ALAMEDA MUNICIPAL POWER
A Department of the City of Alameda

AGENDA ITEM NO.: 5.C.1
MEETING DATE: 03/20/2017
ADMINISTRATIVE REPORT NO.: 2017-36

To: Honorable Public Utilities Board

Submitted by: ______/s/__________
Barry Leska
AGM – Energy Resources Planning

From: Barry Leska
AGM – Energy Resources Planning

Approved by: ______/s/____________
Nicolas Procos
General Manager

Subject: Presentation of 10-Year Financial Pro Forma Model – Information Only

---

RECOMMENDATION

For information only; no action is recommended. The purpose of this report is to inform the Public Utilities Board (Board) of the model results of the updated 10-year pro forma.

BACKGROUND

Each year, staff presents the results of the 10-year pro forma model developed to comply with the *Financial Guidelines for Rates, Revenues and Reserves* (Financial Guidelines) adopted on May 17, 2010 and updated at the January 26, 2015 Board meeting. Similar to the previous ratemaking policy, the FY 2016-FY 2020 ratemaking policy includes gradual and steady rate increases of less than five percent per year, if possible, a debt service coverage ratio of 1.75 and a requirement for 145 days of operating cash on hand.

DISCUSSION

The pro forma incorporates draft FY 2018 budget information developed in preparation for the budget workshop. The budget provides the revenue requirement for the first year and the pro forma provides the Board with financial information to consider when establishing the rate adjustment plan for the upcoming fiscal year and beyond.

In addition to the draft FY 2018 budget, the 10-year pro forma model includes data from the FY 2018 load forecast adopted at the January 23, 2017 Board meeting. The pro forma includes a 3 percent escalation rate for labor through FY 2019, a 2.5 percent escalation rate per year for labor starting in FY 2020, a 2.5 percent escalation rate per year for services and materials, and a 2.0 percent escalation rate per year for non-operating costs.

Revenue requirements are assumed to be funded entirely through rates, with the exception of certain GHG reducing projects which are pre-approved for funding with REC revenue, or cap-and-trade proceeds, and the underground utilities district (UUD) projects which are funded from accrued UUD funds. Debt consideration for Automated Metering Infrastructure (AMI) and Alameda Point Site "A" development (AP) has been eliminated.

Figure 1 illustrates AMP's 10-year projected annual revenue requirements and their component costs. Table 1 includes information on the proposed rate adjustment plan for FY 2018. Figure 2 on the next page graphically displays the proposed rate adjustment plan and provides an easy comparison to the required performance metrics of coverage ratio and days of cash.

Figure 1 – 10-Year Pro Forma Revenue Requirements

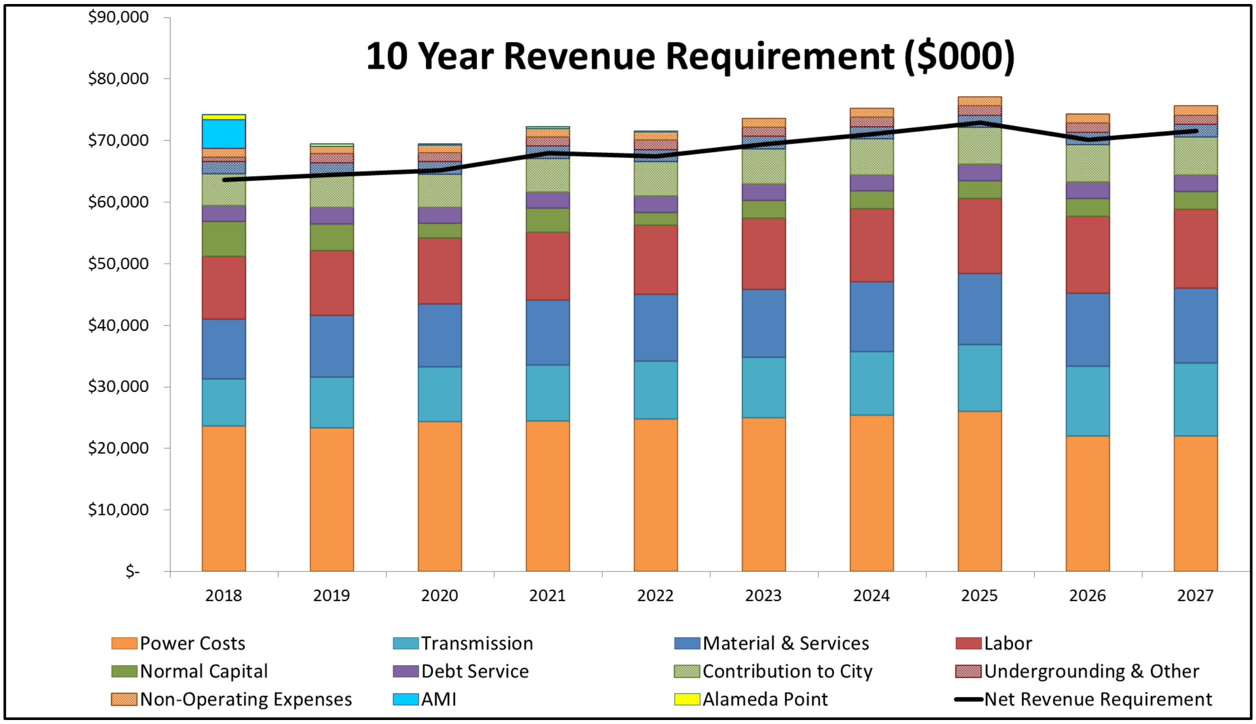
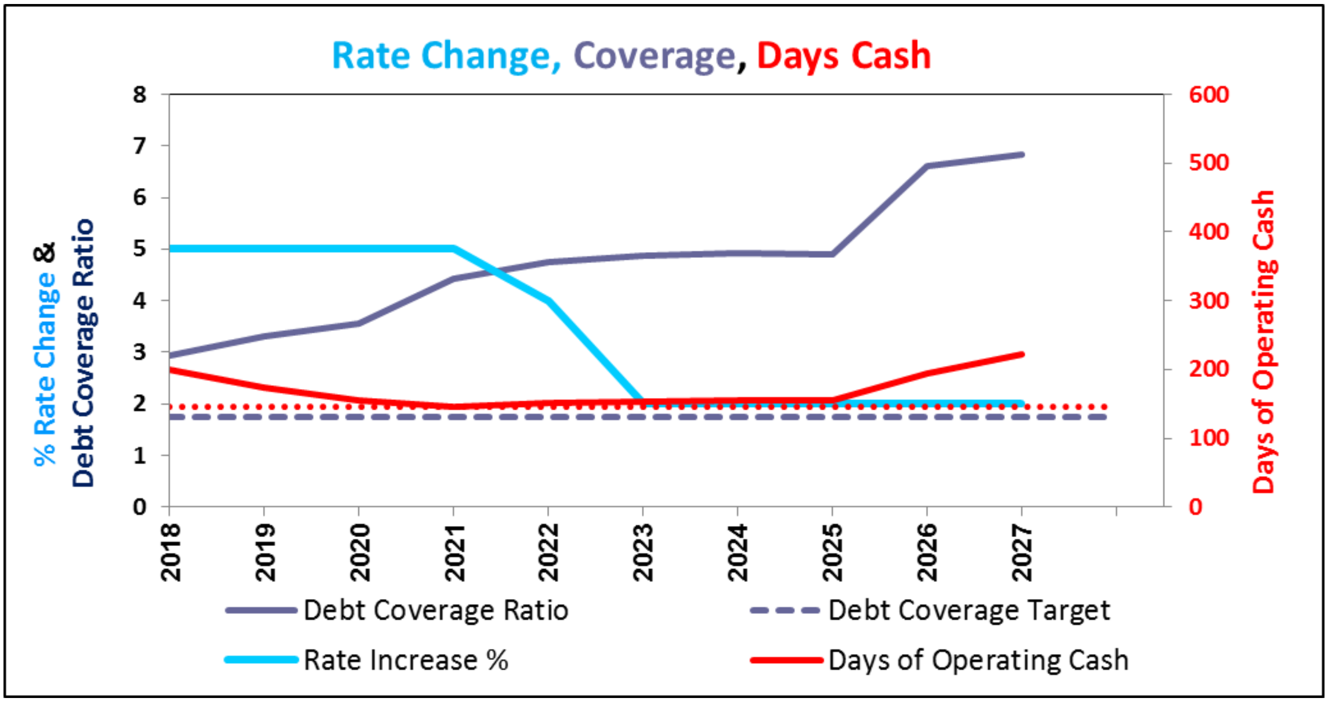


Table 1 – Proposed Rate Adjustment Plan

Fiscal Year	Last Year's Rate Adjustment Plan	Rate Adjustment < 5%	Debt Coverage > 1.75	Cash Reserves ~ 145 Days	Net Operating Surplus ($000)	Reserves ($000)
2018	5.00%	5.00%	2.93	200	$ (4,622)	$ 29,618
2019	5.00%	5.00%	3.31	173	$ (3,804)	$ 25,925
2020	5.00%	5.00%	3.55	156	$ (1,807)	$ 24,237
2021	3.55%	5.00%	4.41	145	$ (1,430)	$ 22,923
2022	2.00%	4.00%	4.75	151	$ 1,333	$ 24,375
2023	2.00%	2.00%	4.86	154	$ 772	$ 25,267
2024	2.00%	2.00%	4.93	155	$ 797	$ 26,184
2025	2.00%	2.00%	4.89	155	$ 545	$ 26,850
2026	2.00%	2.00%	6.62	193	$ 4,970	$ 31,942
2027	2.00%	2.00%	6.84	222	$ 5,287	$ 37,353

A 5 percent increase in FY 2018 is required to meet the projected revenue requirement. The proposed rate adjustment plan meets AMP's Financial Guidelines and the ratemaking policy from FY 2018 through FY 2027. The rate adjustment plan includes 5 percent rate adjustments through FY 2021, a 4 percent adjustment in 2022, and 2 percent afterwards. The debt coverage ratio metric is within the required 1.75 for all years. AMP's cash reserves meet or exceed 145 days from FY 2018 through FY 2027 and are within the cash-on-hand requirements.

Figure 2 – Key Financial Criteria



A substantial change in the work plan has been the incorporation of two major capital projects into the FY 2018 budget, the Automated Meter Infrastructure (AMI) project and the Alameda Point Site "A" (AP) project. The FY 2018 budget proposal eliminates the need for additional debt for the AMI and AP projects, now that pricing / timing have been clarified.

- AMI implementation was originally estimated to cost \$10 million with funds drawn equally from REC funds and bonding during FY 2017 and FY 2018. To date, AMI has been allocated \$2,500,000 of REC funds. The FY 2018 budget proposes utilizing \$3,425,000 of REC funds and \$1,175,000 of rate funds to substantially complete this work. REC spending for AMI is proposed to be \$925,000 higher than proposed last year and the funding from rates for FY 2018 is new.

- AP development was originally estimated to cost \$7 million, with costs estimated at about \$1.5 million each year for FY 2017 through FY 2019. Staff now understands that the cost for AP Phase I is expected to be about \$1.2 million and those costs will primarily occur in FY 2018 and FY 2019. Phase II of the development is anticipated to cost about \$300,000 / year from FY 2023 through FY 2027. Phase III development has not been incorporated into the pro forma, but costs are expected to be similar to phase II costs.

In addition to the incorporation of the AMI and AP capital projects, the following highlights from the proposed FY 2018 budget include:

- Sales revenue is expected to be about $ 57,985,000, or approximately $1,166,600 higher than the FY 2017 budget;
- Purchased power is expected to cost about $31,202,000, or approximately $1,009,200 higher than the FY 2017 budget;
- Operating expenses are expected to cost about $23,188,500, or about $1,301,000 higher than the FY 2017 budget;
- Non-operating expenses are expected to cost about $6,116,600, or about $833,900 higher than the FY 2017 budget;
- Reserve spending is expected to be about $6,743,000, or approximately$348,000 higher than the FY 2017 budget;
- C&T / REC Sales Reserve funding is expected to be about $3,187,300, or about $556,200 lower than the FY 2017 budget;
- Capital project spending is expected to be about $10,396,200, or about $2,878,500 higher than the FY 2017 budget;

The FY 2018 budget is used to forecast long-term revenue requirements. The FY 2018 budget reflects decreases in sales forecasts. Escalation factors are used to increase costs and revenues to representative levels through the forecast period. Specific cost items such as power costs and capital work are estimated separately and input into the pro forma to assure improved accuracy. Please recall that power cost forecasts will likely increase beginning in FY 2026 as existing renewable energy contracts expire. These adjustments have not been factored into the pro forma at this time. The pro forma rate adjustment plan is reviewed yearly and is worked in conjunction with current budget development. The pro forma results will continue to be reviewed with the Board on a yearly basis.

FINANCIAL IMPACT

This report is for information only.

Staff anticipates that the Board will approve a 5 percent rate adjustment for FY 2018, and any corresponding FY 2018 rate sheets, at its regular meeting scheduled for April 17, 2017.

LINKS TO BOARD POLICY AND OBJECTIVES

KRA 6: Financial and Organizational Stability
Goal 6.1: Meet all bond covenants
Goal 6.4: Ensure a balanced budget
Goal 6.5: Ensure Effective Organizational Management

EXHIBIT

A. Power Point Presentation

FY 2018 Pro Forma

March 20, 2017

Agenda

- Purpose
- FY 2017 (Last Year) Drivers and Analysis
- FY 2018 Drivers and Assumptions
- FY 2018 Pro Forma Results

Purpose

Purpose of Pro Forma

- The FY 2018 Pro Forma incorporates information developed in preparation for the budget workshop scheduled for April 10, 2017 at 4:00 p.m.

- The Pro Forma provides a summary of financial information for the upcoming fiscal year and 9 years beyond.

Purpose of Pro Forma (cont.)

- Specific cost items (power costs, debt payments, capital work, etc.) are estimated separately and input into the Pro Forma to improve accuracy.

Purpose of Pro Forma (cont.)

- The Pro Forma escalates certain costs:
  - 3% for labor through FY 2019,
  - 2.5% / year for labor starting in FY 2020,
  - 2.5% / year for services and materials, and
  - 2.0% / year for non-operating costs.

Purpose of Pro Forma (cont.)

- Establish 10 year revenue requirements:
  - Power costs correlated to load forecast
  - Operating costs (labor, services, and materials)
  - Non-operating costs (debt service, outside billing, transfers, etc.)
  - Use of reserves
  - Capital projects (regular maintenance projects + one-time projects such as AMI and the development of Alameda Point)

Purpose of Pro Forma (cont.)

- Determine how revenue requirement is financed
  - Rates
  - Debt
  - Designated reserves (REC, C&T, Underground)

Purpose of Pro Forma (cont.)

- Analyze impacts on financial metrics AMP has to meet
  - <=5% annual rate increase
  - 1.75x debt coverage ratio
  - 145 days cash on hand

FY 2017 (Last Year) Drivers and Analysis

FY 2017 (Last Year) Drivers and Analysis

1) Automated Meter Infrastructure (AMI) and Alameda Point Site "A" (AP) development cannot be funded solely from rates and still meet key financial criteria.
2) AMI
   - $10M total cost
   - $5M per year in FY 2017 and 2018
   - Financed 50/50 with RECs/debt/rates
3) Alameda Point Site "A"
   - $7M total cost
   - $3.5M per year in FY 2017 and 2018
   - Financed with debt

FY 2018
Drivers and Assumptions

FY 2018 Drivers and Assumptions

- The Pro Forma includes the FY 2018 load forecast. Sales (kWh) is 2.7% lower than the FY 2017 forecast.
- Debt consideration for Automated Metering Infrastructure (AMI) and Alameda Point Site “A” development (AP) has been eliminated.

FY 2018 Drivers and Assumptions (cont.)

AMI

- FY 2018 - $3,425,000 from RECs
- FY 2019 - $1,175,000 from rates
- FY 2019, 20, 21 - $100k each year from rates

Site A Phase 1 – From Rates

- FY 2018 - $665,200
- FY 2019 - $400,000
- FY 20, 21, 22 - $200k, $300k, $200k

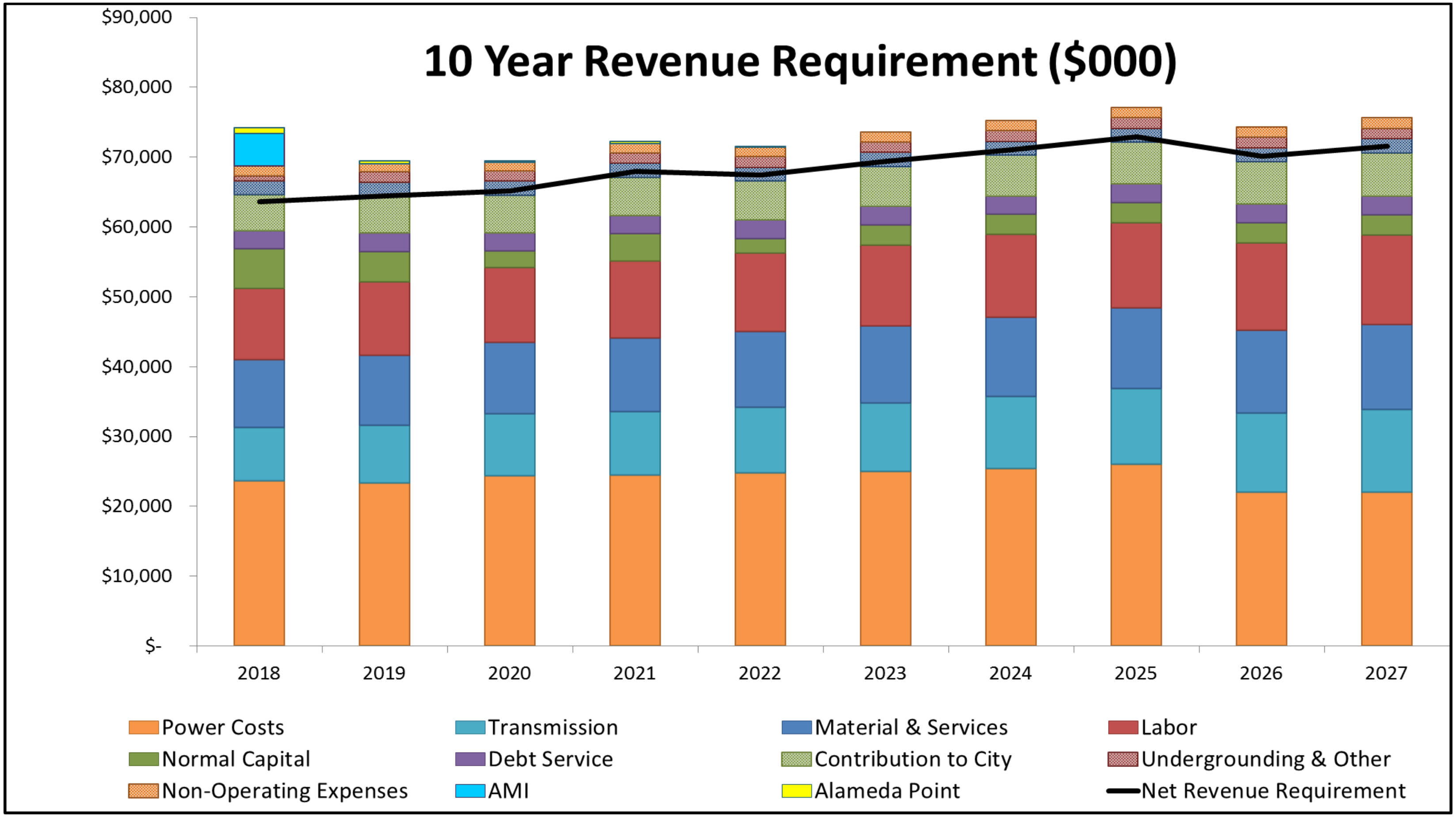
FY 2018 Drivers and Assumptions (cont.)

	FY2017	FY2018	Change
Sales revenue	$ 56,900,000	$ 58,000,000	2%
Purchased power	30,200,000	31,200,000	3%
Operating expenses	21,900,000	23,200,000	6%
Non-operating expenses	5,300,000	6,100,000	15%
Reserve spending	6,400,000	7,200,000	13%
C&T / REC Funding	3,800,000	3,200,000	-16%
Capital projects	$ 7,500,000	$ 10,400,000	39%

FY 2018 Drivers and Assumptions (cont.)

- Revenue requirements are assumed to be funded entirely through rates except:
  - Certain GHG reducing projects
    - Enhanced energy efficiency programs
    - Community solar
    - AMI
    - SF6 Breakers
    - SVP renewable energy
  - Underground Utility Districts

FY 2018 Drivers and Assumptions (cont.)



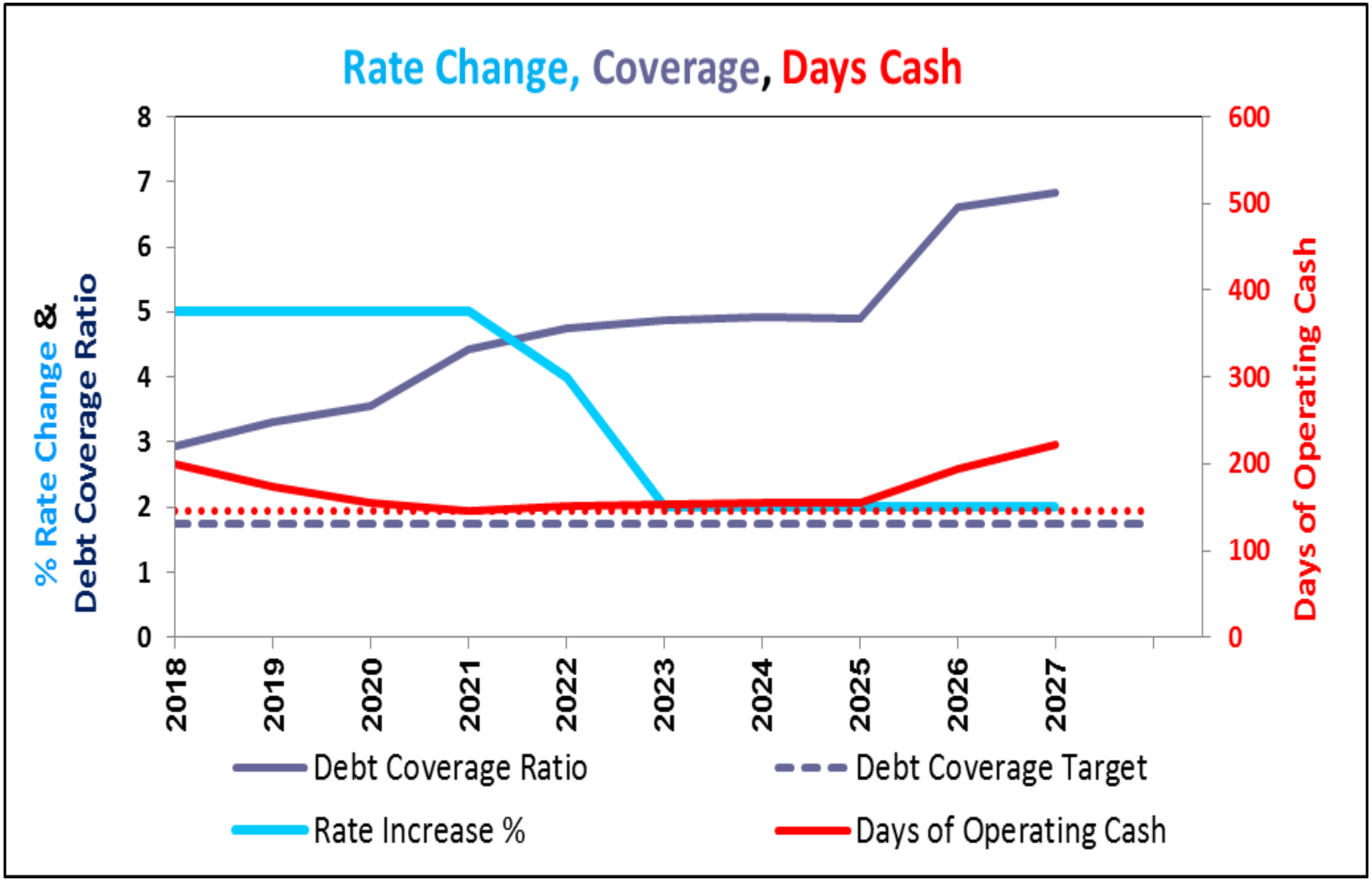
ALAMEDA MUNICIPAL POWER
A Department of the City of Alameda

FY 2018
Pro Forma Results

FY 2018 Pro Forma Results

Fiscal Year	Last Year's Rate Adjustment Plan	Rate Adjustment < 5%	Debt Coverage > 1.75	Cash Reserves ~ 145 Days	Net Operating Surplus ($000)	Reserves ($000)
2018	5.00%	5.00%	2.93	200	$ (4,622)	$ 29,618
2019	5.00%	5.00%	3.31	173	$ (3,804)	$ 25,925
2020	5.00%	5.00%	3.55	156	$ (1,807)	$ 24,237
2021	3.55%	5.00%	4.41	145	$ (1,430)	$ 22,923
2022	2.00%	4.00%	4.75	151	$ 1,333	$ 24,375
2023	2.00%	2.00%	4.86	154	$ 772	$ 25,267
2024	2.00%	2.00%	4.93	155	$ 797	$ 26,184
2025	2.00%	2.00%	4.89	155	$ 545	$ 26,850
2026	2.00%	2.00%	6.62	193	$ 4,970	$ 31,942
2027	2.00%	2.00%	6.84	222	$ 5,287	$ 37,353

FY 2018 Pro Forma Results (cont.)



ALAMEDA MUNICIPAL POWER
A Department of the City of Alameda

FY 2018 Pro Forma Results (cont.)

- The FY 2018 Pro Forma indicates:
  – AMP's Financial Guidelines and ratemaking policy will be met from FY 2018 through FY 2027.
  – The debt coverage ratio metric is within the required 1.75 for all years.
  – AMP's cash reserves meet or exceed 145 days from FY 2018 through FY 2027 and are within the cash-on-hand requirements.

FY 2018 Pro Forma Results (cont.)

- Power cost forecasts will likely increase as existing renewable energy contracts expire beginning in FY 2026. These changes have not been factored into the pro forma at this time.

- Bargaining agreements will be incorporated into the Pro Forma as they are negotiated.

Next Steps

Next Steps

• FY 2018 Budget Workshop	April 17 at 4:00
• FY 2018 Rate adjustments	April 17 at 7:00
• FY 2018 Budget Adopted	June 26 at 7:00

Questions?

Barry Leska

AGM - Energy Resource Planning

(510) 814-5622

Leska@alamedamp.com

ALAMEDA MUNICIPAL POWER

A Department of the City of Alameda