



# GAS UTILITY FINANCIAL PLAN AND PROPOSED RATE CHANGES FOR FY 2024

March 21, 2023

[www.cityofpaloalto.org](http://www.cityofpaloalto.org)

# GAS RATE DESIGN

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- Rate Design:
  - Gas Supply rate components:
    - commodity (reflects cost of gas purchased at market prices)
    - transmission (reflects cost of transporting gas to Palo Alto)
    - environmental (reflecting cost of mandatory Cap and Trade program participation and Carbon Neutral Gas Portfolio)
    - These rates vary monthly, quarterly, or annually according to market-driven costs that are passed directly to customers
  - Distribution rates are set based on the City's costs for maintaining its gas distribution system (gas mains, services, related equipment)

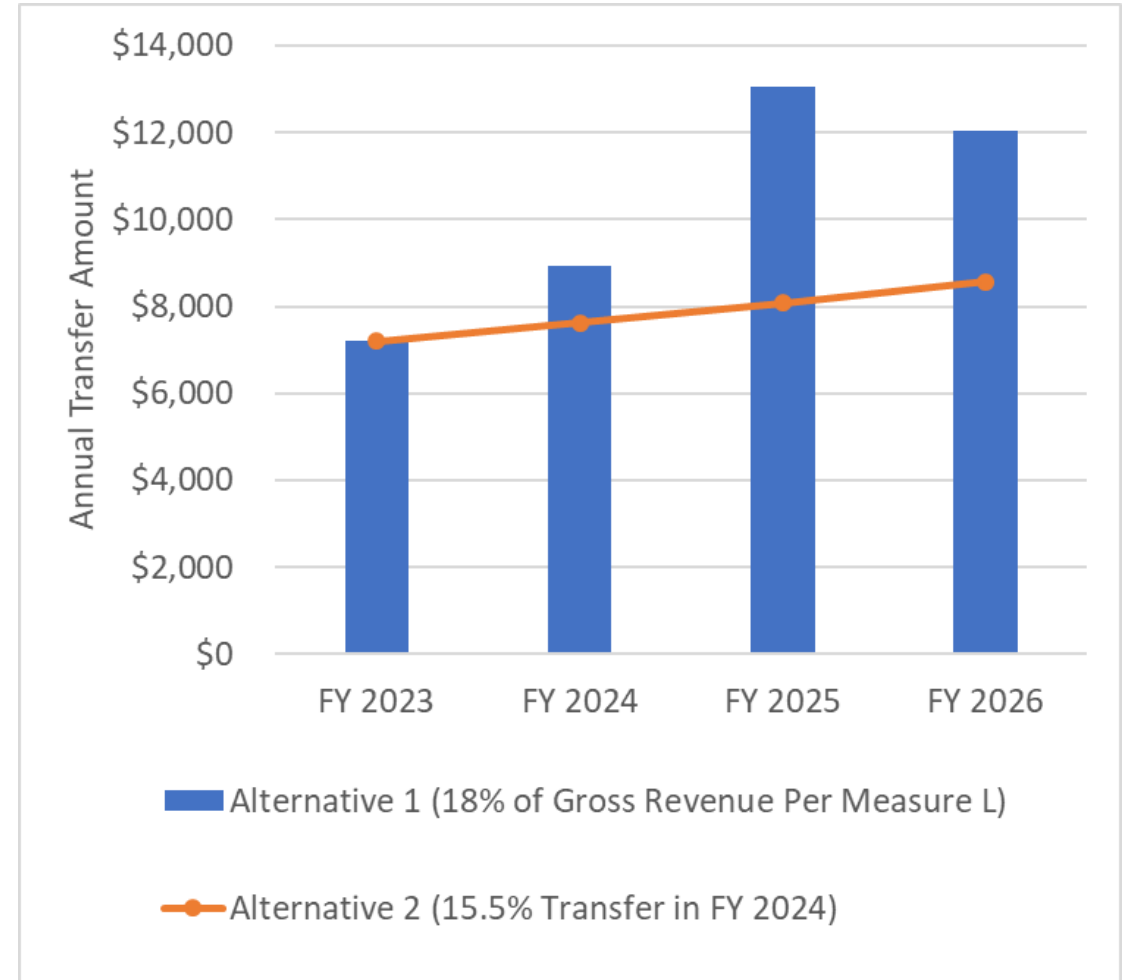
# GAS RATE PROPOSAL

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- 8% overall rate increase to customer bills due to 21% distribution rate increase;
- Projecting gas supply costs to be lower in FY 2024 (36% decrease), down from extreme FY 2023 prices
- Net effect is a **13% net decrease** in average annual customer bills from FY23 to FY24
- 7% projected increase in FY 2025 and 5% annually from FY 2026 through FY 2028
- 18% Measure L General Fund (GF) transfer for FY 2023 (PAMC 2.28.185)
- Feedback requested on FY 2024 Measure L transfer

# Alternative Gas Rate Projections

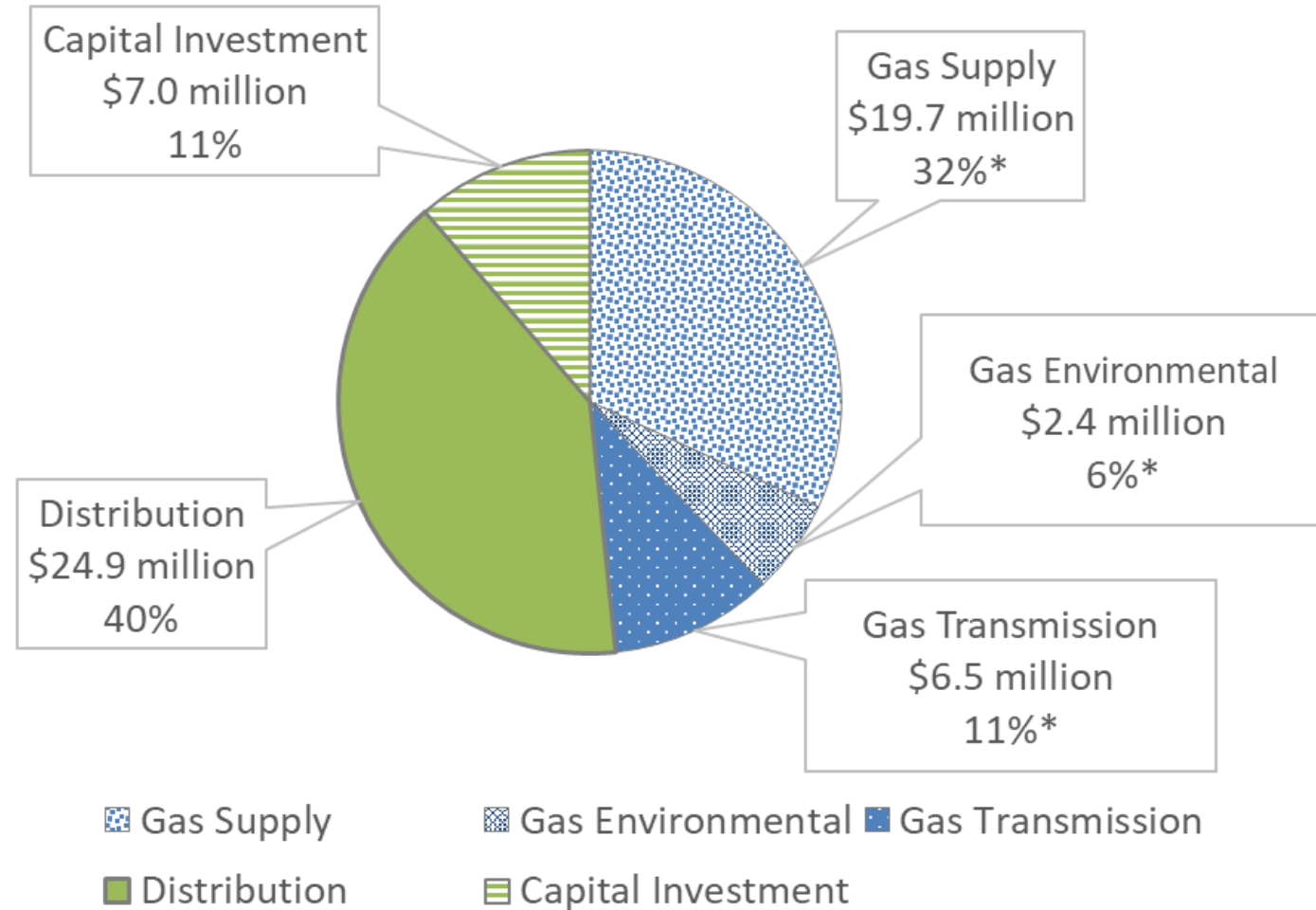
- Seeking feedback on proposed FY 2024 General Fund transfer
- Measure L: 18% of gas utility gross revenues from two fiscal years prior; Council may transfer less
- FY 2024 Alternative 1: Transfer 18%
- FY 2024 Alternative 2: Transfer 15.5%, approximates 2-3% annual growth in transfer from past years, CPI



# Gas Utility Cost Structure

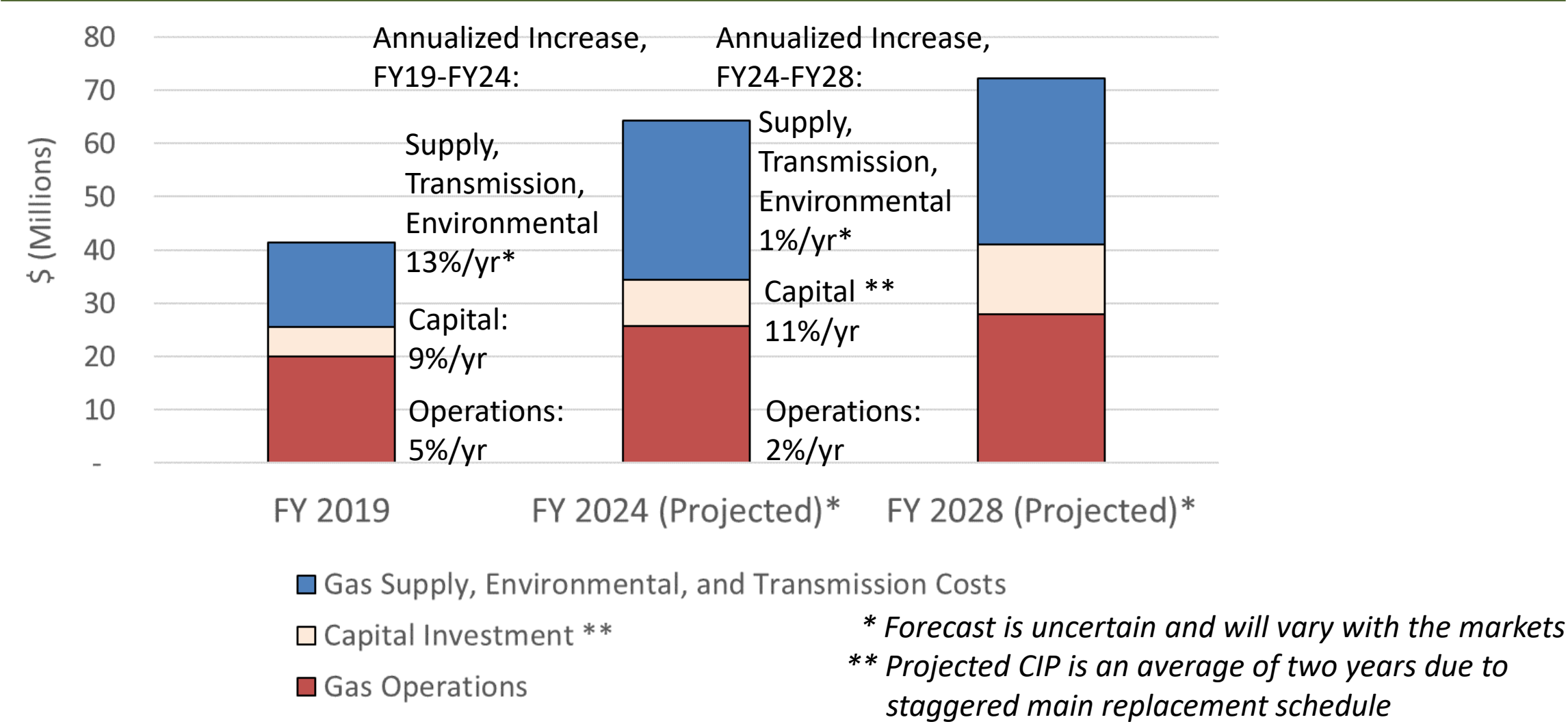
Gas Distribution (in green):  
The cost to distribute gas  
within Palo Alto, including:  
maintaining and replacing gas  
infrastructure, customer  
service, billing,  
administration, etc.

\*Gas Supply (in blue): All  
pass-through





# Long Term Cost Trends



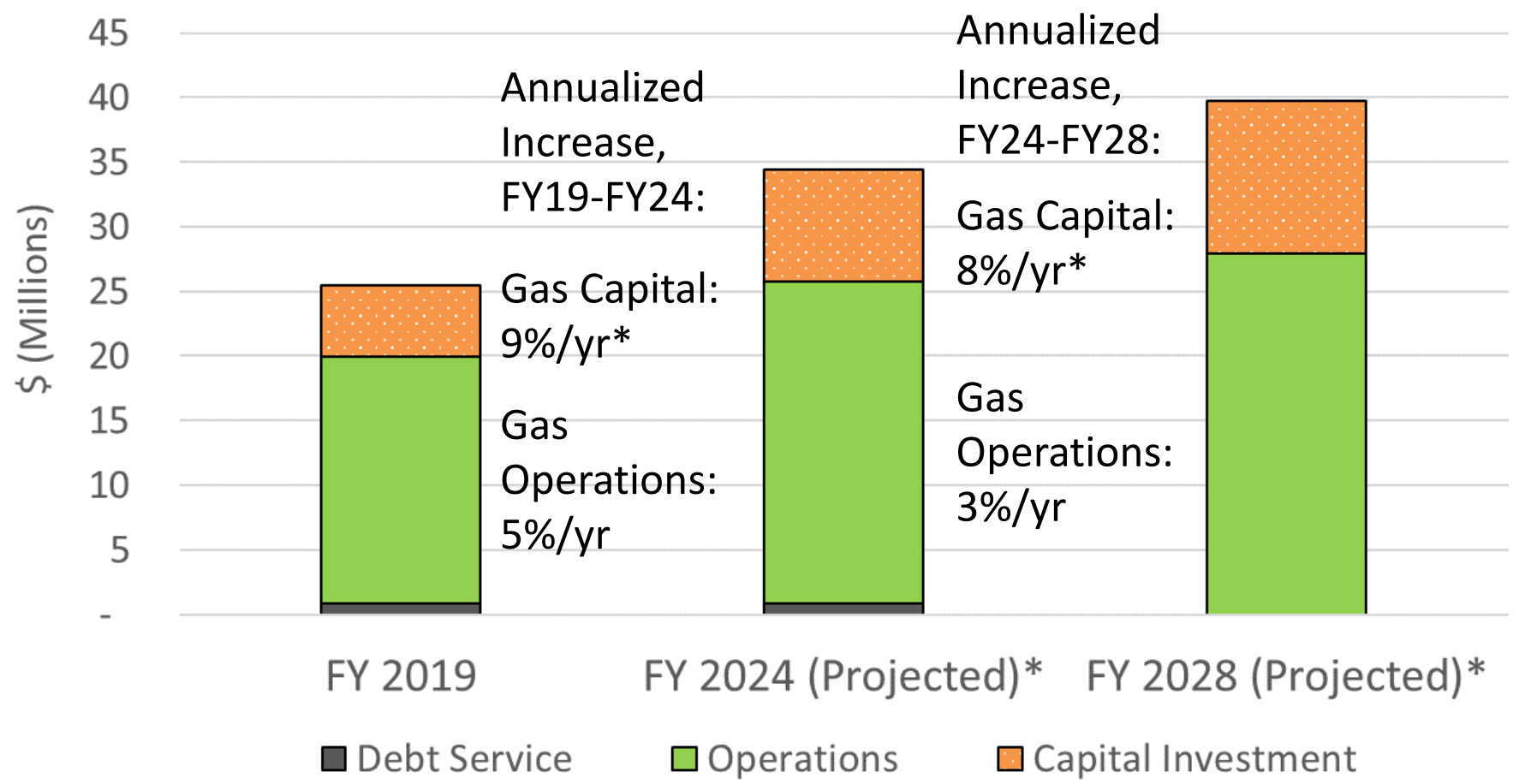
# Gas Supply Cost Drivers\*

- Gas supply – high volatility in gas market prices. Gas prices have risen in recent years as demand has increased, paired with transmission pipeline constraints, low regional storage issues
- PG&E gas transmission rates continue to rise to fund safety investments
- Cap-and-trade costs continue to rise (as intended by design)
- Carbon Neutral Gas – offset costs rising

*\* All of the above costs are passed through to customers via rate adjusters*



# GAS DISTRIBUTION COST TRENDS



*\* Projected CIP is an average of two years due to staggered main replacement schedule*



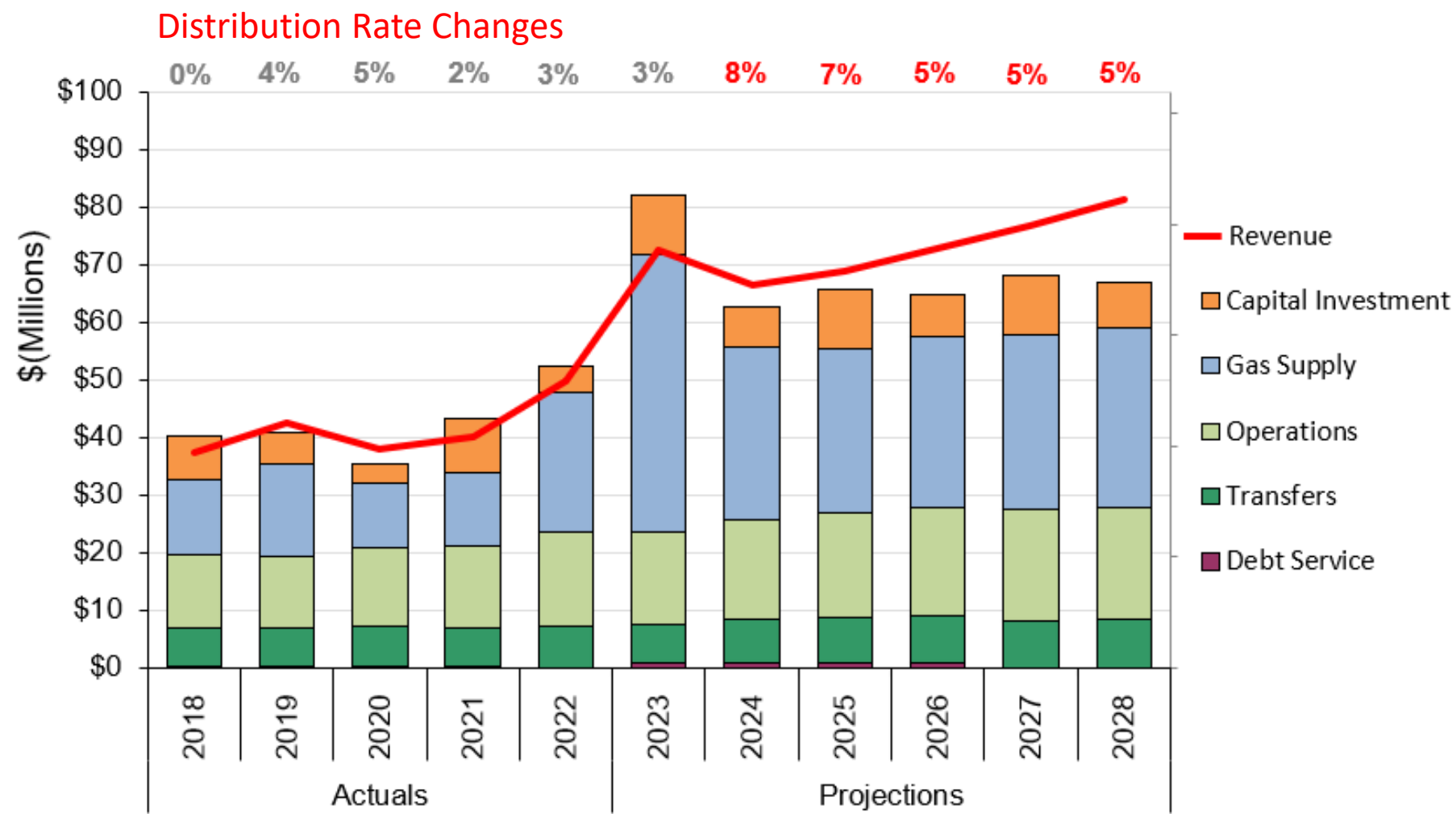
# GAS DISTRIBUTION COST DRIVERS

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- Health, retirement, and associated overhead costs continue to increase
- Underground construction costs have increased substantially as well
- About \$0.7M/Year needed for Crossbore Projects through FY 2028
- Need to replenish reserves, which were depleted by significant losses due to FY 2023 commodity costs that could not be passed through to customers

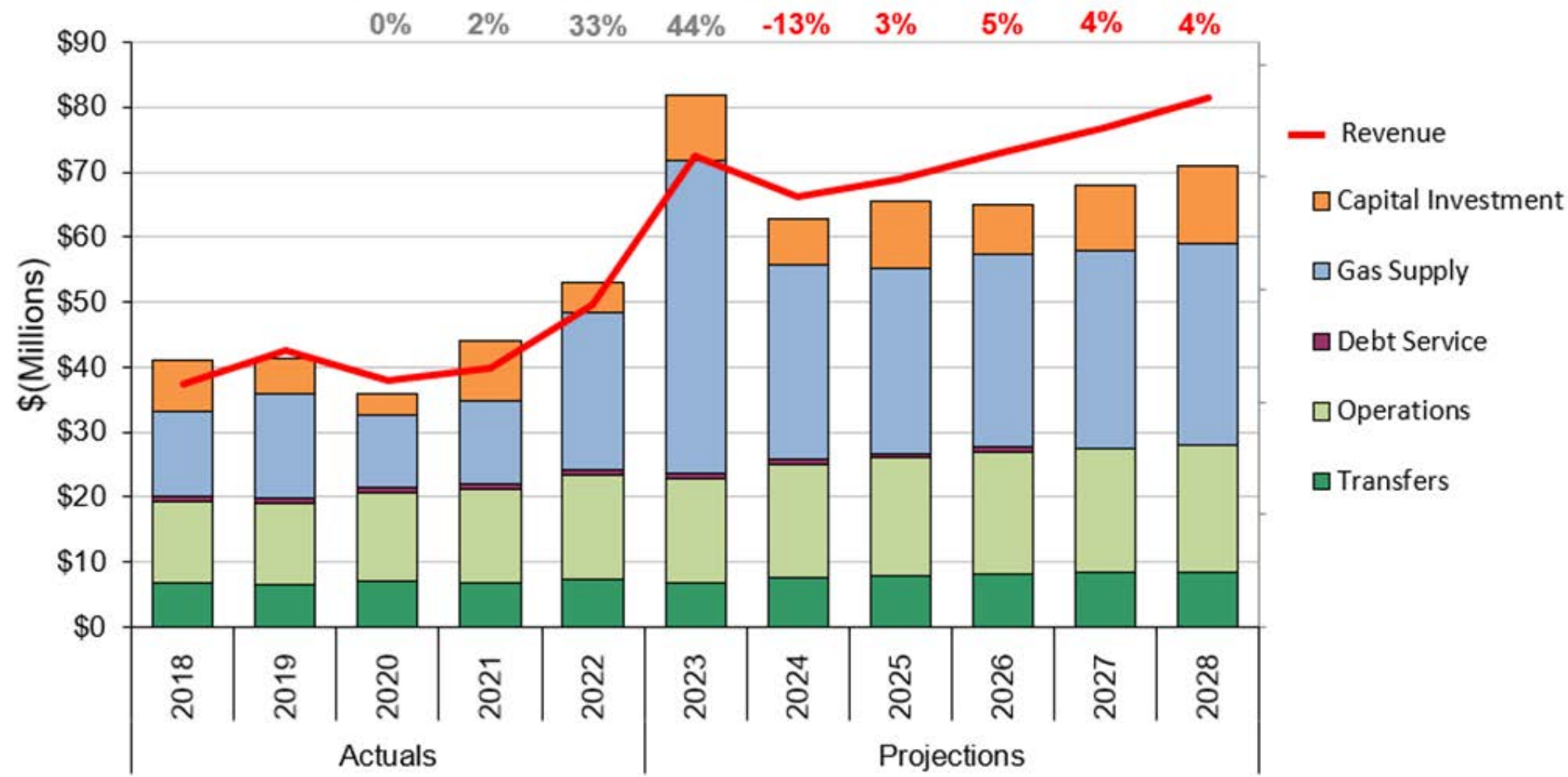


# FY 2024 GAS COST AND REVENUE PROJECTIONS

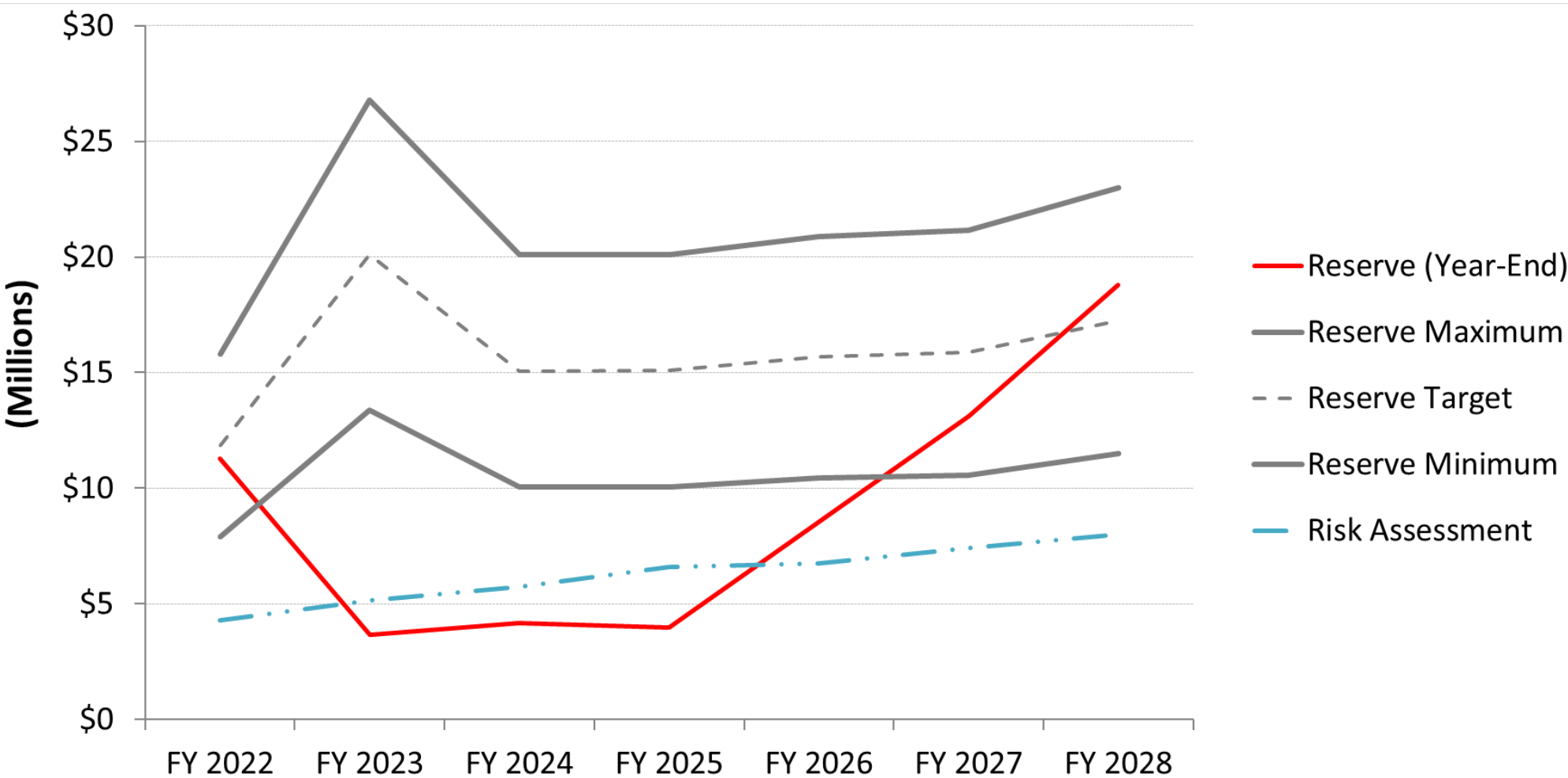


# FY 2024 GAS COST AND REVENUE PROJECTIONS

Overall Rate Changes (including supply rate changes)

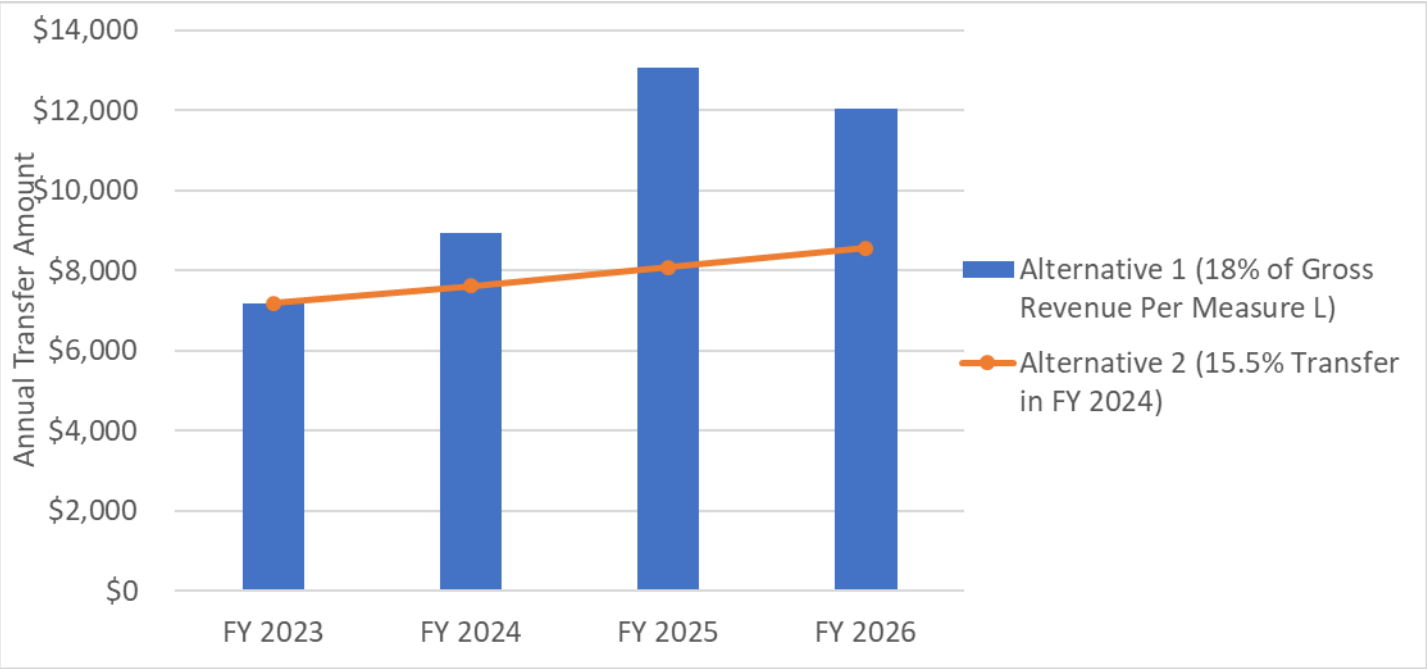


# GAS OPERATING RESERVE PROJECTIONS



# Alternative Gas Rate Projections

	FY 2024 (Proposed)	FY 2025 (Projected)	FY 2026 (Projected)
Alternative 1 (18% of Gross Revenue)	9%	10%	8%
Alternative 2 (15.5% of Gross Revenue in FY 2024)	8%	7%	5%



Percent of gross gas utility revenue to transfer			
	FY 2024 (Proposed)	FY 2025 (Projected)	FY 2026 (Projected)
Alternative 1	18.0%	18.0%	18.0%
Alternative 2	15.5%	11.1%	12.9%



# ESTIMATED BILL CHANGES

## Residential

Usage (Therms/month)	Bill under Current Rates	Bill under Proposed Rates	Change	
			\$/mo.	%
Winter Commodity Prices based on:	Average Nov. 2022 – Jan. 2023	Average Budget Forecast Nov. 2023 – Jan. 2024		
30	\$ 98.98	\$ 66.53	\$(32.45)	-33%
54 (median)	168.93	108.54	(60.39)	-36%
80	262.18	175.25	(86.92)	-33%
150	527.32	371.99	(155.34)	-29%
Summer (Based on May 2022 Commodity Prices)				
10	\$ 27.41	\$ 31.08	\$ 3.67	13%
18 (median)	40.11	44.74	4.63	12%
30	67.89	75.83	7.94	12%
45	104.80	117.34	12.54	12%

## Commercial

Usage (Therms/month)	Bill under Current Rates	Bill under Proposed Rates	Change
			%
500	\$ 1,282	\$ 1,146	-11%
5,000	11,855	10,295	-13%
10,000	23,604	20,460	-13%
50,000	117,609	101,802	-13%

# CURRENT BILL COMPARISONS

## Residential

Season	Usage (therms)	Palo Alto	PG&E Zone X	% Difference
Winter (November 2022 Rates)	30	\$ 59.45	\$ 69.02	(14%)
	(Median) 54	97.77	125.08	(22%)
	80	156.75	197.07	(20%)
	150	329.65	390.88	(16%)
Summer (May 2022 Rates)	10	\$ 27.41	19.66	39%
	(Median) 18	40.11	36.90	9%
	30	67.89	65.99	3%
	45	104.80	102.34	2%

Palo Alto median residential bill is about 11% below PG&E's median bill (based on CY 2022 data)

## Commercial

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



## RECOMMENDATION

Staff and the Utilities Advisory Commission (UAC) recommend that the Finance Committee recommend that Council adopt a resolution (Attachment A):

- Approving the fiscal year (FY) 2024 Gas Utility Financial Plan ([Linked Document](#)); and
- Amending the Gas Utility Reserve Management Practices (Attachment B)
- Transferring up to 18% of gas utility gross revenues received during fiscal year 2021 to the general fund in FY 2023;
- Transferring up to \_\_\_\_% of gas utility gross revenues received during fiscal year 2022 to the general fund in FY 2024;
- Transferring up to \$3.82 million from the CIP Reserve to the Operations Reserve in FY 2023; and
- 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) (Attachment C).

The UAC recommends that the Finance Committee transfer up to \_\_\_\_% of gas utility gross revenues received during fiscal year 2022 to the general fund in FY 2024;