



County of Los Alamos

Council Meeting Staff Report

May 18, 2022

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| Agenda No.: | 5.A. |
| Indexes (Council Goals): | * 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 |
| Presenters: | Philo Shelton; Heather Garcia |
| Legislative File: | CO0638-22-a |

Title

Introduction of Incorporated County of Los Alamos Code Ordinance No. 02-328; An Ordinance Amending Chapter 40, Article III, Sections 40-151, 40-152, 40-171, 40-173 and 40-175 of the Code of the Incorporated County of Los Alamos Pertaining to Gas Service Rates and 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 40-151, 40-152, 40-171, 40-173 and 40-175 of the Code of the Incorporated County of Los Alamos Pertaining to Gas Service Rates, 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 and to build 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. 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 Scheduled has been unaltered since 2016, in which the commodity rate was decreased from .29 cents per therm to .23 cents per therm. Prior to this change, in 2013, the commodity rate was decreased from .55 cents per therm. The gas rates for service charges have not been changed since 2009. And in 2018, several alternative long-term scenarios for water rates were prepared by staff and presented for Board consideration. After scenarios were selected which were intended to represent the most reasonable balance between increased rates and necessary system expenditures. This has been the foundation upon which the ten-year budgetary projections have been established. The rate trajectory was considered in the long-range proposals discussed in 2018 and has been reviewed and adjusted each year since as appropriate to account for adjustments in capital planning, actual project costs, and to reflect actual operational experience since first implemented. It is the latest iterations of analysis, large increases to costs due to inflation and supply chain shortages have greatly impacted fund balances. In review of the short to mid-term rate trajectory proposed in the FY2023 budget, it is appropriate to consider a four-year rate adjustment at this time. Therefore, four years projected rate increases are included in the proposed ordinance.

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 targets, 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 Exhibit C 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 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 gas and 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.

In addition to the public notices required for consideration of an ordinance, staff will prepare “frequently asked questions” to be posted on the DPU website. As well as the materials included in this staff report. FAQs will be included in the board and 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 \$293,743 additional revenue in Water Distribution in FY23, \$602,173 additional revenue in FY24, \$926,024 additional revenue in FY25, and \$1,266,068 additional revenue in FY26. In Water Production additional revenue for wholesale sales to external parties is projected at \$241,500; \$494,500; \$759,000; and \$1,035,000 for FYs 23, 24, 25, and 26 respectively, and approximately \$11,077; \$28,774; \$44,554; \$61,261 additional Non-Potable revenue. In Gas Distribution increases are expected to generate \$229,280; \$391,535; \$568,830; and \$662,083 for FYs 23, 24, 25, and 26 respectively.

Attachments

A - Code Ordinance 02-328 - Gas and Water Rates

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- B - Typical Residential Bills
 - C - Rate Comparisons to Neighboring Communities
 - D - Revenue, Expenses, and Cash Balances Graphs FY2023 through FY2032