



# County of Los Alamos

## Council Meeting Staff Report

July 20, 2022

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<b>Agenda No.:</b>	5.B.
<b>Indexes (Council Goals):</b>	* 2022 Council Goal - Investing in Infrastructure, DPU FY26 - 1.0 Provide Safe and Reliable Utility Services, DPU FY26 - 2.0 Achieve and Maintain Excellence in Financial Performance, DPU FY26 - 3.0 Be a Customer Service Oriented Organization that is Approachable, Communicative, Efficient, and Transparent
<b>Presenters:</b>	Heather Garcia
<b>Legislative File:</b>	CO0648-22-a

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### Title

Introduction of Incorporated County of Los Alamos Code Ordinance No. 02-328; An Ordinance Amending Chapter 40, Article III, Sections 40-171, 40-173 and 40-175 of the Code of the Incorporated County of Los Alamos Pertaining to Potable and Non-Potable Water Rates and Bulk Delivery Rates

### Recommended Action

**I introduce, without prejudice, Incorporated County of Los Alamos Code Ordinance No. 02-328; An Ordinance Amending Chapter 40, Article III, Sections 40-171, 40-173 and 40-175 of the Code of the Incorporated County of Los Alamos Pertaining to Potable and Non-Potable Water Rates and Bulk Delivery Rates.**

### Utilities Manager Recommendation

The Utilities Manager recommends that the Board of Public Utilities introduce this Ordinance.

### Body

The ten-year forecast for the water utility presented with the FY2023 budget included a series of rate increases to generate revenues needed for current operations, increased costs due to inflation and supply chain shortages, and building cash reserves necessary for future infrastructure needs. Detailed in the Water fund 10-year forecasts were four consecutive years of increases of five percent for bulk, potable, and non-potable rates. This was presented to board in June of 2022 as four-year rate ordinance. Staff was directed to make a presentation to the policy committee, which consists of 3 council members and 2 BPU members, to discuss different scenarios, review details about the customer base, and review the tiered rate structure currently in place. The meeting was held June 17<sup>th</sup>, 2022, and staff presented a “cost of service” rate adjustment along with the flat five percent proposed adjustment. The policy committee and staff concluded that the “cost of service” approach was more effective in building cash flows and is more fair to consumers.

Staff used three years of actual data to calculate an average cost per thousand gallons (kGal) for production and distribution of water. The cost of production was \$4.83 per thousand gallons (averaged from peak and non-peak seasons) and \$6.89 per thousand gallons for distribution (averaged from peak and non-peak seasons). In this proposal, the base price (non-peak price per thousand gallons and peak tier one price per thousand gallons) for distribution is proposed at \$6.50 per kGal. The bulk delivery price per kGal is \$4.83. These proposed “cost of service” adjustments better reflect the total amount of expenses to be recovered and will help DPU generate a reasonable return to support infrastructure and cash reserve needs. Moving the base charge up also shifts earned revenues proportionally across peak and non-peak seasons, stabilizing the revenues to assist

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in resource planning and budgeting. Also, included in this proposal is a change to the percentage between tiers. Tiers one, two, and three are now ten percent apart as opposed to the six and twenty percent difference in the previous proposal. This approach still accomplishes five percent increased revenues while softening the impact to residential users during the peak season.

Multifamily customers make up one percent or 76 accounts out of nearly 7,000 active accounts. These customers are occupants of apartment buildings, condos, duplexes and quads, mobile home parks and senior living facilities. When this customer type's consumption was studied, it was found that there was little to no change in use from the peak to non-peak seasons. Irrigation was not a factor in their average consumption and the tiered rate would not affect conservation efforts the same as it would in residential customers. As a result, DPU is making the proposal to charge multifamily customers in the same manner as commercial, county and school customers, a flat rate per kGal in the peak season.

In distribution, there are currently three tiers built into the current rate structure for water in Los Alamos, these are applicable during the peak season, which is May through September. Tiered water rate structures encourage conservation and are required specifically through New Mexico Statute 72.14-3.2 G to be eligible for financial assistance programs. Los Alamos County DPU regularly applies for, and has received, the previously mentioned funding through the Water Trust Board for various water infrastructure capital projects. DPU also has a conservation goal of a 12% reduction in consumption of water by 2030.

Staff feels confident that the proposed "cost of service" rate trajectory will generate appropriate cash flows for the four-year horizon and is thus proposing the multi-year rate adjustment at this time. The advantages to implementing the multi-year proposal are numerous. Importantly, it provides for the rate adjustments to be scheduled and effective with advanced notice to customers. It allows our customers to plan and budget for future anticipated utilities costs, rather than experience the "rate shock" of unanticipated rate increases on a more frequent basis. Without the multi-year approach, that is difficult to accomplish, and complicates fiscal planning needs from year to year. Doing a multi-year incremental rate adjustment also allows planned revenues to match the timing of planned expenditures, rather than accumulating excess cash early on for expenditure in a later period. This also allows for the advanced planning of rates in the billing system, helping staff ensure billing accuracy when the new rates become effective. Enacting a multi-year ordinance in no way limits the Board from later proposing another ordinance to change rates, either up or down, during that four-year period if operational experience necessitates such action. Should it become apparent that the rates proposed are either not achieving the revenue requirements of the systems, or are exceeding them, there is no reason why they could not be adjusted in the interim. This multi-year proposal simply provides for seamless and timely implementation of the rate projections should future results tie within reasonable variation to budget projections.

Included in the presentation attached as Attachment B are the rate comparisons with neighboring and similar communities. These continue to demonstrate that even with the challenges of our complicated system and mountainous terrain, consumer costs for water services remain competitive and reasonable for our community.

The proposed rates should restore cash flow to an acceptable level within the projected time frame in the water systems. While it may take some additional time to reach our target levels in the Water Utility overall, this plan will provide adequate funding for necessary repairs and replacements and continuing operations and provide for movement toward our long-term cash reserve goals. Once achieved, it is anticipated that rate adjustments simply to account for inflation will suffice for the foreseeable future.

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In addition to the public notices required for consideration of an ordinance, staff will have included “frequently asked questions” to be posted on the DPU website in Attachment E. FAQs will be included in the council public hearing staff reports for this proposed rate ordinance. And will be updated as information is requested from the department on these increases.

### **Alternatives**

As noted above, rate increases are going to be needed to fund necessary operations and replacement of infrastructure through rates. Other scenarios could be considered with more significant rate increases being implemented to fund more rapid system upgrades. If no action is taken, we would have to continue to curtail maintenance and replacements and system reliability will suffer.

### **Fiscal and Staff Impact**

The budgeted increases are expected to generate \$620,315 additional revenue in Water Distribution in FY23, \$1,031,871 additional revenue in FY24, \$1,377,207 additional revenue in FY25, and \$1,739,810 additional revenue in FY26. In Water Production additional revenue for wholesale sales to external parties is projected at \$371,649; \$581,409; \$862,017; and \$1,156,655 for FYs 23, 24, 25, and 26 respectively.

### **Attachments**

- A - Code Ordinance 02-328 - Water Rates
- B - Rate Comparisons to Neighboring Communities
- C - Revenue, Expenses, and Cash Balances Graphs FY2023 through FY2032
- D - Summary of Proposed Water Rate Adjustments
- E - Frequently Asked Questions - Water
- F - 2022 Water Rate Adjustment Presentation