



**AGENDA ITEM**

**PUBLIC HEARING**

CITY COUNCIL / BOARD OF DIRECTORS

MEETING OF: 6/21/2016

SUBMITTED BY: KEITH C. METZLER  
ASSISTANT CITY MANAGER

DATE: 6/2/2016

ATTACHMENT: RESOLUTION 16-040; PROPOSED REVISED GAS SERVICE RATE SCHEDULES (APPENDIX A THERETO); YEAR-TO-YEAR RATE COMPARISON

SUBJECT: RESOLUTION 16-040 ENTITLED, "A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF VICTORVILLE, CALIFORNIA, AMENDING AND REVISING THE GAS SERVICE RATE SCHEDULES FOR GAS SERVICES PROVIDED BY VICTORVILLE MUNICIPAL UTILITY SERVICES PURSUANT TO CHAPTER 10.11 OF THE VICTORVILLE MUNICIPAL CODE"

RECOMMENDATION:

That the Honorable City Council: 1) conduct the public hearing for Resolution 16-040; and 2) adopt Resolution 16-040 to revise the VMUS Gas Service Rate Schedules (Appendix A thereto).

FISCAL IMPACT: \$124,533 (FY 2016/2017)

Fund 419: Additional Revenue: \$ 129,927

Fund 423: Reduced Revenue: \$ 5,394

BUDGET ACCT NO: 4190210-44810: \$ 129,927  
4230210-44810: (\$ 5,394)

— Finance Use Only —

Additional Expense:

No  
 Yes / Amount

Additional Revenue:

No  
 Yes / Amount \$124,533

Finance Review

DISCUSSION:

On May 20, 2014, the City Council adopted Ordinance No. 2315, which codified the Gas Service Rules, Regulations and Rate Schedules of Victorville Municipal Utility Services ("VMUS") and established a mechanism under Chapter 10.11 of the Victorville

Municipal Code to make future revisions by way of City Council resolution. The VMUS Gas Service Rate Schedules ("Rate Schedules ") were last amended on June 16, 2015, following City Council adoption of Resolution 15-045 and Appendix A thereto.

City Staff annually reviews VMUS gas utility operating costs to determine revenue requirements and ensure that gas rates, fees and charges adequately reflect the reasonable and prudent costs to acquire and deliver gas to retail customers. In assessing operating costs, the establishment of sufficient reserves to meet both current and future obligations must also be considered, including but not limited to capital expenditures, associated debt service schedules, and legislative mandates. The natural gas commodity charge is adjusted monthly and billed to customers at cost; therefore, volatility in energy market prices is not a consideration when assessing operating costs for the purpose of rate adjustments.

If Resolution 16-040 is adopted, the system average rate will increase by 4.4 percent. Table 1 below illustrates the average monthly increase a customer may expect compared to the current Rate Schedules:

**Table 1: Average Monthly Increase by Therms Billed**

Monthly Usage (Therms)	Average Monthly Bill		Average Monthly Increase	
	Current	Proposed	\$	%
100	\$ 157.76	\$ 166.81	\$ 9.05	5.7%
600	\$ 829.38	\$ 866.67	\$ 37.29	4.5%
3,000	\$ 3,779.17	\$ 3,921.97	\$ 142.80	3.8%
5,000	\$ 5,913.85	\$ 6,153.41	\$ 239.56	4.1%
10,000	\$ 11,250.55	\$ 11,732.01	\$ 481.46	4.3%
50,000	\$ 53,944.15	\$ 56,360.81	\$ 2,416.66	4.5%
100,000	\$ 107,311.15	\$ 112,146.81	\$ 4,835.66	4.5%

*Note: For the purpose of comparison, the gas commodity cost used in these calculations was held constant at \$0.500/Therm based on FY 2016/2017 budget assumptions.*

The proposed revisions to the Rate Schedules are set forth in Appendix A of Resolution 16-040, and do not exceed the City's reasonable costs of providing natural gas service to the customers of its municipal gas enterprise. Such costs include, but are not limited to, higher than anticipated costs associated with standard system improvements that are scheduled for completion in fiscal year 2016/2017, and the establishment of a fifteen percent operating reserve over the next four fiscal years to help ensure service and rate stability by mitigating the risks associated with potential revenue shortfalls or unanticipated increases in operating expenses. Additionally, the proposed rates anticipate a blended cost for transportation charges due to the annual escalator of 2.95 percent per calendar year that Southwest Gas applies to the margin component of all rate schedules each January, which increases expenses incurred by VMUS to provide service to end use customers.

Under the proposed revisions to Rate Schedules, the VMUS system average rate will initially be on a par with the comparable Southwest Gas GS-40 rate. However, the VMUS system average rate is estimated to be 0.5 percent lower than the comparable GS-40 rate after Southwest Gas applies its annual escalator in January 2017.

If Resolution 16-040 is adopted, the amended Rate Schedules included as Appendix A to Resolution 16-040 will replace and supersede the version adopted under Resolution 15-045. The proposed effective date of Resolution 16-040 has been set for July 6, 2016, to coincide with the first billing cycle of the new fiscal year.

The City has provided the required notification to the public by publishing notice of this hearing on June 3, 2016, and June 10, 2016, in the County Legal Reporter, a newspaper of general circulation adjudicated to publish Legal Advertisements in the entire County of San Bernardino and City of Victorville, and by posting notice in at least two separate locations within the City. Furthermore, the public hearing notice was sent to each VMUS gas customer on June 2, 2016, and the proposed documents have been available for public review in the City Clerk's office and on the VMUS webpage since June 6, 2016.

KCM:jd

**RESOLUTION NO. 16-040**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF VICTORVILLE, CALIFORNIA, AMENDING AND REVISING THE GAS SERVICE RATE SCHEDULES FOR GAS SERVICES PROVIDED BY VICTORVILLE MUNICIPAL UTILITY SERVICES PURSUANT TO CHAPTER 10.11 OF THE VICTORVILLE MUNICIPAL CODE**

**WHEREAS**, on May 20, 2014, the City Council of the City of Victorville (“City”) adopted Ordinance No. 2315, which established Chapter 10.11 within Title 10 of the Victorville Municipal Code (“VMC”) and codified the Gas Service Rules, Regulations and Rate Schedules of Victorville Municipal Utility Services (“VMUS”); and

**WHEREAS**, the Gas Service Rules, Regulations and Rate Schedules were set forth in Attachment 1 to Ordinance No. 2315 and incorporated by reference into VMC Section 10.11.010(a); and

**WHEREAS**, Ordinance 2315 further provided that the Gas Services Rules, Regulations and Rate Schedules could be amended by resolution of the City Council under the procedures set forth therein; and

**WHEREAS**, VMC sections 10.11.010(b) and 10.11.020(a), respectively, authorize the City Council to amend the Rules and Regulations in Attachment 1 and the Rate Schedules set forth in Appendix A of Attachment 1, following publication of advance notice and the holding of a public hearing; and

**WHEREAS**, the Gas Service Rate Schedules were last amended on June 16, 2015, following a duly noticed public hearing concerning the adoption of Resolution 15-045 and Appendix A thereto; and

**WHEREAS**, it is the desire of the City Council for City Staff to regularly review VMUS gas utility operations to ensure that gas rates cover all prudent business costs, as well as current and future obligations, but do not exceed the amount necessary for the same; and

**WHEREAS**, the City Council finds and determines that, based upon the data, information, analysis and documentation presented, the charges and rates set forth in Appendix A of this Resolution reflect the City’s reasonable and prudent costs associated with the operating expenses of the municipal utility enterprise and do not establish unfair, unreasonable, discriminatory or excessive rates that exceed the City’s reasonable costs of providing natural gas services; and

**WHEREAS**, the City Council has reviewed the adoption of this Resolution pursuant to the requirements of the California Environmental Quality Act of 1970, as amended (“CEQA”), and has determined that the adoption of the revised Gas Service Rate Schedules has no foreseeable potential to result in a significant impact upon the environment and is exempt from

CEQA review pursuant to State CEQA Guidelines Section 15061(b)(3). Further, the City Council has determined that the approval of the fees and rates is exempt from substantive environmental review under Section 15273(a)(1) of the State CEQA Guidelines as such fees and rates are for the purposes of meeting the operating expenses of the municipal gas enterprise; and

**WHEREAS**, in order to ensure the continued orderly operation of VMUS and recovery of reasonable and prudent costs associated with providing gas service to its customers, the City Council desires to adopt this Resolution making the modified Rate Schedules (new Appendix A to Attachment 1 of the VMUS Gas Service Rules, Regulations and Rate Schedules and Appendix A of this Resolution) effective as of July 6, 2016; and

**WHEREAS**, copies of this Resolution and Appendix A thereto, were made available for public review in City Clerk's office beginning June 6, 2016; and

**WHEREAS**, on June 21, 2016, the City Council conducted a duly noticed public hearing concerning the adoption of this Resolution and Appendix A thereto, and all legal prerequisites to the adoption hereof have occurred.

**NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF VICTORVILLE DOES HEREBY RESOLVE, DETERMINE AND ORDER AS FOLLOWS:**

**Section 1.** The recitals and findings set forth above are true and correct and are hereby incorporated in their entirety as part of this Resolution by this reference.

**Section 2.** The VMUS Gas Service Rules and Regulations set forth in Attachment 1 of Ordinance No. 2315 shall remain in full force and effect.

**Section 3.** The revised Gas Service Rate Schedules set forth in Appendix A to this Resolution, incorporated and made part of this Resolution by reference, are hereby adopted and shall replace and supersede Appendix A of Attachment 1 to Resolution 15-045 in its entirety as of July 6, 2016.

**Section 4.** The revised Gas Service Rate Schedules contained in Appendix A to this Resolution shall become effective on July 6, 2016.

**Section 5.** As of July 6, 2016, an updated copy of the VMUS Gas Service Rate Schedules (Appendix A of this Resolution and new Appendix A to Attachment 1 of the VMUS Gas Service Rules, Regulations and Rate Schedules) shall be retained at City Hall by the City Clerk and/or VMUS customer service, together with the currently-existing version of the VMUS Gas Service Rules and Regulations adopted by Ordinance 2315, and shall be available for public inspection upon request.

**Section 6.** The City Clerk shall certify to the adoption of this Resolution.

**Appendix A to Resolution No. 16-040**

**APPENDIX A**

to Attachment 1 of the

**Victorville Municipal Utility Services  
Gas Service Rules, Regulations and Rate Schedules**

**Gas Service Rate Schedules**

**(Originally adopted by Ordinance 2315 on May 20, 2014)  
(Revised on June 17, 2014 per City Council Resolution No. 14-036)  
(Revised on June 16, 2015 per City Council Resolution No. 15-045)  
(Revised on June 21, 2016 per City Council Resolution No. 16-040)**

# **Table of Contents to Appendix A**

## **Gas Service Rate Schedules**

**COMMERCIAL and INDUSTRIAL**

**1**

## COMMERCIAL and INDUSTRIAL

A. **Applicability.**

This schedule applies to non-residential natural gas service provided to commercial and industrial customers by way of the Victorville Municipal Utility Services (VMUS) gas system.

B. **Territory.**

Within the entire territory served by the Utility.

C. **Rates.**

Monthly Service Charge:	<u>Per Meter</u> \$ 11.00
Transportation & Distribution Charges:	<u>Per Therm</u>
Tier 1 (first 100 Therms)	\$0.95919
Tier 2 (101-600 Therms)	\$0.80083
Tier 3 (601-3,000 Therms)	\$0.67414
Tier 4 (Over 3,000 Therms)	\$0.51682
Administrative Charge:	<u>Per Therm</u> \$0.09401
Public Purpose Program Charge:	<u>Per Therm</u> \$0.00489
Commodity Charge:	<u>Per Therm</u> <i>See Special Condition D.1</i>

D. **Special Conditions.**

1. The Commodity Charge under this schedule will be determined on a monthly basis and shall be equal to the weighted average cost of gas purchased by VMUS from all sources based on forecasted demand for end-use customers. The Commodity Charge shall also include costs associated with purchasing, remarketing, and balancing which may include, but are not limited to, costs related to financial transactions implemented to reduce market exposure for the cost of gas and/or transportation of gas to the SoCal Gas Citygate, the point where gas is transferred from interstate/intrastate pipelines to the local utility distribution system. There will be no markup to the customer beyond the actual cost of gas. Therefore, the Commodity Charge may occasionally include a Gas Cost Adjustment to ensure a zero sum gain to VMUS for gas commodity sales.

2. Temporary Discontinuance of Service.

Where the use of natural gas is seasonal or intermittent, no adjustments will be made for a temporary discontinuance of service. Any Customer, prior to resuming service within twelve (12) months after such service was discontinued, will be required to pay all charges which would have been billed if service had not been discontinued.

3. Billing Calculation.

A Customer's bill is calculated according to the rates and conditions above.

4. Change of Law Adjustment Factor (CLAF).

The rates above are subject to an adjustment as provided in Rule 12.E.

5. Public Purpose Program Charge.

VMUS has established a public purpose program charge to fund eligible energy efficiency, conservation and research and demonstration projects/activities that provide a public benefit as outlined in the VMUS Energy Efficiency Program. Such charge will be assessed as a component of the Customer's monthly bill on a per Therm basis at the rate specified in Section C above.

## Year-to-Year Comparison

### *VMUS Gas Rate Components*

	<b>FY 15/16</b>	<b>FY 16/17</b>	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Monthly Service Charge (\$/Meter/Mo.):	\$ 10.00	\$ 11.00	\$1.00	10.0%
Transportation & Distribution Charges:				
Tier 1 (first 100 Therms)	\$0.89543	\$0.95919	\$ 0.06376	7.1%
Tier 2 (101-600 Therms)	\$0.76112	\$0.80083	\$ 0.03971	5.2%
Tier 3 (601-3,000 Therms)	\$0.64695	\$0.67414	\$ 0.02719	4.2%
Tier 4 (Over 3,000 Therms)	\$0.48521	\$0.51682	\$ 0.03161	6.5%
Administrative Charge (\$/Therm):	\$0.07512	\$0.09401	\$ 0.01889	25.1%
Public Purpose Program Charge (\$/Therm):	\$0.00701	\$0.00489	\$ (0.00212)	-30.2%
Commodity Charge:	<i>At Cost</i>	<i>At Cost</i>	-	-