



CITY OF
**PALO
ALTO**

City Council Staff Report

From: City Manager

Report Type: CONSENT CALENDAR

Lead Department: Utilities

Meeting Date: April 10, 2023

Staff Report:2303-1209

TITLE

Approval of an Updated Residential Winter Gas and Electric Rebate Program to Mitigate Extraordinarily High January 2023 Customer Bills, Including Repeal and Replacement of the Gas Rebate Program and Budget Appropriation adopted on March 27, 2023 and Approval of Budget Amendments in the General Fund, Electric Fund, and Gas Fund, at a Total Cost of up to \$2,468,385; CEQA: Not a project under CEQA Guidelines sections 15378(b)(4) and (5).

RECOMMENDATION

Staff recommends City Council:

1. Repeal the City Council actions on March 27, 2023 taken as part of agenda item 10, both a gas rebate program and budget amendments.
2. Approve a residential natural gas rebate program of up to \$1,761,550 intended to mitigate extraordinarily high January 2023 natural gas costs. This gas rebate program supersedes the gas rebate Council approved on March 27, 2023. The new rebate program redistributes funds from customers who terminated service to targeted programs for rate assistance, arrearages, and other hardships.

Jan. 2023 Gas Residential Bill Range	% of Total Residential Gas Customers	# of Residential Gas Customers	Flat Rebate Amount	Cost
Greater than \$800	10.1%	2,134	\$ 100.00	\$ 213,400
\$400 to \$800	34.7%	7,322	\$ 85.00	\$ 622,370
Less than \$400	55.2%	11,654	\$ 70.00	\$ 815,780
Subtotal	100.0%	21,110		\$ 1,651,550
Rate Assistance Program		470	\$ 100.00	\$ 47,000
Arrearage > 180 days		280	\$ 100.00	\$ 28,000
Winter Rebate Application		350	\$ 100.00	\$ 35,000
Subtotal		1,100		\$ 110,000
		Total Gas Rebate		\$ 1,761,550

3. Approve a residential electric rebate program of up to \$706,835 intended to mitigate extraordinarily high January 2023 electricity costs

Jan. 2023 Electric Residential Bill Range	% of Total Residential Electric Customers	# of Residential Electric Customers	Flat Rebate Amount	Total Cost
Greater than \$500	2.0%	492	\$ 65.00	\$ 31,980
\$300 to \$500	6.7%	1,691	\$ 45.00	\$ 76,095
Less than \$300	91.3%	22,938	\$ 20.00	\$ 458,760
Subtotal	100.0%	25,121		\$ 566,835
Rate Assistance Program		650	\$ 100.00	\$ 65,000
Arrearage > 180 days		400	\$ 100.00	\$ 40,000
Winter Rebate Application		350	\$ 100.00	\$ 35,000
Subtotal		1,400		\$ 140,000
		Total Electric Rebate		\$ 706,835

4. Amend the Fiscal Year 2023 Budget Appropriation (requires a 2/3 majority vote). These appropriation actions supersede the actions City Council approved on March 27, 2023.
- In the General Fund by:
 - Increasing the Transfer Out expense appropriation to the Gas Fund by \$1,761,550 and
 - Increasing the Transfer Out expense appropriation to the Electric Fund by \$706,835
 - Decreasing the Budget Stabilization Reserve by \$2,468,385.
 - In the Gas Fund by:

- i. Increasing the Transfer In revenue estimate from the General Fund by \$1,761,550, and
 - ii. Decrease Customer Revenue estimate for residential customers by \$1,761,550.
- c. In the Electric Fund by:
 - i. Increasing the Transfer In revenue estimate from the General Fund by \$706,835, and
 - ii. Decreasing for Customer Revenue estimate for residential customers by \$706,835.

EXECUTIVE SUMMARY

As a result of the extraordinary high energy prices many residential customers in Palo Alto are suffering the economic burden of extreme and unexpectedly high gas and electric bills. City Council directed staff on February 13, 2023 to propose a rebate to gas and electric residential customers of up to 20% based on the highest month of bills. In response, staff analyzed January 2023 residential natural gas and electric bills with service periods of January 1, 2023 through January 31, 2023.

The natural gas rebate program would be funded by a General Fund transfer to the Gas Fund of up to \$1,761,550. The electric rebate program would be funded by a General Fund transfer to the Electric Fund of up to \$706,835. The total of the gas and electric rebate program amounts is up to \$2,468,385.

Based on feedback from the Finance Committee and City Council, the rebate programs were designed to provide meaningful rebates to all residential natural gas and electric customers. Additional financial assistance will be provided to residents enrolled in the Utility's Rate Assistance Program and/or have utility bill arrearages of greater than 180 days. The total amount of all of the Winter rebate programs described in this report will be up to 20% of the total amount of Jan 2023 residential gas and electric bills, or \$2,492,019.

BACKGROUND

Natural Gas Utility

Natural gas market prices were extremely high in January 2023; much higher than last year's winter prices, and the highest since the 2001 energy crisis. Gas commodity prices for January 2023 were five times higher than January 2022 gas prices, tripling some customers' gas bills. The February and March 2023 gas commodity rates are \$1.26 and \$0.77 per therm; significantly lower

than January 2023 rate of \$4.00 per therm. CPAU's monthly gas commodity and volumetric rates are available on the Utility's residential rates page.¹

Gas customers across California are experiencing similar impacts. Gas market prices can fluctuate greatly from month to month due to trade issues, weather, and supply or production challenges. The unusually high prices this winter have been attributed to historically cold weather, high gas demand, low regional gas storage levels, constraints on gas supplies flowing into California, and an increased reliance on natural gas in the electric power sector as a result of the ongoing drought's impact on hydroelectric supplies. CPAU purchases natural gas for its customers at market prices, and does not control those market prices, nor mark-up the cost of the gas purchased on behalf of its customers.

On March 27, 2023, staff presented two gas rebate options to Council²

The table below shows natural gas rebate amounts under both options. The total cost to the General Fund of the rebates under either option will be up to \$1,771,586.

- Option 1: Consumption-based rebate for all January 2023 residential natural gas customers equivalent to 20% of their January 2023 gas bill. The average rebate would range from \$2.39 for customers with gas bills less than \$20, to \$609.50 for customers with gas bills greater than \$2,000.
- Option 2: Flat rebate of \$80.78 for all January 2023 residential natural gas customers, based on an average January residential gas bill of \$403.90. The average residential gas customer used 76.1 therms in January 2023 and was billed \$403.90. \$80.78 represents 20% of the average residential January 2023 gas bill.

¹ Utility's Residential Rates <https://www.cityofpaloalto.org/files/assets/public/utilities/rates-schedules-for-utilites/monthly-gas-commodity-rates.pdf>

² March 27, 2023 City council Staff Report 2303-1034
<https://cityofpaloalto.primegov.com/meetings/ItemMiniPacket?id=1834>

Jan. 2023 Residential Gas Rebate Amounts and Costs

Jan. 2023 Gas Bill Range	Number of Accounts	% of Total Accounts	Total Gas Retail Bill Charges: Jan. 2023	Average Jan. 2023 Gas Bill	Cost of Option 1: 20% Rebate Amount	Cost of Option 2: Flat \$80.78 Rebate	Option 1: Average Customer Rebate at 20% Level	Option 2: Flat Rebate
< \$20	996	4.5%	\$ 11,885	\$ 11.93	\$ 2,377	\$ 80,457	\$ 2.39	\$ 80.78
\$20 - \$49.99	1,019	4.6%	\$ 36,822	\$ 36.14	\$ 7,365	\$ 82,315	\$ 7.23	\$ 80.78
\$50 - \$99.99	1,849	8.4%	\$ 138,420	\$ 74.86	\$ 27,684	\$ 149,362	\$ 14.97	\$ 80.78
\$100 - \$149.99	1,478	6.7%	\$ 184,444	\$ 124.79	\$ 36,889	\$ 119,393	\$ 24.96	\$ 80.78
\$150 - \$199.99	1,440	6.6%	\$ 250,927	\$ 174.25	\$ 50,185	\$ 116,323	\$ 34.85	\$ 80.78
\$200 - \$299.99	2,850	13.0%	\$ 715,232	\$ 250.96	\$ 143,046	\$ 230,223	\$ 50.19	\$ 80.78
\$300 - \$399.99	2,735	12.5%	\$ 954,365	\$ 348.95	\$ 190,873	\$ 220,933	\$ 69.79	\$ 80.78
\$400 - \$499.99	2,557	11.7%	\$ 1,146,966	\$ 448.56	\$ 229,393	\$ 206,554	\$ 89.71	\$ 80.78
\$500 - \$599.99	2,184	10.0%	\$ 1,196,926	\$ 548.04	\$ 239,385	\$ 176,424	\$ 109.61	\$ 80.78
\$600 - \$699.99	1,623	7.4%	\$ 1,049,637	\$ 646.73	\$ 209,928	\$ 131,106	\$ 129.35	\$ 80.78
\$700 - \$799.99	1,050	4.8%	\$ 784,075	\$ 746.74	\$ 156,815	\$ 84,819	\$ 149.35	\$ 80.78
\$800 - \$899.99	704	3.2%	\$ 596,422	\$ 847.19	\$ 119,284	\$ 56,869	\$ 169.44	\$ 80.78
\$900 - \$999.99	473	2.2%	\$ 447,375	\$ 945.82	\$ 89,475	\$ 38,209	\$ 189.16	\$ 80.78
\$1,000 - \$1,499.99	786	3.6%	\$ 924,556	\$ 1,176.28	\$ 184,911	\$ 63,493	\$ 235.26	\$ 80.78
\$1,500 - \$1,999.99	110	0.5%	\$ 185,125	\$ 1,682.95	\$ 37,025	\$ 8,886	\$ 336.59	\$ 80.78
> \$2,000	77	0.4%	\$ 234,657	\$ 3,047.50	\$ 46,931	\$ 6,220	\$ 609.50	\$ 80.78
Grand Total	21,931		\$8,857,834	\$ 403.90	\$ 1,771,567	\$ 1,771,586		

Electric Utility

From July 2019 through April 2022 the City did not increase retail electric rates, to mitigate the economic impact of the COVID-19 pandemic on residents and businesses. In that time supply and distribution expenses increased \$50 million (30%). The expense increases combined with pandemic-related electricity sales revenue declines created a \$43 million shortfall in FY 2022. Some of this was related to the impacts of extreme drought and rising electricity market prices, and in response, the City activated the hydroelectric rate adjuster (E-HRA) of 10% in April 2022. In 2023, the City began increasing base rates to begin recovering costs, starting with a 5% rate increase on July 1, 2022. In late 2022 electricity market prices increased at unprecedented levels, leading to the need to increase the hydroelectric rate adjuster on January 1, 2023 an additional 20% to match the cost of replacing hydroelectric power with market power. As a result, since April 2022, retail electric rates have increased by approximately 35%.

On March 21, 2023, staff presented two electric rebate options to Finance Committee³ (in [Attachment A to Item #4 on the Committee Agenda](#)). The table below shows electric rebate amounts under both options. The total cost to the General Fund of the rebates under either option will be up to \$720,433.

Option 1: Consumption-based rebate for all January 2023 residential electric customers equivalent to 20% of their January 2023 electric bill. The average rebate would range

³ March 21, 2023 City Council Staff Report

<https://cityofpaloalto.primegov.com/meeting/attachment/1085.pdf?name=Attachment%20A%20Residential%20Electric%20Rebate%20Options>

from \$2.08 for customers with electric bills less than \$20, to \$774.37 for customers with electric bills greater than \$2,000.

Option 2: Flat rebate of \$27.05 for all January 2023 residential natural gas customers, based on an average January residential electric bill of \$135.26. The average residential electric customer used 609.2 kWh in January 2023 and was billed \$135.26. \$27.05 represents 20% of the average residential January 2023 electric bill.

Jan. 2023 Residential Electric Rebate Amounts and Costs

<u>Jan. 2023 Electric Bill Range</u>	<u>Number of Accounts</u>	<u>% of Total Accounts</u>	<u>Total Electric Retail Bill Charges; Jan. 2023</u>	<u>Average Jan. 2023 Electric Bill</u>	<u>Cost of Option 1; 20% Rebate Amount</u>	<u>Cost of Option 2; Flat \$27.05 Rebate</u>	<u>Option 1; Average Customer Rebate at 20% Level</u>	<u>Option 2; Flat Rebate</u>
< \$20	2,243	8.4%	\$ 23,384	\$ 10.43	\$ 4,677	\$ 60,673	\$ 2.08	\$ 27.05
\$20 - \$49.99	4,522	17.0%	\$ 160,527	\$ 35.50	\$ 32,105	\$ 122,320	\$ 7.10	\$ 27.05
\$50 - \$99.99	6,655	25.0%	\$ 489,647	\$ 73.58	\$ 97,930	\$ 180,018	\$ 14.72	\$ 27.05
\$100 - \$149.99	4,751	17.8%	\$ 584,921	\$ 123.12	\$ 116,984	\$ 128,515	\$ 24.62	\$ 27.05
\$150 - \$199.99	3,071	11.5%	\$ 531,536	\$ 173.08	\$ 106,307	\$ 83,071	\$ 34.62	\$ 27.05
\$200 - \$299.99	3,180	11.9%	\$ 769,615	\$ 242.02	\$ 153,923	\$ 86,019	\$ 48.40	\$ 27.05
\$300 - \$399.99	1,190	4.5%	\$ 407,777	\$ 342.67	\$ 81,555	\$ 32,190	\$ 68.53	\$ 27.05
\$400 - \$499.99	521	2.0%	\$ 231,091	\$ 443.55	\$ 46,218	\$ 14,093	\$ 88.71	\$ 27.05
\$500 - \$599.99	206	0.8%	\$ 111,495	\$ 541.24	\$ 22,299	\$ 5,572	\$ 108.25	\$ 27.05
\$600 - \$699.99	102	0.4%	\$ 66,361	\$ 650.60	\$ 13,272	\$ 2,759	\$ 130.12	\$ 27.05
\$700 - \$799.99	68	0.3%	\$ 50,836	\$ 747.59	\$ 10,167	\$ 1,839	\$ 149.52	\$ 27.05
\$800 - \$899.99	40	0.2%	\$ 33,678	\$ 841.95	\$ 6,736	\$ 1,082	\$ 168.39	\$ 27.05
\$900 - \$999.99	19	0.1%	\$ 17,714	\$ 932.29	\$ 3,543	\$ 514	\$ 186.46	\$ 27.05
\$1,000 - \$1,499.99	38	0.1%	\$ 45,879	\$ 1,207.34	\$ 9,176	\$ 1,028	\$ 241.47	\$ 27.05
\$1,500 - \$1,999.99	9	0.0%	\$ 15,750	\$ 1,750.02	\$ 3,150	\$ 243	\$ 350.00	\$ 27.05
> \$2,000	16	0.1%	\$ 61,950	\$ 3,871.86	\$ 12,390	\$ 433	\$ 774.37	\$ 27.05
Grand Total	26,631		\$ 3,602,161		\$ 720,433	\$ 720,369		

In addition to the Winter Rebate Program, the City is providing free access to the Home Efficiency Genie program, sharing energy saving tips, enrolling eligible customers to the rate assistance program, and offering special payment plan arrangements for those who need extra time paying their winter energy bills for six to eight months.

ANALYSIS

Natural Gas Rebate Program

Staff analyzed January 2023 residential natural gas bills for the service period from January 1, 2023 through January 31, 2023. CPAU had a total of 21,931 residential gas customers in January 2023. The total January 2023 residential gas retail commodity charges were \$8.9M, compared to \$4.8M in December 2022 when the commodity cost was \$1.42 per therm. Gas residential bills for January 2023 were as follows:

Jan. 2023 Gas Residential Bill Range	% of Total Residential Gas Customers	# of Residential Gas Customers
Greater than \$1,000	4.4%	973
\$500 to \$1,000	27.5%	6,034
\$150 to \$500	43.7%	9,582
Less than \$150	24.4%	5,342

On March 27, 2023, the City Council voted to approve unanimously an alternative hybrid calculation for Gas rebates with flat rebate amounts for different tiers of user bills. In addition to the flat rebate amount, Council approved additional funding for customers enrolled in the City's [Rate Assistance Program](#) ⁴(RAP) or who have gas bill arrearages greater than 180 days. Customers who terminated gas service from the City as of March 27, 2023 are not eligible for the gas rebates. Approximately \$60,000 was redistributed to additional program such as RAP, arrearages, and other hardships through the winter rebate application, increasing the flat rebate amount from \$50 to \$100.

Overall, the program costs were not to exceed the 20% rebate for all January 2023 residential natural gas customers. The tables below outline staff's revised calculation for Council approval. Rebates will automatically be posted on customers' accounts - both the flat rebates and the additional support for customers in the Rate Assistance Program or with bill arrearages greater than 180 days, as well as other customers in need, as described below.

Alternative Hybrid Jan. 2023 Residential Gas Rebate Amounts and Costs

Jan. 2023 Gas Residential Bill Range	% of Total Residential Gas Customers	# of Residential Gas Customers	Flat Rebate Amount	Cost
Greater than \$800	10.1%	2,134	\$ 100.00	\$ 213,400
\$400 to \$800	34.7%	7,322	\$ 85.00	\$ 622,370
Less than \$400	55.2%	11,654	\$ 70.00	\$ 815,780
Subtotal	100.0%	21,110		\$ 1,651,550

Jan. 2023 Residential Gas Additional Assistance Rebates and Costs

Jan. 2023 Gas Residential Bill Range	% of Total Residential Gas Customers	# of Residential Gas Customers	Additional Rebate Amount	Cost
Rate Assistance Program		470	\$ 100.00	\$ 47,000
Arrearage > 180 days		280	\$ 100.00	\$ 28,000
Winter Rebate Application		350	\$ 100.00	\$ 35,000
Subtotal		1,100		\$ 110,000

⁴ Rate Assistance Program <https://www.cityofpaloalto.org/Departments/Utilities/Residential/Utilities-Assistance/Rate-Assistance-Program-RAP>

Utilities will also create a new Winter Rebate application for customers who are not eligible under RAP or who do not have arrearages greater than 180 days. Active residents with hardships such as reduction of employment, loss of a wage earner, or high medical bills can apply for an additional \$100 rebate which will be credited to their utility bill. The Winter Rebate application can be found at: <https://www.cityofpaloalto.org/Departments/Utilities/Residential/Utilities-Assistance>.

Electric Rebate Program

Due to concerns raised by residents of their high electric bills this winter, staff analyzed January 2023 residential electric bills for the service period of January 1, 2023 through January 31, 2023. CPAU had a total of 26,631 residential electric customers in January 2023. Total January 2023 retail residential electric charges were \$3.6M, compared to \$2.9M in December 2022. residential bills for the service period of January 2023 were as follows:

Jan. 2023 Electric Residential Bill Range	% of Total Residential Electric Customers	# of Residential Electric Customers
Greater than \$1,000	0.2%	63
\$500 to \$1,000	1.6%	435
\$150 to \$500	29.9%	7,962
Less than \$150	68.2%	18,171

On March 21, 2023, the Finance Committee requested a hybrid program that would provide a more meaningful rebate across all customer classes and offer additional rebate assistance to customers with low-income or other hardships be calculated and return to the Committee April 4th. However, with the recent direction from the City Council on March 27, 2023, staff has recalculated an alternative hybrid electric rebate in alignment with the gas utility rebate. In the interest of quickly responding to these high utility costs incurred by customers, staff has brought this rebate program to the full Council for approval. The recommended rebate program mirrors the tiered flat rate rebates for all customers based on bill size, and provides additional support for those customers with low income or other hardships.

Overall, the program costs were not to exceed the 20% rebate for all January 2023 residential utility customers. The tables below outline staff's revised calculation for Council approval. Rebates will automatically be posted on customers' accounts both the flat rebates and the additional support for customers in need.

Jan. 2023 Residential Electric Rebate Amounts and Costs

Jan. 2023 Electric Residential Bill Range	% of Total Residential Electric Customers	# of Residential Electric Customers	Flat Rebate Amount	Total Cost
Greater than \$500	2.0%	492	\$ 65.00	\$ 31,980
\$300 to \$500	6.7%	1,691	\$ 45.00	\$ 76,095
Less than \$300	91.3%	22,938	\$ 20.00	\$ 458,760
Subtotal	100.0%	25,121		\$ 566,835

Jan. 2023 Residential Electric Additional Assistance Rebates and Costs

Jan. 2023 Electric Residential Bill Range	% of Total Residential Electric Customers	# of Residential Electric Customers	Additional Rebate Amount	Total Cost
Rate Assistance Program		650	\$ 100.00	\$ 65,000
Arrearage > 180 days		400	\$ 100.00	\$ 40,000
Winter Rebate Application		350	\$ 100.00	\$ 35,000
Subtotal		1,400		\$ 140,000

Next Steps

Below is table of the combined gas and electric rebates if a residential customer has both gas and electric utility services. City staff will calculate the individual residential rebate amount based on the number of services, RAP enrollment, and arrearage status. The rebates will be applied on customer's April or May 2023 utility bill as "Winter Rebate" depending on their billing schedule. Customers who apply for the Winter Rebate hardship program will receive a subsequent rebate after their application is approved.

A customer with a low January bill (less than \$400 gas bill and less than \$300 electric bill) will receive a rebate of \$90; they may also qualify for an additional \$400 rebate if they are enrolled in RAP and have arrearages greater than 180 days. A customer with a high January bill (greater than \$800 gas bill and greater than \$500 electric) will receive a rebate of \$165, they may also qualify for an additional \$400 rebate if they are enrolled in RAP and have arrearages greater than 180 days.

Jan 2023 Residential Bill	# of Accounts ¹	% of Total Accounts	Cost	Gas Rebate	Electric Rebate	Combined Rebate
High Bill	2,626	5.7%	\$ 245,380	\$ 100.00	\$ 65.00	\$ 165.00
Med/High Bill	9,013	19.5%	\$ 698,465	\$ 85.00	\$ 45.00	\$ 130.00
Low/Med Bill	34,592	74.8%	\$ 1,277,540	\$ 70.00	\$ 20.00	\$ 90.00
SubTotal		100.0%	\$ 2,221,385			
Rate Assistance Program	1,101		\$ 110,100	\$ 100.00	\$ 100.00	\$ 200.00
Arrearage > 180 days	669		\$ 66,900	\$ 100.00	\$ 100.00	\$ 200.00
Winter Rebate Application	700		\$ 70,000	\$ 100.00	\$ 100.00	\$ 200.00
SubTotal			\$ 247,000			
		Total Cost	\$ 2,468,385			
¹ One customer may be grouped in multiple bill tiers and qualify for both electric and gas rebates						

FISCAL/RESOURCE IMPACT

Staff recommends a total appropriation of \$2,468,385 in the FY 2023 General Fund; a transfer to the Gas Fund of \$1,761,550; a transfer to the Electric Fund of \$706,835; and offset by a reduction of \$2,468,385 in the General Fund Budget Stabilization Reserve.

The General Fund transfers will support expected lower customer revenues in the Gas Fund budget by \$1,761,550 to provide gas rebates in the form of bill credits for customers and expected lower customer revenues in the Electric Fund by \$706,835 to provide electric rebates for residential customers also in the form of bill credits for customers.

ENVIRONMENTAL REVIEW

The Council's approval of updated residential Winter gas and electric rebate programs, repeal of the prior gas rebate program, and associated budget appropriations does not meet the California Environmental Quality Act's definition of a project, under Public Resources Code Section 21065 and CEQA Guidelines Section 15378(b)(4) and (5), as a governmental fiscal and administrative activity which will not cause a direct or indirect physical change in the environment.

APPROVED BY:

Dean Batchelor, Director Utilities

Staff: Dave Yuan, Strategic Business Manager