TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER
ATTENTION: FINANCE COMMITTEE
DATE: MAY 19, 2005
SUBJECT: UTILITIES ADVISORY COMMISSION RECOMMENDATION TO APPROVE A RESOLUTION ADOPTING A GAS RATE INCREASE

RECOMMENDATION
The Utilities Advisory Commission (UAC) and staff recommend that the City Council adopt the attached resolution to increase the natural gas base revenue of FY 05-06 by approximately $4.4 million or 15 percent, to be effective July 1, 2005.

DISCUSSION
Gas usage has been flat and is projected to stay flat for FY 05-06. However, costs for Capital Improvement Program projects are increasing. An evaluation of the Gas Fund financial situation indicates that drawing down the Gas Distribution Rate Stabilization Reserve (DRSR) would bring the DRSR below the minimum level approved by the Council and would leave the Gas Utility vulnerable to unexpected events. Therefore, staff is proposing a 15 percent overall rate increase to be effective July 1, 2005. The increase will be applied to the distribution portion of the all customer class rates. The rate increase is spread to each customer class on a prorated basis in order to meet industry standards for cost-of service by the end of the next 5-year period.

UTILITIES ADVISORY COMMISSION REVIEW AND RECOMMENDATIONS
On May 4, 2005, the Utilities Advisory commission (UAC) unanimously approved (4-0, Dahlen absent) staff’s proposal to increase rates by 15 percent effective July 1, 2005.

RESOURCE IMPACT
Approval of this proposed rate increase will increase the Gas Fund base sales revenues by approximately $4.4 million for FY 05-06. If wholesale gas costs continue to increase while sales levels continue to be flat, a mid-year rate increase might be proposed for FY 05-06 to cover the supply costs.

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 4, 2005

PREPARED BY: Lucie Hirmina, Utilities Rates Manager

REVIEWED BY: Tom Auzenne, Asst. Director of Utilities, Adm. Services

DEPARTMENT HEAD: _________________________________
JOHN ULRICH
Director of Utilities

CITY MANAGER APPROVAL: __________________________
EMILY HARRISON
Assistant City Manager