

To: Honorable Public Utilities Board

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Approved by:     /IS/      
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General Manager

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

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**RECOMMENDATION**

*For information only, summary of 10-year financial pro forma analysis.*

**BACKGROUND**

Each year staff presents the results of the 10-year pro forma model developed to comply with the *Financial Guidelines for Rates, Revenues, and Reserves* (Financial Guidelines) adopted by the Public Utilities Board (Board) on May 17, 2010. The Financial Guidelines include a debt service coverage ratio target of cash from operations equaling at least 1.75 times Alameda Municipal Power’s (AMP) total debt service and recommends that at least 145 days of operating reserves are kept on hand to fund operations. Table 1 shows how AMP has met the Financial Guidelines and ratemaking policy over the last five years, except for a 7 percent rate increase in fiscal year (FY) 2024.

**Table 1 – Financial Criteria Five-Year Pro Forma Summary Fiscal Years (FY) 2022–2026**

<b>Fiscal Year</b>	<b>Rate Adjustment (No More Than 5 Percent)</b>	<b>Debt Coverage Ratio (Minimum of 1.75)</b>	<b>Operating Reserves Approximately (145 days)</b>
2022	0.00%	1.76	272
2023	5.00%	1.75	323
2024	7.00%	2.22	266
2025	3.00%	6.22	360
2026	4.00%	6.04	290

**DISCUSSION**

The pro forma incorporates **preliminary** FY 2027 budget information developed in preparation for the April budget workshop. The budget provides the revenue requirement for the first year and the pro forma provides the Board with financial information to consider when establishing the rate adjustment plan for the upcoming fiscal year and beyond.

The pro forma in Table 2 below shows that a rate increase of three percent for FY 2027, along with draws from reserves and additional three percent rate increases in the following years, can

maintain the metrics recommended in AMP’s Financial Guidelines. The recommended rate increase will be finalized based on revisions to the draft power budget from the Northern California Power Agency (NCPA) as well as AMP’s own draft budget and presented to the Board at the April regular meeting.

**Table 2 –Pro Forma Analysis Results**

<b>Fiscal Year</b>	<b>Rate Increase %</b>	<b>Average Rate (¢/kWh)</b>	<b>Debt Coverage Ratio</b>	<b>Days of Operating Reserves</b>	<b>Net Operating Surplus (Deficit) (\$000s)</b>	<b>Operating Reserves (\$000s)</b>
2027	3.0%	22.92	3.10	276	(\$17,294)	\$61,743
2028	3.0%	23.61	2.68	209	(\$12,313)	\$49,455
2029	3.0%	24.32	2.79	185	(\$3,997)	\$45,483
2030	3.0%	25.05	3.95	177	(\$1,162)	\$44,346
2031	3.0%	25.80	4.83	175	\$295	\$44,666
2032	3.0%	26.57	4.13	161	(\$2,325)	\$42,367
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2034	3.0%	28.19	5.12	175	\$3,720	\$48,201
2035	3.0%	29.04	5.81	193	\$5,936	\$54,164
2036	3.0%	29.91	6.58	218	\$8,402	\$62,592

*Development of Pro Forma Analysis*

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

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

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

*Ratemaking Policy*

The five-year ratemaking policy for FY 2021–2025, adopted in October 2019, included gradual and steady rate increases of no more than 5 percent per year contingent upon annual Board approval in addition to compliance with existing Financial Guidelines. Prior to implementing a new ratemaking policy, staff are waiting on the Strategic Plan Update and, depending on the feedback received, may hire a rate consultant to help design a revised policy. AMP staff will continue to follow the previous ratemaking policy until a new policy is approved.

*Assumptions*

Key assumptions used in developing the FY 2027 pro forma are discussed below.

- Power Costs

AMP's \$43.7 million power cost is the total cost of providing power to serve its customer load. Several factors are driving the increased power costs: lower resource adequacy (RA) sales, increased geothermal costs, increased loads, and increasing transmission costs. To forecast all direct and indirect costs related to generation resources, transmission, power management, RA market values, and market transactions, staff used estimates from NCPA's preliminary budget for FY 2027 and AMP's FY 2027 Load Forecast adopted at the January 12, 2026, Board meeting.

- Capital Expenditures

AMP's capital expenditures are an estimate of costs related to the improvement and replacement of existing infrastructure and new infrastructure projects. This includes investments in new customer connections, advanced inventory purchases, replacing aging infrastructure and equipment, and improving the overall resiliency of the distribution grid. For the FY 2027 pro forma analysis, staff included \$23.5 million in improvements, excluding capitalized labor, with \$4 million funded by Underground Utility District reserves. After FY 2027, over \$50 million in additional substation infrastructure costs have been added to the pro forma. This includes \$7 million for the replacement of two substation transformers and a preliminary estimate of a \$44 million bond offering in 2032 to build a third substation or substantially upgrade an existing substation to meet growing demand.

AMP staff also plan to propose a new Capital Reserve fund that allows for unspent capital funds to be placed in a reserve for the completion of those projects in future fiscal years. For example, if approved, the \$7 million budgeted for the Pacific Gas & Electric (PG&E) fiber upgrade in FY 2026 would be set aside in a Capital Reserve fund for capital expenditures under this project in FY 2027. Currently, this situation is addressed by AMP staff removing the \$7 million from the expected FY 2026 Capital Improvements Project (CIP) spending in the pro forma, after which the project would again be budgeted in FY 2027, and a draw from reserves would then show in FY 2027.

- Labor, Materials, and Service Costs

A simple escalator that can vary by fiscal year is used to develop estimates for labor, materials, and service costs from the preliminary FY 2027 budget. Staff aligned escalators for labor costs with executed labor agreements where appropriate. Per the labor agreements, a market compensation study is currently underway with impacts to labor costs yet to be determined.

- Other Costs and Expenditures

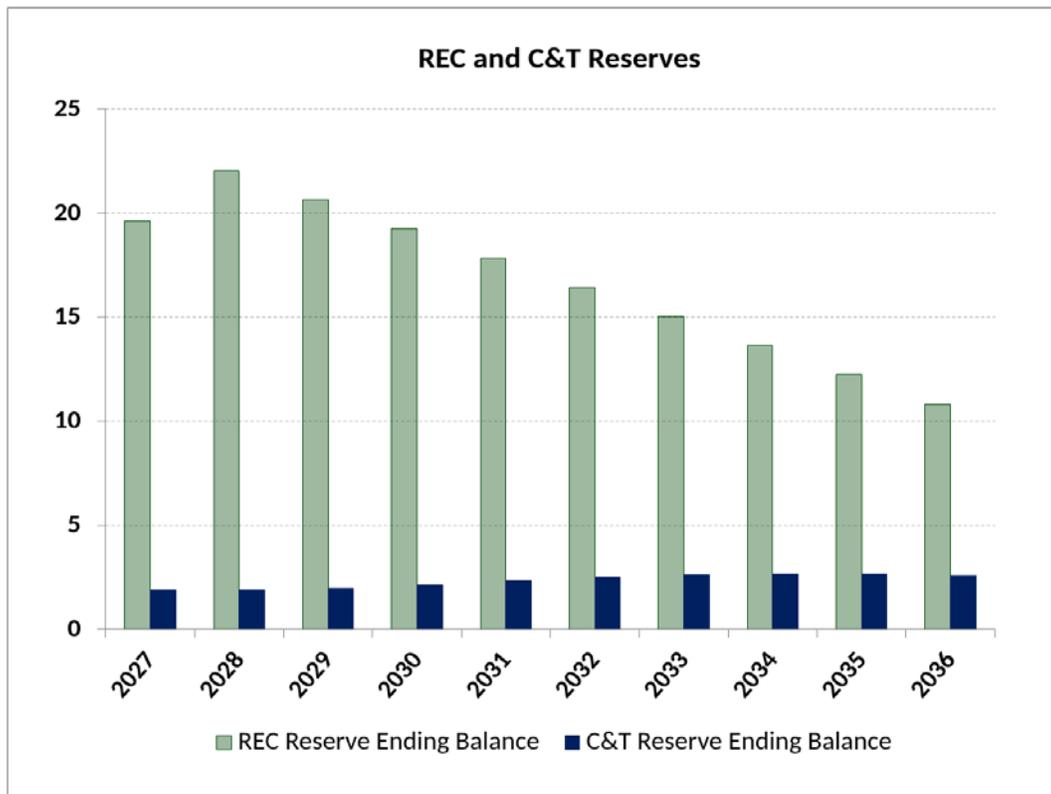
In addition to operating and capital expenses, AMP has other expenses which include, but are not limited to, debt payments, customer rebates, transfers to the City including Payment in Lieu of Taxes (PILOT), and Return on Investment (ROI) transfers to reserves.

- Funding sources

Revenue requirements may be funded by rates, debt, designated reserves, or a draw from operating reserves. Designated reserves may be used to fund special projects, subject to Board policies that define limitations on the use of such funds. Staff assumes expanded use of designated funds to cover certain customer programs (e.g., energy efficiency, electrification, etc.) and a portion of renewable power purchases above and beyond the renewable portfolio standard (RPS) mandate. Formal Board review and approval of FY 2027 designated reserves spending will occur at the FY 2027 Budget Workshop on April 20, 2026.

Preliminary FY 2027 budgeted REC program expenditures on designated uses allowed by the Board are held steady over the next 10 years. Included in the figure are an additional \$12 million in REC reserves over the next two years from the REC sale approved at the November 2024 Board meeting. As shown in Figure 1, current annual spending would only be supported by existing REC reserves through 2035, before dipping into the revenues from the latest REC sale.

The pro forma assumes continued C&T allowance proceeds through 2045 per the latest program updates (Cap & Invest), but given regulatory uncertainty AMP is maintaining the 2030 program assumptions of decreasing year-over-year allowances and held the price constant past 2030 for this iteration of the pro forma.



**Figure 1 – Designated Reserve Drawdown Analysis**

*Comparison of Key Assumptions from Last Year*

Table 3 shows a detailed comparison of the forecasted FY 2027 costs from last year and this year and highlights a total estimated gross revenue requirement that is \$18 million higher than last year’s estimate.

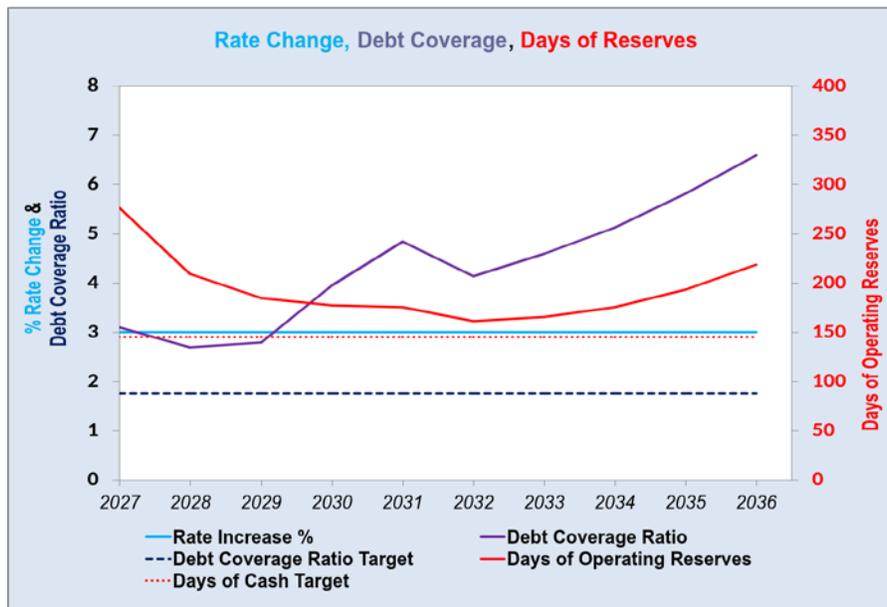
**Table 3 – Fiscal Year (FY) 2027 Cost Comparison**

	Prior Year Forecast for FY 2027 (Million)	Current Forecast for FY 2027 (Million)	Difference (Million)
Power Costs (including transmission)	\$40.2	\$43.7	3.5
Capital Costs	\$9.0	\$23.5	14.5
Material, Services, & Labor Costs	\$34.7	\$35.3	0.6
Non-Operating Expenses	\$1.7	\$1.7	(0.0)
Debt Service	\$2.7	\$2.7	0.0
Contribution to City	\$6.5	\$6.4	(0.1)
<b>Gross Revenue Requirement</b>	<b>\$94.8</b>	<b>\$113.2</b>	<b>18.4</b>

Key drivers for FY 2027 revenue requirements as compared to last year’s forecast are higher capital costs and higher power costs. The bulk of the capital costs are made up of the PG&E fiber and substation protection upgrade, the underground utility district, reconductoring costs, and additional long lead procurement items.

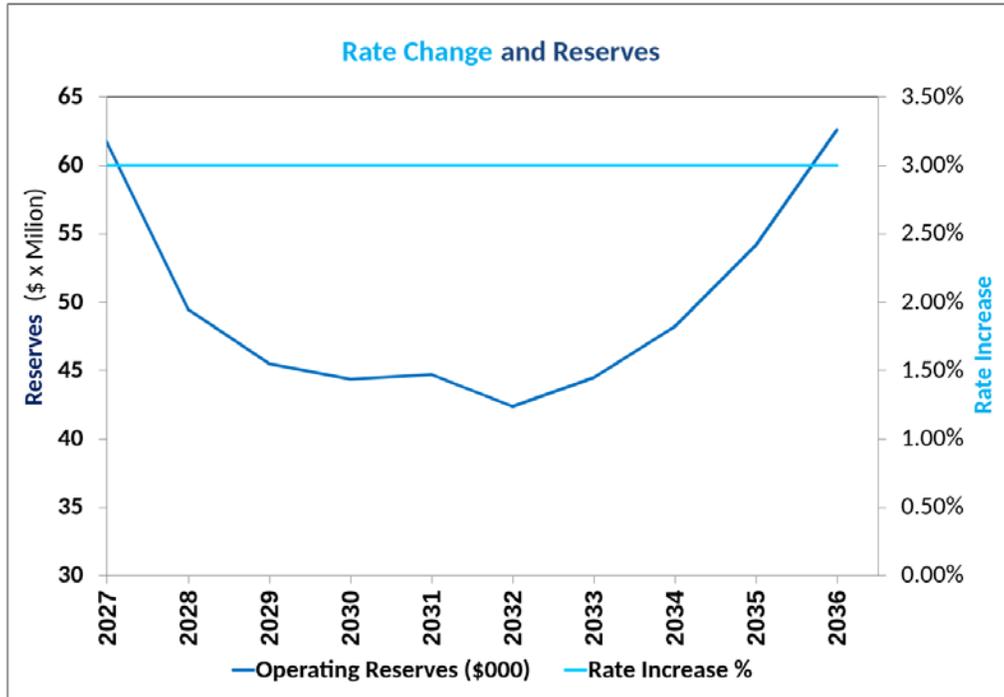
*Results*

As shown in Figure 2, AMP requests a 3 percent rate increase in FY 2027 and subsequent rate increases along with draws from operating reserves to move closer to the 145 days of operating reserves target and to continue to maintain the debt coverage ratio above the target established in the Financial Guidelines.



**Figure 2 – Fiscal Year 2027 Pro Forma Model Results - Key Financial Criteria**

Additionally, as shown in Figure 3, staff proposes significant spend down in reserves in the first few years, approaching the target reserve levels in the Financial Guidelines.

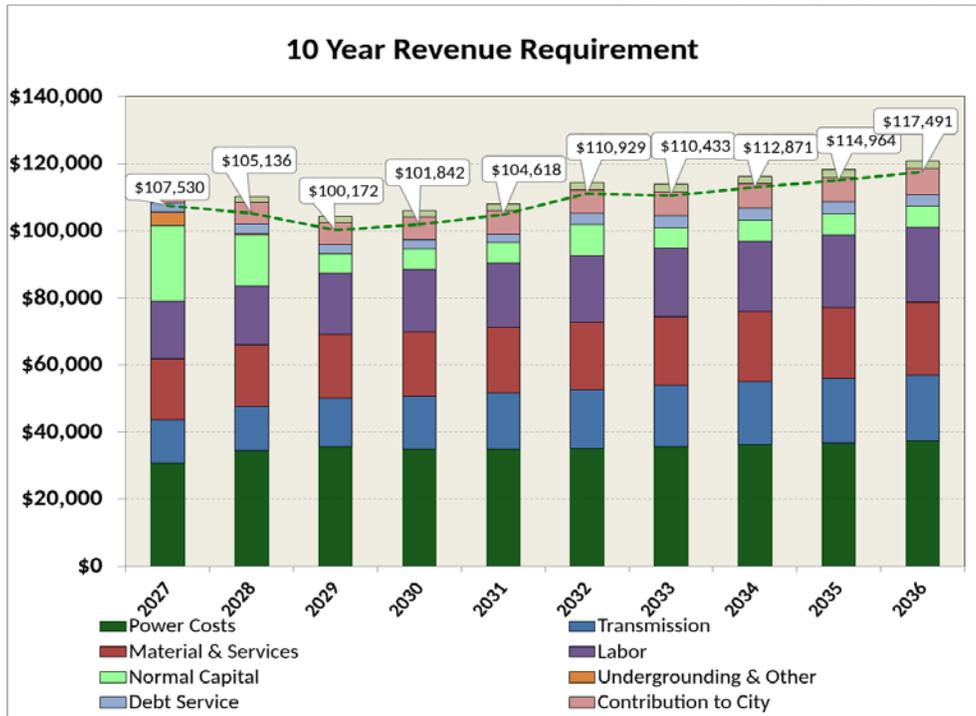


**Figure 3 – Fiscal Year (FY) 2027 Pro Forma Analysis Results – Rate Increase and Reserves**

Figure 4 shows the estimated revenue requirements for the next 10 years. As can be seen from the graph, variation in revenue requirements across the years is primarily caused by changes in power and capital costs.

Power costs will continue to increase, largely due to an increasing Transmission Access Charge (TAC), increasing power purchase agreement costs, and typical inflation uplift. For the capital budget, projections include significant spending on substation upgrades, interconnection of new loads, and other distribution upgrades.

Finally, labor, services, and materials costs steadily increase over time based on a cost escalator linked to interest rates, contracts, and inflation.



**Figure 4 – Ten-Year Pro Forma Revenue Requirement**

CONCLUSION

The pro forma is showing a recommended rate increase of three percent for FY 2027, based on preliminary budget inputs. Staff will finalize the rate increase target with the draft budget numbers in April.

NEXT STEPS

Staff will present the final budget and rate adjustments for approval on April 20, 2026.

FINANCIAL IMPACT

Staff projects a draw from operating reserves and designated reserves to cover increases in revenue requirements in FY 2027.

ENVIRONMENTAL REVIEW

No actions are recommended for approval, therefore, no CEQA review is required. (Save Tara v. City of West Hollywood (2008) 45 Cal.4th 116.)

Furthermore, Alameda Municipal Power finds that its actions are not a project as defined by CEQA Guidelines Section 15378, which excludes “continuing administrative...activities” and “organization or administrative activities of governments...” Alameda Municipal Power further finds that it can be seen with certainty that there is no possibility that the activity will result in a direct or reasonably foreseeable indirect change in the environment. The report involves the disclosure of factual information, and there is no potential for direct or indirect changes in existing conditions as a result.

Alameda Municipal Power further finds that its actions are exempt pursuant to CEQA Guidelines §15268, which excludes ministerial actions. Alameda Municipal Power further finds that its actions are exempt from CEQA, including but not limited to CEQA Guidelines Section 15061(b)(3). More specifically, Alameda Municipal Power finds its action is subject to the commonsense exemption because it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment.

#### LINKS TO STRATEGIC PLAN AND METRICS

Business Resiliency, Strategy 2: AMP will develop financial planning processes that provide fiscal stability and clearly communicate service priorities with their associated costs.

Tactic 1: Include a longer-term outlook of the Capital Improvement Plan in the annual budget.

Tactic 2: Improve rate design to reflect AMP's Strategic Plan.

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

#### EXHIBITS

- A. Power Point Presentation
- B. Financial Guidelines for Rates and Revenue, and Reserves, adopted at the May 17, 2010, Board meeting
- C. Ratemaking Policy for FY 2021 Through FY 2025 – Resolution No. 5165

# 10-Year Pro Forma Fiscal Years 2027–2036

March 16, 2026

# Overview

- Background and Methodology
- Summary of Pro Forma Analysis
- Key Drivers and Assumptions
- Results
- Recommendations and Next Steps

# Background and Methodology

# Pro Forma Analysis - Methodology

*Step 1: Develop revenue requirement from preliminary budgets*

Key Components of revenue requirement are:

- Power costs
- Labor, services, and materials
- Debt service
- Transfers
- Capital projects
  - Regular distribution upgrade/replacement projects
  - Undergrounding
  - Non-routine projects, e.g. major substation equipment replacements

# Pro Forma Analysis – Methodology, cont'd.

## *Step 2: Determine how revenue requirement is financed*

- Revenue requirement funding:
  - Rates
  - Debt
  - Operating reserves
  - Designated reserves
    - Renewable Energy Credit (REC)
    - Cap and Trade/Invest (C&T)
    - Underground
    - Low Carbon Fuel Standard (LCFS)
- Designated reserves can only be used to fund specific projects

## *Step 3: Determine rate increases to cover increasing costs and maintain consistency with AMP's financial guidelines and ratemaking policy*

# Key Drivers and Assumptions

# Prior Year's FY 2027 Forecast Comparison

The table below is **not** a comparison to the fiscal year (FY) 2027 budget.

	<b>Prior Year Forecast for FY 2027 (Million)</b>	<b>Current Forecast for FY 2027 (Million)</b>	<b>Difference (Million)</b>
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<b>Gross Revenue Requirement</b>	<b>\$94.8</b>	<b>\$113.2</b>	<b>18.4</b>

# Assumptions: Capital Expenditures

## Capital Improvement Plan

- Continue PG&E Fiber Upgrade project
- Continue work on Broadway/Otis undergrounding district
- Outage Management System
- Substation upgrades and distribution work
- Reconductoring Costs
- Connecting new loads/new development
- Advanced inventory purchases

# Labor, Materials, and Services

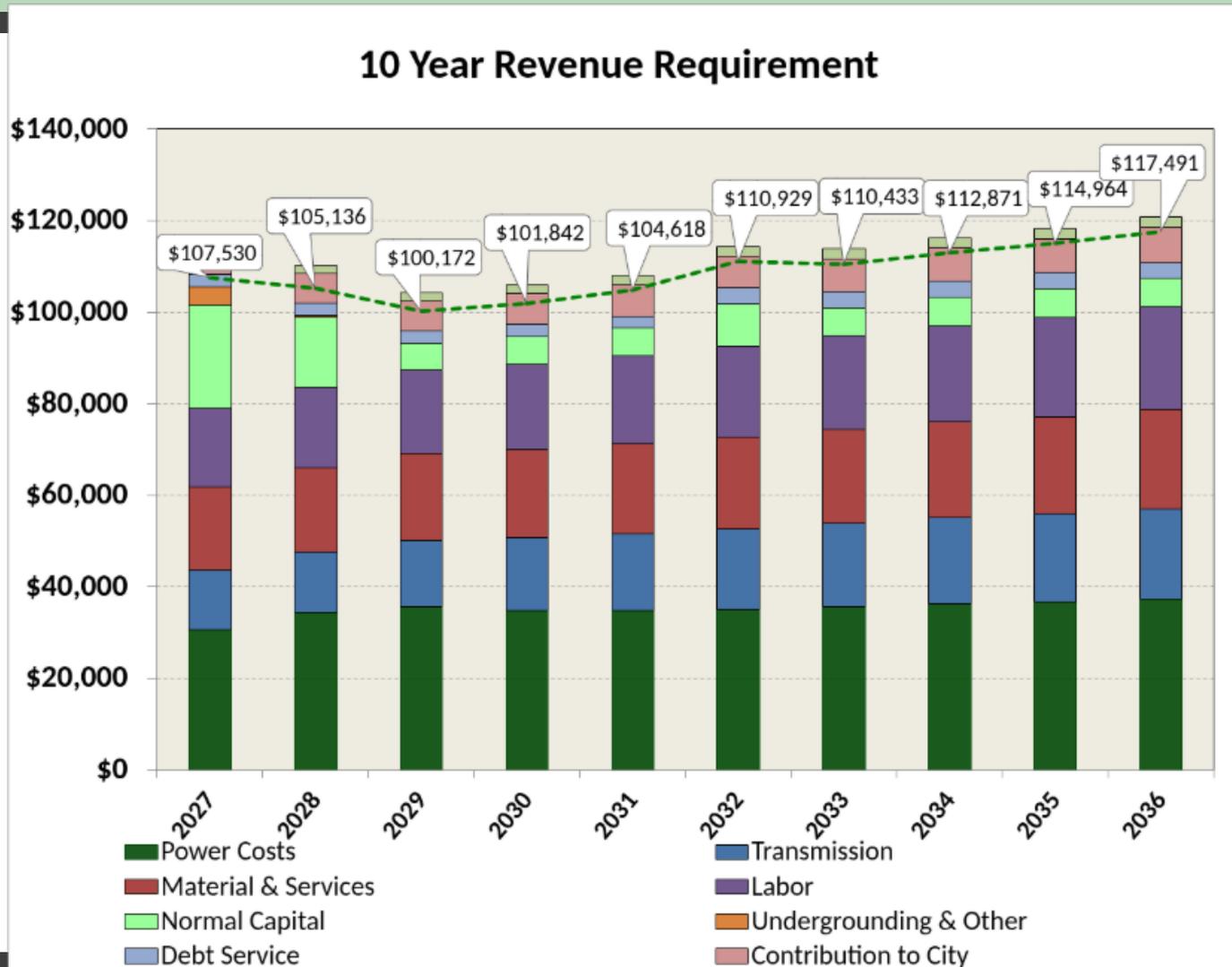
- Labor
  - Salary Equity Study underway per employee retention efforts committed to in labor agreements, with impacts to labor costs yet to be determined.
- Services
  - Customer electrification program spending
  - Substation transformer maintenance
  - Customer Bill Assistance
  - Fiber network maintenance for City

# Future Bond

- Preliminary estimate for bonds for the construction of an additional substation or substantial upgrade of existing substation included in 2032

# Summary of Analysis and Detailed Results

# FY 2027–2036 Revenue Requirements



# Summary of FY 2027 Pro Forma Analysis

*In FY 2027, AMP will be able to maintain a healthy financial position with a 3 percent rate increase for FY 2027.*

FY	Rate Increase %	Avg Rate (¢/kWh)	Debt Coverage Ratio	Days of Operating Reserves	Net Operating Surplus (Deficit) (\$000s)	Operating Reserves (\$000s)
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# Rate Adjustment Plan

- AMP's Financial Guidelines and Ratemaking Policy outline a strategy to avoid rate spikes in a typical year while maintaining good financial standing
  - Comply with adopted financial policies
    - $\leq 5\%$  annual rate increase
    - 1.75 x debt coverage ratio minimum
    - 145 days of operating reserves

# Next Steps

## Upcoming events:

- April 20 Board Meetings:
  - Strategic Plan Workshop
- FY 2027 Budget Workshop
  - FY 2027 Rates Update
  
- June 15 Board Meeting:
  - Adoption of FY 2027 Budget, Investment Policy, and Budget Policy
  - Adoption of Strategic Plan
  
- July 20 Board Meeting:
  - Adoption of Strategic Implementation Plan

# Questions

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