

Accept Report #1 on the Proposed 2026 Budget

RECOMMENDATION:

The General Manager respectfully requests the Commission accept Report #1 on the Proposed 2026 Budget and Strategic Plan.

Future updates to this ongoing report will be shown in strike-and-underline throughout.

BACKGROUND:

Moorhead Public Service (MPS) staff has been updating financial forecasts and gathering key (preliminary) inputs for the 2026 budget to include items such as purchased power costs, transmission costs, Southwest Power Pool (SPP) Transmission Cost Reimbursement, transfer payments to the City of Moorhead (City), operating expenses, and capital improvements. In addition, MPS staff has provided City staff with the preliminary 2026 estimated transfer amounts to the City.

The Commission has taken the following actions that will impact MPS' 2026 budget, rates, and financial forecasts:

January 2025

- Approve Task Order No. 12 with DGR Engineering for MPS' Northeast Substation
- Approve Water Rate Study Proposal from Missouri River Energy Services

April 2025

- Approve Task Order No. 13 with DGR Engineering for Control Building and Capacitor Banks at Southeast Substation

May 2025

- Approve Specifications and Authorize Advertisement for Bids for Construction Phase of Ozone Generator and Equipment Replacement at Moorhead Water Treatment Plant

July 2025

- Award Bid for Construction Phase of Ozone Generator and Equipment Replacement Project at MPS' Water Treatment Plant

September 2025

- Approve Specifications and Authorize Advertisement for Bids for 2026 Electrical Materials
- Approve Specifications and Authorize Advertisement for Bids for 2025/2026 Tree Trimming

On October 6, 2025, Commissioners Paul Baker and Lisa Borgen, members of the Commission's Budget Working Group, met with staff to review and discuss MPS' current and future projects, other items that could impact future rates, and the projected rates for 2026. The group's consensus was to present proposed rate increases of 2.0 percent overall for electric services and 5.5 percent overall for water services at the Electric and Water Rate Hearings scheduled for October 21, 2025.

KEY ISSUES:

Preliminary operating and long-term capital project planning information was presented to the Budget Working Group on October 6, 2025.

- Electric Division:
 - After reviewing preliminary inputs and discussing items, the Budget Working Group agreed to present a proposed, overall rate increase of 2.0 percent for 2026. This falls within the previously communicated potential range of rate impacts, which was from no increase to up to a 4.0 percent increase for 2026 electric rates.
 - Preliminary information from MPS' purchased power providers indicated that both providers will have rate increases in 2026. Information received from Missouri River Energy Services indicated a 5.0 percent increase in 2026. Additionally, MRES indicated that transmission costs are likely to increase by 5.0 percent in 2026. Preliminary information received from Western Area Power Administration indicated a very high likelihood that rates would increase by 6.0 percent in 2026. This follows a 7.5 percent increase that occurred in 2025.
 - The Budget Working Group reviewed the history and mechanics behind the third Electric Fund Transfer Agreement currently in place with the City and is comfortable with the 2026 impact, which will result in an annual increase of \$125,000 in the floor of the General Fund transfer.
- Water Division:
 - After reviewing preliminary inputs and discussing items, the Budget Working Group agreed to present a proposed, overall rate increase of 5.5 percent for 2026. This falls within the previously communicated potential range of rate impacts, which was from a 3.0 percent to 7.0 percent increase for 2026 water rates.

Respectfully submitted,



Travis L. Schmidt
General Manager

Division/Response Person: Mark Moilanen, Administration and Finance Manager.

Attachments:

Budget Binder (PSC Only—distributed separately)