

RESOLUTION NO. 4305

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF COALINGA AMMENDING THE LONG-TERM NATURAL GAS PURCHASE POLICY TO BECOME THE NATURAL GAS ENTERPRISE POLICY AND ESTABLISHING FUNDS FOR CAPITAL IMPROVEMENT AND FOR RATE STABILIZATION

WHEREAS, City operates a municipal natural gas distribution utility beneficial to City residents and businesses; and

WHEREAS, City Council of Coalinga approved implementation of a gas purchase policy in Resolution No. 4156, dated May 4, 2023, then amended by Resolution No. 4231, dated August 15, 2024; and

WHEREAS, City Council has further requested establishment of separate sub-funds within the gas enterprise for Capital Improvement and Rate Stabilization; and

WHEREAS, the Gas Purchase Policy is further amended herein to be simplified for appropriate use under changing market conditions; and

WHEREAS, the previous Natural Gas Purchase Policy is being integrated into this comprehensive Natural Gas Enterprise Policy to incorporate all related policies in one resolution; and

WHEREAS, the intent of this Natural Gas Enterprise Policy is to be reviewed annually and modified when needed to best manage natural gas services within the City of Coalinga; and

NOW, THEREFORE, BE IT RESOLVED, that the City Council of the City of Coalinga does hereby approve as follows:

Capital Improvement and Rate Stabilization Funds

1. This resolution hereby establishes within the Natural Gas Enterprise Fund two separate sub-funds to be named:
 - a. Natural Gas Rate Stabilization Fund
 - b. Natural Gas Capital Improvement Fund
2. Each sub-fund shall be assigned a distinct asset account number within the city's accounting system.
3. Account balances in each of the sub-funds shall be in the form of available cash.
4. Transfers of available cash into the sub-funds shall be approved by the City Council in conjunction with Annual Reporting. The source of transfers may be accumulated net operating revenue, or it may be revenue from rates set deliberately to provide available cash for the sub-funds.
5. Use of the funds shall be restricted such that approval to utilize available cash held in the funds shall be provided only by the City Council.
6. Capital Improvement Fund. The intent of the Capital Improvement Fund is to be used for capital repair items that are not budgeted as operating costs. Examples are replacement of the anode beds

protecting the steel pipeline system, replacement of distribution pipe and valves, and replacement of gas meters. The objective level of annual funding for the Capital Improvement Fund is \$250,000 per year beginning FY25/26 primarily driven by the replacement cost of two anode beds per year for the next five years at a cost of approximately \$100,000 each.

7. Rate Stabilization Fund. The intent of the Rate Stabilization Fund is to be used to avoid rate increases caused by wholesale gas price volatility, especially price spikes caused by extremely cold winter conditions and transmission pipeline failures reducing gas availability. The objective level of total funding for Rate Stabilization is \$250,000 based on a 25 percent increase over \$1,000,000 in wholesale gas costs. This objective level of funding is greatly reduced by the Gas Purchase Policy requirement of purchasing winter gas prior to each winter.

Gas Purchase Policy

1. City staff shall continue a long-term natural gas purchase policy as modified and defined herein. Staff shall take steps to ensure reasonable pricing for natural gas supply using dollar cost averaging by making gradual purchases over time when appropriate based on market conditions.
2. Winter months for the purpose of the gas purchase policy are defined as November through March.
3. Prior to November of each year, staff shall have purchased at least 80 percent of the average demand for each month of the oncoming winter. The calculation of the average demand shall be updated following each winter.
4. Fixed-price purchases may be made:
 - a. Up to five years into the future, and
 - b. For all months, beyond winter, up to 80 percent of the three-year average
5. The City Manager is authorized to execute gas purchase and transportation agreements as needed for gas supply to the city. The rationale for each purchase shall be documented, including the date of the transaction, volumes, prices paid, market price trends, and market conditions.

Annual Reporting

City staff shall report to the City Council by the end of each September:

1. The results of the City's natural gas supply portfolio through the previous winter
2. Gas purchases and projected gas costs for the next winter
3. The economic state of the natural gas enterprise fund, including revenues, expenses, operating fund balance, and projections
4. The balance of the Rate Stabilization Fund, and activity during the year
5. The balance of the Capital Improvement Fund, and activity during the year
6. Recommended transfers or funding rates for Rate Stabilization and Capital Improvement
7. Recommended adjustments to gas rates
8. Recommended changes or additions to the Natural Gas Enterprise Policy resolution

The foregoing resolution was approved and adopted by the City Council of the City of Coalinga at a Special held on the 8th day of January, by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

APPROVED:

Nathan Vosburg, Mayor

ATTEST:

City Clerk/Deputy City Clerk