



FY 2026 Gas Rate Proposal

Finance Committee

April 15, 2025

www.cityofpaloalto.org

Residential Median Bill Projections (Bill \$ and % change from prior year)

Fiscal Year		Proposed	Projections			
	2025	2026	2027	2028	2029	2030
Electric Utility ⁽¹⁾	\$7.00	\$5.00	\$4.90	\$7.50	\$8.10	\$6.30
	9%	6%	6%	8%	8%	6%
Gas Utility ⁽²⁾	\$7.80	\$15.20	\$5.50	\$5.60	\$6.10	\$6.00
	13%	22%	6%	6%	6%	6%
Water Utility	\$9.80	\$11.40	\$12.50	\$13.70	\$15.10	\$16.60
	9%	10%	10%	10%	10%	10%
Wastewater	\$7.30	\$11.20	\$11.40	\$11.80	\$4.50	\$4.70
	15%	20%	17%	15%	5%	5%
Refuse	\$0.00	\$0.00	\$1.50	\$1.50	\$1.60	\$1.60
	0%	0%	3%	3%	3%	3%
Stormwater ⁽³⁾	\$0.40	\$0.40	\$0.40	\$0.40	\$0.40	\$0.50
	3%	2%	2%	2%	2%	2%
Monthly Bill Change ⁽⁴⁾	\$34.50	\$44.70	\$37.40	\$41.90	\$37.40	\$37.20
	9%	11%	8%	9%	7%	7%

1) FY 2025 incorporates results of cost-of-service analysis

2) Gas rate in FY 2026 based on General Fund transfer of 18% of gross revenue in FY 2024; changes shown with commodity rates held constant; actual gas commodity rates vary monthly; FY 2026 incorporates results of cost-of-service analysis

3) Stormwater fees increase by CPI index annually per approved 2017 ballot measure (2.6% in FY 2025)

4) Based on projected FY 2025 monthly residential bill of \$404

Residential Median Bill Projections w/ Climate Credit (Bill \$ and % change from prior year)

Fiscal Year	2025	Proposed	Projections			
		2026	2027	2028	2029	2030
Electric Utility ⁽¹⁾	\$7.00 9%	\$5.00 6%	\$4.90 6%	\$7.50 8%	\$8.10 8%	\$6.30 6%
Gas Utility ⁽²⁾	\$7.80 13%	\$9.10 13%	\$9.90 13%	\$5.50 6%	\$6.00 6%	\$5.90 6%
Water Utility	\$9.80 9%	\$11.40 10%	\$12.50 10%	\$13.70 10%	\$15.10 10%	\$16.60 10%
Wastewater	\$7.30 15%	\$11.20 20%	\$11.40 17%	\$11.80 15%	\$4.50 5%	\$4.70 5%
Refuse	\$0.00 0%	\$0.00 0%	\$1.50 3%	\$1.50 3%	\$1.60 3%	\$1.60 3%
Stormwater ⁽³⁾	\$0.40 3%	\$0.40 2%	\$0.40 2%	\$0.40 2%	\$0.40 2%	\$0.50 2%
Monthly Bill Change ⁽⁴⁾	\$34.50 9%	\$38.40 9%	\$42.00 9%	\$41.80 9%	\$37.30 7%	\$37.10 7%

Utilities Advisory Commission
Recommends a Climate Credit:
 One-time flat \$73.20 credit to residential G-1 customers only. The total cost is about \$1.6M from the Cap-and-Trade Reserve, enough to fund whole home electrification incentives for about 182 homes.

1) FY 2025 incorporates results of cost-of-service analysis

2) Gas rate in FY 2026 based on General Fund transfer of 18% of gross revenue in FY 2024; changes shown with commodity rates held constant; actual gas commodity rates vary monthly; FY 2026 incorporates results of cost-of-service analysis

3) Stormwater fees increase by CPI index annually per approved 2017 ballot measure (2.6% in FY 2025)

4) Based on projected FY 2025 monthly residential bill of \$404



Gas Rate Proposal

Proposal

- 5% overall average rate increase in FY 2026, assuming no change in supply costs; individual customer rate increases vary depending on customer class and usage
- Cost of Service Analysis completed February 2025 – requires rate changes varying by customer class to match the cost to serve
 - 22% (\$15.20/month) bill increase for median residential customer
 - -53.6% (\$121.44/month) bill decrease for small residential master-metered and business customers

Drivers

- Reserve replenishment, labor, allocated charges, cross-bore program
- Federal grant of \$16.5 million expected to fund CIP work including main replacement
- Gas General Fund Transfer in FY 2026 estimated at \$9.735M, (18% of FY 2024 gross revenue)

Compared with Preliminary Rates

- Lowered overall average rate increase from 6% to 5%
- Cost of Service Analysis results incorporated, residential and large commercial expected to see increases

Fiscal Year	2025	2026	2027	2028	2029	2030
Proposal	13%	5%	6%	6%	6%	6%
Preliminary	13%	6%	6%	6%	6%	6%

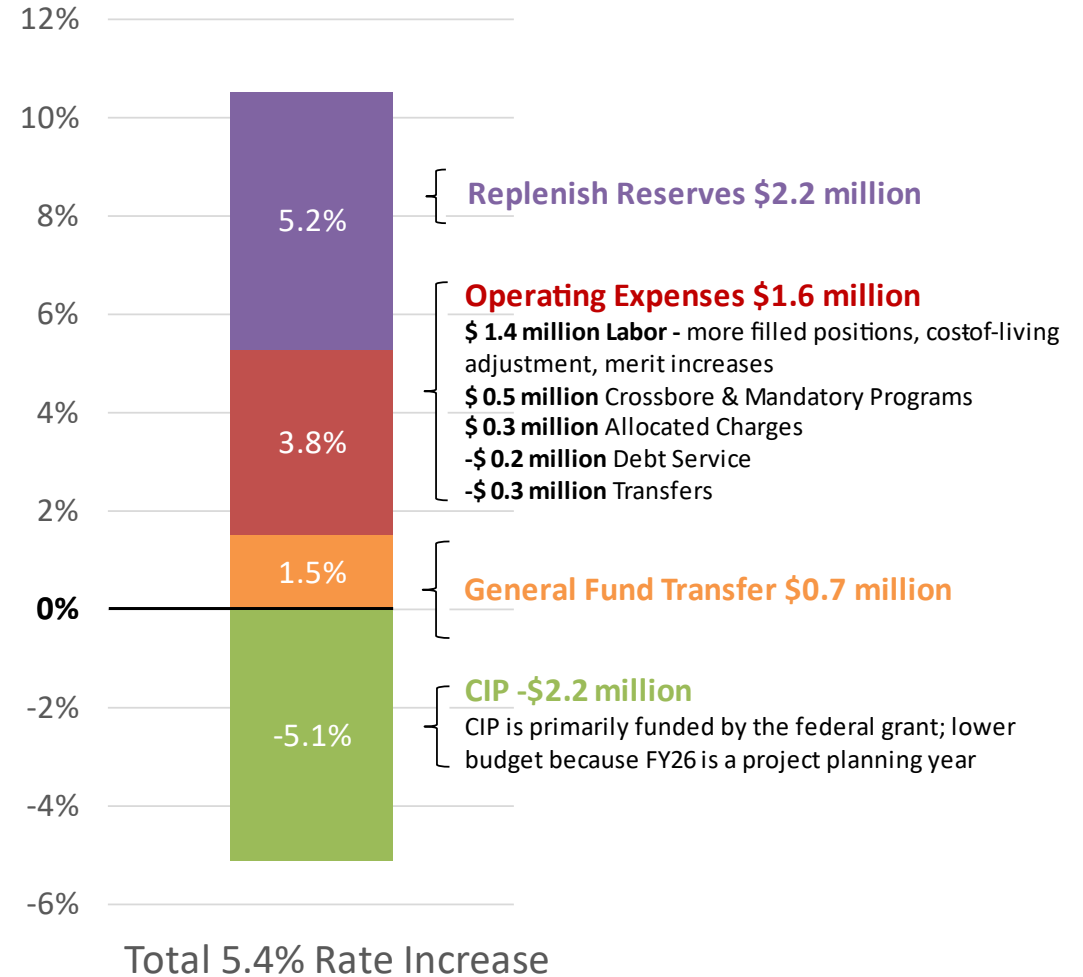
Note: excludes supply-related rate changes

FY 2026 Rate Increase Drivers

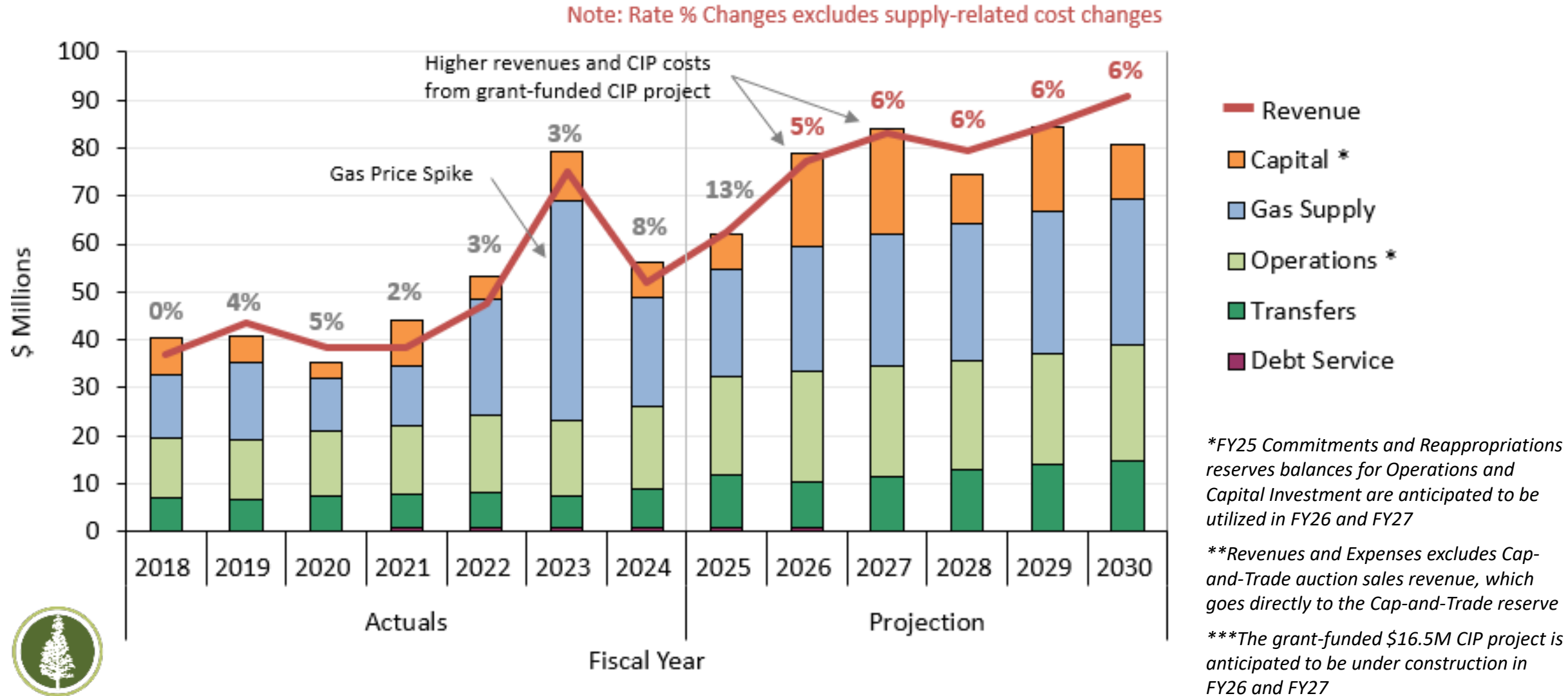
This chart explains the rate increase drivers for the overall average rate increase. Additional cost of service adjustments by customer class are required.

Calculation Notes:

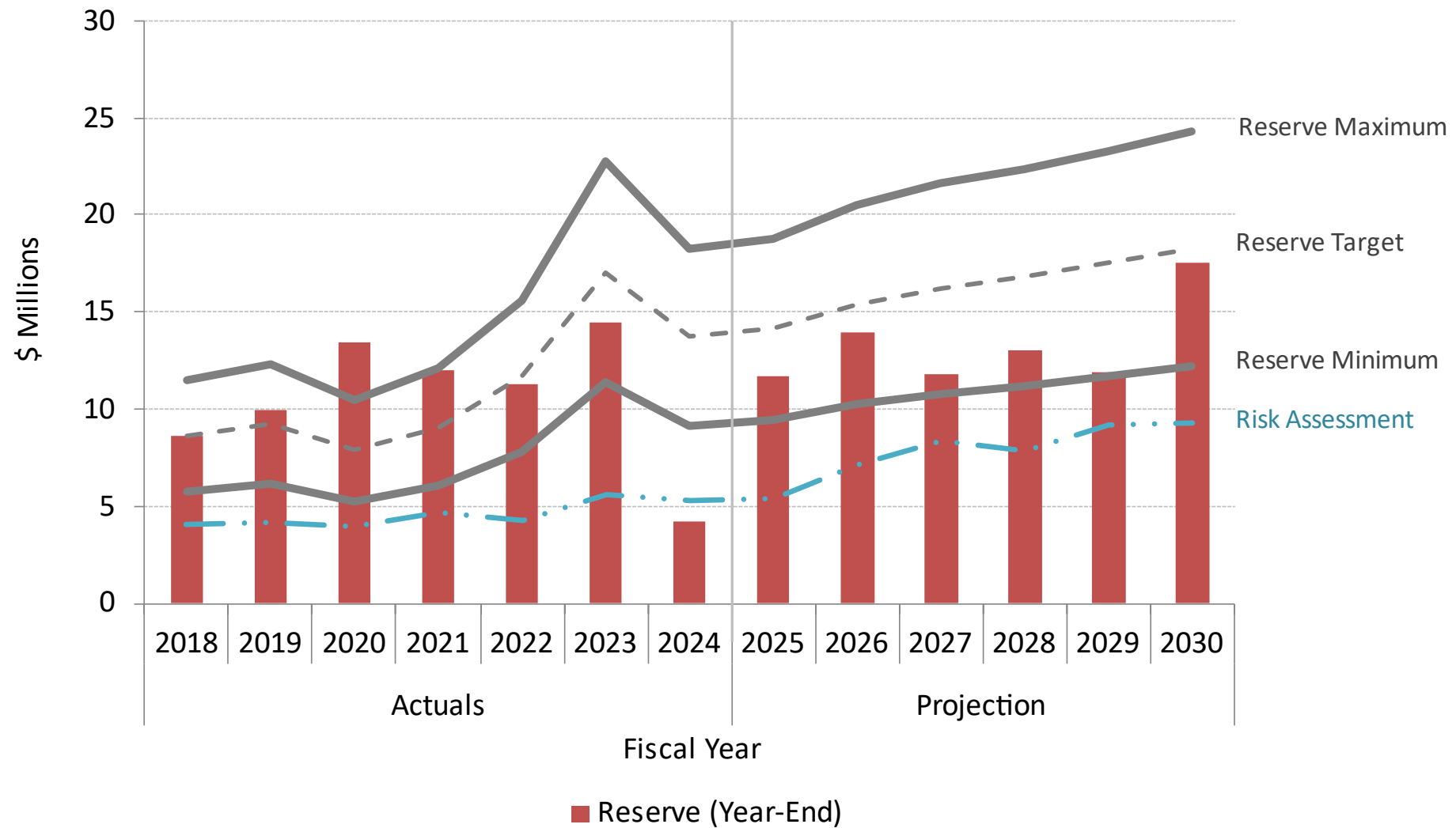
- Rate increases based on projected FY 2026 revenues apportioned by 4-year average of actual costs
- Rate increases apply to sales revenue; Revenue includes some non-rate revenue.



Gas Cost and Revenue Projections



Gas Operations Reserve Projections





Basic Cost of Service Methodology

- First establish how much revenue you need
- Then use consumption patterns to allocate costs among customer classes according to how they incur utility costs
 - CPA classes: G-1 (residential), G-2 (small commercial and multi-family master-metered), G-3 (large commercial) and G-10 (CNG Station)
 - Costs allocators include things like therms used, number of customers in class
- Then design rates that provide prices that allocate costs to customers who consume in different ways.
 - Examples include tiered rates, seasonal rates, fixed charges, etc.



Prop 26 Considerations

- Prop 26 (2010): State ballot initiative that amended the State Constitution
- Gas and electric rates must represent the cost of service absent voter/ratepayer approval
- Cost of service analysis is the record demonstrating that the rates are cost-based
- Only applies to fees/charges imposed by local agencies (including gas/electric utility rates) – investor-owned utilities have all the latitude the CPUC will give them

Gas Bill Comparisons Proposed Rates FY 2026 (\$/Mo.)

With UAC Recommended Climate Credit for Palo Alto Residents

FY 2025
(Current)

Residential

Rate	Season	Usage (Therms)	Palo Alto (w/ Recommended Rates)	PG&E	PA/PG&E (%)	PA/PG&E (%)
G-1	Summer	10	34.28	17.38	97%	120%
		(Median) 17	48.89	37.30	31%	35%
		30	80.40	79.07	2%	10%
		45	121.74	127.26	(4%)	6%
G-1	Winter	30	77.31	89.91	(14%)	(22%)
		(Median) 51	122.04	158.20	(23%)	(32%)
		80	196.93	252.51	(22%)	(27%)
		150	392.90	480.15	(18%)	(17%)
G-1	All	(Median) 31	79.37	87.68	(9%)	(16%)

Note:

- FY 2026 rates calculated assuming no change to supply-related rates; PG&E transportation rates as of January 1, 2025
- FY 2025 rates calculated based on actuals and projected rates
- PG&E bills are calculated using Climate Zone X
- Palo Alto and PG&E bills include a climate credit for residential
- G-2 bills are calculated based on the median usages for each meter capacity group

Commercial and Multi-Family Master-Metered

FY 2025
(Current)

Rate and Meter Capacity (Scfh)	Usage (Therms)	Palo Alto (w/ Recommended Rates)	PG&E	PA/PG&E (%)	PA/PG&E (%)
G-2 Meter Capacity: ≤220	35	105.07	77.87	35%	199%
G-2 Meter Capacity: >220, <4,000	280	694.62	560.64	24%	30%
G-2 Meter Capacity: ≥4,000	2,648	6,096.22	5,207.13	17%	6%
G-3	20,834	44,187.46	30,608.12	44%	37%

Communication and Outreach

Key Messages

- Reasons for rate increases and benefits to customers
- Competitive rates to other utilities and neighboring cities
- What the City is doing to keep costs down
- City programs and services to help customers keep utility bill costs low



Utility bill insert about gas safety

Outreach Strategies

- Public Meetings: UAC, Finance, City Council
- Digital Communication: website, social media, email newsletters, City blog, videos
- Direct Mail: utility bill inserts, Proposition 218 notice, SFPUC rates postcard
- Local Media Engagement: articles, interviews



Installing new gas pipe for the Gas Main Replacement Project #24B



Recommendation

Staff and UAC Recommendation:

The Finance Committee recommends that the City Council adopt a resolution:

1. Approving the Fiscal Year 2026 Gas Utility Financial Forecast;
2. Approving the transfer of up to \$1.5 million from the Gas Utility Operations Reserve to the Distribution Rate Stabilization Reserve at the end of FY 2025;
3. Approving the Natural Gas Cost of Service and Rate Study;
4. Transferring up to 18% of gas utility gross revenues received during FY 2024 to the General Fund in FY 2026;
5. Increasing distribution rates by 8.7% (for an estimated 5.4% increase to overall rates) for FY 2026 by amending Rate Schedules;
 - a. G-1 Residential Gas Service,
 - b. G-2 Residential Master-Metered and Commercial Gas Service,
 - c. G-3 Large Commercial Gas Service, and
 - d. G-10 Compressed Natural Gas Service;

UAC Recommendation:

6. The Finance Committee recommends that the City Council approve the use of approximately \$1.6 million of Cap-and-Trade allowance auction proceeds to provide a one-time flat credit of \$73.20 to each residential G-1 customer only in FY 2026.