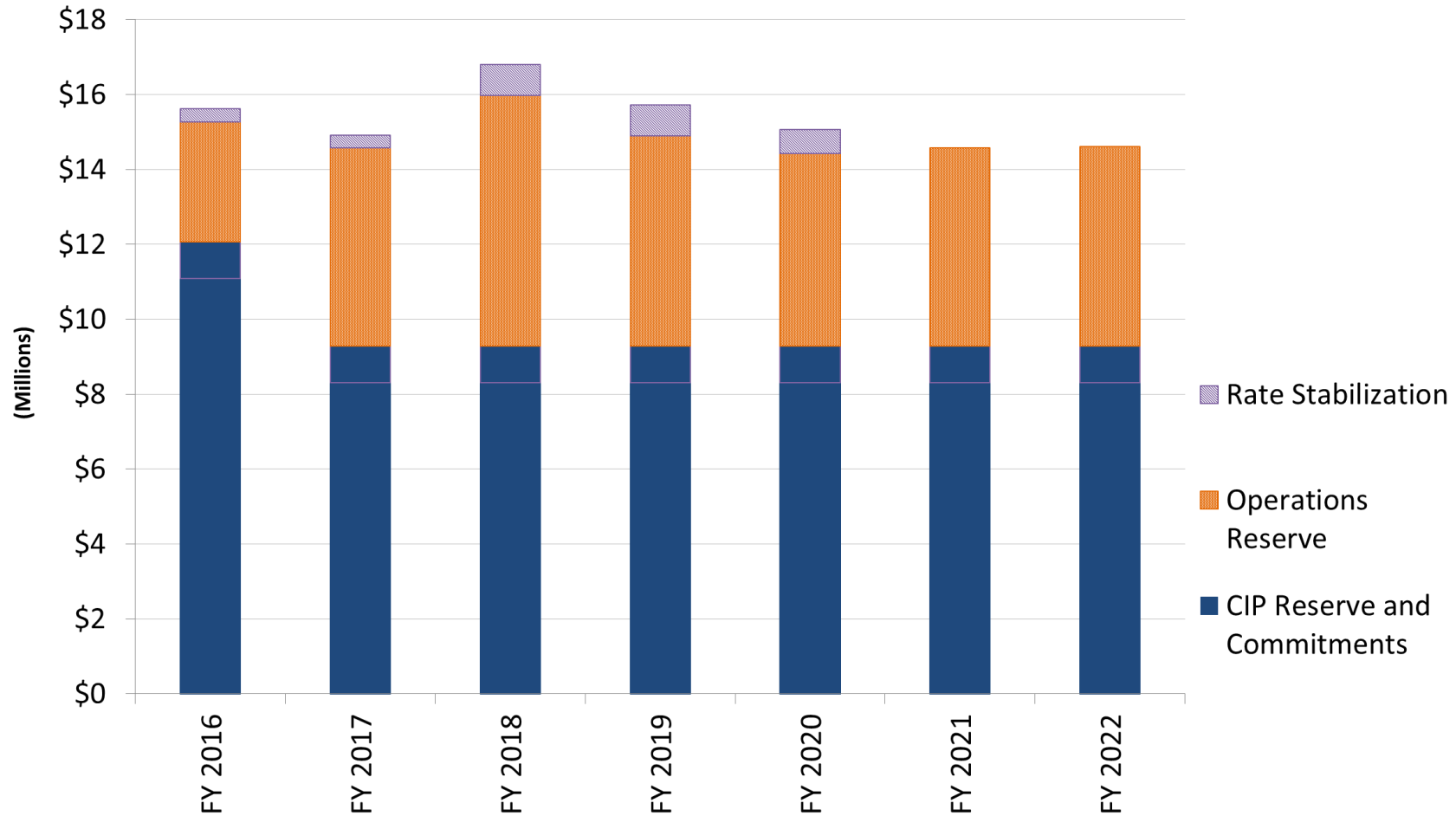
REVISED

Wastewater Collection Utility

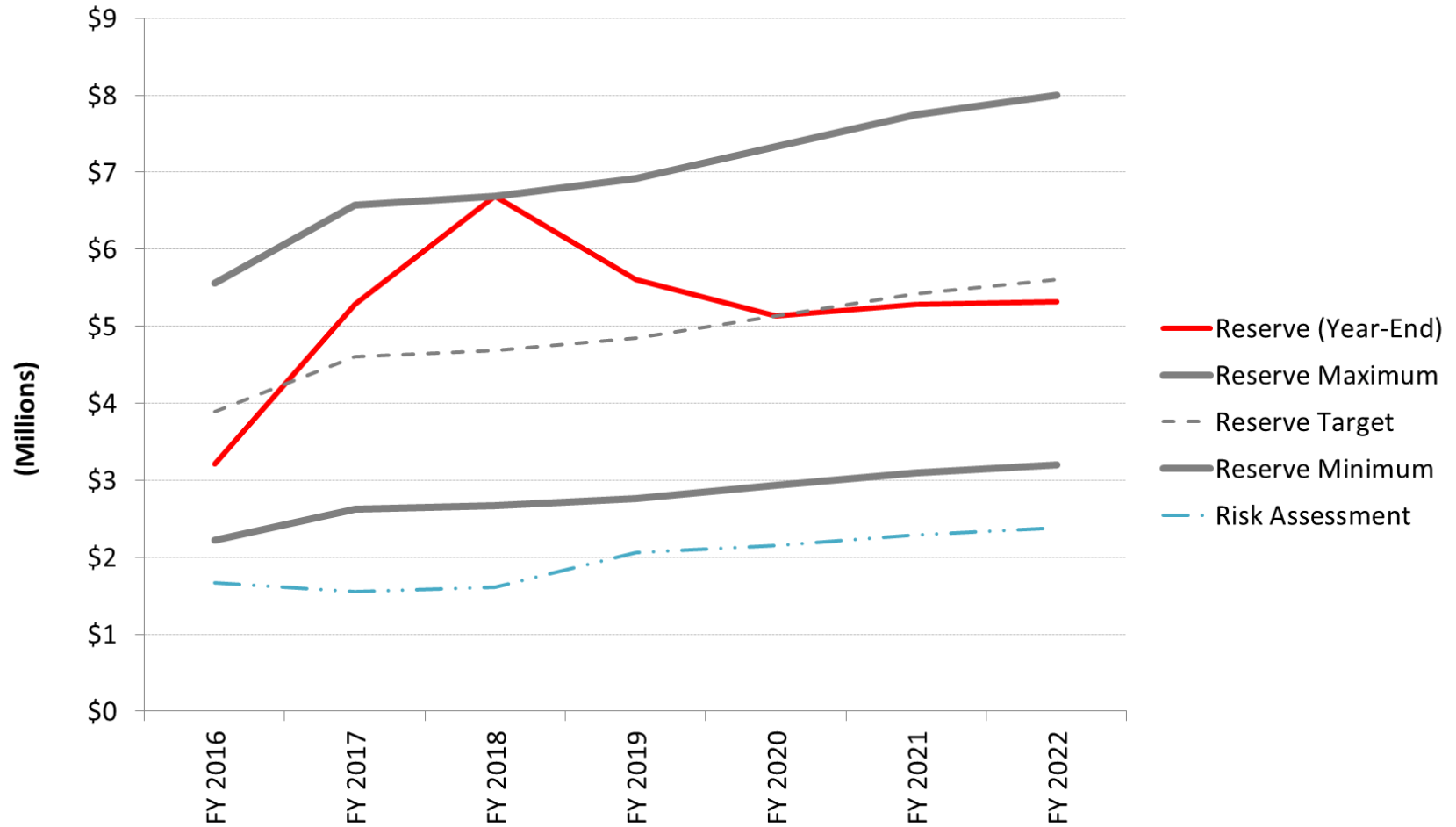
FY 2018 – FY 2022 Projections



FY 2018 – FY 2022 Reserves

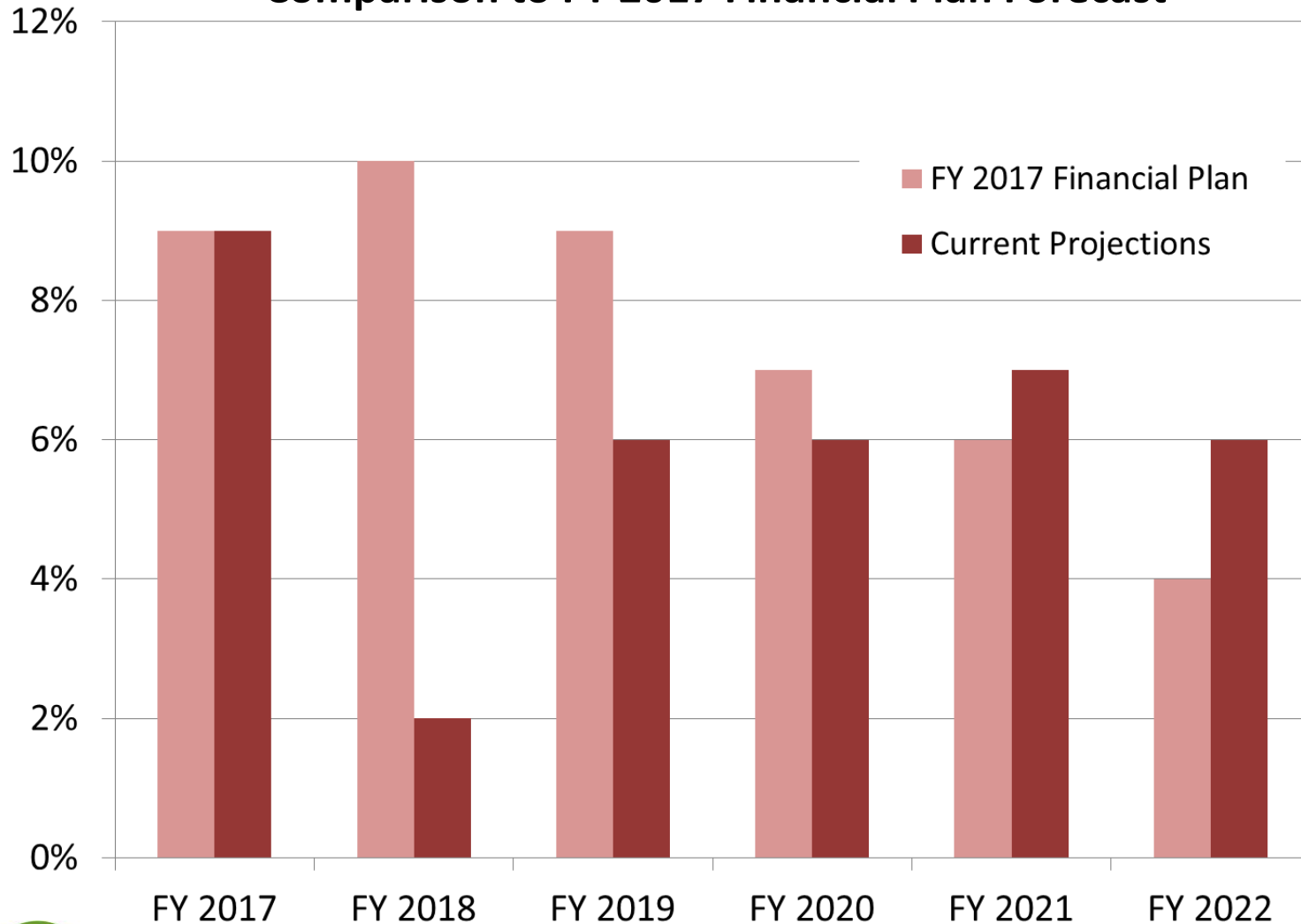


Operations Reserve



Projected Rate Changes

Comparison to FY 2017 Financial Plan Forecast



Uncertainties

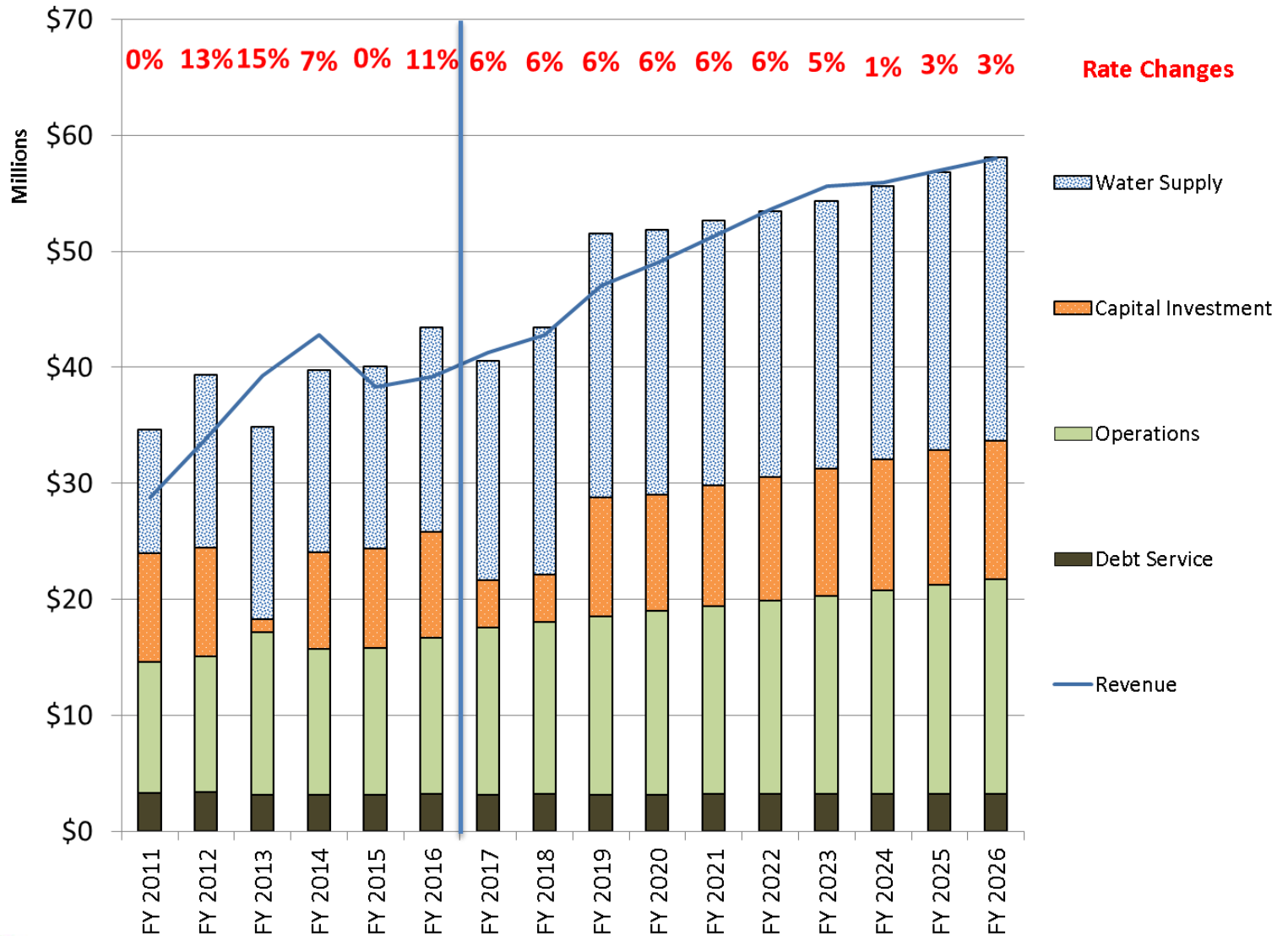
- Higher main replacement costs seen in water and gas occur here as well.
- Is current rate of main replacement optimal?

Water Utility Financial Projections FY 2018-FY 2022

FY 2018 – FY 2022 Projections

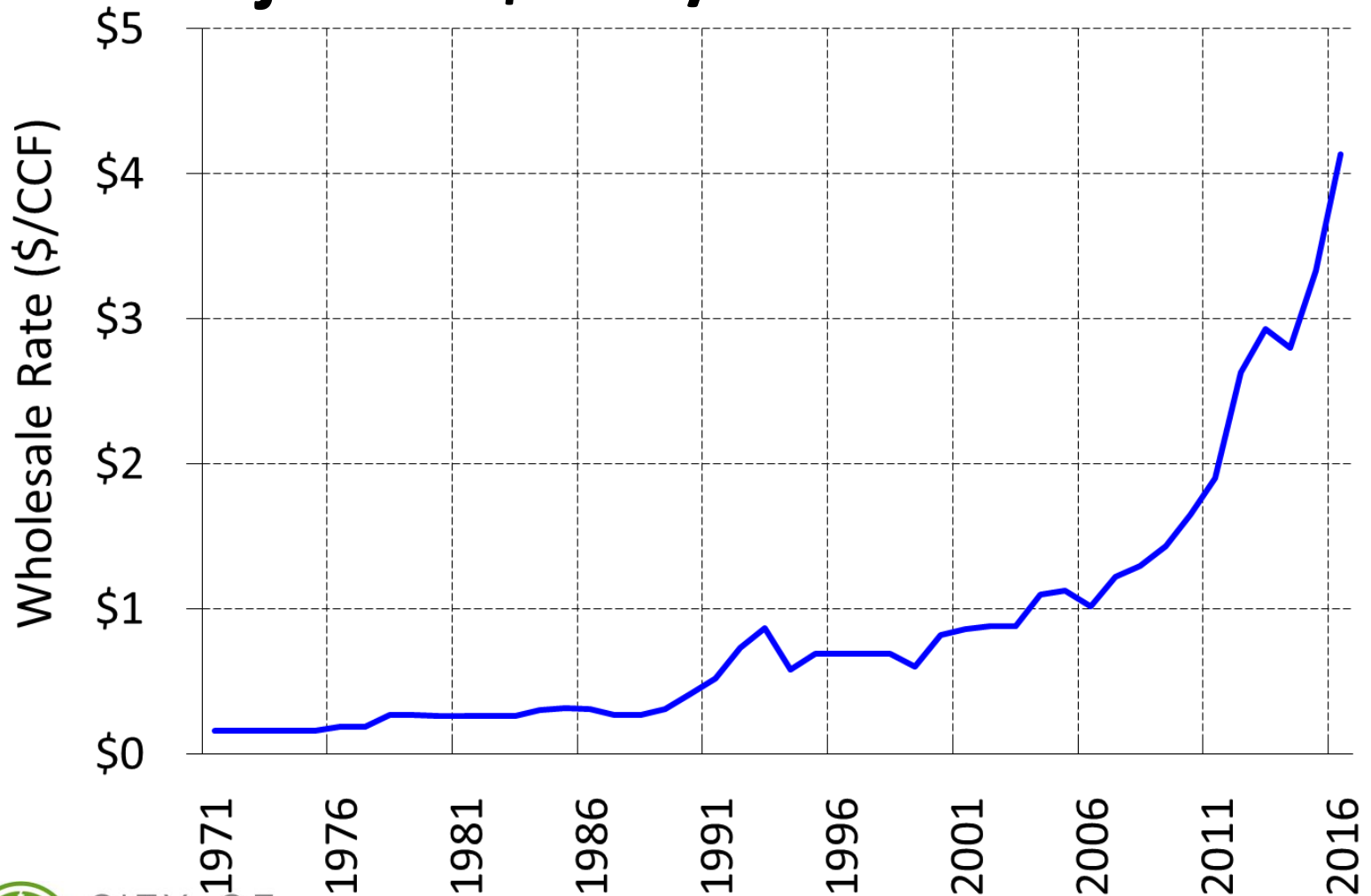
- FY 2018 proposal: 6% overall rate increase
 - Create separate commodity rate component
 - Increase commodity rate to match SFPUC wholesale rate (results in projected 6% overall rate increase)
 - End drought surcharge unless conditions change
- FY 2019 – FY 2022 projected actions
 - Distribution and commodity increases each year
 - Separate commodity rate will allow pass-through of changes to SFPUC rate, drought-related or otherwise

REVISED Water Utility FY 2018 – FY 2022 Projections

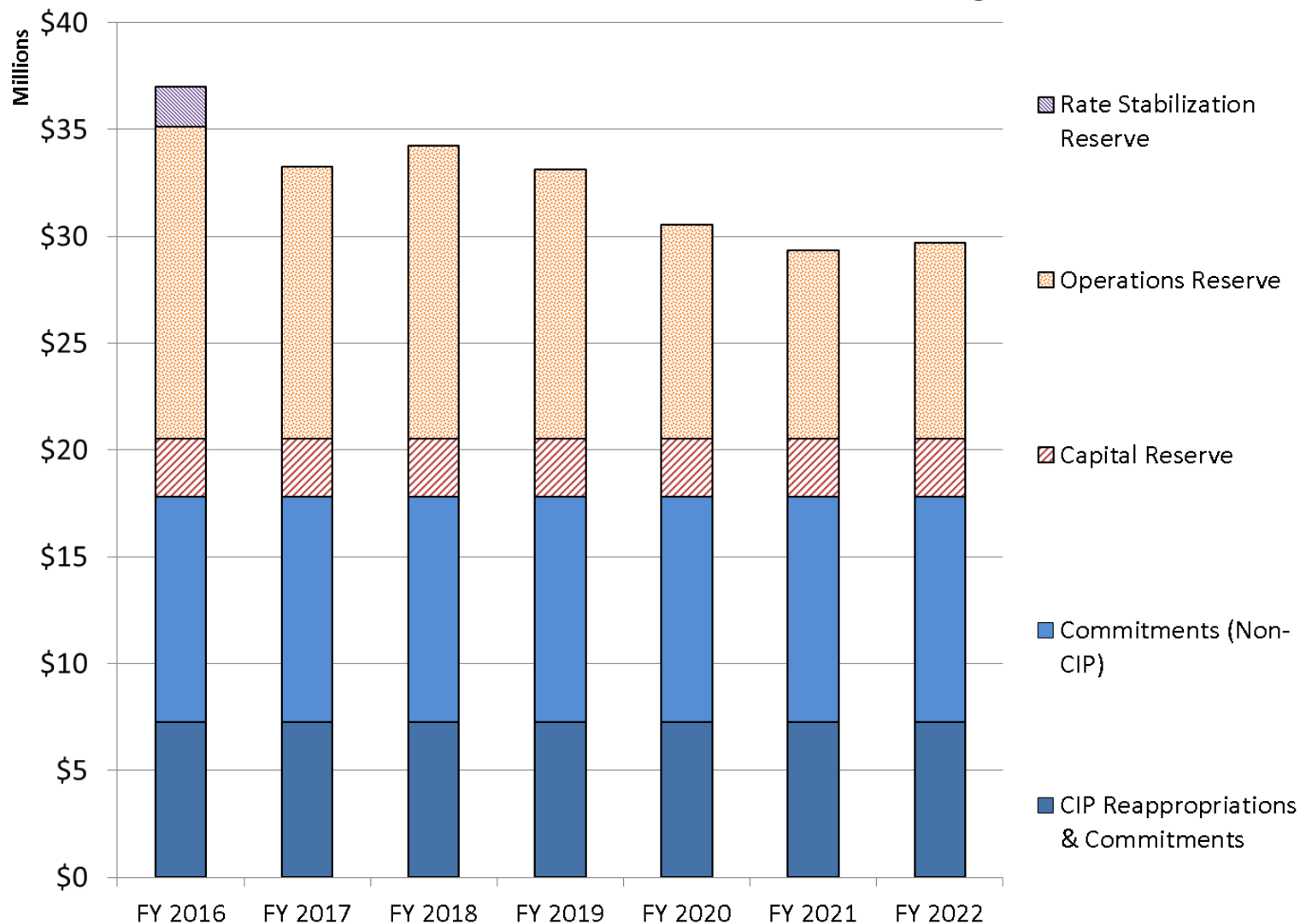


SFPUC Wholesale Water Rates

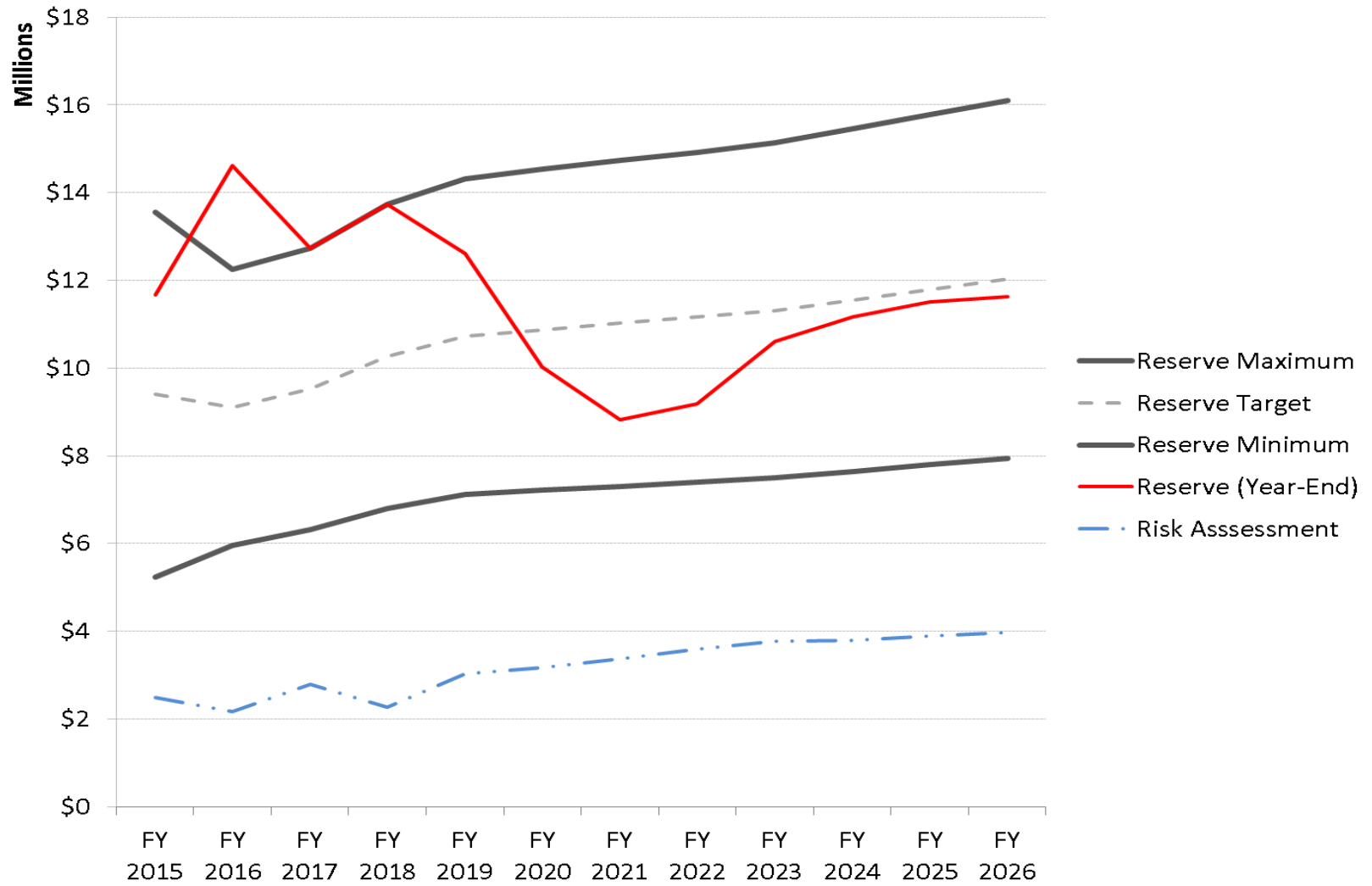
Projected \$4.37/CCF for FY 2018



FY 2018 – FY 2022 Projections

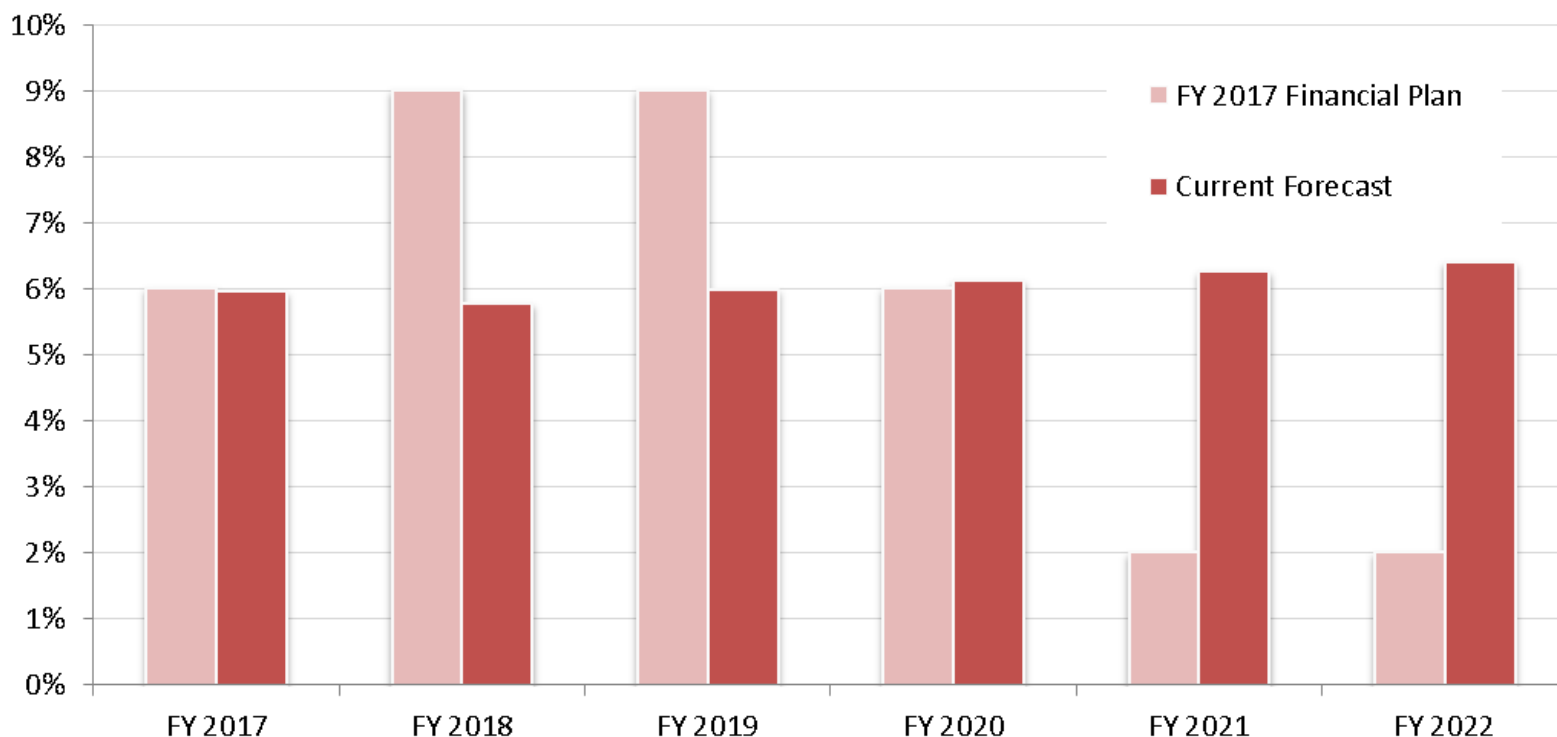


FY 2018 – FY 2022 Projections



Projected Rate Changes

Comparison to FY 2017 Financial Plan Forecast



Changes in assumptions:

- Deferred CIP spending
- Continuing lower load, uncertain level of recovery

Uncertainties

Capital Improvement Program Uncertainty:

Prices for main replacement are currently 50% higher than historical.

- How long will project costs remain higher.

Sales Uncertainty:

- How long will sales reductions from the drought last?
- What will the new 'normal' be?

What Potential Costs aren't Included in the Forecast?

- **Potential Revenue Loss:** Drought continues, at higher or lower levels of mandatory reduction required by SFPUC and/or State
 - **Solution:** Impose drought rates
- **Potential Cost:** Seismic rehabilitation work may be required on Foothills transmission line
 - **Solution:** A comprehensive review of reservoir configurations is being performed and will affect replacement decisions. Replacement may be limited to critical sections.
- **Potential Cost:** SFPUC will likely proceed with Mountain Tunnel rehabilitation work
 - **Impact:** Would affect commodity rates in outer years (after 2020) and result in roughly a one time 3% rate increase.
- **Potential Cost:** Recycled water project
 - **Impact:** Rate impact to be analyzed in 2017

Conclusion

Preliminary Rate Projections

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Timeline for Actions

- **March 2017:**
 - Water and Wastewater financial plans and rates to UAC
- **April 2017:**
 - Electric and Gas financial plans and rates to UAC
 - Water and Wastewater financial plans and rates to Finance
 - Proposition 218 notices sent to Water and Wastewater customers
- **May 2017:**
 - Electric and Gas financial plans and rates to Finance
- **June 2017:**
 - Council hearing/adoption of all rates to be effective July 1, 2017

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