LOS ALAMOS

County of Los Alamos

Los Alamos, NM 87544
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Council Meeting Staff Report

August 30, 2016

Agenda No.:	A.
Indexes (Council Goals):	2016 Council Goal – Quality Governance – Operational Excellence – Maintain Quality Essential Services and Supporting Infrastructure
Presenters:	Bob Westervelt
Legislative File:	CO0467-16

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 introduce, without prejudice, Incorporated County of Los Alamos Code Ordinance No. 02-268 and ask the staff to assure that it is published as provided in the County Charter.

Utilities Manager Recommendation

The Utilities Manager recommends that Council approve the motion as presented.

Board, Commission or Committee Recommendation

The Utilities Board recommends that Council approve the motion 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 extensive 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. On August 17 The Board held a public hearing at which the Board approved the proposed ordinance (attachment A) and directed it be forwarded to Council for adoption.

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.

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 were recently adopted 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

Council could remand the ordinance back to the Board for further consideration. As discussed above, should Council take such action, the Department would have no rates in place on which to bill customers for natural gas service, and would have to bill customers for all unbilled periods later when an appropriate ordinance is finally adopted.

Another alternative that should be explored if Council does not adopt the ordinance as proposed is whether the sunset clause on the existing rate ordinance could be extended, allowing time for the Utilities Board to take further action. The Office of the County Attorney has opined that such action would in itself require an ordinance with introduction and statutory notice, but this would be an incidental and temporary waiver of existing code provisions, which may be acceptable.

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