

## Council Meeting Staff Report

February 15, 2023

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### Agenda No.:

**Indexes (Council Goals):** \* 2022 Council Goal - Investing in Infrastructure, DPU FY2022 - 1.0 Provide Safe and Reliable Utility Services, DPU FY2022 - 2.0 Achieve and Maintain Excellence in Financial Performance

**Presenters:** Heather Garcia

**Legislative File:** CO0660-23-b

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### Title

Incorporated County of Los Alamos Code Ordinance No. 02-340; 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. 02-340; 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 Rate Schedule, and forward to Council for adoption.**

### Utilities Manager's Recommendation

The Utilities Manager recommends that the Board approve this code ordinance as presented.

### Body

In August of 2022, Ordinance No. 02-329 was approved, amending fixed gas rates and meter service charges by 5%, which was discussed in the FY2023 budget cycle. At that time no changes to the variable rate were proposed. The variable cost of gas is estimated monthly based on the San Juan Index price. This price is measured in metric million British thermal units (MMBTU) which converts to approximately 10 therms. Before December 2022, the highest price per million metric British thermal unit (MMBTU) was \$8.75 in September 2022. December prices closed at \$10.29 per MMBTU and January closed at \$32.97.

Budgets for FY2023 costs of gas were based on estimates provided by Conoco Phillips, and was set at \$5.39 per MMBTU, or approximately \$4.3 million for the year. As of today, the average San Juan Index price for FY2023 is \$11.08, with the months of December and January estimated to cost \$7.3 million alone. Budget revision 2023-26 is also being presented to BPU and council to increase FY2023 budgets for gas purchases by \$10.7 million. Fluctuations in the gas market are created by changes in demand due to weather events, increased reliance on power generation from natural gas, and more recently war in Europe.

DPU does have a fixed volume deal with the NMEAA, which provides 80% of or gas, that provides a \$0.295 discount per therm. The remaining 20% is purchased through the "spot" market, which is much more susceptible to the fluctuations in pricing. In the extreme weather event of February 2021, San Juan Index prices were set at \$2.65 per MMBTU, however, spot market prices hit as high as a \$100 per MMBTU. This created an under collection in the utility of approximately \$1 million dollars. With the CAP in place, it took the utility 2 months to recover these costs. This event is different from the current situation as the San Juan Index did not go over \$3 per MMBTU in the following months.

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Allowing the utility to recover the funds and return to normal operations.

Currently the cost of gas or variable rate has a cap of \$0.99 per therm. This means that DPU cannot charge higher than \$0.99 per therm for the variable rate. When the cap is not enacted, over and under collections are calculated as part of the variable rate through a prior month adjustment calculation. This calculation takes the amount over or under collected and spreads it across the estimated therms sold for the month. With rising gas prices and the cap, prior month under collection amounts spread over several months. This contributes to gas prices staying higher for customers even when market prices are lower, creating artificial increases in our monthly cost of gas. The cap also has the potential to shift expenses to other customer classes based on timing. For example, in the February event of 2021, Residential usage is typically higher than in the April and May timeframes, when the under collection was still being billed for. The cap has been enacted five times in the past 2 years. Twice for the February 2021 event, once due to an unexpected increase in prices in August and September of 2022 (\$8.48 and \$8.75 per MMBTU respectively) due to increased power generation demands for cooling, and now in December and January. It is expected that gas prices will continue to remain higher than in the past as the three main factors effecting prices are likely to continue.

Ordinance No. 02-340, as modified by BPU at the January 18 introduction and as presented here, proposes to increase the \$0.99 per therm cap on the variable rate to \$4.00, provides a compensatory minimum cost of gas of \$0.11 per therm, and a sunset cost recovery mechanism, of \$0.44 per therm, for the estimated \$7 million shortfall.

The need for a compensatory minimum cost also is addressed in this ordinance. In the variable rate both under collections and over collections are addressed through a prior month adjustment. In times when an over collection occurs, the pass back can result in a \$0.00 variable rate for the month, which is not in line with actual costs. In order to address this problem and bring the ordinance in line with the charter, a minimum of \$0.11 is proposed. This is based off of the San Juan Index's lowest price of \$1.08. An \$0.11 minimum would cover any transportation costs and spot market fluctuations experienced in the month while still providing a pass back to the customers.

Due to the nature of gas purchases, actual total costs will not be known for two months after they are purchased. Monthly nominations purchased through the NMMEA deal are known costs, while daily purchases made on the "spot" market vary greatly. Estimates calculated by DPU are based on current market pricing information and average therms sold, approximately \$7.2 million of under collected revenues for December through March is expected. The cost recovery mechanism is estimated to take two years to fully recuperate all expenses. This clause is written to expire by April 8, 2025, or when the expenses are fully recovered, whichever may happen sooner. The estimated \$0.44 per therms is calculated by taking the estimated under collection amount and dividing it by average therms sold for two years.

The changes proposed in code ordinance 02-340 will help the utility in recovering from these unprecedented spikes in natural gas prices, return fund balances to acceptable levels, and provide movement towards our long-term cash reserve goals. Code ordinance 02-340 is in compliance with the charter, being comparable, compensatory, and fair across customer classes. Should it become apparent that the rates proposed are either not achieving the revenue requirements of the systems, or are exceeding them, staff will return with an ordinance to adjust rates accordingly.

## Alternatives

Without this ordinance, the utility will not be able to adequately collect funds for the cost of gas, and the fund will potentially have a negative cash balance for the foreseeable future which will likely

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compound with further market fluctuations. It is likely that the current \$0.99 cap will stay enacted until the fund has recovered.

### **Fiscal and Staff Impact**

If this ordinance is approved, it will remove limitations on the utility's ability to collect funds for the cost of gas allowing the funds to recover more rapidly.

### **Attachments**

- A - Code Ordinance 02-340\_Gas Rates
- B - Code Ordinance 02-340\_Presentation
- C - Frequently Asked Questions
- D - Publication Notice\_CO 02-340