



# City of Palo Alto

## Finance Committee Staff Report

(ID # 11285)

**Report Type: Action Items**

**Meeting Date: 5/5/2020**

**Council Priority: Fiscal Sustainability**

**Summary Title: FY 2021 Gas Rates and Financial Plan**

**Title: Staff and the Utilities Advisory Commission Recommend the Finance Committee Recommend the City Council Adopt a Resolution Approving the Fiscal Year 2021 Gas Utility Financial Plan, Including Proposed Transfers and an Amendment to the Gas Utility Reserve Management Practices, and Increasing Gas Rates by Amending Rate Schedules G-1 (Residential Gas Service), G-2 (Residential Master-Metered and Commercial Gas Service), G-3 (Large Commercial Gas Service), and G-10 (Compressed Natural Gas Service**

**From: City Manager**

**Lead Department: Utilities**

In light of the COVID-19 pandemic, staff is bringing forward a 3% rate increase proposal for consideration. This 3% rate increase is lower than the preliminary rate increase of 5% presented earlier to the Finance Committee on March 3, 2020.

<b>Projection</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
<b>3% Increase (Recommended)</b>	<b>3%</b>	<b>6%</b>	<b>6%</b>	<b>6%</b>	<b>1%</b>
Alternate 0% Increase	0%	10%	8%	3%	1%

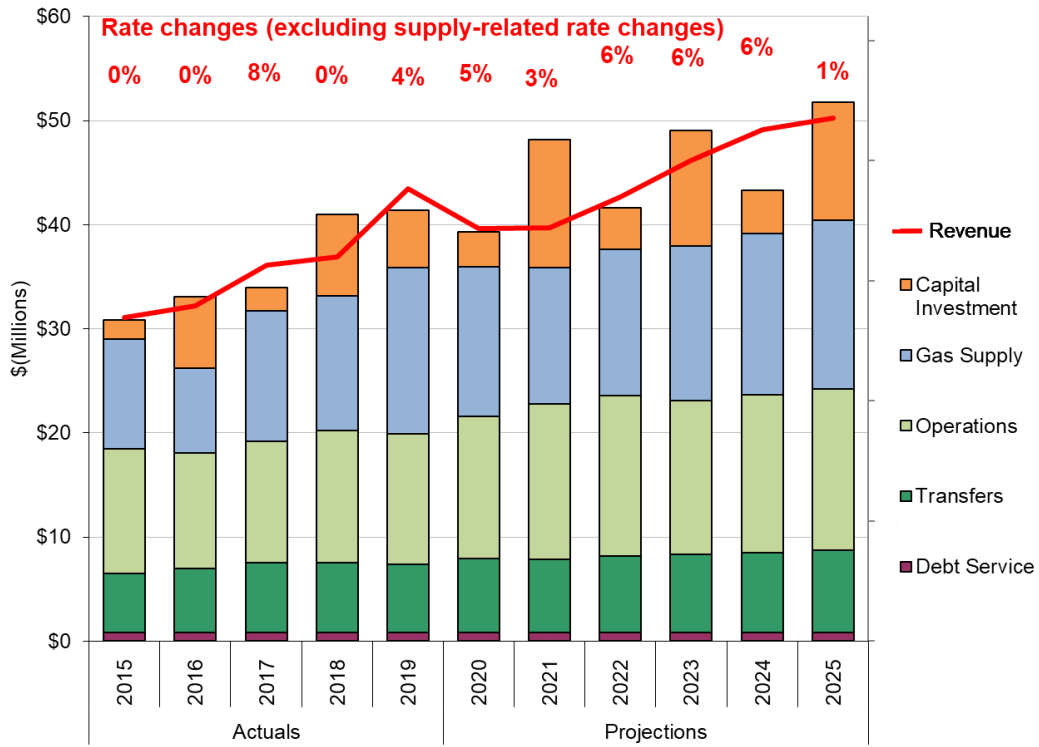
Understanding that rate increases during this time are more difficult for residents and businesses to absorb, staff is recommending an alternative, lower rate increase amount of 3% overall for gas. The future rate increase trajectory is slightly higher, as shown in Figure 1, but Operations reserves will still remain within guideline levels, as shown in Figure 2. Given lower sales volumes seen since the forecasts were first created (prior to the winter heating season and the shelter-in-place actions), staff is anticipating that future rate increases would likely need to be higher than what was presented earlier. Some of this lower consumption has been factored into the alternate proposals.

Staff also ran a scenario with no rate increase for FY 2021, although future rate increases would be larger to keep the Operations Reserve within the guideline ranges, or large costs, such as CIP projects, would be deferred to later years.

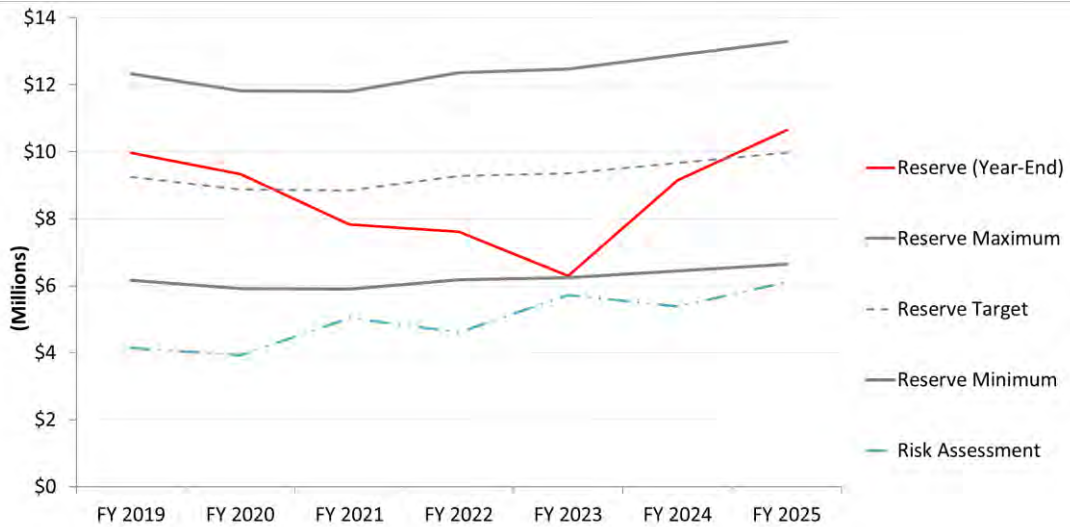
The Utilities Advisory Commission reviewed the 0%, 3% and prior 5% scenarios at their meeting on April 15, 2020, and unanimously approved the 3% proposal shown by staff.

If the Finance Committee agree to this 3% increase scenario, the Rates adoption CMR, FY 2021 Gas Financial Plan and rate schedules to be presented to Council in June will be amended to reflect these rates.

**Figure 1: FY 2021 3% Rate Increase scenario**



**Figure 2: FY 2021 3% Rate Increase: Operations Reserve**



**Attachments:**

- Attachment A: Resolution Gas Rates Financial Plan Reserve Management

\* NOT YET APPROVED \*  
Resolution No. \_\_\_\_\_

Resolution of the Council of the City of Palo Alto Approving the Fiscal Year 2021 Gas Utility Financial Plan, Including Proposed Transfers and an Amendment to the Gas Utility Reserve Management Practices, and Increasing Gas Rates by Amending Rate Schedules G-1 (Residential Gas Service), G-2 (Residential Master-Metered and Commercial Gas Service), G-3 (Large Commercial Gas Service), and G-10 (Compressed Natural Gas Service)

R E C I T A L S

A. Each year the City of Palo Alto (“City”) regularly assesses the financial position of its utilities with the goal of ensuring adequate revenue to fund operations. This includes making long-term projections of market conditions, the physical condition of the system, and other factors that could affect utility costs, and setting rates adequate to recover these costs. It does this with the goal of providing safe, reliable, and sustainable utility services at competitive rates. The City adopts Financial Plans to summarize these projections.

B. The City uses reserves to protect against contingencies and to manage other aspects of its operations, and regularly assesses the adequacy of these reserves and the management practices governing their operation. The status of utility reserves and their management practices are included in Reserves Management Practices attached to and made part of the Financial Plans.

C. Pursuant to Chapter 12.20.010 of the Palo Alto Municipal Code, the Council of the City of Palo Alto may by resolution adopt rules and regulations governing utility services, fees and charges.

D. On \_\_\_\_, 2020, the City Council heard and approved the proposed rate increase at a noticed public hearing.

The Council of the City of Palo Alto does hereby RESOLVE as follows:

SECTION 1. The Council hereby adopts the FY 2021 Gas Utility Financial Plan.

SECTION 2. The Council hereby approves the transfer of up to \$2.533 Million from the Rate Stabilization Reserve to the Operations Reserve, and up \$4.5 Million from the Operations Reserve to the CIP Reserve, as described in the FY 2021 Gas Utility Financial Plan approved via this resolution.

SECTION 3. The Council hereby approves the amendments to the Gas Utility Reserves Management Practices.

\* NOT YET APPROVED \*

SECTION 4. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule G-1 (Residential Gas Service) is hereby amended to read as attached and incorporated. Utility Rate Schedule G-1, as amended, shall become effective July 1, 2020.

SECTION 5. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule G-2 (Residential Master-Metered and Commercial Gas Service) is hereby amended to read as attached and incorporated. Utility Rate Schedule G-2, as amended, shall become effective July 1, 2020.

SECTION 6. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule G-3 (Large Commercial Gas Service) is hereby amended to read as attached and incorporated. Utility Rate Schedule G-3, as amended, shall become effective July 1, 2020.

SECTION 7. Pursuant to Section 12.20.010 of the Palo Alto Municipal Code, Utility Rate Schedule G-10 (Compressed Natural Gas Service Service) is hereby amended to read as attached and incorporated. Utility Rate Schedule G-10, as amended, shall become effective July 1, 2020.

SECTION 8. The City Council finds as follows:

- a. Revenues derived from the gas rates approved by this resolution do not exceed the funds required to provide gas service.
- b. Revenues derived from the gas rates approved by this resolution shall not be used for any purpose other than providing gas service, and the purposes set forth in Article VII, Section 2, of the Charter of the City of Palo Alto.

SECTION 9. The Council finds that the fees and charges adopted by this resolution are charges imposed for a specific government service or product provided directly to the payor that are not provided to those not charged, and do not exceed the reasonable costs to the City of providing the service or product.

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\* NOT YET APPROVED \*

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SECTION 10. The Council finds that approving the Financial Plan and amending the Gas Utility Reserves Management Practices does not meet the California Environmental Quality Act's (CEQA) definition of a project under Public Resources Code Section 21065 and CEQA Guidelines Section 15378(b)(5), because it is an administrative governmental activity which will not cause a direct or indirect physical change in the environment, and therefore, no environmental assessment is required. The Council finds that changing gas rates to meet operating expenses, purchase supplies and materials, meet financial reserve needs and obtain funds for capital improvements necessary to maintain service is not subject to the California Environmental Quality Act (CEQA), pursuant to California Public Resources Code Sec. 21080(b)(8) and Title 14 of the California Code of Regulations Sec. 15273(a). After reviewing the staff report and all attachments presented to Council, the Council incorporates these documents herein and finds that sufficient evidence has been presented setting forth with specificity the basis for this claim of CEQA exemption.

INTRODUCED AND PASSED:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

ATTEST:

\_\_\_\_\_  
City Clerk

\_\_\_\_\_  
Mayor

APPROVED AS TO FORM:

APPROVED:

\_\_\_\_\_  
Assistant City Attorney

\_\_\_\_\_  
City Manager

\_\_\_\_\_  
Director of Utilities

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Director of Administrative Services