



# City of Palo Alto

## City Council Staff Report

(ID # 2552)

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**Report Type: Action Items Meeting Date: 3/19/2012**

**Summary Title: Gas Utility Long-term Plan Revisions**

**Title: Finance Committee Recommendation to Adopt a Resolution Amending the Gas Utility Long-term Plan Objectives, Strategies and Implementation Plan**

**From: City Manager**

**Lead Department: Utilities**

### **Recommendation**

Staff, the Utilities Advisory Commission (UAC), and the Finance Committee recommend that the City Council approve the attached resolution adopting revisions to the Gas Utility Long-term Plan (GULP) Objectives, Strategies and Implementation Plan.

### **Executive Summary**

The proposed changes to the Gas Utility Long-term Plan (GULP) Objectives, Strategies and Implementation Plan will align GULP to the Council direction to discontinue the gas laddered purchasing strategy for pool customers and implement gas supply rates that change every month based on the market price of gas. Both the UAC and the Finance Committee unanimously support the proposed changes to GULP.

### **Background**

At its November 1, 2011 meeting, the Council directed staff to develop market price-based, monthly-adjusted gas supply rates (Staff Report #2106). In that report, staff identified the need to revise some sections in the GULP Objectives, Strategies and Implementation Plan that were adopted by Resolution #9151 (Staff Report #1313).

### **Discussion**

The transition to market-based gas supply rates requires revisions of GULP Objective 1, Strategy 1 and Implementation Plan Items 1 and 2. The current language and the proposed revisions are shown in the table below:

<b>GULP</b>	<b>Current</b>	<b>Proposed</b>
<b>Objective 1</b>	Balancing Stability and Competitiveness	Passing a market supply cost signal through to customers

<b>GULP</b>	<b>Current</b>	<b>Proposed</b>
<b>Strategy 1</b>	Balance supply cost stability with market exposure by: <ol style="list-style-type: none"> <li>a. Diversifying energy purchases for the pool across commitment date, delivery date, duration, suppliers, pricing terms &amp; delivery points;</li> <li>b. Leaving some fraction of the forecasted gas pool needs exposed to near-term market prices; and</li> <li>c. Avoiding long-term (&gt;10 years) fixed-price commodity contracts.</li> </ol>	Pass a market supply cost signal through to customers by: <ol style="list-style-type: none"> <li>a. Purchasing natural gas at prices based on the monthly and daily market index prices; and</li> <li>b. Changing gas supply rates monthly to reflect market prices.</li> </ol>
<b>Implementation Plan Items</b>	<ol style="list-style-type: none"> <li>1. Continue to implement a laddered commodity purchasing strategy for the pool.</li> <li>2. Review the laddering strategy and rate stability with the Utilities Advisory Commission and recommend changes, if appropriate.</li> </ol>	<ol style="list-style-type: none"> <li>1. Transition from the laddering strategy to market price-based, monthly-adjusted gas supply rates by:               <ol style="list-style-type: none"> <li>a. Developing a new purchasing plan to be approved by the Director of Utilities;</li> <li>b. Designing a new monthly-adjusted gas supply rate;</li> <li>c. Recommending revisions to the reserve guidelines for Council approval; and</li> <li>d. Conducting customer communication and outreach.</li> </ol> </li> </ol>

The transition to market-based gas supply rates makes gas storage (a seasonal price hedging tool) irrelevant. Therefore, the proposed changes remove the references to gas storage in Strategy 2 and eliminate Implementation Plan Item 3. The current language and proposed changes are shown in the table below:

<b>GULP</b>	<b>Current</b>	<b>Proposed</b>
<b>Objective 2</b>	Lower delivered gas cost over the long term	No change
<b>Strategy 2</b>	Lower delivered gas cost over the long term by: <ol style="list-style-type: none"> <li>a. Acquiring pipeline and/or storage assets that yield supply costs below market and meet operational needs;</li> <li>b. Taking advantage of the City's low cost of capital to acquire gas supply and assets; and</li> <li>c. Optimizing existing assets.</li> </ol>	Lower delivered gas cost over the long term by: <ol style="list-style-type: none"> <li>a. Acquiring pipeline assets that yield supply costs below market and meet operational needs;</li> <li>b. No change</li> <li>c. No change</li> </ol>

GULP	Current	Proposed
<b>Implementation Plan Item 3</b>	Pursue cost-effective gas storage services by: <ul style="list-style-type: none"> <li>a. Signing enabling agreements with available gas storage service providers;</li> <li>b. Monitoring gas prices for seasonal differences; and</li> <li>c. Purchasing gas storage services when cost-effective.</li> </ul>	Deleted

The other GULP Objectives, Strategies and Implementation Plan tasks remain unchanged. The complete set of GULP Objectives, Strategies and Implementation Plan with the proposed changes is provided as Attachment B.

**Commission Review and Recommendations**

On December 7, 2011, the UAC unanimously (5-0) approved, without discussion, a motion to recommend that the City Council approve the proposed revisions to the GULP Objectives, Strategies and Implementation Plan. Commissioners Keller and Eglash were absent. The excerpted minutes of the UAC’s December 7, 2011 meeting are included in Attachment C.

On February 7, 2012, the Finance Committee approved (2-1) a motion to recommend that the City Council approve the proposed revisions to the GULP Objectives, Strategies and Implementation Plan (Staff Report #2440). Council Member Burt voted against the motion, and Council Member Price was absent. The excerpted draft minutes of the Finance Committee’s February 7, 2012 meeting are provided as Attachment D.

**Resource Impact**

Short-term resources will be required for implementation of the new gas commodity purchasing and rate strategy. In the long-term, it is anticipated that 0.4 FTE will be redeployed from gas portfolio management to other projects. This savings includes small amounts of time spread across multiple individuals in Utilities and Administrative Services.

**Policy Implications**

The Council direction to implement market price-based, monthly-adjusted rates represents a shift from prior policy to provide stable gas rates to customers. Staff will propose changes, if appropriate, to the Gas Supply Rate Stabilization Reserve Guidelines when it presents the Fiscal Year 2013 gas budget and rates.

**Environmental Review**

The proposed changes to the GULP Objectives, Strategies and Implementation Plan do not meet the definition of a project pursuant to Section 21065 of the California Environmental Quality Act (CEQA). Thus, no environmental review is required.

**Attachments:**

- Attachment A: Resolution Approving Amendments to GULP (PDF)
- Attachment B: Proposed GULP Strategies and Objectives (PDF)
- Attachment C: Minutes from Dec 7 UAC meeting (PDF)
- Attachment D: Draft Excerpt Minutes of Finance Meeting of 2-7-12 (PDF)

Prepared By: Karla Dailey, Sr. Resource Planner

Department Head: Valerie Fong, Director

City Manager Approval:

  
James Keene, City Manager

Resolution No.  
Resolution of the Council of the City of Palo Alto Amending  
the Gas Utility Long-term Plan Objectives,  
Strategies and Implementation Plan

A. On March 7, 2011, the Council adopted Resolution No. 9151, which approved the Gas Utility Long-term Plan Objectives, Strategies and Implementation Plan (the “Plan”).

B. The Utilities Advisory Commission and the Council Finance Committee have recommended the Council’s approval of certain amendments to the Plan, which are attached and incorporated by reference. Those amendments pertain to the discontinuation of the gas laddering purchase strategy and the implementation of gas supply rates that change monthly according to market prices.

C. Resolution No. 9151 is intended to be amended to reflect the current version of the Plan.

NOW, THEREFORE, the Council of the City of Palo Alto does hereby RESOLVE as follows:

SECTION 1. The Council hereby approves the amendments to the Gas Utility Long-term Plan Objectives, Strategies and Implementation Plan (GULP), attached to this Resolution as Attachment B.

SECTION 2. Resolution No. 9151 is hereby amended in so far as the Plan, as amended, is hereby approved.

SECTION 3. The Council finds that the adoption of this resolution does not constitute a project under the California Environmental Quality Act and the CEQA Guidelines

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\*NOT YET APPROVED\*

and, therefore, no environment assessment is required.

INTRODUCED AND PASSED:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

ATTEST:

APPROVED:

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

\_\_\_\_\_  
Mayor

APPROVED AS TO FORM:

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

\_\_\_\_\_  
Senior Asst. City Attorney

\_\_\_\_\_  
Director of Administrative Services

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

## **Proposed Gas Utility Long-term Plan (GULP) Objectives, Strategies and Implementation Plan**

### **GULP Objectives:**

1. Market price transparency – Pass a market supply cost signal through to customers.
2. Supply Cost Management – Lower delivered gas cost over the long term.
3. Energy Efficiency – Ensure the deployment of all feasible, reliable, cost-effective energy efficiency measures.
4. Climate Protection – Reduce the carbon intensity of the gas portfolio in accordance with the Climate Protection Plan.
5. Parity with PG&E – At a reasonable cost, protect the City’s interests and maintain access to transportation on par with PG&E’s core customers.

### **GULP Strategies:**

1. Pass a market supply cost signal through to customers by:
  - a. Purchasing natural gas at monthly and daily market index prices; and
  - b. Changing gas supply rates monthly to reflect market prices.
2. Lower delivered gas cost over the long term by:
  - a. Acquiring pipeline assets that yield supply costs below market and meet operational needs;
  - b. Taking advantage of the City’s low cost of capital to acquire gas supply and assets; and
  - c. Optimizing existing assets.
3. Ensure the deployment of all feasible, reliable, cost-effective energy efficiency measures by:
  - a. Developing and implementing a ten-year gas efficiency plan every three years that includes a reasonable carbon price premium for traditional gas supplies; and
  - b. Considering the impacts (cost, benefits, and GHG emissions) of substituting electricity-using appliances for gas-using appliances and vice versa in the ten-year gas efficiency plan.
4. Reduce the carbon intensity of the gas portfolio in accordance with the Climate Protection Plan by:
  - a. Designing and implementing a voluntary retail program using reasonably priced non-fossil fuel gas resources; and
  - b. Purchasing non-fossil fuel gas for the portfolio as long as it can be done with no rate impact.
5. At a reasonable cost, protect the City’s interests and maintain access to transportation on par with PG&E’s core customers by:
  - a. Participating in the regulatory and legislative arenas when the potential impact on the City is aligned with the cost to intervene and the probability of success;
  - a. Negotiating with PG&E for fair access to transportation and storage; and
  - b. Exploring potential joint action with other public agencies.

**GULP Implementation Plan:**

1. Transition to market price-based, monthly-adjusted gas supply rates by:
  - a. Developing a new purchasing plan to be approved by the Director of Utilities;
  - b. Designing a new monthly-adjusted gas supply rate;
  - c. Revising the reserve guidelines for Council approval; and
  - d. Conducting customer communication and outreach.
2. Pursue below-market assets available through the Gas Transportation and Storage Settlement by:
  - a. Evaluating the pipeline capacity reservation options available; and
  - b. Contracting with PG&E for any pipeline capacity with an estimated cost below the forecasted market value.
3. Pursue opportunities for natural gas prepay transactions by:
  - a. Hiring a consultant to help staff with:
    - i. Identifying any internal policy changes needed including the policy on the use of financial instruments;
    - ii. Identifying system and internal processes required;
    - iii. Identifying opportunities; and
    - iv. Evaluating opportunities and quantifying the benefits and costs; and
  - b. Seeking UAC recommendation and Council approval regarding whether to proceed with a gas prepay transaction.
4. Develop an implementation plan to meet the gas efficiency targets by summer 2011 including the:
  - a. Evaluation of the cost-effectiveness of substituting gas-using appliance for electric-using appliances and vice versa and the greenhouse gas impacts of such substitutions; and
  - b. Incorporation of any cost-effective substitution measures in the implementation plan to meet the gas efficiency targets.
5. Track and report progress against adopted gas efficiency goals by:
  - a. Providing quarterly updates on the gas efficiency program achievements to the UAC; and
  - b. Providing annual updates on gas efficiency program achievements to the UAC and the City Council.
6. Continue evaluating new gas efficiency technologies and undertake pilot studies where appropriate.
7. Pursue reasonably priced non-fossil gas for a voluntary program through NGPP by:
  - a. Reviewing the due diligence report to be provided to NGPP participants by the end of October 2010; and
  - b. Based on the results, recommending whether to continue participating in the projects.



## ATTACHMENT C

### Excerpted Utilities Advisor Commission Meeting Minutes of December 7, 2011

**ITEM 3: ACTION:** Proposed Revisions to the Gas Utility Long-term (GULP) Objectives, Strategies and Implementation Plan

Director Valerie Fong stated that the changes ensure that GULP is in line with the Council approval of the new gas purchasing/rate strategy.

**ACTION:**

Vice Chair Berry made a motion to recommend that the City Council approve the proposed revisions to the GULP Objectives, Strategies and Implementation Plan. Commissioner Cook seconded the motion. The motion passed unanimously (5-0).

# ATTACHMENT D



## FINANCE COMMITTEE

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### DRAFT EXCERPT

Meeting  
February 7, 2012

Proposed Revisions to the Gas Utility Long-Term Plan Objectives, Strategies, and Implementation Plan.

Utility Director, Val Fong said this item was in regards to Administrative updates on the Gas Utility Long-Term Plan (GULP) to reflect the Council's direction on the gas implementation plan.

City Manager, James Keene said the Council had taken action on the item and Staff had to identify the language changes that needed to be made in the policy.

Chair Shepherd asked if the Commission wanted to speak to the item.

The Commission stated there was no discussion.

**MOTION:** Council Member Scharff moved, seconded by Chair Shepherd, that the Finance Committee recommend that the City Council approve the proposed revisions to the Gas Utility Long-Term Plan (GULP) Objectives, Strategies, and Implementation Plan.

**MOTION PASSED:** 2-1, Burt no, Price absent

ADJOURNMENT: Meeting adjourned at 8:54 pm.