



Legislation Text

File #: 13-0602, **Version:** 1

Recommendation to adopt resolution authorizing City Manager to adjust certain rates for natural gas service to reflect market conditions by implementing Gas Rate Schedules 1 through 5, 7, 9, plus readopt Exhibits A and B. (Citywide)

Long Beach Gas and Oil (LBGO) operates and maintains a pressurized natural gas pipeline system that consists of over 1,900 miles of aging underground pipeline and nearly 150,000 natural gas meters. The pipeline system includes both steel and plastic pipeline, with the bulk of the current pipeline system installed in the 1940s, 1950s, and 1960s, with some pipeline from the 1930s still in operation. Detailed historical leakage records of LBGO's pipeline system clearly demonstrate the relationship between the age of the pipeline and the vulnerability to leakage. With an aging pipeline system, it is imperative that LBGO continually reinvest gas ratepayer revenues into the pipeline infrastructure to maintain safe operation.

From that same safety perspective, federal and state regulators nationwide have increased their oversight of the manner in which individual natural gas utility systems are operated and maintained. Under the U.S. Department of Transportation, the Pipeline and Hazardous Materials Safety Administration (PHMSA) has recently established integrity management requirements for the nation's gas distribution pipeline systems. New regulations require gas utility systems to develop and implement a Gas Distribution Integrity Management Program (DIMP).

As required, in May 2013, LBGO filed its updated DIMP report with the federal PHMSA. LBGO's DIMP documents with detailed data the current condition of the overall LBGO gas pipeline system, identifies potential threats to the integrity of the system, and specific steps that LBGO is taking to address these potential threats, including tracking the progress of LBGO removing pre-1950 pipeline from its system. To demonstrate LBGO's level of effectiveness in reducing vulnerabilities to its gas pipeline system, the DIMP report includes benchmarked performance measurements such as the number of gas leaks. Periodically, the PHMSA sends auditors on site to inspect and review LBGO's operations and documentation to verify that LBGO is complying with all federal regulations and performing the actions described in the DIMP necessary to maintain a safe pipeline system.

In addition, beginning in 2015, all California gas utilities will be subject to the provisions of California's Global Warming Solutions Act (AB 32), including participation in the Cap and Trade Program. In preparation for this new regulation, LBGO is currently working with all the major private gas utilities such as Southern California Gas Company (SoCalGas), Pacific Gas & Electric, San Diego Gas & Electric (SDG&E), and Southwest Gas, as well as the other municipal gas utilities such as Palo Alto and Vernon, to meet with the California Air Resources Board (CARB) to facilitate how the provisions of AB 32 will be implemented for California's natural gas utilities.

Compliance with these and other regulatory demands for increased pipeline integrity and environmental programs are financially impacting gas utilities statewide. Largely in recognition of these cost increases, the California Public Utilities Commission (CPUC) last month authorized a rate

increase to the transmission rates charged by SoCalGas and SDG&E to their customers. This CPUC approval followed a lengthy and detailed regulatory proceeding, which commenced in December 2010, with many public hearings. The CPUC approved the rate increase as justified to allow SoCalGas and SDG&E to:

- Operate their natural gas transmission and distribution system safely and reliably at reasonable rates
- Provide the necessary monies to fund the gas transmission and distribution pipeline integrity programs required by the federal government
- Provide the necessary monies to replace aging gas delivery infrastructure so as to ensure the safe and reliable delivery of natural gas to its customers
- Provide the necessary monies to comply with state and federal environmental regulations
- Prepare a Gas Transmission and Distribution and Gas Storage Safety Report

With like requirements for its own gas utility's operation, LBGO's business costs are similarly impacted as other area gas utilities have also been impacted. Pursuant to Long Beach City Charter Section 1502, LBGO periodically performs market reviews of its gas utility rates against those charged by other gas utilities in Southern California. Currently, LBGO's gas rates are significantly lower than those charged by SoCalGas and SDG&E to their customers.

As provided for in the City Charter, LBGO is recommending that the City Council approve rate adjustments to levels comparable with those of surrounding gas utilities in Southern California. Rate adjustments are recommended for all LBGO rate classifications including residential, commercial/industrial, compressed natural gas, electric generation, and transportation (see Attachment 1). For the average LBGO residential customer, the recommended rate adjustment would result in an estimated increase of \$1.64 per month (an approximate 5 percent increase).

The proposed rate changes impact the transmission rates for all customer categories but do not impact the service charge or commodity portions of the gas rates. The commodity charges for all customer classifications will continue to reflect the actual fluctuating monthly market price of natural gas along with any associated costs for receiving that gas. In addition to adjustments in the gas rate schedules, Exhibits A and B concerning special conditions and incentives are included under this Resolution to be readopted. There are no changes to Exhibits A and B.

This matter was reviewed by Deputy City Attorney Richard Anthony on June 25, 2013 and by Budget Management Officer Victoria Bell on June 24, 2013.

City Council action is requested on July 16, 2013 in order to implement the gas rate changes effective for service received on or after August 1, 2013. The rate changes are intended to establish Long Beach gas utility service charges and transmission rates comparable with those of other like utilities pursuant to Section 1502 of the City Charter.

An approximate \$405,000 increase in revenues to the Gas Fund (EF 301) in the Department of Long Beach Gas and oil (GO) is anticipated for the remainder of FY 13 (estimated to equal \$3.6 million increase annually). The actual amount of revenues will vary, depending upon the actual demand for, and the market price of, natural gas during the year. The resulting revenues will be utilized by LBGO to continue its long-term natural gas pipeline replacement program as well as to meet all pipeline

safety and environmental regulations.

Approve recommendation.

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LONG BEACH APPROVING
CHANGES TO THE SCHEDULE OF GAS RATES

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APPROVED:

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