MEMORANDUM

TO: **UTILITIES ADVISORY COMMISSION**

FROM: **UTILITIES DEPARTMENT**

DATE: **DECEMBER 5, 2012**

SUBJECT: **Utilities Quarterly Update – 1st Quarter of Fiscal Year 2013**

This update, on water, gas, electric, wastewater collection and fiber utilities, efficiency programs, legislative/regulatory issues, utility-related capital improvement programs, operations reliability impact measures and a utility financial summary, is for the Utilities Advisory Commission's (UAC) information only. This update has been prepared to keep the UAC apprised of the major issues that are facing the water, gas, electric, wastewater collection and fiber utilities.

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Utilities Update for First Quarter of FY 2013
December 2012

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I. Electricity

Western Area Power Administration Issues

Western Operations

For Fiscal Year (FY) 2012, the Western Base Resource supply was 407 Gigawatt-hours (GWh), which is about 7% above the long-term average level. Assuming median precipitation levels going forward, Western is projected to deliver approximately 363 GWh in FY 2013 and 361 GWh in FY 2014 (about 5% below long-term average levels).

Calaveras Hydroelectric Project Issues

Calaveras Operations

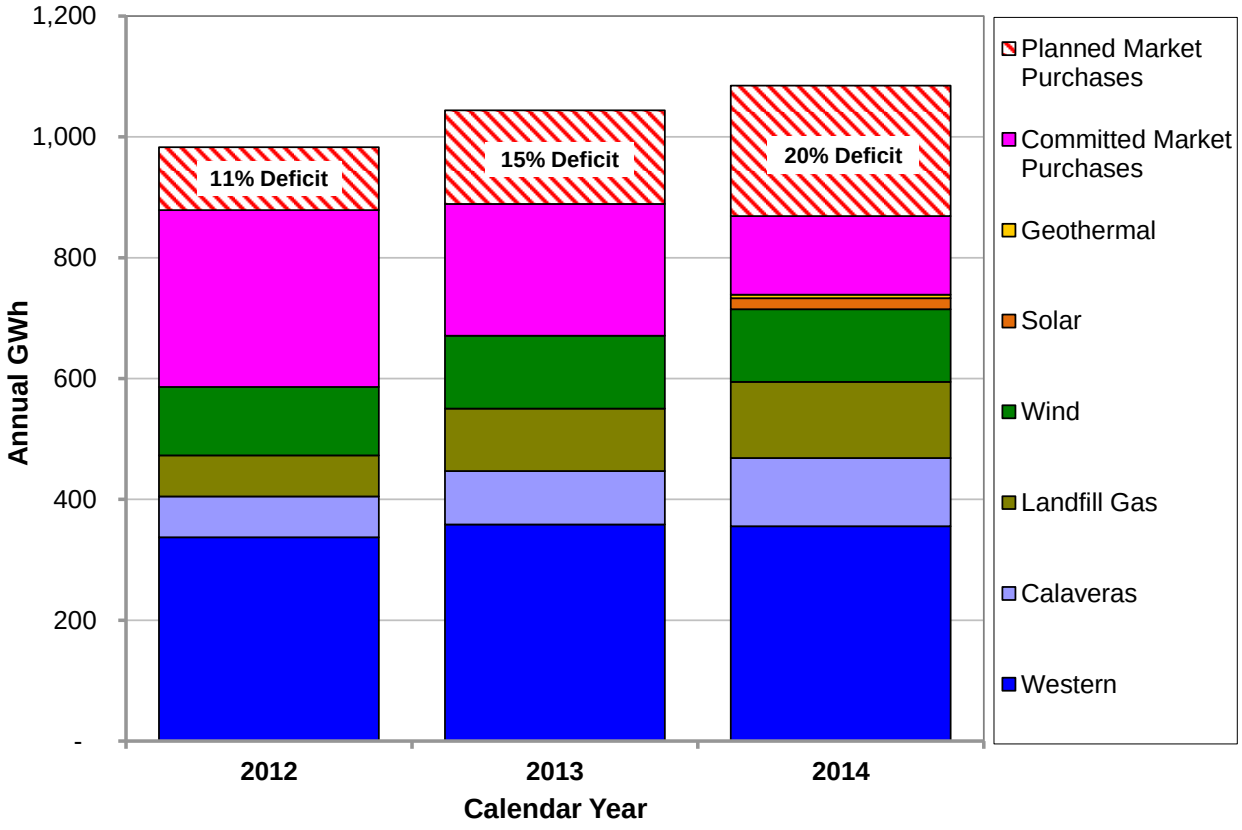
Calaveras generation for FY 2012 was 108 GWh, which is 18% below the long-term average level. Assuming median precipitation levels going forward, Calaveras generation is projected to be just 78 GWh in FY 2013 (40% below long-term average levels), and 101 GWh in FY 2014 (23% below long-term average levels).

Electric Load and Resource Balance

The size of the committed and planned market purchases over the next three calendar years (CYs) (shown in Figure 1 below) reflects a below average level of hydroelectric output, as discussed above. It also assumes that the Western GeoPower geothermal project begins commercial operations in late 2014 at the full project size that was originally planned at the time of the execution of the agreement. And, it incorporates the output of the newly approved Brannon Solar 20 MW project starting in August 2014.

For CYs 2012 through 2014, committed fixed-price forward purchases currently account for approximately 641 GWh, which represents 21% of the City's total load for that three-year period. Planned market purchases represent 14% of the City's total load for this period. Long-term resources (everything but forward and planned market purchases) currently account for 65% of the City's total load over this three-year period – a 1% increase from the last quarterly report.

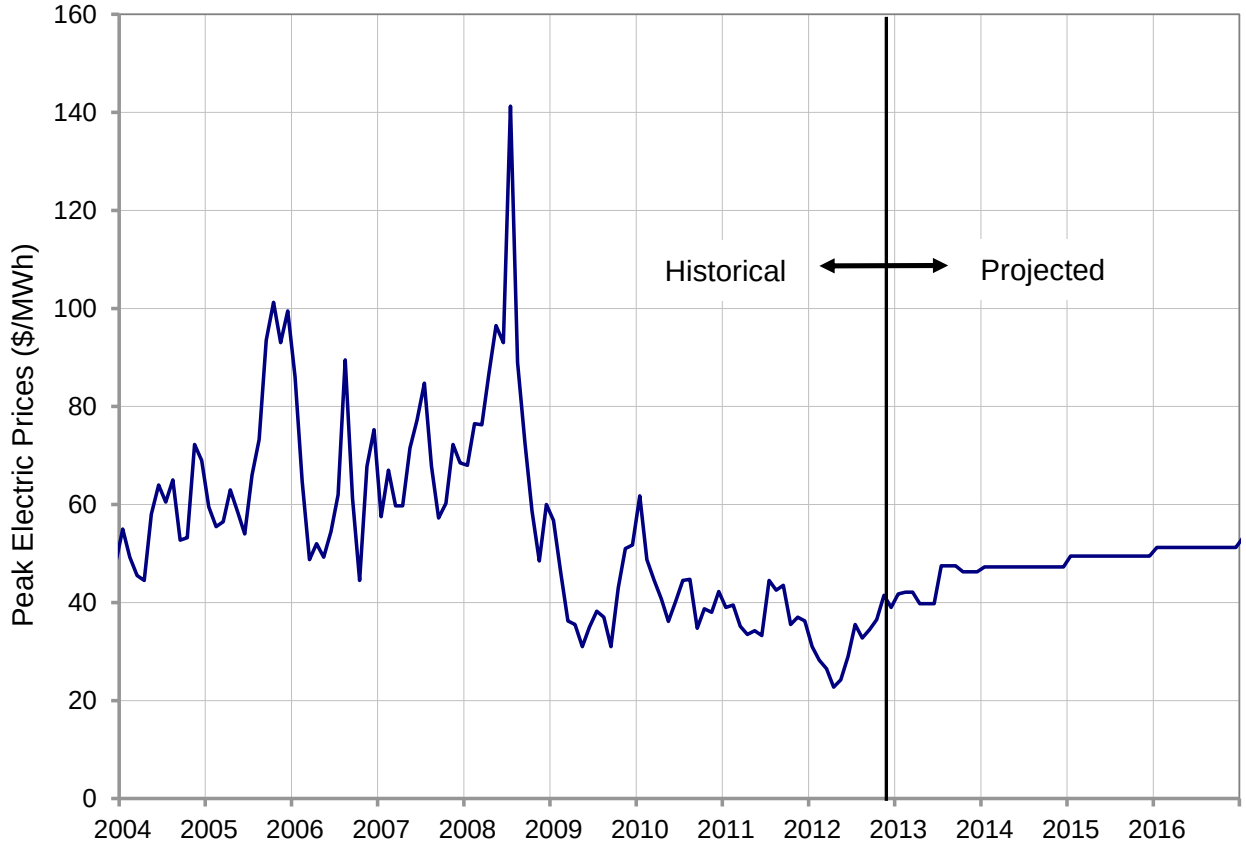
Figure 1: Electric Supply Resources, 2012 to 2014 – as of November 6, 2012



Electric Market Price History and Projections

As of November 6, 2012, the price for on-peak energy for the prompt month (December 2012) in Northern California was $39 per megawatt-hour (MWh), while the prices for January and February were $42/MWh and $41/MWh, respectively. These values are approximately $5-6/MWh higher than they were at the time of the last quarterly report.[1] On-peak prices for calendar year strips range from $43/MWh for 2013 up to $53/MWh for 2017. Prices for these outer years have increased as well, but only by about $1-2/MWh since the time of the last quarterly report. Figure 2 below illustrates historical monthly prices and projected monthly forward prices for Northern California from 2004 through 2016. The forward prices for 2014 and beyond are for a flat annual calendar year product.

Figure 2: Northern California Peak Electric Prices – as of November 6, 2012



[1] Market prices for the previous quarterly report were from September 10, 2012.

Electric Budget and Portfolio Performance Measures

Figure 3, Figure 4, and Figure 5 below show the City's electric consumption by month as well as the supply cost by month and by cost category. The aggregate supply cost for the first quarter of FY 2013 was $15.5 million, approximately $1.8 million less than the adopted budget of $17.4 million. The lower costs were because there were fewer market purchases due to expected increases in load that have not yet materialized (see Figure 3), as well as bill adjustments from the prior fiscal years recognized in the current fiscal year.

Figure 3: Actual vs. Budgeted Electric Consumption

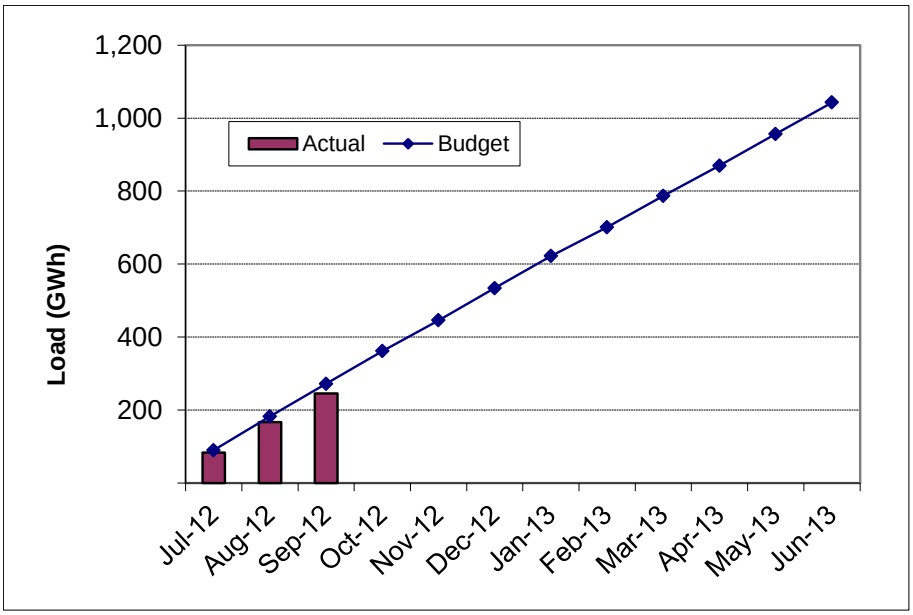


Figure 4: Electric Supply Cost – Budget vs. Actual

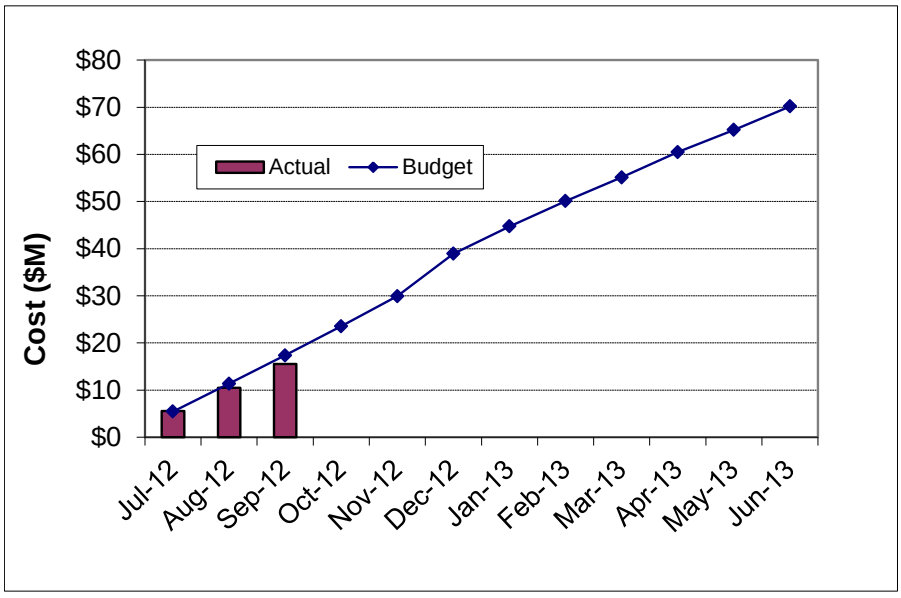


Figure 5: FY 2013 (Jul-Sep) Electric Supply Costs by Category – Budget vs. Actual

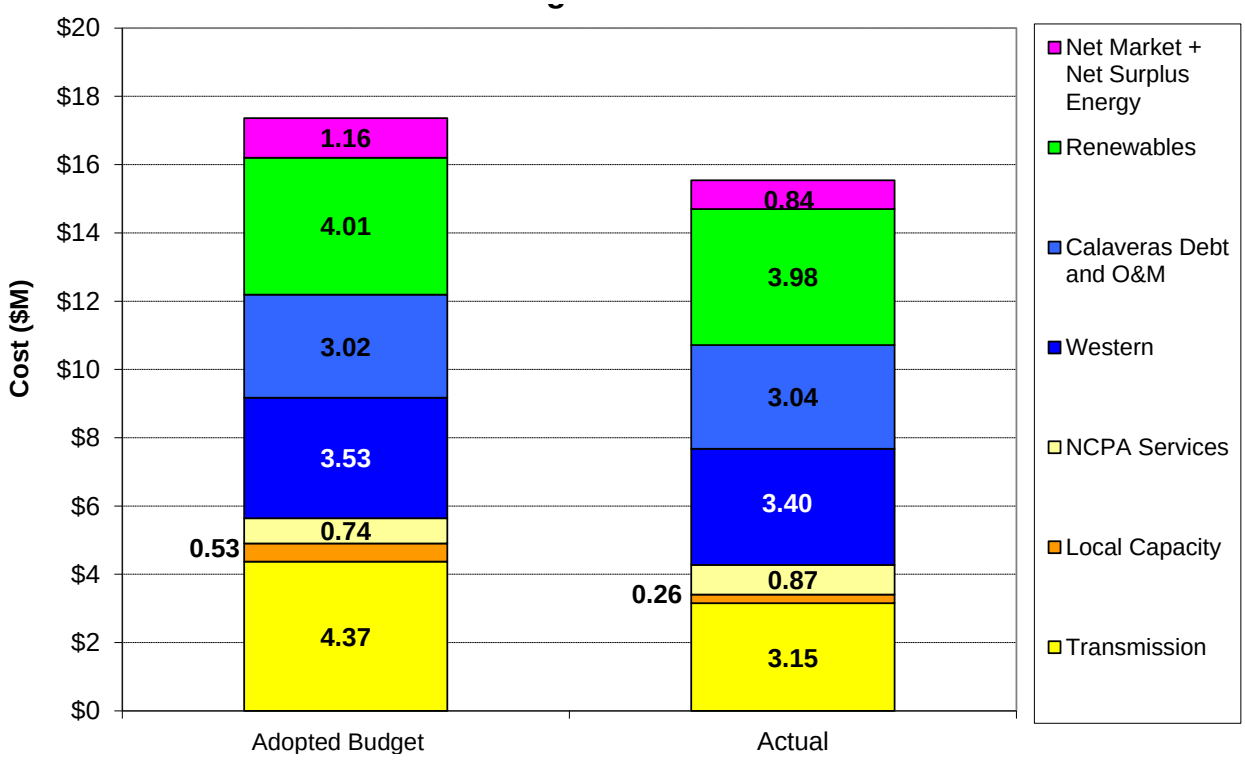


Figure 6 and Figure 7 below summarize the City's electric supply sources for FY 2013. Hydroelectric power deliveries from the City's Calaveras hydroelectric project have been substantially lower than budgeted, as have wind resources, but other resources have delivered roughly what they were projected to deliver.

Figure 6: FY 2013 Electric Load and Resource Balance

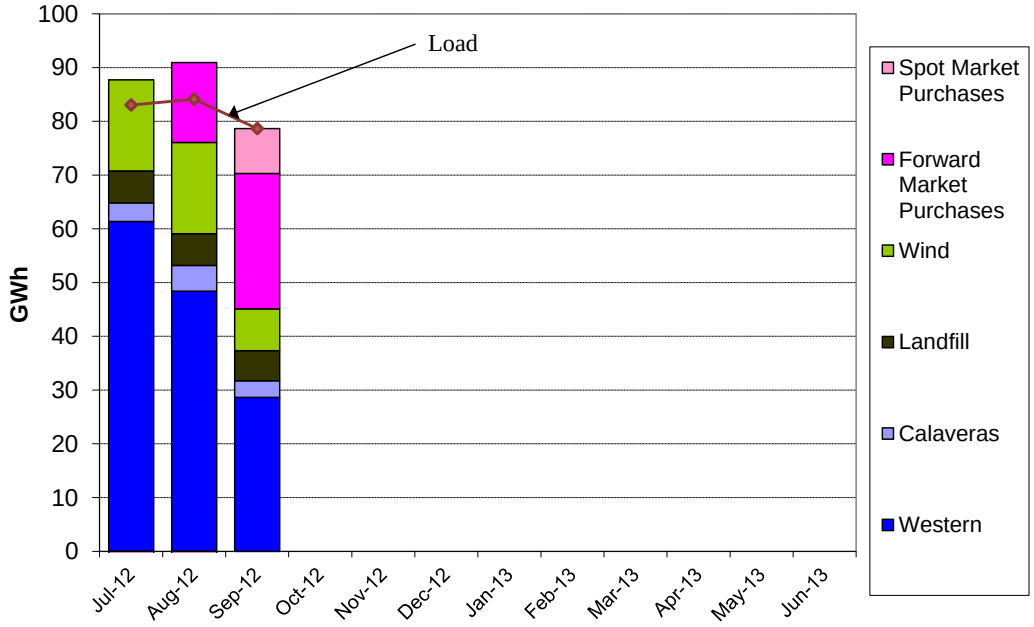


Figure 7: FY 2013 (Jul-Sep) Electric Supply Resources – Budget vs. Actual

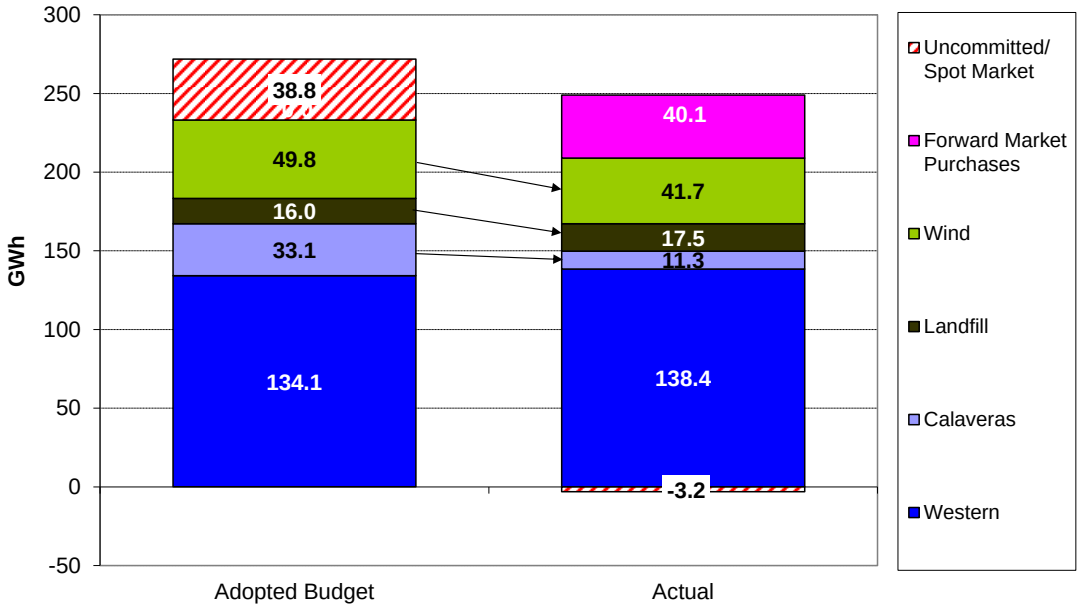


Figure 8, below, shows that market electricity prices are fairly close to the prices projected in the budget.

Figure 8: FY 2013 Electric Market Prices – Budget vs. Actual

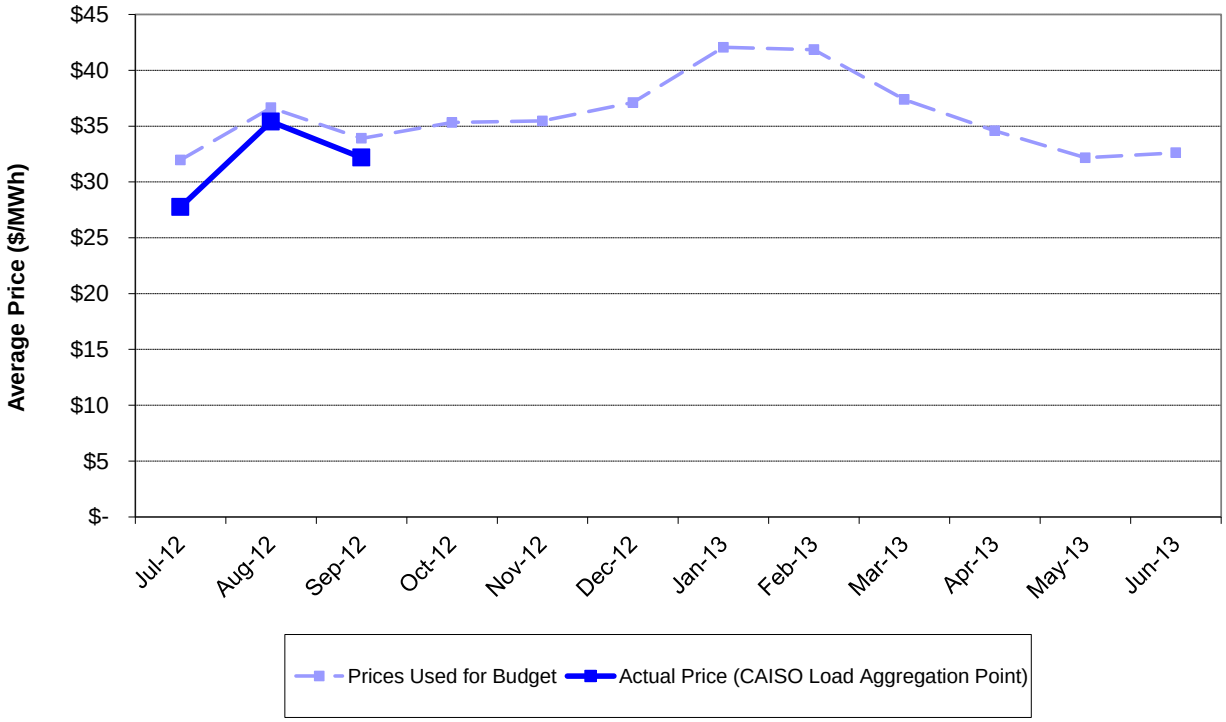
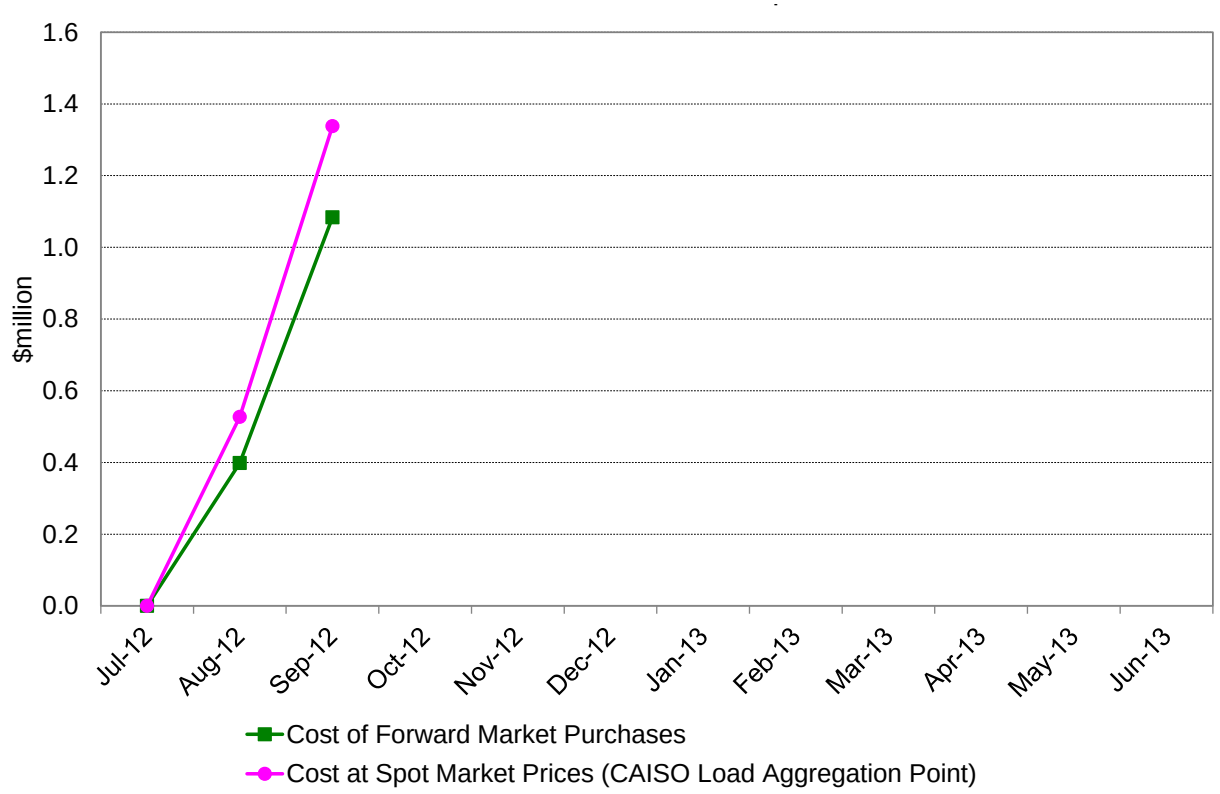


Figure 9 compares the current strategy of making laddered fixed-price forward purchases to a strategy of buying all market power in the spot market. For Q1 FY 2013 the cost of energy purchased through the City's Electric Master Agreements was roughly $260,000 (19%) lower than they would have been at spot market prices. This was due to increases in the price of power since the time the purchases were made.

Figure 9: FY 2013 Electric Forward Market Purchase Cost vs. Spot Market

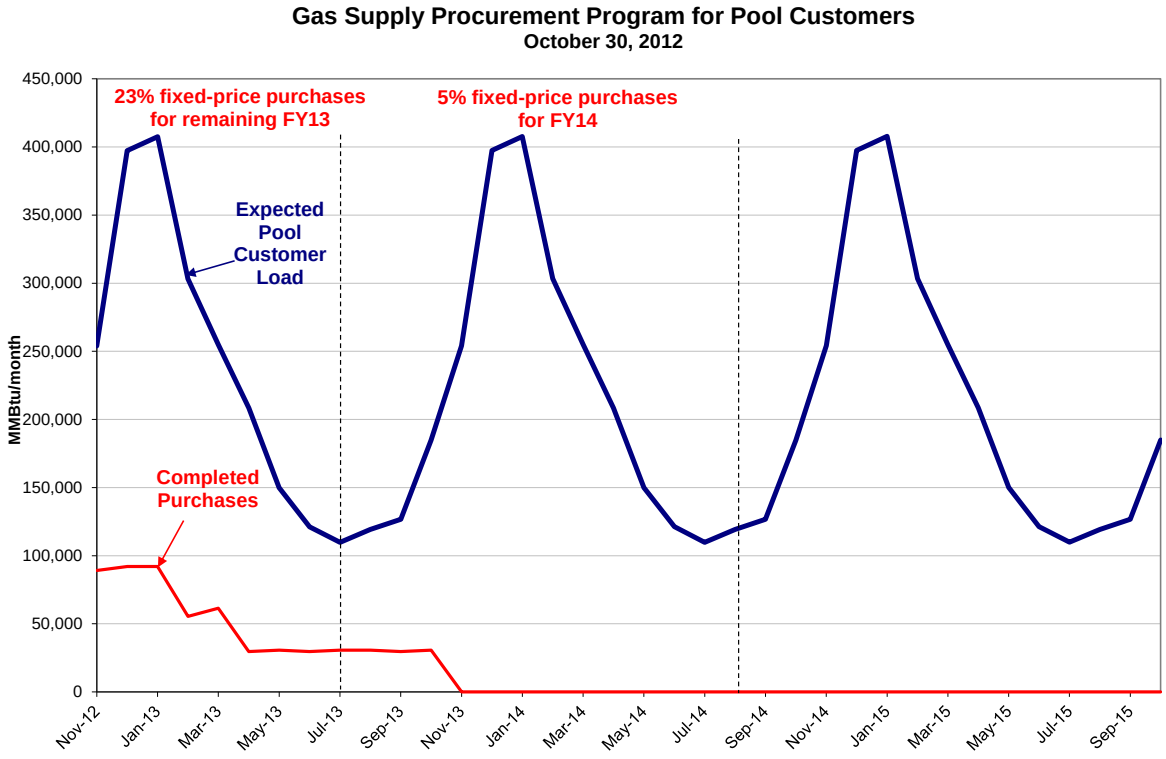


II. Natural Gas

Gas Supply Portfolio

Figure 10 shows the completed fixed-price purchases compared to the customer load as of October 30, 2012. While fixed-price gas purchases have been suspended, the Pool load is partially hedged with fixed-price gas through October 2013. Currently, fixed-price purchases make up 23% and 5% of the expected Pool load in FY 2013 and FY 2014, respectively.

Figure 10: Gas Supply Laddering Strategy



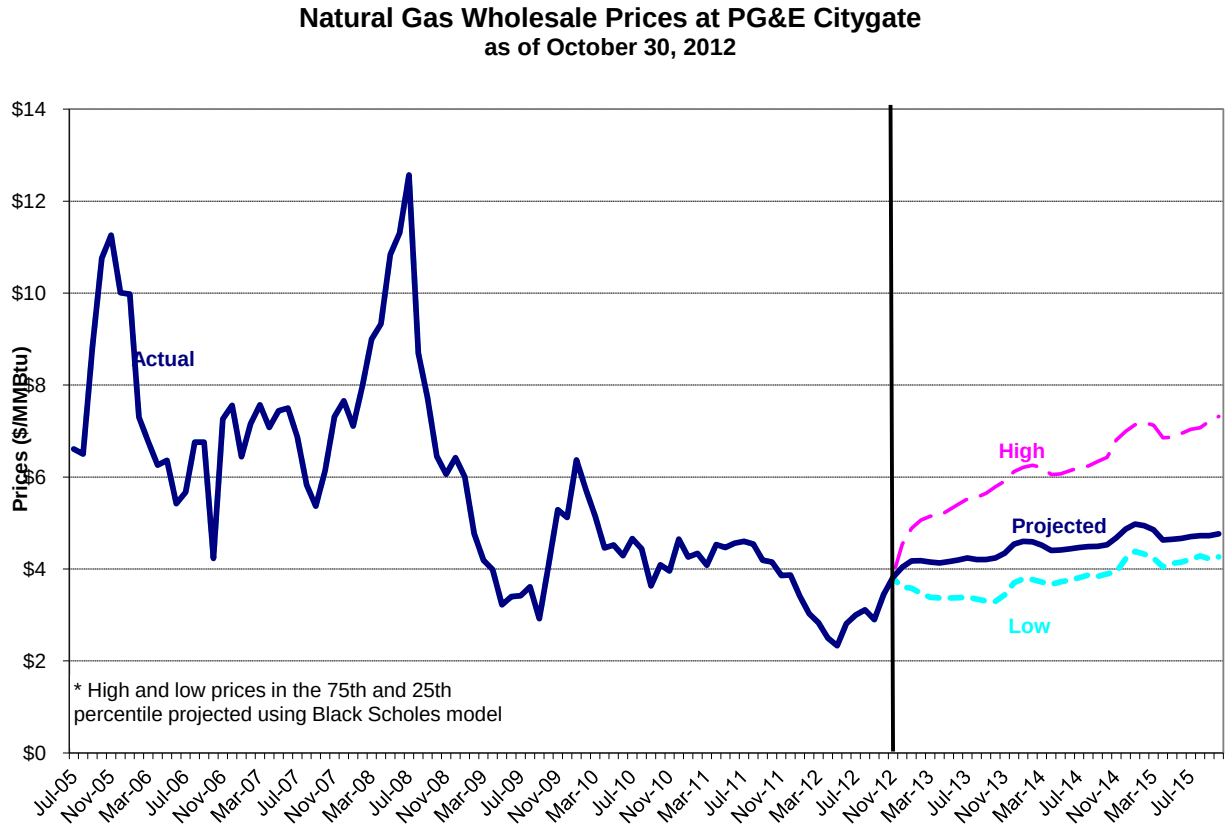
Gas Market Price History and Projections

Forward gas prices for delivery at PG&E Citygate between November 2012 and March 2013 have climbed 15% in the past two months and currently average $4.07 per Million British Thermal Units (MMBtu). The November bidweek gas index price at PG&E Citygate settled at $3.89/MMBtu, which is $1 higher than the October bidweek price. The average 12-month forward strip price is currently $4.23/MMBtu for 2013 and $4.52/MMBtu for 2014. Gas prices at PG&E Citygate are expected to remain under $6/MMBtu through 2020.

Figure 11 below shows historical monthly bidweek index prices and forward natural gas prices at PG&E Citygate as of October 30, 2012. Also shown in Figure 11 are high and low ranges for

the projected future prices. The high and low prices are derived using current call option premiums to estimate the market's perception of future price volatility.

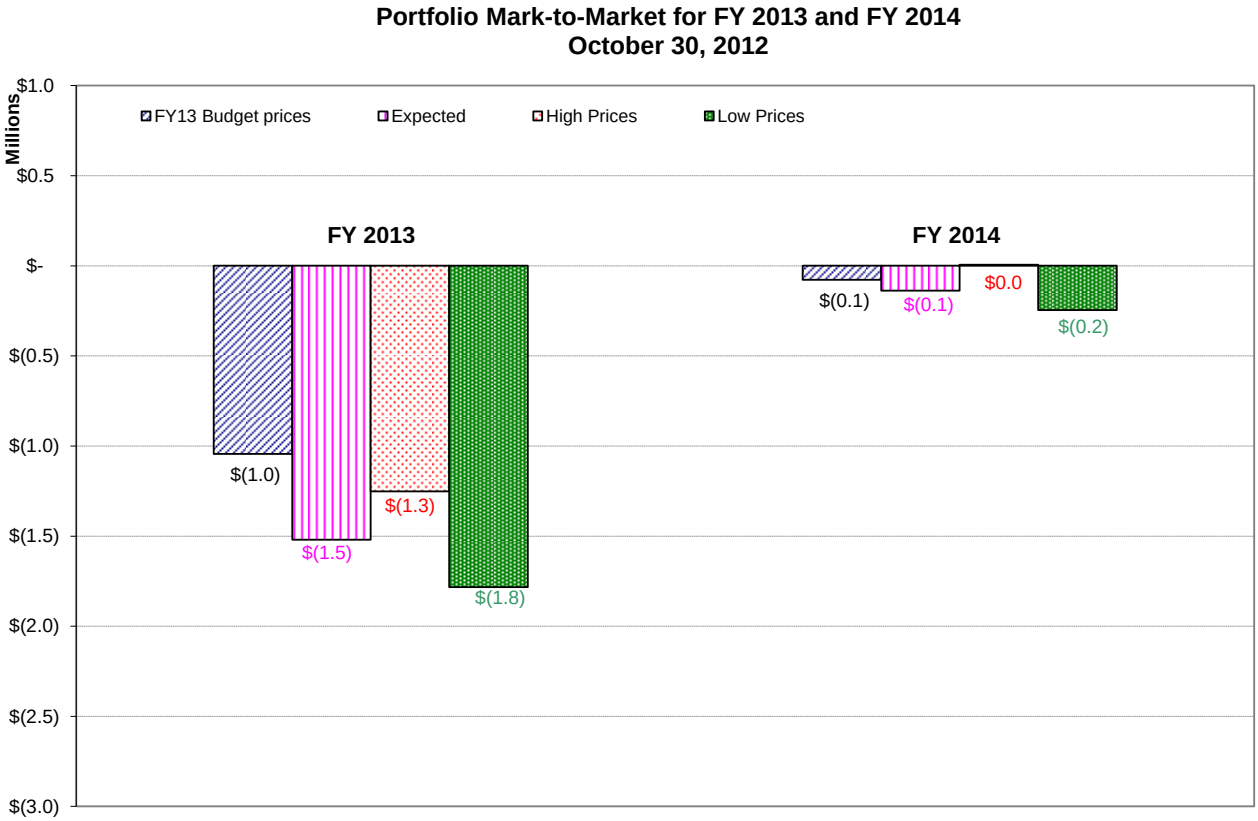
Figure 11: Natural Gas Prices – Historical and Projected



Gas Pool Portfolio Average Cost vs. Market

Because of prior fixed-price purchases, the City's weighted average cost of gas (WACOG) differs from the current forward market price. The City's estimated WACOG for the pool is $4.46/MMBtu for FY 2013, or approximately 14% higher than the projected market cost weighted by monthly load. As expected, since pool customers are now charged a market-based gas commodity rate, there will be an under-collection of gas commodity revenue through October 2013. Figure 12 shows the drawdown on the Gas Supply Rate Stabilization Reserve based on the mark-to-market (cost minus value) of the fixed-price gas purchases to be delivered in FY 2013 and FY 2014.

Figure 12: Projected Drawdown from Gas Supply Reserve in FY 2013 and FY 2014

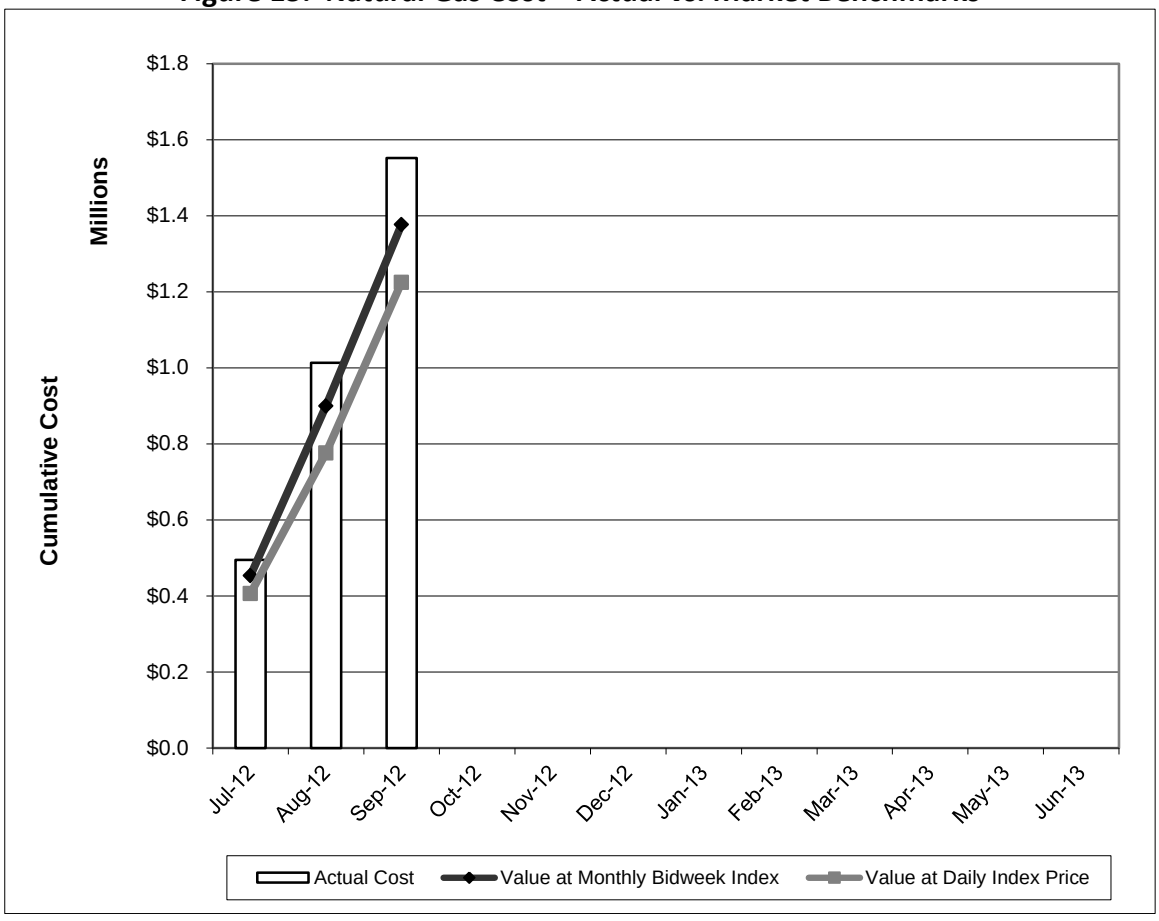


Gas Budget and Portfolio Performance Measures

Gas Commodity Cost

The monthly average natural gas purchase cost is compared to different market benchmarks in Figure 13. The figure compares the commodity purchase cost under the City's former gas purchasing strategy, the gas laddering strategy, to the current strategy of purchasing gas indexed to monthly or daily PG&E Citygate prices. The cumulative actual cost of gas for the fiscal-year-to-date is $175,000 (13%) higher than if the gas were purchased at monthly index prices and $327,000 (27%) higher than if CPAU had purchased gas at the daily index prices. The last delivery month for which forward purchases were made under the former strategy is October 2013, after which the CPAU cost of gas will closely track the monthly index price.

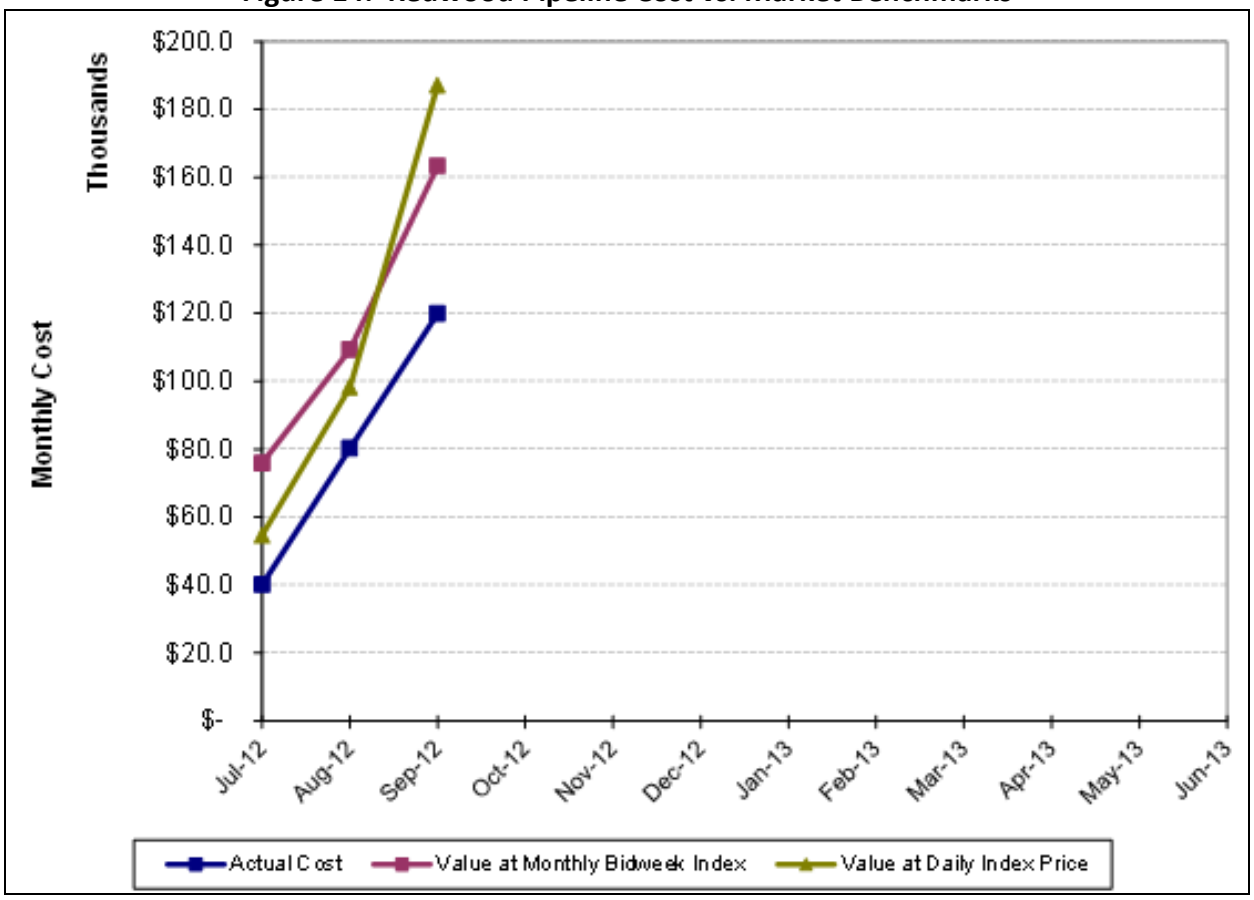
Figure 13: Natural Gas Cost – Actual vs. Market Benchmarks



Value of CPAU's Share of Redwood Pipeline Capacity

The City's share of the Redwood pipeline provided a net savings of approximately $43,000 in Q1 FY 2013. This is calculated as the difference between the value of Redwood capacity of $162,000 (found from the difference of monthly bidweek prices at both ends of the Redwood pipeline in Malin Oregon and PG&E Citygate) and the $119,000 transportation costs of using the Redwood pipeline. Figure 14 below shows the cost of Redwood transmission compared to the value at month-ahead spot market prices as well as daily spot market prices.

Figure 14: Redwood Pipeline Cost vs. Market Benchmarks



Natural Gas Consumption and Costs: Budget vs. Actual

Figure 15 and Figure 16 below demonstrate natural gas use and costs in comparison with the FY 2013 budget. Natural gas use was roughly equal to the budget forecast. Costs were $474,000 (21%) lower than budgeted amounts. The lower costs were primarily due to gas prices that were lower than in the budget forecast (see Figure 17) combined with a larger percentage of the City's gas purchases being made in the month-ahead or day-ahead market.

Figure 15: Natural Gas Consumption – Budget vs. Actual

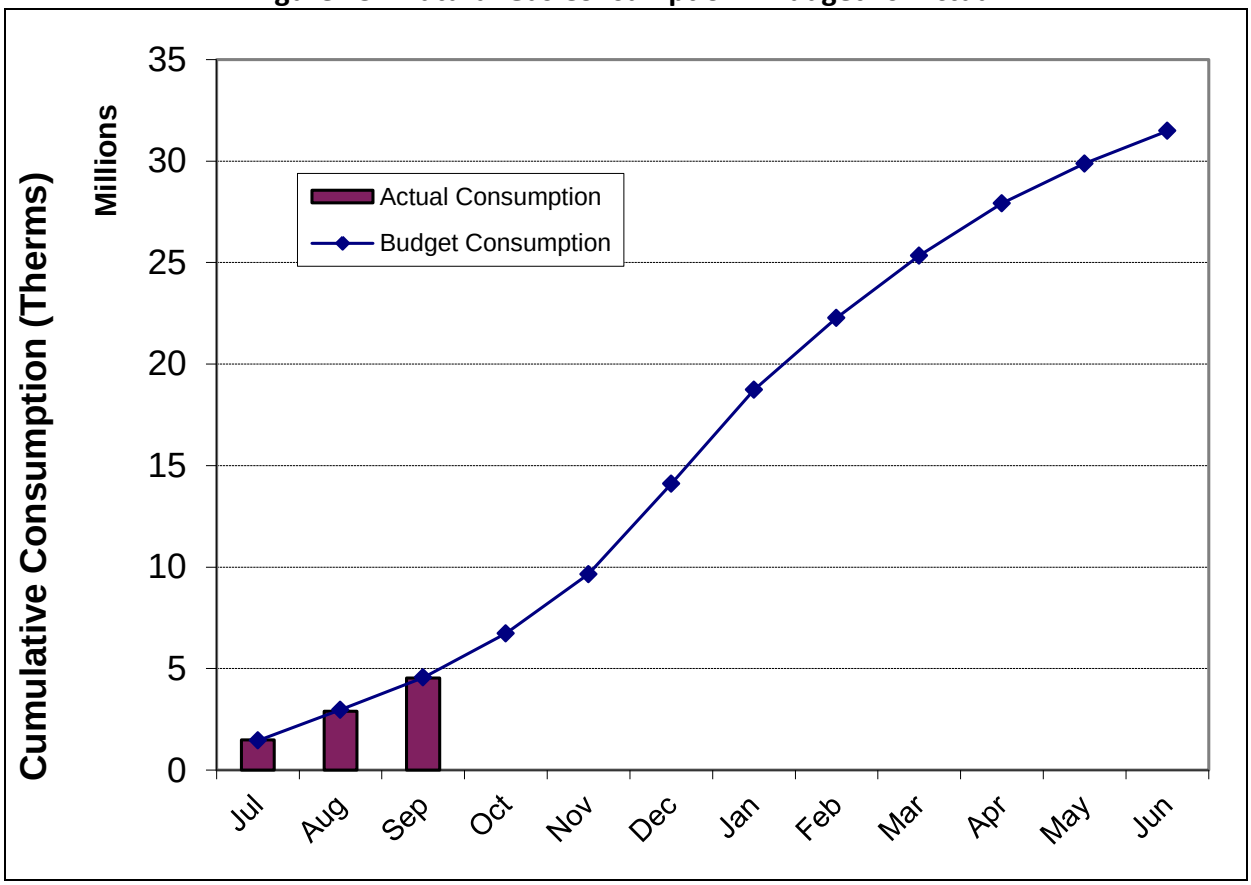


Figure 16: Natural Gas Cost – Budget vs. Actual

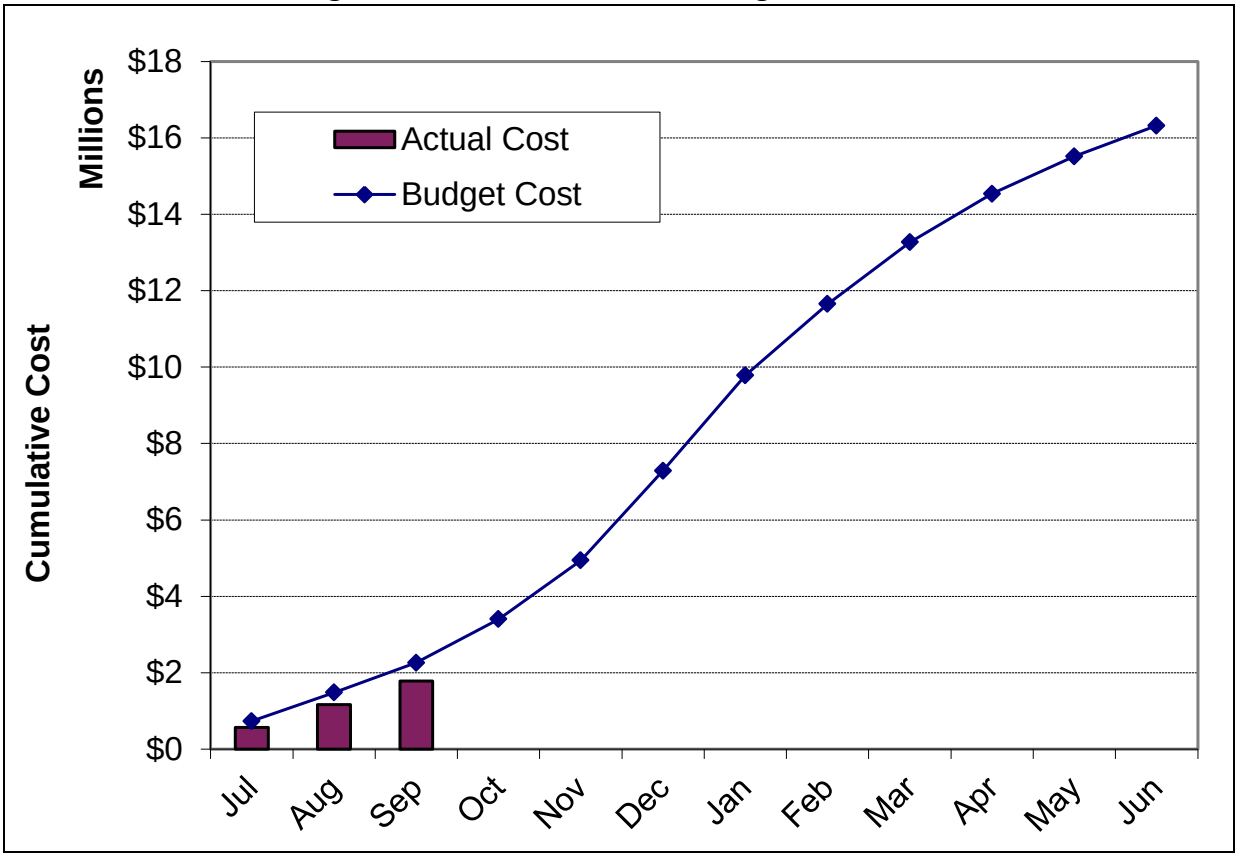
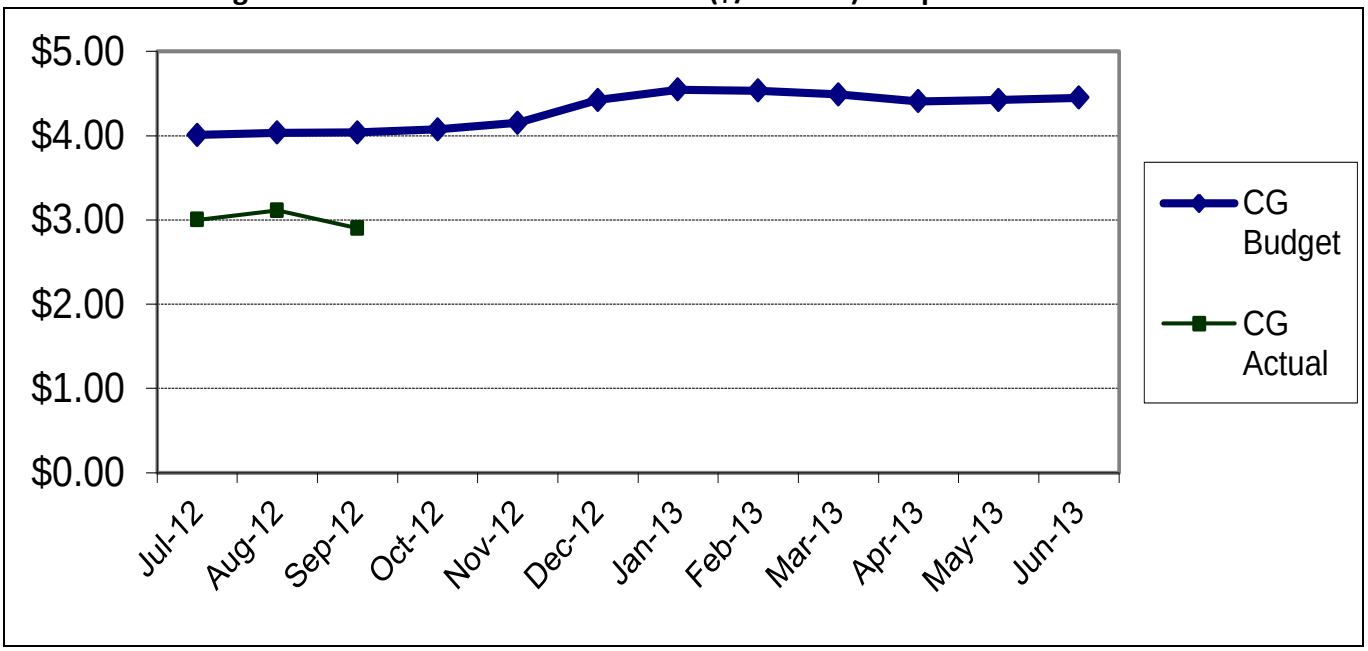


Figure 17: FY 2013 Natural Gas Costs ($/MMBtu) – Expected vs. Actual



III. Water

Water Availability

Despite the low precipitation levels over the prior water year, system storage is in good shape at 82% of maximum capacity. This end-of-year storage is largely due to the excellent precipitation from the previous year and the continued low demands.

Regional Water Usage Trends

The latest SFPUC Regional Water Consumption Report details the current level of water usage relative to the index period (5-year average from 2007 to 2011). Consumption for the January 1 to September 22 time period is approximately 2.86 % below the index year. Palo Alto's consumption is 1.72 % above the index period.

Bay Area Water Supply and Conservation Agency (BAWSCA) Activities

A major Water System Improvement Program (WSIP) project, the Calaveras Dam Replacement, is experiencing challenges that will further delay the project and that could increase its cost substantially. The primary issue involves the discovery of unstable soils in the slope on the south side of the new dam location. It is possible project completion could be delayed until 2017. Considering it may take up to 4 years to fill the reservoir once construction is complete, this could mean the loss of a critical dry year reservoir until 2019-2021. BAWSCA is evaluating the potential impact on dry year level of service goals.

The SFPUC has been working on a dry year water transfer with the Modesto Irrigation District (MID) to benefit all users on the SFPUC system. MID proposed including a right to cancel at any time, which was not acceptable to SFPUC. The MID Board voted to discontinue negotiations with the SFPUC on the transfer. BAWSCA is evaluating the impact on level of service goals.

BAWSCA has made progress on a potential debt issuance to prepay approximately $300 million in monies owed to the SFPUC from the previous water supply contract. If the prepay proceeds, the annual savings to Palo Alto could be as high as $125,000 per year. The current schedule includes conceptual approval by City Council in December and bond issuance/closing in January.

Water Budget Performance Measures

Water Consumption and Supply Costs: Budget vs. Actual

Figure 18 and Figure 19 below compare actual water consumption and water supply cost to the budget projections. Actual water use in Q1 of FY 2013 was 2% lower than budgeted and actual supply costs were roughly equivalent to the budget.

Figure 18: Water Consumption – Budget vs. Actual

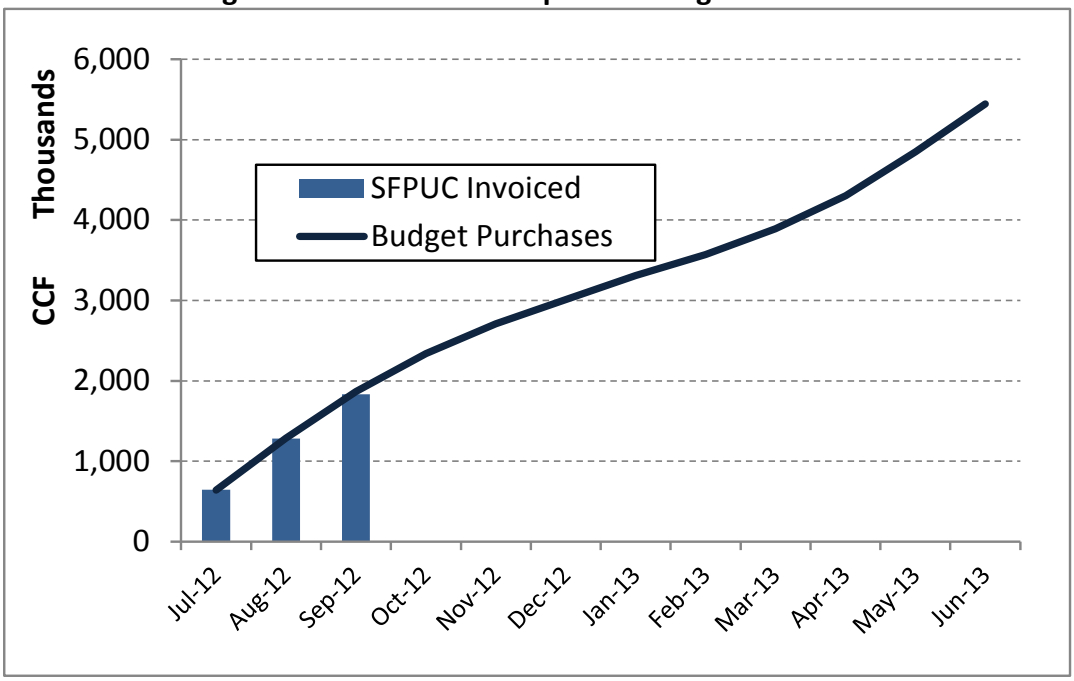
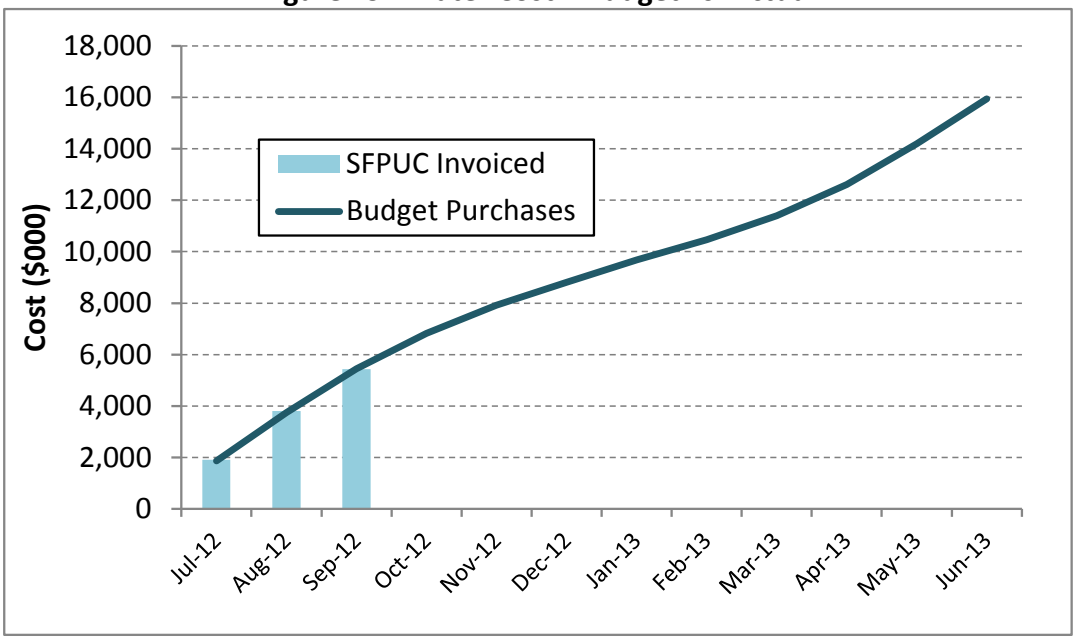


Figure 19: Water Cost – Budget vs. Actual



IV. Fiber Utility

Commercial Dark Fiber Service

In the first quarter of FY 2013, marketing and project management efforts, combined with in-house engineering and operational work, increased the number of commercial dark fiber customers from 80 to 81. The total number of dark fiber service connections serving commercial customers and the City is 203. Seventy-six percent (76%) of dark fiber license revenues are generated by commercial customers. From July 1, 2012 through September 30, 2012, six new projects extending service to existing and new customers were completed. Five dark fiber service connections were disconnected. The fiber network also serves six City accounts.

New customers take service under Fiber Optic Rate Schedule EDF-3. Some existing customers with earlier, unexpired agreements take service under Fiber Optic Rate Schedule EDF-1, the cost of which is adjusted annually by the Consumer Price Index. Presently, 56% of the commercial dark fiber customers are on the EDF-1 rate and 44% are on the EDF-3 rate schedule.

Palo Alto Unified School District

In March 2012, the City and the Palo Alto Unified School District signed a Letter of Intent to extend dark fiber service connections to eighteen of the District's facilities. The proposed project will provide dark fiber service connections to the District's Business Office, fifteen Palo Alto-based schools, and two schools located on the Stanford campus. The estimated completion date of the project is on or after July 1, 2013. The advance engineering and design work for the project has been completed and a final proposal and contract amendment has been prepared for consideration by the school district.

V. Public Benefit and Demand Side Management Programs

Renewable Energy Programs

PaloAlto**Green**

As of October 2012, the program has a participation rate of about 19%. The participation rate has slipped slightly in the past year, as new signups have not kept up with the rather high move-out rate. Assuming a carbon neutral electric portfolio plan is adopted by the City Council, the PaloAlto**Green** program will need to change to remain relevant and engaging. Staff is now reviewing the program to develop a list of options for change. These options will be brought to the UAC in December and to City Council at a study session in January or February to receive feedback on which options to further review.

Solar Water Heating Program

California natural gas utilities were legislatively mandated to implement a solar water heating program for customers. CPAU introduced a program during 2008 to encourage installation of these systems. The program incentive is an up-front rebate applied towards the installed cost

of a new system. Under this program, 41 solar water heating systems have been installed. All but one was residential. Marketing was greatly enhanced last fiscal year with advertising and direct mail pieces; however, involvement remains low. This is similar to the investor-owned utility programs, where installations remain below goals. The program for both IOU and Palo Alto programs was modified slightly this year, allowing higher rebates for replacement of natural gas water heaters ($2,719) than for electric or propane ($1,834).

Solar Photovoltaic (PV Partners) Program

As of October 2012, there have been 511 solar PV systems installed, representing over 3,520 kW of electric generation on rooftops in Palo Alto.

Efficiency Programs

Home Energy Reports

The Home Energy Reports (HERs) are being sent to about 19,000 customers every other month, through May 2013. At that point in time, a Request for Proposals is being undertaken to bring additional behavior based programs for staff to review and recommend a program to City Council. Behavior based programs are expected to continue to provide a significant portion of the residential savings for the next 10 years.

Smart Energy

The City provides rebates to residents who install energy efficient appliances and equipment in their homes or on their property. Among these are home heating and cooling systems (HVAC), insulation, water heaters, pool pumps and power strips. Palo Alto pays rebates to customers who have their older model, inefficient refrigerators and freezers recycled through a City program.

Residential Refrigerator Recycling Program

A total of 15 operational refrigerators and freezers were picked up and recycled through the contractor JACO in the first quarter of FY 2013. In addition, there were 3 others recycled through the low income program.

Low Income Program, Residential Energy Assistance Program (REAP)

Customer involvement continues to remain higher than in previous years. Last fiscal year, the program ran out of funds by January 2012. Beginning with FY 2013, the highest energy users among the low income group have been targeted first, in an effort to get the most value for customers and the utility. In the first three months of the fiscal year, 10 residents have been assisted with this program. All have received education, weatherization and lighting upgrades. Also, four furnaces and three refrigerators were replaced.

Key and Major Accounts

Key Account Representatives continue to work with large customers on efficiency, conservation, rate and fiber installation issues. At the October 1 Council meeting, 7 customers (with 15 buildings) received the Green Business Leader award for completing building-level

benchmarking through the EPA's Portfolio Manager and receiving scores of at least 75. These businesses were then honored on the website and with paid advertising. Staff is working to assist additional businesses in getting this award for the next year, focusing on training in Portfolio Manager and on new technologies at January and February Facility Manager meetings.

A recently completed inventory of the equipment of more than 100 small businesses in Palo Alto has yielded contact information and data for the companies that will be useful to staff in promoting additional services and programs at these locations.

Measurement & Evaluation Results of Energy Efficiency Programs

On an annual basis, CPAU budgets 4 to 5% of its total Energy Efficiency (EE) program budget on Evaluation, Measurement and Verification (EM&V) activities by an independent consultant as required by regulations. In addition to meeting legislative requirements (AB2021, 2006), the goals of the EM&V effort are three-fold: (1) obtain feedback and recommendations to improve CPAU's EE programs; (2) assess the effectiveness of the EE programs and the quality of the program data; and (3) increase confidence in reported EE program results to meet ongoing supply and climate goals.

The EM&V effort is currently underway for programs ended FY 2012. This year, Enovity's Commercial and Industrial Energy Efficiency Program (CIEEP), Ecology Action's Right Lights+ program and the newly implemented Hospital Program are being reviewed for impacts. Additionally, the Commercial Advantage Program (CAP) with its many complex and custom rebates measures was included for impact evaluation. Results are expected after February 2013.

VI. Research and Development and Innovation

Energy Efficient Research & Development

The American Public Power Association (APPA) awarded CPAU a $35,000 grant to develop and demonstrate an innovative schools outreach program, designed to develop a culture of energy-efficiency in local Palo Alto schools. The grant is funded through APPA's DEED (Demonstration of Energy Efficient Developments) program and allows CPAU to work with the non-profit organization, Zilowatt, to create materials and tools which focus on giving feedback for energy use behavior. The program is completed. Staff was able to give a webinar on the program to other DEED members on December 13. Some of the tools can be viewed at www.zilowatt.org.

Emerging Technologies Program

The CPAU Innovation Test Bed Program (www.cityofpaloalto.org/UTLInnovation) includes the option for businesses in the area to submit proposals to CPAU for review and potential assistance. Staff is reviewing the five applications received in the second application period.

Staff is working on a variety of emerging technology projects as described in the last quarterly report and listed below:

1. AMR meter based pilot with Stanford University and Bidgely in a few homes at Stanford West apartments.
2. Test software from Xatori, another Palo Alto based start-up, which is expected to enable CPAU to get access to EV charging patterns in the City.
3. Collaborate with SAP Labs in Palo Alto and PG&E to develop an EV buyer smart phone "app" that will improve the experience of customers at local EV dealerships.

VII. Legislative and Regulatory Issues

State Legislative Issues

CPAU staff participates on the legislative committees of the California Municipal Utilities Association (CMUA) and NCPA. California's two-year 2011-2012 legislative session wrapped up on August 31, 2012 and the verdict is in from the Governor, who had until the end of September 2012 to sign or veto bills passed by the legislature. The following is a summary of the energy and water bills that were signed into law by the Governor and could impact CPAU's programs and operations.

AB 2227 (Bradford) – Sponsored by NCPA, this bill has been approved by the governor (Chapter 606, Statutes of 2012).
AB 2227 moves the current triennial energy efficiency target-setting schedule to a quadrennial one. The new law also consolidates all publicly owned utilities' (POUs such as Palo Alto) reporting requirements into a minimum number of code sections. It contains a provision that narrowly limits the scope of data requests from the California Energy Commission (CEC) to only those matters directly related to the Integrated Energy Policy Report, and also outlines the Legislature's intent that all data requests to POUs be obtained in the "cost-effective and efficient manner…" and that the CEC "gives full consideration to the potential burdens these data requests impose on the resources of the stakeholders whose information is being requested."

The law takes effect on January 1, 2013. NCPA is working with the CEC on implementation of the new reporting schedule, as well as on further reducing duplicative reporting through administrative means.

Bills Related to AB 32 (Global Warming Solutions Act):
SB 1018 (Budget Trailer Bill) – This bill has been enacted and inserted language in the Public Utilities Code requiring the IOUs (such as PG&E) to send at least 85% of the revenues derived from their free allocation of GHG allowances directly to customers via credits. This does not apply to POUs such as Palo Alto for now, but could create a precedent for future legislation.

Bills Related to the Renewable Portfolio Standard (RPS):

AB 1900 (Gatto) – Approved by the governor (Chapter 602, Statutes of 2012).

This law addresses the barriers to allowing biomethane to be injected into common carrier pipelines and break down barriers to using in-state biomethane. It requires the Office of Environmental Health Hazard Assessment to determine the maximum concentration of constituents of concern (COCs) in landfill gas and requires the CPUC to develop testing protocols for those COCs. The law also requires California Public Utilities Commission (CPUC) to adopt nondiscriminatory pipeline access rules and requires the CEC to identify impediments, to biomethane electricity procurement, and prohibits a gas producer from knowingly selling, transporting, or supplying gas from a hazardous waste landfill.

AB 2196 (Chesbro) – Approved by the governor (Chapter 605, Statutes of 2012).

This new law: (1) overturns the CEC certification ban on biomethane/biogas contracts; (2) allows biomethane/biogas to count toward RPS, and; (3) grandfathers existing out-of-state biomethane/biogas contracts that were entered into prior to March 29, 2012. This is not directly applicable to Palo Alto at this time, but has allowed a new supply of renewable resources.

SB 594 (Wolk) – Approved by the governor (Chapter 610, Statutes of 2012).

This law expands the Net-Energy Metering program by allowing customers with multiple meters on adjacent or contiguous property to aggregate their electric loads. This new law allows a utility to retain any surplus generation by a customer-generator, and count that generation towards its RPS. It also ensures that local governing bodies have the ultimate authority to permit any aggregation of meters for the purpose of net-energy metering, and ensure that any additional infrastructure, billing, or administrative costs that result from such a meter aggregation program would be borne by the customers participating in the program.

Bills Related to Solar Permit Fees

SB 1222 (Leno) – Approved by the governor (Chapter 614, Statutes of 2012).

This law places a cap on the amount of permit fees charged by a city or county for both residential and commercial rooftop solar energy systems, unless a city or county makes written findings and adopts a resolution or ordinance providing substantial evidence of the reasonable cost to issue the permit and why the cost exceeds the specified caps.

AB 1801 (Campos) – Approved by the governor (Chapter 538, Statutes of 2012).

This law prohibits cities and counties from basing the calculation of the fee charged for a solar energy system on the valuation of the solar energy system, or any other factor not directly associated with the cost to issue the permit, or from basing the calculation of the fee on the valuation of the property or the improvement, materials, or labor costs associated with the improvement. The law also requires a local government to separately identify each fee assessed on the applicant for the installation of a solar energy system on the invoice provided to the applicant.

Bills Related to Energy Efficiency Policy:

AB 2249 (Buchanan) – Approved by the governor (Chapter 607, Statutes of 2012).
The Solar Water Heating and Efficiency Act of 2007 excludes solar pool heating systems from the definition of a solar water heating system. AB 2249 qualifies that this exclusion is limited to a single-family residential solar pool heating system. The new law clarifies the statement of legislative intent to include schools in the act.

Bills Related to Natural Gas Pipeline Safety:

AB 1511 (Bradford) – Approved by the governor (Chapter 91, Statutes of 2012).
It requires real estate sale contracts to include a specified notice informing purchasers of residential property about the existence of a database where information regarding gas and hazardous liquid transmission pipelines can be obtained.

AB 2559 (Buchanan) – Approved by the governor (Chapter 486, Statutes of 2012).
This law provides the state's gas utilities with expedited ministerial permitting for pipeline inspection, remediation, removal and replacement work undertaken pursuant to pipeline integrity management. It requires a city, county, or city and county to act on an application by a gas corporation that is a public utility for a ministerial pipeline project permit within a public street or highway or any other public right-of-way within 10 business days of determining that an application for the pipeline project, as defined, is complete, except as specified.

Water Related Bills

AB 685 (Eng) – Approved by the governor (Chapter 524, Statutes of 2012).
This law declares that it is the established policy of the state that every human being has the right to clean, affordable, and accessible water adequate for human consumption, cooking and sanitary purposes. The law does not contain a definition for "affordable."

AB 2167 (Hill) – Approved by the governor (Chapter 251, Statutes of 2012).
This bill, sponsored by the Bay Area Water Supply and Conservation Agency (BAWSCA), allows BAWSCA to issue bonds to repay the costs of capital facilities. Although BAWSCA already has the authority to issue bonds for capital facilities, this law clarified that it could issue bonds to pre-pay capital debt its members owe San Francisco.

Federal Legislative Issues

Deficit reduction remained the primary focus in Washington. NCPA has focused attention with the Bureau of Reclamation and the Western Area Power Administration to urge further progress in resolving the Central Valley Project power customers paying a disproportionately higher assessment of the Restoration Fund than intended in the Central Valley Project Improvement Act, to raise concerns with the initiatives in the Department of Energy Secretary Steven Chu's March 16th Memo that would require the Power Marketing Administrations to operate beyond their statutory mission, and to discuss the impacts to hydro generation if the State Water Resources Control Board were to implement a new flow criteria for the Sacramento-San Joaquin Delta.

Cyber Security – Possible legislation is still on the table and, depending on the results of the election, could still see some activity this year.

State Electric Regulatory Proceedings

California Air Resources Board (CARB) and AB 32 Implementation

CARB's full focus remains on implementation of the cap-and-trade program. The first auction for cap-and-trade allowances was on November 14, 2012. CPAU designated its 2013 allocation of cap-and-trade allowances to be deposited in the holding account for future consignment to the CARB auctions, and consigned one third of these allowances to the November 2012 auction as required by the CARB regulations. Staff has developed a draft policy for the use of the auction proceeds for Council consideration.

California Energy Commission Rulemaking on Emission Performance Standards (EPS)

The CEC issued an order in January 2012 opening a rulemaking to consider whether to modify its regulations to, among other things, establish a filing requirement for all POU investments in non-emissions performance standard compliant facilities regardless of whether the investment could be considered a covered procurement. The intent was for the POUs to provide more reports and information for review. Subsequent filings are proposing dropping the current EPS below the 1,100 pounds of carbon dioxide for each megawatt of power that is generated to something as low as 825-850 pounds per megawatt hour, with some accommodations made for smaller facilities. It is expected that the current CEC proceeding will not address the EPS standard, but that there will be a joint CEC/CPUC proceeding to look into whether the standard should be lowered.

California Energy Commission Renewable Portfolio Standard Enforcement Regulations

The current draft regulations would still significantly expand the City's RPS reporting requirements to the CEC. NCPA's position is that the CEC has the authority to only determine whether local governing boards and districts are correctly applying the RPS statute. The anticipated release of CEC's formal proposed regulations is now delayed to February 2013. Staff will continue to coordinate with NCPA and CMUA, who are actively involved in the CEC proceeding.

State Water Resources Control Board and Delta Reform Act

Delta Flow Criteria refer to new rules requiring flows into the Delta (released from reservoirs) to be based on high fractions of unimpaired inflow levels in winter and spring months when reservoirs are normally trying to refill by retaining most inflow water.

The State Water Resources Control Board (SWRCB) developed Delta Flow Criteria in 2010 as required by legislation passed in 2009. The SWRCB did not evaluate the water supply, energy or environmental impacts of the implementation of the Delta Flow Criteria. A consortium of water and power organizations, including NCPA and Western, has modeled the criteria and found severe impacts of the Flow Criteria on the environment, water supply, power system and

recreation. The studies show that current environmental operation conditions including river flows and river temperatures cannot be met if the Delta Flow Criteria are implemented. Also, water supply would suffer severely and power supply and cost would be heavily impacted. The consortium continues to produce and share its studies and feels more study of the goals and impacts of the Delta Flow Criteria is needed before a prudent science-based decision can be made. The SWRCB has scheduled workshops to look at various issues including the water, power and environmental impacts.

Gas Regulatory Proceedings

In its Gas Pipeline Safety Enhancement Plan submitted by PG&E to the CPUC in August 2011, PG&E proposed an increase of the local transmission rate, which for Palo Alto, would double the existing rate from $0.025 per therm to $0.050 per therm. This proposed rate is included in the transportation component of the FY 2013 gas supply rate. However, due to the contentious nature of the CPUC proceeding, a decision on the requested rate increase has not yet been made and could be delayed for at least another 12 months. Staff now proposes lowering the Transportation Charge by $0.025 per therm because the increase in PG&E's local transportation rate did not occur as expected.

VIII. Utility Financial Summary

Electric Utility

Retail Sales Volume and System Average Retail Rate

Table 1 below shows the Electric Fund's retail sales volumes and resulting system average retail rate for FY 2012 and FY 2013. For the period ending September 30, 2012, sales volumes were 8.2% lower than budget estimates, and the system average retail rate was 0.8% lower. Demand has been lower across all customer groups, but the main driver of the decrease is a delay in the schedule of a significant load addition for a large customer.

Table 1: Electric Retail Sales and Rate

Electric - Retail	FY 2012 Unaudited Actuals	FY 2013 Adopted Budget	FY 2013 Unaudited Actuals	Difference of Adopted Budget and Actuals	% Variance to Budget
	Jul 11-Jun 12	*Jul 12-Sep 12*	*Jul 12-Sep 12*		
Sales Units (kWh)	942,561,974	262,443,737	241,052,557	(21,391,180)	-8.2%
System Average Retail Rate ($/kWh)	0.11558	0.12835	0.12284	(0.00101)	-0.8%

Operating Activity

Table 2 below contains a summary of the Electric Fund's overall activity for FY 2013.

Table 2: Electric Operating Activity

Electric - Operating Activity	All figures in thousands (000's)				
	Adopted Budget *FY 2013*	Unaudited Actuals *Jul 12-Sep12*	Projected Activity *Oct 12-Jul 13*	Projected FY 2013 Activity	Variance to Budget
Electric Supply Fund					
Net Sales *	$ 70,800	$ 17,471	$ 51,655	$ 69,126	$ (1,674)
Other revenues	12,551	1,483	10,324	11,806	(745)
Purchase cost to serve retail load	(71,476)	(15,019)	(52,630)	(67,648)	3,828
Other expenses **	(15,067)	(4,396)	(10,593)	(14,989)	78
Surplus Energy costs	(1,577)	(681)	(1,133)	(1,813)	(236)
Surplus Energy revenues	1,627	125	1,133	1,258	(369)
Total	$ (3,142)	$ (1,017)	$ (1,243)	$ (2,260)	$ 882
Electric Distribution Fund					
Net Sales *	$ 47,341	$ 12,155	$ 34,037	$ 46,192	$ (1,149)
Other revenues	2,930	941	1,989	2,930	-
Other expenses **	(50,509)	(17,269)	(33,240)	(50,509)	-
Total	$ (238)	$ (4,173)	$ 2,786	$ (1,387)	$ (1,149)

* Includes misc. sales, adjustments, discounts, and bad debt

** Includes debt service, reserve transfers, salaries, allocated charges, other misc. expenses and encumbrances

As of September 2012, the cost of purchases to serve retail load was $3.8 million lower than the adopted budget, primarily due to decreased load, but also due to lower renewables costs related to the delay in start of three landfill gas projects. Net sales have been reduced by $1.7 million to reflect lower sales to date figures. Revenues related to carbon allowances are projected to be lower by $553,000, and Central Valley Project Operations and Maintenance (CVP O&M) repayments are also projected to decrease by $192,000, which is offset by an equal decrease in CVP O&M costs that is factored into the purchase costs[2]. Surplus energy sales are projected to decrease, with revenues decreasing by $369,000 and corresponding surplus energy costs increasing by $236,000. The net effect of these changes is a projected $882,000 decrease in the budgeted drawdown of $3.1 million from the Electric Supply Rate Stabilization Reserve (E-SRSR).

[2] CVP O&M Loan Advance and Loan Credits are planned payments and equal amounts of credits associated with the financing of operations and maintenance of eleven federal dams, power plants, and transmission facilities as part of the Western Area Power Administration's CVP system. The loan advance and loan credits are a financing mechanism to facilitate the maintenance and upgrades at these federal facilities. The actual cost of these projects is included in the charges associated with the Western Power.

For the Electric Distribution Fund, the FY 2013 variance to budget reflects decreased sales of $1.1 million to date. This results in an estimated $1.1 million drawdown of the Electric Distribution Rate Stabilization Reserve (E-DRSR), as opposed to a $238,000 drawdown in the adopted budget.

Electric Supply Rate Stabilization Reserve

As a result of the changes in operating activity, the E-SRSR is expected to have an ending balance of $63.7 million, which is slightly above the long-term maximum E-SRSR reserve guideline level as shown in Table 3 below.

Table 3: Electric Supply Rate Stabilization Reserve

Estimated Electric Supply Rate Stabilization Reserve All figures in thousands (000's)	
FY 2013 Adopted Budget Beginning Balance	**$ 60,702**
Changes to FY 2013 Beginning Balance per FY 2012 Accounting	$ 5,227
FY 2013 Beginning Balance after accounting changes	**$ 65,929**
Net sum of FY 2013 Unaudited Actuals to date *	$ (1,017)
Current Projected Reserve Balance as of End of FY 2013	**$ 64,912**
Net sum of Projected Activity through Year End	$ (1,243)
Estimated FY 2013 Ending Balance	**$ 63,669**
Adopted Budget E-SRSR Minimum Guideline	$ 31,721
Adopted Budget E-SRSR Maximum Guideline	$ 63,442

* Includes Encumbrances for CIP & Operations

Electric Distribution Rate Stabilization Reserve

As a result of the changes described above, the E-DRSR is expected to have an ending balance of $7.3 million, which is within the E-DRSR long-term minimum and maximum reserve guideline levels as shown in Table 4 below.

Table 4: Electric Distribution Rate Stabilization Reserve

Estimated Electric Distribution Rate Stabilization Reserve All Figures in thousands (000's)	
FY 2013 Adopted Budget Beginning Balance	**$ 10,995**
Changes to FY 2013 Beginning Balance per FY 2012 Accounting	$ (2,275)
FY 2013 Beginning Balance after accounting changes	**$ 8,680**
Net sum of FY 2013 Unaudited Actuals to date *	$ (4,173)
Current Projected Reserve Balance as of End of FY 2013	**$ 4,507**
Net sum of Projected Activity through Year End	$ 2,786
Estimated FY 2013 Ending Balance	**$ 7,293**
Adopted Budget E-SRSR Minimum Guideline	$ 6,747
Adopted Budget E-SRSR Maximum Guideline	$ 13,494

* Includes Encumbrances for CIP & Operations

Electric Special Projects (ESP) Reserve

No new projects have been identified for funding from the ESP Reserve. The largest project being evaluated is a second transmission line that could have the potential of using a significant amount of the ESP Reserve. The estimated balance of the ESP Reserve is $50.32 million as of the end of FY 2013 (the same as the balance at the end of FY 2012).

Bill Comparison

The last electric rate adjustment was a 10% increase effective July 1, 2009. Table 5 presents residential monthly bills for Palo Alto and surrounding cities for a several usage levels for the winter (November through April) billing period based on published rates as of November 1, 2012. As shown, Palo Alto has the lowest bills for low usage residential customers. For those using the median amount of electricity, Palo Alto is the second lowest for winter bills. For larger users, Santa Clara customers have the lowest bills with Palo Alto the second lowest. Note that for the median residential usage, PG&E customers pay 22% more than Palo Alto's customers in the summer.

Table 5: Residential Electric Bill Comparison

Residential Monthly Electric Bill As of November 1, 2012					
Season	Usage (KWh/mo)	Palo Alto	PG&E	Santa Clara	Roseville
Winter (Nov-Apr)	300	$ 28.57	$ 38.54	$ 30.37	$ 43.99
	(Median) 453	$ 48.49	$ 59.98	$ 46.43	$ 61.32
	650	$ 76.33	$ 117.72	$ 67.11	$ 90.52
	1200	$ 172.03	$ 300.23	$ 124.84	$ 182.32

Table 6 presents monthly electric bills for commercial customers for various usage levels. Note that Palo Alto commercial customer bills are significantly lower than PG&E's and comparable to those in Santa Clara and Roseville.

Table 6: Commercial Electric Bill Comparison

Commercial Monthly Electric Bill As of November 1, 2012				
Usage (KWh/mo)	Palo Alto	PG&E	Santa Clara	Roseville
1,000	$ 127	$ 163	$ 156	$ 138
160,000	$ 17,245	$ 18,801	$ 18,002	$ 20,569
500,000	$ 50,430	$ 54,285	$ 54,352	$ 48,707
2,000,000	$ 178,800	$ 222,168	$ 210,129	$ 185,581

Utilities Update for First Quarter of FY 2013
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Gas Utility

Retail Sales Volume and System Average Retail Rate

Table 7 below shows the Gas Fund's retail sales volume and system average retail rate for FY 2012 and FY 2013. For FY 2013 as of the end of September 2012, sales have been lower than budgeted by 2.2%. Note that the system average rate for the gas utility reflects market rates for the commodity portion for all natural gas customers, which have been lower than budgeted.

Table 7: Gas Retail Sales and Rate

Gas – Retail	FY 2012 Unaudited Actuals	FY 2013 Adopted Budget	FY 2013 Unaudited Actuals	Difference of Adopted Budget and Actuals	% Variance to Budget
	Jul 11-Jun 12	*Jul 12-Sep 12*	*Jul 12-Sep 12*		
Sales Units (Therms)	29,983,129	4,604,043	4,503,287	(100,756)	-2.2%
System Average Rate ($/Therm)	1.389	1.320	1.226	(0.093)	-7.1%

Operating Activity

Table 8 below contains a summary of the Gas Fund's overall activity for FY 2013.

Table 8: Gas Operating Activity

Gas - Operating Activity	All figures in thousands $ (000's)				
	Adopted Budget *FY 2013*	Unaudited Actuals *Jul 12-Sep12*	Projected Activity *Oct 12-Jul 13*	Projected FY 2012 Activity	Variance to Budget
Gas Supply Fund					
Net Sales *	16,053	2,116	11,729	13,845	(2,208)
Other revenues	237	44	193	237	-
Purchase costs	(16,334)	(1,786)	(12,833)	(14,619)	1,715
Other expenses **	(860)	(4,847)	3,987	(860)	-
Total	(904)	(4,473)	3,076	(1,397)	(493)
Gas Distribution Fund					
Net Sales *	21,824	3,364	18,460	21,824	-
Other revenues	1,419	420	999	1,419	-
Other expenses **	(25,723)	(10,971)	(14,752)	(25,723)	-
Total	(2,480)	(7,187)	4,707	(2,480)	-

* Includes misc. sales, adjustments, discounts, and bad debt

** Includes reserve transfers, salaries, allocated charges, other misc. expenses and encumbrances

For the Gas Supply Fund, the variance of $2.2 million in net sales is due to the lower than expected market rates for gas. This is also reflected in lower purchase costs of $1.7 million.

PG&E's transportation rates to Palo Alto were budgeted to increase this year. However, this did not happen and does not look likely during the rest of the fiscal year. Staff recommended a reduction to the commodity transportation rates charged to customers which is expected to be effective as of January 2013. Staff will also propose a corresponding downward revision to the purchase cost budget as a midyear budget adjustment.

Gas Supply Rate Stabilization Reserve

As shown in Table 9 below, based on activity to date and projections for the fiscal year, the Gas Supply Rate Stabilization Reserve (G-SRSR) is expected to have an ending balance of $6.2 million, which is within the long-term minimum and maximum G-SRSR guideline levels.

Table 9: Gas Supply Rate Stabilization Reserve

Estimated Gas Supply Rate Stabilization Reserve All Figures in thousands (000's)		
FY 2013 Adopted Budget Beginning Balance	**$**	**6,630**
Changes to FY 2013 Beginning Balance per FY 2012 Accounting	$	988
FY 2013 Beginning Balance after accounting changes	**$**	**7,618**
Net sum of FY 2013 Unaudited Actuals to date *	$	(4,473)
Current Projected Reserve Balance as of End of FY 2013	$	3,145
Net sum of Projected Activity through Year End	$	3,076
Estimated FY 2013 Ending Balance	**$**	**6,221**
Adopted Budget G-SRSR Minimum Guideline	$	4,072
Adopted Budget G-SRSR Maximum Guideline	$	8,144

* Includes Encumbrances for CIP & Operations

Gas Distribution Rate Stabilization Reserve

As shown in Table 10 below, the Gas Distribution Rate Stabilization Reserve (G-DRSR) is expected to have an ending balance of $5.9 million, which is within the long-term minimum and maximum G-DRSR guideline levels.

Table 10: Gas Distribution Rate Stabilization Reserve

Estimated Gas Distribution Rate Stabilization Reserve All Figures in thousands (000's)		
FY 2013 Adopted Budget Beginning Balance	**$**	**7,299**
Changes to FY 2013 Beginning Balance per FY 2012 Accounting	$	1,075
FY 2013 Beginning Balance after accounting changes	**$**	**8,374**
Net sum of FY 2013 Unaudited Actuals to date *	$	(7,187)
Current Projected Reserve Balance as of End of FY 2013	$	1,187
Net sum of Projected Activity through Year End	$	4,707
Estimated FY 2013 Ending Balance	**$**	**5,894**
Adopted Budget G-DRSR Minimum Guideline	$	3,339
Adopted Budget G-DRSR Maximum Guideline	$	6,678

* Includes Encumbrances for CIP & Operations

Bill Comparison

Table 11 presents residential monthly bills for Palo Alto and surrounding cities for several usage levels for the winter (November through March) billing period based on published rates as of November 1, 2012. As Palo Alto's gas commodity rates now fluctuate monthly with short-term market prices, bills have decreased and are comparable to PG&E's for all usage levels. For the median usage level, PG&E customer bills are 4% higher than Palo Alto customer's bills.

Table 11: Residential Natural Gas Bill Comparison

Residential Monthly Natural Gas Bill As of November 1, 2012				
Season	Usage	Palo Alto	Menlo Park, Redwood City, Mountain View, Los Altos, and Santa Clara (PG&E Zone X)	Roseville (PG&E Zone S)
	therms	$	$	$
Winter (Nov-Mar)	30	35.83	32.69	32.69
	(Median) 54	56.59	58.84	58.84
	80	89.39	92.92	93.81
	150	186.02	189.95	190.84

Table 12 below presents monthly gas bills for commercial customers for various usage levels. Note that bills for Palo Alto customers are slightly higher than for PG&E customers for smaller commercial customers, but bills are significantly higher for larger commercial customers due to larger relative distribution costs.

Table 12: Commercial Natural Gas Bill Comparison

Commercial Monthly Natural Gas Bill As of November 1, 2012		
Usage	Palo Alto	PG&E
Therms/mo	$	$
500	595	498
5,000	5,277	4,532
10,000	10,480	8,078
50,000	52,006	36,581

Water Utility

Retail Sales Volume and System Average Retail Rates

Table 13 below shows the Water Fund's retail sales volume and the system average retail rate for FY 2012 and FY 2013. For the period ending September 30, 2012, sales have been slightly higher by 3.2% from the adopted budget for the same period.

Table 13: Water Retail Sales and Rate

Water – Retail	FY 2012 Unaudited Actuals	FY 2013 Adopted Budget	FY 2013 Unaudited Actuals	Difference of Adopted Budget and Actuals	% Variance to Budget
	Jul 11-Jun 12	*Jul 12-Sep 12*	*Jul 12-Sep 12*		
Sales Units (CCF)	5,062,873	1,679,208	1,733,629	54,421	3.2%
System Average Rate ($/CCF)	5.859	6.894	6.899	0.005	0.0%

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Operating Activity

Table 14 below contains a summary of the Water Fund's overall activity for FY 2013. While water sales and revenues have been higher by 3.2% for the first three months (amounting to $383,000), due to the variable nature of sales this is not projected as a net change in expected sales for the fiscal year as a whole. There are no known changes to budgeted costs or revenues for the Water Fund at this point.

Table 14: Water Operating Activity

Water - Operating Activity	All figures in thousands (000's)				
	Adopted Budget *FY 2013*	Unaudited Actuals *Jul 12-Sep 12*	Projected Activity *Oct 12-Jul 13*	Projected FY 2013 Activity	Variance to Budget
Net Sales to date *	$ 35,963	$ 12,106	$ 23,857	$ 35,963	$ -
Other revenues to date	2,624	1,082	1,543	2,624	-
Purchase costs to date	(15,940)	(5,489)	(10,451)	(15,940)	-
Other expenses to date **	(24,302)	(18,203)	(6,099)	(24,302)	-
Total	$ (1,655)	$ (10,504)	$ 8,849	$ (1,655)	$ -

* Includes misc. sales, adjustments, discounts, and bad debt

** Includes reserve transfers, salaries, allocated charges, other misc. expenses, and encumbrances

Water Rate Stabilization Reserve

As shown in Table 15, no variance to the budgeted drawdown of $1.7 million to the Water Rate Stabilization Reserve (W-RSR) is expected at this time, resulting in a projected W-RSR ending balance of $6.3 million. This is within the long-term minimum and maximum guideline levels for the W-RSR. The balance in the W-RSR appears negative at this point due to the encumbrance of all Capital Improvement Program funds in advance of sales revenue.

Table 15: Water Rate Stabilization Reserve

Estimated Water Rate Stabilization Reserve All Figures in thousands (000's)	
FY 2013 Adopted Budget Beginning Balance	**$ 9,488**
Changes to FY 2013 Beginning Balance per FY 2012 Accounting	$ (1,492)
FY 2013 Beginning Balance after accounting changes	**$ 7,996**
Net sum of FY 2013 Unaudited Actuals to date *	$ (10,504)
Current Projected Reserve Balance as of End of FY 2013	$ (2,508)
Net sum of Projected Activity through Year End	$ 8,849
Estimated FY 2013 Ending Balance	**$ 6,341**
Adopted Budget W-RSR Minimum Guideline	$ 5,427
Adopted Budget W-RSR Maximum Guideline	$ 10,854

* Includes Encumbrances for CIP & Operations, bond related debt removed

Bill Comparison

Palo Alto's overall water rates increased on July 1, 2012 by 15%. Table 16 presents average monthly residential bills for Palo Alto and surrounding cities for various usage levels based on published rates as of November 1, 2012.

Table 16: Residential Water Bill Comparison

Residential Monthly Water Bill ($/month) As of November 1, 2012								
Usage CCF/mo		Palo Alto	Menlo Park	Redwood City	Mountain View	Los Altos	Santa Clara	Hayward
	4	31.90	34.47	33.72	17.59	25.95	12.68	22.20
(Winter median)	7	48.04	50.37	44.09	30.85	35.89	22.19	37.35
(Annual median)	9	62.16	60.98	51.53	39.69	42.50	28.53	47.45
(Summer median)	14	97.46	88.71	73.67	61.79	59.88	44.38	74.50
	25	175.12	150.35	140.55	110.41	98.50	79.25	143.25

*Based on the FY 2011 BAWSCA survey, the fraction of SFPUC as source of potable water supply was 100% for Palo Alto, 90% for Menlo Park, 100% for Redwood City, 86% for Mountain View, 12% for Santa Clara and 100% for Hayward.

Wastewater Collection Utility

Operating Activity

Table 17 contains a summary of the Wastewater Collection Fund's overall activity for FY 2013. There are no known changes to budgeted costs or revenues for the Wastewater Collection Fund at this point.

Table 17: Wastewater Operating Activity

Wastewater Collection - Operating Activity	All figures in thousands (000's)				
	Adopted Budget *FY 2013*	Unaudited Actuals *Jul 12-Sep 12*	Projected Activity *Oct 12-Jul 13*	Projected FY 2013 Activity	Variance to Budget
Net Sales to date *	$ 14,980	$ 3,684	$ 11,296	$ 14,980	$ -
Other revenues to date	1,449	567	882	1.449	-
Treatment costs to date	(8,556)	(2,139)	(6,417)	(8,556)	-
Other expenses to date **	(9,553)	(5,280)	(4,273)	(9,553)	-
Total	$ (1,680)	$ (3,168)	$ 1,488	$ (1,680)	$ -

* Includes misc. sales, adjustments, discounts, and bad debt

** Includes reserve transfers, salaries, allocated charges, other misc. expenses, and encumbrances

Wastewater Collection Rate Stabilization Reserve

The Wastewater Collection Fund sales revenues tend to be very stable as 53% is from residential customers, whose rate consists of fixed monthly service charges. Some component of business sales revenues is based on winter water use levels which tend to be rather stable as well. At this time there are no significant projected changes to budgeted projections.

The adopted budget reserve drawdown is projected to be $1.68 million, resulting in a Wastewater Collection Rate Stabilization Reserve (WC-RSR) ending balance of $3.1 million. This is within the long-term minimum and maximum reserve guideline levels.

Table 18: Wastewater Collection Rate Stabilization Reserve

Estimated Wastewater Collection Rate Stabilization Reserve All Figures in thousands (000's)	
FY 2013 Adopted Budget Beginning Balance	**$ 6,579**
Changes to FY 2013 Beginning Balance per FY 2012 Accounting	$ (1,828)
FY 2013 Beginning Balance after accounting changes	**$ 4,751**
Net sum of FY 2013 Unaudited Actuals to date *	$ (3,168)
Current Projected Reserve Balance as of End of FY 2013	$ 1,583
Net sum of Projected Activity through Year End	$ 1,488
Estimated FY 2013 Ending Balance	**$ 3,071**
Adopted Budget WC-RSR Minimum Guideline	$ 2,253
Adopted Budget WC-RSR Maximum Guideline	$ 4,506

* Includes Encumbrances for CIP & Operations, bond related debt removed

Bill Comparison

Palo Alto's wastewater collection rates changed on July 1, 2012. The rate change resulted in a 5% increase in overall revenues. Table 19 presents typical monthly residential bills for Palo Alto and surrounding cities based on published rates as of November 1, 2012. Note that, even after the residential rate increase, the bill for a Palo Alto customer is just 76% of the average of the bills for the six comparator cities.

Table 19: Residential Wastewater Collection (Sewer) Bill Comparison

Residential Monthly Wastewater Collection Bill As of November 1, 2012						
Palo Alto	Menlo Park	Redwood City	Mountain View	Los Altos	Santa Clara	Hayward
29.31	62.67	57.88	24.25	29.25	29.20	27.27

Fiber Utility

Operating Activity

Table 20 contains a summary of the Fiber Fund's overall activity for FY 2013.

Table 20: Fiber Operating Activity

Fiber – Operating Activity	All figures in thousands $ (000's)				
	Adjusted Budget *FY 2013*	Unaudited Actuals **July 12-Sept 12** *FY 2013*	Projected Activity **Oct 12-June 13** *FY 2013*	Projected FY 2013 Activity	Variance to Budget
Net Sales to date *	3,574	789	2,785	3,574	0
Other revenues to date	303	83	220	303	0
Other expenses to date **	(1,789)	(342)	(1,447)	(1,789)	0
Total	2,088	530	1,558	2,088	0

* Includes misc. sales, adjustments, discounts, and bad debt

** Includes reserve transfers, salaries, allocated charges, other misc. expenses, and encumbrances

Fiber Rate Stabilization Reserve

Actual sales data and actual expenses for dark fiber service connections in the first quarter indicate no variance as compared to the budget for FY 2013. The Fiber Optics Fund has encumbered $446,000 and $259,000 from prior year budgets for customer connections and network system improvements, respectively.

As shown in Table 21, the Fiber Optics Rate Stabilization Reserve (F-RSR) is projected to be $14.6 million as of the end of FY 2013. This is above the F-RSR long-term maximum guideline level of $1.8 million for FY 2013. The latest projection is $741,000 higher than projected due to a FY 2012 year-end accounting adjustment.

Table 21: Fiber Rate Stabilization Reserve

Estimated Fiber Rate Stabilization Reserve All Figures in thousands (000's)	
FY 2013 Adopted Budget Beginning Balance	**$ 11,729**
Changes to FY 2013 Beginning Balance per FY 2012 Accounting	$741
FY 2013 Beginning Balance after accounting changes	**$12,470**
Net sum of FY 2013 Unaudited Actuals to date *	$530
Current Projected Reserve Balance as of End of FY 2013	$13,000
Net sum of Projected Activity through Year End	$ 1,558
Estimated FY 2013 Ending Balance	**$14,558**
Adopted Budget F-RSR Maximum Guideline	$1,788

* Includes Encumbrances for CIP and Operations

Utility Reserves Summary

A summary of fiscal year beginning and expected ending reserve balances along with minimum and maximum guidelines is provided for each Utility reserve in Table 22.

Table 22: Utilities Reserves Summary

City Of Palo Alto
Utility Fund Reserve
Quarterly Projections - Unaudited
As of 09/30/2012 - UNAUDITED
(in thousands)

	Beginning Reserve Balance as of 6/30/12 FY 2012 (ASD)	Current Projected Reserve Balance as of 09/30/12 FY 2013 (ASD)	Current Projected Reserve Balance for 06/30/13 FY 2013 (Util)	Budgeted Reserve Guideline Range for FY 2013		Projected Reserve Balance (based on Budget) for FY 2013
				Minimum	Maximum	
Electricity						
Supply/Commodity	$ 65,930	$ 64,913	$ 63,669	$ 31,721	$ 63,442	$ 57,560
Distribution	8,680	4,507	7,293	6,747	13,494	10,717
CIP	14,545	23,400	N/A			
Public Benefit	1,149	1,149	1,261			1,261
ESP	50,320	50,320	50,320			50,320
All Others	6,681	8,492	N/A			
Sub total Cash Reserves	147,305	152,781	N/A			
Net Capital Investment	166,085	164,042	N/A			
Total	$ 313,390	$ 316,823	N/A			
Gas						
Supply/Commodity	7,618	$ 3,145	$ 6,221	$ 4,072	$ 8,142	$ 5,726
Distribution	8,374	1,187	5,894	3,339	6,678	4,819
CIP	16,015	23,281	N/A			
All Others	4,999	9,989	1,000			1,000
Sub total Cash Reserves	37,006	37,602	N/A			
Net Capital Investment	76,606	76,123	N/A			
Total	$ 113,612	$ 113,725	N/A			
Water						
Distribution	$ 7,996	$ (2,508)	$ 6,341	$ 5,427	$ 10,854	$ 7,833
CIP	$ 13,382	19,241	N/A			
All Others	$ 4,940	16,331	1,000			1,000
Sub total Cash Reserves	26,318	33,064	N/A			
Net Capital Investment	$ 70,454	68,092	N/A			
Total	$ 96,772	$ 101,156	N/A			
Fiber Optic						
Distribution	$ 12,470	$ 12,630	$ 14,558	$ 715	$ 1,788	$ 13,818
CIP	697	1,074	N/A			
All Others	1,085	1,101	1,000			1,000
Sub total Cash Reserves	14,252	14,805	N/A			
Net Capital Investment	7,226	7,155	N/A			
Total	$ 21,478	$ 21,960	N/A			
Wastewater Collection						
Distribution	$ 4,751	$ 1,583	$ 3,071	$ 2,253	$ 4,506	$ 4,899
CIP	10,944	15,068	N/A			
All Others	1,100	1,284	1,000			$ 1,000
Sub total Cash Reserves	16,795	17,935	N/A			
Net Capital Investment	67,677	67,209	N/A			
Total	$ 84,472	$ 85,144	$ 4,071			