

Council Meeting Staff Report

August 17, 2016

Agenda No.:	4.A.
Indexes (Council Goals):	BCC - N/A
Presenters:	Bob Westervelt
Legislative File:	OR0743-16

Title

Incorporated County of Los Alamos Code Ordinance No. 02-268; An Ordinance Amending Chapter 40, Article III, Sections 40-151, 40-152 and 40-154 of the Code of Ordinances of the Incorporated County of Los Alamos Relating to Gas Rates

Recommended Action

I move that the Board of Public Utilities approve Incorporated County of Los Alamos Code Ordinance No. 02-268 as presented and forward to Council for adoption.

Staff Recommendation

Staff recommends the motion be passed as presented.

Body

The following detail and the proposed rate ordinance was discussed by the Board at the regular meeting of the Board of Public Utilities on July 20, 2017. There was some discussion on the pass through rate mechanism, the possibility of retaining a “sunset” provision of some sort, and if the proposed rates yield the appropriate fund flows for the utility. The discussion culminated in guidance to Staff to bring for adoption in August the rate ordinance as was presented at that preliminary discussion.

In FY12 the Board proposed a gas rate structure incorporating a pass through commodity cost component. Council approved the rate structure effective November 1, 2012, but with a “sunset” date of September 30, 2016. This “sunset” was incorporated to cause the Board to evaluate the effectiveness of the rate and public feedback, and to consider whether continuing the pass through rate structure was desired. While it was intended that rates would simply revert to the old amounts and structure unless the Board and Council takes specific action to reenact the pass through, the ordinance is worded poorly and strict interpretation would result in us simply having no rates in place upon which to bill for delivery of natural gas.

One of the benefits of the pass through rate structure is that it means that the utility does not need to maintain a substantial rate stabilization fund to cover fluctuations in the cost of the commodity, which in the natural gas industry can be quite significant. As shown on the attached exhibits, the pass through rate structure has proven effective at generating the revenues required to cover O&M and capital costs plus the fluctuating cost of the gas commodity. Staff is recommending the pass through rate structure be reenacted without a specific “sunset” or expiration.

With adoption of the pass through rate structure, it would no longer be necessary to maintain the significant cash balance that the fund currently holds. The gas system is in good condition, and while there are some capital expenditures on the horizon, it is feasible and prudent to look at a systematic “spending down” of existing fund balance to target levels identified in the cash policies that are under discussion for adoption by the Board.

In the FY2017/18 budget adopted by the Board and Council, a ten percent (10%) revenue reduction

was projected. The cost of gas is a pass through under this proposal, and is budgeted to reflect recent historical averages. The revenue associated with the pass through is not likely to decrease, as it is a direct pass through, and significant changes in the cost of gas are not projected in this budget horizon. Thus, to achieve a 10% reduction in total revenue, the “fixed component” of the consumption charge is adjusted, in this recommendation, to effect the entire desired revenue reduction. Since the cost of gas and the fixed consumption charge in recent history and in the budget both equal approximately the same amount, this is accomplished by simply adjusting the fixed component by 20%, which yields an overall revenue reduction of ten percent, as budgeted.

An additional ten percent (10%) reduction is budgeted in FY2018. Staff feels it is prudent to space the anticipated reductions this way to allow time to assess the results and adjust future actions accordingly, if needed.

Alternatives

While staff is recommending continuation of the pass through rate structure, as noted above it is important that a rate of some sort be adopted before the existing rate sunsets. To that end, the Board could state the desired changes in a motion. These could include adding a “sunset” provision of some sort, returning to the rate structure and rates that were in place before the pass through were adopted, or those rates less ten percent, as budgeted, or other adjustments the Board finds appropriate. The structure and rates actually adopted and endorsed by the Board is what will be presented to Council for approval in September.

Fiscal and Staff Impact

DPU’s approved budget included a 10% decrease in revenues for the gas fund, which is accomplished by this rate proposal.

Attachments

- A - Code Ordinance 02-268
- B - Comparison of current rate structure with prior rate structure
- C - Map showing rate structure in communities statewide
- D - Comparison proposed rates vs neighboring communities