



# Alternative to Manage Winter 2023-24 Natural Gas Price Uncertainty

City Council

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

# Background

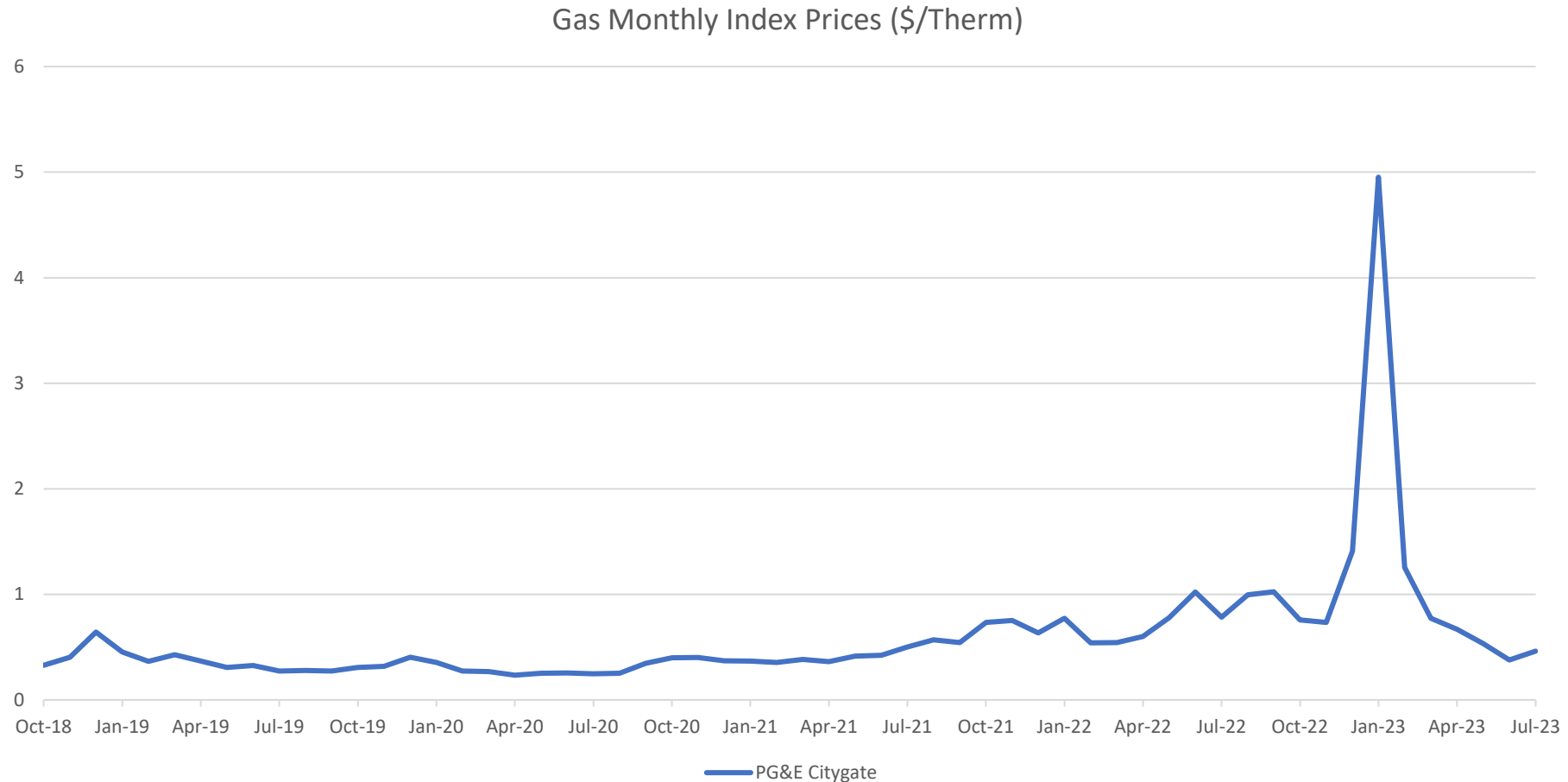
- In 2012, Council approved a monthly market-price-based natural gas purchasing and pass-through commodity rate strategy (Resolution 9244) due to falling market natural gas prices and resulting non competitiveness with PG&E
- City purchases gas at prices tied to a published market monthly index
- Customer gas rates include the commodity charge based on the published monthly index (commodity charge has a maximum per the customer gas rates schedule)
- Monthly prices remained under the previous Council-approved \$2/therm maximum commodity charge until January 2023

## Winter 2022-23 Price Surge

- In late November 2022, gas prices started rising dramatically in CA
- Staff communicated to customers about the expected higher prices and in December 2022 Council increased the \$2/therm maximum commodity charge to \$4/therm
- Monthly index price for January 2023 settled at just below \$5/therm
- Reserves (\$1.84 million) were utilized to cover a portion of the price increase



# Gas Monthly Index Prices



## Current Policy (Status Quo)

- Continue purchasing gas at prices tied to a published market monthly index
- Continue monthly variable retail rate tied to published market monthly index
- Utilize reserves when actual commodity price exceeds Council-approved maximum commodity charge (has only happened once – January 2023)
  - Longer-term variation of status quo: adder to commodity rate to build reserve for market price spikes

# Considerations for Current Policy

- Energy market prices are inherently unpredictable and volatile, but gas prices including for the projected upcoming winter have stabilized and come down significantly since March 2023
- Palo Alto's commodity are generally less than PG&E's
- Cost is lowest over the long run





# Alternative: Capped-Price Winter Gas Purchasing (Recommended by Finance Committee)



- Continue purchasing gas at prices tied to a published market monthly index
- For some winter months, CPAU can also purchase gas with a price cap in place, which functions as an insurance premium and caps the price paid at \$2/therm
  - If the monthly index settles below \$2/therm, the price paid is the monthly index
  - If the monthly index settles at or above \$2/therm, the price paid is \$2/therm
- Cost of the price cap for Dec-Feb estimated at \$0.175 - \$0.275/therm, based on recent supplier quotes (CPAU's total estimated cost \$1.93 million - \$3.03 million)
- Commodity charge will continue to be tied to monthly market price plus an adder that spreads out the total Dec-Feb price cap cost over 12 months (estimated adder \$0.07 - \$0.11/therm; \$0.15/therm maximum)

# Capped Price Adder: Customer Bill Impact



- Adder of \$0.07 - \$0.11/therm for the total Dec-Feb price cap cost results in an increase of 4%-6% in the median monthly residential bill over the year
  - Winter months (Nov-Mar): 4%-6% increase
  - Summer months (Apr-Oct): 3%-5% increase

Median Monthly Residential Bill - Projected Impact						
			Adder Amount		Adder Amount/Bill Estimate	
Season	Therms	Bill Estimate	\$0.07	\$0.11	\$0.07	\$0.11
Winter (Nov-Mar)	54	\$ 99.80	\$ 3.78	\$ 5.94	4%	6%
Summer (Apr-Oct)	18	\$ 40.52	\$ 1.26	\$ 1.98	3%	5%
Annual	33	\$ 65.22	\$ 2.31	\$ 3.63	4%	6%



# Considerations for Alternative: Capped-price Winter Gas Purchasing

- Will protect reserves from price spikes
- Will protect customers from price spikes
- Will be higher cost to customers in long term
- May be an insurance policy that adds cost and is not used (policy can be reviewed annually)
- Capped price product is uncommon and may not be readily available from suppliers
- Cost of product may be higher if market is very volatile or lower if market is stable



# Other Alternatives – Potentially Considered for the Future

- Establish special reserve to manage gas price spikes
- Fixed-price gas purchases
- Full-laddering strategy
- Gas production assets
- Gas storage



## Next Steps



Implement Council-approved strategy in October 2023  
for gas year November 2023-October 2024

## Recommended Motion



For winter 2023-24, the Finance Committee recommends Council direct staff to revise the current strategy and implement the capped-price winter natural gas purchasing alternative including conforming changes to the Gas Utility Long-term Plan (GULP) Objectives, Strategies and Implementation Plan