To: Honorable Public Utilities Board

From: Alan Harbottle
Senior Energy Resources Analyst

Subject: Information Only: Summary of 10-Year Financial Pro Forma Analysis

RECOMMENDATION

This report is provided for information only; no action is required at this time. The purpose of this report is to present the updated summary of the 10-year financial pro forma analysis to inform the Public Utilities Board of the results.

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 by the Public Utilities Board (Board) on May 17, 2010. The Financial Guidelines include a debt service coverage ratio target, that cash from operations must be at least 1.75 times Alameda Municipal Power’s (AMP) total debt service and recommends an operating reserve requirement that at least 145 days of operating reserves are kept on hand to fund operations. At its January 26, 2015, meeting the Board adopted an updated five-year ratemaking policy for fiscal year (FY) 2016 - FY 2020, which includes gradual and steady rate increases of no more than 5 percent per year contingent upon annual Board approval in addition to compliance with existing Financial Guidelines. (Please see Exhibits B and C for details). Table 1 shows how AMP has met the Financial Guidelines and ratemaking policy for the last five years from FY 2015 - FY 2019.

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Table 1 – Financial Criteria Five-Year Pro Forma Summary
DISCUSSION

The pro forma incorporates draft FY 2020 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.

Staff anticipates a rate increase of 2 percent for FY 2020 in order to maintain compliance with the Board-adopted Financial Guidelines, with additional rate increases needed in the following years. Staff advises that the rate increase target is largely dependent on preliminary budget information at this time and could reasonably deviate by as much as 1 percent. As summarized in Table 2 below, with a rate increase of 2 percent in FY 2020 through FY 2023, staff estimates that AMP will be able to build its reserve levels for future capital expenditures without causing sudden rate spikes. Having a robust level of reserves will help AMP with unexpected expenditures related to its aging power plants and other infrastructure in the future.

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Table 2 – Pro Forma Analysis Results

Development of Pro Forma Analysis

A pro forma statement summarizes the projected future financial status of a company; particularly projected cash flows and net revenues based on current financial statements. A long-term financial pro forma is developed using projections of revenues, operating and non-operating expenses, interest payments and other income.

AMP’s revenue requirements are made up of power costs, transmission costs, materials, services and labor, debt payments, capital expenditures, and other non-operating expenses, e.g.: transfers to city, transfers to reserves, etc. Long-term estimates of each of these individual components are developed using assumptions based on the best judgement from staff using the latest information available. After that, sources of funding are determined for the revenue requirements. Revenue requirements can be funded from rates, debt, or designated funds, e.g.
Renewable Energy Credit (REC) sales revenue or Cap and Trade (C&T) auction proceeds, undergrounding reserves, etc. Revenue requirements are also defined as total budget costs.

Using the Financial Guidelines adopted by the Board, a rate increase trajectory is determined that will be necessary to maintain AMP’s financial health in the long term.

Assumptions

Key assumptions used in developing the FY 2020 pro forma are discussed below:

- Power Costs
  AMP’s power cost is the total cost of providing power to serve its customer load. Staff used preliminary budget estimates from Northern California Power Agency’s (NCPA) budget for FY 2020 and the FY 2020 Load Forecast recently adopted at the January 28, 2019, Board meeting to forecast all direct and indirect costs related to its generation resources, transmission, power management, and market transactions. Staff also made updates to its forecasting methodology for FY 2020 that should result in a more accurate forecast of power costs.

- Capital Expenditures
  AMP’s capital expenditures are an estimate of costs related to the improvement and replacement of existing infrastructure and new infrastructure projects. For the FY 2020 pro forma analysis, staff included $4.5 million in Engineering and Operations improvements to Alameda. This includes investment towards an asset management system, replacing aging infrastructure, making new customer connections, and improving the overall resiliency of the distribution grid.

- Labor, Materials and Service Costs
  A simple escalator that can vary by fiscal year is used to develop estimates for labor, materials, and service costs from the current fiscal year budget. Staff aligned escalators for labor costs with executed labor agreements where appropriate.

- Other Costs and Expenditures
  In addition to operating and capital expenses, AMP has other non-operating expenses which include, but are not limited to, its debt payments, rebates to customers, transfers to the City, including Payment in Lieu of Taxes, and Return on Investment transfers to reserves.

- Funding sources
  Revenue requirements may be funded by rates, debt, or designated reserves. Designated reserves may be used to fund special projects subject to Board policies that define limitations on the use of such funds. Staff assumes expanded use of designated funds to cover additional customer programs, a cable rejuvenation project, and a portion of renewable power purchases above and beyond the RPS mandate. Formal Board review and approval of FY 2020 designated reserves spending will occur at the FY 2020 budget workshop on April 15, 2019.
Comparison of Key Assumptions from last year

Table 3 shows a detailed comparison of last year’s forecast for FY 2020 costs to this year’s forecast of FY 2020 costs and highlights a total estimated revenue requirement for FY 2020 that is $3.4 million higher than last year’s estimate. As a result of the increase in overall revenue requirement, the expected rate increase for FY 2020 has grown to approximately 2 percent.

<table>
<thead>
<tr>
<th>Category</th>
<th>Fiscal Year (FY) 2019 Forecast for FY 2020 ($ Million)</th>
<th>FY 2020 Forecast for FY 2020 ($ Million)</th>
<th>Difference ($ Million)</th>
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</thead>
<tbody>
<tr>
<td>Power Costs (including transmission)</td>
<td>$28.1</td>
<td>$30.5</td>
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<tr>
<td>Capital Costs</td>
<td>$5.7</td>
<td>$4.7</td>
<td>(1.0)</td>
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<tr>
<td>Material, Services, and Labor Costs</td>
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<td>$23.3</td>
<td>2.0</td>
</tr>
<tr>
<td>Non-Operating Expenses</td>
<td>$1.2</td>
<td>$1.2</td>
<td>(0.0)</td>
</tr>
<tr>
<td>Debt Service</td>
<td>$2.6</td>
<td>$2.6</td>
<td>0.0</td>
</tr>
<tr>
<td>Contribution to City</td>
<td>$5.3</td>
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<td>(0.0)</td>
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<tr>
<td><strong>Revenue Requirement</strong></td>
<td><strong>$64.3</strong></td>
<td><strong>$67.7</strong></td>
<td><strong>3.4</strong></td>
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Table 3 – Fiscal Year 2020 Cost Comparison

Key drivers for FY 2020 revenue requirements are higher power costs, more customer program spending, and higher labor costs. This year, staff received more detailed information from NCPA’s budgets and 10-year forecasts. With the help of that information and recent market trends, staff decreased its estimates for market revenues. This caused increases in power cost projections when compared to the forecast from the FY 2019 pro forma. Staff also increased the services budget to cover an expanded low-income direct install program and additional electric vehicle programs. Lastly, staff revised its assumptions around labor costs to better align costs with the latest labor agreements.

Results

As shown in Figure 1, AMP needs additional rate increases and draws from designated reserves to sustain sufficient operating reserves and maintain its debt coverage ratio above the targets established in the Board adopted Financial Guidelines.
Additionally, as shown in Figure 2, staff estimates that AMP can maintain sufficient operating reserves to plan for future capital projects and other unexpected expenditures without causing sudden rate spikes.

Figure 3 shows the estimated revenue requirements by year for AMP’s budget. As can be seen from the graph, variation in revenue requirements across the years is primarily caused by changes in power costs. Power costs, both the energy and transmission components, increase due to the steady escalation in power prices as well as forecasted load growth. In FY 2025, a
A large amount of debt will be paid off on some of AMP’s generation resources, thus lowering overall power costs. After FY 2025, expiring renewable contracts will be replaced with new renewable generation that is cheaper than existing contracts.

**Figure 3 – 10-Year Pro Forma Revenue Requirement**

**CONCLUSION**

Staff anticipates a rate increase of 2-3 percent for FY 2020, based on preliminary budget inputs, to maintain a healthy financial status for AMP. Staff may update the rate increase target if the final budgets include major changes.

**FINANCIAL IMPACT**

Staff anticipates that the Board will approve a 2-3 percent rate adjustment for FY 2020, and any corresponding FY 2020 rate schedules, at its regular meeting scheduled for April 15, 2019.

**NEXT STEPS**

Staff will develop recommendations on how to use its designated reserves and present the final budget and rate adjustments for approval on April 15, 2019.

**LINKS TO STRATEGIC PLAN AND METRICS**

**Business Resiliency**

**Strategy 2:** AMP will develop financial planning processes that provide fiscal stability and clearly communicate service priorities with their associated costs.
T1: Include a longer-term outlook of the Capital Improvement Plan in the annual budget.

T2: Improve rate design to reflect AMP’s Strategic Plan.

KPI: Maintain rates at 15 percent or more below PG&E and 10 percent or more below local CCAs.

EXHIBIT

A. Power Point Presentation
B. Financial Guidelines for Rates and Revenue, and Reserves, adopted at the May 17, 2010 Board meeting
C. Ratemaking Policy for FY 2016 Through FY 2020 – Resolution No. 5061
Fiscal Year 2020 Pro Forma

March 18th, 2019
Overview

• Background/Methodology
• Summary of Pro Forma Analysis
• Results - revenue requirements and all other metrics
• Key drivers and assumptions
• Recommendations and Next Steps
Background and Methodology
AMP’s 2015 Rate Adjustment Plan lays out policies to avoid rate spikes while maintaining good financial standing

- Avoid unanticipated rate spikes.
- Comply with adopted financial policies.
  - <=5% annual rate increase
  - 1.75 x debt coverage ratio
  - 145 days of operating reserves
- Board conceptually approved rate increases of less than 5 percent each year contingent upon approval
• In January 2019, the Board approved a new 2020 Strategic Plan.

  – Strategy 2 of the Business Resiliency Issue reads, “AMP will develop financial planning processes that provide fiscal stability and clearly communicate service priorities with their associated costs.”

    • The pro forma is one of the key financial planning processes.

  – Tracking progress is primarily through the key performance indicator – “Maintain rates at 15 percent or more below Pacific Gas & Electric and 10 percent or more below local Community Choice Aggregators.”
• AMP’s prior years’ rate increases were recommended in compliance with policies laid out by the rate adjustment plan.

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Pro Forma Analysis - Methodology

Step 1: Develop revenue requirement (total budget costs)

Key Components of revenue requirement are:

- Power costs
- Labor, services, and materials
- Debt service
- Transfers
- Capital projects
  - Regular maintenance projects
  - Uncommon projects e.g. development of Alameda Point
Step 2: Determine how revenue requirement is financed

- Revenue requirement can be funded using either rates, debt or designated reserves
  - Rates
  - Debt
  - Designated reserves
    - Renewable Energy Credit (REC)
    - Cap and Trade (C&T)
    - Underground
    - Low Carbon Fuel Standard (LCFS)
- Designated reserves can only be used to fund specific projects

Step 3: Determine rate increases required to meet financial metrics as per 2015 rate adjustment plan
Summary of Analysis and Detailed Results
Staff recommends a rate increase of 2 – 3 percent for fiscal year (FY) 2020

- Disclaimer: Staff analysis is based on preliminary budgets.
- Small rate increases can help meet AMP’s financial goals in the long term.
By keeping rate increases at around 2 percent over the next few years, AMP can build its reserves to plan for unexpected expenditures without causing sudden rate spikes.

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FY2020 Revenue Requirements

Revenue requirements change after 2024 due to debt service and replacement of existing renewable contracts with cheaper renewable energy.
Key Drivers and Assumptions
Assumptions: Power Cost

• Reduction in debt service across our generation fleet after 2024.
• Most of AMP’s current sources of energy will continue to be in place through 2025 and the landfill and wind contracts may be extended for 5 to 10 years.
  – Current cost assumptions for contract replacements are at market cost plus California eligible-renewable premiums plus TAC charges.
  – Potential optimization of future resources to reduce costs will be explored in the next Integrated Resource Plan.
• Transmission costs continue to increase each year. Trend is expected to continue.
Assumptions: Capital Expenditure

From AMP’s 2020 Strategic Plan:

• Strategy 1: AMP will develop an asset management plan to guide efficient capital and maintenance expenditures which improve system operations and resiliency.
  • T1: Inventory infrastructure assets and assess status of each
  • T2: Develop, prioritize, and propose infrastructure maintenance programs based on currently available key infrastructure asset information for implementation in Fiscal Year (FY) 2021 and begin reporting of infrastructure status
    • AMP will begin spending $ on its asset management system in FY 2020.
• Other major capital projects include new customer connections at Alameda Point, Otis/Broadway undergrounding district, and breaker replacements.
Recommendation and Next Steps

• Staff proposes a rate increase of 2 -3 percent for FY 2020 based on preliminary budget inputs.

Upcoming events:

• April 15 PUB Meeting:
  – FY2020 Budget Workshop
  – FY2020 Finalize Rate allocation among rate classes

• June 17 Meeting:
  – Adoption of FY2020 Budget and Budget Policy
Questions

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RECOMMENDATION

By motion, it is recommended that the Public Utilities Board (Board) accept the financial guidelines for rates and revenue and that the Board accept the financial guidelines for reserves.

BACKGROUND

Alameda Municipal Power (AMP) hired Sandra McDonald of McDonald Partners as its Financial Advisor (FA) for financial planning, and to review the Series 2000A and 2000AT Certificates of Participation (COPs). The FA has been conducting a comprehensive review of financial planning goals, the COPs, and bond coverage requirements. Additionally, staff has developed a series of assumptions and scenarios with the FA to generate a Ten Year Financial Plan that will be used to balance revenue with expenses while maintaining adequate reserves.

As a result of the work performed with the FA, the financial policies that are being proposed by staff at this time are intended to document some of the financial planning guidelines that will be used in the rate, revenue and reserve planning process, and to support the refinancing efforts of the Series 2000A and 2000AT COPs. AMP is establishing these financial guidelines to ensure that finances are managed in a manner that will continue to provide for the delivery of reliable electric service as the community grows, manage the organization so that it lives within its means, and to establish reserves necessary to meet unanticipated expenditures and service level emergencies.

At the January 25, 2010 Board meeting, the FA discussed financial planning goals, importance of AMP’s credit rating, primary drivers for credit ratings, and credit implications of reserves. The FA highlighted that the goal of financial planning was to maintain adequate reserves and liquidity, maintain or improve credit ratings, comply with bond covenants, enhance transparency, reduce debt expense and minimize rate impacts.
At the February 22, 2010 Board meeting, the FA provided a market update, a debt refunding analysis, an alternative structuring of reserves, and the credit implications of implementing the debt/reserve alternatives.

At the March 15, 2010 Board meeting, the FA recapped the financial planning discussions and recommended financial guidelines:

- The FA recommended that the financial guideline for unrestricted operating cash should have a target of 145 days, a low of 100 days, and a high of 270 days.
- The FA highlighted that this recommendation was contingent on no significant change in AMP’s power portfolio risk.
- The FA recommended that the debt service coverage ratio should have a target of 1.75x.
- The FA highlighted that this recommendation is at the low end of range for the entire WECC peer group, but that it was appropriate for AMP’s level of debt and capital expenses.
- The FA concluded that:
  - Pro forma results should include, at a minimum, sufficient revenues to meet both the 145 days of operating cash on hand and a 1.75x debt service coverage ratio;
  - Rates may be set to collect additional funds for future planned expenditures while avoiding, or minimizing, future debt issuances and providing rate stabilization; and
  - Mid-year rate increases should be considered when there is less than 100 days of operating cash on hand or when there is less than the minimum bond coverage ratio.

In addition to the FA presentation and recommendations at the March 15, 2010 Board meeting, staff presented a 10-year pro forma financial plan and introduced recommendations for rate principles and guidelines for ratemaking purposes.

During the 10-year pro forma financial plan presentation, staff highlighted the purpose behind creation of the pro forma, indicated the key drivers that impact the results of the planning model, identified factors that are causing operating costs to rise, discussed assumptions contained in the planning model, identified a sampling of questions to be addressed in the scenario analysis, and provided an analysis of findings resulting from each of the scenarios. The conclusion was that, over the long term, there are only small differences between the scenario options, and that excess renewable power sales only forestall future revenue requirements. The analysis confirmed that a steady, gradual basis for rate adjustments will meet the needs of AMP.
During the rate principles and guidelines presentation, staff highlighted some of the existing policy directives and strategies related to ratemaking. Additionally, staff discussed development of the ratemaking principles and highlighted that development of a rate structure must reach reasonable compromises between conflicting and competing objectives.

DISCUSSION

The following financial guidelines are recommended to the Public Utilities Board for implementation by staff:

General

1. AMP shall manage its financial assets in a sound a prudent manner.

2. AMP shall maintain sound financial practices in accordance with applicable law and regulations.

3. AMP shall allocate its available financial resources toward meeting goals identified in the Board adopted strategies.

4. AMP shall ensure long-term fiscal sustainability in funding all direct and indirect costs necessary to provide reliable electric service.

5. AMP shall maintain accounting systems in conformance with generally accepted accounting principles (GAAP).

6. AMP shall establish and maintain investment policies in accordance with State law and sound investment principles, ensuring safety and liquidity of principal over yield.

7. AMP shall ensure compliance with all financial covenants contained in any bond indenture, lease, installment sale agreement, letter of credit or other financing document.

Rates & Revenues

1. AMP shall at least annually review all rates and charges.

2. AMP shall seek approval of any required rate increase to:
   a. ensure that the current rates and charges and any other revenues, together with any planned transfer from a Rate Stabilization Fund or the Operating Reserve, recover the full cost of operating AMP, including all operating costs, payments in lieu of taxes, general fund transfers, debt service and capital projects that are not expected to be paid with the proceeds of bonds,
   b. provide a target coverage of ratio of 1.75X (based on calculations in accordance with AMP’s bond documents).
3. AMP shall bill customers for electric service in a timely manner. No customers shall receive free service.

4. AMP shall aggressively pursue revenue collection and auditing to ensure that monies due are received in a timely manner.

5. AMP shall establish connection fees, development fees or other user fees that fully support the total direct and indirect cost of any activity that benefits only specific customers or individuals, including administrative overhead and depreciation, except as provided by other specific policy criteria.

6. AMP shall prepare periodic financial reports of actual revenues and expenditures for review by the Public Utilities Board, in order to provide information on the status of AMP’s financial condition, as required by the City Charter.

7. AMP shall maintain and further develop methods to monitor major revenue sources and evaluate financial trends, assisted by outside technical consultants as necessary.

**Reserves**

1. AMP shall establish, dedicate and maintain reserves annually to meet known and estimated future obligations.

2. In preparing each Annual Budget and Annual Rate Review, AMP shall target a projected Operating Reserve fund balance at the end of each fiscal year shall be at least equal to:
   a. 145 days of all operating expenses including any payment-in-lieu of taxes/ROI.
   b. It is understood that the target set forth above is a guideline and the Board may adopt a budget and establish rates such that the projected operating reserve fund balance is higher or lower than the target amount; however, in no case shall the projected operating reserve balance be less than 100 days of all operating expenses including any payment-in-lieu of taxes.
   c. Operating expenses shall include costs for purchased power, maintenance, operations, customer accounts, sales, administration & general, and PILOT/ROI. Specifically excluded from the definition are depreciation, non-operating revenue and expenses, debt related charges, the transfer to the General Fund, capitalized equipment costs, and capital project work including outside billing to 3rd parties.

3. AMP shall establish Board designated reserve accounts which include, but are not limited to, designated reserves for the following:
   a. Reserve for solar rebates;
   b. Reserve for undergrounding;
   c. Reserves for insurance.

**FINANCIAL IMPACT**
None.

LINK TO STRATEGIC PLAN AND METRICS

Strategy No. 2: Ensure utility financial health is preserved through short and long term risk management planning.

EXHIBIT

None.
CITY OF ALAMEDA
ALAMEDA MUNICIPAL POWER

RESOLUTION NO. 5961

APPROVE ALAMEDA MUNICIPAL POWER’S RATEMAKING POLICY
FOR FISCAL YEAR 2016 THROUGH FISCAL YEAR 2020

WHEREAS, the Public Utilities Board (Board) hereby finds that the following policy provides reasonable principles and guidelines for the determination of rates;

NOW THEREFORE BE IT RESOLVED that the Board hereby approves the following Ratemaking Policy:

AMP shall align previous principles and guidelines with current strategies and practices to assure that rates:

1. Provide adequate revenue
   - Cover operating, non-operating and capital expenditures
   - Ensure a reasonable level of working capital is available for unexpected events
   - Provide 145 days operating cash on hand
   - Provide 1.75 debt service coverage ratio

2. Consider equity
   - Support equity between and within customer classes
   - Support equity in discount, incentive and rebate programs

3. Send price signals to customers
   - Reflect the cost of service
     - Fixed customer or meter charge for each rate class to help recover the costs of customer billing and overhead independent of energy usage
   - Be simple yet understandable
   - Encourage customer response to energy usage

4. Reflect the community’s social priorities
   - Include appropriate public benefits charges
     - Energy efficiency
     - Renewable resources
     - Customer assistance programs
     - Utility Underground Districts
   - Promote economic development
5. Strive to be competitive
   - Continue to be competitive with rates for equivalent customers in neighboring communities

6. Are adjusted based on annual projections
   - Review financial projections, rates, and charges annually
   - Base rate changes on first five years of 10-year financial model results
   - Adjust rates to reflect changes in costs
     - Rate increases should be gradual (slow and steady)
     - No more than five percent on average per year, if possible
   - Enact annual rate changes effective July 1, unless otherwise required
   - Provide advance notice to customers

7. Utilize successive five-year rate plans to implement the preceding rate principles.

AYES: Commissioners Hamm, McCormick, Vice President Sutter, City Manager Russo, and President Deaton
NOES: None
ABSENT: None

IN WITNESS WHEREOF, I have set my hand on this 27th day of January 2015.

[Signature]

Date: Jan 29, 2015

Glenn O. Steiger
Public Utilities Board Secretary