



City Council Report

Date: May 16, 2022
To: City Council
Through: Marc Heirshberg Deputy City Manager
From: Frank McRae, Energy Resources Department Director
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Subject: Update to Title 5, Chapter 14 Natural Gas Regulations of the Mesa City Code
Citywide

Purpose and Recommendation

The Energy Resources Department (ERD) recommends replacing Title 5, Chapter 14 ("Natural Gas Regulations") of the Mesa City Code with the proposed updates and revisions attached as Exhibit A. Much of the existing Natural Gas Regulations were created to lay out curtailment priorities to adhere to natural gas moratorium requirements originally put in place by the Natural Gas Policy Act of 1978 ("NGPA"), which have subsequently been withdrawn. Additionally, the existing Natural Gas Regulations set forth certain conditions, terms, standards and requirements regarding the provision of gas utility service, as well as stipulations on ERD's line extension policies to new and expanding customers. Revisions to the Natural Gas Regulations reflect current best practices such as those used by Southwest Gas, the other natural gas distribution operator in and around Mesa.

Background and Discussion

The majority of the existing Natural Gas Regulations provide the framework for two different areas of operation and finance; curtailment policy (which is the planned rationing of natural gas supplies during times of supply contingencies) and natural gas line extension policy.

CURTAILMENT POLICY

The existing Natural Gas Regulations for curtailment policy are based on the NGPA which was put into place in 1978. During that period, natural gas reserves had fallen to levels that caused largescale concern and initiated a "moratorium" on new natural gas line extensions. Curtailment priorities were set to ensure that in time of natural gas shortage, critical food and fiber production would not be interrupted due to lack of natural gas.

Curtailments in natural gas did occur throughout the 1970's, making this sort of framework helpful and necessary. While Mesa has not experienced a time of natural gas scarcity in recent history, Mesa has asked its customers to (voluntarily) reduce

their natural gas usage in February 2021 during Winter Storm Uri. Additionally, the incident on El Paso Natural Gas's (EPNG) Line 2000 in Coolidge in 2021 resulted in constraints on the available pipeline capacity flowing into Phoenix. To date, this has not risen to a level requiring curtailment. Mesa's natural gas planning and supply groups have worked to decrease any likelihood of the requirement for curtailments.

Unfortunately, the current curtailment provisions of the Code don't take into account geographic location¹, customer service pressure, intermediate pressure system supply points, number of valves required to isolate supply, or any other number of true operational considerations that must be taken into account when creating and administering an effective curtailment plan.

Mesa is proposing a more actionable and realistic regulation for curtailment which provides for curtailment by the ERD in a manner that is reasonable and practical and equitable among customer classes.

LINE EXTENSION POLICY

The current Natural Gas Regulations for line extension policy were drafted to provide free extension of natural gas services to residential customers under certain conditions and would require the customer to pay for costs above and beyond those conditions. Additional terms were put in place regarding residential subdivisions (which are the vast majority of Mesa's new line extension agreements) which provides:

Free extension of the gas facilities will be made by the City provided the customer's annual revenue, less the cost of the natural gas (as estimated by the City), is equal to or exceeds one-fifth (1/5) of the cost of the extension facilities, including meters, regulators, and allocated system costs.

This line extension provision does not reflect current industry practice for evaluating the finances of adding customers to the City's natural gas system.

Further, the current Natural Gas Regulations fail to allow for consideration of City investment in the system to provide for service for any large customers who use more than 50 MCF of natural gas in any day. This does not allow Mesa to enter (financially sound) line extension requests for large industrial customers such as Commercial Metals Company and other large economic development projects that have been very active over the past two years. These projects generally support City investment in the system based on sound financial analyses.

The proposed revisions will work for the development of such customers while still protecting Mesa from the risk of a customer failing to take natural gas service after the line extension has been completed. The proposed revisions are similar to those applicable to investor-owned gas utilities, as set forth in the Arizona Administrative Code, and allow an economic feasibility analysis and the recovery of extension costs over a period of up to ten years.

¹ Customers who are further from the source of supply, hydraulically, require more infrastructure to serve at acceptable service pressures and therefore act as a more capital intensive and hydraulically intensive constraint on the system during times of pressure limitation.

OTHER REVISIONS TO THE NATURAL GAS REGULATIONS

Additional terms have been added to the Natural Gas Regulations that mirror recent changes to Mesa's regulations for its Water Resources Department to provide consistency across the utilities.

Alternatives

Mesa could retain the current Natural Gas Regulations. This would continue to present significant challenges in terms of curtailment policy and line extension policy.

Fiscal Impact

No fiscal impact is anticipated due to these revisions to the Natural Gas Regulations. Line extension policy will continue to make growth to the natural gas system pay for itself to where existing customers are not expected to subsidize the addition of infrastructure for new customers.

Coordinated With

Coordinated with City of Mesa Legal, the Office of Management and Budget and the City Manager's Office.