

**Review Preliminary 2023 Budget Timetable, Appoint Budget Working Group,
and Set Date for Water and Electric Rate Hearings**

RECOMMENDATION:

The General Manager respectfully requests the Commission appoint a Budget Working Group for the purpose of the 2023 budget review and recommendations, and set Tuesday, October 18, 2022, as the date for the water and electric rate hearings. For reference, Commissioners Joel Paulsen and Sebastian McDougall served as the 2022 Budget Working Group.

BACKGROUND:

Staff began updating financial forecasts and gathering key preliminary 2023 inputs to include major items such as purchased power costs, transmission costs, Southwest Power Pool Annual Transmission Revenue Reimbursement, transfer payments to the City of Moorhead (City), historical operating expenses, and capital improvements.

Moorhead Public Service (MPS) staff provided City staff with the 2023 electric transfer amount to the General Fund as stated in the Electric Fund Transfer Agreement (Transfer Agreement) for 2019-2023 between the City of Moorhead and Moorhead Public Service.

In 2022 to date, the Commission took the following actions that will impact MPS' 2023 budget, rates, and long-term financial forecasts:

February 2022

- Approve Specifications and Authorize Advertisement for Bids for Temporary Transformer at Moorhead DOE Tap Substation

March 2022

- Award Bid for Transformer at Moorhead DOE Tap Substation

April 2022

- Approve Task Order No. 5 with MBN Engineering, Inc., for Design Review for 115kV Transmission Line Relocation at Storm Water Diversion Channel in West Fargo (ultimately tabled until May)

May 2022

- Approve Task Order No. 5 with MBN Engineering, Inc., for Design Review for 115kV Transmission Line Relocation at Storm Water Diversion Channel in West Fargo (tabled from April 2022)

June 2022

- Accept Business Case for an AMI System and Approve the Continuation of the Design Development Phase with DGR Engineering for the AMI Planning and Implementation Project
- Approve Specifications and Authorize Advertisement for Bids for Shunt Reactors at Moorhead DOE Tap Substation

July 2022

- Approve Specifications and Authorize Advertisement for Bids for 2023 Electrical Materials
- Approve Specifications and Authorize Advertisement for Bids for Circuit Breakers at Moorhead DOE Tap Substation
- Approve Change Order No. 1 with Transformer Exchange, LLC, for Temporary Transformer at Moorhead DOE Tap Substation

Key areas already under review within the budget development process include the following:

Rate Increases:

- Electric—Preliminary budget projections indicate an overall electric rate increase between 0 and 4 percent for 2023.
- Water—Preliminary budget projections indicate an overall water rate increase between 2 and 5 percent for 2023.

Purchased Power and Transmission:

Purchased power and transmission costs remain the largest expenses within MPS. Preliminary information received includes:

- Western Area Power Administration (WAPA) is currently reviewing a rate increase of approximately 16 percent with a final rate decision expected in October 2022. Because WAPA purchases represent approximately 30 percent of the overall purchased power costs to MPS, the overall impact of this rate increase would result in an approximate 2 percent increase in electric rates for 2023.
- Missouri River Energy Services (MRES) is still reviewing rates for 2023. Preliminary information provided from MRES indicates no change in electric rates, but a possible increase in transmission rates. Transmission rate increases have averaged an approximate 5 percent annual increase in recent years.

Electric Division City Transfer Payments:

Transfer payments from MPS' Electric Division to the City are the second largest use of MPS funds. The transfer payments to the City from MPS' Electric Division are comprised of three components—the General Fund, the Capital Improvements Fund, and the Economic Development Fund.

- General Fund Transfer (2022 budget was \$7,225,000).
The Moorhead City Charter authorizes the City Council to transfer, in any fiscal year, "...to the general revenue fund of the city from the net revenues of...(a)...the electric utility, an amount not to exceed 20 percent of gross revenues" (Section 12.11, Subd.4).

In 2014, the four-year Transfer Agreement between the City and the Commission was finalized. The Transfer Agreement states that the General Fund Transfer for the upcoming year will be based on the greater of net kilowatt hour (kWh) sales for the previous year times an annual multiplier (1.44 cents per kWh), or a pre-determined base transfer floor. A new five-year Transfer Agreement (2019-2023), with an annual increase of \$125,000 per year in the base transfer floor, was approved by the Commission and City Council in 2018.

The calculated transfer for 2023, based on 2021 kWh sales, would be \$5,928,000. The negotiated base transfer for 2023 is \$7,350,000, or \$1,422,000 over the calculated transfer. Because the negotiated base transfer is the larger of the two transfer amounts, the 2023 General Fund Transfer from MPS' Electric Division to the City will be the negotiated base transfer of \$7,350,000.

- Capital Improvements Fund Transfer (2022 budget was \$1,997,000).
The transfer to the City’s Capital Improvements Fund from MPS’ Electric Division is at the maximum allowed by City Charter, which is 5 percent of gross revenues. The language in the City Charter regarding net and gross revenues for the Capital Improvements Fund is very similar to the City Charter language for the General Fund Transfer: “The city council may...transfer from net revenues in its utility funds to the capital improvements fund an amount not to exceed 5 percent of the gross revenues derived by the commission in that fiscal year...” (Section 12.09, Subd. 2). Select revenue sources are excluded from the calculation. These include items such as fiber leases, generation and transmission leases, SPP ATRR credits, revenues subject to the Economic Development Incentive Rate, and revenues subject to service territory buyout payments.

Based upon the maximum allowed transfer rate of 5 percent, a projected 2 percent electric rate increase, and expected electric sales expected to return to 2021 levels in 2023, the 2023 Capital Improvement Fund Transfer from MPS’ Electric Division to the City will be budgeted at \$2,037,000.

- Economic Development Fund (2022 budget was \$50,000).
The 2022 budget will include a transfer from MPS’ Electric Division to the City’s Economic Development Fund of \$50,000, which is the maximum allowed by City Charter.
- Total MPS Electric Division Transfers to the City of Moorhead (2022 budget was \$9,272,000).
Given the above descriptions, the total 2022 transfer payment from MPS’ Electric Division to the City was budgeted at \$9,272,000. The total 2023 transfer payment from MPS’ Electric Division to the City will be tentatively budgeted at \$9,437,000, which is projected to be 22.9 percent of MPS’ 2023 electric operating revenues (adjusted for excluded revenues).

Electric Division Capital Improvements:

Preliminary Electric Division infrastructure plans for the next three years include normal distribution system extensions and upgrades, construction of a transmission reactor to allow for more efficient transmission of electricity within and through Moorhead, master plan substation and transmission line updates, conversion to an Advanced Metering Infrastructure (AMI) over several years, and the continued consolidation of electric operations at one location.

Water Division City Transfer Payments:

Transfer payments from MPS’ Water Division to the City include two different funds—the City’s General Fund and the City’s Capital Improvements Fund.

- General Fund Transfer (2022 budget was \$534,101).
The City Charter authorizes the City Council to transfer, in any fiscal year, from the net revenues of the water utility an amount not-to-exceed 5 percent of gross revenues. The General Fund Transfer is at its maximum rate of 5 percent of gross revenues. Based on a preliminary 4.5 percent rate increase in overall water rates, the tentative projected transfer from MPS’ Water Division to the City’s General Fund for the 2023 budget is estimated at \$558,023.
- Capital Improvements Fund Transfer (2022 budget was \$126,000).
Beginning in 2012, an annual transfer of \$126,000 from MPS’ Water Division to the City’s Capital Improvements Fund was added by the City to partially fund the City’s flood mitigation bond payments. No increase or decrease is expected for 2023.

- Total MPS Water Division Transfers to the City of Moorhead (2022 budget was \$660,101).
 Given the above descriptions, the total 2022 transfer payment from MPS’ Water Division to the City was budgeted at \$660,101. The preliminary transfer payment amount for 2023 will be set at \$684,023, which is approximately 6.14 percent of MPS’ projected 2022 water operating revenues adjusted for excluded revenues.

Water Division Capital Improvements:

Preliminary Water Division infrastructure plans for the next three years include continuing the Watermain Asset Management Plan (WAMP) (annual and ongoing), conversion to AMI over several years, updates to water treatment systems within MPS’ Water Treatment Plant, and preliminary projects related to the Highway 10 raw water transmission line replacement.

Compensation:

Collective bargaining agreements covering 2022 through 2024 will expire at the end of 2024. The 2023 negotiated estimated overall net wage and benefits increase is 4.3 percent.

Ad Hoc Budget Working Group Actions:

The Commission’s Budget Working Group will meet throughout the budget process. The initial 2023 detailed budget binder, along with the Budget Working Group’s recommendations, will be presented to the full Commission on October 18, 2022.

Timetable for Budget Process:

<p>August 16, 2022, Commission Meeting</p> <ul style="list-style-type: none"> - Set Rate Hearing Date - Appoint Ad Hoc Budget Working Group
<p>Present through completion of the 2023 Budget</p> <ul style="list-style-type: none"> - Budget Working Group Meetings
<p>October 18, 2022, Commission Meeting</p> <ul style="list-style-type: none"> - Review Financing and Capital Improvement Plan - Review Strategic Plan, Operating Budgets, and Rates - Review Budget and Budget Working Group’s Recommendation - Hold Public Rate Hearings
<p>November 1, 2022, Commission Meeting</p> <ul style="list-style-type: none"> - Review Budget
<p>November 15, 2022, Commission Meeting</p> <ul style="list-style-type: none"> - Review Budget - Review Customer Comments
<p>December 6, 2022, Commission Meeting</p> <ul style="list-style-type: none"> - Review Budget - Review Final Customer Comments
<p>December 20, 2022, Commission Meeting</p> <ul style="list-style-type: none"> - Approve 2023 Budget - Approve 2023 Rates

KEY ISSUES:

- Set timetable to review the 2023 budget.
- Set hearing date for 2023 electric and water rates.
- Appoint Commissioners to serve on the Budget Working Group.

Respectfully Submitted,



Travis L. Schmidt
General Manager

Division/Response Person: Mark Moilanen, Controller.

Attachments: None.