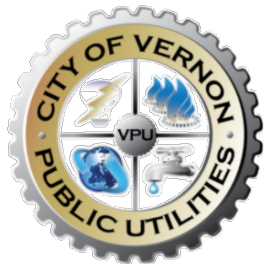




March 16, 2022

# VERNON PUBLIC UTILITIES – GAS RATE RECOMMENDATIONS



# VPU GAS COST OF SERVICE STUDY & RATE REVIEW

---

## Overview of Cost of Service & Rate Review Study

- Used 3<sup>rd</sup> party to perform the study
- NewGen Strategies and Solutions was identified through competitive selection
- The Project Manager, Tony Georgis has more than 20 years of utility financial and regulatory experience, evaluating utilities
- Cost of Service and Rate Review – 1 year assessment
- VPU currently has a total of 124 gas customers
- VPU has 4 types of Gas customer classes:
  - G-1 Residential
  - G-2 Large Commercial
  - G-3 Transport Only
  - G-4 Commercial

# ASSESSMENT FINDINGS

---

## Findings:

- Need to meet the Gas Revenue Requirements, which states that the VPU Gas Enterprise Fund needs to recover:
  - Labor, maintenance, and supplies
  - Capital investments to support growth in customer connections
  - Administrative and regulatory costs
- Gas Enterprise Fund is providing
  - VPU Credit – 5% bill credit to all gas customers
- There is an expected shortfall of approximately \$1.8M per year from 2022 - 2024
  - VPU has never increased rates for gas customers – established in 2006

# GAS COST OF SERVICE BREAKDOWN

---

## Current Cost of Service Breakdown:

Total Gas Cost of Service (COS): \$12.9M/Yr.

Current rate revenues \$11.7M/Yr. (\$600,000 VPU Credit)

**\$ -1.8M/Yr.**

- VPU Gas Enterprise Fund is projected to have a revenue shortfall for the next 3 years – 2022 to 2024
- Approximately \$1.8M shortfall per year

## VPU'S GAS GOALS AND MISSION

---

### VPU Priorities for Gas Cost of Service & Rate Review

- Ensure that VPU's Gas Enterprise remains safe, reliable and responsive with the necessary funding to operate and maintain the gas system
- Ensure that VPU's gas rates remain significantly lower than other gas providers.
  - Currently VPU's G-2 and G-4 are 50-60% less than SoCalGas
  - G-1 – no residential gas customers
  - G-3 in order to maintain competitive edge, recommend smaller rate adjustment (approx. 4 customers on this rate)

# PROPOSED RECOVERY FRAMEWORK

## Recommended Recovery Framework:

Objective: To recover the gas deficit and create a self-sustaining gas enterprise

**Recommendation:** Implement rate adjustments to be applied to all gas classes, except residential (no gas customers)

Objective: To ensure VPU maintains a significant competitive advantage for customers over SoCal Gas (minimum 15-30% less – SoCal Gas historically has raised rates)

### Recommendations:

- Minimize rate adjustment impact by phasing over a 3-year period
- Reduce rate percent increase to customers by eliminating the VPU credit – effective July 1, 2022

# RATE ADJUSTMENT STRATEGY

## **Proposed Rate Adjustment Strategy**

*Maintain Competitive Advantage to SoCal Gas and  
Recover Full Cost of Service for VPU Gas*

- Propose 3 Year Phase of approximately 5% per year
  - Year 1: Customers do not receive a rate adjustment, VPU will remove VPU UUT Credit for gas customers
  - Year 2: Rate adjustment to G-2 thru G-4 gas customers
  - Year 3: Rate adjustment to G-2 thru G-4 gas customers
- Rate Adjustments breakdown by class:
  - G-1 Residential: No change
  - G-2 Large Commercial: Approximately 5.6% per year
  - G-3 Transport Only: 1% per year
  - G-4 Commercial: Approximately 4.6% per year

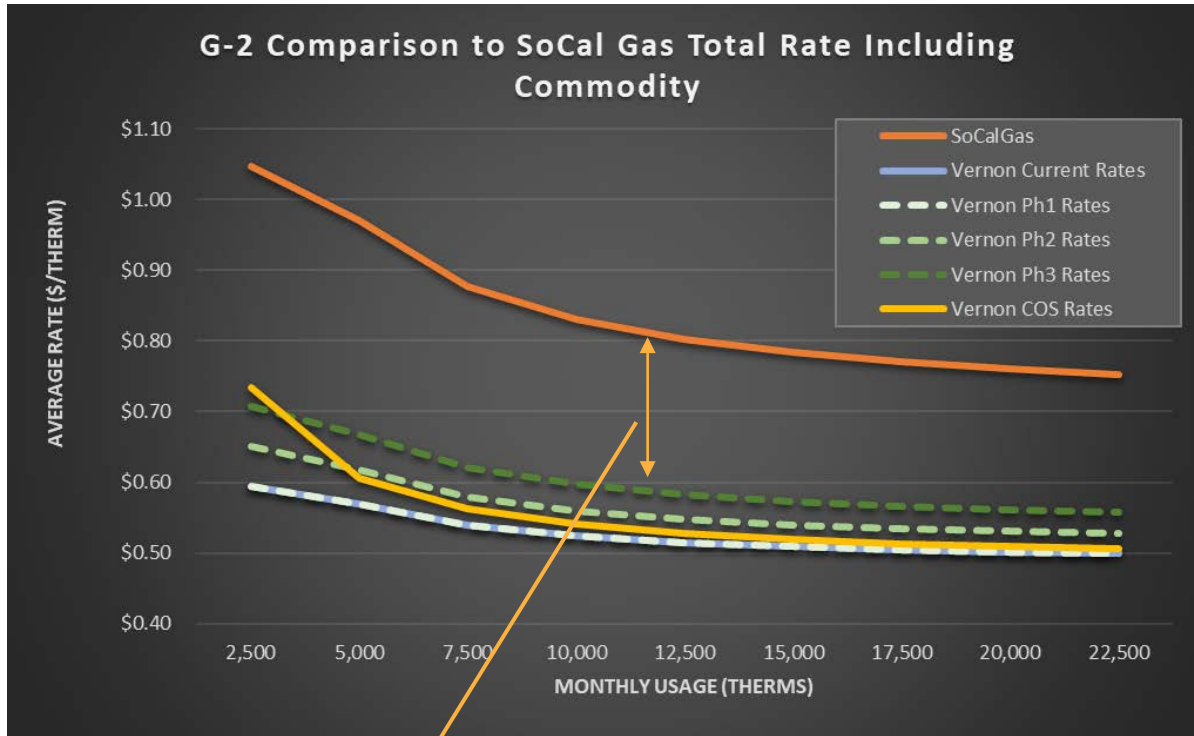
# RATE ADJUSTMENT RECOMMENDATIONS

Customer Class	FY 2023 Recommended Bill and Rate Change (Phase 1)	FY 2024 Recommended Bill and Revenue Change (Phase 2)	FY 2025 Recommended Bill and Revenue Change (Phase 3)
G-2 Small Commercial	Remove 5% VPU Bill Credit	5.7%	5.6%
G-3 Transportation Only	Remove 5% VPU Bill Credit	1.0%	1.0%
G-4 Large Commercial	Remove 5% VPU Bill Credit	4.6%	4.6%

Customer Class	Current Revenues (incl. VPU Discount)	FY 2023 Recommended Revenues	FY 2024 Recommended Revenues	FY 2025 Recommended Revenues
G-2 Small Commercial	\$ 7,076,918	\$ 7,449,387	\$ 7,876,822	\$ 8,319,768
G-3 Transportation Only	\$ 1,291,042	\$ 1,358,992	\$ 1,372,103	\$ 1,385,143
G-4 Large Commercial	\$ 2,737,272	\$ 2,881,339	\$ 3,012,513	\$ 3,150,772
<b>Total Revenues</b>	<b>\$ 11,105,232</b>	<b>\$ 11,689,718</b>	<b>\$ 12,261,438</b>	<b>\$ 12,855,683</b>
<b>Change in Revenues</b>	<b>NA</b>	<b>\$ 584,486</b>	<b>\$ 571,720</b>	<b>\$ 594,245</b>

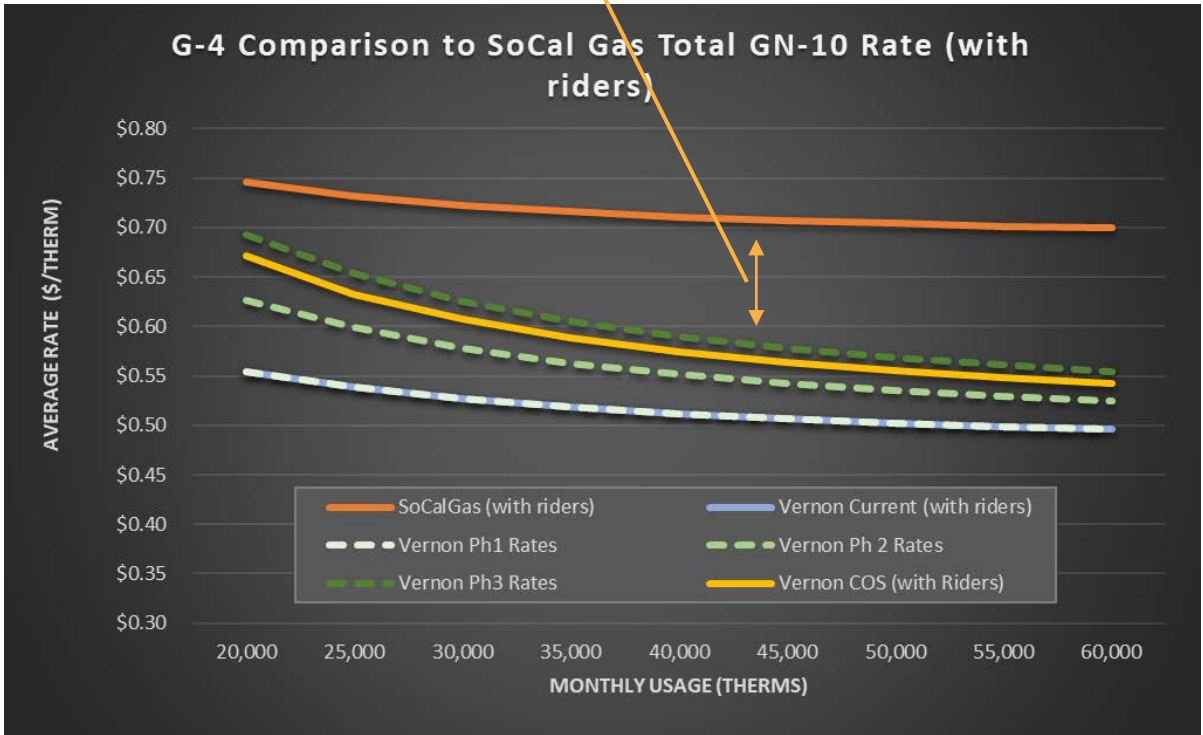


# COMPETITIVE BENCHMARKING: G-2 AND G-4 TRANSPORT AND COMMODITY SERVICE

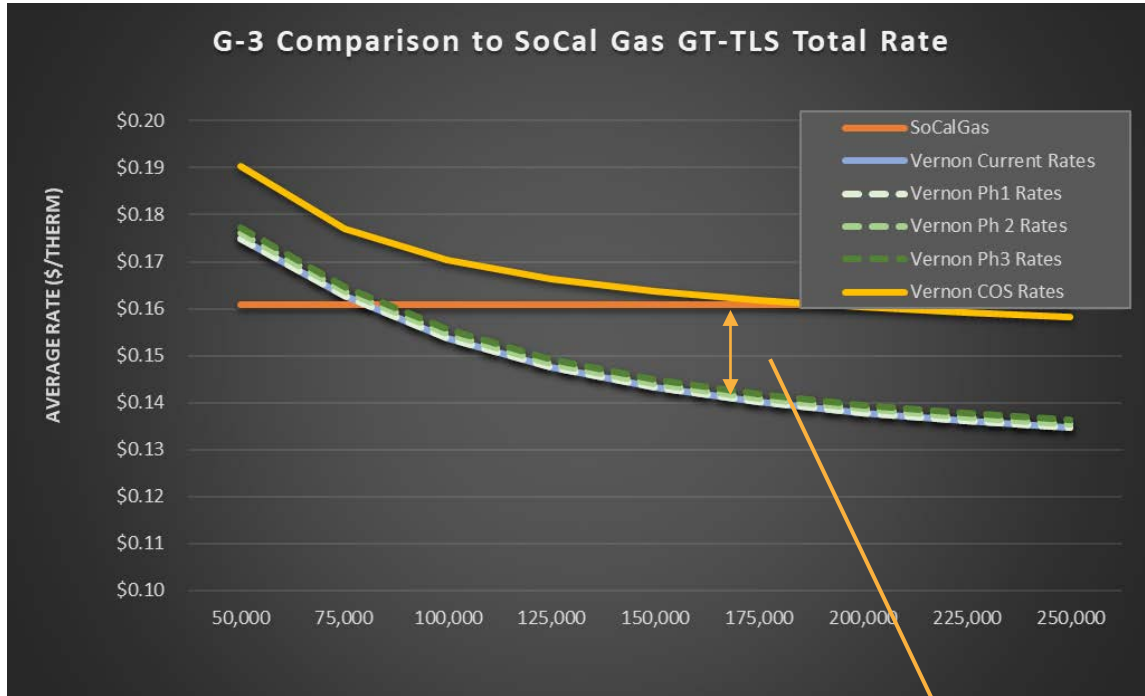


VPU Phase 3 rates 25-30% less than SoCal Gas

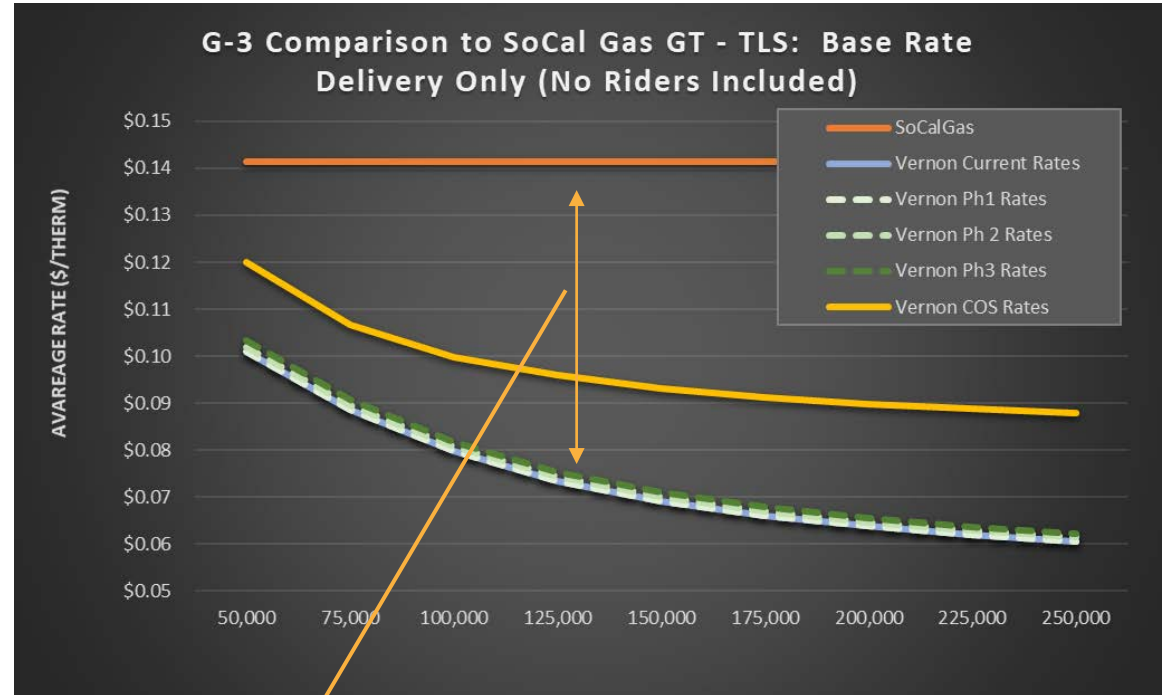
VPU Phase 3 rates 15-20% less than SoCal Gas



# COMPETITIVE BENCHMARKING: G-3 TRANSPORT ONLY SERVICE



VPU Phase 3 rates 12% less than SoCal Gas for larger customers (total bill)



VPU Phase 3 rates 30-55% less than SoCal Gas for all customers without gas rate riders (VPU GHG rider).

# EXAMPLE MONTHLY BILLS AND BENCHMARK

G-2	Item	SoCal Gas Bill	VPU PH1 Bill	VPU PH2 Bill	VPU PH3 Bill
		12,000 Therms	Customer Charge	\$15	\$ 50
	Transport	\$5,005	\$ 1,329	\$1,711	\$2,124
	Commodity	\$3,892	\$3,892	\$3,892	\$3,892
	Riders	\$768	\$924	\$924	\$924
	<b>Total</b>	<b>\$9,680</b>	<b>\$6,195</b>	<b>\$6,597</b>	<b>\$7,021</b>
	<b>Difference from SoCal</b>		<b>-36%</b>	<b>-32%</b>	<b>-27%</b>

G-3	Item	SoCal Gas Bill	VPU PH1 Bill	VPU PH2 Bill	VPU PH3 Bill
		200,000 Therms	Customer Charge	\$0	\$300
	Transport	\$28,260	\$12,467	\$12,631	\$12,804
	Commodity	\$0	\$0	\$0	\$0
	Riders	\$1,542	\$14,800	\$14,800	\$14,800
	<b>Total</b>	<b>\$29,802</b>	<b>\$27,567</b>	<b>\$27,731</b>	<b>\$27,904</b>
	<b>Difference from SoCal</b>		<b>-7%</b>	<b>-7%</b>	<b>-6%</b>

G-4	Item	SoCal Gas Bill	VPU PH1 Bill	VPU PH2 Bill	VPU PH3 Bill
		40,000 Therms	Customer Charge	\$15	\$300
	Transport	\$13,457	\$4,107	\$4,750	\$5,404
	Commodity	\$12,413	\$12,413	\$12,413	\$12,413
	Riders	\$2,559	\$3,080	\$3,080	\$3,080
	<b>Total</b>	<b>\$28,444</b>	<b>\$19,900</b>	<b>\$21,493</b>	<b>\$23,047</b>
	<b>Difference from SoCal</b>		<b>-30%</b>	<b>-24%</b>	<b>-19%</b>

## NEXT STEPS

### Proposed Timeline of Outreach Efforts:

- Present to City Administration early January 2022 ✓
- Outreach to Chamber of Commerce late January 2022 ✓
- Present to Business and Industry Commission February 10, 2022 ✓
- Community Stakeholders Meeting on March 16, 2022
- Present to City Council for approval on May 3, 2022
- Implement Rate Adjustment – Effective July 1, 2022

THANK YOU

---

**QUESTIONS?**