TO: HONORABLE CITY COUNCIL

ATTENTION: FINANCE COMMITTEE

FROM: CITY MANAGER

DEPARTMENT: UTILITIES

DATE: MAY 9, 2006

CMR: 216:06

SUBJECT: UTILITIES ADVISORY COMMISSION RECOMMENDATION TO APPROVE A RESOLUTION ADOPTING A GAS RATE INCREASE

RECOMMENDATION
Staff and the Utilities Advisory Commission (UAC) recommend that the City Council adopt the attached resolution to increase natural gas rates by approximately $5.9 million effective July 1, 2006.

DISCUSSION
Gas consumption has been flat and is projected to stay flat for FY 2006-07 while the budgets for gas supply and Capital Improvement Program projects are increasing.

Staff is proposing a 20% overall rate increase to be effective July 1, 2006. On an annual basis, this represents a revenue increase of $5.9 million. The increase will be applied to both the supply and the distribution rate components of each customer class, so as to continue the move toward equity between customer classes as identified by the most recent Natural Gas Cost-of-Service Study. This is a normal practice for the industry. Each class of customers has to cover its cost and the distribution cost is allocated based on customer class load and contribution to the peak. Therefore, the residential customers will have a higher increase than the commercial customers due to their load shape.

Drawing down the Gas Distribution Rate Stabilization Reserve (DRSR) and the Gas Supply Rate Stabilization Reserve (SRSR) to fund the increased expenses would significantly reduce the DRSR and the SRSR levels and would leave the Gas Utility vulnerable to unexpected physical events or unanticipated increases to wholesale supply costs.

UTILITIES ADVISORY COMMISSION REVIEW AND RECOMMENDATIONS
On May 3, 2006, the Utilities Advisory Commission (UAC) unanimously approved staff’s proposal to increase rates by 20% effective July 1, 2006.
**RESOURCE IMPACT**
Approval of this proposed rate increase will increase the Gas Fund sales revenues by approximately $5.9 million for FY 2006-07. This 20% rate increase will result in a projected end-of-year balance for FY 2006-07 of $3.2 million in the Gas Supply Rate Stabilization Reserve (below the minimum guideline of $10 million) and $2.9 million in the Gas Distribution Rate Stabilization Reserve (below minimum guideline of $3.1 million).

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

**PREPARED BY:**  Lucie Hirmina, Utilities Rates Manager  
Tom Auzenne, Assistant Director Utilities Customer Support Services

**DEPARTMENT HEAD:**  
CARL YEATS  
Director of Administrative Services

**CITY MANAGER APPROVAL:**  
EMILY HARRISON  
Assistant City Manager

**ATTACHMENTS**
A: Resolution  
B. Gas Rate Schedules G-1, G-2, G-3, G-4, G-6, G-7, G-10, G-11 and G-12  
C: Minutes of the UAC meeting of May 3, 2006