



City of Anaheim  
PUBLIC UTILITIES DEPARTMENT

**DATE:** SEPTEMBER 15, 2011  
**TO:** CITY MANAGER/CITY COUNCIL  
**FROM:** PUBLIC UTILITIES GENERAL MANAGER  
**SUBJECT:** ANAHEIM PUBLIC UTILITIES  
FINANCIAL STATUS AND FORECAST

This item is for information only.

Attached please find information presented by the Public Utilities Department (Department) to the Public Utilities Board detailing the Department's current financial status and providing an updated financial forecast. In general, sales have been dropping for both utilities while fixed costs continue to rise. The Water Utility has been managing through its challenges, while keeping rates in the lowest 20% of all Orange County water agencies. However, the Electric Utility has and continues to face significant challenges, primarily due to unfunded state legislative mandates.

The strategies the Department has employed to work through the Electric Utility's challenges include significant budget reductions including a \$16 million reduction in non-power supply related operating costs and the deferral of large capital projects. It is important to note that labor costs account for approximately 10% of total Electric Utility costs, which is quite low when compared to other departments within the City. Further, the Department continually proves how it is able to do more with less as evidenced by its relatively low headcount. The Department employs 240 full time employees to serve all of its electric customers. If we kept with the industry standard for an electric utility of Anaheim's size, we would require 330 employees, a 38% increase in staffing. Energy costs, however, continue to create a significant challenge. The Electric Utility is now subject to a requirement to purchase 33% of its energy from renewable sources by 2020, as well as reduce carbon emissions to 1990 levels. Despite these challenges, the Electric Utility still offers rates to its residential customers that are 10-25% lower than those offered in the rest of Orange County.

Through financial updates provided at monthly public meetings, budget workshops, preparations for public hearings, and various other presentations and correspondence offered periodically, the Department has kept policymakers apprised of its financial status and forecasts. The Department is well prepared to answer any questions and you may refer those questions to Marcie Edwards, City of Anaheim Public Utilities General Manager, at 714-765-4590.

**Attachment:**

1. PowerPoint Presentation

# ANAHEIM PUBLIC UTILITIES FINANCIAL STATUS AND FORECAST

# Introduction

2

- **Electric sales continue to fall due to:**
  - Conservation
  - Generally cooler weather
  - Economy
- **Cash flow forecast**
  - Utilizing reserves over raising rates
- **Work out strategy**
  - Budget cuts
  - Large capital projects deferred
  - Rate adjustments

- **Power resource mix & strategy**
  - New state mandated renewable requirements of 33%
  - Canyon Power Plant benefits
- **Water Utility is generally on target**

# Financial Targets

3

## □ Industry Variability in Coverage to Maintain Ratings

### □ Anaheim Electric - 1.60 (AA-)

- Riverside 2.59 (AA-)
- Pasadena 4.43 (AA)
- LADWP 2.45 (AA-)

### □ Anaheim Water - 2.25 (AAA)

- IRWD 1.9 (AAA)
- Yorba Linda Water 1.4 (AA-)
- MWD downgraded from AAA to AA+ with 1.44 coverage

•Credit rating is a major factor in determining interest rate.

•Metrics alone do not determine ratings - political stability, experienced management, and risk mitigation are other major factors that explain variances in metrics amongst agencies with similar ratings.

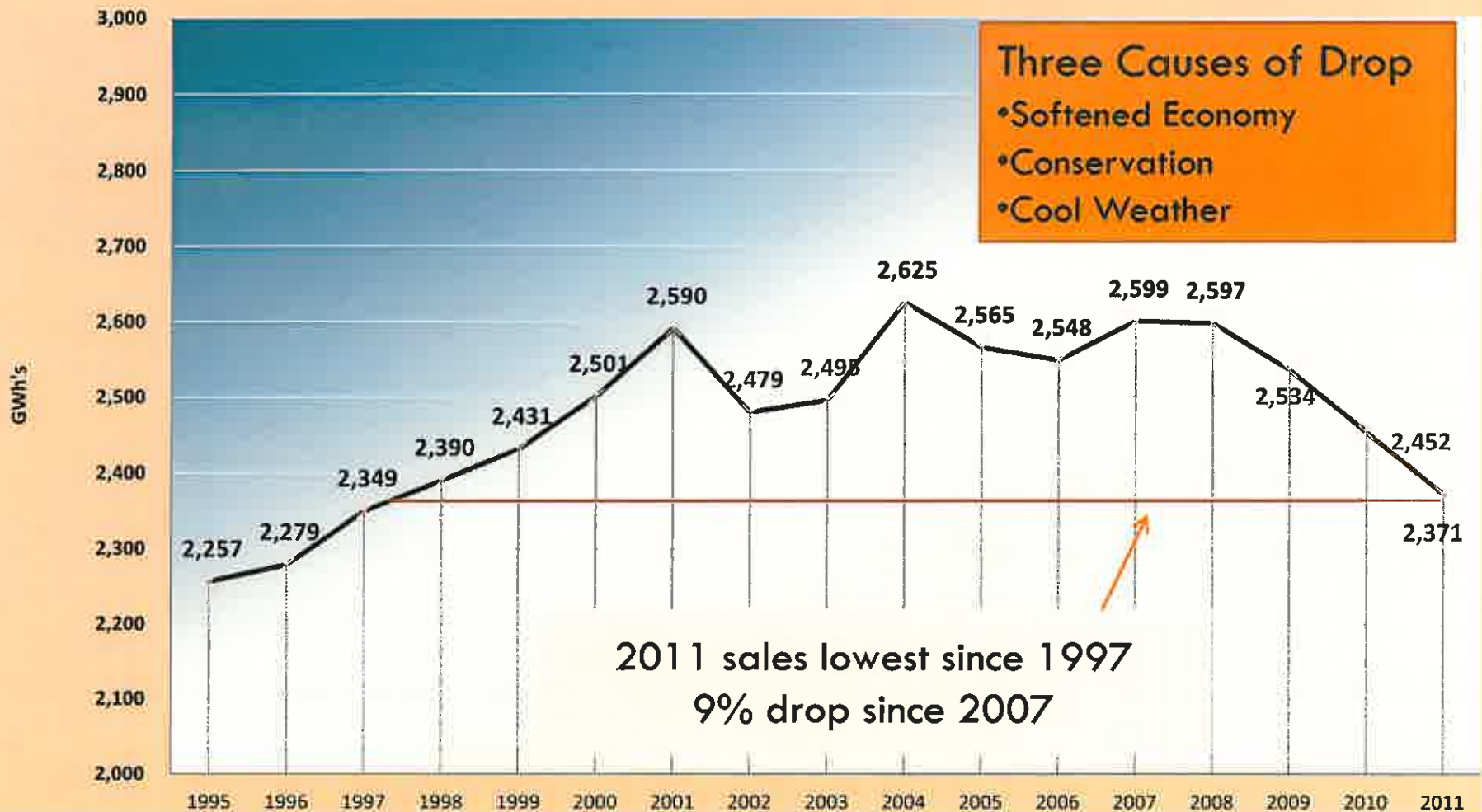
## □ Minimum Days Cash on Hand

### □ General industry standard is to have 120 days worth of operating expenses on hand to ensure day to day operating expenses can be paid in the event of a major catastrophe or other significant event.

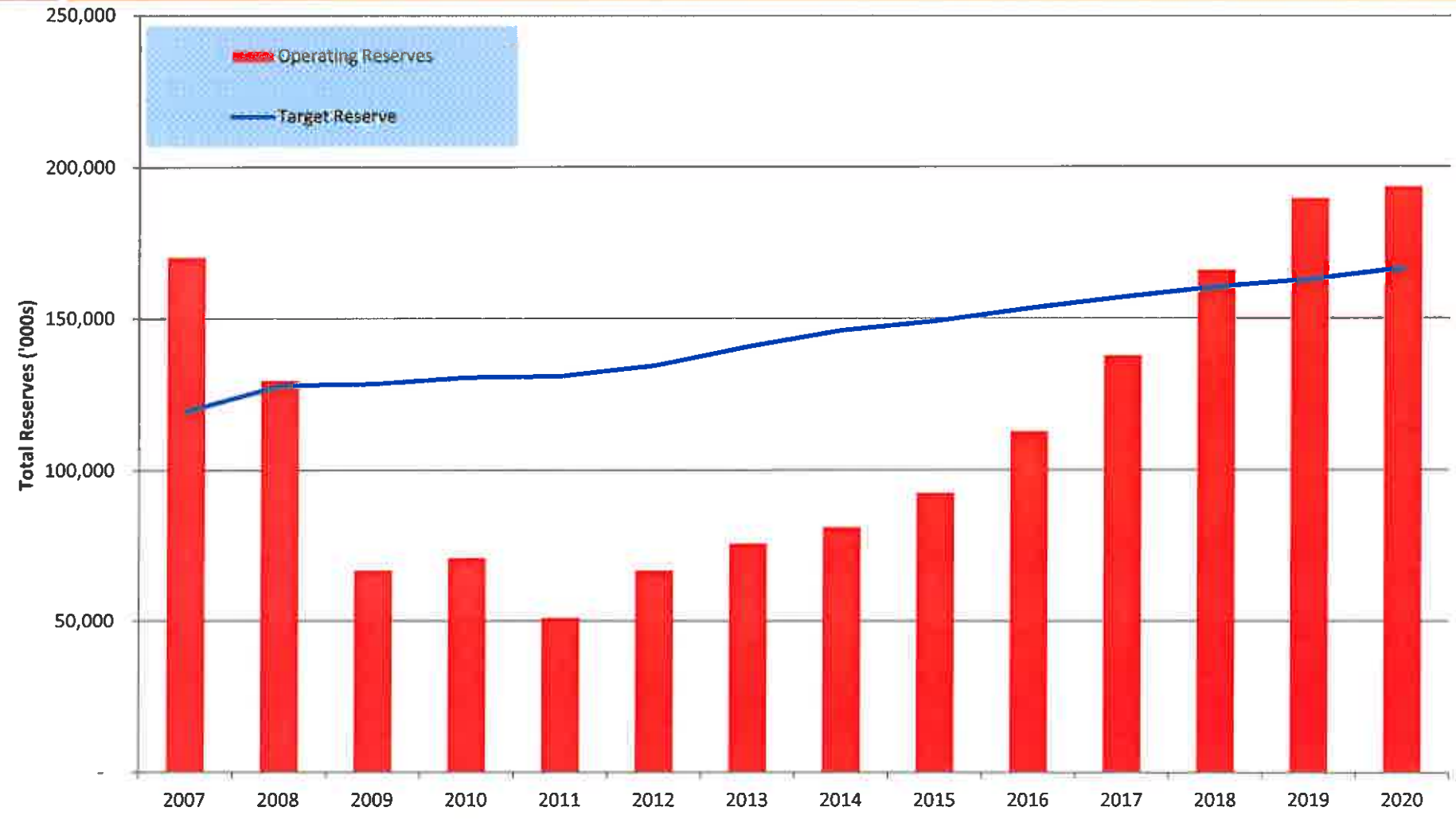
- Anaheim Electric currently has about \$51M which equates to 57 days cash on hand
- Anaheim Water currently has about \$23M which equates to 195 days cash on hand

# Historical Energy Sales

4



# Electric Unrestricted Cash



# Electric Work Out Strategy

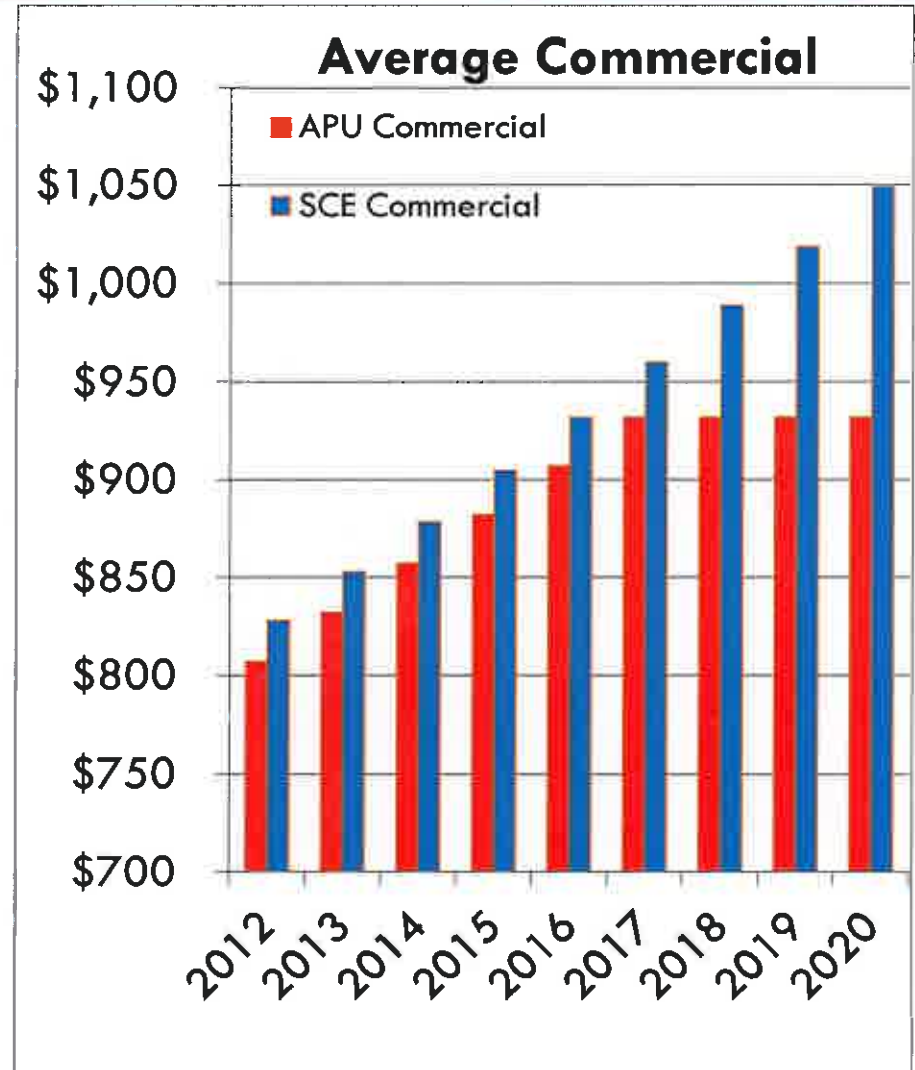
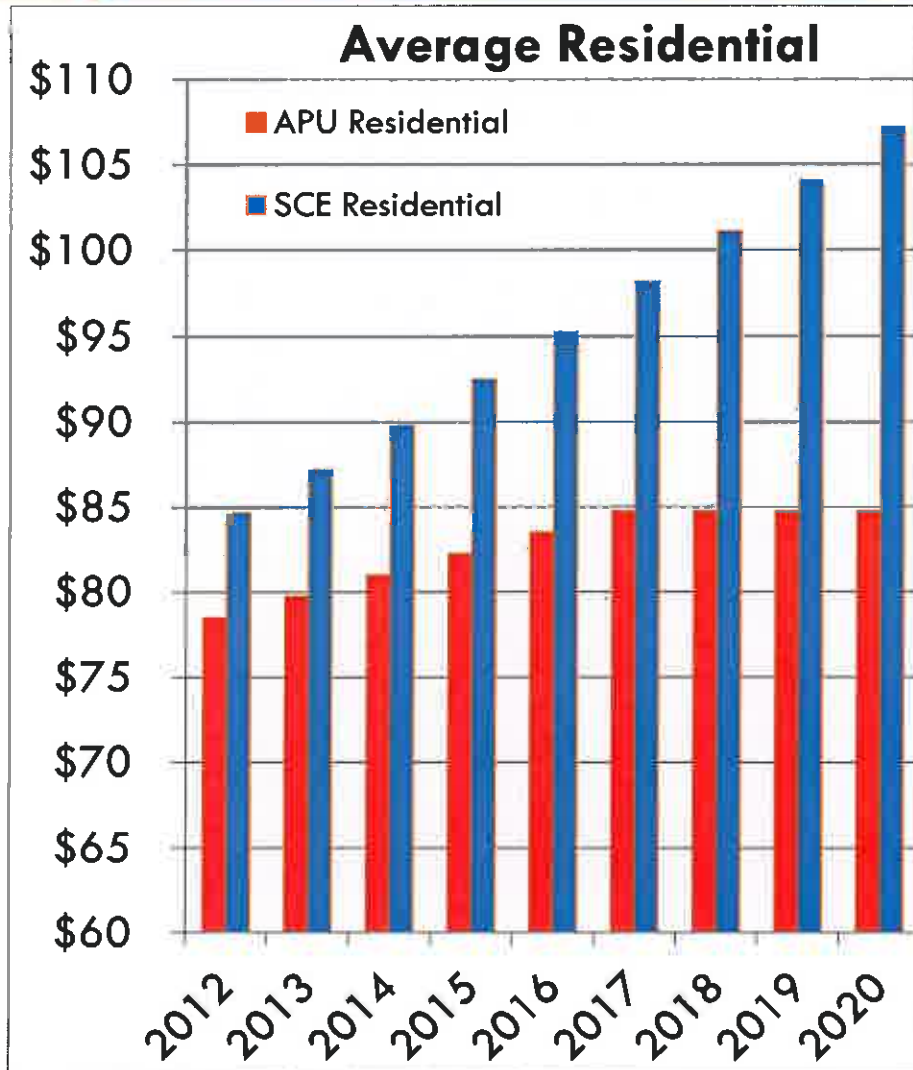
6

- **Budget cuts**
  - ▣ Holding 42 positions open
  - ▣ Cut \$16M in non-power supply costs from annual budget
- **Deferral of large capital projects**
  - ▣ Harbor Substation
  - ▣ Canyon transformer bank
- **Rate changes**
  - ▣ 5% base rate increase to begin December 1, 2011
    - Adopted by City Council in November 2010

# Forecasted Monthly Bills

Anaheim electric bills still lower than Edison

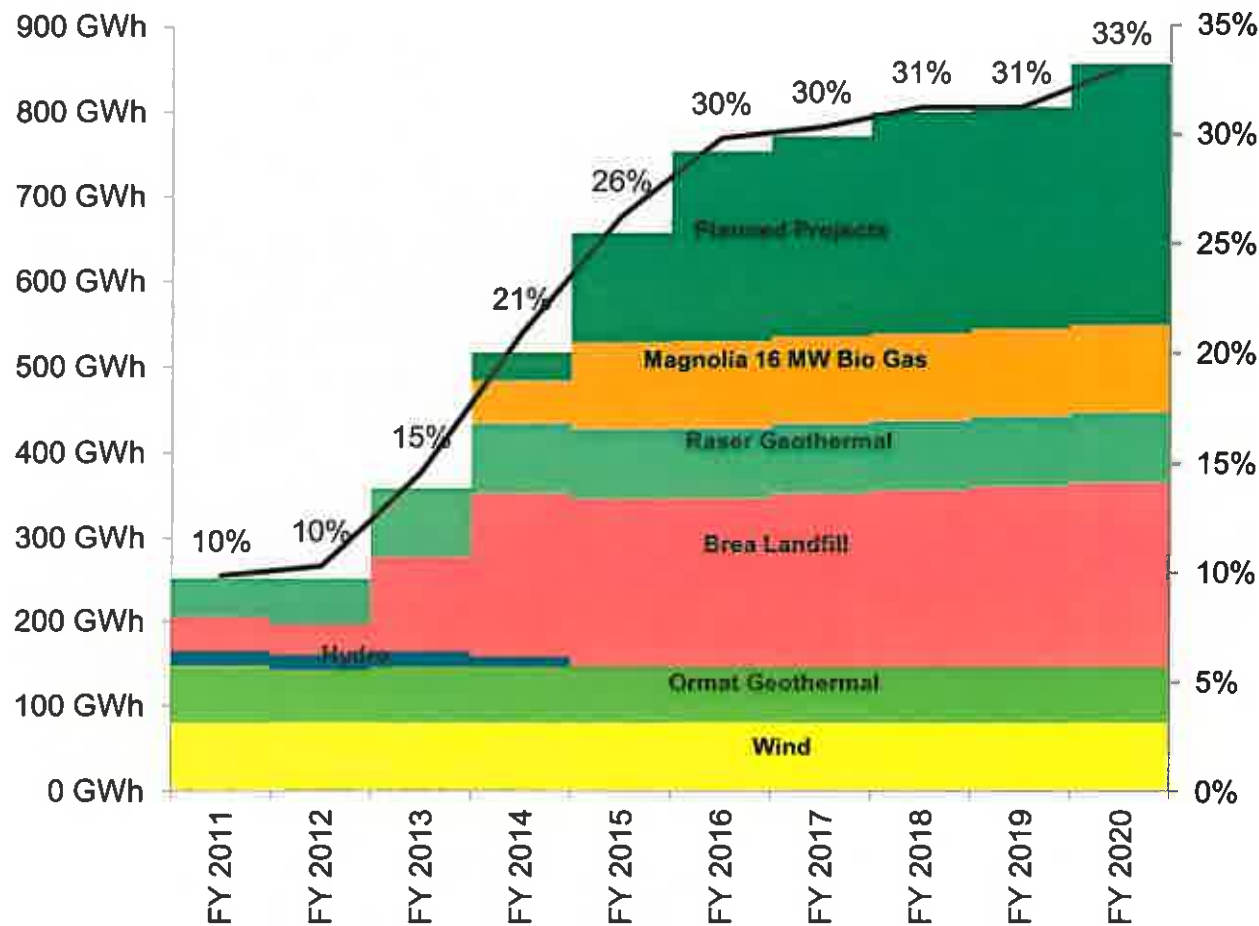
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# Renewables

## 33% Renewables Mandated by SBX1 2

8



Fiscal Year	Annual Cost of Renewables
2012	\$18M
2013	\$36M
2014	\$53M
2015	\$61M
2016	\$71M
2017	\$73M
2018	\$77M
2019	\$77M
2020	\$84M

# Why Did the Utility Build Canyon Power Plant?

- Provides substantial resource portfolio benefits**
  - Incremental power for peak use during the summer
  - Quick response to meet changes in customer demand and resource production
  - “Black start” capability of meeting half the City demand under emergency conditions
  - Backs up intermittent renewable resources like solar and wind
  
- Reduces Costs**
  - Reduces CAISO \$11M- \$15M Local Capacity Requirement Fees
  - Creates independence from out-of-state power much of the year
  - Reduces reliance on market purchases for 15% reserve requirement
  - Potential to provide other electric products that are currently purchased from the CAISO
  - Marginal cost to operate is \$0 since APU already has staff

Annual Financial Benefits Versus Costs	
Reduction in CAISO Fees	\$11,000,000
Reduced Power Costs	\$6,400,000
Excess Power Sales	\$4,500,000
Reduction in Reserve Purchases	\$2,500,000
<b>Total Savings</b>	<b>\$24,400,000</b>
Average Debt Service	\$(13,700,000)
Fuel Costs	\$(3,000,000)
<b>Net Benefit</b>	<b>\$7,700,000</b>

# In Addition to Renewables, the State is Mandating Carbon Emissions be Reduced to 1990 Levels (AB 32)

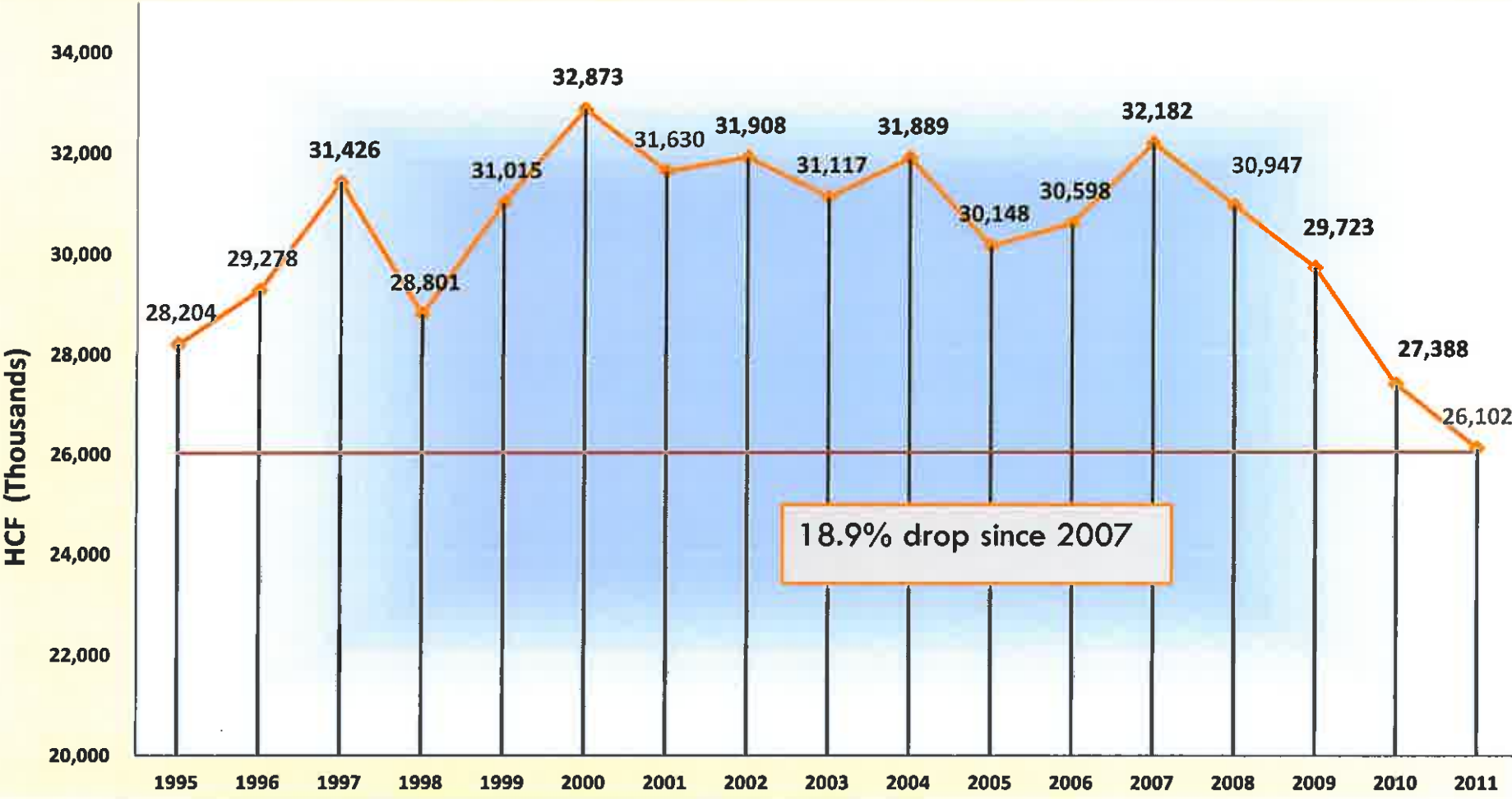
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- ❑ Anaheim Electric faces additional financial uncertainty with the implementation of AB 32 slated to take effect in 2012. The Department has actively implemented measures (conservation and renewable strategies) to reduce emissions to 1990 levels by 2020 as AB 32 mandates.
- ❑ Current forecasts estimate that the AB 32 mandated cap and trade market, beginning next year, will cost the Department between \$2M-\$8M per year (1/2% -2% rate increase) depending on the market's price for emissions credits.
- ❑ If regulations become more onerous or cap and trade market prices are higher than in the current forecast, Anaheim has alternatives to address its carbon-related costs:
  - ❑ Energy sales from coal plants to non-California entities
  - ❑ Potential conversion of coal plants to gas
  - ❑ Potential resource portfolio changes
    - Outright sale of 50 MW of coal generation prior to 2020 would result in 15% reduction in CO<sub>2</sub> output
    - Layoff of 80 MW of coal resources to tax-exempt entity would result in 25% reduction in CO<sub>2</sub> output
    - Biofuel zero carbon to dual-fuel Magnolia

11

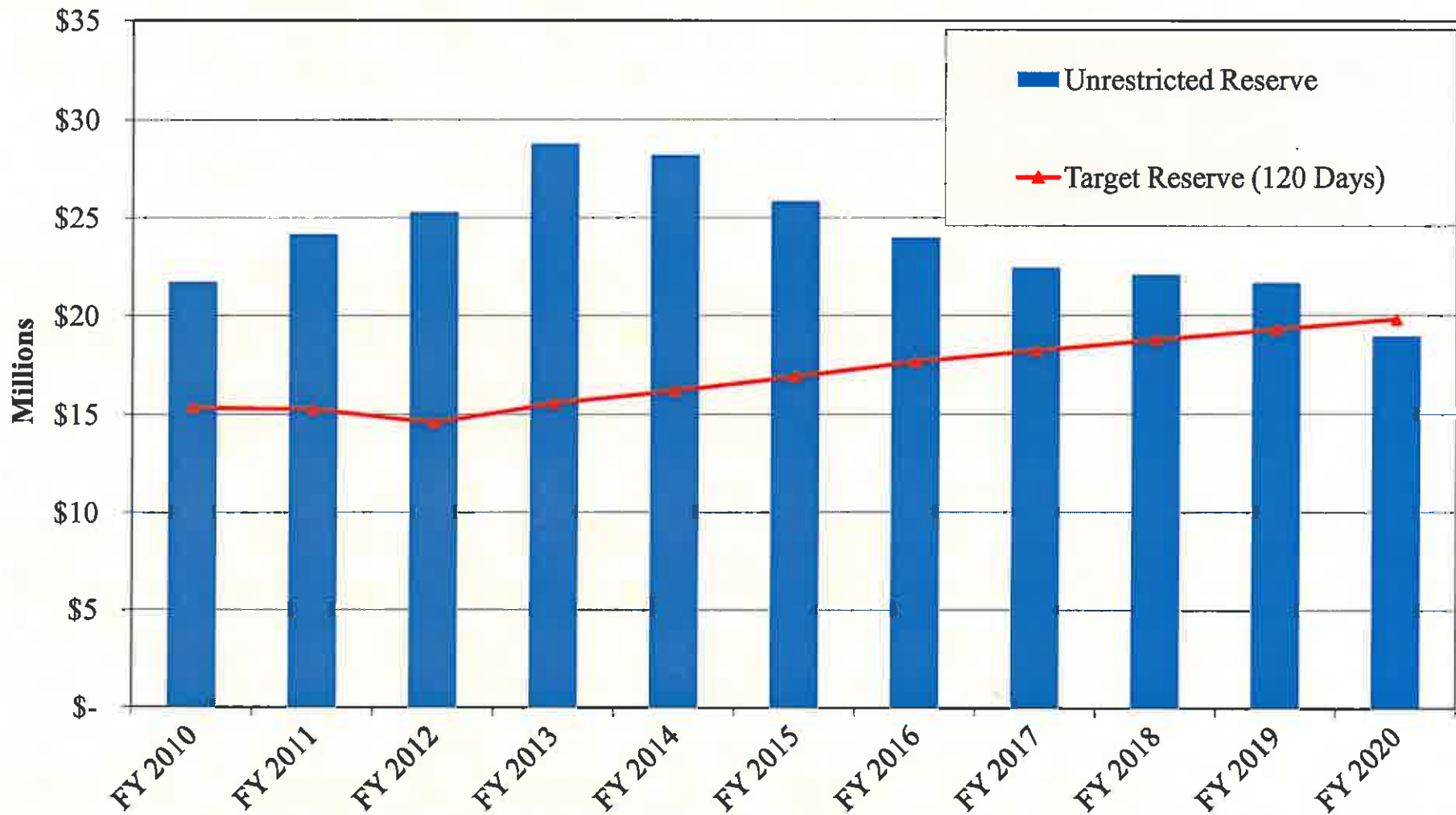
## Water Update

# Historical Water Sales



# Water Unrestricted Cash On Target

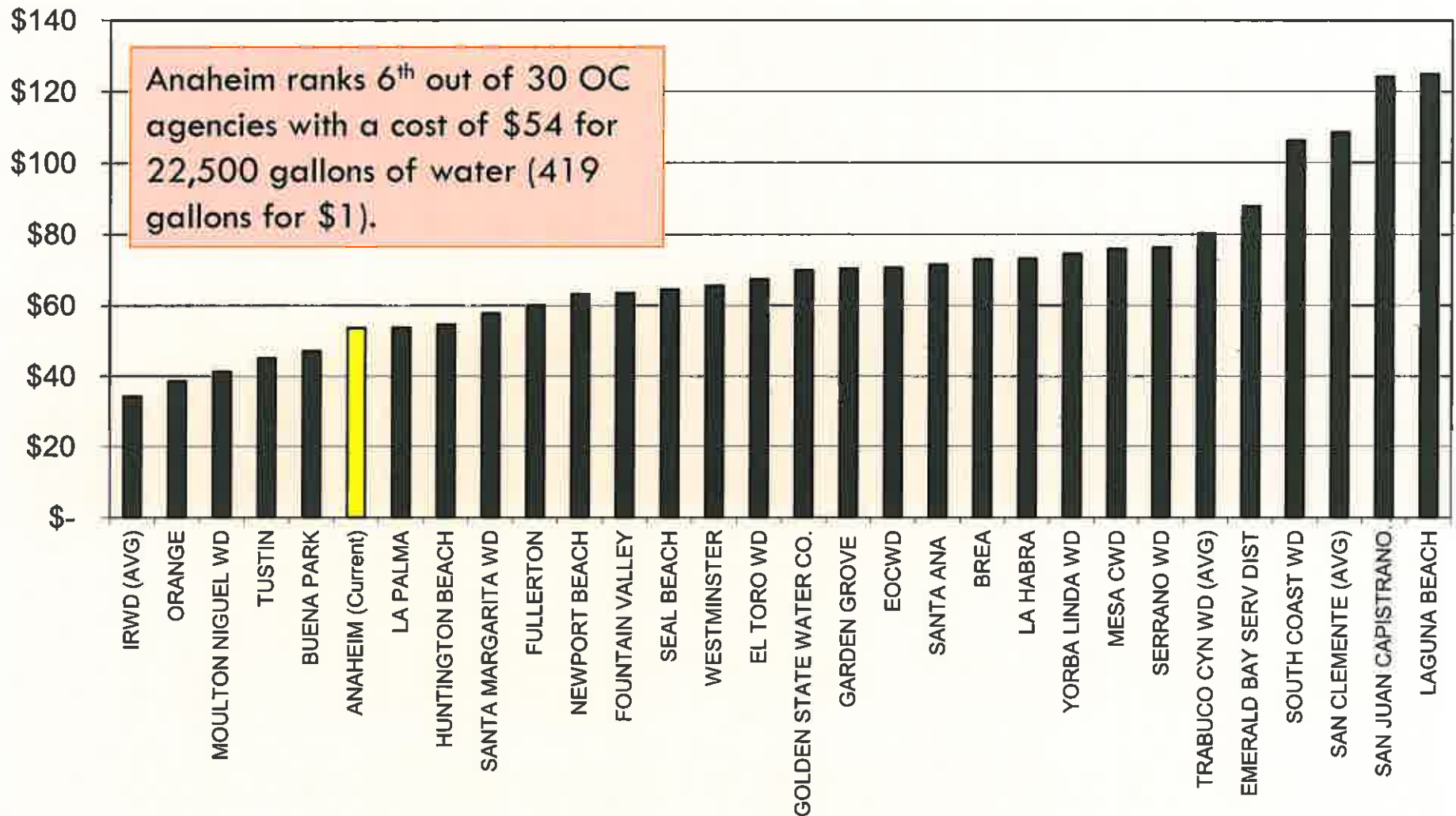
13



# Typical Monthly Orange County Water Bills

## 25 HCF (22,500 Gallons)

14



# Conclusion

15

- ❑ **2011 forecasted to be bottom of trough for electric**
- ❑ **Resource strategy on target for RPS requirements**
- ❑ **Canyon forecasted to provide \$7-8M/year in additional benefits**
- ❑ **Risks still exist in the form of legislative and regulatory mandates, however APU is proactively mitigating those risks.**
- ❑ **Even with current challenges, APU is still considered a AA/AAA rated organization.**