



# County of Los Alamos

## Council Meeting Staff Report

August 3, 2022

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<b>Agenda No.:</b>	5.A.
<b>Indexes (Council Goals):</b>	* 2022 Council Goal - Investing in Infrastructure, DPU FY26 - 1.0 Provide Safe and Reliable Utility Services, 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>	CO0643-22-b

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### Title

**Incorporated County of Los Alamos Code Ordinance No. 02-329; An Ordinance Amending Chapter 40, Article III, Sections 40-151, and 40-152 of the Code of the Incorporated County of Los Alamos Pertaining to Gas Service Rates.**

### Recommended Action

**I move that the Board of Public Utilities approve Incorporated County of Los Alamos Code Ordinance No. 02-329; An Ordinance Amending Chapter 40, Article III, Sections 40-151, and 40-152 of the Code of the Incorporated County of Los Alamos Pertaining to Gas Service Rates and forward to Council for adoption.**

### Utilities Manager Recommendation

The Utilities Manager recommends that the Board of Public Utilities approve the motion as presented.

### Body

The ten-year forecast for the gas utility presented with the FY2023 budget included a series of rate increases to generate revenues needed for current operations and to build cash reserves necessary for future infrastructure needs. Rate increases proposed in the Gas fund were three consecutive years of eight percent increases, followed by five percent in FY 2026. The Gas Rate schedule has been unaltered since 2016, in which the commodity rate was decreased from \$0.29 cents per therm to \$0.23 cents per therm. Prior to this change, in 2013, the commodity rate was decreased from \$0.55 cents per therm. The gas rates for service charges have not been changed since 2009. In the latest iterations of analysis, large increases to costs due to inflation and supply chain shortages have greatly impacted fund balances. Staff feels confident the short to mid-term rate trajectory proposed in the FY2023 budget are appropriate for the four-year horizon at least and is thus proposing a multi-year rate adjustment at this time. Four years projected rate increases are included in the ordinance proposed.

These rate changes also affect the County/School customer's fixed commodity rates from \$0.20 cents to \$0.22. DPU does not pay profit transfer for on revenues generated from these customers. The profit transfer is calculated as five percent of revenues collected from residential, multifamily, and commercial customers. There is also a considerable savings in administrative overheads for County/Schools accounts. County accounts make up 0.5 percent of total customers and schools' 0.3 percent. Combined these customers make up 6.9 percent of gas consumption annually. As a result, there are less costs for billing processes and printing, credit card fees, and collection activities.

The advantages to implementing the multi-year proposal are numerous. Importantly, it provides for

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the rate adjustments to 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, costs as a percentage of median household income, and long-term utilities costs projections normally presented with proposed rate adjustments. These continue to demonstrate that even with the challenges of our complicated system and mountainous terrain, consumer costs for gas services remain competitive and reasonable for our community. Also, included in the presentation are frequently asked questions and answers that have been posted for the public in Attachment F.

The proposed rates should restore cash flow to an acceptable level within the projected time frame in the gas system. 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.

### **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 proposed increases are expected to generate, in Gas Distribution, \$229,280; \$391,535; \$568,830; and \$662,083 for FYs 23, 24, 25, and 26 respectively.

### **Attachments**

- A - Code Ordinance 02-329 - Gas Rates
- B - Rate Comparisons to Neighboring Communities
- C - Revenue, Expenses, and Cash Balances Graphs FY2023 through FY2032
- D - Summary of Proposed Gas Rate Increases
- E - Publication Notice
- F - Frequently Asked Questions
- G - 2022 Gas Rate Increase Presentation