

Accept Report #1 on the Proposed 2023 Budget

RECOMMENDATION:

The General Manager respectfully requests the Commission accept Report #1 on the Proposed 2023 Budget and Strategic Plan.

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

BACKGROUND:

Moorhead Public Service (MPS) staff is updating financial forecasts and gathering key (preliminary) 2023 inputs, such as purchased power costs, transmission costs, Southwest Power Pool Transmission Cost Reimbursement, transfer payments to the City of Moorhead (City), operating expenses, and capital improvements. MPS staff has provided City staff with the preliminary 2023 transfer amounts to the City.

The Commission has taken the following actions that will impact MPS' 2023 budget, rates, and financial forecasts:

February 2022

- Approve Specifications and Authorize Advertisement for Bids for Temporary Transformer at Moorhead DOE Tap Substation
- Approve Water Rate Study Proposal from Missouri River Energy Services

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 2022)

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

August 2022

- Award Bids for 2023 Electrical Material
- Review Preliminary 2023 Budget Timetable, Appoint Budget Working Group, and Set Date for Water and Electric Rate Hearings
- Award Bid for Shunt Reactors at Moorhead DOE Tap Substation
- Award Bid for Circuit Breakers at Moorhead DOE Tap Substation

September 2022

- Approve Amendment to Services Agreement for Minnesota Municipal Utilities Association's Safety Management Program
- Approve Specifications and Authorize Advertisement for Bids for 2022/2023 Tree Trimming
- Approve Specifications and Authorize Advertisement for Bids for Steel, Disconnect Switches, and Capacitive Voltage Transformers at Moorhead DOE Tap Substation
- Approve Task Order Agreement for Professional Services with Katama Technologies, Inc., and Task Order No. 1 for Consulting Services for AMI with Load Control Functionality and Meter Data Management
- Award Bid for 2023 Electrical Materials – Rebid

MPS' 2022 Budget Working Group, comprised of Commissioners Sebastian McDougall, Heidi Durand, and Chuck Hendrickson, met with MPS Professional and Supervisory staff on September 21, 2022, and discussed the following preliminary information:

- Commission Policy on Financial Strength (December 2017)
- Missouri River Energy Services' (MRES') 2022 Water Rate Study draft findings and recommendations
- Electric Division Budget (September 2022)
 - Capital Expenditures and Financing
 - Operating Budget Major Components
 - 2022-2032 Financial Forecast
 - 2023-2032 Rate Forecast
 - 2023 Rate Recommendations
- Water Division Budget (September 2022)
 - Capital Expenditures and Financing
 - Operating Budget Major Components
 - 2022-2032 Financial Forecast
 - 2023-2032 Rate Forecast
 - 2023 Rate Recommendations

After reviewing and discussing the materials at the September 21, 2022, meeting, the Budget Working Group agreed that MPS should present suggested rate changes of 2 percent overall for electric services, and 4.5 percent overall for water services at the Rate Hearings to be held on October 18, 2022.

KEY ISSUES:

Preliminary operating and long-term capital project planning information was presented to the Budget Working Group on September 21, 2022.

- Electric Division:
 - After reviewing preliminary inputs and discussing items, the Budget Working Group agreed to present a proposed rate change for 2023 of 2 percent overall. This fell within the previously-communicated potential range of rate impacts from no increase to up to a 4 percent increase for 2023 electric rates.
 - Preliminary information from MPS' purchased power providers indicated that Western Area Power Administration's rates are expected to be raised by a little over 16 percent, while MRES has indicated that power costs should remain fairly stable for two to three years, with transmission costs to increase an average of 5 percent annually over the same time period.
 - The Budget Working Group reviewed the history and mechanics behind the second Transfer Agreement currently in place with the City and is comfortable with the 2023 impact, which results in an annual increase of \$125,000 in the floor of the General Fund Transfer. The Budget Working Group is aware that negotiations will be required before the Transfer Agreement expires on December 31, 2023.

- Water Division:
 - After reviewing preliminary inputs and discussing items, the Budget Working Group agreed to present a proposed rate change for 2023 of 4.5 percent overall. This fell within the previously-communicated possible rate impacts of between 2 and 5 percent for 2023 water rates.

Respectfully Submitted,



Travis L. Schmidt
General Manager

Division/Response Person: Mark Moilanen, Controller.

Attachments:

Budget Binder (PSC Only—distributed separately)