

**Review of Natural Gas Enterprise Financial Status
and Recommendation for Rate Increase**

September 16, 2025

Background

In May 2023 City Council approved a long-term gas purchase policy for Coalinga pursuant to Resolution No. 4156. The gas purchase policy was amended in August 2024 by Resolution 4231. The amended gas purchase policy requires a report to City Council by the end of each August covering the overall state of the natural gas enterprise so that rate adjustments can occur, if needed, before the winter heating season. The report is to include:

- The status of wholesale gas purchases
- Compliance with the adopted gas purchase policy
- Any recommended changes to the policy
- Financial status of gas enterprise
- Adequacy of or needed changes to the City's natural gas rates

Dan Bergmann of IGS presented the annual report for 2025 to City Council August 21, 2025, reviewing the outcome of Winter 24/25 and recommending a 20 percent revenue increase for the natural gas enterprise for Winter 25/26.

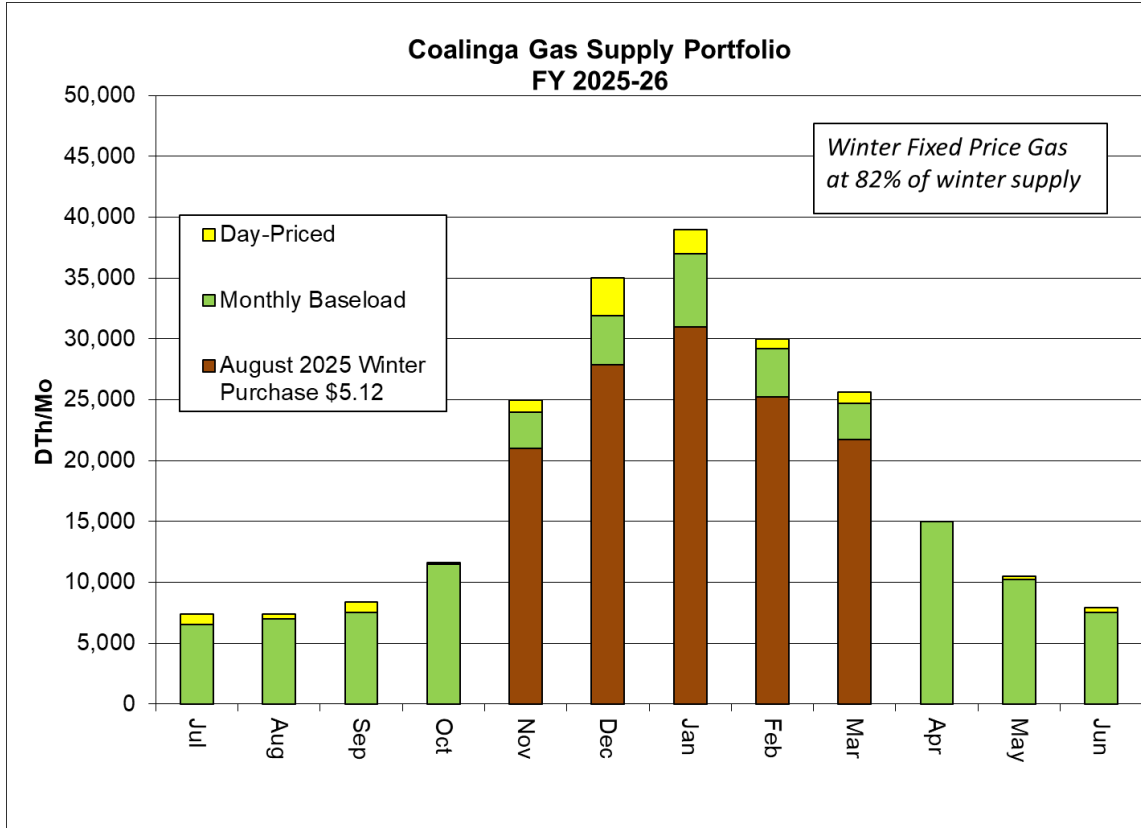
Historically, natural gas rates were lowered in 2009 and again in 2011. Ten years of moderate wholesale gas prices then passed before consecutively cold winters in 21/22 (US) and 22/23 (CA) drove wholesale prices upward. Some relief occurred into winter 23/24; however, PG&E transportation costs have increased substantially, now requiring a revenue increase to cover operating costs.

Gas Revenue Change History

<u>Effective Date</u>	<u>Change</u>
December 2009	-17%
November 2011	-25%
November 2021	+45%
September 2022	+45%
September 2023	-20%
September 2024	No change
November 2025	20% (Proposed)

Status of Wholesale Gas Purchases

For this coming winter, 25/26, a gas purchase was made on August 8, 2025. This one purchase brings this winter's hedge to 82% of the November through March requirements based on the three-year average for each month during the period. The price of the purchased gas was \$5.12 per Dth delivered at the PG&E city gate. The bar chart at the top of the next page shows the balance of fixed price gas, monthly baseload gas, and day-priced gas. The table in Attachment 1 shows the projected wholesale gas cost for FY25/25 equal to \$916,000, which includes credit from NRG of approximately \$110,000 as compensation for NRG's use of Coalinga's PG&E Redwood Path transportation capacity. The July and August data are actuals.



Compliance with Gas Policy

Gas purchases are in compliance with the amended policy for this coming winter because more than 80 percent of the three-year average requirements have been purchased.

However, the first one-third of purchases for Winter 26/27 which were due by July 2025, have not yet been completed. As of September 15, 2025, the indicative price for winter 26/27 supply is \$5.42, a premium over the \$5.12 gas purchased for this winter, and a premium over expected monthly prices unless the winter becomes extraordinarily cold. The first one-third for winter 27/28 is due by November 2025 and may also be postponed, presently priced at \$5.27. The reason for postponing these purchases is that futures prices have continued to be elevated above monthly market prices and are unattractive. Sellers continue to demand a high premium for the security of winter-time fixed price gas. See Attachment 2.

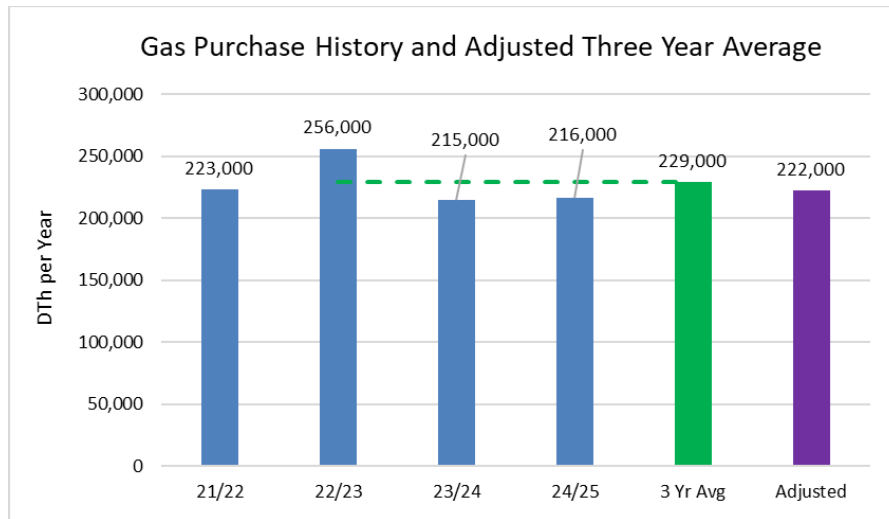
The bar chart at the top of the next page shows annual gas purchases over the past four fiscal years. Notice the peak from the very cold winter in 22/23. This lifted the three-year average to 229,000 DTh per year. The actual average used for calculating 80 percent is lower at 222,000 to account for the 22/23 winter as an anomaly.

Recommended Changes to Policy

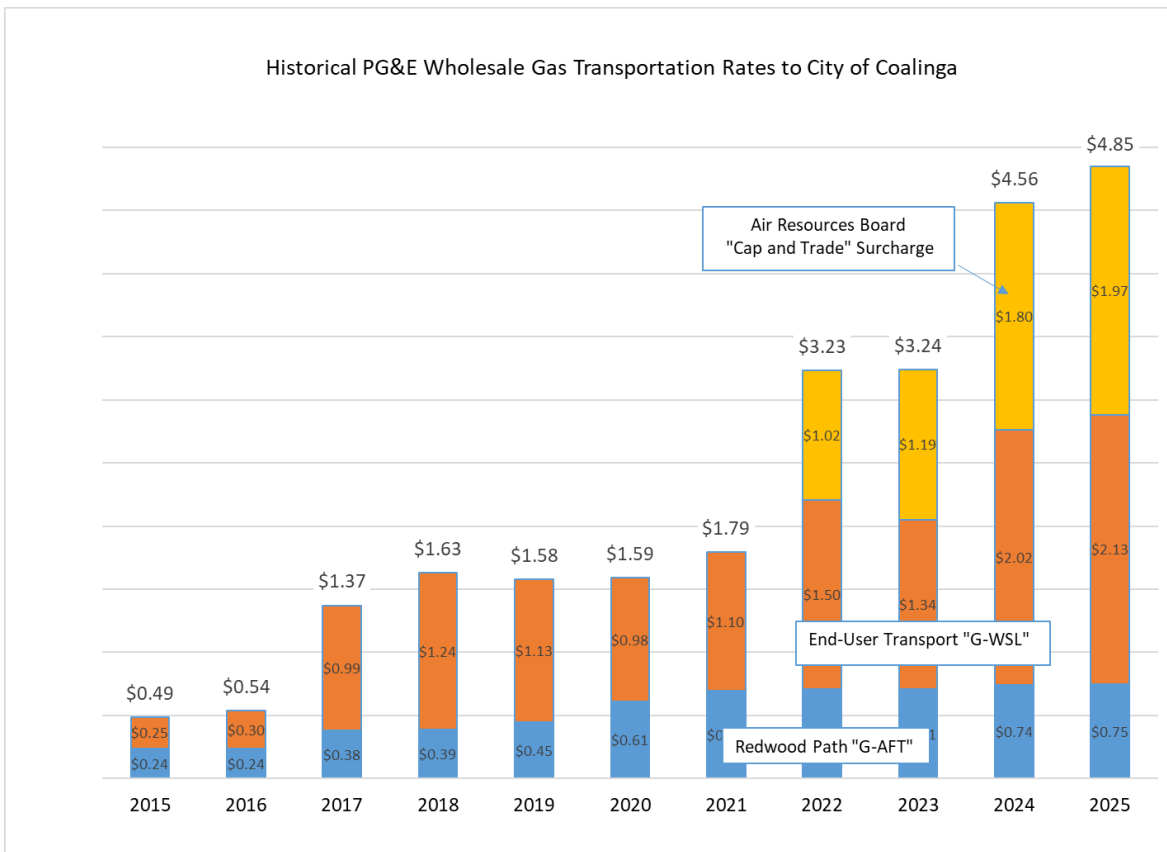
There are no recommended changes.

Financial Status of Enterprise

The audited cash balance of the gas enterprise fund as of June 30, 2024, was very low at \$341,181. The unaudited cash balance as of June 30, 2025, is even less at approximately \$153,000. Accordingly, operating income for FY24/25 was negative. Rates were held constant at last year's review in the hope that gas costs would drop further, but that did not happen. For FY25/26, the projected average cost of gas at the PG&E city gate is \$4.10 per DTh, which is the same as FY24/25.



Other costs are increasing, primarily PG&E transportation costs. The chart below shows the large increase in transportation driven by the California Air Resources Control Board “Cap-and-Trade” Surcharge. This program is intended to lower the emissions of greenhouse gases in California. PG&E transportation rates, including the Cap-and-Trade surcharge, currently total \$4.85 per DTh. This exceeds the \$4.10 per DTh cost of wholesale gas. See the bar chart below.¹



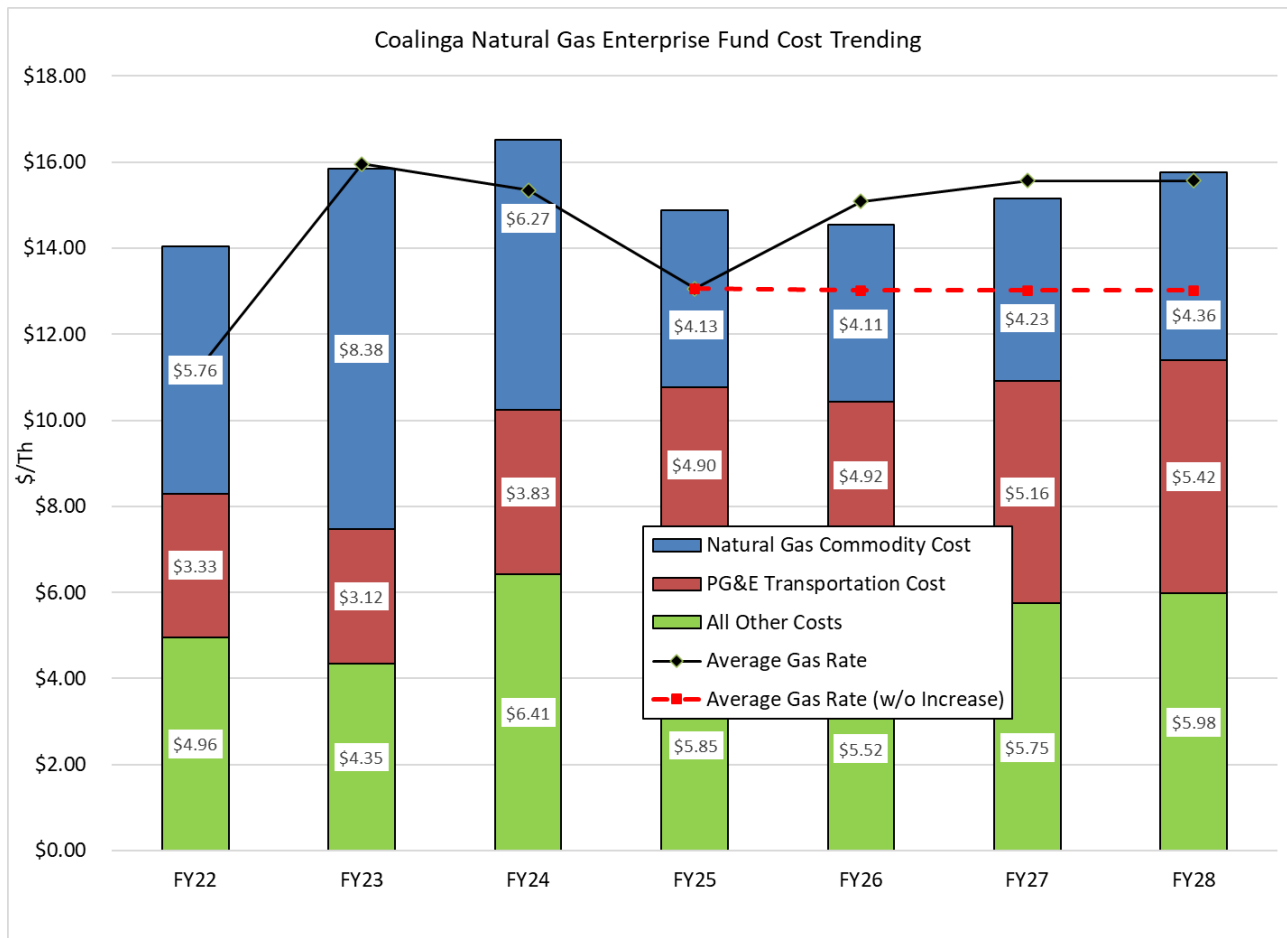
¹ The Historical PG&E “Rates” vary from the “Costs” shown in the associated bar chart. The reasons are 1) the *rates* shown are generally from PG&E tariff sheets each year as of January first, and 2) the *costs* are for each fiscal year (thereby spanning two calendar years) based on actual payments to PG&E.



Credit card and online customer pay fees have increased over the past few years to a level that is now impactful to overall expenses, approximately \$174,000 for FY24/25. This issue is being addressed by City staff to find lower-cost merchant services for customers paying with credit cards or online. The budgeted cost for these services for FY25/26 has been lowered to \$75,000, anticipating lower costs in this category. Personnel-related costs are escalated by five percent and other remaining costs are escalated by three percent.

Regarding capital replacement projects for the natural gas system, at least two of the 13 cathodic protection anode beds must be replaced during FY25/26. These beds protect the steel pipes from long-term corrosion, are essential to safe operation of the gas system and are required to comply with federal safety standards. A request for proposals is soon to be issued. The estimated cost for each anode bed is approximately \$100,000, for a total of \$200,000 this fiscal year. In addition, a total of \$120,000 is expected to be spent on replacing natural gas meters. Therefore, the total for capital replacements is \$320,000 for FY25/26.

The bar chart below shows the increases in PG&E costs as natural gas costs have decreased following the cold winter. The solid and dashed lines also show revenue per unit of sales with and without a recommended 20 percent increase.



The 20 percent increase provides just enough excess revenue to cover the costs of the anode beds and meters, leaving a projected fund balance of \$149,000 at the end of FY25/26. Without the increase, net income will be negative again, and the fund balance will become negative, projected at negative \$311,000 at the end of FY25/26. See the Revenue and Expense model in Attachment 3. The 20 percent increase also provides a slight positive operating income projected for FY26/27, including replacement of two more anode beds totaling \$200,000; however, a subsequent review will need to be performed next year in August, after the winter peak season.



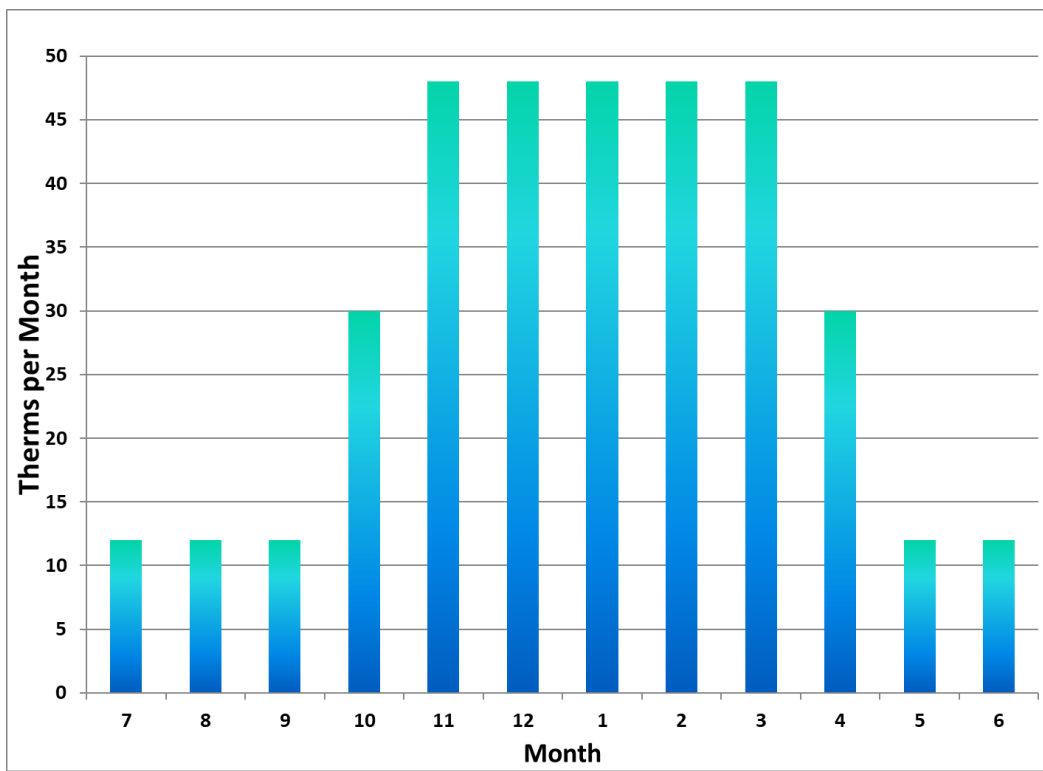
Proposed Rate Changes

The table below shows the present and proposed rates, based on a 20 percent increase from the present rates. See the proposed resolution associated with this report.

City of Coalinga Gas Rates				
	Summer Therms (Apr-Oct)	Winter Therms (Nov-Mar)	Effective 9/1/23	Proposed 11/1/25
				20%
Monthly Charge (\$/Mo)			\$12.18	\$14.62
Residential Single-Family Baseline (\$/Th)	15	50	\$0.88	\$1.05
Residential Single-Family Excess (\$/Th)	Over 15	Over 50	\$1.31	\$1.57
Commercial and All Other (\$/Th)	All Supply		\$1.31	\$1.57

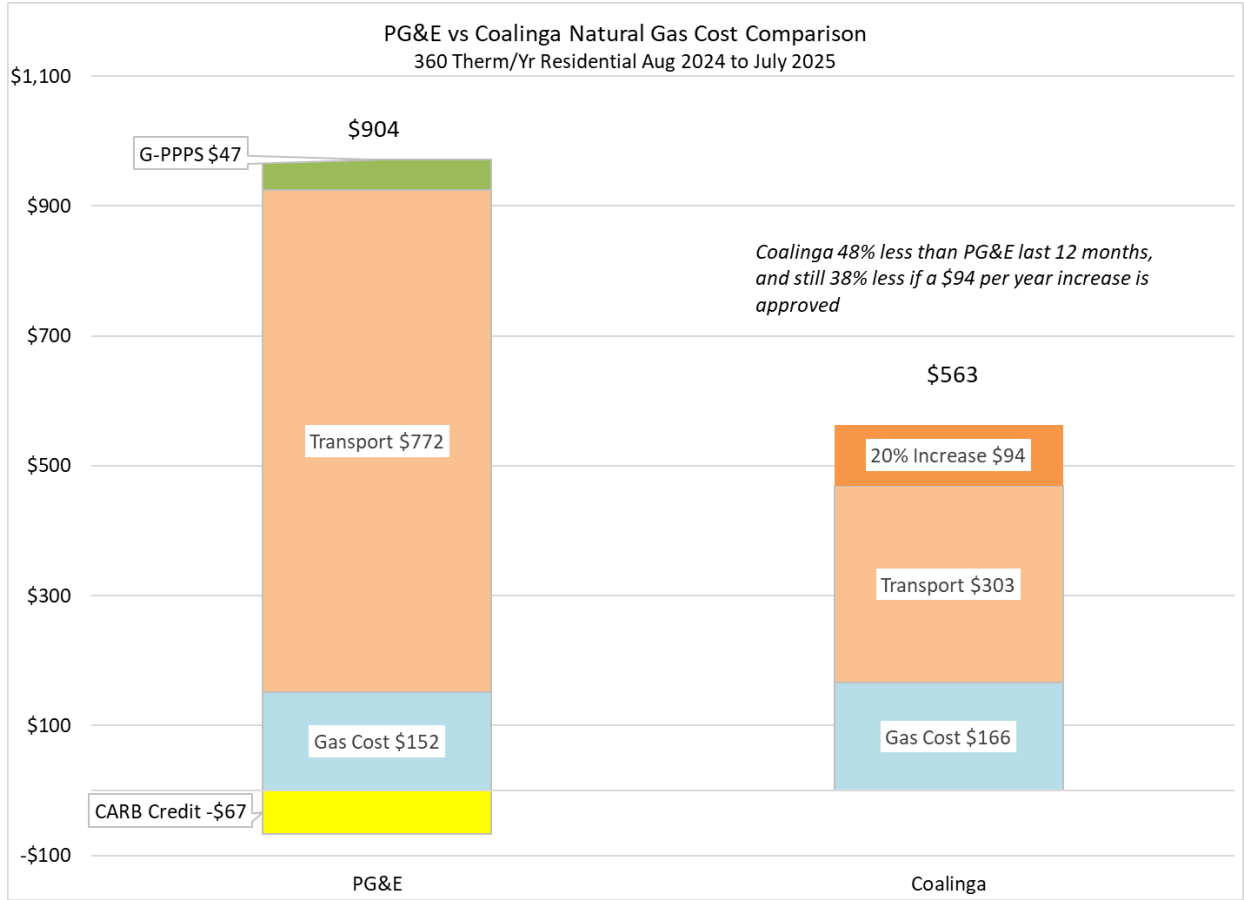
PG&E Comparison

This section provides a comparison to PG&E over the 12-month period August 2024 to July 2025. It is based on an average home's gas usage in Coalinga, which is 360 Therms per year and winter peaking, as shown in the bar chart below.





Over this 12-month period, a single-family customer in Coalinga paid \$470, which is 48 percent less than a similar customer on PG&E's service who would have paid \$904. Further, even with the 20 percent increase totaling \$94 per year, a Coalinga customer would still have paid 38 percent less than a PG&E customer. This includes the fact that PG&E customers received an annual CARB credit of \$67.



End of report



Attachment 2

Winters		Volumes and Timeframe for Winter Natural Gas Purchases (DTh/day at PG&E CG)										
		By Nov-24	By Mar-25	By Jul-25	By Nov-25	By Mar-26	By Jul-26	By Nov-26	By Mar-27	By Jul-27	By Nov-27	Totals
Winter 24/25	11/1/2024	670										670
	12/1/2024	990	Done 8/22/24 at \$5.53									990
	1/1/2025	1,020										1,020
	2/1/2025	950										950
	3/1/2025	670										670
Winter 25/26	11/1/2025			700								700
	12/1/2025			900								900
	1/1/2026			1,000								1,000
	2/1/2026			900								900
	3/1/2026			700								700
Winter 26/27	11/1/2026			200				220				640
	12/1/2026			300		300		300				900
	1/1/2027			320		340		340				1,000
	2/1/2027			300		300		300				900
	3/1/2027			240		220		240				700
Winter 27/28	11/1/2027				200			220			220	640
	12/1/2027				300			300			300	900
	1/1/2028				320			340			340	1,000
	2/1/2028				300			300			300	900
	3/1/2028				240			220			240	700



City of Coalinga Natural Gas Revenue and Expense Model									
	FY22	FY23	FY24	FY25	FY26	FY27	FY28		
	Audited	Audited	Audited	Unaudited	Projected	Projected	Projected		
Operating Revenue									
Natural Gas Sales	\$2,355,484	\$4,012,457	Proposed Nov 1st Increase: \$2,734,457	\$2,754,000	\$3,295,000	\$3,403,000	\$3,403,000	20%	\$3,403,000
Other Customer Revenue	111,748	65,569	66,781	60,000	60,000	60,000	60,000		60,000
Interest Earnings	3,000	5,175	5,809	5,000	5,000	5,000	5,000		5,000
Billing Corrections Previous Years	-	-	-	300,000	196,829	-	-		-
Totals	2,470,232	4,083,201	2,807,047	3,119,000	3,556,829	3,468,000	3,468,000		3,468,000
Operating Expenses									
Wholesale Gas Cost	1,280,985	2,143,412	1,349,345	891,000	916,000	943,000	971,000		971,000 3%
PG&E Transportation	740,667	799,678	824,404	1,058,000	1,095,000	1,150,000	1,208,000		1,208,000 5%
Personnel Services	735,228	736,752	776,026	724,307	750,000	788,000	827,000		827,000 5%
Bad Debt Expense	46,997	15,892	103,252	20,000	20,000	20,000	20,000		20,000
Contract Svc	205,253	198,705	272,072	212,168	250,000	258,000	266,000		266,000 3%
Credit Card & Online Pay Fees		60,545	95,588	174,273	75,000	75,000	75,000		75,000
Supplies and Materials	116,820	100,320	133,927	132,498	135,000	139,000	143,000		143,000 3%
Depreciation	57,764	60,368	68,261	-	-	-	-		-
Totals	3,183,714	4,115,672	3,622,875	3,212,246	3,241,000	3,373,000	3,510,000		3,510,000
Operating Income	(713,482)	(32,471)	(815,828)	(93,246)	315,829	95,000	(42,000)		(42,000)
Meters & Capital Repair	22,734	0	79,834	18,506	320,000	200,000	200,000		200,000
Adjustments for Balance Sheet									
To adjust to Cash Balance	230,664	(289,301)	155,740	(84,524)					
Yr End Current Cash Asset	1,410,875	1,089,103	349,181	152,905	148,734	43,734	(198,266)		(198,266)
DTh Purchases	222,515	255,901	215,311	215,808	222,735	222,735	222,735		222,735
Therm Purchases	2,225,150	2,559,010	2,153,112	2,158,079	2,227,347	2,227,347	2,227,347		2,227,347
Average Cost of Supply (\$/Th)*	\$0.58	\$0.84	\$0.63	\$0.41	\$0.41	\$0.42	\$0.44		\$0.44
* Not including PG&E Transportation									