

*Arts & Innovation*

## Riverside Public Utilities Finance 101

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### **City Council Workshop**

September 1, 2015

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## Agenda

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1. Overview of City Finance
2. Overview of Propositions 218, 26 and Other
3. RPU Budget and Budget Trends
4. Rates, Revenues and Trends
5. Reliability Charge
6. Debt
7. Reserves
8. Financial Planning and Reporting
9. Financial Metrics Benchmarking
10. Feedback and Comments

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## Overview of City Finance

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3

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## Charter Requirements

- The City Charter includes several sections relevant to today's discussion:
  - Section 704 establishes the office of Chief Financial Officer/Treasurer and outlines the related duties
  - Article 11 outlines various requirements for administration of the City's funds, including the adoption of a budget by certain dates and through a specific process, as well as the process for amending the budget
  - Section 1202 delegates the power to the Board of Public Utilities to consider the annual budget for RPU and make recommendations to the City Council and the City Manager

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4

## Charter Requirements: Chief Financial Officer

- The City Charter provides for the position of Chief Financial Officer, who has responsibility for the accounting and treasury operations of the City
- Previous to the most recent City Charter review process, the separate charter offices of Controller and Treasurer had existed since the 1950s, when these previously elected positions were converted to appointed positions
- The functions of controller and treasurer have been vested in the Finance Director since the 1950s, though one of the Finance Department Division Managers holds the title of Controller
- The Finance Director / Treasurer serves as the Charter-defined Chief Financial Officer (for a time an Assistant City Manager served in this capacity through 2011, during which time there was no Finance Director)



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5

## Charter Requirements: Chief Financial Officer

- The Charter defines the duties of the Chief Financial Officer to include:
  - Maintain a general accounting system
  - Have custody of all public funds
  - Receive all revenue
  - Review and verify all purchase orders and bills
  - Disburse all funds and control expenditures
  - Maintain an inventory of all City property
  - Submit monthly financial and investment reports to the City Council



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6

## Charter Requirements: Budget

- The Charter includes the following specific framework for budget approval for RPU:
  - RPU staff submit a recommended budget to the Board of Public Utilities for consideration
  - The Board makes recommendations to the City Manager and City Council regarding the RPU budget
  - Approval of the budget by the Board is only advisory in nature
  - The City's Finance Department includes the RPU budget in the City budget to be presented to the City Council along with all other City departments
  - The City Council approves the RPU budget

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7

## Primary Obligations of City Finance Department

- Safeguard City Resources
- Control Spending and Contracts
- Maintain Accurate Accounting Records
- Adopt and Monitor a Balanced Budget
- Maintain City Credit Ratings
- Invest City Funds Effectively
- Collect Funds Due to City

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8

## City Finance Department Structure

- The City's Finance Department includes a number of critical functions related to the fiscal administration of the City carried out by a staff of 54:
  - Administration Division – Administration, investment management, and financial systems
  - Accounting Division – Accounting, treasury, payroll, accounts payable, accounts receivable, collections
  - Financial Resources Division – Budget, debt administration, business tax, fiscal analysis
  - Purchasing & Risk Management Division

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9

## City Finance Department Leadership

- Brent Mason, Finance Director / Treasurer
  - 21 years with the City
  - 28 years in government finance
  - BS Accounting, Certified Public Accountant (Inactive)
- Scott Catlett, Assistant Finance Director
  - 9 years with the City
  - 15 years in government finance
  - BS Finance, Master of Public Administration
- Senior Management Team
  - Yenise Peoples, Financial Systems Manager
  - Edward Enriquez, Controller
  - Mike Gomez, MPA, Financial Resources Manager
  - Art Torres, CPM, Purchasing & Risk Manager

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10

# Department Fiscal Staffing

- All City Departments have fiscal staff
  - The number of staff is dependent on the size of the department and the complexity of the department finances
  - Smaller departments may only have a single analyst
  - Larger departments such as RPU have an entire Finance Division
- As the City's largest department, RPU has the largest fiscal staff, including those with unique utility expertise
  - Setting and monitoring of utility rates
  - Complex issues relative to industry regulation
  - Unique accounting aspects of power portfolio management
  - More frequent and thorough department-specific financial reporting

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11

# RPU Finance Division Structure

- RPU's Finance Division includes a number of critical functions related to the fiscal administration of RPU carried out by a staff of 40:
  - Finance Section – Budgeting, financial reporting, debt management, accounting operations
  - Rates Section – Rate administration, rate and revenue forecasting and reporting, rebate processing
  - Billing Section – customer utility billing (supporting trash and sewer City services), billing research and analysis
  - Business Systems Support Section – supports RPU business systems: CIS, SPL, MV90, MVRS, CRM

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12

## RPU Finance Division Leadership

- Laura Nomura, AGM for Finance and Administration
  - 9 years with the City
  - 25 years in government finance and audit
  - BS Accounting, Certified Public Accountant
- Senior Management Team
  - Aileen Ma, CPA, Utilities Fiscal Manager
  - Brian Seinturier, CPA, Utilities Fiscal Manager
  - William Obeid, Business Systems Manager
  - Jennifer Tavaglione, CIS Project Manager

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13

## Accounting Functions

- Accounting – primary responsibility for all accounting activity is assigned to the City Controller in the City Finance Department
  - RPU prepares its own financial statements, analysis, and reports
  - RPU prepares certain specialized accounting entries unique to their financial activities, which are routed through the Finance Department for approval
  - RPU prepares various utility-specific analyses and reports
- Treasury – entirely a City Finance Department Function
- Payroll – entirely a City Finance Department Function

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14

## Accounting Functions (Cont.)

- Accounts payable – Entirely a City Finance Department Function
- Accounts receivable – Entirely a City Finance Department
- Collections – The City Finance Department handles all Citywide collections except for several exceptions, including delinquent utility payments that are handled by RPU staff



## Budget and Debt Functions

- Budget – RPU staff prepare the Department budget, as is the case in every City department, for routing to the City Finance Department for inclusion in the City budget
- Debt Issuance and Administration – RPU staff participate in the financing team and decision making process relative to the issuance of new or refunding RPU debt, while City Finance Department staff handle all post-issuance debt administration tasks
- Fiscal Analysis – Both departments undertake specialized fiscal analyses based on their unique needs
- Rates – Utility rates for the electric and water utilities are managed entirely by RPU staff



## Additional Information Regarding Debt Issuance and Administration

- The City has a complex debt portfolio spread across a number of funds
- The City Finance Department is charged with administering this portfolio to minimize the cost to taxpayers while diversifying the risk associated with different types of debt
- The City engages professional financial advisors to assist in decision making relative to debt issuances and refundings
- Dedicated staff in the City Finance Department monitor the City's debt portfolio relative to compliance and disclosure

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17

## Purchasing and Risk Functions

- Purchasing – This is entirely a City Finance Department function
- Risk Management – This is entirely a City Finance Department function
  - RPU has its own Safety Officer, who is charged with mitigating risk relative to the Department's operations
  - RPU has its own Power Resources Risk Management Policies to manage risk relative to the Department's power supply operations

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18

## Other Functions

- Investment Management – All investment decisions and investment management are the responsibility of the City Finance Department, including relative to RPU trust funds and RPU reserves
- Financial Systems – Both the City Finance Department and the RPU Finance Division have staff assigned to handle financial systems issues
  - City staff concentrate on the accounting and procurement systems while RPU staff concentrate on the RPU-specific systems such as customer utility billing
  - The two groups work as a team on many projects

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19

## City Cost Allocation Plan

- Large government agencies centralize certain functions to reduce costs
  - Finance
  - Human Resources
  - Information Technology
  - Other Central Services
- These costs are typically recovered through a cost allocation plan

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20

## City Cost Allocation Plan (Cont.)

- Cost allocation plans distribute costs from “cost pools” using “cost bases”
- A cost pool is a set of costs, such as payroll operations or building maintenance, that need to be allocated
- A cost basis is a method for allocating a specific cost pool, such as number of employees or building square footage

## City Cost Allocation Plan (Cont.)

- Historically the City has prepared an in-house cost allocation plan for approximately 20 years
- In 2013, the City outsourced the cost allocation plan to an expert consulting firm – NBS – due to a desire to:
  - Address the pending retirement of the in-house expert
  - Address inefficient utilization of staff time due to the cyclical nature of the plan
  - Incorporate industry best practices

## Cost Allocation FY 2014/15

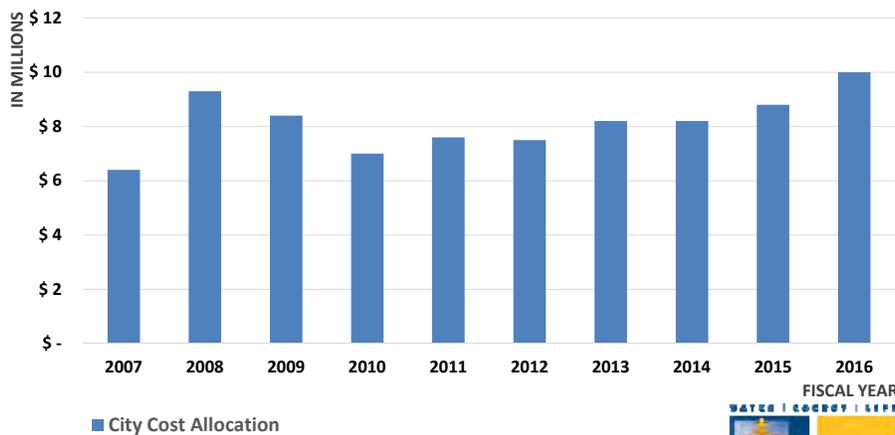


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23



## Electric – City Cost Allocation Trend

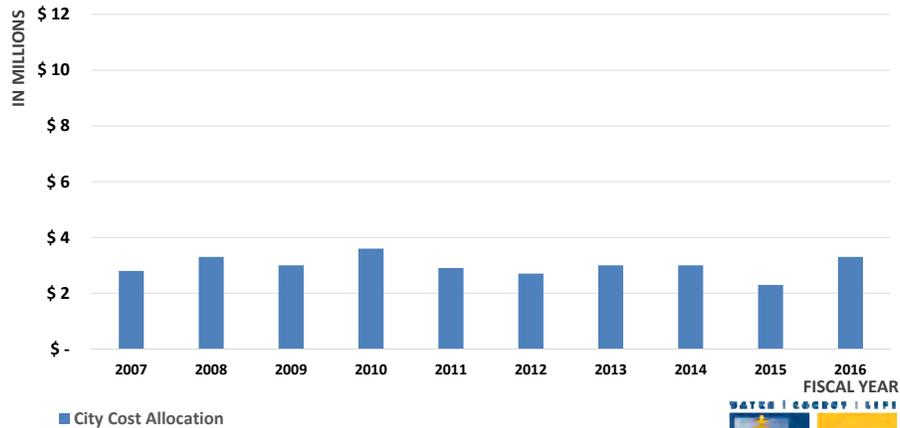


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24



## Water – City Cost Allocation Trend



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25

## Cost Allocation Trend Analysis

- The trend in cost allocations to RPU is primarily a function of two things:
  - The size of the General Fund cost pools to be allocated (primarily staff and compensation-driven)
  - The size of the RPU budget, staff, and non-personnel spending relative to the citywide total
- Accordingly, trends are primarily attributable to these two factors

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26

## Cost Allocation Trend Analysis (Cont.)

- Several other adjustments have been made to the cost allocation plan in recent years
  - 2008 and 2009 review process
    - Identified additional cost pools for allocation consistent with industry best practices
    - Modernized and simplified cost bases
  - NBS outsourcing
    - Reviewed and updated all allocation bases
    - Identified additional cost pools for allocation consistent with industry best practices
    - Confirmed the validity of the historical cost allocation methodology
    - Incorporated latest industry best practices
    - Modified allocation distribution between electric and water funds



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27

## Interfund Loans Explained

- The City has made interfund loans for decades
  - Loans in anticipation of upcoming bond issues in order to start projects
  - Loans for projects of a small size
  - Loans to funds without bonding capacity
  - Loans for property acquisition in anticipation of future sales
- These loans are common in municipal government
- Typical loan terms are shorter than traditional financings and in the range of 5-10 years or less, versus the 20-30 years for bond financings
- Loans are made from a variety of funds, but primarily from the City's utility funds and internal service insurance trust funds
- Loans are only made from available cash reserves



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28

## Interfund Loans Explained

- The interest rate charged for interfund loans is set annually based on the average earnings of the City's investment portfolio during the previous 12 months
- Lending funds therefore receive the same interest they would have received if their reserve cash had been invested in the City's investment pool
- Interfund loans provide a cost-effective means of borrowing that saves the City money (the current interfund loan rate is less than 1% versus rates in the range of 2% - 4% for external financing)
- Flexibility is maintained to move loans between funds if the lending fund needs access to its cash reserves

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29

## Interfund Loans Explained

- Detailed records are kept in the City's financial system of all interfund loans
- Interfund loans are fully disclosed to and discussed with the bond rating agencies
- Loan transactions are audited by the City's external auditors annually
- The City has a written interfund loan policy
  - Establishes a framework for the initiation of interfund loans and related reporting and repayment
  - Requires RPU Board approval of new loans from the electric or water funds (since 2011)
  - Requires that new loans from the electric or water funds be fully compliant with any RPU reserve policies (since 2011)

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30

## RPU Interfund Loan Information

- Several small interfund loans were made from the Electric and Water Funds prior to 2008 related to impact fees for several development projects
- No other interfund loans have been made from the Water Fund
- In June 2008, the City's Chief Financial Officer transferred all outstanding interfund loans (\$38.5 million) to the Electric Fund
  - Effort to consolidate and simplify loan administration
  - RPU concerns resulted in a reversal of this policy in June 2009
  - One loan remained in the amount of \$5.3 million
  - Remaining loan was moved to another fund in June 2010

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31

## RPU Interfund Loan Information

- There have been no interfund loans made from or moved to the Electric or Water Funds since that time other than:
  - Riverside Golf Course loan related to property sale (\$4.8M)
  - Reid Park loan related to property sale (\$720K)
- These two outstanding interfund loans
  - Have been deemed to be enforceable obligations
  - Will be repaid by the Redevelopment Successor Agency
  - Must follow the original City Council and RPU Board-approved amortization schedule under state law
  - Will be repaid over the next 15 years

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32

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## Overview of Propositions 218, 26 and Other

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33

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## Proposition 218

- Approved by voters in 1996
- Amended California Constitution
- Requires voter approval prior to imposition or increase of general taxes, assessments, and certain user fees
- Utility rates may not exceed the cost of providing the service.
- Any excess subject to voter approval
- Applies to water, sewer and refuse rates
- Does not apply to electric rates

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34

## Proposition 218: Process Approval of Rates

- 45 days' mailed notice of the proposed increase
- Majority protest public hearing (50% plus 1)
- Applies to water, refuse, sewer rates
- Does not apply to electric rates

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35

## Proposition 26

- Approved by voters in 2010
- Amended California Constitution
- Reaction to *Sinclair Paint Co. v State Board of Equalization*
  - 1997 California Supreme Court case
  - Upheld state fees imposed on business that made products containing lead
  - Fee funded health services to children and to mitigate lead contamination
  - Court upheld the fee as a regulatory fee

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36

## Proposition 26

- Requires 2/3 voter approval of certain fees, levies, charges and tax revenue allocations
- Seven exemptions
- Overall effect: charges that were formerly “fees” must be passed by 2/3 votes because they are now “taxes” unless exempt
- Applies to electric rates
  - Electric rates may not exceed the cost of providing the service
  - Any excess requires 2/3 voter approval

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37

## Proposition 26 – Seven Exemptions

- One: charge for a specific benefit granted directly to payer
  - Can't exceed reasonable cost
  - Example: License or franchise
- Two: charge for a specific service provided directly to the payer
  - Can't exceed reasonable cost
  - Example: park services, electric rates
- Three: charge for a reasonable regulatory cost
  - Can't exceed reasonable cost
  - Example: licenses, permits, inspections

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38

## Proposition 26 – Seven Exemptions

- Four: charge for use of government property
  - No reasonable cost limitation
  - Example: Purchase or rental, park entrance fees
- Five: fines or penalty for violation of law
  - No reasonable cost limitation
  - Example: parking fine, criminal fine
- Six: Development impact fees
  - Limitation on amounts regulated by Govt. Code
- Seven: charges covered by Prop 218
  - Example: water, refuse, sewer rates



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39

## Proposition 26 – “Eighth” Exemption

- Charge adopted prior to 1/1/10
  - “Grandfathered”
  - Applies to all fees, assessments, levies



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40

## General Fund Transfer

- 1907: The general fund transfer approved by voters as part of the original charter: “Said rates should preferably, but not necessarily, yield a reasonable profit and interest on the investment to the city . . .”
  - No cap on amount
- 1968: voters approve setting the transfer amount at 11.5%
- 1977: voters approved limiting the transfer to “not to exceed” 11.5%
- 2013: voters re-approve the water transfer



## Other Legal Issues

- Electric GFT/Prop 26: Exempt because adopted prior to 2011.
- Refunds to Ratepayers: The refund must be reasonably related to the cost to provide service
- 11.5% transfer is discretionary



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# RPU Budget and Budget Trends

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43

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## Annual Budget

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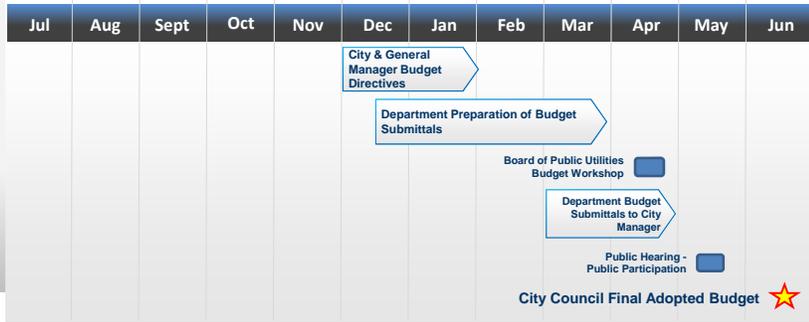
- Meet Strategic Objectives
- Operating Budget
  - Balanced budget
  - Key components – operation and maintenance, power supply, debt service, General Fund transfer, special programs
- 5-Year Capital Improvement Program (CIP)
  - Improve system reliability
  - Replacements and upgrades
  - Services to new customers
- Affordable within current rate plan

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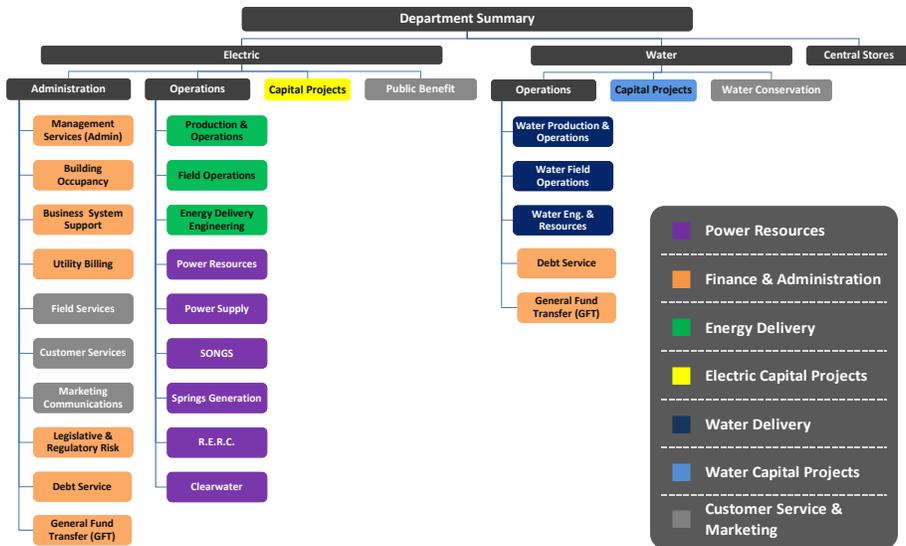
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# BUDGET TIMELINE



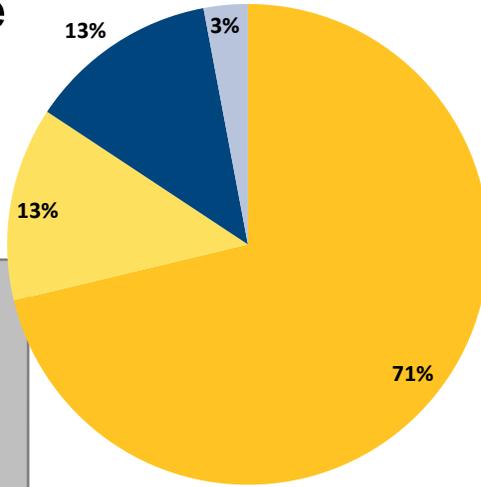
1. City & General Manager Budget Directives
2. Department Preparation of Budget Submittals
3. Board of Public Utilities Budget Workshop
4. Department Budget Submittals to City Manager
5. Public Hearing - Public Participation
6. City Council Final Adopted Budget

# RPU Budget Cost Centers Structure



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**FY 15/16 Revenue Budget**

■ Retail Sales - Electric	\$ 313.8 M
■ Other Revenues - Electric	57.5 M
<b>Total Electric Revenues</b>	<b>\$ 371.3 M</b>
■ Retail Sales - Water	56.2 M
■ Other Revenues - Water	13.0 M
<b>Total Water Revenues</b>	<b>\$ 69.2 M</b>
<b>Total RPU Revenues</b>	<b>\$ 440.5 M</b>

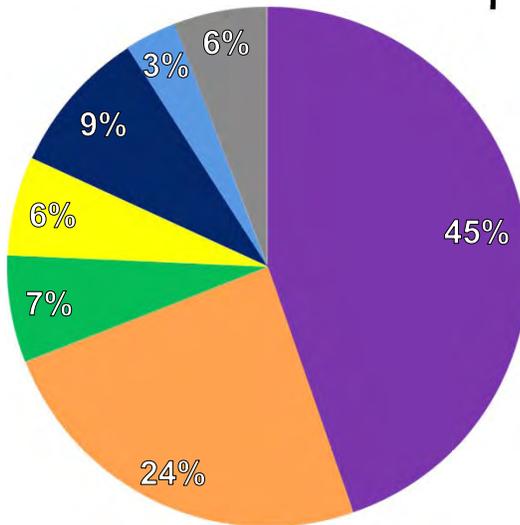


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47

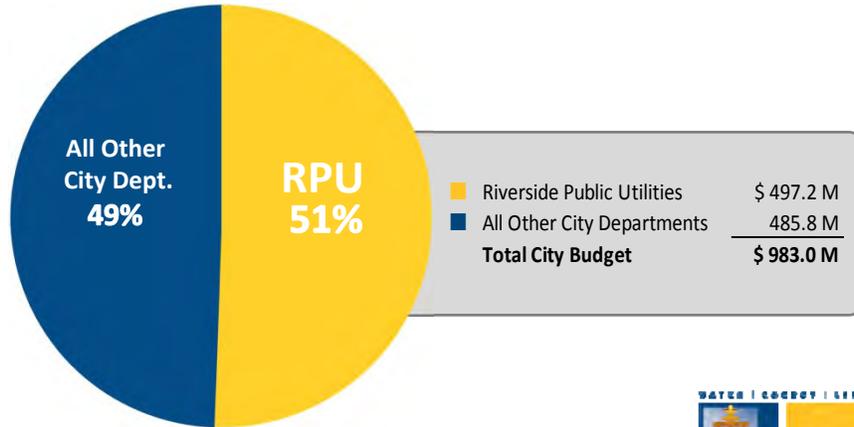
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**FY 15/16 Budget**

■ Power Resources	\$ 222.1 M
■ Finance & Admin.	\$ 121.2 M
■ Energy Delivery	\$ 33.1 M
■ Electric Capital Projects	\$ 30.6 M
■ Water Delivery	\$ 45.2 M
■ Water Capital Projects	\$ 16.1 M
■ Cust. Serv. & Mkt	\$ 28.9 M
	<b>\$ 497.2 M</b>



48

## RPU – Percentage of City Budget



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49

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## RPU GM Directives

- Cost Conscious Strategy inline with City and Board Objectives
- Gear towards RPU's Strategic Plans building the foundation for the Utility of the future.
- Operating Budget
  - No new FTE's, managers encouraged to repurpose FTE's
  - Rollover budget focusing on safety, new technology and training
  - Supplemental Requests with Justifications
  - Balanced Budget
- Affordable within current rate plan and established reserves

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50

## Affordability Guidelines

- No rate increases included
  - Recycled Water Plan – not included
- Continuing current reliability and customer service levels
- Maintaining High Credit Ratings
  - Solid Financial Results and Financial Ratios
    - Cash reserves
    - Liquidity
    - Debt service coverage
  - Meet Strategic Objectives and Planned Projects
- Within Financial Plan



## Operating Budget – Affordability

- Major Revenue Sources
  - Retail Revenue based on forecasted load and current rate plan
  - Transmission Revenue (Electric)
  - Other Operating Revenues
  - Water Conveyance Revenues (Water)
  - Investment Income
- Projected Revenue to cover Projected Expenses
- Specific circumstances may require use of reserves



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# Capital Improvement Program



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# Capital Improvement Program

- Five-year capital improvement plan (CIP)
- Planning Tool, 1<sup>st</sup> year of CIP included in operating budget
- Funding sources
  - Rates – recurring projects (current & new customers)
  - Reserves – project based
  - Bonds – system improvements
  - Reimbursements – others



# Capital Improvement Program

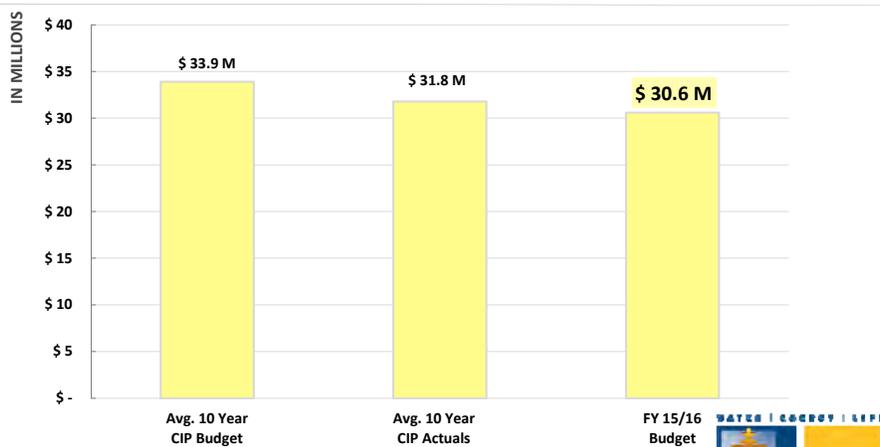
- Recurring Projects
  - Services to new customers
  - Replacements (Meters and Transformers)
  - Small scale improvements and rebuilds
- System Improvements
  - Major Projects
  - System Upgrades
  - Main Replacements
- Projects Driven by Others
  - Street-widening Projects
  - Rehabilitation Projects



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55

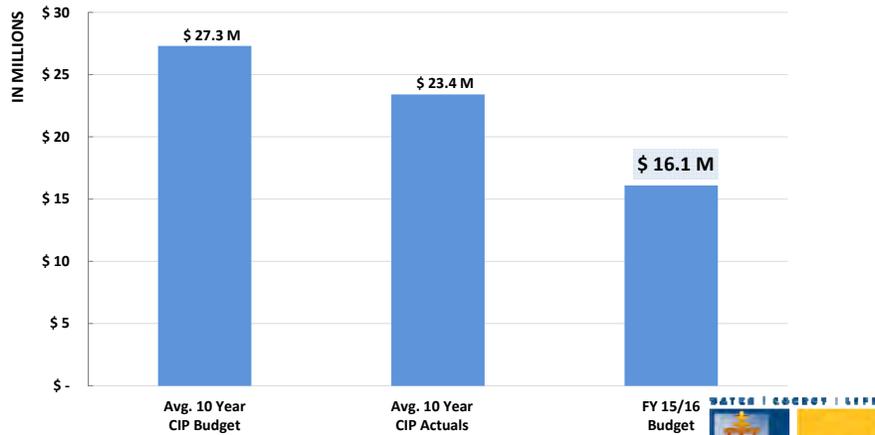
# Electric Utility – CIP Trend



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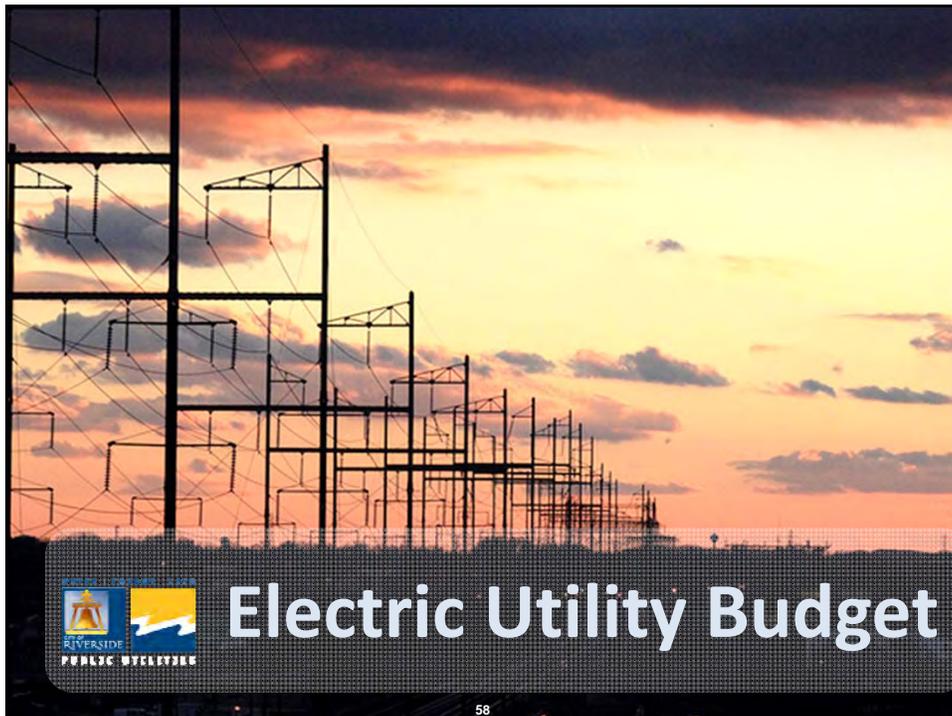
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# Water Utility – CIP Trend



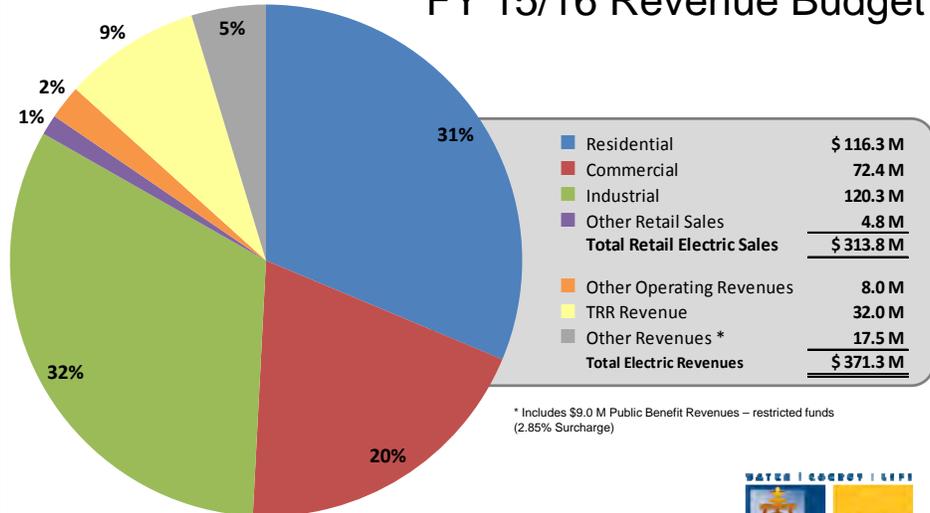
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57



58

## Electric Utility FY 15/16 Revenue Budget



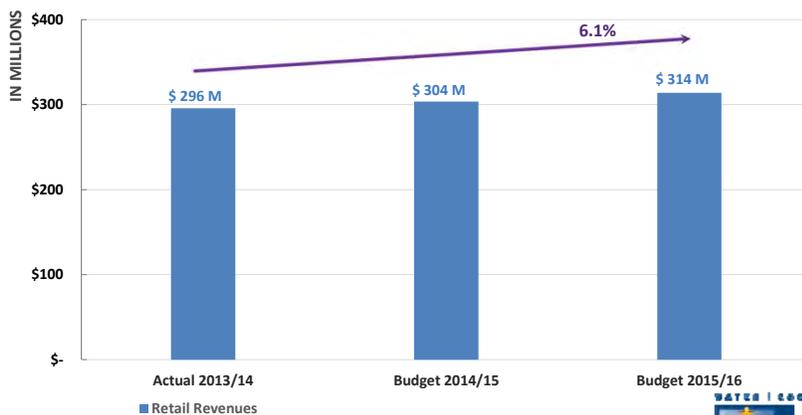
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59



## FY 2015/16 Operating Budget

### Electric Utility – Retail Revenues



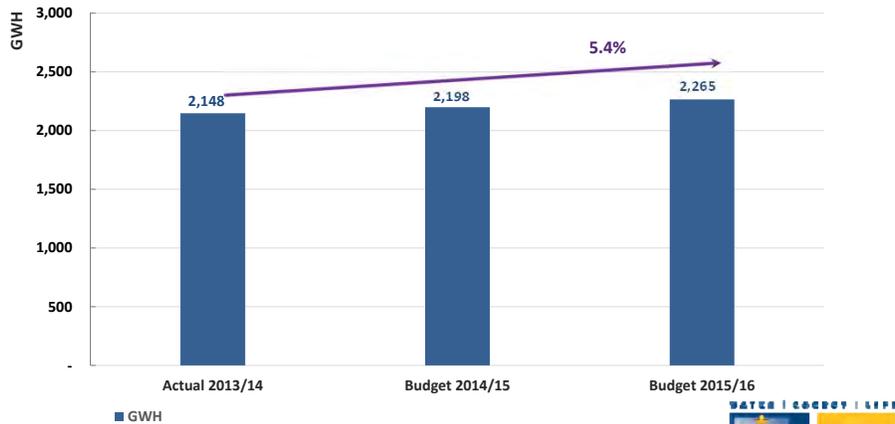
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60



FY 2015/16 Operating Budget

## Electric Utility – GWH Sales



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61



## Electric – Other Revenues

Approx. 16% of all Electric revenues

- Transmission Revenues
- Cap and Trade Auction Proceeds\*
- Misc. Service Revenues (48-hr tags)
- Investment Income
- Contributions in Aid of Construction
- Public Benefit Programs\*

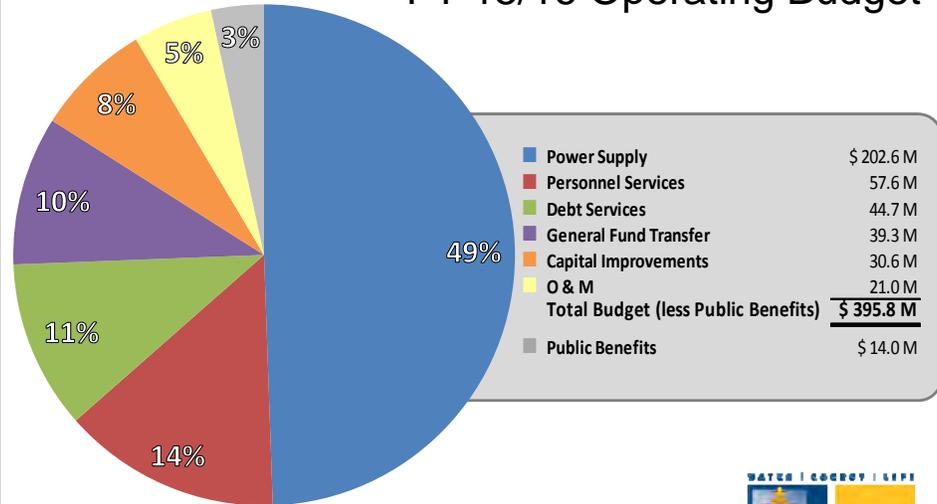
\*restricted funds

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62



## Electric Utility FY 15/16 Operating Budget

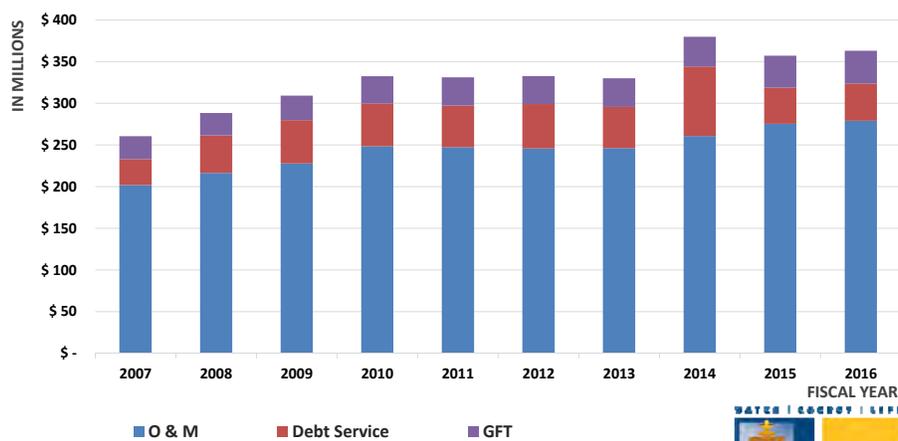


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63

## Electric – Operating Budget Trend

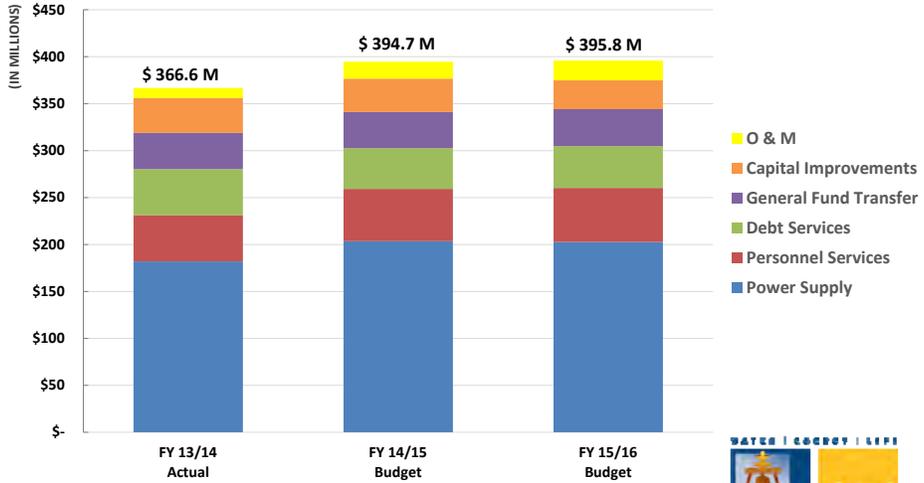


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64

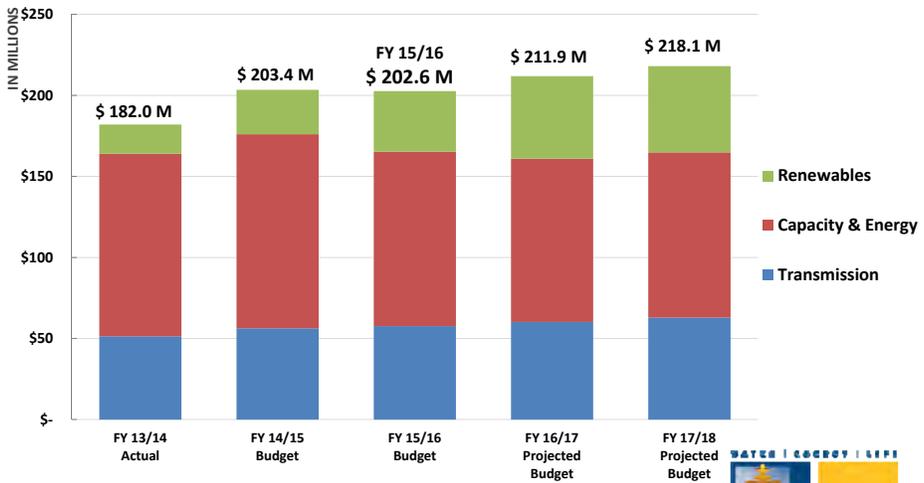
FY 2015/16 Operating Budget  
**Electric Fund Summary**



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FY 2015/16 Operating Budget  
**Electric Utility – Power Supply Trend**



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# Power Supply Budget

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67

## *What is SCPPA*

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- 1980 Southern California Public Power Authority - A Joint Powers Agency (JPA)
- 8/26/1980 - Riverside's City Council approved participation in SCPPA
- SCPPA's purpose is broadly defined to "create a separate public entity to undertake the planning, financing, development, acquisition, construction, operation and maintenance of one or more projects for the generation or transmission of electrical energy"
- Currently twelve members: Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Glendale, Imperial Irrigation District, Los Angeles, Pasadena, Riverside and Vernon
- Members serve 2 million metered customers, with a population of 4.8 million
- SCPPA provides economies of scale and scope to benefit all members

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68

## SCPPA at Glance (Continued)

- Governed by a twelve-member Board of Directors - one member/one rep
- SCPPA is subject to Brown Act: all meetings are open to the public
- SCPPA Board approves project budgets
- SCPPA Board approves administrative budgets
- SCPPA Board approves other services
- SCPPA bills participants monthly for projects and services
- SCPPA Audit Committee oversee independent financial audit
- SCPPA's JPA model has lower overhead (<2%) than most JPAs
- Members account for costs in their books & records
- RPU Board and CC approve RPU Budget—including projects
- RPU & City have independent financial audit/audit opinions



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69

## SCPPA – 6 Original Projects

- Palo Verde (1981)
- Mead-Adelanto (1992)
- Hoover Upgrading (1986)
- Southern Transmission System (1983)
- Mead-Phoenix (1992)
- San Juan (1993)

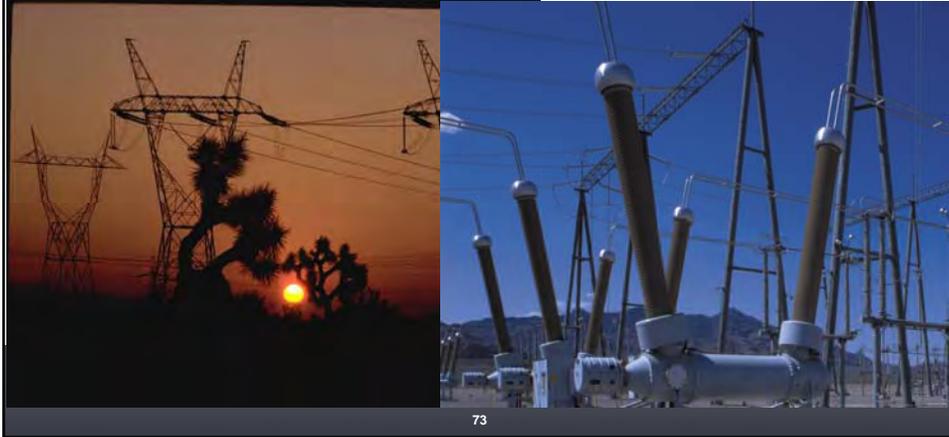


70



## *SCPPA – Original Member Committees*

- Board of Directors
- Executive Committee
- Finance Committee



## *SCPPA Today – Current Member Committees*

- Board of Directors & Executive Comm
- Finance Committee
- Customer Service Working Group
- Electric Vehicle Working Group
- Generation Group
- Legislative Working Group
- Natural Gas Reserve Working Group
- Public Benefits Working Group
- Rate Design Working Group
- Regulatory Working Group
- Renewables Projects Operating/Coord. Comm
- Resource Planning Working Group
- Risk Management Committee
- Transmission & Distribution Eng & Ops



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74

## Increasing Regulation Over Electric Utilities

- Pre-deregulation (1980 through early 2000's) –services/costs are project related
- 2006 -- CA landmark legislation – AB 32 & SB 1368
- 2006 – Planning activities for power generation became much more extensive
- 2005 -- SB 1037 established loading order for preferred resource procurement
  - First look at energy efficiency & demand reduction prior to procurement
  - Changed the historical power procurement planning process to require more planning
- 2006 – AB 2021 established mandatory energy efficiency mandates
- 8/14/2007 – CC approved Public Benefits program participation thru SCPPA
- Increasing needs driven by electric industry transformation – **increases SCPPA's value**
- Regulatory impacts to (non-jurisdiction?) POU's
  - CARB, CAISO, CEC, CFTC, NERC, USEPA, SCAQMD, etc.,

**Increasingly complex power markets and regulatory oversight drives the need for SCPPA members to collaboratively plan their activities**

**Energy efficiency is a resource**

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75

## Joint Services- Planning for Utility of the Future

- Decentralized resources
- Plug & play service
- Two way distribution power system
- Distribution grid operator
- Technology innovations
- 50% RPS
- Likely more mandates to come...
- Economies of scale reduces RPU rate increases
- Member benefits from SCPPA will increase
- Integrating demand & supply
- Technology innovations
- EPA restrictions
- Renewable integration
- AQMD NOx Shave
- Regulation mandates
- Clean energy standard
- National mandates
- Compliance reporting

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76

## RPU's Use of SCPPA Procurement

- Historically Riverside jointly procured generation & transmission projects
- More recently, Riverside entered into power purchase agreements through SCPPA
- Increasing regulatory oversight requires more planning procurement process and decisions
- Integrating demand and supply resources
  - AB32, SB1368, SBX1-2, AB2514, AB1037, AB2021...
  - Energy efficiency is a resource
  - Demand response is a resource
  - Energy storage is a resource
  - Distributed generation is a resource



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77

## RPU's Use of SCPPA Procurement

**SCPPA offers planning services for participation in joint projects, including**

- **Efficiency Programming:**
  - Refrigerator recycling
  - Energy efficiency direct install program
- **Power Resources**
  - Joint power projects
  - Regulatory, transmission consulting
- **Administration**
  - APPA Dues, Moody's credit monitoring
- **Training & consulting**
- **Intern program –succession planning & grow your own**



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78

## *SCPPA Legal Services*

- 1980 CC approved Riverside’s membership in SCPPA
- SCPPA is a separate public entity for G & T projects
- SCPPA has retained inside/outside counsel to assist w/its purpose
- Law firms represent SCPPA – not the City of Riverside
- Member costs are valid SCPPA membership/project costs
- Riverside proportionate share-- generally between 5 - 12%
- FY 14 Hanna & Morton bills - \$329K
  - **Riverside Portion \$41,088**



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79

## *Member Benefits - Economies of Scale*

<u>Some Examples of Savings:</u>	<u>RPU Alone</u>	<u>Thru SCPPA</u>	<u>Est. Savings</u>
• RHA (direct install program)	\$985,483	\$856,942	\$128,541
• Hanna & Morton	\$329,180	\$41,088	\$288,092
• AB2514 Energy Storage Model	\$75,000	\$15,000	\$60,000
• ARCA (refrigerator recycling)	\$160,800	\$128,440	\$32,360
• GE –LM6000 training	\$5,500/pp	\$500/pp	Varies
• NERC Training	\$500/pp	\$65/pp	Varies
• Participation in large solar PPAs savings of \$4-5/MWh			>\$500,000

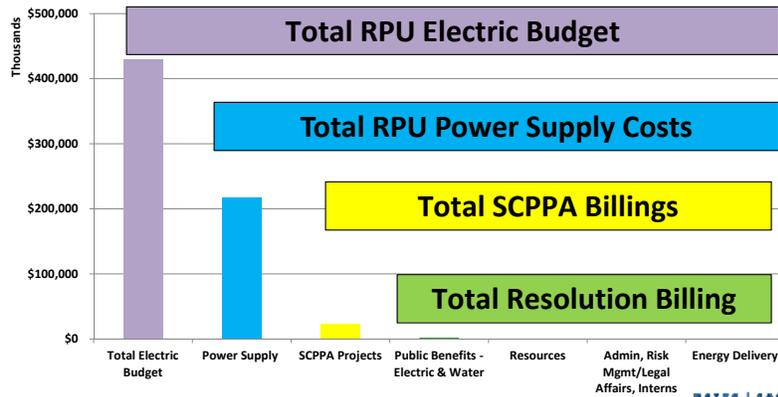
From few examples listed - **Savings > \$1M/year**  
Many more unquantified....



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80

## RPU Total Electric Budget v. Power Supply v. SCPPA Projects v. SCPPA Resolutions



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81



## Conclusions – SCPPA Activities are Appropriate

- Increasing regulatory oversight increases SCPPA's value to members
- Industry transformation continues to change resource definition
- Significant cost savings thru SCPPA & economies of scale
- Joint legislative/regulatory services are necessary & required
- Bringing services in-house would have cost & rate impacts
- SCPPA services are economical & benefit members & ratepayers
- Services procured thru SCPPA are appropriate

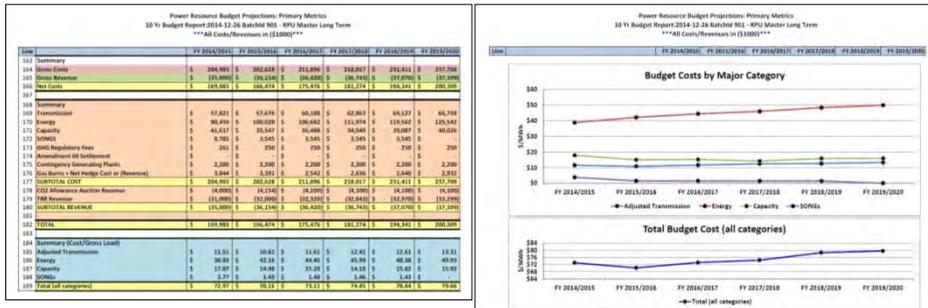
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82



## Power Supply Budget

- Provides a 5-year projection of RPU's Wholesale Power Supply Costs
- Excel Workbook links to Production Cost Modeling Software, and most budget information populates automatically
- Only a few budget sections require manual entry



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83

## Power Supply Budget Input Sources

### Production Cost Modeling Software



- A fully integrated, PCM simulation used to value RPU's portfolio (e.g., generation assets, load obligations, structured transactions, and market hedges)
- Dynamically linked to the Power Supply Budget Workbook
- Required output automatically flows into the budget workbook

### Budget Projections



- RPU incorporates budget projections prepared by SCPPA and IPA
- SCPPA provides 10-year budget projections for Hoover, Palo Verde, Mead-Phoenix, Mead-Adelanto, and STS
- IPA provides 10-year budget projections for IPP, and NTS

### Invoices



- For line items without prepared budget projections, RPU uses the most recent fiscal year of actual invoiced costs to form a budget projection of future costs
- In most cases, an inflationary growth rate of 2.0% is used in forming these budget projections

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84

## Power Supply Budget Input Sources

<p><b>RPU</b></p> 	<ul style="list-style-type: none"> <li>When budget projections and invoices are not available, RPU forms budget projections based on other information available and historical practices and procedures</li> </ul>
<p><b>Additional Calculation</b></p> 	<ul style="list-style-type: none"> <li>Additional calculations are often required alongside all of the previously identified input sources to arrive at the final budget projection for a particular line item</li> <li>Situations when this occurs typically involve instances when multiple input sources are used in forming budget projections as well as in applying growth or inflationary rates to budget line items</li> </ul>

- In the upcoming discussion of budget categories and line items, the Input Source pictures will be matched to their appropriate Budget Line Items



## Power Supply Budget Categories: From Budget Summary

Costs	Revenues
<ul style="list-style-type: none"> <li>Transmission</li> <li>Net Energy</li> <li>Capacity</li> <li>San Onofre Nuclear Generating Station (SONGs)</li> <li>GHG Regulatory Fees</li> <li>Contingency Generating Plants</li> <li>Gas Burn &amp; Net Hedge Cost/Revenue</li> </ul>	<ul style="list-style-type: none"> <li>CO2 Allowance Auction Revenue</li> <li>Transmission Revenue Requirement (TRR)</li> </ul>



## Power Supply Budget Categories: Transmission Cost Line Items

Line Item	Description	Source
Mead-Adelanto Project	Debt Service, O&M, A&G, Taxes, Capital Improvements	
Mead-Phoenix Project	Debt Service, O&M, A&G, Taxes, Capital Improvements	
Southern Transmission System (STS)	Debt Service, O&M, A&G	
Northern Transmission System (NTS)	Debt Service, O&M, A&G	
SCE Firm Transmission	Cost of SCE Firm Transmission based on invoices	
SCE Wholesale Distribution Access Tariff	Cost of SCE WDAT based on invoices	
LADWP Service Agreements	Cost of access to LADWP transmission	
CAISO Transmission Access Charge	Cost of serving load via CAISO's high voltage transmission	
CAISO Transmission Charges	Cost of CAISO invoiced transmission charges	

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87

## Power Supply Budget Categories: Net Energy Cost Line Items

Line Item	Description	Source
Total Generation Cost	Cost of energy from RPU's power resources	
Net Cost of Market Purchases	Cost to serve load not met with RPU's resources	
Market Contingency Reserve	Risk adder to reflect future market uncertainty	
Congestion Revenue Right Auction Cost	Cost to acquire CRRs to hedge against congestion	
CAISO Energy Charges	Cost of CAISO invoiced energy charges	

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88

## Power Supply Budget Categories: Capacity Cost Line Items

Line Item	Description	Source
Hoover	Debt Service, A&G, Fixed Operating Charges	
Palo Verde	Debt Service, O&M, A&G, Insurance, Taxes, Renewals	
Intermountain Power Project	Debt Service, O&M, Fixed Fuel Costs	
Resource Adequacy	Cost to purchase added capacity to meet 115% reserve margin	
Ice Bear Installation	Cost of ICE Bear Pilot Project installations	
Ice Bear O&M	Ice Bear O&M Cost	

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89



## Power Supply Budget Categories: SONGs Cost Line Items

Line Item	Description	Source
Professional Services	Cost for consulting services related to decommissioning	
Outside Legal Services	Cost to employ attorneys for decommissioning activities	
Decommissioning Fund Expense	Interest earned on Trust Account	
O&M – Maintenance & Repair	Ongoing O&M cost at SONGs	
Insurance Charges	Cost of insurance	
Taxes & Assessments	Cost of taxes based on SONGs site	
Decommissioning Operations	Funded from Trust Account as SONGs is currently undergoing decommissioning	

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90



## Power Supply Budget Categories: Other Cost Line Items

Line Item	Description	Source
Gas Burns & Net Hedge Cost	Cost of gas burned to run Internal Generation and Gas Hedge mark-to-market	 
Contingency Generating Plants	Emergency fund for Internal Generation maintenance	
GHG Regulatory Fees	Fees related to California's Cap-and-Trade Program	

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91

## Power Supply Budget Categories: Revenue Line Items

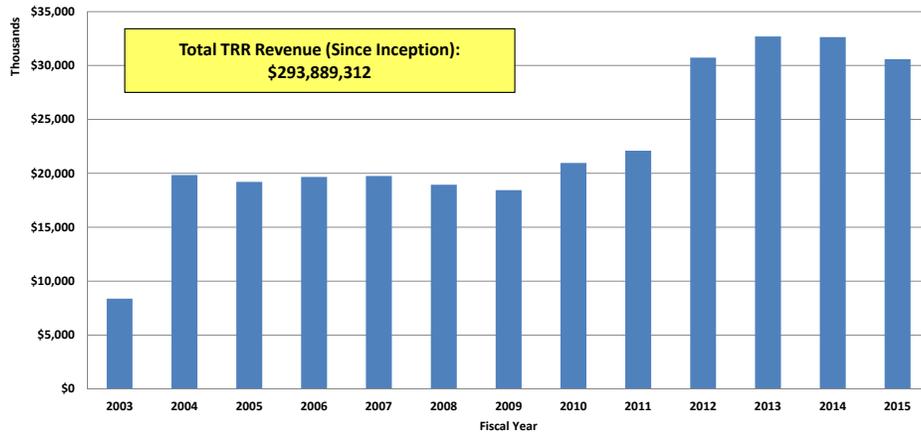
Line Item	Description	Source
Transmission Revenue Requirement (TRR)	Compensation from the CAISO for its use of RPU's transmission entitlements, based on RPU's FERC-approved TRR filing	
CO2 Allowance Auction Revenue	Proceeds from selling CO2 Allowances in Cap-and-Trade Quarterly Auctions	

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92

## Transmission Revenue Requirement (TRR) History



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## Power Supply Budget Tour: Capacity Cost, Other Fixed Cost, SONGs

Power Resource Budget Projections: Primary Metrics  
10 Yr Budget Report: 2014-12-26 Batchid 901 - RPU Master Long Term  
\*\*\*All Costs/Revenues in (\$1000)\*\*\*

Ascend Study & Date

Line	FY 2014/2015	FY 2015/2016	FY 2016/2017	FY 2017/2018	FY 2018/2019	FY 2019/2020
1						
2	<b>Capacity Cost</b>					
3	Hoover	\$ 815	\$ 824	\$ 828	\$ 805	\$ 809
4	IPP Detail - Emissions	\$ 36,100	\$ 28,821	\$ 29,572	\$ 27,516	\$ 32,020
5	Palo Verde - MultiMonths	\$ 3,345	\$ 3,271	\$ 3,349	\$ 3,427	\$ 2,846
6	RA Capacity	\$ 1,357	\$ 781	\$ 1,166	\$ 1,200	\$ 1,783
7	Ice Bear Installation Cost	\$ -	\$ 1,800	\$ 1,500	\$ 1,500	\$ 1,500
8	Ice Bear O&M Cost	\$ -	\$ 49	\$ 74	\$ 101	\$ 129
9	<b>Total Capacity Cost</b>	<b>\$ 41,617</b>	<b>\$ 35,547</b>	<b>\$ 36,488</b>	<b>\$ 34,549</b>	<b>\$ 39,087</b>
10						
11	<b>Other Fixed Cost</b>					
12	AB-32 Implementation	\$ 261	\$ 250	\$ 250	\$ 250	\$ 250
13	Amendment 60 Settlement	\$ -	\$ -	\$ -	\$ -	\$ -
14	Contingency Generating Plants	\$ 2,200	\$ 2,200	\$ 2,200	\$ 2,200	\$ 2,200
15	<b>Total Other Fixed Cost</b>	<b>\$ 2,461</b>	<b>\$ 2,450</b>	<b>\$ 2,450</b>	<b>\$ 2,450</b>	<b>\$ 2,450</b>
16						
17	<b>SONG's Cost</b>					
18	Professional Services	\$ 125	\$ 200	\$ 200	\$ 200	\$ 200
19	Outside Legal Services	\$ 500	\$ 700	\$ 700	\$ 700	\$ 700
20	Decommissioning Operations	\$ 1,500	\$ -	\$ -	\$ -	\$ -
21	O&M - Maint/Repair	\$ 2,300	\$ 350	\$ 350	\$ 350	\$ 350
22	Insurance Charges - Direct	\$ 195	\$ 195	\$ 195	\$ 195	\$ 195
23	Decommissioning Fund Exp	\$ 3,000	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500
24	Taxes and Assessments	\$ 600	\$ 600	\$ 600	\$ 600	\$ 600
25	Nuclear Fuel Purchases	\$ -	\$ -	\$ -	\$ -	\$ -
26	Capital Costs Related to Decomm.	\$ 561	\$ -	\$ -	\$ -	\$ -
27	<b>SONG's Extra Costs - Total</b>	<b>\$ 8,781</b>	<b>\$ 3,545</b>	<b>\$ 3,545</b>	<b>\$ 3,545</b>	<b>\$ 3,545</b>

Capacity Costs

Other Fixed Costs

SONG's Costs

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## Power Supply Budget Tour: Transmission Cost & TRR

Line	FY 2014/2015	FY 2015/2016	FY 2016/2017	FY 2017/2018	FY 2018/2019	FY 2019/2020
28						
29	\$ (31,000)	\$ (32,000)	\$ (32,320)	\$ (32,643)	\$ (32,970)	\$ (33,299)
30						
31	<b>Transmission Cost</b>					
32	\$ 3,190	\$ 3,322	\$ 3,309	\$ 3,294	\$ 3,284	\$ 2,551
33	\$ 302	\$ 318	\$ 318	\$ 317	\$ 317	\$ 253
34	\$ 11,000	\$ 12,000	\$ 12,000	\$ 12,000	\$ 11,000	\$ 12,333
35	\$ 1,827	\$ 1,681	\$ 1,681	\$ 1,681	\$ 1,681	\$ 1,681
36	\$ 11,500	\$ 13,450	\$ 13,700	\$ 13,900	\$ 14,100	\$ 14,300
37	\$ 1,455	\$ 1,900	\$ 1,320	\$ 1,340	\$ 1,360	\$ 1,380
38	\$ 1,374	\$ 1,310	\$ 1,330	\$ 1,350	\$ 1,370	\$ 1,390
39	\$ 1,543					
40	\$ 32,191	\$ 33,381	\$ 33,658	\$ 33,882	\$ 33,112	\$ 33,888
41	\$ 23,986	\$ 22,651	\$ 24,840	\$ 27,261	\$ 29,265	\$ 31,090
42	\$ 1,644	\$ 1,644	\$ 1,690	\$ 1,720	\$ 1,750	\$ 1,780
43	\$ 25,630	\$ 24,295	\$ 26,530	\$ 28,981	\$ 31,015	\$ 32,870
44	\$ 57,821	\$ 57,676	\$ 60,188	\$ 62,863	\$ 64,127	\$ 66,758
45						
46	\$ 26,821	\$ 25,676	\$ 27,868	\$ 30,220	\$ 31,157	\$ 33,459

TRR

Transmission Costs



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95

## Power Supply Budget Tour: Resource Generation (MWh)

Line	FY 2014/2015	FY 2015/2016	FY 2016/2017	FY 2017/2018	FY 2018/2019	FY 2019/2020
47						
48	<b>Resource Energy (MWh)</b>					
49	101,220	42,750	0	0	0	0
50	11,884	12,377	11,992	12,170	11,470	12,339
51	35,623	35,620	35,623	34,266	33,839	33,836
52	878,520	812,683	842,720	836,630	812,763	824,445
53	92,868	93,214	93,045	92,840	92,967	93,459
54	39,289	33,063	38,919	43,721	39,728	43,122
55	350,323	341,019	441,903	443,060	510,792	596,718
56	258	217	249	318	258	257
57	29,220	29,402	55,582	55,297	54,885	54,594
58	0	0	22,540	44,577	44,352	44,236
59	0	7,635	14,863	14,752	14,679	14,647
60	4,666	4,666	4,667	4,666	2,131	0
61	21,535	21,534	21,538	21,536	21,538	21,535
62	38,586	71,523	71,365	71,349	71,381	71,525
63	0	21,402	41,580	41,372	41,165	41,070
64	40,621	33,220	32,983	32,818	32,654	32,561
65	1,644,614	1,560,325	1,729,569	1,749,372	1,784,603	1,884,343

Total Forecast Generation (MWh) by Resource



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96

## Power Supply Budget Tour: Energy Cost

Line	FY 2014/2015	FY 2015/2016	FY 2016/2017	FY 2017/2018	FY 2018/2019	FY 2019/2020
66						
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90						

**Total Energy Cost by Resource**

**CAISO Energy Charges, CRR Auction Cost, & Net Power Hedge Cost**

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## Power Supply Budget Tour: CO2 Emissions, Cost, & Auction Revenue

Line	FY 2014/2015	FY 2015/2016	FY 2016/2017	FY 2017/2018	FY 2018/2019	FY 2019/2020
91						
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95						
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112						
113						
114						

**Forecast CO2 Emissions by Resource**

**CO2 Cost by Resource**

**CO2 Allowances & Auction Revenue**

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## Power Supply Budget Tour: Generation Revenue from CAISO

Line	FY 2014/2015	FY 2015/2016	FY 2016/2017	FY 2017/2018	FY 2018/2019	FY 2019/2020
115						
116	<b>Wholesale CAISO Sales (MWh)</b>					
117	1,644,614	1,560,325	1,729,569	1,749,372	1,784,603	1,884,343
118						
119	<b>Wholesale CAISO Revenue</b>					
120	\$ (4,627)	\$ (2,145)	\$ -	\$ -	\$ -	\$ -
121	\$ (809)	\$ (712)	\$ (776)	\$ (839)	\$ (846)	\$ (941)
122	\$ (2,033)	\$ (1,820)	\$ (1,964)	\$ (2,011)	\$ (2,054)	\$ (2,139)
123	\$ (40,495)	\$ (33,397)	\$ (37,645)	\$ (39,824)	\$ (40,225)	\$ (42,342)
124	\$ (3,940)	\$ (3,496)	\$ (3,790)	\$ (4,022)	\$ (4,168)	\$ (4,373)
125	\$ (3,102)	\$ (2,234)	\$ (2,977)	\$ (3,531)	\$ (3,436)	\$ (3,793)
126	\$ (14,912)	\$ (12,774)	\$ (18,083)	\$ (19,293)	\$ (22,948)	\$ (28,073)
127	\$ (26)	\$ (19)	\$ (25)	\$ (33)	\$ (29)	\$ (30)
128	\$ (1,230)	\$ (1,155)	\$ (2,433)	\$ (2,582)	\$ (2,660)	\$ (2,756)
129	\$ -	\$ -	\$ (962)	\$ (2,086)	\$ (2,153)	\$ (2,235)
130	\$ -	\$ (301)	\$ (653)	\$ (690)	\$ (713)	\$ (741)
131	\$ (193)	\$ (171)	\$ (185)	\$ (198)	\$ (98)	\$ -
132	\$ (889)	\$ (789)	\$ (854)	\$ (914)	\$ (949)	\$ (992)
133	\$ (1,498)	\$ (2,644)	\$ (2,867)	\$ (3,054)	\$ (3,164)	\$ (3,313)
134	\$ -	\$ (929)	\$ (1,811)	\$ (1,924)	\$ (1,986)	\$ (2,067)
135	\$ (1,698)	\$ (1,334)	\$ (1,432)	\$ (1,519)	\$ (1,569)	\$ (1,630)
136	\$ (75,444)	\$ (63,819)	\$ (76,455)	\$ (82,521)	\$ (86,997)	\$ (95,423)

**Total Generation (MWh)**

**Generation Revenue by Resource**



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## Power Supply Budget Tour: Gross Load, Net CAISO Purchases, & Fuel

Line	FY 2014/2015	FY 2015/2016	FY 2016/2017	FY 2017/2018	FY 2018/2019	FY 2019/2020
137						
138	<b>Gross Load (includes internal gen.) in MWh</b>					
139	2,329,483	2,372,618	2,400,287	2,434,984	2,471,333	2,514,472
140	\$ 102,889	\$ 92,534	\$ 101,552	\$ 109,557	\$ 115,410	\$ 122,463
141						
142	<b>Net CAISO Energy Position</b>					
143	684,869	812,292	670,718	685,612	686,731	630,129
144	\$ 527,445	\$ 528,715	\$ 525,097	\$ 527,036	\$ 528,413	\$ 527,040
145	\$ 50	\$ 4,266	\$ 4,574	\$ 4,837	\$ 4,731	\$ 4,005
146						
147	<b>Gas Burn (MMBtu)</b>					
148	160,315	119,225	115,834	117,521	110,640	119,077
149	\$ 530,942	\$ 319,424	\$ 375,868	\$ 421,937	\$ 383,539	\$ 416,372
150	\$ 5,049	\$ 3,039	\$ 3,480	\$ 4,450	\$ 3,616	\$ 3,599
151	\$ 696,306	\$ 441,688	\$ 495,182	\$ 543,908	\$ 497,796	\$ 539,048
152						
153	<b>Fuel Cost</b>					
154	\$ 757	\$ 453	\$ 505	\$ 551	\$ 563	\$ 628
155	\$ 2,564	\$ 1,236	\$ 1,729	\$ 2,063	\$ 2,057	\$ 2,284
156	\$ 24	\$ 12	\$ 17	\$ 22	\$ 20	\$ 20
157	\$ 499	\$ 1,690	\$ 291	\$ -	\$ -	\$ -
158	\$ 3,844	\$ 3,391	\$ 2,542	\$ 2,636	\$ 2,640	\$ 2,932
159	\$ 247	\$ 214	\$ 245	\$ 272	\$ 248	\$ 269
160	\$ 4,091	\$ 3,604	\$ 2,787	\$ 2,909	\$ 2,889	\$ 3,201
161	<i>*Note Above: Net Hedge Cost/(Revenue)</i>					
162						

**Gross Load (MWh) & Cost**

**Net CAISO Purchases & Market Contingency Reserve**

**Internal Generation Fuel Burn, Fuel Cost, & VOM Cost**



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## Power Supply Budget Tour: Summary

Line	FY 2014/2015	FY 2015/2016	FY 2016/2017	FY 2017/2018	FY 2018/2019	FY 2019/2020
163 Summary						
164 Gross Costs	\$ 204,983	\$ 202,628	\$ 211,896	\$ 218,017	\$ 231,411	\$ 237,708
165 Gross Revenue	\$ (35,000)	\$ (36,154)	\$ (36,420)	\$ (36,743)	\$ (37,070)	\$ (37,399)
166 Net Costs	\$ 169,983	\$ 166,474	\$ 175,476	\$ 181,274	\$ 194,341	\$ 200,309
167						
168 Summary						
169 Transmission	\$ 57,821	\$ 57,676	\$ 60,188	\$ 62,863	\$ 64,127	\$ 66,758
170 Energy	\$ 90,459	\$ 100,020	\$ 106,682	\$ 111,974	\$ 119,562	\$ 125,542
171 Capacity	\$ 41,617	\$ 35,547	\$ 36,488	\$ 34,549	\$ 39,087	\$ 40,026
172 SONGS	\$ 8,781	\$ 3,545	\$ 3,545	\$ 3,545	\$ 3,545	\$ -
173 GHG Regulatory Fees	\$ 261	\$ 250	\$ 250	\$ 250	\$ 250	\$ 250
174 Amendment 60 Settlement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
175 Contingency Generating Plants	\$ 2,200	\$ 2,200	\$ 2,200	\$ 2,200	\$ 2,200	\$ 2,200
176 Gas Burns + Net Hedge Cost or (Revenue)	\$ 3,844	\$ 3,391	\$ 2,542	\$ 2,636	\$ 2,640	\$ 2,932
177 SUBTOTAL COST	\$ 204,983	\$ 202,628	\$ 211,896	\$ 218,017	\$ 231,411	\$ 237,708
178 CO2 Allowance Auction Revenue	\$ (4,000)	\$ (4,154)	\$ (4,100)	\$ (4,100)	\$ (4,100)	\$ (4,100)
179 TRR Revenue	\$ (31,000)	\$ (32,000)	\$ (32,320)	\$ (32,643)	\$ (32,970)	\$ (33,299)
180 SUBTOTAL REVENUE	\$ (35,000)	\$ (36,154)	\$ (36,420)	\$ (36,743)	\$ (37,070)	\$ (37,399)
181						
182 TOTAL	\$ 169,983	\$ 166,474	\$ 175,476	\$ 181,274	\$ 194,341	\$ 200,309
183						
184 Summary (Cost/Gross Load)						
185 Adjusted Transmission	\$ 11.51	\$ 10.82	\$ 11.61	\$ 12.41	\$ 12.61	\$ 13.31
186 Energy	\$ 38.83	\$ 42.16	\$ 44.45	\$ 45.99	\$ 48.38	\$ 49.93
187 Capacity	\$ 17.87	\$ 14.98	\$ 15.20	\$ 14.19	\$ 15.82	\$ 15.92
188 SONGs	\$ 3.77	\$ 1.49	\$ 1.48	\$ 1.46	\$ 1.43	\$ -
189 Total (all categories)	\$ 72.97	\$ 70.16	\$ 73.11	\$ 74.45	\$ 78.64	\$ 79.66

Gross Costs & Revenues

Costs by Budget Category

Revenues by Budget Category

Total Budget

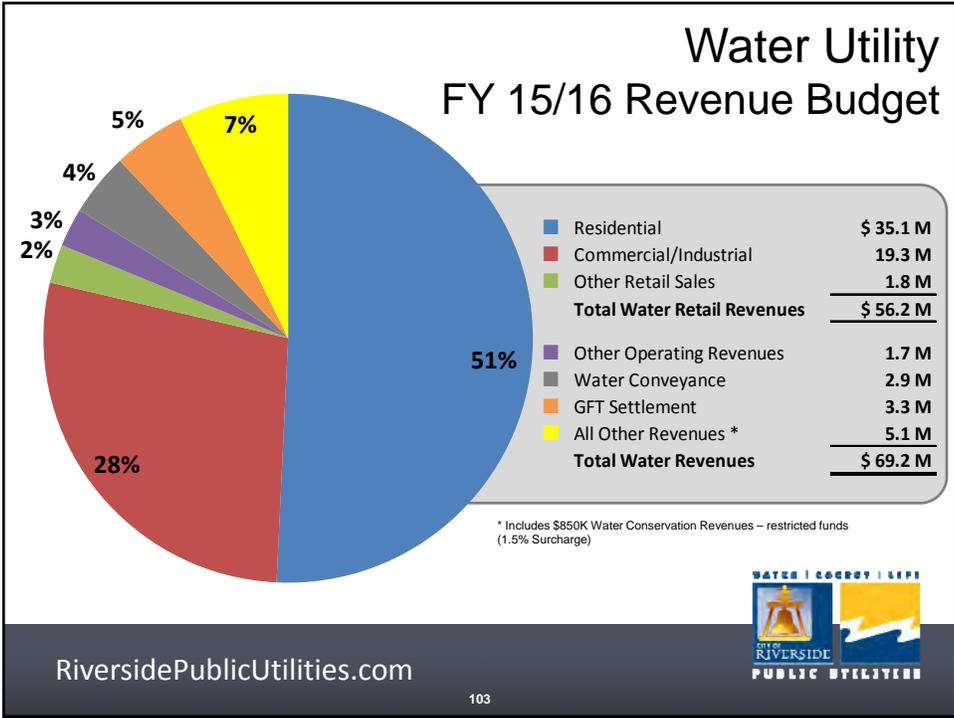
Select Categories Normalized to Load

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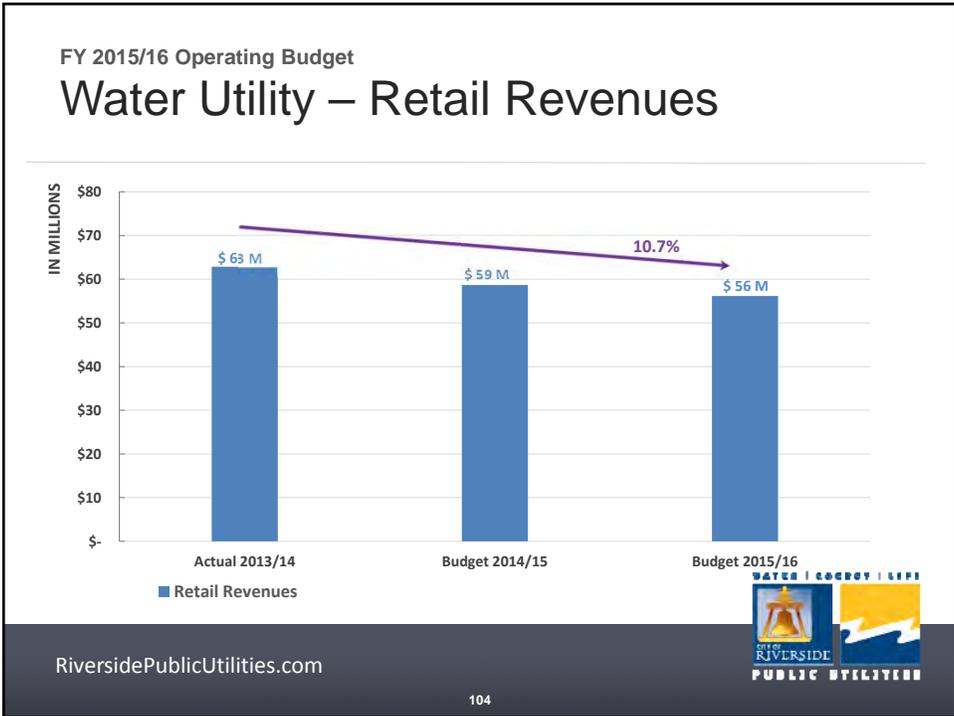


# Water Utility Budget

102



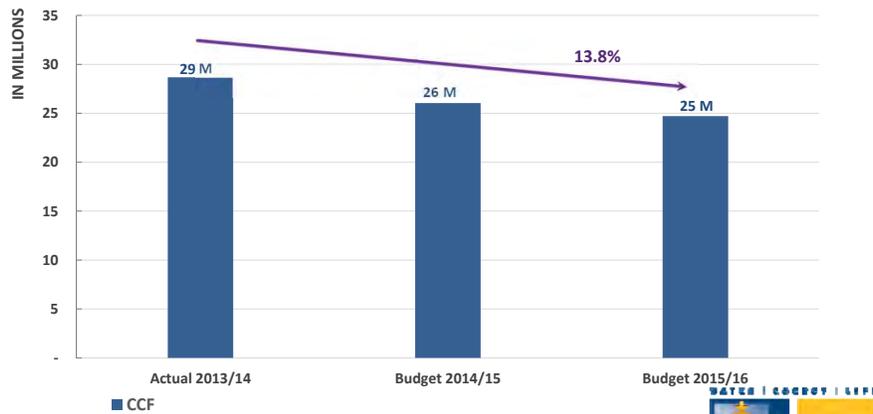
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104

FY 2015/16 Operating Budget

## Water Utility – CCF Sales



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105

## Water – Other Revenues

Approx. 19% of all Water revenues

- Water Conveyance Revenue
- Settlement Reimbursements
- Investment Income
- Contributions in Aid of Construction
- GFT Settlement (FY 14 to 16 - \$3.3M/yr)\*\*
- Water Conservation Programs\*

\*restricted funds

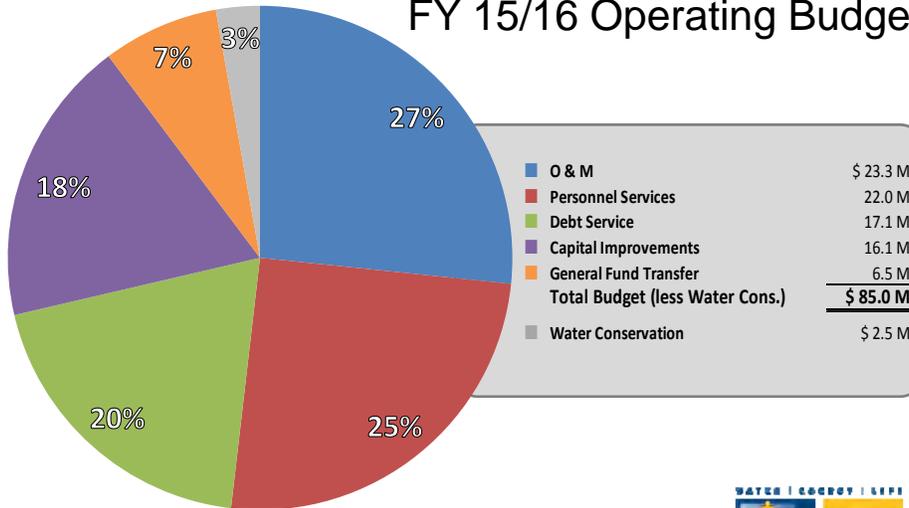
\*\*internally restricted funds

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106

## Water Utility FY 15/16 Operating Budget

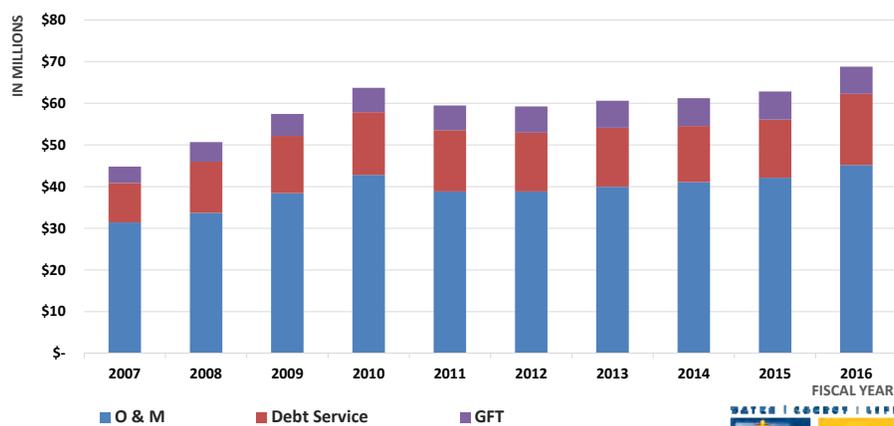


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107



## Water – Operating Budget Trend



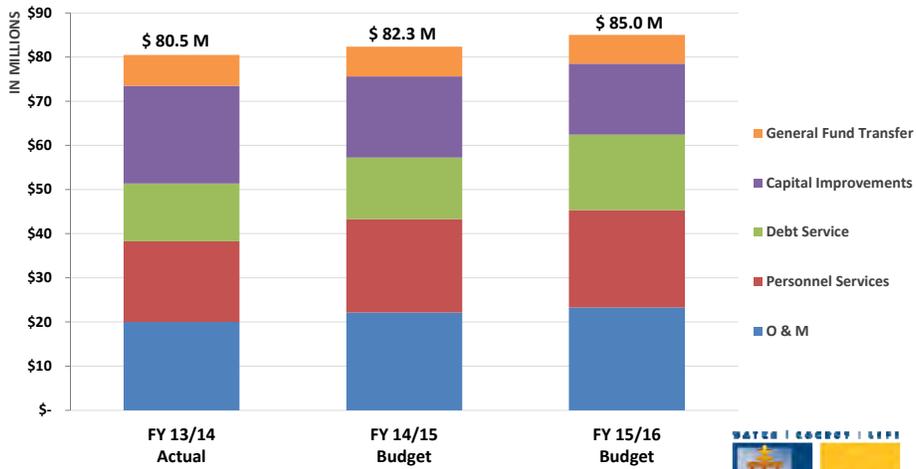
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108



FY 2015/16 Operating Budget

# Water Fund Summary



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## Other Budget Items

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## Calculation of General Fund Transfer Prelim FY 15-16

	ELECTRIC	WATER	TOTAL
Gross Operating Revenue	\$342,003,020	\$56,554,383	\$398,557,403
General Fund Transfer Rate	x 11.5%	x 11.5%	
General Fund Transfer FY 2015-16	\$39,330,300	\$6,503,800	\$45,834,100
GFT FY 2014-15	\$38,178,400	\$7,098,400	\$45,276,800
Projected increase (decrease)	\$ 1,151,900	\$ (594,600)	\$ 557,300

FY 15/16 GFT represents 18% of City's General Fund budget



## What is included in gross operating revenue?

- All Retail Sales, net of bad debt
- Other operating Revenues:
  - Service Connect Fees
  - Misc. Service Revenues
  - Transmission Revenue Requirement
  - Other Operating Revenues



## What is not included in gross operating revenue?

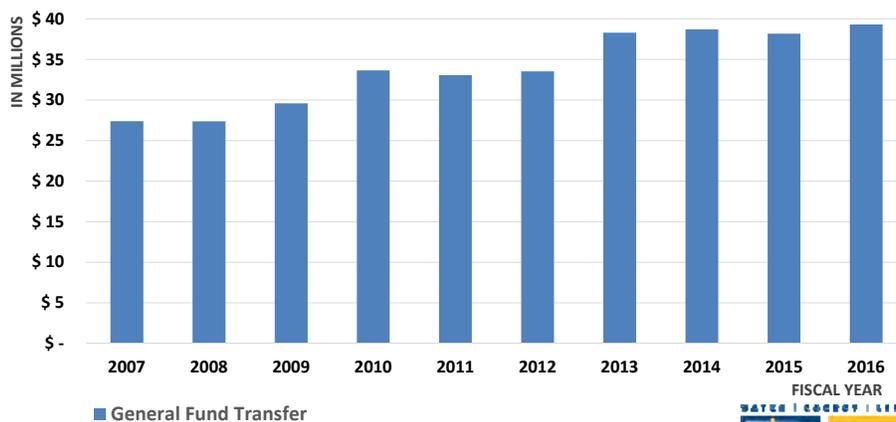
- Revenue from surcharge outside the City and Public Benefit and Water Conservation Programs
- Non-operating revenues:
  - Cap and Trade Auction Revenue
  - Interest Income
  - Sale of land/equipment
  - Land/Building rental revenue
  - Contributions in aid of construction
  - Water Conveyance Revenue

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113

## Electric – General Fund Transfer Trend

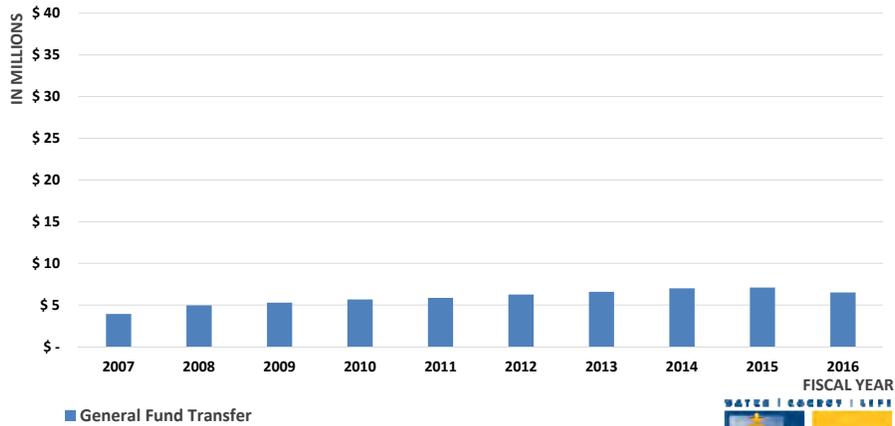


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114

## Water – General Fund Transfer Trend



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115



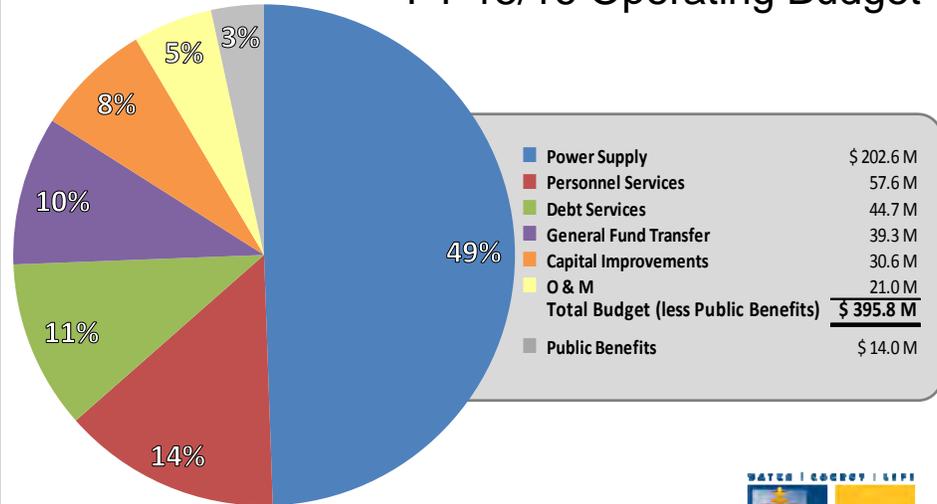
## Electric and Water Budget Affordability Analysis

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116



## Electric Utility FY 15/16 Operating Budget

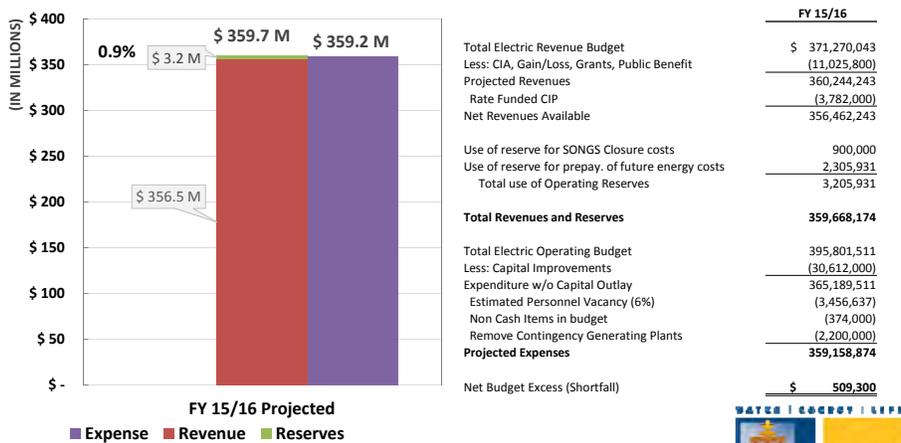


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117

## Electric Utility – FY 15/16 Affordability Analysis



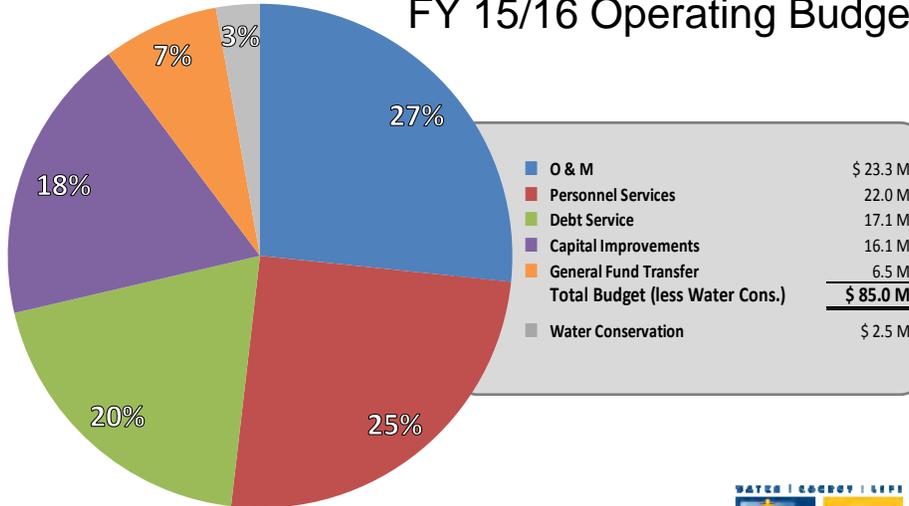
	FY 15/16
Total Electric Revenue Budget	\$ 371,270,043
Less: CIA, Gain/Loss, Grants, Public Benefit	(11,025,800)
Projected Revenues	360,244,243
Rate Funded CIP	(3,782,000)
Net Revenues Available	356,462,243
Use of reserve for SONGS Closure costs	900,000
Use of reserve for prepay. of future energy costs	2,305,931
Total use of Operating Reserves	3,205,931
<b>Total Revenues and Reserves</b>	<b>359,668,174</b>
Total Electric Operating Budget	395,801,511
Less: Capital Improvements	(30,612,000)
Expenditure w/o Capital Outlay	365,189,511
Estimated Personnel Vacancy (6%)	(3,456,637)
Non Cash Items in budget	(374,000)
Remove Contingency Generating Plants	(2,200,000)
<b>Projected Expenses</b>	<b>359,158,874</b>
Net Budget Excess (Shortfall)	\$ 509,300

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118

## Water Utility FY 15/16 Operating Budget

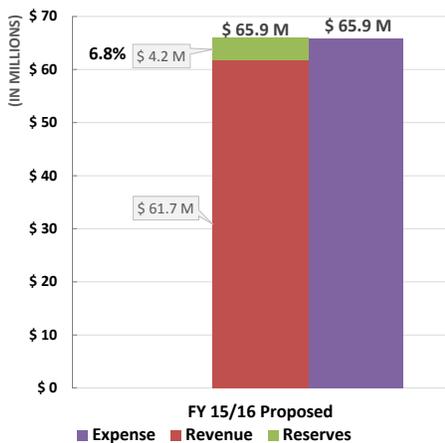


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119



## Water Utility – FY 15/16 Affordability Analysis



	FY 15/16
Total Water Revenue Budget	\$ 69,151,007
Less: CIA, Gain/Loss, Grants, Water Conservation	(1,421,633)
Projected Revenues	67,729,374
GFT settlement reserved for Recycled Water Projects	(3,333,000)
Rental Income Hillwood (Non cash)	(1,040,618)
Rate Funded CIP	(1,617,000)
Net Revenues Available	61,738,756
Use of Operating Reserve for operations	4,150,166
<b>Total Revenues and Reserves</b>	<b>65,888,922</b>
Total Water Operating Budget	85,012,056
Less: Capital Improvements	(16,095,000)
Expenditure w/o Capital Outlay	68,917,056
Estimated Personnel Vacancy (9.5%)	(2,092,516)
Non Cash Items in budget	105,000
Non cash items related to Hillwood	(1,040,618)
<b>Projected Expenses</b>	<b>65,888,922</b>
Net Budget	\$ -

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120



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# Public Benefit Charge & Water Conservation Surcharge Programs

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121

## Public Benefit Charge (PBC) Overview

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### Public Benefit Charge – AB 1890 (2006)

Mandated State Charge

2.85% min. Charge on all Electrical Sales

Electrical Program Areas:

- Energy Efficiency
- Research Design & Development (RD&D)
- Low Income Assistance
- Renewable Energy

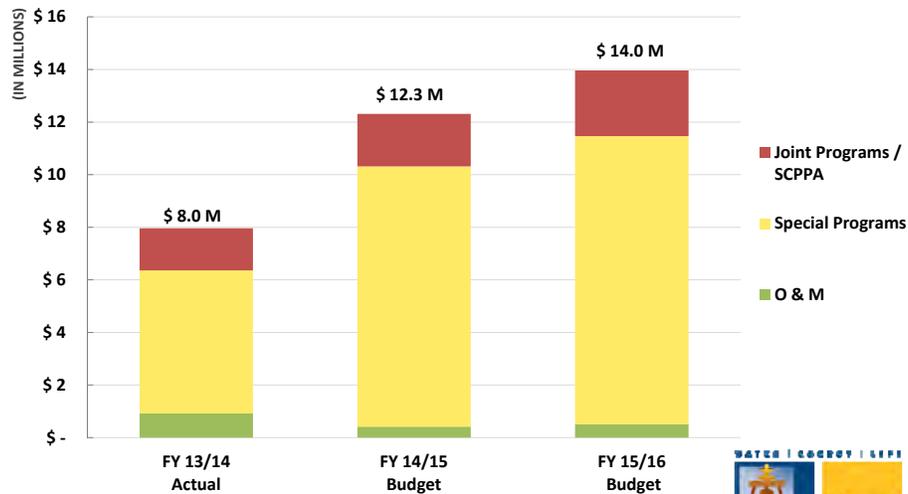
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122

FY 2015/16 Operating Budget

## Public Benefit Programs Budget



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123



## Public Benefit Programs Fund Balance

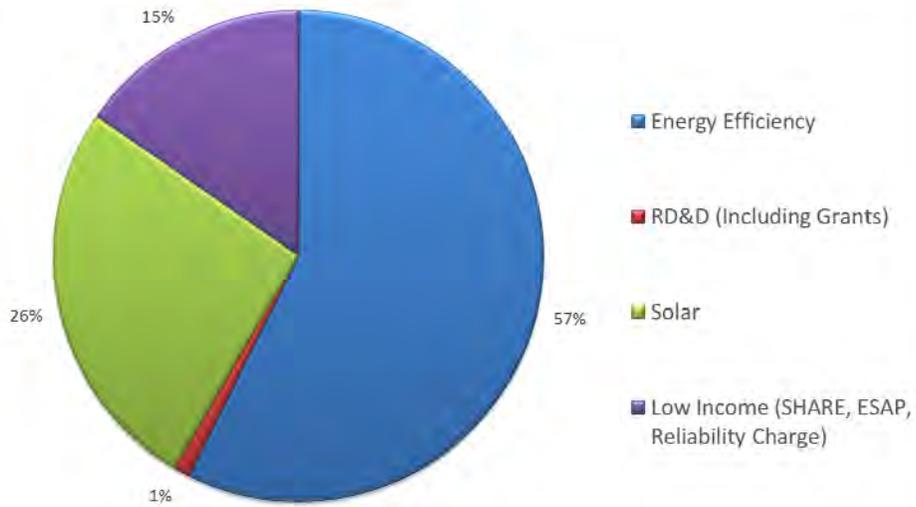
<b>Fund Balance at 6/30/2014</b>	<u>\$ 9,731,710</u>
Projected FY 14/15 Revenue	8,706,000
Less: Projected FY 14/15 Expenditures	(12,314,387)
<b>Projected Fund Balance at 6/30/2015</b>	<u>\$ 6,123,323</u>
Projected FY 15/16 Revenue	8,972,800
Less: Projected FY 15/16 Expenditures	(13,966,551)
<b>Projected Fund Balance at 6/30/2016</b>	<u>\$ 1,129,572</u>

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124



## PBC Fund Disbursement FY14/15



125

## PBC – Commercial Programs

- Heating, Ventilation, & Air Conditioning (HVAC)
- Energy Star
- Lighting Incentives
- Energy Management Systems (EMS)
- Premium Motor Incentives
- Tree Power
- Small Business Direct Installation\*
- Keep Your Cool Program\*
- Photovoltaic System
- Weatherization
- Thermal Energy Storage
- Performance Based Incentives (PBI)
- Custom Energy Technology Grants
- Key Account Energy Efficiency Programs (KEEP)\*
- Energy Innovation Grant (EIG)

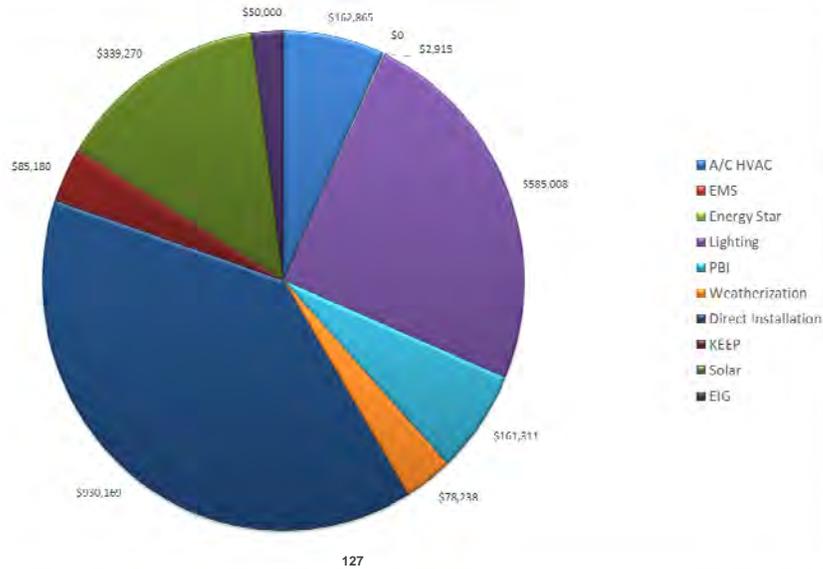
\*SCPPA Contract

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126

## PBC Funded Commercial Programs FY 14/15



## PBC – Residential Programs

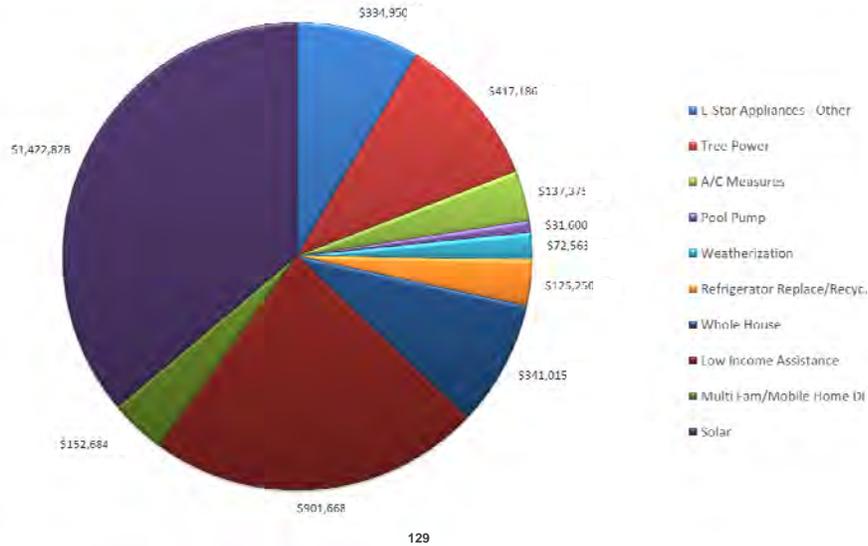
- Energy Star Appliances
- HVAC
- Thermostats
- Tree Power
- Pool & Spa Pumps
- Multi-Family/Mobile Home Direct Installation\*
- Low Income Assistance
- Weatherization
- Appliance Recycling\*
- Whole House Rebate Program
- Photovoltaic Systems

\*SCPPA Contract

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## PBC Funded Residential Programs FY 14/15



## PBC FY 14/15 AB 1890 Results

### 1% kWh Savings Goal for FY 14/15

	Target	Savings	% of Goal
YTD	19,099,000	19,285,300	101%

# Water Conservation Surcharge Overview

## Water Conservation Surcharge:

Passed by City Council – 2004

- 1.5% min. Charge on all Water Sales
- Fund Water Conservation Programs

Renewed by City Council 2014

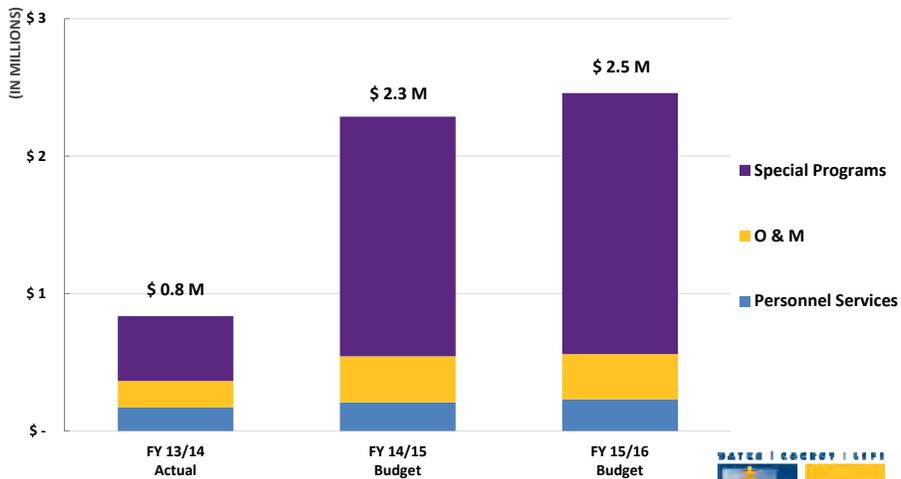
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131

FY 2015/16 Operating Budget

## Water Conservation Surcharge Budget



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132

## Water Conservation Surcharge Fund Balance

<b>Fund Balance at 6/30/2014</b>	<b>\$ 2,498,495</b>
Projected FY 14/15 Revenue	895,000
Add: City Council approved funding from WMWD	4,700,000
Add: Transfer in from the Water Fund (City Council approved)	1,000,000
Less: Projected FY 14/15 Expenditures Budgeted	(2,287,506)
Less: FY 14/15 Additional Appropriations for Water Turf Programs	(4,700,000)
<b>Projected Fund Balance at 6/30/2015</b>	<b>\$ 2,105,989</b>
Projected FY 15/16 Revenue	850,300
Less: Projected FY 15/16 Expenditures	(2,457,718)
<b>Projected Fund Balance at 6/30/2016</b>	<b>\$ 498,571</b>



## Water Conservation Surcharge

### Residential Programs

- Waterwise Landscape
- Weather Based Irrigation Controllers (WBIC)
- High Efficiency Sprinkler Nozzles
- High Efficiency Toilets (HET)
- High Efficiency Clothes Washer (HECW)
- FreeSprinklerNozzles.com
- Smart Irrigation Program\*
- Landscape Audits
- Community Education

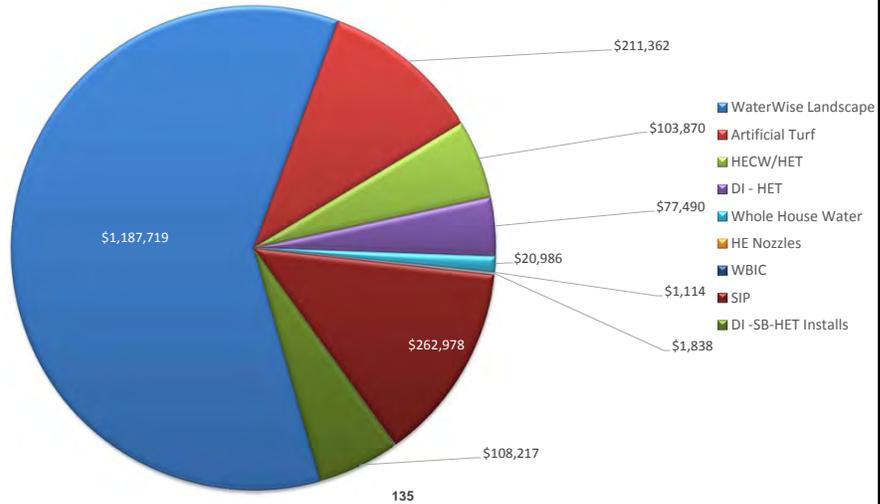
### Commercial Programs

- Waterwise Landscape
- Landscape Technical Assistance
- HE Toilet Retrofit\*
- Smart Irrigation Program (SIP)\*
- Water Management Technical Assistance
- MWD Funded Regional Programs

\* Direct Installation (DI)



## Residential Water Programs FY 14/15 (\$1,975,574)



135

## Rates, Revenues and Trends

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136

# Electric – Rate Comparison

AVERAGE RESIDENTIAL RATE FOR 750 KWH PER MONTH  
(AS OF AUGUST 2015)



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137



# Water – Rate Comparison

AVERAGE RESIDENTIAL RATE FOR 22 CCF PER MONTH  
(AS OF AUGUST 2015)



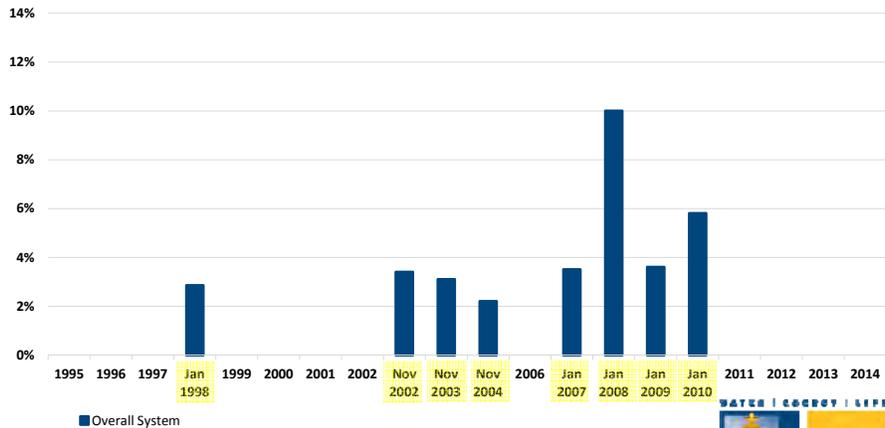
\* Drought rates in effect

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138



# Electric Rate Increases Last 20 Years



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139



# What projects that Electric Rate Plans supported in the last 20 Years



### Prior Rate Plans

- SONGS Capital Improvement
- Springs Generating Plant
- Transmission Line

- SONGS Capital Improvement
- Expanded Overhead / Underground Conversion
- Cable & Structure Replacement Program
- Substation Bus & Upgrades
- Substation Power Transformers
- Major Feeders
- Major 4/12kV Conversion

### RERC 1, 2, 3 & 4

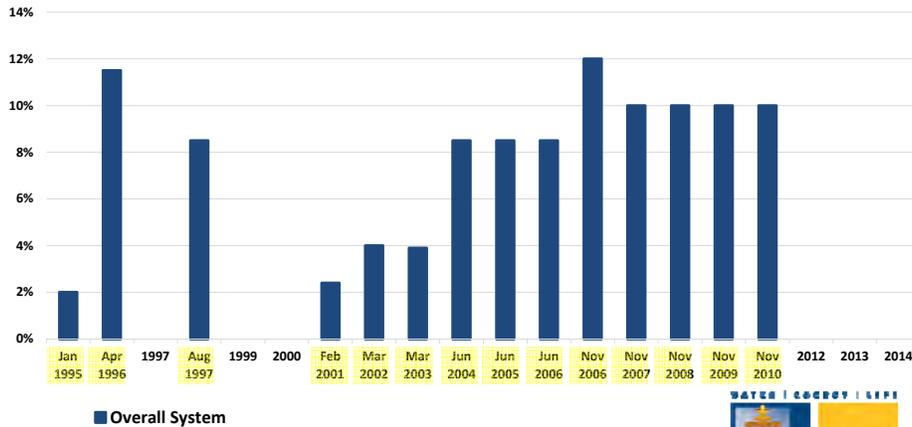
- SONGS Steam Generator Replacement
- RTRP/STP
- Clearwater
- Meter Replacement Program
- CIS Replacement
- Replacing low cost power contracts

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140



# Water Rate Increases Last 20 Years



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141



# What project that Water Rate Plans supported in the last 20 Years



- Expanded Main Replacement
- Tilden Reservoir
- Expanded Main Replacement

- Expanded Main Replacement
- Transmission Mains
- Water Supervisory Control and Data Acquisition (SCADA) System

- Expanded Main Replacement
- Waterman Pipeline Replacement
- Mockingbird Canyon Dam

- Expanded Main Replacement
- JW North**
- Water System Relocations
- Transmission Mains
- Facility Rehab.
- Pump Station Replacements
- Whitegates I & II Reservoirs**
- Evans Reservoir**
- Seven Oaks Dam

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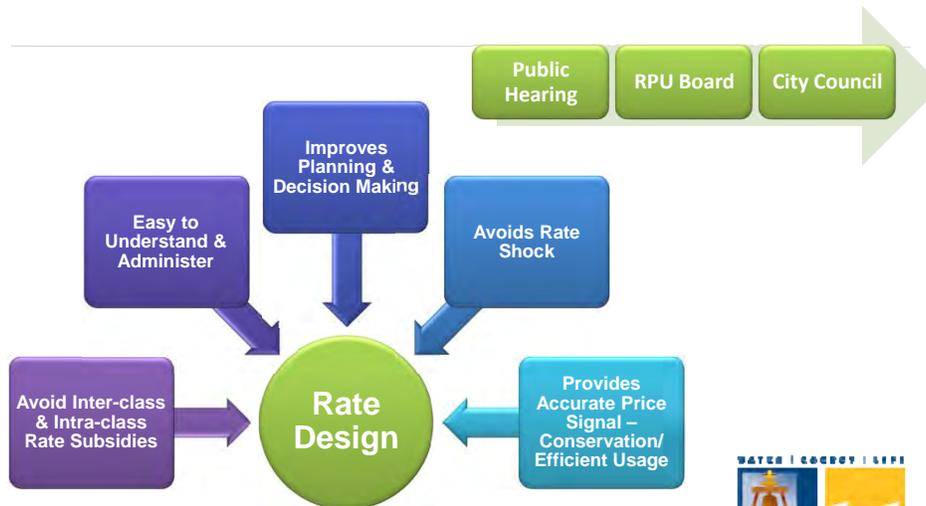
142



# RPU Current Rates

Rate Type	Electric		Water	
	Residential	Other	Residential	Other
Residential / Domestic	X		X	
Domestic Time of Use	X			
Commercial / Industrial / Contract		X		X
Economic Development / Business Retention / Temporary Economic Development		X		
Net Energy Metering	X	X		
Feed-In Tariff		X		
Street / Outdoor Lighting		X		
Agricultural & Pumping / Wind Machines		X		
Stand-By-Service		X		
Traffic Control Service		X		
Irrigation / Grove Preservation			X	X
Riverside Water Company Irrigators / Greenbelt Irrigation				X
Special Landscape				X
Fire Protection / Fire Hydrants / Temporary Service				X
Recycled Water				X

# RPU Rates



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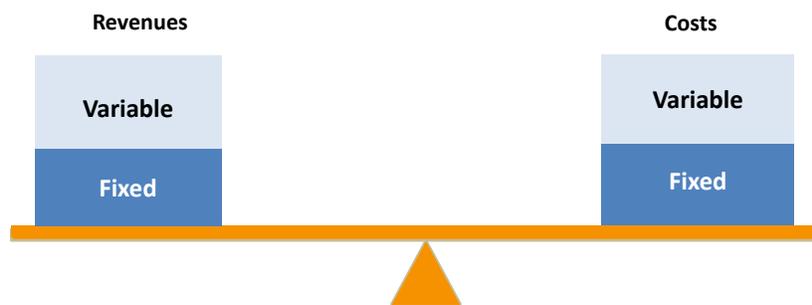
# Key Issues Affecting Rates/Revenues

Electric & Water:

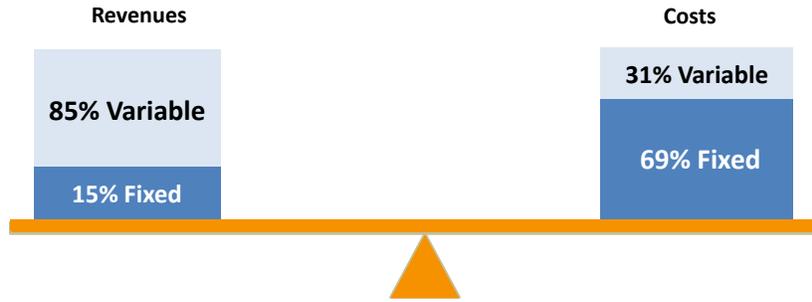
- **Fixed vs. Variable Revenues & Expenses**



# Ideal Fixed/Variable Balance



# Electric Fixed/Variable Balance

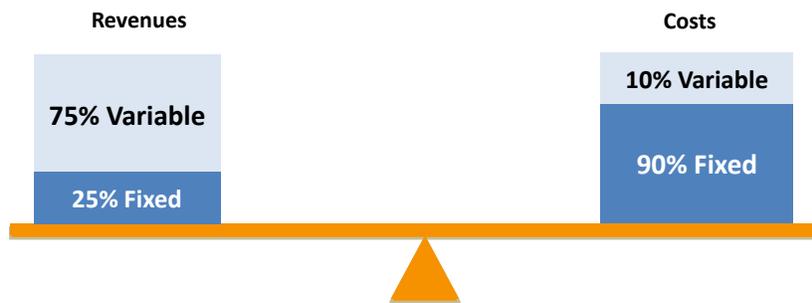


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147

# Water Fixed/Variable Balance



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148



# Electric

RIVERSIDE PUBLIC UTILITIES: PROVIDING ELECTRICITY					
Electric Meter Reading			Customer Charges For Electricity		
PREVIOUS READING	PRESNT READING	CONSUMPTION			
5039	8991	1952	750 KWH (ELECTRIC) @ \$0.103500	=	77.63
			750 KWH (ELECTRIC) @ \$0.164600	=	123.45
			452 KWH (ELECTRIC) @ \$0.186700	=	84.39
			CUSTOMER CHARGES		8.06
			RELIABILITY CHARGE		10.00
			STATE ENERGY		0.57
TOTAL ELECTRICITY CONSUMPTION					
1952 KWH					

Usage Comparison: This Year	
29	Days
1952	Period Usage
87.31	Daily Average

Usage Comparison: Last Year	
34	Days
1958	Period
57.59	Daily Average

Customer Charges For Water		
15 CCF (WATER) @ \$1.140000	=	17.10
20 CCF (WATER) @ \$1.830000	=	36.60
9 CCF (WATER) @ \$2.850000	=	25.65
CUSTOMER CHARGES		13.99

Electricity Charge: Variable charge based on usage.

State Energy Tax: Pass through to the State.

Reliability Charge: Fixed charge to cover debt service related costs.

Customer Charge: Fixed charge to recover costs such as meter reading, billing, customer service, and administration.

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151



# Water

RIVERSIDE PUBLIC UTILITIES: PROVIDING WATER					
Water Meter Reading			Customer Charges For Water		
PREVIOUS READING	PRESNT READING	CONSUMPTION			
2048	2092	44	15 CCF (WATER) @ \$1.140000	=	17.10
			20 CCF (WATER) @ \$1.830000	=	36.60
			9 CCF (WATER) @ \$2.850000	=	25.65
			CUSTOMER CHARGES		13.99
TOTAL WATER CONSUMPTION					
44 CCF					

Usage Comparison: This Year	
29	Days
44	Period
1.52	Daily Average

Usage Comparison: Last Year	
34	Days
57	Period
1.68	Daily Average

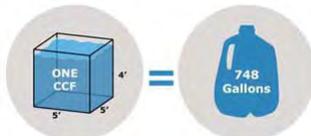
  

Customer Charges For Water		
15 CCF (WATER) @ \$1.140000	=	17.10
20 CCF (WATER) @ \$1.830000	=	36.60
9 CCF (WATER) @ \$2.850000	=	25.65
CUSTOMER CHARGES		13.99

Inclining Tiers

Converts CCF to Gallons

Total Gallons Used: 32912 GAL. (CCF x 748 GAL)



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152



# Water

RIVERSIDE PUBLIC UTILITIES: PROVIDING WATER				Customer Charges For Water		TORIS
WATER		PREVIOUS READING	PRESNT READING	CONSUMPTION		
Usage Comparison:	This Year	2048	2092	44	15 CCF (WATER) @\$1.140000	= 17.10
	29 Days				20 CCF (WATER) @\$1.830000	= 36.60
	44 Period				9 CCF (WATER) @\$2.850000	= 25.65
	1.52 Daily Average				CUSTOMER CHARGES	13.99
Usage Comparison:	Last Year					
	34 Days					
	57 Period					
	1.68 Daily Average					
Total Gallons Used: 32912 GAL (CCF x 748 GAL)						
TOTAL WATER CONSUMPTION:				44 CCF		
METER READING DATES: 07/07/15 TO 08/05/15						
				TOTAL CHARGES FOR WATER		\$93.34

Water Charges: Variable charge based on usage.

Customer Charge: Fixed charge to recover costs such as meter reading, billing, customer service, and administration.



# City Services

CITY OF RIVERSIDE: PROVIDING CITY SERVICES	
CITY	
UTIL USER TAX	25.80
ELEC. PB CHARGE	8.65
SEWER	33.57
SEWER PB CHARGE	0.05
TRASH-CITY	22.76
WTR CONSERVATION SURCHARGE	1.40
TOTAL	
TOTAL CHARGES FOR WATER, E	

Utility User's Tax: A City of Riverside General Fund 6.5% charge to the water and electric portion of your bill.

City Services for Sewer and Trash.

Public Benefit Surcharge: State-mandated fee of 2.85% of electric charges to fund the Public Benefit Program.

Water Conservation Surcharge: A 1.5% of water charges to fund water conservation programs.



# Message & Payment Card

## MESSAGE

CUT YOUR WATERING TO 3 DAYS A WEEK. MORE CONSERVATION INFO AT [BLUERIVERSIDE.COM](http://BLUERIVERSIDE.COM) ←

RIVERSIDE PUBLIC UTILITIES

PAYMENT CARD

**PAYMENT BY MAIL:**  
Enclose card with remittance payable to Riverside Public Utilities in the envelope provided.

PLEASE PAY IMMEDIATELY  
(SERVICE SUBJECT TO TERMINATION)

**PAYMENT BY PERSON:**  
Bring entire bill to an authorized payment station.  
(See insert for payment locations)

### SUMMARY OF CURRENT AMOUNT DUE

WATER	ELECTRICITY	CITY SERVICES
\$93.34	\$304.10	\$92.23

BILLING DATE: 08/10/15 PLEASE PAY BY: 08/31/15

SHARE FUND (LOW INCOME UTILITY ASSISTANCE)  
MY DONATION IS: \$1 \$2 \$5 OTHER \$ \_\_\_\_\_

ACCOUNT NUMBER:

PREVIOUS BALANCE	→
CURRENT AMOUNT DUE	→
TOTAL BALANCE DUE	→
SHARE DONATION	→
PLEASE INDICATE AMOUNT PAID	→

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155



## Back of the Customer Bill

### UTILITY UPDATE

RIVERSIDE PUBLIC UTILITIES

#### Important Drought Update:

##### New Water Conservation Restrictions

In June, the city council adopted new water conservation guidelines to help Riverside Public Utilities (RPU) meet new state-mandated goals for water conservation. Under current legislation, RPU is being asked to reduce overall water use system wide by 20 percent. Please note, the reduction is a cumulative effort, not individual, but personal, but overall.

To help us achieve our new goal, changes were made to Riverside's water conservation ordinance. They included new schedules that cut outdoor watering to just three days per week (April through October) and two days per week (November through March).

Watering times are limited to a maximum of 15 minutes per station between the hours of 6 p.m. to 10 a.m. Customers with high-efficiency drip or micro spray irrigation systems are exempt from this new schedule.

The new watering schedules join a list of changed or updated mandatory conservation measures that came out this spring. They include: no watering of turf or ornamental landscapes during, or 48-hours following measurable precipitation; new requirements by water agencies to notify customers when they are aware of leaks that are within the customer's control to repair; restaurants and other food service establishments can only serve water on request; and hotels and motels must provide guests with options of not having towels/linens laundered daily and must prominently display this option.

Riverside Public Utilities has updated its website [blueRiverside.com](http://blueRiverside.com) with the latest guidelines, conservation tips, and information about available water saving rebate programs that can offset the costs of making residential and commercial properties more water wise throughout the city.

#### do you know?

Water conservation is a cumulative effort, not individual, but personal, but overall. To help us achieve our new goal, changes were made to Riverside's water conservation ordinance. They included new schedules that cut outdoor watering to just three days per week (April through October) and two days per week (November through March).

#### conservation corner

July is a time when please don't forget energy. But there are steps to ensure you are doing your part to conserve water and not waste it!

- Make lights or early evening watering.
- Don't overwater and create runoff.
- Use touch and go plants, and trees to help retain moisture.
- Check for and fix leaks.

For more water conservation tips and info on the available water conservation rebate programs, visit [blueRiverside.com](http://blueRiverside.com).

Please return this part of the bill with your payment in the envelope provided.  
Mail to: City of Riverside Public Utilities, 2000 Main Street, Riverside, CA 92522-0544.

We accept Visa, MasterCard, Discover & American Express      Payment Method:  Visa     MC     Discover     Am Ex

Card Number: \_\_\_\_\_      Exp. Date: \_\_\_\_\_      Signature: \_\_\_\_\_

**YOU MUST SIGN FOR PAYMENT TO BE PROCESSED.**

Payment Amount: \_\_\_\_\_      SHARE Donation: \_\_\_\_\_      Total Payment: \_\_\_\_\_

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## Value of RPU Water



Less than \$0.01  
per gallon



\$1.95 per cup



\$3.96 per gallon



\$1.67 per bottle



\$3.52 per gallon



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157

## Key Issues Affecting Rates/Revenues

### Electric & Water:

- Fixed vs. Variable Revenues & Expenses
- Conservation & Efficiency

### Electric:

- Distributed Generation – Solar PV

### Water:

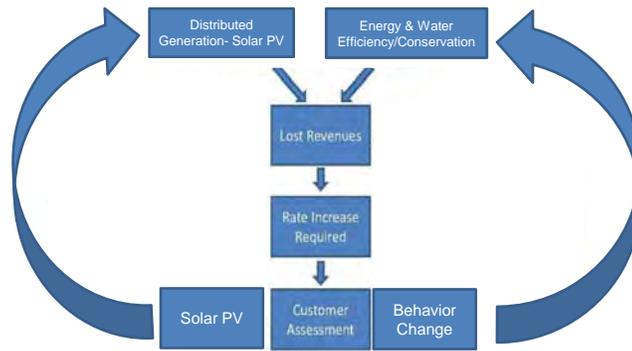
- Mandatory Drought Restrictions



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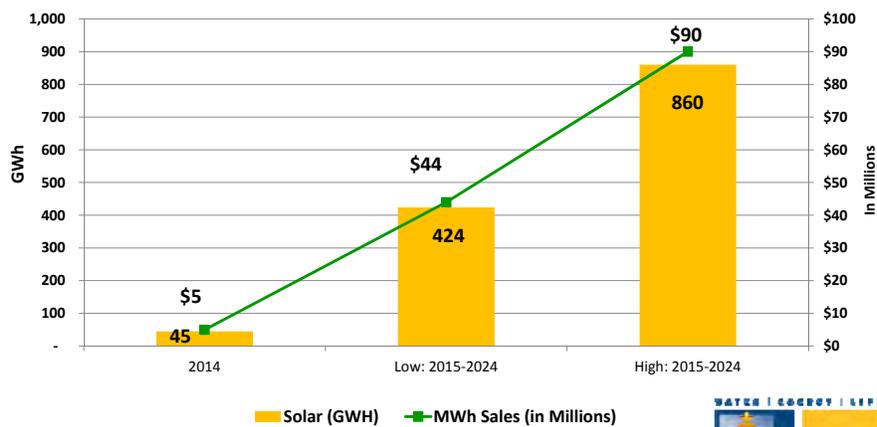
158

# Rate Model 1.0 will not work for Utility 2.0



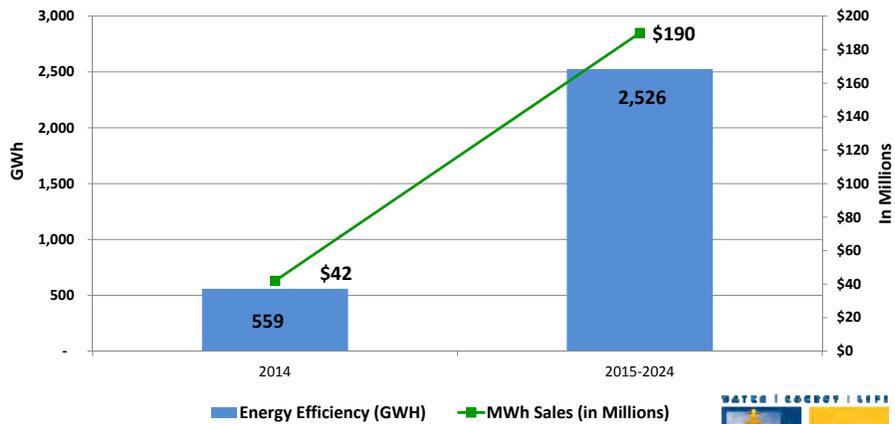
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## How rooftop solar can impact revenue



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## How energy efficiency can impact revenue

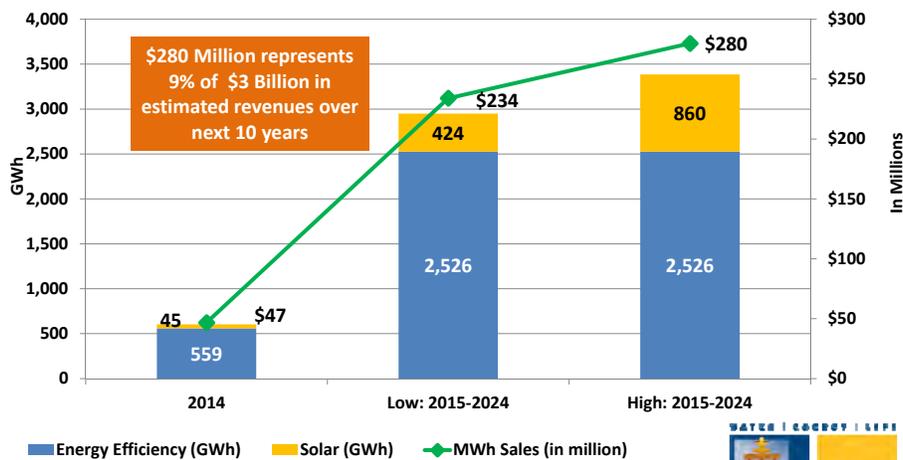


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161



## How rooftop solar and energy efficiency can impact revenue

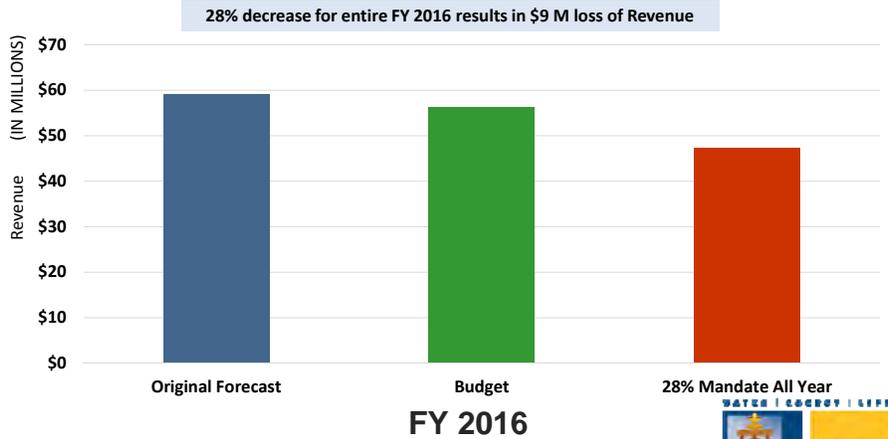


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162



## How revenue is lost due to Mandatory Drought Restrictions (current rates)



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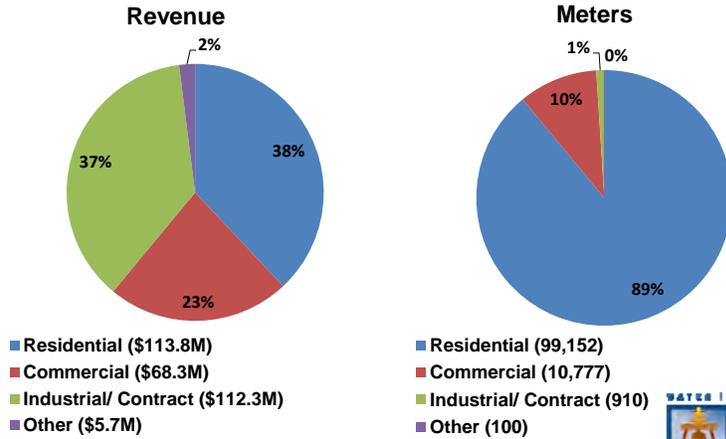
163

## Rates 1.0 must evolve to Rates 2.0

Rate Type	Electric		Water	
	Residential	Other	Residential	Other
Residential / Domestic	X		X	
Domestic Time of Use	X			
Commercial / Industrial / Contract		X		X
Economic Development / Business Retention / Temporary Economic Development		X		
Net Energy Metering	X	X		
Feed-In Tariff		X		
Street / Outdoor Lighting		X		
Agricultural & Pumping / Wind Machines		X		
Stand-By-Service		X		
Traffic Control Service		X		
Irrigation / Grove Preservation			X	X
Riverside Water Company Irrigators / Greenbelt Irrigation				X
Special Landscape				X
Fire Protection / Fire Hydrants / Temporary Service				X
Recycled Water				X

# Electric – Retail Sales

FY 2015 Preliminary



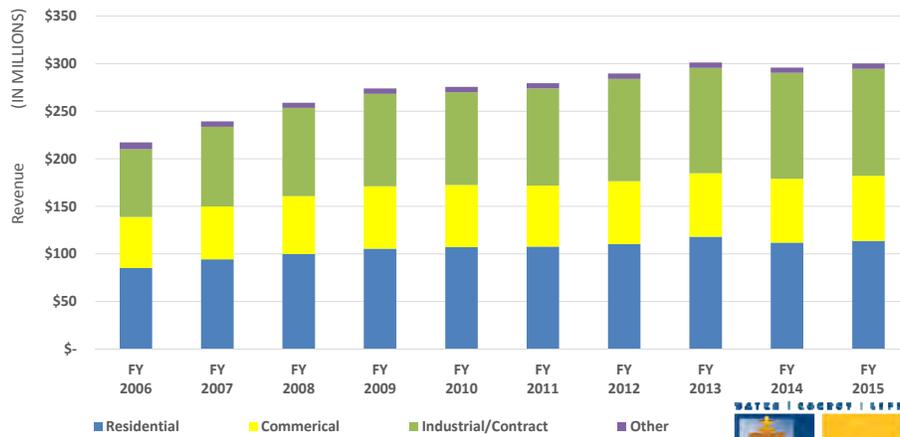
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165



# Electric - Historical Retail Sales

FY 2015 Preliminary

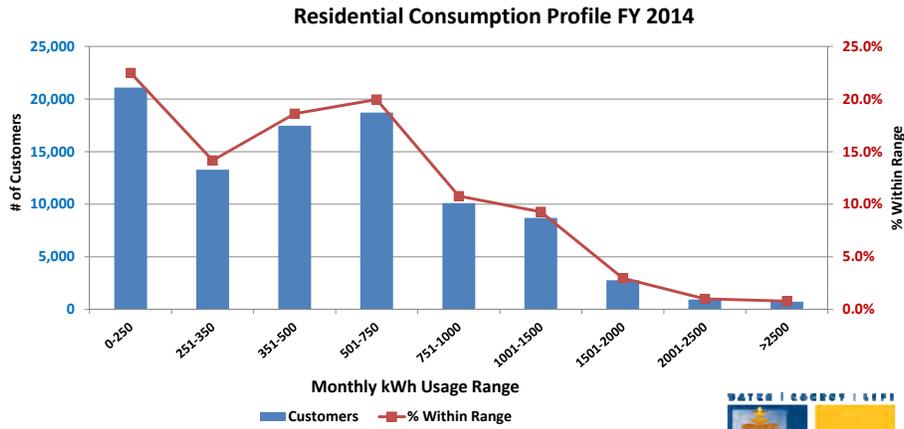


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166



# Electric Residential Distribution

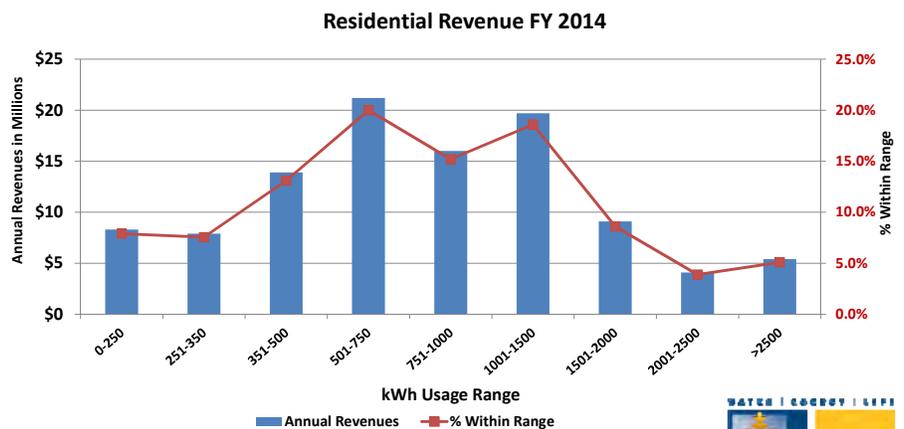


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167



# Electric Residential Distribution



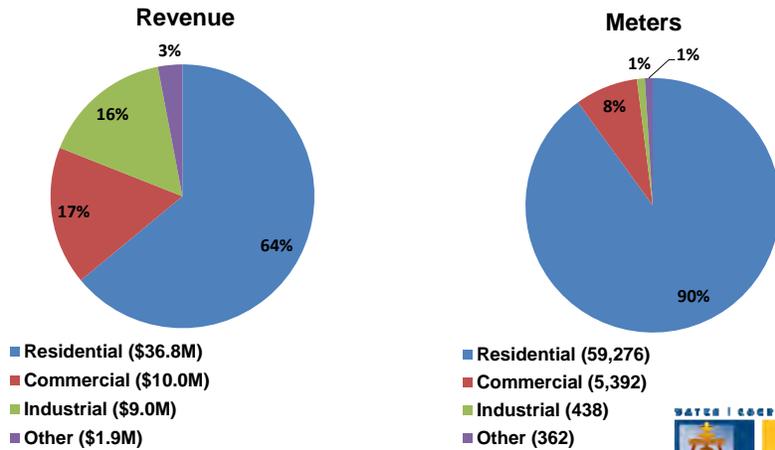
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168



# Water – Retail Sales

FY 2015 Preliminary



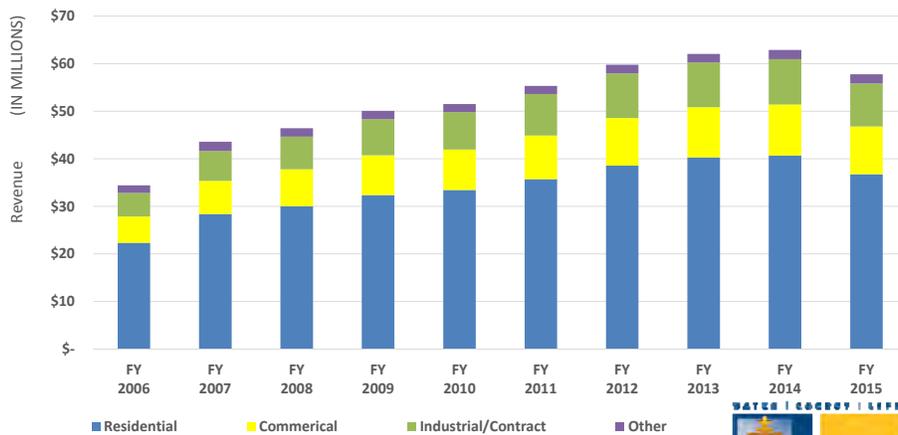
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169



# Water - Historical Retail Sales

FY 2015 Preliminary

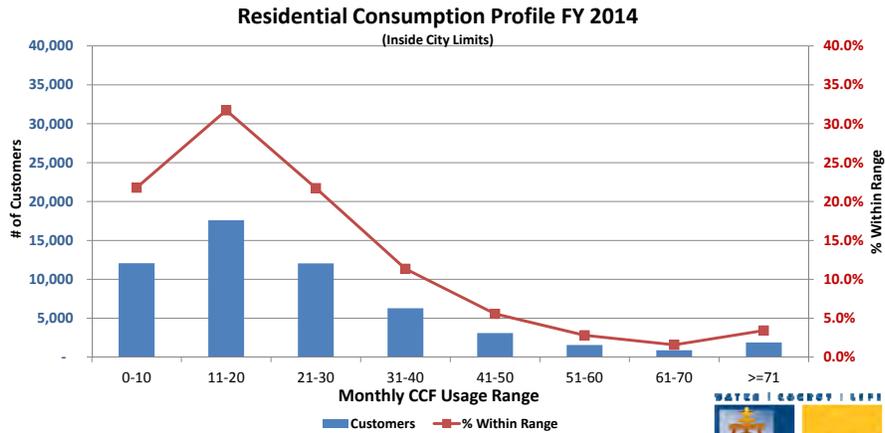


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170



# Water – Residential Distribution

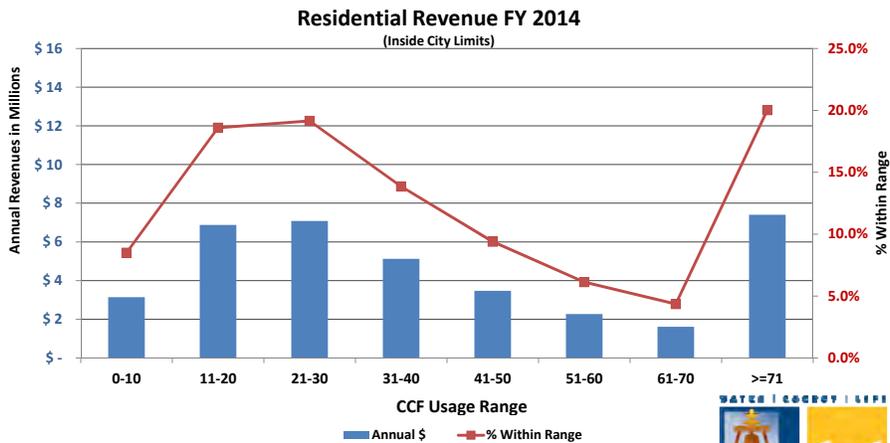


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171



# Water – Residential Distribution



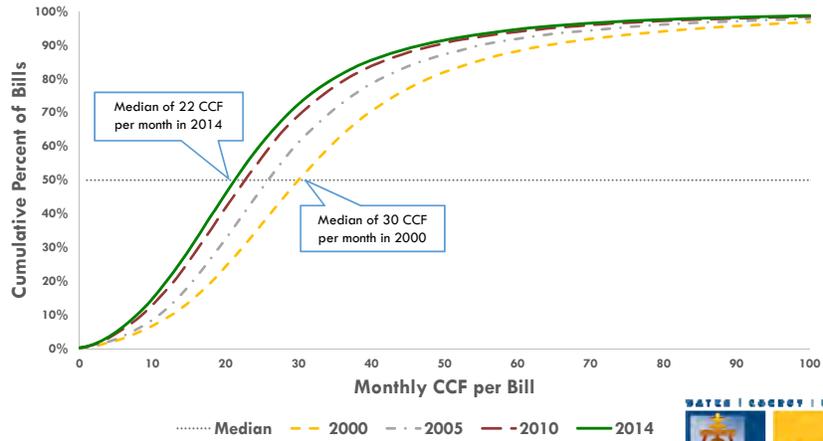
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172



# Water – Demand Distribution

Residential - Summer Only



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173



# Reliability Charge

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174



# History of Reliability Charge

- Adopted Three-year Electric Utility Rate Plan
  - approved on December 4, 2007
- Overall Rate Plan to fund:
  - 192 MW internal generation units
  - substation interconnection with state's transmission grid
  - replacement of expiring contracts.
- Reliability Charge to fund debt service requirements for:
  - new transmission system
  - existing and new internal generation
- Improves Reliability and provides sufficient power
- All customers benefit



# Presentation from 12/4/2007 City Council Meeting

CASH FLOW REQUIREMENTS (millions)					MONTHLY RELIABILITY CHARGE			
Fiscal Year	2007	2008	2009	2010				
RERC 1&2	\$7	\$7	\$7	\$7	RERC & Acorn			
ACORN 1&2	\$8	\$8	\$8	\$8	1/1/08	1/1/10	Total	
RTRP				\$9	Sm Res (0-100 Amp)	\$ 5	\$ 5	\$ 10
Subtotal		\$15	\$15	\$24	Med Res (101-200 Amp)	10	10	20
Power		\$ 5	\$10	\$15	Lg Res (101-400 Amp)	20	20	40
ANNUAL COSTS		\$20	\$25	\$39	Very Lg Res (>400 Amp)	30	30	60
Bond Issue	—	\$200M	—	\$220M	Small Bus (Flat)	30	30	60
					Medium Bus (Demand A)	45	45	90
					Large Bus (TOU)	550	550	1,100
					Revenue (Millions)	\$12	\$12	\$24



# Reliability Charge

- Challenges:
  - RTRP delayed
  - Cost estimates for RTRP increasing
- Not set to expire- Intended to cover debt service of projects
- Not restricted- Will consider setting aside as a Reserve



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177

# Reliability Charge Structure

Customer	Monthly Charge
<b>Residential:</b>	
Small (0-100 Amp)	\$10
Medium (101-200 Amp)	\$20
Large (201-400 Amp)	\$40
Very Large (>400 Amp)	\$60
<b>Small Business:</b>	
Tier 1 (0-500 kWh)	\$10
Tier 2 (501-1500 kWh)	\$30
Tier 3 (> 1500 kWh)	\$60
Medium Business	\$90
Large Business	\$1,100

\$25 M Collected Annually

\$161.7 M Collected through FY 2015



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178

## Reliability Charge – Projects Funded and Related Debt Service

<p><b>\$321M – Estimated Total Project Costs</b></p> <ul style="list-style-type: none"> <li>• RERC 1-4 \$199M</li> <li>• STP \$20M</li> <li>• RTRP \$102M</li> </ul>
<p><b>\$239M – Project Costs through FY 2014/15</b></p> <ul style="list-style-type: none"> <li>• RERC 1-4 \$199M (complete)</li> <li>• STP \$20M (complete)</li> <li>• RTRP \$20M</li> </ul>
<p><b>\$630M – Projected Total Debt Service Costs</b></p> <ul style="list-style-type: none"> <li>• RERC \$386M</li> <li>• RTRP / STP \$244M</li> </ul>
<p><b>\$106M – Debt Service Costs through FY 2014/15</b></p> <ul style="list-style-type: none"> <li>• RERC \$95M</li> <li>• RTRP / STP \$11M</li> </ul>
<p><b>\$524M – Projected Total Debt Service Remaining</b></p>

179

## Reliability Charge – Revenue Collected vs. Debt Service Paid to Date

<b>\$162M – Reliability Charge Collected to Date</b>
<b>\$19M – Less: General Fund Transfer</b>
<b>\$143M – Net Reliability Charge Available for Debt Service</b>
<b>\$106M – Debt Service Paid to Date</b>
<b>\$37M – Net Reliability Charge Remaining</b>

## Estimated Reliability Charge Needed to Pay Remaining Debt Service Requirements

\$37M – Net Collected Over Debt Service Paid to Date

\$524M – Projected Total Debt Service Remaining

\$487M – Additional Reliability Charge Needed to Cover Debt Service

\$63M – Additional Reliability Charge to Cover GFT

\$550M – Total Reliability Charge Needed to Cover DS & GFT

\$25M – Annual Reliability Charge Revenue

**25 Estimated Remaining Years to Pay Off Debt Service**

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181

## Alternative Funding Examples in Lieu of Reliability Charge & Issuance of 30 Year Debt

\$321M Total Estimated Generation/Transmission Project Costs

\$64 M Per Year if Paid Over 5 Years

- The following rate increases would have been necessary to fund the generation and transmission projects - in addition to base rate plan:

Option 1: One Time Rate Increase First Year

- ~ 30%
- Lasting for 5 years

Option 2: Rate Increase over 5 Years

- ~ 9% per year
- Lasting for 5 years – cumulative increase ~53%

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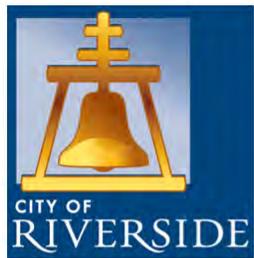
182

# RPU DEBT

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183



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ABOUT PFM

DEBT PORTFOLIO SUMMARY

ORIGINS OF VARIABLE-RATE DEBT

VARIABLE-RATE DEBT PERFORMANCE

CASH RESERVE CONSIDERATIONS

CONCLUSION

RiversidePublicUtilities.com

184

ABOUT PFM

PREMIER PUBLIC POWER AND WATER PRACTICE IN CALIFORNIA AND NATIONALLY

- PFM's committed California presence and focus on the utility sector has enabled us to successfully maintain long-term relationships with a large number of California utility clients

— As a result, we are intimately familiar with the issues faced and opportunities provided to California utilities

PFM's Decade+ Relationships with California Utility Clients

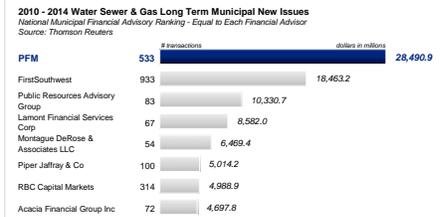


18 years	17 years	16 years	15 years	19 years	17 years	26 years	14 years	17 years	16 years	26 years
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Public Power—2010-2014  
Overall Long-Term Municipal New Issues



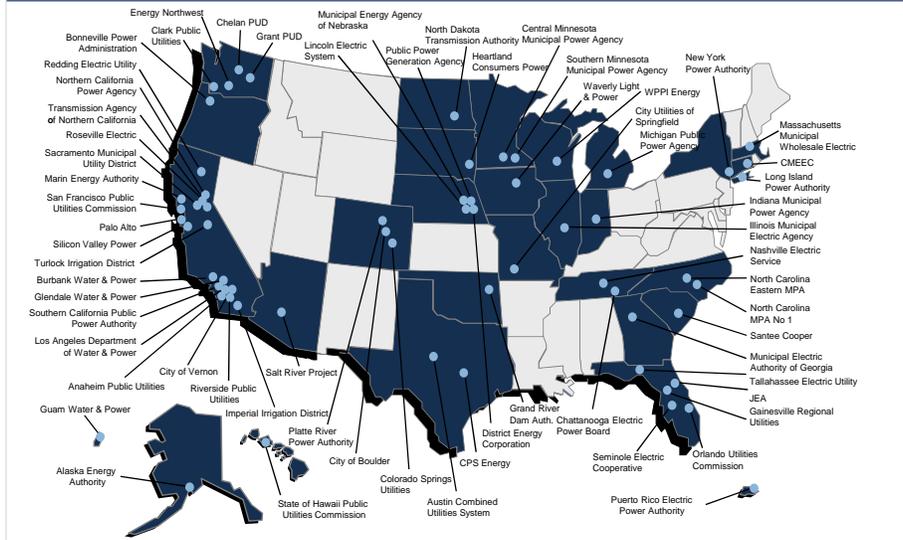
Water, Sewer & Gas—2010-2014  
Overall Long-Term Municipal New Issues



ABOUT PFM

PREMIER PUBLIC POWER PRACTICE

Map of Select PFM National Public Power Clients



ABOUT PFM

LEADING CALIFORNIA WATER/WASTEWATER PRACTICE

Map of Select PFM California Water/Wastewater Clients



187



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ABOUT PFM

DEBT PORTFOLIO SUMMARY

ORIGINS OF VARIABLE-RATE DEBT

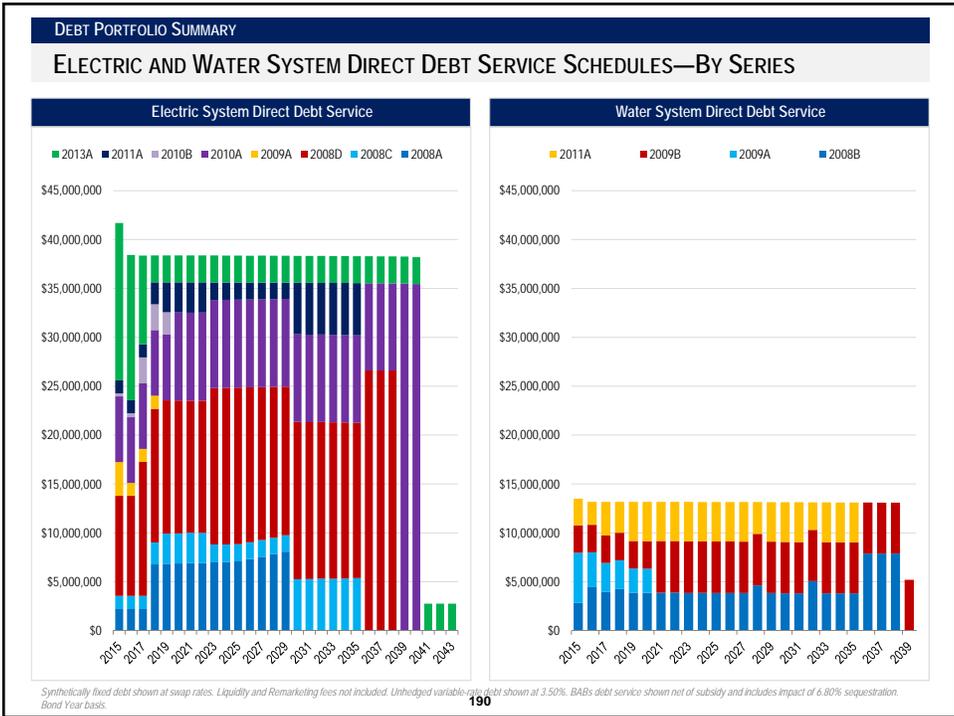
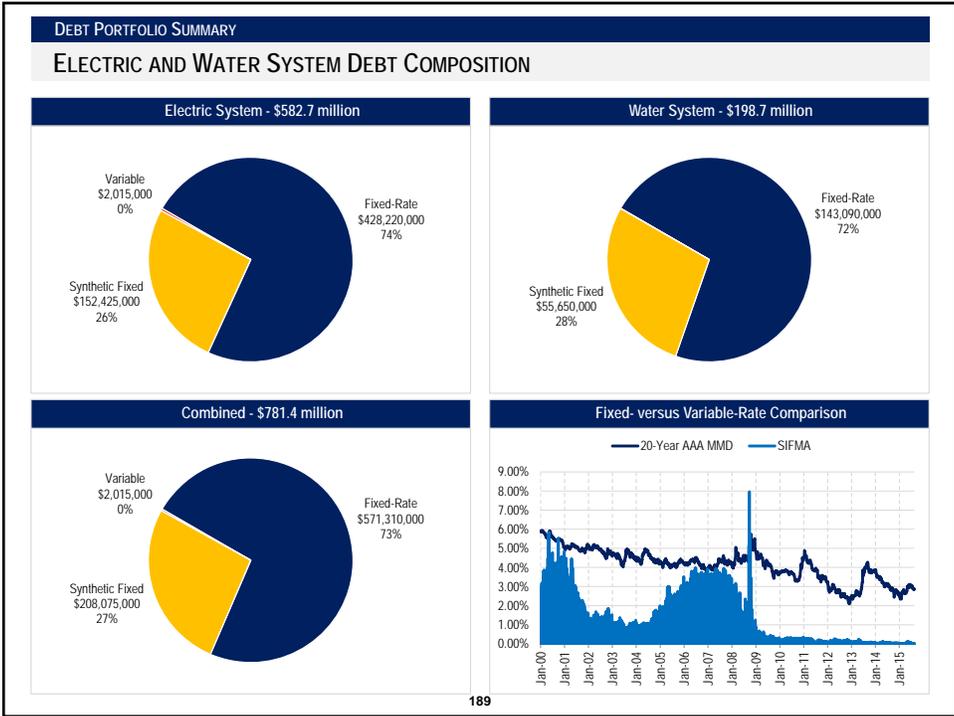
VARIABLE-RATE DEBT PERFORMANCE

CASH RESERVE CONSIDERATIONS

CONCLUSION

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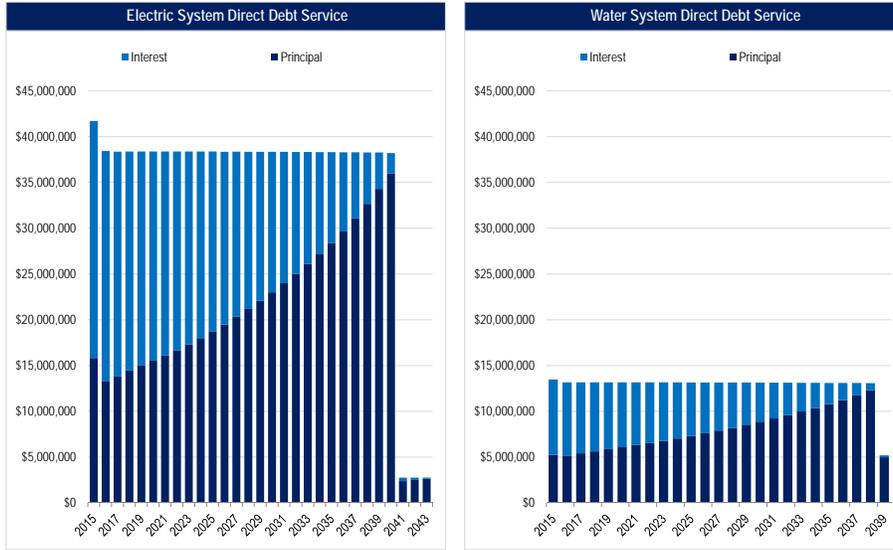
188



DEBT PORTFOLIO SUMMARY

ELECTRIC AND WATER SYSTEM DIRECT DEBT SERVICE SCHEDULES—BY AMORTIZATION

- The repayment rate for RPU's debt is almost identical to a typical 30-year fixed rate home mortgage



Synthetically fixed debt shown at swap rates. Liquidity and Remarketing fees not included. Unhedged variable-rate debt shown at 3.50%. BABs debt service shown net of subsidy and includes impact of 6.80% sequestration. Bond Year basis.

DEBT PORTFOLIO SUMMARY

SUMMARY OF ELECTRIC AND WATER SYSTEM DEBT OUTSTANDING

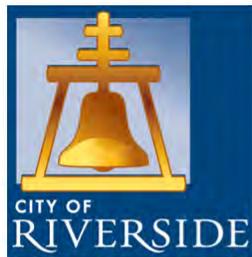
Debt Summary											
Issue	Par Outstanding	Tax Status	Structure	Credit Facility	Remarketing	Purpose	Maturity Range	Coupon Range	Call Option	Swap	Swap Rate
<b>Electric System</b>											
2013A	\$71,320,000	Tax-Exempt	Fixed	N/A	N/A	Multipurpose	2015-2043	4.000%-5.250%	10/01/2023	N/A	N/A
2011A	\$41,925,000	Tax-Exempt	Variable	Direct Purchase Wells Fargo 35 bps	N/A	Refunding	2018-2035	Variable	Currently at Par	100%	3.201%
2010B	\$7,090,000	Tax-Exempt Bank Qualified	Fixed	N/A	N/A	New Money	2016-2019	3.000%-5.000%	Non-Callable	N/A	N/A
2010A	\$133,290,000	Taxable Build America Bonds	Fixed	N/A	N/A	New Money	2020-2040	6.015%-7.605%	Currently with Make-Whole at Treasury + 50 bps or Treasury + 100 bps in Extraordinary Events	N/A	N/A
2009A	\$6,780,000	Tax-Exempt	Fixed	N/A	N/A	Refunding	2015-2018	4.000%-5.000%	Non-Callable	N/A	N/A
2008D	\$209,740,000	Tax-Exempt	Fixed	N/A	N/A	New Money	2017-2038	3.625%-5.000%	10/01/2018	N/A	N/A
2008C	\$41,975,000	Tax-Exempt	Variable	LOC Bank of America 39 bps	Bank of America 7 bps	Refunding	2018-2035	Variable	Currently at Par	100%	3.204%
2008A	\$70,540,000	Tax-Exempt	Variable	LOC Barclays 27.5 bps	Bank of America 7 bps	Refunding	2018-2029	Variable	Currently at Par	97%	3.111%
<b>Water System</b>											
2011A	\$55,650,000	Tax-Exempt	Variable	N/A	Negotiated	Refunding	2015-2035	Variable	Currently at Par	100%	3.200%
2009B	\$67,790,000	Taxable Build America Bonds	Fixed	N/A	N/A	New Money	2021-2039	5.297%-6.349%	Currently with Make-Whole at Treasury + 35 bps or Treasury + 100 bps in Extraordinary Events	N/A	N/A
2009A	\$17,065,000	Tax-Exempt	Fixed	N/A	N/A	Refunding	2015-2020	3.000%-5.000%	10/01/2019	N/A	N/A
2008B	\$58,235,000	Tax-Exempt	Fixed	N/A	N/A	New Money	2016-2038	3.000%-5.000%	10/01/2018	N/A	N/A

DEBT PORTFOLIO SUMMARY											
SUMMARY OF VARIABLE-RATE DEBT OUTSTANDING											
Variable-Rate Debt Summary											
Issue and Purpose	Par Outstanding	Tax Status	Structure	Credit Facility	Credit Facility Expiry	Remarketing	Ratings	Maturity Range	Coupon Range	Call Option	Amount Swapped and Swap Rate
Electric System											
2011A (Refunding Bonds)	\$41,925,000	Tax-Exempt	Variable Indexed to 70% of 1-Month LIBOR	Direct Purchase Wells Fargo	Continuing Covenant Agreement Expires 4/28/2017	N/A	N/A	2018-2035	Variable	Currently at Par	100% @ 3.201%
2008C (Refunding Bonds)	\$41,975,000	Tax-Exempt	Variable Subject to Remarketing	Direct Pay LOC Bank of America	3/24/2017	Bank of America 7 bps	S: A/A-1 F: AA+/F1 (AA- und.)	2018-2035	Variable Last Reset: 1 bps	Currently at Par	100% @ 3.204%
2008A (Refunding Bonds)	\$70,540,000	Tax-Exempt	Variable Subject to Remarketing	Direct Pay LOC Barclays	5/22/2017	Bank of America 7 bps	S: A/A-2 F: AA+/F1 (AA- und.)	2018-2029	Variable Last Reset: 1 bps	Currently at Par	97% @ 3.111%
Water System											
2011A (Refunding Bonds)	\$55,650,000	Tax-Exempt	Variable SIFMA Notes Subject to Remarketing	N/A	N/A	Negotiated	M: Aa2/MMIG1 S: A-1+ F: AA+/F1+	2016-2035	Variable Last Remarketing: SIFMA + 4 bps until 3/1/2016 then mandatory tender and remarketing	Next Par Call: 10/1/2015	100% @ 3.200%

193

DEBT PORTFOLIO SUMMARY							
SUMMARY OF OUTSTANDING SWAPS							
Summary of Swap Portfolio							
Associated Issue	RPU Pays	RPU Receives	Trade Date	Effective Date	Maturity Date	MTM Value (As of 08/18/2015)	Current Notional
Electric System							
2011A	3.2010%	62.68% of USD-LIBOR + 0.12%	07/10/2013	09/01/2013	10/01/2035	(\$8,212,077)	\$41,925,000
2008C	3.2040%	62.68% of USD-LIBOR + 0.12%	07/10/2013	09/01/2013	10/01/2035	(\$8,235,253)	\$41,975,000
2008A	3.1110%	62.68% of USD-LIBOR + 0.12%	07/10/2013	09/01/2013	10/01/2029	(\$9,565,572)	\$68,525,000
Water System							
2011A	3.2000%	62.68% of USD-LIBOR + 0.12%	09/15/2005	10/06/2005	10/01/2035	(\$9,463,675)	\$55,650,000
Summary of Swap Portfolio Counterparty Risk				Summary of Swap Portfolio Interest Rate Risk (As of 08/18/2015)			
Associated Issue	Counterparty	Counterparty Ratings	Product	Replacement Rate	DV01	Weighted Avg. Life	PV01
Electric System							
2011A	JPMorgan Chase Bank, N.A.	Aa3/A+/AA-	Swap	1.59180%	\$37,558	14.52	\$51,032
2008C	JPMorgan Chase Bank, N.A.	Aa3/A+/AA-	Swap	1.59171%	\$37,577	14.53	\$51,078
2008A	Merrill Lynch Capital Services, Inc.	Baa1/A-/A	Swap	1.42785%	\$39,547	9.09	\$56,831
Water System							
2011A	JPMorgan Chase Bank, N.A.	Aa3/A+/AA-	Swap	1.53823%	\$41,198	11.90	\$56,949

194



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ABOUT PFM

DEBT PORTFOLIO SUMMARY

ORIGINS OF VARIABLE-RATE DEBT

VARIABLE-RATE DEBT PERFORMANCE

CASH RESERVE CONSIDERATIONS

CONCLUSION

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195

ORIGINS OF VARIABLE-RATE DEBT

HISTORY OF VARIABLE-RATE DEBT

- All of RPU's outstanding variable-rate debt originated between June 2004 and October 2005
  - The interest rate exposure of each of the four variable-rate series was hedged with an interest rate swap executed in mid-September 2005

System	History of Variable-Rate Issuances			
	Electric		Water	
	Series 2004B (Refinanced) Auction Rate Securities \$82,500,000 New Money for RERC Swapped to Fixed -1 Year After Issuance	Series 2005A (Refinanced) Auction Rate Securities \$57,850,000 New Money for RERC and Advance Refunding of Series 1998 and 2001 Swapped to Fixed at Issuance	Series 2005B (Refinanced) Auction Rate Securities \$57,875,000 New Money for RERC and Advance Refunding of Series 1998 and 2001 Swapped to Fixed at Issuance	Series 2005 (Refinanced) Auction Rate Securities \$61,250,000 New Money for Water System and Advance Refunding of Series 1998 and 2001 Swapped to Fixed at Issuance
History	Series 2008A Variable-Rate Demand Obligations \$84,515,000	Series 2008B (Refinanced) Variable-Rate Demand Obligations \$57,275,000	Series 2008C Variable-Rate Demand Obligations \$57,325,000	Series 2008A (Refinanced) Variable-Rate Demand Obligations \$60,300,000
Current Status	\$70,540,000 Outstanding Original LOC from Bank of America renewed at lower cost in 2011 and replaced with LOC from Barclays in 2014	\$41,925,000 Outstanding Original Direct Purchase from Wells Fargo renewed at lower cost in 2014	\$41,975,000 Outstanding Original LOC from Bank of America renewed at lower cost in 2011 and renewed again at lower cost in 2014	\$55,650,000 Outstanding Remarketed in 2012, 2013, 2014 and 2015

196

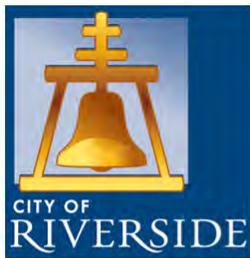
ORIGINS OF VARIABLE-RATE DEBT

THE INTEREST RATE SWAPS

- All four of RPU's interest rate swaps were executed in mid-September 2005
  - At the time, the 2004B bonds were unhedged and the 2005 bonds were about to be issued
  - The swaps effectively locked in fixed rates, similar to traditional fixed-rate bonds
  - Because of efficiencies associated with swap rates vs. traditional fixed bond rates, even when including reasonable estimates for the ongoing costs of maintaining the variable-rate bond programs, the "synthetic fixed-rate" structure created by the combination of variable-rate bonds and a swap, had a substantially lower cost

Hypothetical Fixed-Rate Borrowing Rates				
Issue	Hypothetical Traditional Fixed-Rate Bonds	Swap Rate	Added Annualized Costs Associated with Swap and Variable-Rate Debt	Savings from Swap vs. Traditional Fixed-Rate Bonds
Water System				
2005	4.58%	3.20%	0.50%	0.88%
Electric System				
2004A	4.48%	3.11%	0.50%	0.86%
2005A	4.58%	3.20%	0.50%	0.88%
2005B	4.58%	3.20%	0.50%	0.88%

- *The 0.85% to 0.90% advantage of the swap structure vs. traditional fixed-rate bond structure was expected to create over \$2 million in savings annually initially*
- *The interest rate swaps have functioned exactly as anticipated, without any issues.* The variable-rate debt, particularly the initial Auction Rate Securities, presented challenges but the "synthetic fixed-rate" structure has nonetheless produced millions in interest cost savings for RPU when compared to the traditional fixed-rate bond alternative available at the time



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DEBT PORTFOLIO SUMMARY

ORIGINS OF VARIABLE-RATE DEBT

VARIABLE-RATE DEBT PERFORMANCE

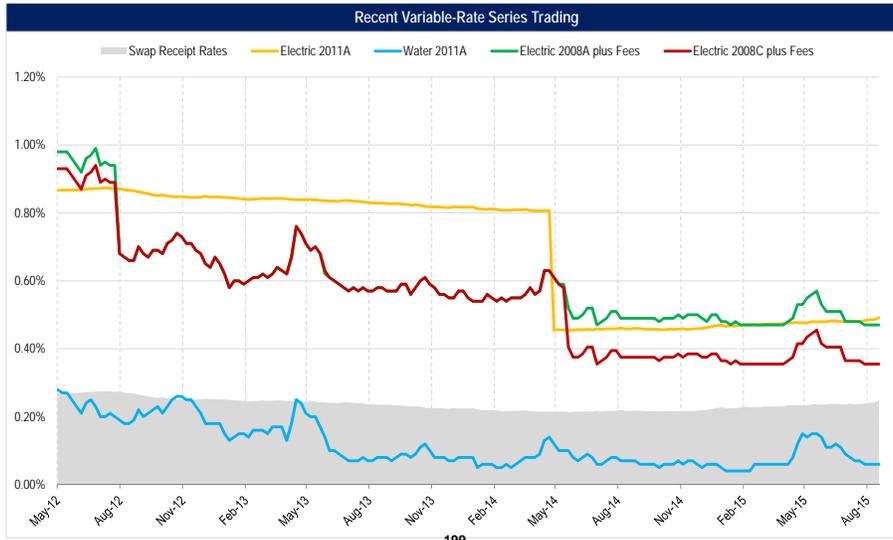
CASH RESERVE CONSIDERATIONS

CONCLUSION

VARIABLE-RATE DEBT PERFORMANCE

VARIABLE-RATE DEBT PORTFOLIO TRADING LEVELS

- The four series of variable-rate debt have been trading well and the renegotiated extensions/replacements of liquidity fees and direct purchase pricing have substantially reduced costs



VARIABLE-RATE DEBT PERFORMANCE

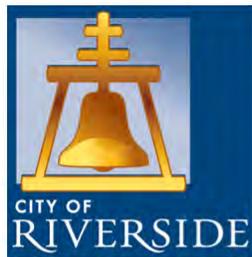
COMPARISON OF SIFMA NOTES VS. VRDBS AND DIRECT PURCHASES

- While the SIFMA Note program requires annual maintenance and outlay of expenses, they have proved very cost-effective

Cost of Variable-Rate Products over Past Three Years			
	SIFMA Note	VRDB	Direct Purchase
Index	SIFMA	SIFMA	70% of 1mL
Average Benchmark	0.08%	0.08%	0.13%
Average Trading Spread	0.03%	-0.01%	-
Time Weighted Average Direct Purchase Spread to Index	-	-	0.55%
Time Weighted Average LOC Fee	-	0.38%	-
Remarketing Fee	-	0.07%	-
Total Annual Non-Issuance Costs (%)	0.11%	0.52%	0.68%
Total Annual Non-Issuance Costs (\$) <sup>(1)</sup>	\$62,178	\$293,930	\$384,370
Annualized Issuance Cost <sup>(2)</sup>	\$150,000	\$20,000 - \$50,000	\$20,000
Total Annual Costs	\$212,178	\$313,930 - \$343,930	\$404,370
Annual Savings	-	(\$101,752) - (\$131,752)	(\$192,192)

<sup>(1)</sup> Par Amount of \$50,525,000 for Water System. Issue of 2011A assumed

<sup>(2)</sup> LOC and Direct Purchase renewal fee of \$60,000 every three years assumed. LOC replacement fee of \$150,000 every three years assumed



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ABOUT PFM

DEBT PORTFOLIO SUMMARY

ORIGINS OF VARIABLE-RATE DEBT

VARIABLE-RATE DEBT PERFORMANCE

CASH RESERVE CONSIDERATIONS

CONCLUSION

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201

CASH RESERVE CONSIDERATIONS

RATING AGENCY CASH RESERVE CONSIDERATIONS

- Rating Agencies consider large reserve levels to be a strong credit positive

Rating Agency Views on Cash Reserves

Moody's						
Rating Category	AAA	AA	A	BBB	BB	B
Reserve Levels (All Utilities)	>250 Days' Cash	150-250 Days' Cash	35-150 Days' Cash	15-35 Days' Cash	7-15 Days' Cash	<7 Days' Cash
Fitch						
Rating Category	Stronger		Midrange		Weaker	
Reserve Levels (Water Utilities)	>365 Days' Cash		~180 Days' Cash		<90 Days' Cash	
Reserve Levels (Retail Electric Utilities)	>120 Days' Cash		60-90 Days' Cash		<60 Days' Cash	
Standard & Poor's <sup>(1)</sup>						
Rating Category	AAA	AA	A	BBB	BB	B
Reserve Levels (Water Utilities)	>150 Days' Cash	90-150 Days' Cash	60-90 Days' Cash	30-60 Days' Cash	15-30 Days' Cash	<15 Days' Cash

<sup>(1)</sup> Reserve levels shown here are from S&P's proposed rating criteria dated 12/10/2014.

- For a water utility, reserves equal to ~365 days (1 year) of operating expenses are a common minimum for AAA or high AA rated enterprises
- For power utilities, reserves equal to ~180 days (1/2 year) of operating expenses are a common minimum for AA category enterprises (there are no AAA or high AA rated retail power utilities in California)

202

## CASH RESERVE CONSIDERATIONS

### CASH RESERVE MEDIANS AND PEER UTILITIES

- RPU's reserve levels are in line with sector medians and peer utilities

Rating Category Day's Cash Medians <sup>(1)</sup>			
Rating Category	AAA	AA	A
Water and Sewer Utility Reserve Medians	481	442	366
Electric Retail Utility Reserve Medians <sup>(2)</sup>	-	182	92

<sup>(1)</sup> Source: Fitch

<sup>(2)</sup> Fitch does not have any AAA rated Electric Retail Utilities

Peer Utility Days' Cash Levels (FY2014)						
Water Utilities						
	Riverside Public Utilities	Irvine Ranch Water District	Inland Empire Utilities Agency	Anaheim Public Utilities	Eastern MWD	Calleguas MWD
Rating (M/S/F)	Aa2/AAA/AA+	Aa1/-AAA	Aa2/AA-/	-/AAA/AAA	Aa3/AA-/AA	Aa2/AAA/-
Days' Cash	816 <sup>(1)</sup>	934 <sup>(3)</sup>	439 <sup>(2)</sup>	163 <sup>(1)</sup>	628 <sup>(1)</sup>	630 <sup>(2)</sup>
Electric Utilities						
	Riverside Public Utilities	Pasadena Water & Power	LADWP	Anaheim Public Utilities	Sacramento Municipal Utility District	San Francisco Public Utilities Commission
Rating (M/S/F)	-/AA-/AA-	-/AA-/AA	Aa3/AA-/AA-	-/AA-/AA-	Aa3/AA-/AA-	-/A+/AA-
Days' Cash <sup>(3)</sup>	310	402	203	136	207	560

<sup>(1)</sup> Source: Each Utility's respective CAFR

<sup>(2)</sup> Source: S&P

<sup>(3)</sup> Source: Fitch

203

## CASH RESERVE CONSIDERATIONS

### USE OF RESERVES

- Water and power utilities have many uses for cash reserves for the ratepayers long-term benefit
- **Maintaining prudent reserves has the following advantages:**
  - Protecting the system and customer base from unanticipated events
  - Minimizing the likelihood of being required to access more expensive sources of funding
  - Supporting high credit ratings that allow for access to low cost capital funding
    - o Cash reserves have allowed RPU to avoid borrowing to fund Debt Service Reserve Funds which would have increased RPU's debt burden
  - Covering unanticipated operating/maintenance costs or timing issues that cannot be met with debt financing
- **Cash reserves can be used for system investments, which can be very effective:**
  - System investments may have a short useful life (e.g., technology or rolling stock) and are not appropriately financed with long-term debt
  - System investments may have a "private use" and cannot be funded with low-cost tax-exempt debt
  - Sometimes market conditions are such that cash funding is more advantageous than debt funding
- **Cash reserves can occasionally be effectively used for paying off debt**
  - If a utility is not planning to issue debt in the foreseeable future, paying off debt may generate a desirable rate of return. If the utility has future capital needs that require the use of debt along with pay as you go funding, utilizing reserves to fund capital typically generates a better return than defeasing debt
  - Occasionally paying off near-term debt can result in more optimal credit metrics for rating agencies
- **Reserves can also be effectively deployed for other purposes:**
  - Funding retirement benefit accounts
  - Prepaying other financial obligations (Power Purchase Agreements, fuel, etc.)
  - Purchasing strategic assets/property (real estate)

204

CASH RESERVE CONSIDERATIONS

ECONOMICS OF USING CASH TO DEFEASE EXISTING DEBT

- *Cash defeasance of RPU's debt is not a particularly attractive use of RPU's cash reserves—at the moment, no issue of debt allows for a return of over 4% on RPU's cash*
  - If future borrowing is going to be necessary, using cash to reduce future borrowing would likely be more effective

Debt Defeasance Summary

Issue	Par Outstanding	Structure	Term	Call Date	Escrow Cost (+ Any Swap Termination)	Rate of Return
<b>Electric System</b>						
2013A	\$71,320,000	Fixed	28 years	10/01/2023	\$67,929,205	3.23%
2011A	\$41,925,000	Variable	20 years	Currently at Par	\$56,131,416	0.98%
2010B	\$7,090,000	Fixed	4 years	Non-Callable	\$7,760,714	1.07%
2010A	\$133,290,000	Fixed	25 years	Make-Whole Call	\$220,503,594	1.30%
2009A	\$6,780,000	Fixed	3 years	Non-Callable	\$3,907,159	0.83%
2008D	\$209,740,000	Fixed	23 years	10/01/2018	\$233,349,128	3.97%
2008C	\$41,975,000	Variable	20 years	Currently at Par	\$55,666,698	0.98%
2008A	\$70,540,000	Variable	14 years	Currently at Par	\$86,682,624	0.63%
<b>Water System</b>						
2011A	\$55,650,000	Variable	20 years	Currently at Par	\$68,337,900	0.80%
2009B	\$67,790,000	Fixed	24 years	Make-Whole Call	\$97,934,243	1.03%
2009A	\$17,065,000	Fixed	5 years	10/01/2019	\$13,890,506	1.30%
2008B	\$58,235,000	Fixed	23 years	10/01/2018	\$64,657,714	3.96%

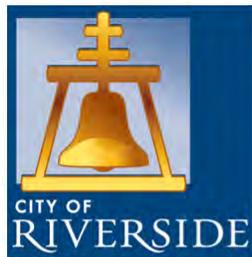
205

CASH RESERVE CONSIDERATIONS

USING CASH TO OFFSET NEW BORROWINGS

- In today's market (late-August 2015), RPU could borrow money for the water system on a 30-year basis at about 4.00% and for the electric system on a 30-year basis at about 4.10%
- When compared to the 0.63% - 3.97% rates of return for paying off existing debt with cash, it is easier and more economic to use cash to avoid issuing new debt (to generate the 4.00% - 4.10% return)
  - The existing debt can be refinanced opportunistically for savings (further upside associated with not paying off existing debt with cash)
  - Moreover, use of cash to avoid future debt in-lieu of repayment of existing debt optimally allows for the avoidance of issuance fees
- *Every \$25 million of new debt issued by RPU would cost RPU ratepayers about \$1.5M per year for 30-years*
  - *In order maintain a Debt Service Coverage ratio of 2x (which is approximately RPU's Debt Service Coverage Ratio to maintain ratings), RPU would need to increase revenues by about \$3 million per year*
  - *Generating \$3 million in revenue would amount to ~1.1% rate increase for electric and ~5.4% for water*

206



*Arts & Innovation*



ABOUT PFM

DEBT PORTFOLIO SUMMARY

ORIGINS OF VARIABLE-RATE DEBT

VARIABLE-RATE DEBT PERFORMANCE

CASH RESERVE CONSIDERATIONS

CONCLUSION

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207

## CONCLUSION

### CONCLUDING THOUGHTS

- RPU has two very highly rated enterprises that if anything should be rated higher than they currently are
  - **Power:** Only one California public power enterprise has a rating higher than RPU (Pasadena rated AA by Fitch), otherwise, RPU (together with peers that share the same ratings) is the highest rated public power system in California
    - RPU has been building the case for the utility to be the highest rated public power system in California and RPU has had some traction with the agencies, however rating upgrades are always slow and there is a definite ceiling
  - **Water:** RPU has a AAA from S&P and two other very high ratings
    - RPU has been building a case for the utility to be rated AAA by all of the agencies and RPU has had some traction with Fitch, however rating upgrades are always slow and the water enterprise has an esteemed rating peer group (e.g. U.S. Treasury ratings)
- RPU's reserves are an important factor for the credit analysis and support RPU's efforts for higher ratings and low cost of borrowing
- Reserves have significant advantages for ratepayers: 1) minimize cost of capital, 2) protect against operational risks and disruptions and rate shocks, 3) allow the utility to capture strategic and economic opportunities
- RPU's debt burden is conservative (matches asset useful life, repaid in equal installments, all fixed or hedged against interest rate risk), the variable-rate portfolio was prudently structured and has been well maintained to minimize cost and risk to ratepayers
- If RPU were to spend down reserves, the best economic use would be for a strategic purposes first, for an offset to future borrowing second, and for redemption of existing debt third

208

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# Reserves

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# Goals of Financial Policies

- To mitigate risk
  - Rate / Revenue instability
  - Emergency with asset failure
  - Volatility in working capital
- To achieve/maintain a certain credit rating
- To determine most opportune time to issue debt

## Importance of Financial Policies

- To maintain financial solvency
  - Provide a basis for coping with fiscal emergencies (revenue short-falls, asset failure, emergency, etc.)
- To provide guidelines for sound financial management with an overall long-range perspective
- To enhance financial management transparency
  - Improve public's confidence and elected officials' credibility

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211

## Why Do We Need Reserves?

- Nature of municipal utility system
  - Capital intensive
  - Highly fluctuating capital costs
  - Risk and liability → unknown liability costs
- Healthy reserve level → better credit ratings  
→ lower interest rates for future debt

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212

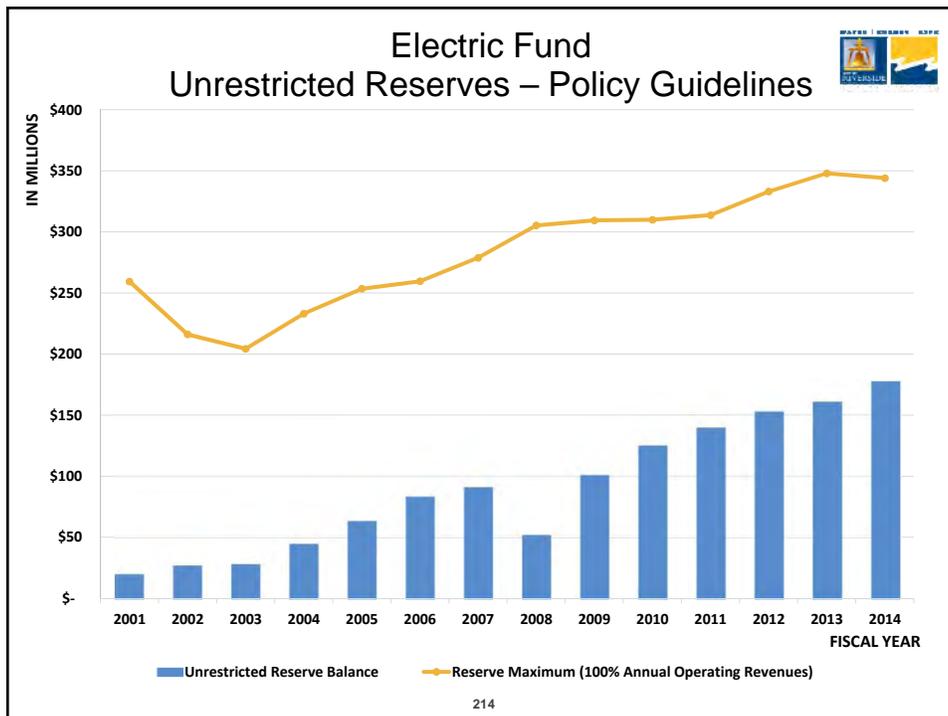
# Current RPU Reserve Policy

- Approved by City Council in June 2001
  - Minimum Reserves – At least 3 months operating expenses
  - Maximum Reserves – One year of operating revenues
  - Reserve levels reviewed annually.
- In 2003 – City Council approved establishing Electric Fund internally restricted reserves: Operating, Regulatory Risk, Energy Risk Management
- In 2005 – Board of Public Utilities discussed reserving proceeds from sale of property to future purchases of property or other long-term capital assets.

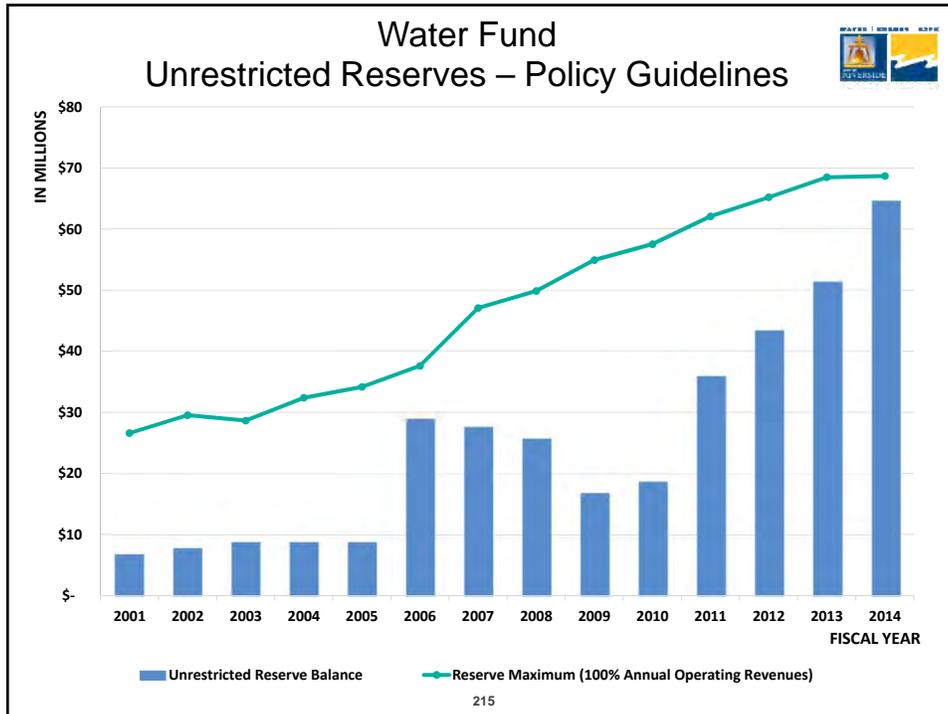


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213



214



## Reserve Policy – Best Practices

- Mitigate Risk – Risk Assessment
  - Predictable, unpredictable and unknown
- Risk mitigation is very entity specific
- Identify specific reserve types/needs
 

– Working capital	– Rate stabilization
– Capital improvements	– Asset / liability balances
– N-1 contingency	– Market risk
– Emergency	– Regulatory risk
- Determine and set minimum reserve level

## Evaluation Process for New Reserve Policy – Minimum Reserves

Risk Mitigation Evaluation	Type of Reserves
Time lag between when operating expenses are incurred and revenues are received	Operating and Maintenance Reserve
Power resource cost uncertainty: Variation from load forecast; Uncertainties in transmission costs and resource adequacy; Fluctuation in market prices	Power Supply Reserve
Unexpected significant decreases in sales or increases in operating costs (drought restriction, new regulatory mandates, etc.)	Rate Stabilization
Aging capital assets and infrastructure (Springs, RERC, Clearwater, technology, utility vehicles, substations, etc.)	Capital Replacement and Refurbishment
Emergency capital needs and catastrophic events	Capital and Emergency Reserve
Carbon emissions, Water quality standards, Renewable standards, other regulatory mandates	Regulatory Reserve

217

## Financial Planning & Reporting

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218

## Current Financial Planning Process

- Five-Year Financial Plan
- Based on Current Rate Plan
- Key Components
  - Projected Revenues
  - Projected Revenue Requirements (Expenses)
  - 5-Year Capital Improvement Program
- Evaluates
  - Potential Rate Increases
  - Potential Debt Issuance
  - Projected Financial Ratios
- Not structured to easily evaluate impacts of infrastructure and supply options

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219

## New 10 Year Pro-forma

### Key Financial Targets

- Debt Service Coverage (Debt)
- Days Cash on Hand (Reserves)

### Key Components

- Projected Revenues
- Revenue Requirement (Expenses)
- Capital Improvement Program

### Source of Funding

- Rates
  - Bonds
  - Reserves
- Others

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220

## How we use the Pro-Forma

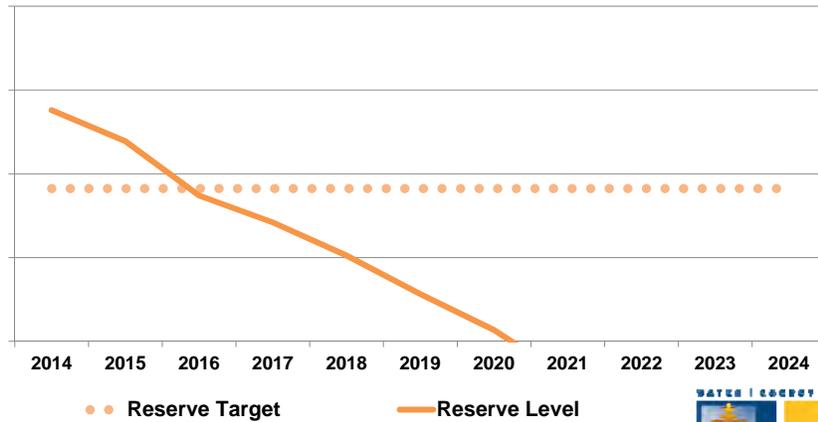
- Provide Infrastructure and Supply Options for Planning and Decision Making
- Evaluate Impact of Options
  - Potential Rate Increase
  - Potential Debt Issuance
  - Projected Use of Reserves
  - Projected Financial Ratios (Days Cash / Debt Service Coverage)
- Incorporate Directions from City Council and Board



## Putting it all together



## Example: What happens to Reserves without a Rate Increase?

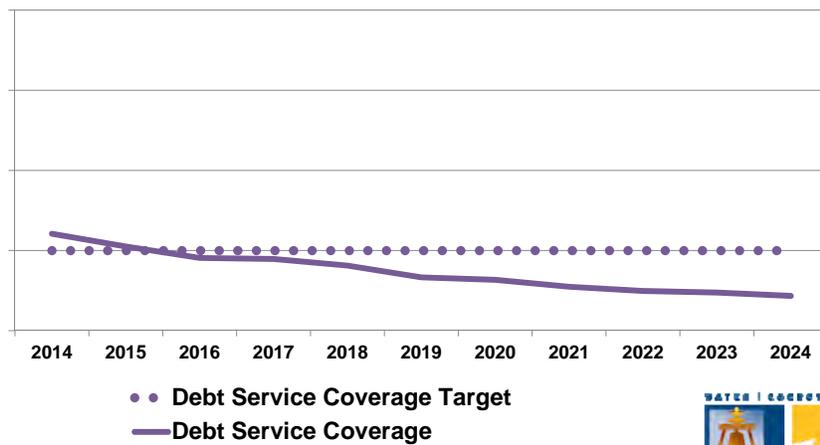


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223



## Example: What happens to Debt Service Coverage without Rate Increase?

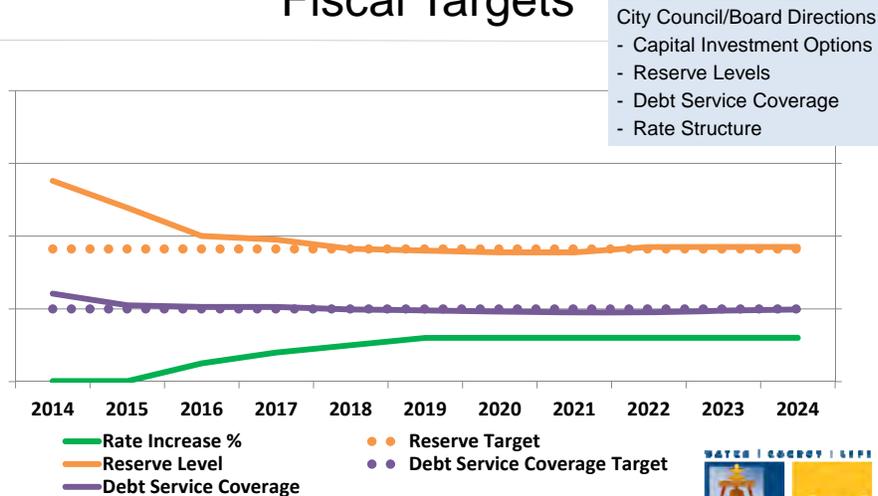


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224



## Example: Rate Plans should comply with Fiscal Targets



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225



## Financial Reporting to Board

- Monitor costs of operations compared to budget
- Monitor capital improvement budget and related projects
- Report monthly financial position of RPU to the Board
- Monthly financial reports – very high level
  - Retail sales, operating expenses and cash balances
- Quarterly financial reports – expanded to include
  - Executive summary
  - Financial statements
  - Various ratio comparisons

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226



# Two-Page Executive Summary

## MARCH FINANCIAL REPORT EXECUTIVE SUMMARY

### BACKGROUND

These financial statements provide the Public Utilities Board with information about the operating performance and financial condition of Riverside Public Utilities. The Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows are presented in the Annual Report format. The Income Statement Analysis schedule which displays the relationship between revenues, expenses and the budget is also included. Each quarter, this analysis compares current year activity to the budget and the prior year. Attached is a PowerPoint graphic presentation of the financial results for the nine months ended March 31, 2015.

### Electric Utility: Comparison to prior year

Retail sales were \$230.7 million and were \$6.9 million (3.1%) higher than prior year primarily from a 2.5% increase in load as a result of warmer weather patterns in the fall compared to prior year. (Graphs A-2 and A-5)

Transmission revenue of \$23.0 million was \$2.0 million (7.9%) lower than prior year due to a lower revised access charge rate applied by the California Independent System Operator (CAISO). (Page 3)

Power supply costs of \$146.4 million were \$1.4 million (0.9%) lower than prior year primarily due to lower generation costs as a result of a decline in natural gas prices. (Graph A-3)

Distribution operating expenses of \$33.1 million were (2.0%) lower than prior year due to a decrease in general operating expenses. (Graph A-4)

Total cash balances of \$421.0 million decreased by \$6.5 million primarily due to the use of bond proceeds for capital projects offset by positive operating results. (Graph A-6)

Utility plant assets increased by \$15.8 million primarily due to construction in progress and the completion of significant capital projects such as substation upgrades, transmission system improvements, and technology upgrades. (Page 4)

Unamortized purchased power increased by \$3.4 million due to the prepayments of power supply costs related to the Sanon-Tan power purchase agreement and Hoover Lirating Project. (Page 4)

Deferred charges in derivative values and derivative instruments liability increased by \$2.7 million and \$3.1 million, respectively, due to an increase in the negative fair value of the Electric Utility's derivative instruments. (Pages 4 and 5)

Total net position increased by \$23.6 million due to positive operating results from fiscal year ended June 30, 2014 and higher than-anticipated operating revenues in the current fiscal year due to warmer weather patterns. (Page 5)

Long-term obligations, including the current portion, decreased by \$16.5 million primarily due to principal payments made and amortization of bond premiums. (Page 5)

Accounts payable and other accruals decreased by \$3.6 million due to a reduction in payables related to power supply costs. (Page 5)

### Electric Utility: Comparison to budget

Retail sales were consistent with budget. (Graphs A-2 and A-5)

Power supply costs were \$15.8 million (9.9%) lower than budget primarily due to lower than anticipated transmission costs, lower generation costs as a result of a decline in natural gas prices, and a decrease in SOGAS ongoing maintenance costs. (Graph A-3)

Distribution operating expenses were \$3.5 million (10.9%) below anticipated levels primarily due to timing of certain expenditures and savings in personnel costs, professional services, and other general operating expenses. (Graph A-4)

With 75% of the year completed, the Electric Utility spent 66% of its authorized operating budget. (Page 3)

1

### Water Utility: Overall Financial Condition

Comparative financial ratios are shown in Graphs A-8 through A-11. Overall, the Electric Utility financial metrics are stable and liquidity levels are strong.

### Water Utility: Comparison to 2014 year

Retail sales of \$44.0 million were \$3.3 million (7.0%) lower than prior year due to an 8.1% decrease in consumption as a result of water conservation measures enacted due to current drought conditions. (Graphs A-13 and A-15)

Distribution operating expenses of \$26.7 million were \$0.4 million (1.5%) lower than prior year due to a decrease in general operating expenses as a result of reducing consolidation expenses where possible to offset the reduction in revenues. (Graph A-14)

Total cash balances of \$38.6 million decreased by \$12.1 million primarily due to the use of bond proceeds for capital projects, offset by an increase in operating revenue resulting from prior year's positive operating results. (Graph A-16)

Utility plant assets increased by \$23.6 million due to the completion and construction in progress of transmission and distribution system assets, as well as land acquisition. (Page 11)

Other receivables, including the current portion, decreased by \$3.3 million, reflecting the first of three payments received in June 2014 from the settlement agreement against the City. Under the settlement agreement, the City agreed to pay the Utility \$10 million over a three-year period beginning in fiscal year 2015-16. The offsetting deferred regulatory charges also decreased by \$3.3 million. The funds received, reduced by related legal costs, have been set aside in an internally restricted account reserved for recycled water projects. (Pages 11, 12 and 13)

Deferred charges in derivative values and derivative instruments liability increased by \$3.4 million and \$1.1 million, respectively, due to an increase in the negative fair value of the Water Utility's derivative instruments. (Pages 11 and 12)

Total net position increased by \$5.3 million due to the receipt of \$3.2 million in June 2014 from the City on the settlement agreement and financing positive operating results by reducing consolidation expenses in response to the reduction in operating revenues as a result of conservation measures taken by customers. (Page 12)

Long-term obligations, including the current portion, decreased by \$5.5 million due to principal payments made on outstanding debt. (Page 12)

Notes payable of \$9.3 million is a result of the purchase of land with a subsequent lease back to Hillwood Enterprises for their development of the site. The note payable will be paid in the form of rent under the lease for the next 10 years under the terms of the lease agreement. (Page 12)

Accounts payable and other accruals decreased by \$3.6 million due to a reduction in payables related to power supply costs. (Page 5)

With 75% of the year completed, the Water Utility spent 50% of its authorized operating budget. (Page 10)

### Water Utility: Comparison to budget

Retail sales were \$3.3 million (7.0%) lower than budget due to a slightly lower than-anticipated consumption as a result of conservation measures taken by customers. (Graphs A-13 and A-15)

Distribution operating expenses were \$0.2 million (0.7%) lower than anticipated levels due to savings in water pumping and production costs as a result of lower consumption levels and reduced consolidation expenses resulting in savings in personnel costs, professional services and other general operating expenses. (Graph A-14)

With 75% of the year completed, the Water Utility spent 50% of its authorized operating budget. (Page 10)

### Water Utility: Overall Financial Condition

Comparative financial ratios are shown in Graphs A-8 through A-11. The Water Utility financial metrics are stable and liquidity levels remain strong.

2

## Comparison Analysis

- Current to Budget
- Current to Prior
- Quarterly
- Year-to-Date

	QUARTERLY (9 MONTHS)				TOTAL BUDGET FY 2015	CURRENT YTD AS % OF TOTAL BUDGET	YEAR-TO-DATE (9 MONTHS)		
	CURRENT	BUDGET	PRIOR	TOTAL					
	Mar 2015	Mar 2014	Mar 2014	Mar 2015					
<b>OPERATING REVENUES:</b>									
RESIDENTIAL SALES	\$ 24,562	\$ 26,285	\$ 23,741	\$ 115,544	77%	\$ 88,422	\$ 80,554	\$ 85,509	
COMMERCIAL SALES	15,470	15,795	15,522	59,131	73%	52,941	52,079	50,887	
INDUSTRIAL SALES	29,354	25,450	29,267	110,965	79%	84,343	82,012	82,031	
OTHER SALES	1,267	1,224	1,151	5,591	74%	4,231	4,244	4,122	
WHALESIDE SALES	-	-	-	-	2%	46	-	114	
TRANSMISSION REVENUE	6,891	6,914	6,588	31,000	74%	23,006	23,710	24,271	
OTHER OPERATING REVENUE	1,020	1,871	1,889	7,347	75%	5,497	6,072	4,524	
PUBLIC BENEFIT PROGRAMS	1,022	1,051	1,053	5,109	17%	3,512	1,524	6,272	
<b>TOTAL OPERATING REVENUES, BEFORE UNCOLLECTIBLES</b>	<b>76,337</b>	<b>79,415</b>	<b>75,710</b>	<b>321,354</b>	<b>76%</b>	<b>266,426</b>	<b>267,811</b>	<b>265,180</b>	
<b>ESTIMATED UNCOLLECTIBLES</b>	<b>(152)</b>	<b>(298)</b>	<b>(245)</b>	<b>(1,192)</b>	<b>75%</b>	<b>(899)</b>	<b>(894)</b>	<b>(896)</b>	
<b>TOTAL OPERATING REVENUES, NET OF UNCOLLECTIBLES</b>	<b>76,185</b>	<b>79,117</b>	<b>75,465</b>	<b>320,162</b>	<b>76%</b>	<b>265,526</b>	<b>266,917</b>	<b>264,284</b>	
<b>OPERATING EXPENSES:</b>									
MANAGEMENT SERVICES	672	2,074	1,622	6,294	49%	3,712	4,201	4,987	
UTILITY RISK SUPPORT	791	709	477	2,836	51%	1,445	2,157	744	
DRILLING SERVICES	108	170	254	718	44%	314	537	761	
FIELD SERVICES	847	1,120	756	4,479	55%	2,444	3,389	2,364	
CUSTOMER SERVICES	908	1,090	992	4,313	67%	2,941	3,270	2,708	
MARKETING/COMMUNICATIONS	821	722	580	2,092	54%	1,066	1,160	2,824	
INNOVATION AND OPERATIONS	1,728	1,961	1,508	7,896	69%	5,328	5,892	4,919	
FIELD OPERATIONS	2,105	2,705	2,612	10,151	60%	5,070	11,564	9,465	
POWER DELIVERY ENGINEERING	1,085	1,061	870	4,242	69%	2,889	3,182	2,819	
CUSTOMER ENGINEERING	616	797	753	2,035	69%	1,641	2,118	1,949	
POWER RESOURCES	2,187	2,498	1,658	9,822	65%	6,475	7,367	5,693	
PURCHASED POWER:									
TRANSMISSION	13,020	14,495	12,071	57,821	69%	20,252	43,368	38,990	
GENERATION	29,245	30,540	31,961	156,360	69%	107,589	110,359	109,703	
PUBLIC BENEFIT PROGRAMS	1,422	2,671	1,734	11,424	28%	3,117	13,113	5,826	
DEPRECIATION	7,204	7,220	6,775	28,081	75%	21,068	21,061	20,333	
<b>TOTAL OPERATING EXPENSES</b>	<b>63,448</b>	<b>77,864</b>	<b>66,786</b>	<b>318,823</b>	<b>66%</b>	<b>229,296</b>	<b>240,709</b>	<b>212,281</b>	
<b>OPERATING INCOME</b>	<b>12,637</b>	<b>1,253</b>	<b>8,679</b>	<b>81,339</b>	<b>100%</b>	<b>36,230</b>	<b>26,212</b>	<b>47,003</b>	
<b>NON-OPERATING REVENUES (EXPENSES):</b>									
INVESTMENT INCOME	1,113	1,431	1,070	5,759	67%	3,238	4,797	4,133	
INTEREST EXPENSE	(6,733)	(7,096)	(6,887)	(26,376)	72%	(19,378)	(21,282)	(21,669)	
GENERAL FUND CONTRIBUTIONS	(5,545)	(5,545)	(6,076)	(24,179)	75%	(25,034)	(26,034)	(26,700)	
GAINS ON SALE OF ASSETS	1	1	1	1	100%	1	1	1	
OTHER	600	743	761	2,985	73%	2,203	2,346	2,003	
<b>TOTAL NON-OPERATING EXPENSES</b>	<b>(14,566)</b>	<b>(14,972)</b>	<b>(14,692)</b>	<b>(57,270)</b>	<b>73%</b>	<b>(49,473)</b>	<b>(49,958)</b>	<b>(49,265)</b>	
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	<b>(1,729)</b>	<b>(12,719)</b>	<b>(8,017)</b>	<b>(25,076)</b>	<b>-1%</b>	<b>13,297</b>	<b>(18,743)</b>	<b>3,024</b>	
<b>CAPITAL CONTRIBUTIONS</b>	<b>578</b>	<b>379</b>	<b>1,030</b>	<b>1,812</b>	<b>95%</b>	<b>1,499</b>	<b>1,179</b>	<b>2,262</b>	
<b>NET INCOME (LOSS)</b>	<b>\$ (1,151)</b>	<b>\$ (12,340)</b>	<b>\$ (6,987)</b>	<b>\$ (23,264)</b>	<b>-6%</b>	<b>\$ 14,798</b>	<b>\$ (17,564)</b>	<b>\$ 5,286</b>	

228

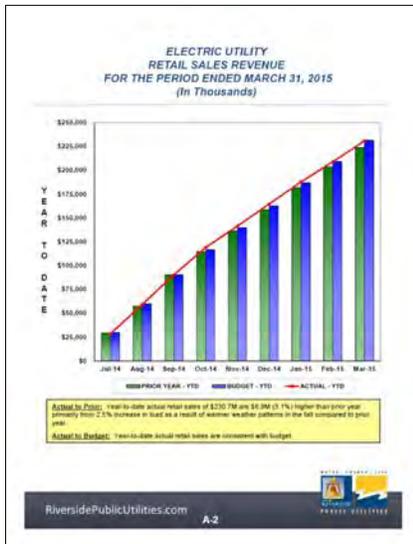
# Statements of Net Position (Balance Sheet)

City of Riverside Electric Utility		
STATEMENTS OF NET POSITION		
	March 31	
	2015	2014
	(In Thousands)	
<b>Assets and deferred outflows of resources</b>		
<b>Recoverable assets:</b>		
Utility plant	\$ 914,573	\$ 880,902
Rate noncurrent investments	320,026	338,026
Land	822,743	592,578
Intangibles	8,117	7,659
Construction in progress	43,851	43,881
Total utility plant	1,717,310	1,863,046
<b>Restricted assets:</b>		
Cash and investments of fiscal agent	140,536	187,624
Other non-current assets:		
Advances to other funds of the City	8,800	5,342
Net pension asset	11,482	11,354
Unamortized purchased power	4,441	1,571
Regulatory assets	17,224	18,148
Total other non-current assets	38,948	37,418
Total non-current assets	888,228	867,848
<b>Current assets:</b>		
Unrestricted assets:		
Cash and cash equivalents	208,014	208,251
Accounts receivable, less allowance for doubtful accounts	782	782
2015 ACP 2014 RTI OIP	33,446	35,079
Advances to other funds of the City	1,020	9,124
Accrued interest receivable	474	730
Inventory	1,262	1,262
Prepaid expenses	18,590	20,867
Unamortized purchased power	480	480
Total unrestricted current assets	263,572	284,544
Restricted assets:		
Cash and cash equivalents	28,358	23,384
Public Benefit Programs - cash and cash equivalents	11,774	8,458
Public Benefit Programs - land and cash equivalents	387	277
Total restricted current assets	39,519	32,119
Total current assets	303,091	316,663
Total assets	1,212,047	1,285,459
<b>Deferred outflows of resources:</b>		
Deferred charges in derivative value	23,913	18,228
Deferred loss on unbilled	12,181	13,852
Total deferred outflows of resources	36,094	32,080
Total assets and deferred outflows of resources	\$ 1,248,141	\$ 1,317,539

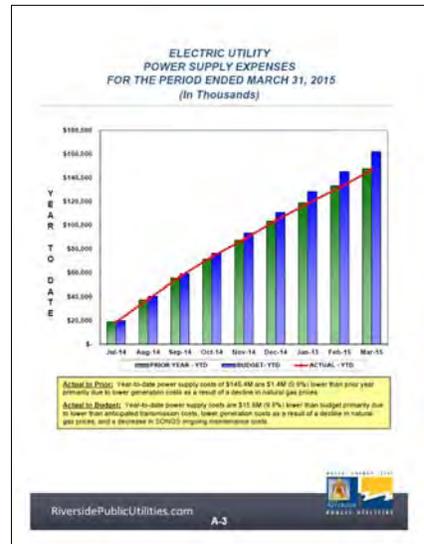
229

City of Riverside Electric Utility		
STATEMENTS OF NET POSITION		
	March 31	
	2015	2014
	(In Thousands)	
<b>Net position and liabilities</b>		
<b>Net position:</b>		
Net investment in capital assets	\$ 199,298	\$ 200,154
Restricted for:		
Regulatory requirements	8,217	2,388
Cash reserve	23,457	22,298
Public Benefit Programs	12,685	10,273
Unrestricted	289,911	264,577
Total net position	433,568	479,730
<b>Long-term obligations, less current portions:</b>		
<b>Other non-current liabilities:</b>		
Compensated absences	830	782
Capital lease payable	973	1,891
Derivative instruments	29,685	25,584
Nuclear decommissioning liability	17,623	14,569
Advances from other funds of the City (pension obligation)	62,718	11,284
Unemployment benefits payable	5,749	4,629
Total other non-current liabilities	128,578	119,739
<b>Current liabilities payable from restricted assets:</b>		
Account interest payable	12,120	12,410
Current portions of long-term obligations	15,628	14,300
Total current liabilities payable from restricted assets	27,748	26,710
<b>Current liabilities:</b>		
Accounts payable and other accounts	12,652	16,188
Customer deposits	4,448	4,124
Unearned revenue	488	—
Total current liabilities	17,588	20,312
Total liabilities	147,421	161,119
Total net position and liabilities	\$ 1,248,141	\$ 1,285,539

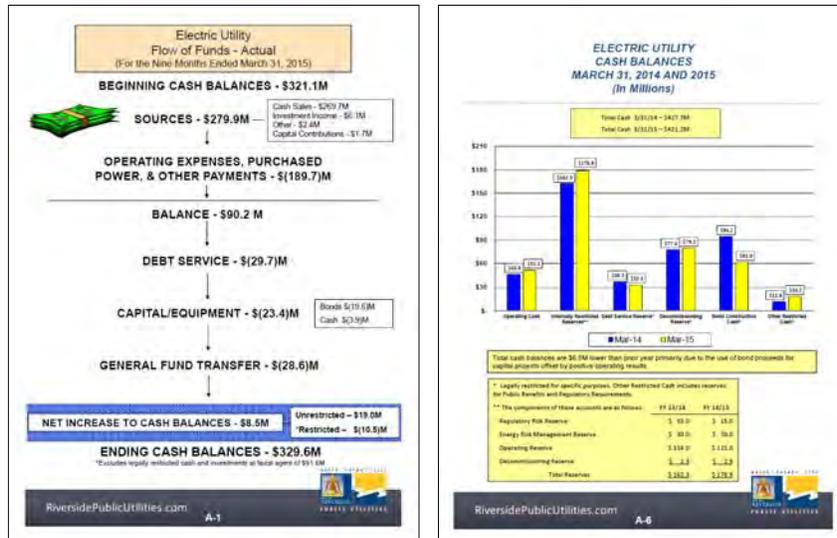
# Retail Sales and Operating Expenses Trend and Comparison with Budget and Prior Year



230



# Flow of Funds and Cash Balances



231

# Comprehensive Annual Financial Report (CAFR)

- Part of City's year-end close process
- Included with City's annual audit by external auditors
- Enterprise Funds reporting on City's CAFR



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232

## RPU Annual Financial Report

- Separate internally prepared financial statements
- Audited by independent auditors
- Required for annual continuing bond disclosures
- Available on RPU's website starting with FY 1987



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233

## Other Communications

- Board Customer Relations/Finance Committee
- Reports to City Finance Committee as needed
- Board Workshop on Budget
- Year-End Presentation to Board
- Review fiscal impact for all Board items
- Assist in financial analysis as requested by City Council / Board / Executive Management

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234



## RPU Finance Participates in Project Committees

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- SCPPA Finance Committee
- SCPPA Audit Committee
- Mead-Adelanto Audit Committee
- Mead-Phoenix Audit Committee
- SONGS Fiscal Committee
- IPP Finance Committee (includes STS & NTS)
- IPP Audit Committee (includes STS & NTS)

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235

## Financial Metrics Benchmarking

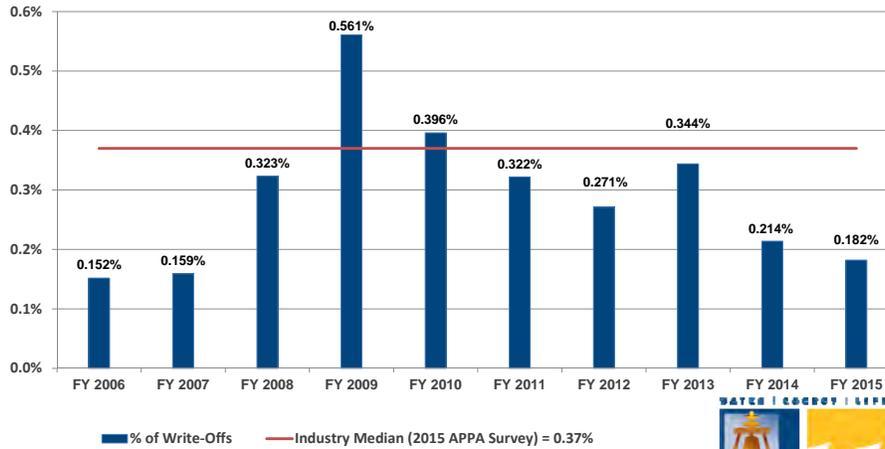
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236

## Electric - Uncollectible Write-Offs to Revenue



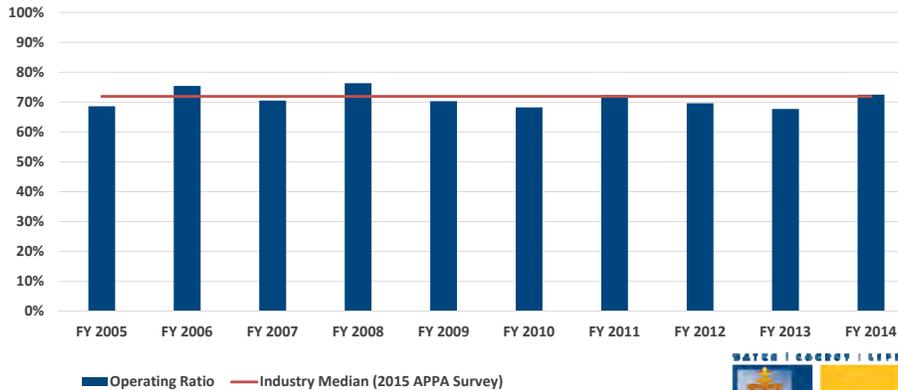
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237



## Electric Operating Ratio

*The Operating Ratio reflects the Utility's Operating and Maintenance costs to operating revenues. A low ratio indicates positive results. Industry Median = 71.9%*



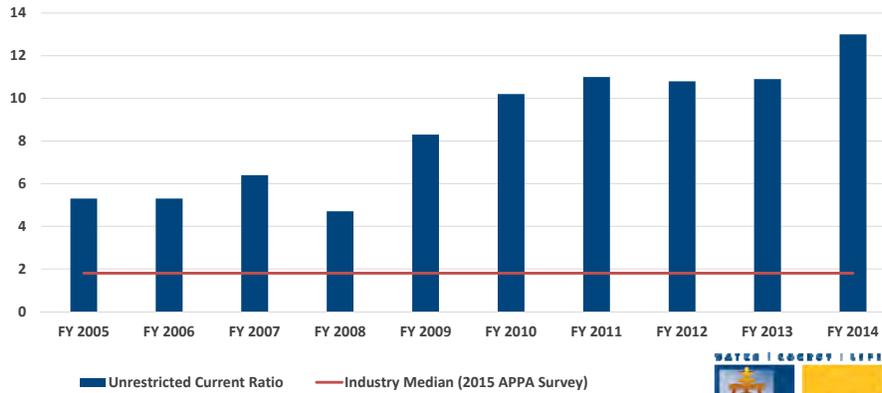
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238



# Electric Unrestricted Current Ratio

The Unrestricted Current Ratio indicates the Utility's ability to meet short term liabilities. A higher ratio indicates positive results. Industry Median = 1.8



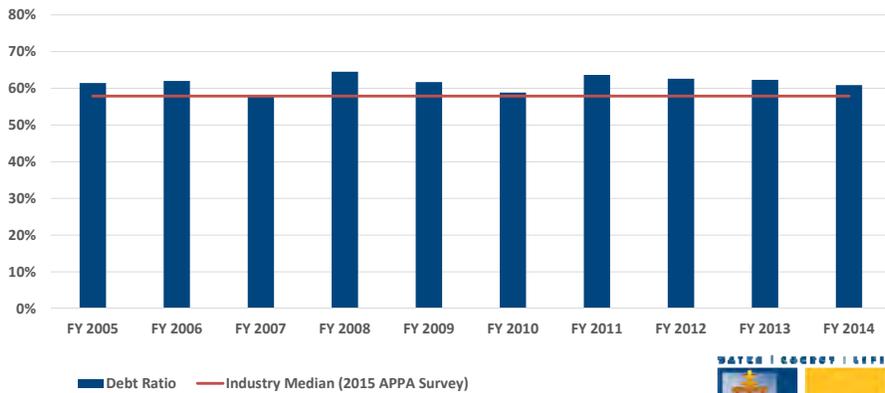
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239



# Electric Debt Ratio

The Debt Ratio indicates what proportion of debt the Utility has in relation to Utility assets. This ratio is favorable when it is lower. Industry Median = 57.9%



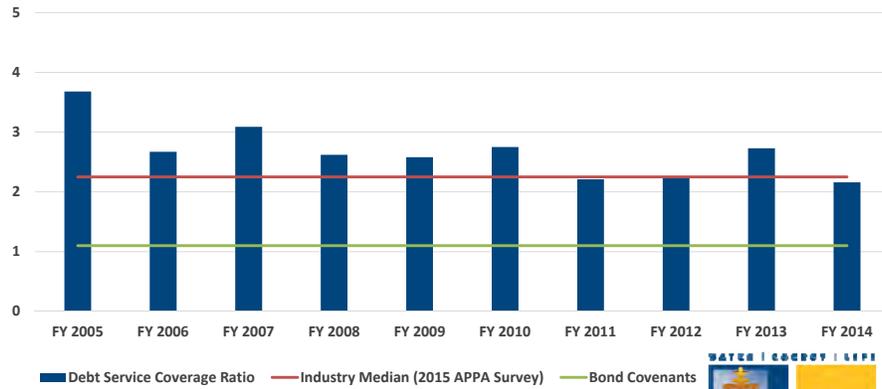
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240



# Electric Debt Service Coverage Ratio

The Debt Service Coverage Ratio is used as a benchmark to measure the Utility's ability to produce enough cash to cover debt service payments. A higher ratio is more favorable. Industry Median = 2.25

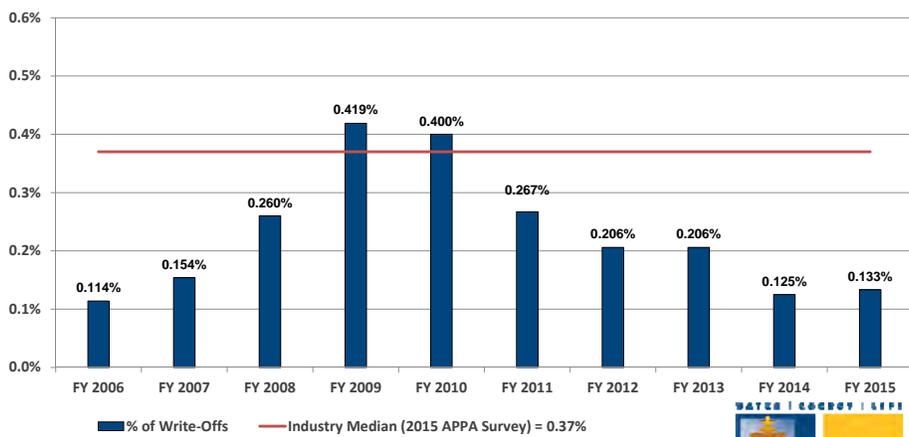


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241



# Water - Uncollectible Write-Offs to Revenue



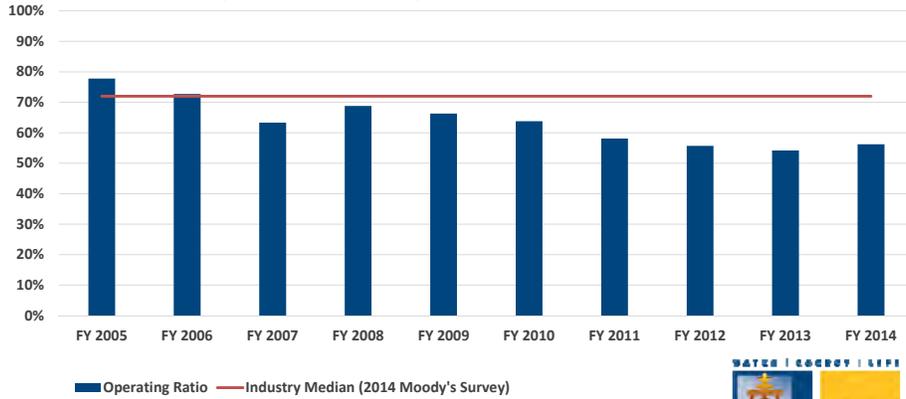
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242



# Water Operating Ratio

The Operating Ratio reflects the Utility's Operating and Maintenance costs to operating revenues. A low ratio indicates positive results. Industry Median = 72.0%



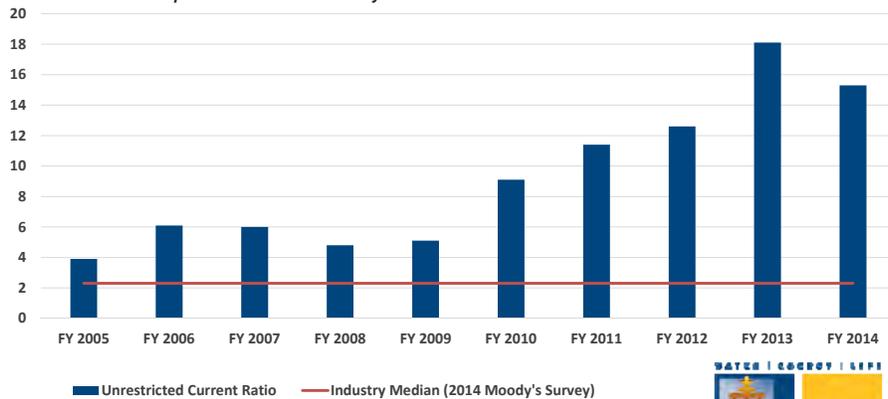
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243



# Water Unrestricted Current Ratio

The Unrestricted Current Ratio indicates the Utility's ability to meet short term liabilities. A higher ratio indicates positive results. Industry Median = 2.3



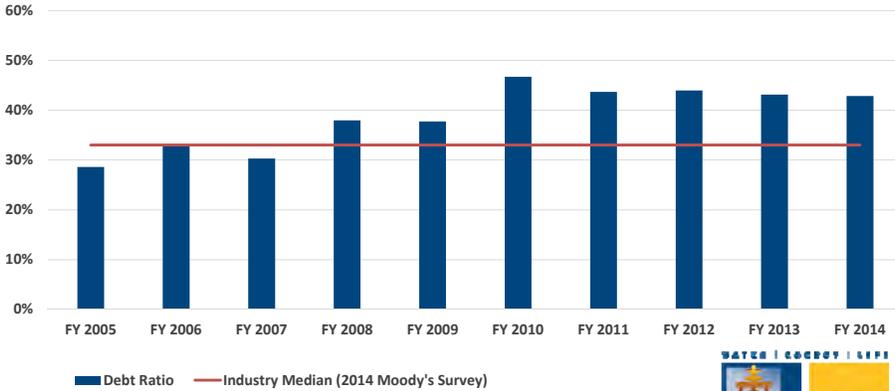
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244



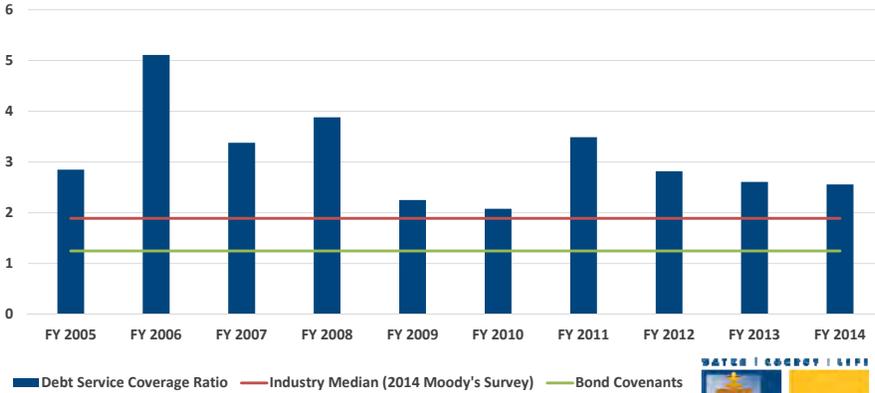
# Water Debt Ratio

The Debt Ratio indicates what proportion of debt the Utility has in relation to Utility assets. This ratio is favorable when it is lower. Industry Median = 33.0%



# Water Debt Service Coverage Ratio

The Debt Service Coverage Ratio is used as a benchmark to measure the Utility's ability to produce enough cash to cover debt service payments. A higher ratio is more favorable. Industry Median = 1.89



# **Feedback & Comments**