



GAS UTILITY FINANCIAL PLAN AND PROPOSED RATE CHANGES FOR FY 2024

March 21, 2023

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GAS RATE DESIGN

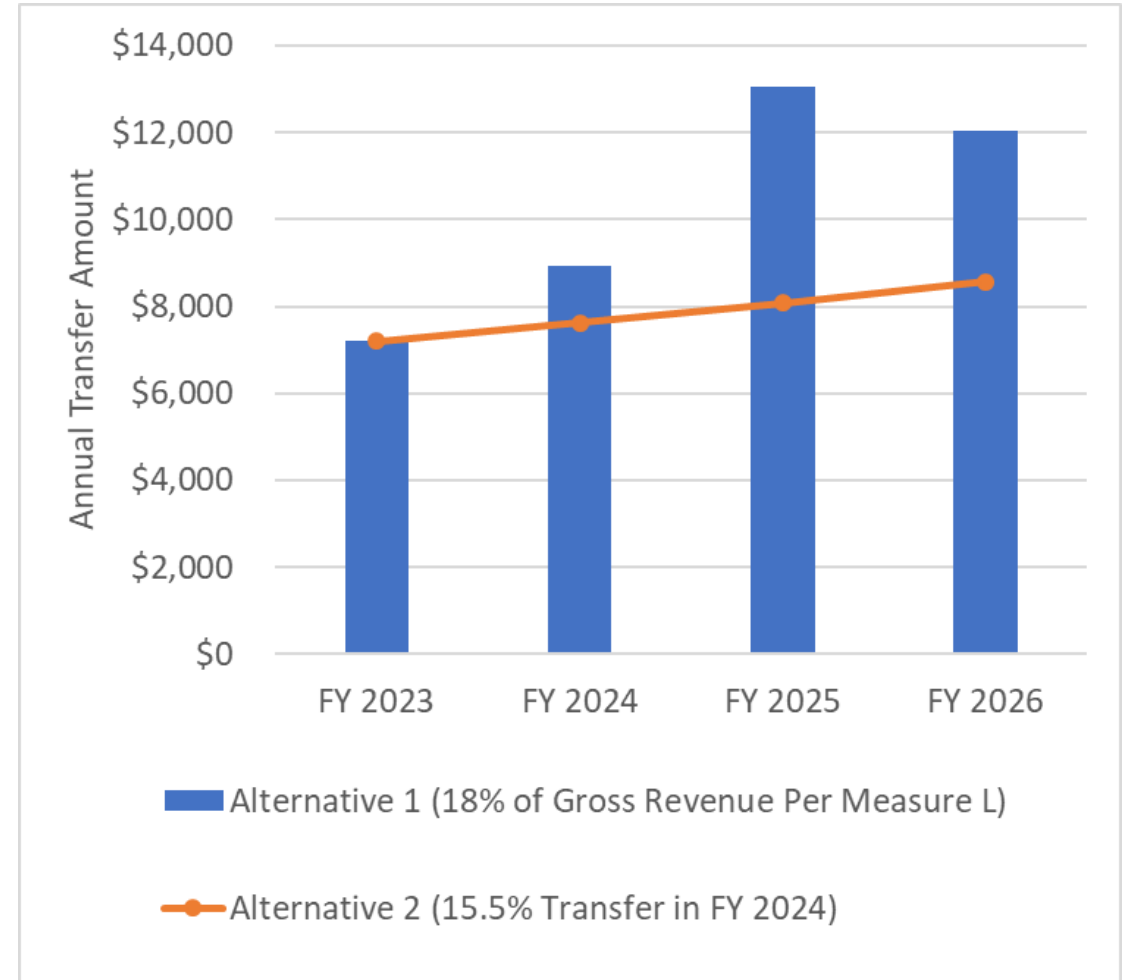
- Rate Design:
 - Gas Supply rate components:
 - commodity (reflects cost of gas purchased at market prices)
 - transmission (reflects cost of transporting gas to Palo Alto)
 - environmental (reflecting cost of mandatory Cap and Trade program participation and Carbon Neutral Gas Portfolio)
 - These rates 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

- 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

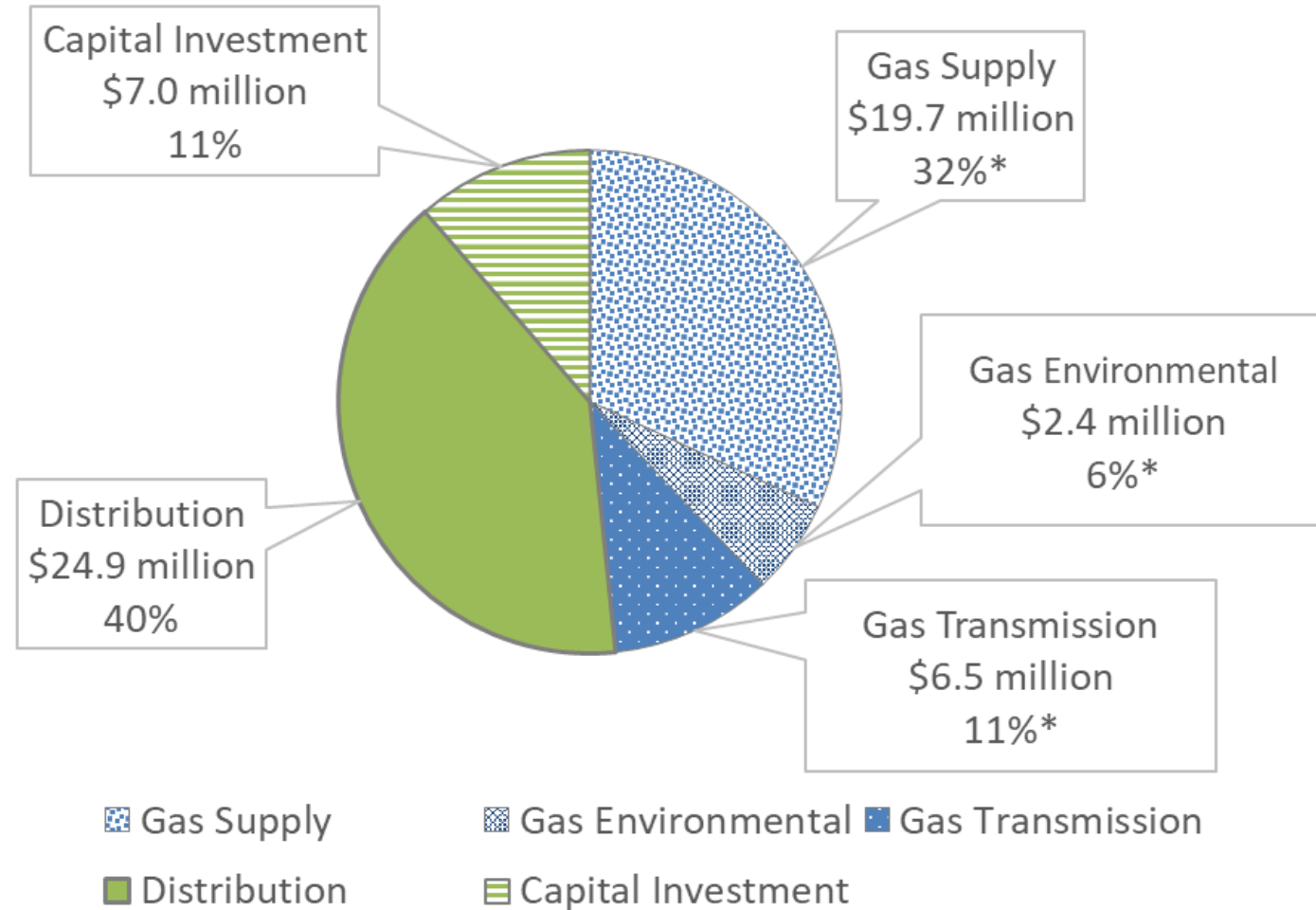
- Seeking feedback on proposed FY 2024 General Fund transfer
- Measure L: 18% of gas utility gross revenues from two fiscal years prior; Council may transfer less
- FY 2024 Alternative 1: Transfer 18%
- FY 2024 Alternative 2: Transfer 15.5%, approximates 2-3% annual growth in transfer from past years,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



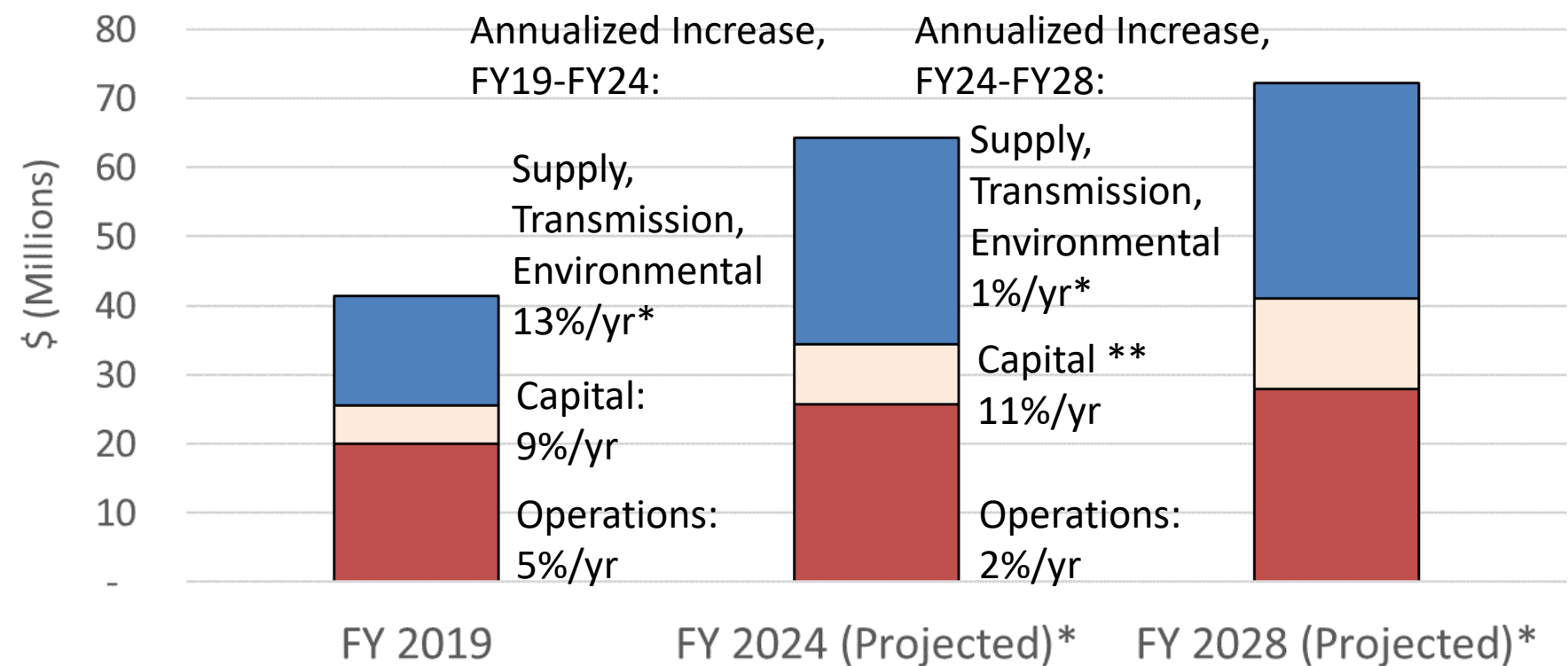
Gas Utility Cost Structure

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, Environmental, and Transmission Costs
- Capital Investment **
- Gas Operations

* Forecast is uncertain and will vary with the markets
** Projected CIP is an average of two years due to staggered main replacement schedule

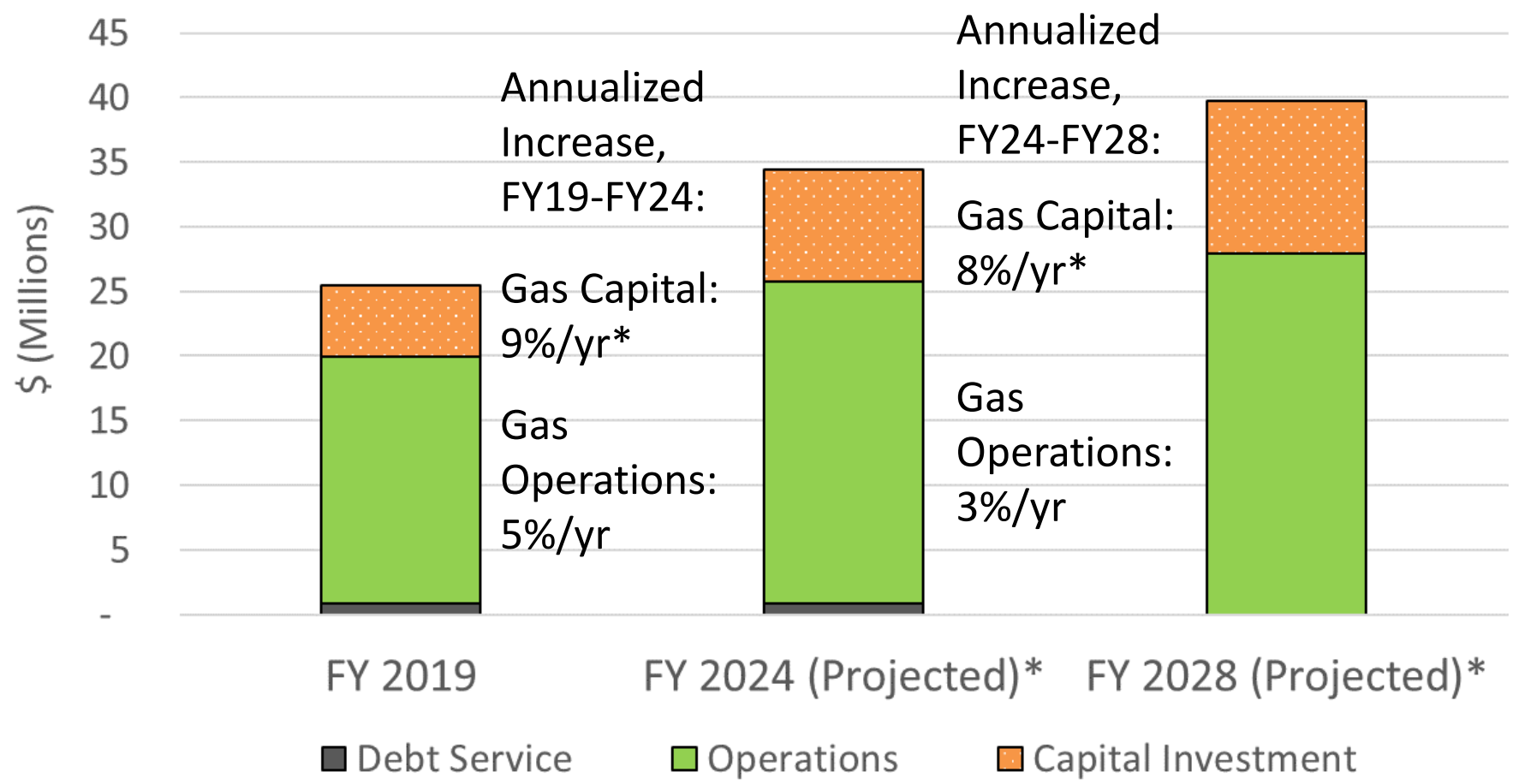
Gas Supply Cost Drivers*

- 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



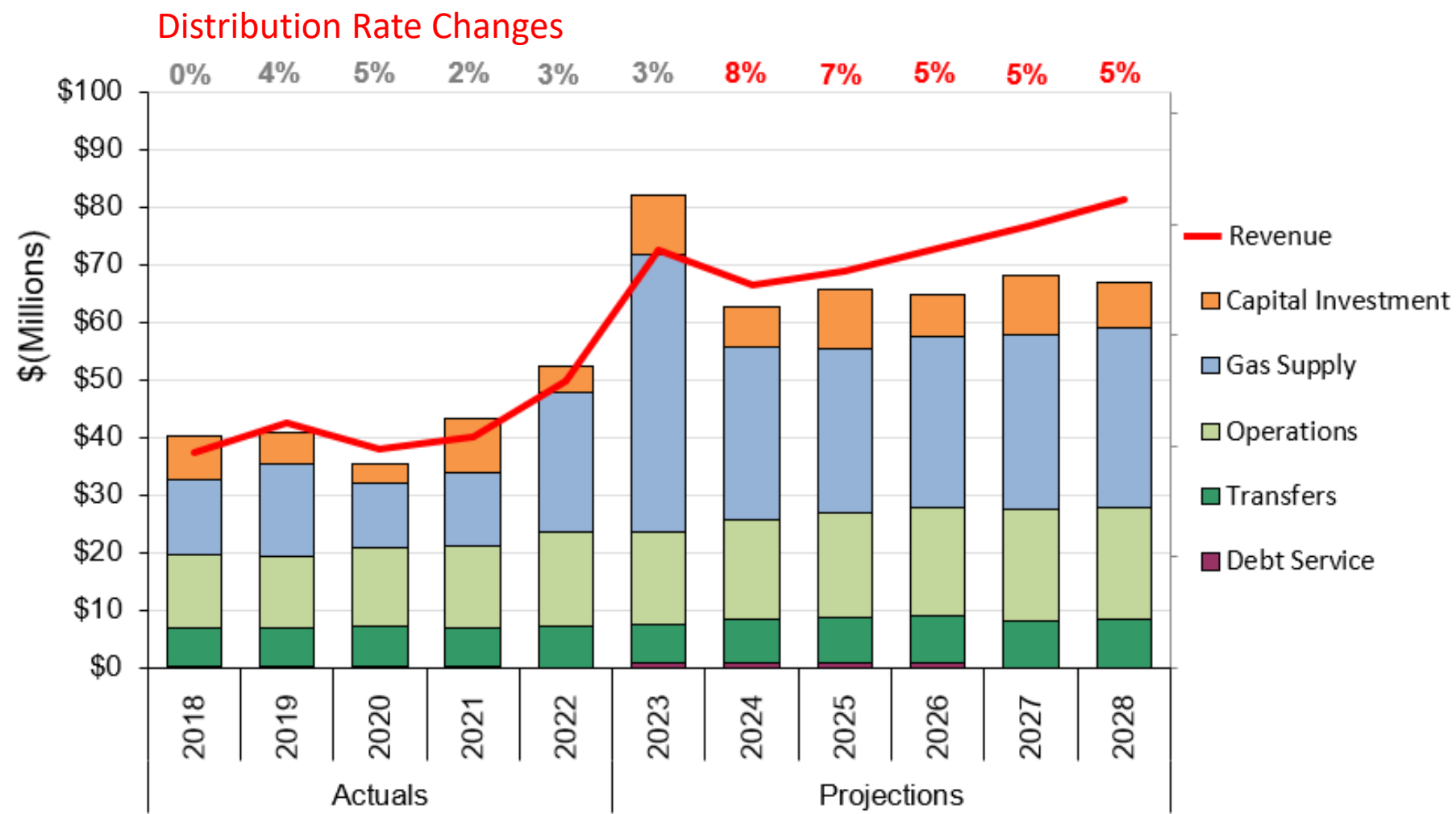
** Projected CIP is an average of two years due to staggered main replacement schedule*

GAS DISTRIBUTION COST DRIVERS

- 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

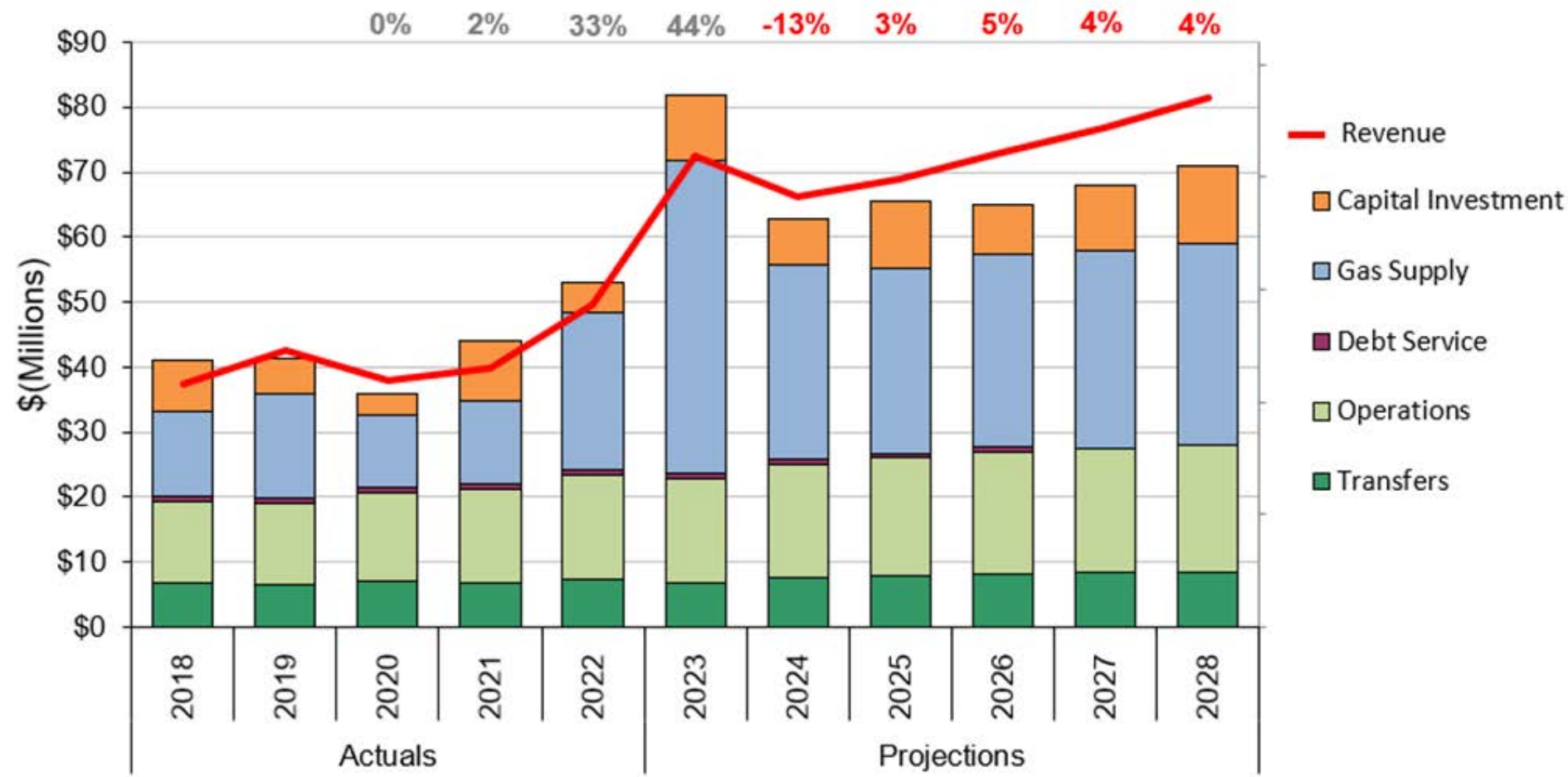


FY 2024 GAS COST AND REVENUE PROJECTIONS

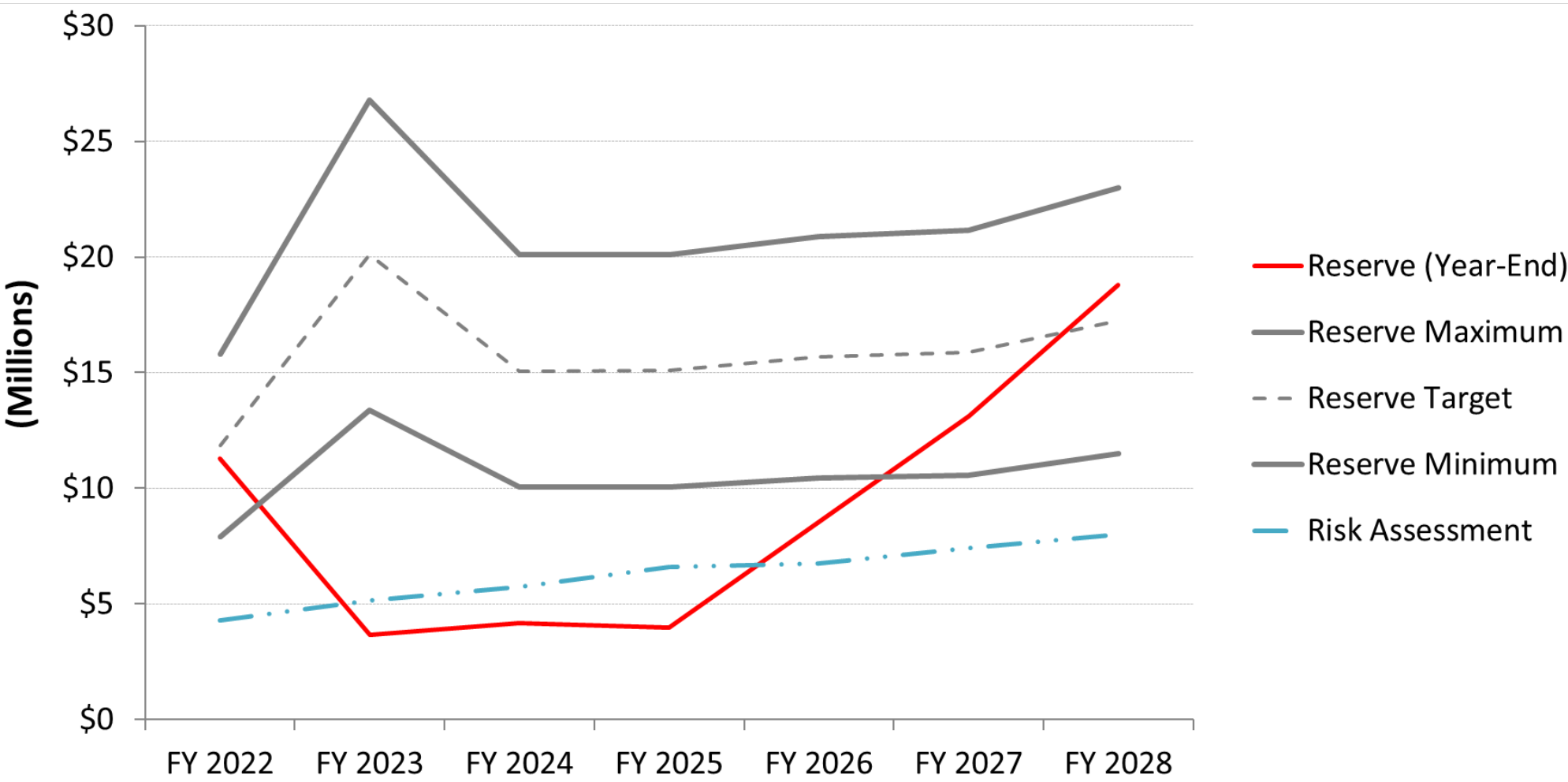


FY 2024 GAS COST AND REVENUE PROJECTIONS

Overall Rate Changes (including supply rate changes)

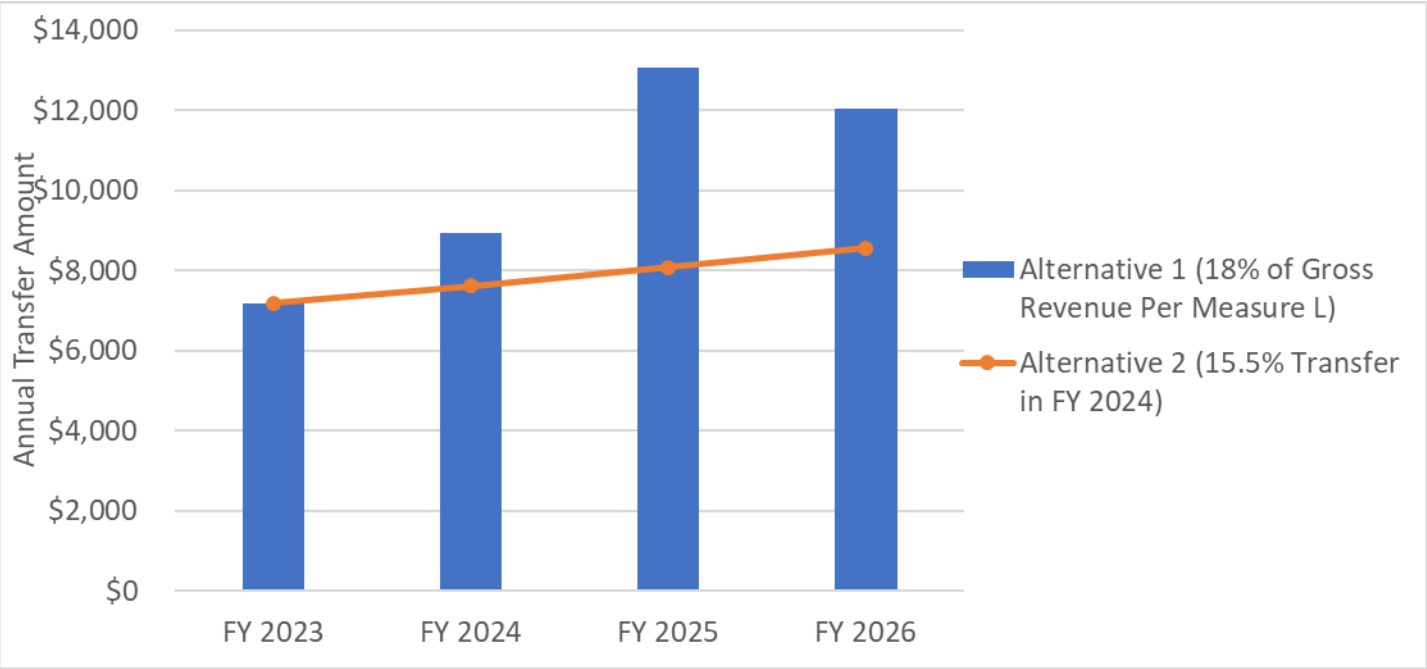


GAS OPERATING RESERVE PROJECTIONS



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;