RECOMMENDATION
Staff and the Utilities Advisory Commission (UAC) recommend that the City Council adopt the attached resolution to increase the natural gas rates base revenue of FY 04/05 by 9.9%, or approximately $2.5 million, effective July 1, 2004.

DISCUSSION
Gas usage has been flat and is projected to stay flat for FY 04-05. However, wholesale natural gas prices are projected to be higher than the levels predicted last fiscal year. As a result, an evaluation of the Gas Fund financial situation indicates that drawing down on the reserves would leave the Utility vulnerable to market volatility.
Therefore, staff is proposing a 9.9% overall rate increase to be effective July 1, 2004. On an annual basis this represents a revenue increase of $2.5 million. The increase will primarily be applied to the residential and small commercial retail customers. Large commercial customers are locked into previously agreed upon contracts or have chosen to pay the monthly market price.

UTILITIES ADVISORY COMMISSION REVIEW AND RECOMMENDATIONS

On May 5, 2004, the UAC was provided with a proposal from staff to increase rates by 9.9% effective July 1, 2004. The UAC unanimously recommended Council adoption of the staff rate proposal.

ALTERNATIVES

Staff also evaluated the impact of alternative rate proposals. If the proposed increase is higher than proposed, it may have too large of a rate shock on customer’s bills, especially when combined with corresponding increases in electric and water rates. On the other hand, a lower rate increase than the is proposed will not be sufficient to shield the utility from market volatility.
RESOURCE IMPACT

Approval of this proposed rate increase will increase the Gas Fund base sales revenues by approximately $2.5 million for FY 04-05. If wholesale gas costs continue to increase while sales levels continue to be flat, another rate increase might be proposed for FY 05-06.

POLICY IMPLICATIONS

This proposed rate increase would satisfy the Utilities Strategic Plan objective of providing superior financial performance to the City and competitive rates to customers. These recommendations do not represent a change in current City policies.

ENVIRONMENTAL REVIEW

The adoption of the resolution does not constitute a project under the California Environmental Quality Act. Therefore, no environmental assessment is required.

ATTACHMENTS

A: Resolution
B. Gas Rate Schedules G-1, G-2, G-3, G-4, G-6, G-7, G-10
C: Minutes of the UAC meeting of May 5, 2004

PREPARED BY: Lucie Hirmina, Utilities Rates Manager

REVIEWED BY: Girish Balachandran, Assistant Director, Resource Management
              Tom Auzenne, Assistant Director, Customer Services

DEPARTMENT HEAD: _________________________________
JOHN ULRICH
Director of Utilities

CITY MANAGER APPROVAL: ____________________________

______________________
EMILY HARRISON
Assistant City Manager