



PROPOSED GAS FINANCIAL PLAN AND RATE CHANGES FOR FY 2025

April 23, 2024

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Gas Rate Proposal

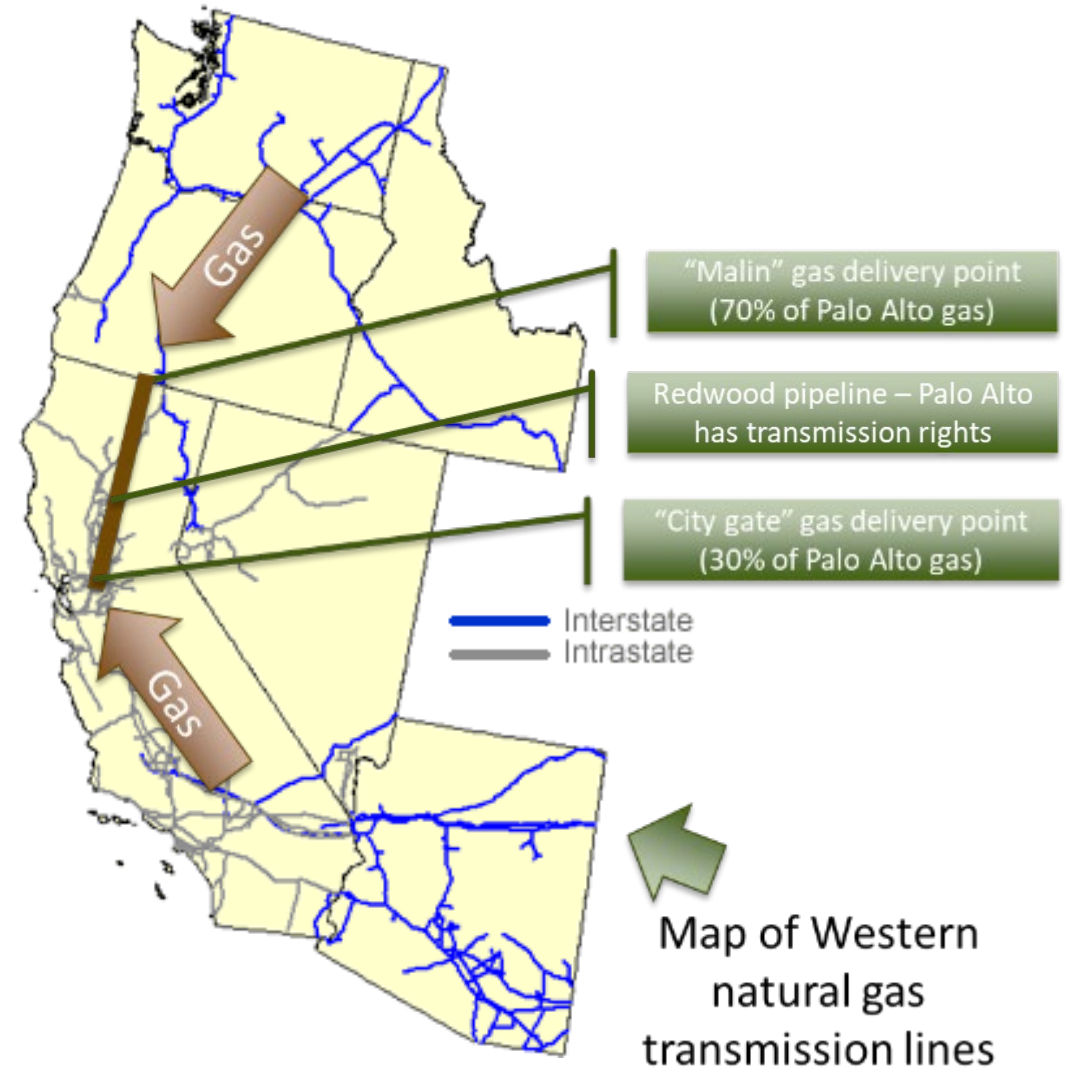
FY 2025 Rate Proposal

- 9% overall rate increase to customer bills, due to 15% distribution rate increase
- 7% overall rate increase in FY 2026 and FY 2027, 6% annually in FY 2028 and FY 2029
- Two General Fund Transfer Alternatives

Gas Utility Basics

City of Palo Alto gas distribution system:

- 20,000 meters
- 205 miles of mains
- 18,000 service lines

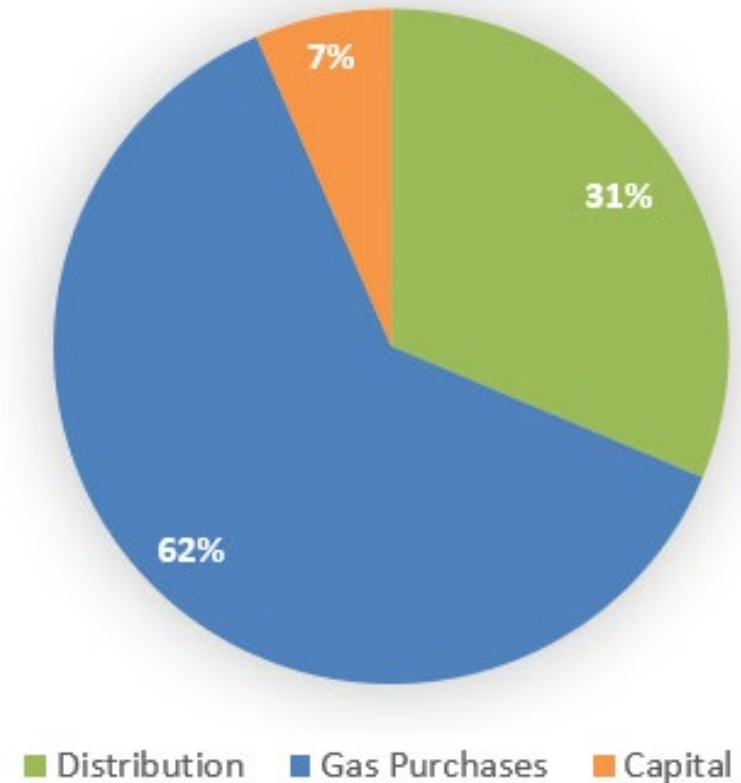


Gas Rate Design

About one-third to two-third of the rate is “supply-related:” gas supply, transmission, and environmental charges. These rates vary monthly according to market-driven costs that are passed directly to customers

The remaining portion of the rate is set based on the City’s costs for maintaining its gas distribution system (gas mains, services, related equipment). **These rates are being discussed here tonight.**

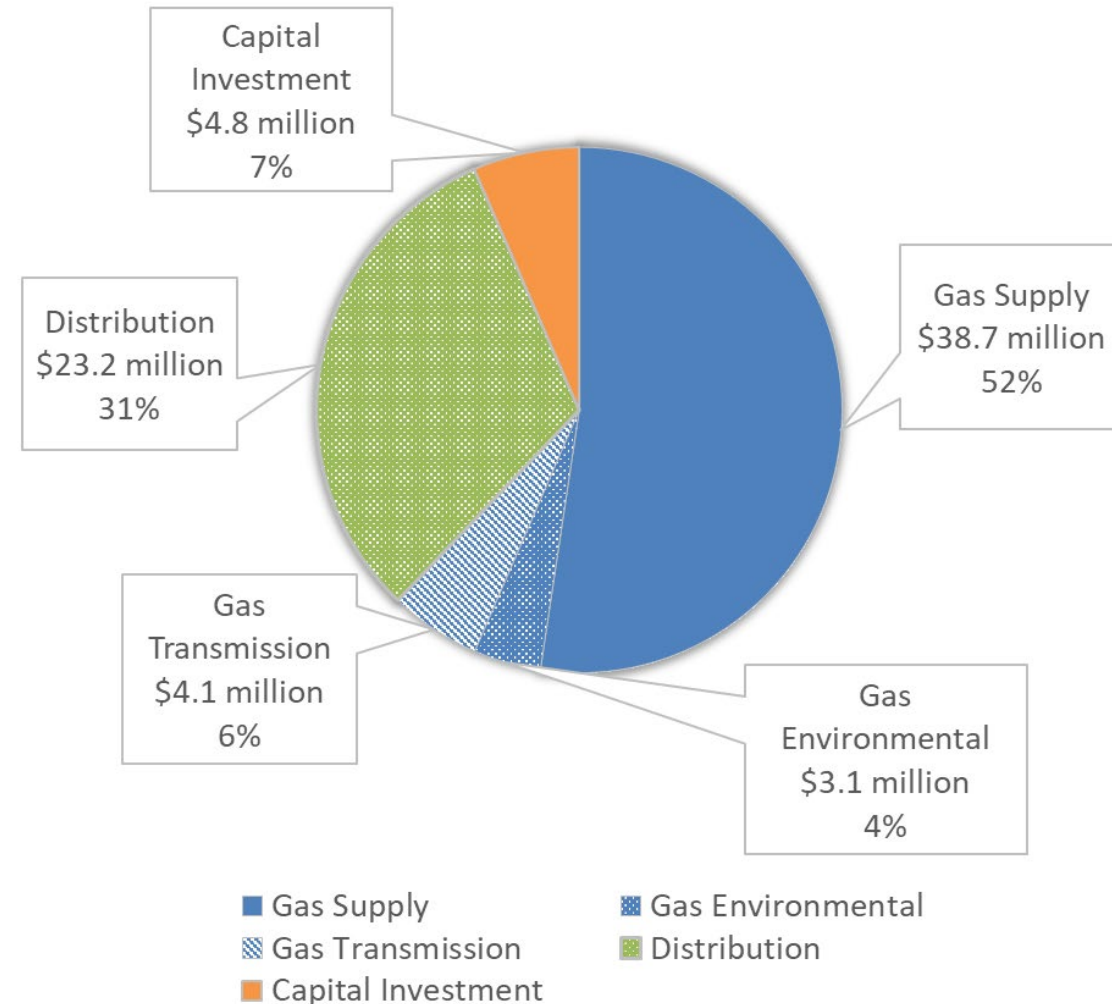
FY 2023



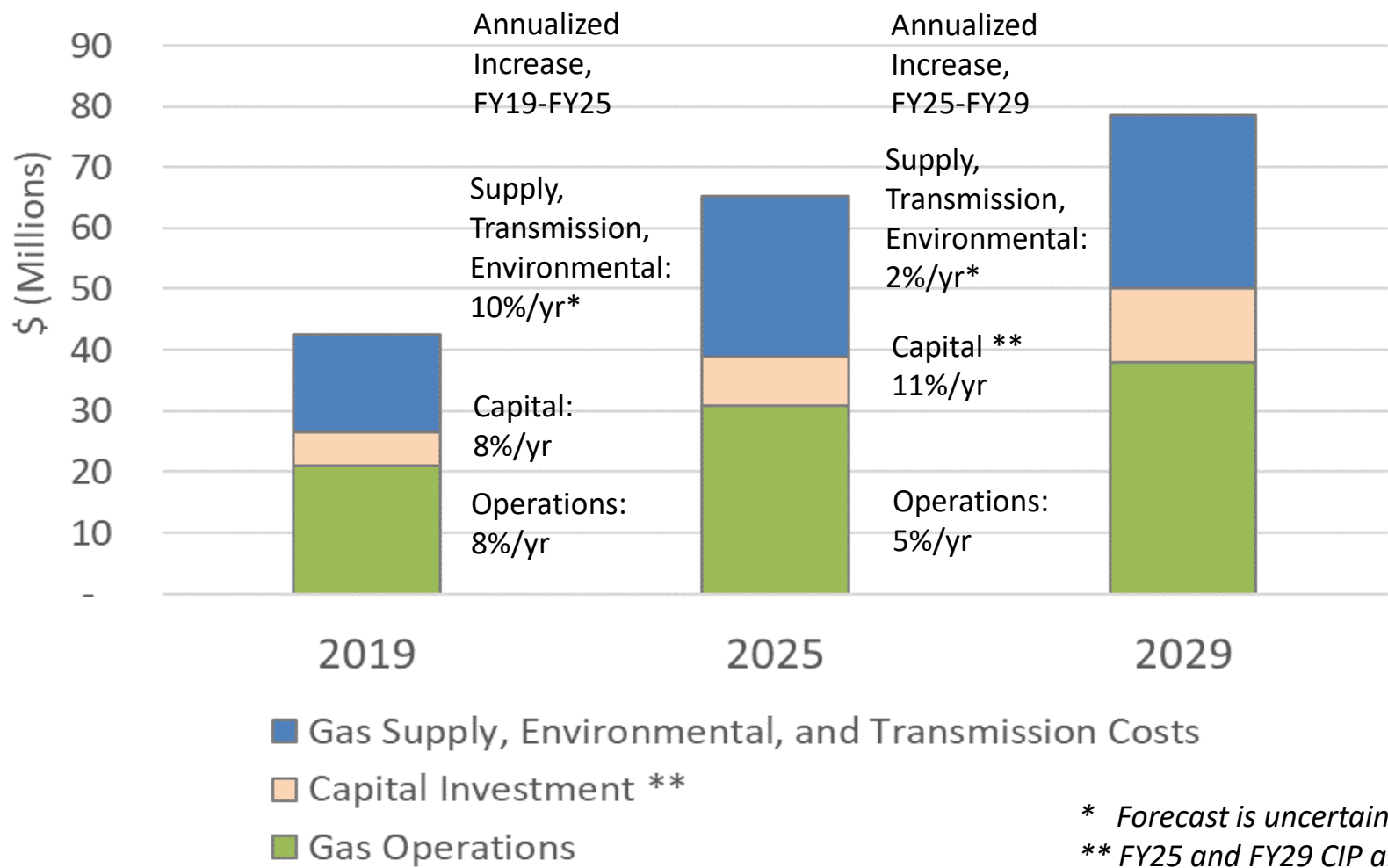
Gas Utility Cost Structure (FY 2023)

Gas Distribution (in Green): The cost to distribute gas within Palo Alto, including: maintaining and replacing gas infrastructure, customer service, billing, administration, etc.

Gas Supply, Transmission, and Environmental (in Blue): All pass-through



Gas Utility Long Term Cost Trends



* Forecast is uncertain and will vary with market prices
** FY25 and FY29 CIP are an average of two years due to staggered main replacement schedule.

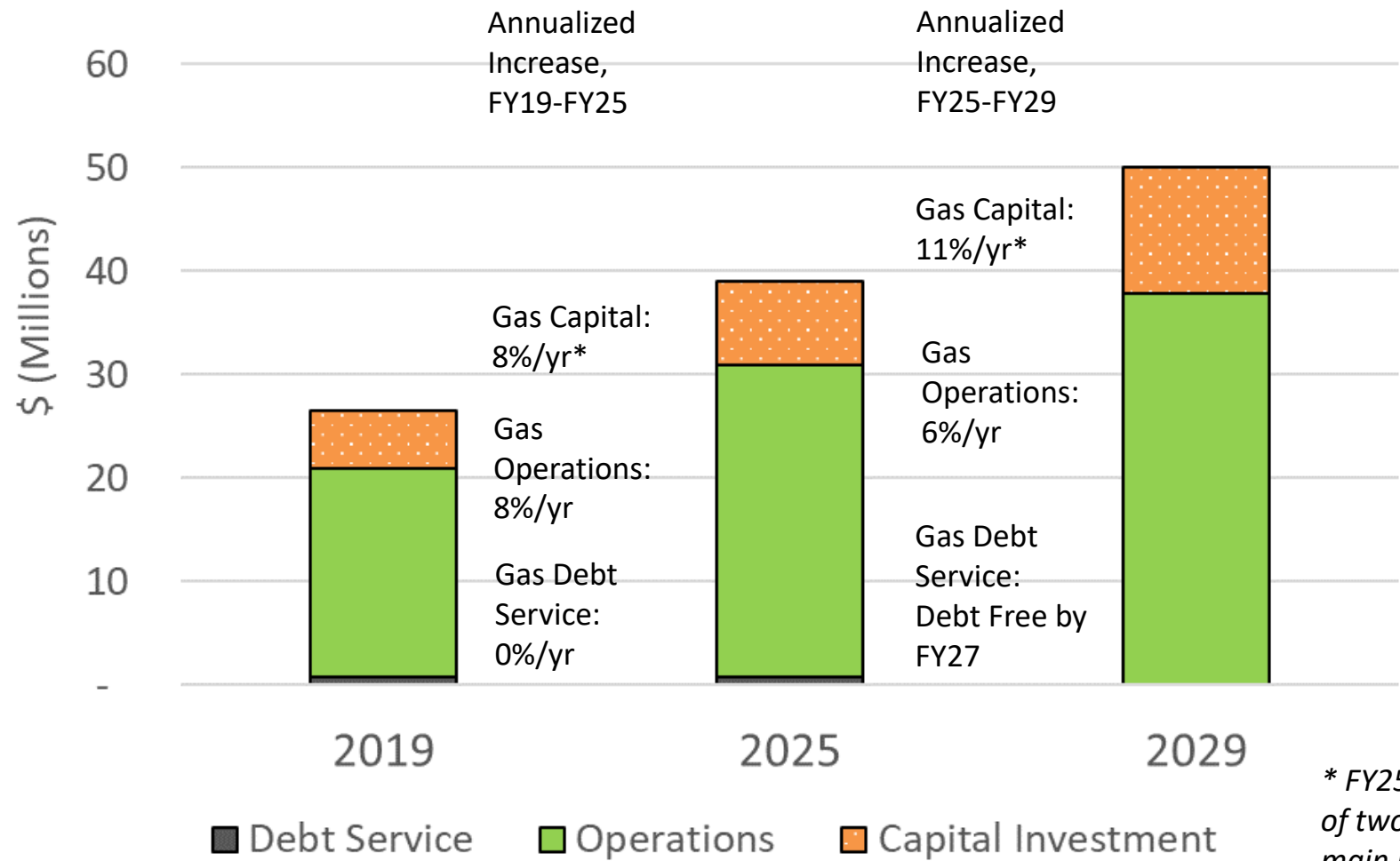
Gas Supply Cost Drivers*

- PG&E gas transmission rates continue to rise steadily to fund safety investments
- Insurance purchased in response to winter 22/23 natural gas market volatility
- Cap and Trade costs continue to rise (as intended by design)
- Carbon Neutral Gas Plan; carbon offset purchases

** All of the above costs are pass-through and not included in rate increase*



Gas Distribution Cost Trends



* FY25 and FY 20 CIP is an average of two years due to staggered main replacement schedule.

Gas Distribution Cost Drivers

- Health, retirement, and associated overhead costs continue to increase
- Underground construction costs have increased substantially as well
- Continued funding for cross-bore investigations
- Replenish reserves to fund capital projects



Estimated Gas Bill Changes

Residential

Usage (Therms/month)	Bill Amount (Current Rates)	Bill Amount (Proposed Rates)	Change	
			\$/mo.	%
Summer				
10	\$ 29.30	\$ 32.42	\$ 3.12	11%
18 (median)	41.54	45.47	3.94	9%
30	68.80	75.45	6.65	10%
45	105.65	116.14	10.49	10%
Winter				
30	\$ 64.65	\$ 69.81	\$ 5.16	8%
54 (median)	105.15	112.77	7.62	7%
80	169.71	184.03	14.33	8%
150	362.05	395.88	33.82	9%

Commercial

Usage (Therms/month)	Bill under (Current Rates)	Bill under (Proposed Rates)	Change	
			\$/mo	%
250	\$ 167.60	\$ 189.86	\$ 22.26	13%
1,000	281.32	311.96	30.65	11%
3,200	613.69	668.91	55.22	9%
35,000	5,428.68	5,839.31	410.63	8%
250,000	38,145.93	41,001.25	2,855.32	7%

Note: excludes supply-related rate changes

Current Gas Bill Comparisons (\$/Mo)

Residential

Season	Usage (Therms)	Palo Alto	PG&E Zone X	% Difference
Summer	10	\$ 29	\$ 21	29%
	(Median) 18	\$ 42	\$ 39	7%
	30	\$ 69	\$ 68	1%
	45	\$ 106	\$ 105	1%
Winter	30	\$ 65	\$ 72	(11%)
	(Median) 54	\$ 105	\$ 132	(25%)
	80	\$ 170	\$ 203	(20%)
	150	\$ 362	\$ 400	(11%)

Palo Alto median residential bill is projected to be about 11% below PG&E’s median bill in FY 2024, based on actuals and projected supply rates

Commercial

Staff is in the process of doing a more extensive review of commercial competitiveness and will provide updates in the future

Gas General Fund Transfer

- Measure L: 18% of gas utility gross revenues from two fiscal years prior; Council may elect to transfer less
- Council approved transferring up to 15.5% of FY 2022 gas utility gross revenues to the general fund in FY 2024
- FY 2025 Equity Transfer Alternatives:
 - **Transfer 11.9% (Staff Recommended):** lower transfer amount due to high commodity revenue in FY 2023, gradual transition to 18% transfer by FY 2027
 - **Transfer 18%:** transfer full amount allowed under Measure L 18% cap

FY 2025 General Fund Transfer Alternatives and Gas Rate Projections

Summary of Overall Rate Changes

Fiscal Year	2024	2025	2026	2027	2028	2029
Transfer 11.9%	8%	9%	7%	7%	6%	6%
Transfer 18%	8%	15%	5%	5%	5%	6%
FY 2024 Financial Plan	8%	7%	5%	5%	5%	-

Percent of Gross Gas Utility Revenue to Transfer

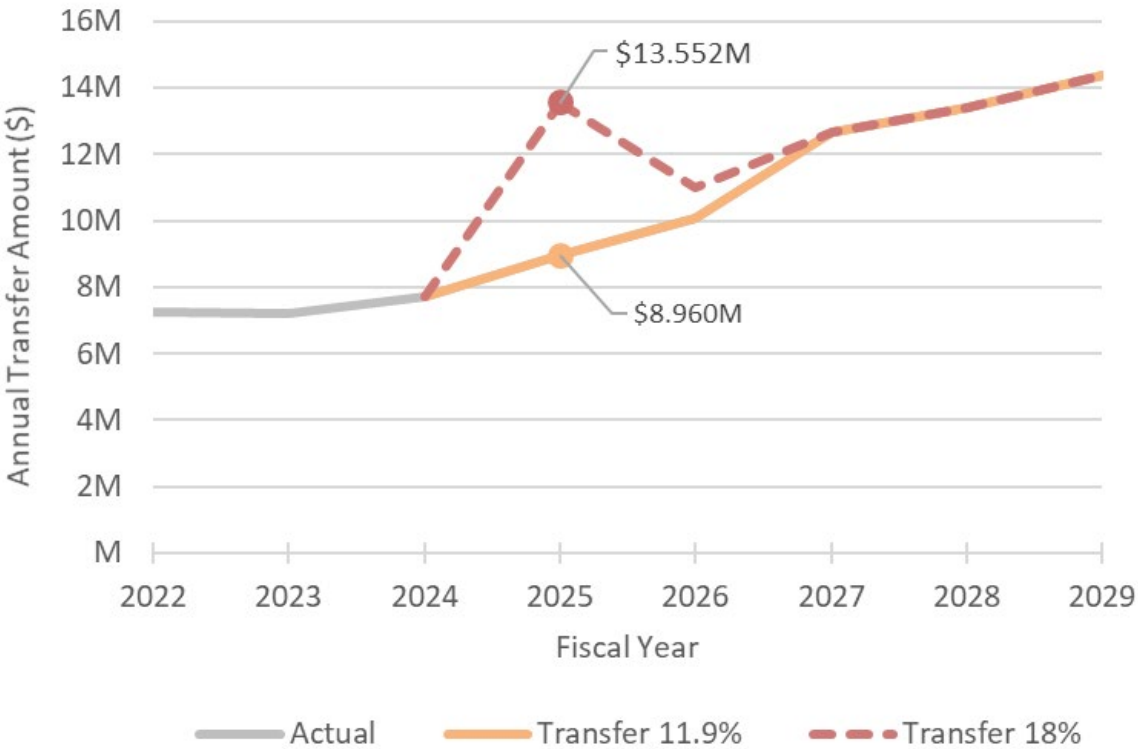
Fiscal Year	2024	2025	2026	2027	2028	2029
Transfer 11.9%	15.5%	11.9%	16.5%	18.0%	18.0%	18.0%
Transfer 18%	15.5%	18.0%	18.0%	18.0%	18.0%	18.0%
FY 2024 Financial Plan	15.5%	11.1%	12.9%	13.1%	12.8%	-

Transfer Amount (\$,000)

Fiscal Year	2024	2025	2026	2027	2028	2029
Transfer 11.9%	7,707	8,960	10,070	12,674	13,410	14,381
Transfer 18%	7,707	13,552	10,986	12,674	13,410	14,381

Transfer Amount YOY% Change

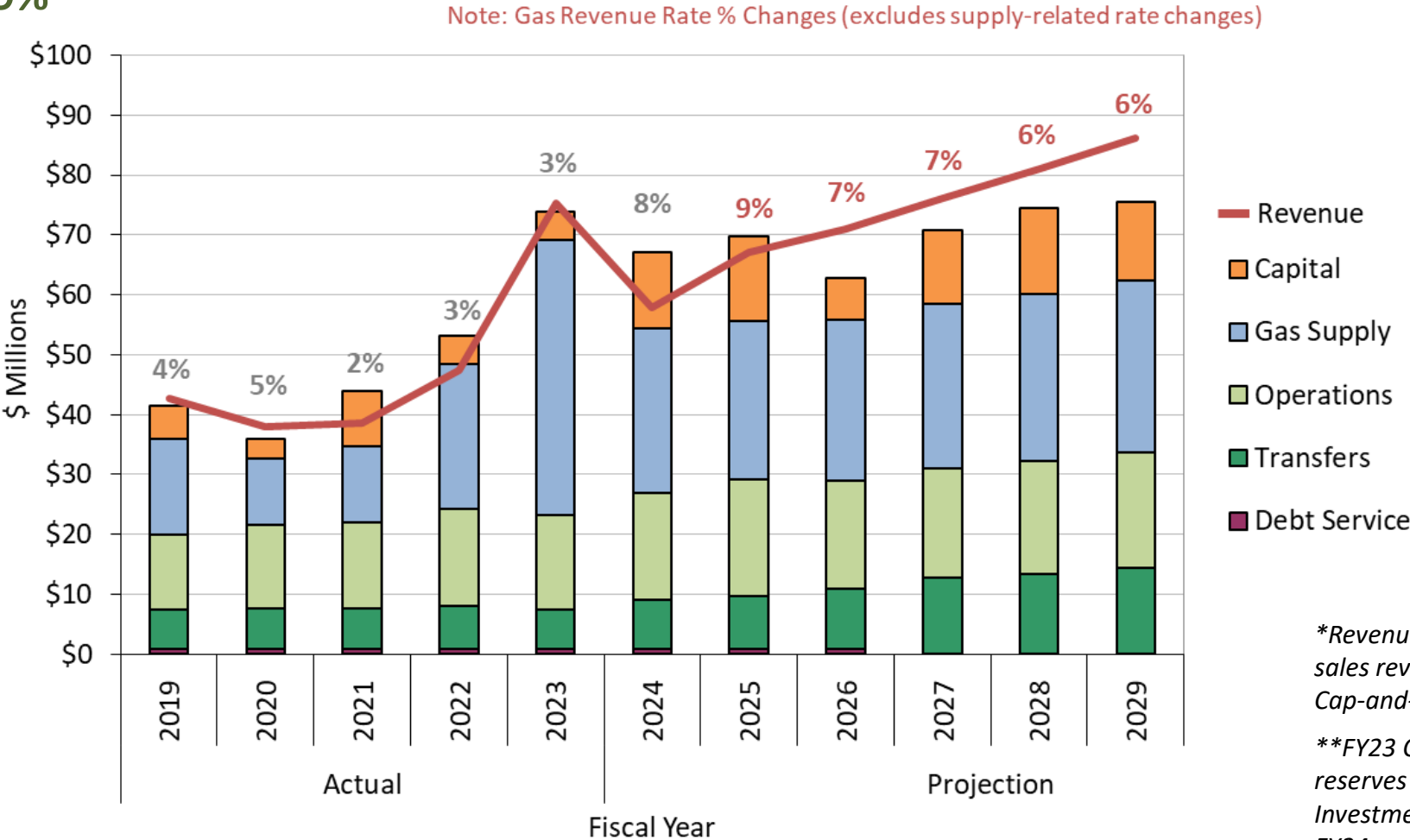
Fiscal Year	2024	2025	2026	2027	2028	2029
Transfer 11.9%	7%	16%	12%	26%	6%	7%
Transfer 18%	7%	76%	-19%	15%	6%	7%



Note: Projected revenues can fluctuate depending on gas commodity market prices

Gas Cost and Revenue Projections

Transfer 11.9%



*Revenue excludes Cap-and-Trade auction sales revenue, which goes directly to the Cap-and-Trade reserve

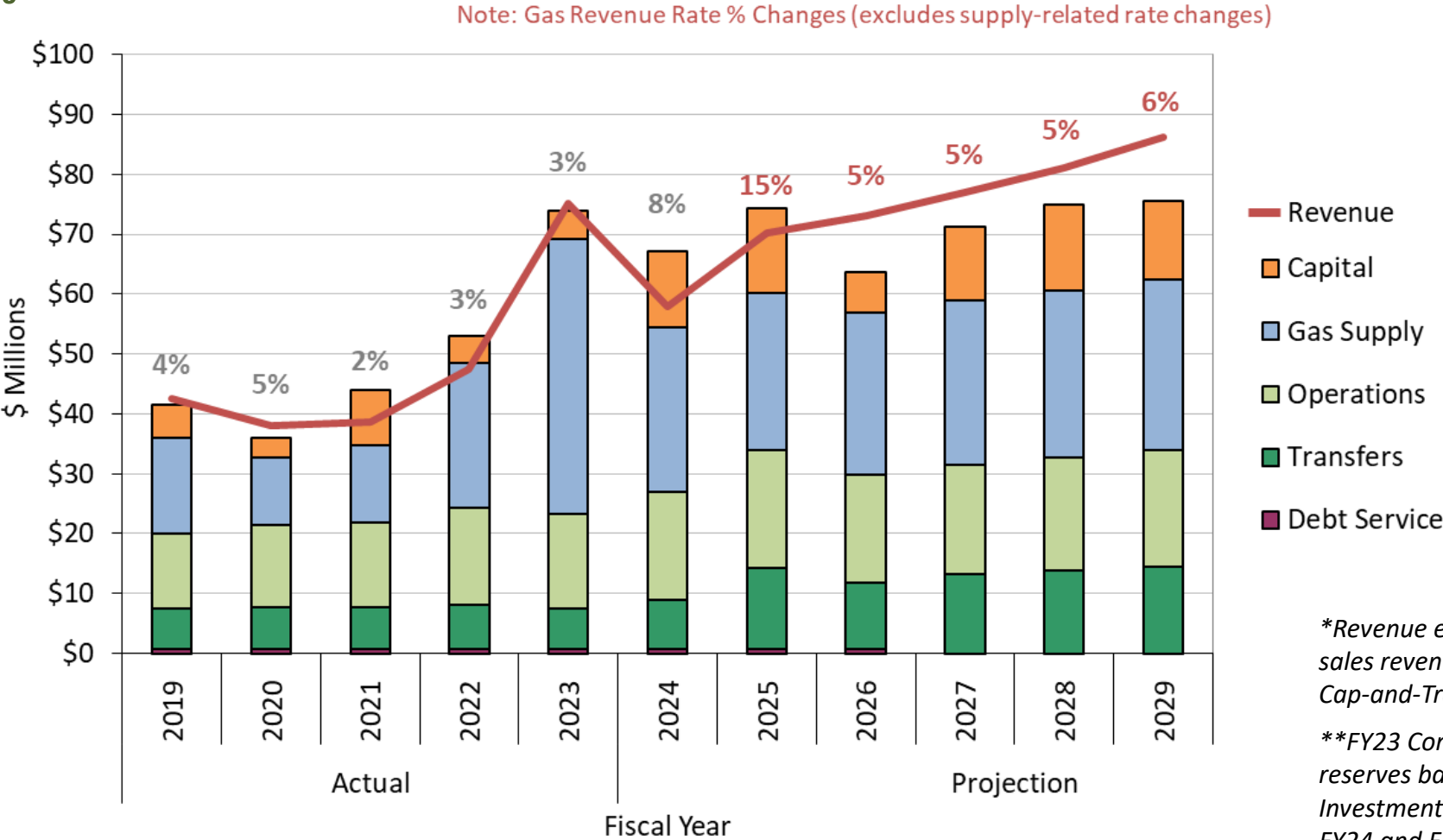
**FY23 Commitments and Reappropriations reserves balances for Operations and Capital Investment are anticipated to be utilized in FY24 and FY25



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Gas Cost and Revenue Projections

Transfer 18%



*Revenue excludes Cap-and-Trade auction sales revenue, which goes directly to the Cap-and-Trade reserve

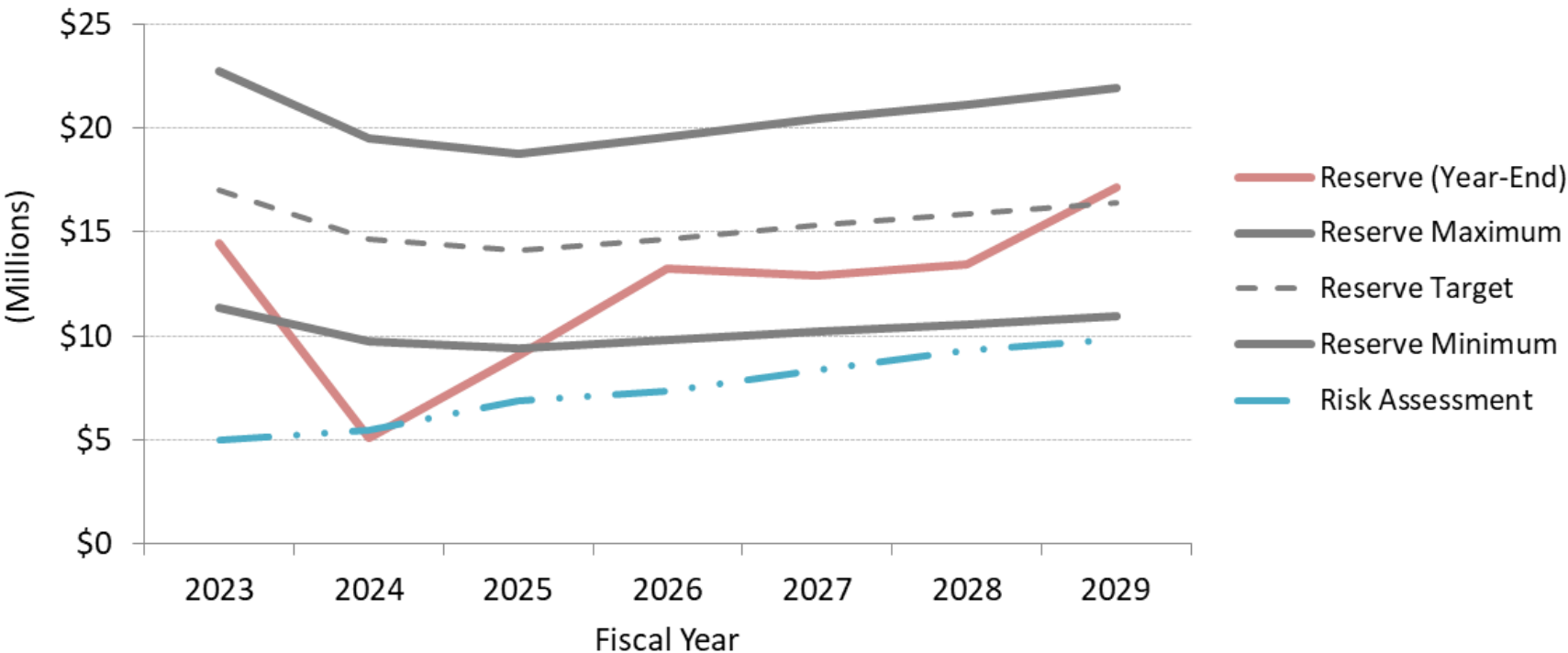
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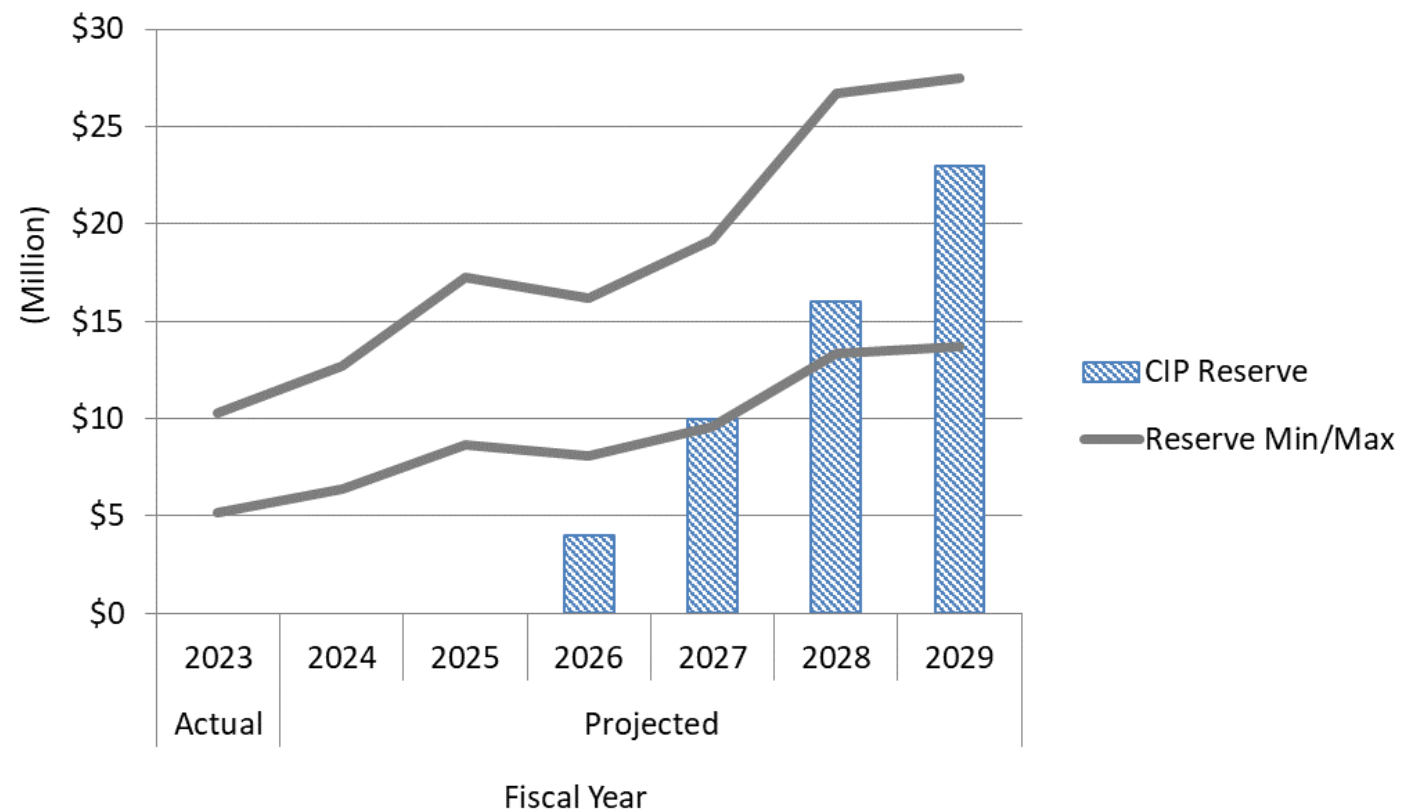
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Gas Operations Reserve Projections

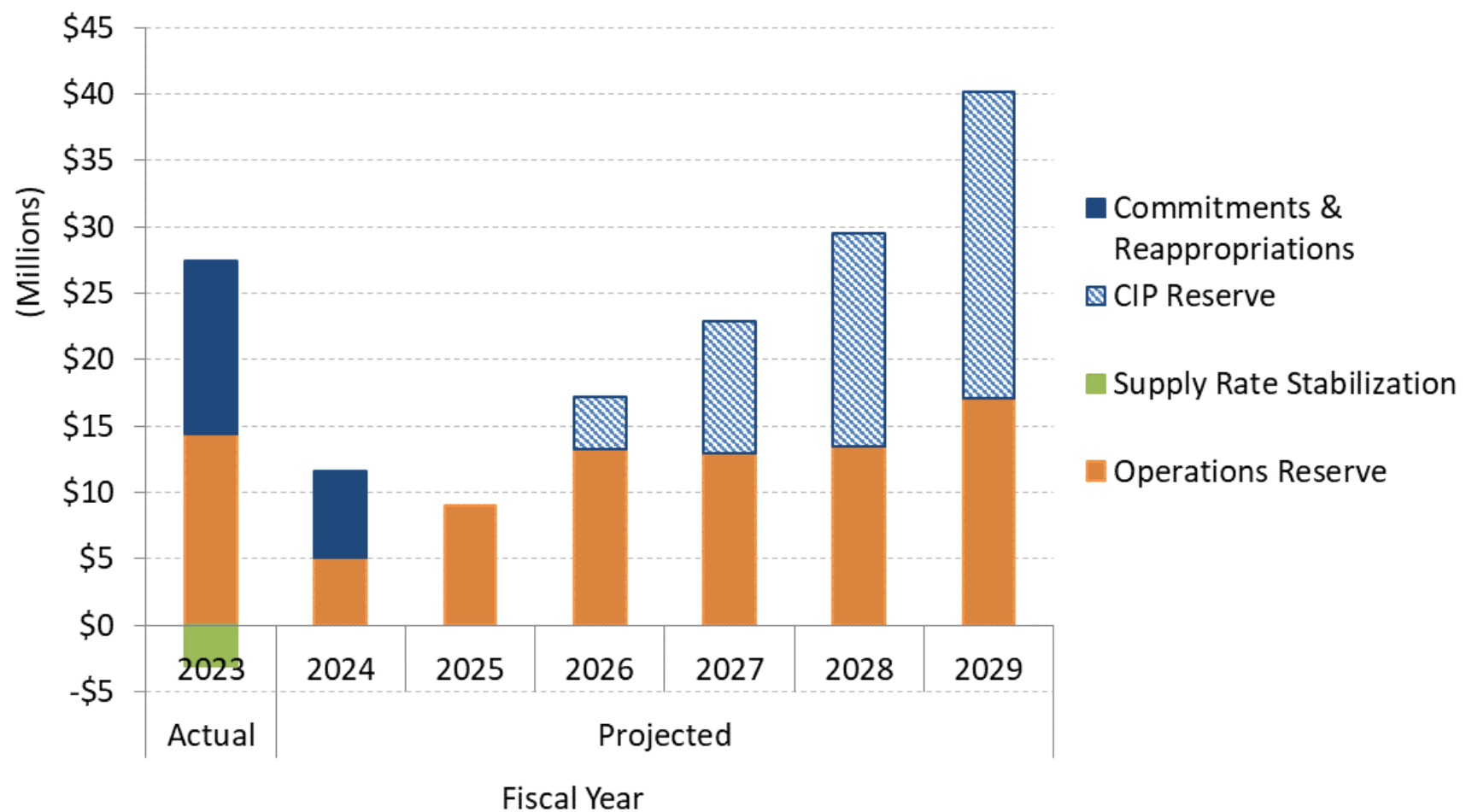
Transfer 11.9%



Gas CIP Reserve Projections



Gas Reserve Projections



Note: Excludes Cap and Trade Reserve

Gas Rates Recommendation

The Utilities Advisory Commission and Staff Recommend the Finance Committee Recommend that the City Council adopt a resolution:

- A. Approving the FY 2025 Gas Utility Financial Plan, including amending the Gas Utility Reserve Management Practices; and
- B. Transferring up to 11.9% of gas utility gross revenues received during FY 2023 to the general fund in FY 2025
- C. Increasing gas rates by amending Rate Schedules G-1 (Residential Gas Service), G-2 (Residential Master-Metered and Commercial Gas Service), G-3 (Large Commercial Gas Service), and G-10 (Compressed Natural Gas Service)