

To: Columbia City Council
From: David Switzer, Water and Light Advisory Board Chair
Date: 8/29/2022

Subject: FY2023 CWL Budget

I am writing on behalf of the Water and Light Advisory Board to address Columbia Water and Light's FY2023 CIP documents. With respect to CWL's FY2023 Water CIP, the WLAB has the following recommendations/comments:

1. The WLAB endorses the FY23 Water CIP, contingent on the following actions/understandings from Council:
 - a. The proposed water rate changes be approved by Council. Without additional revenue in FY23, the water utility will be unable to adequately fund the proposed O&M budget and CIP projects. These projects are necessary for safety, regulatory compliance, reliability, and system expansion. Cuts to CIP projects will be necessary if the proposed rate increase is not approved.
 - b. Council makes the approval with the understanding that subsequent annual increases must be made in order for the endorsement to stand. Again, we would like to emphasize that the proposed CIP projects are related to safety, regulatory compliance, reliability, and system expansion. These are core functions of the utility and even with the proposed FY23 rate adjustment, the utility will be drawing down its cash reserves this fiscal year. It is only with further annual rate adjustments that this decision is financially justifiable.
2. The WLAB would also like to emphasize that the proposed water rates are still significantly lower than what the 2018 Cost of Service Study suggested they should be for FY23. This is true for every customer class across every usage tier. The 2018 Cost of Service Study suggested 5% annual revenue increases ending in FY23. As an example, if it had been followed, the FY23 residential rates would be (with the current proposed rates for the FY23 budget in parentheses and bold):

Base Rate: \$11.87 (**\$11.00**)
Summer Tier 1: \$3.32 (**\$3.00**)
Summer Tier 2: \$4.77 (**\$4.61**)
Summer Tier 3: \$9.54 (**\$7.83**)

With respect to CWL's FY2023 Electric CIP, the WLAB has the following recommendations/comments:

3. The WLAB recommends the FY23 Electric CIP be amended with the following changes:

- a. The FY23 budget for project E0027: Conversion of Overhead to Underground (annual) be reduced from \$2,000,000 to \$0. There is over a million dollars currently in the project balance. The balance may be sufficient for routine undergrounding projects. It is better for the financial flexibility of the utility to retain the \$2 million in the proposed FY23 budget as cash. If unexpected larger projects come up in FY23, utility staff can propose an amendment with Council at that time.
 - b. The FY23 budget for projects E0140: Business Loop 70 Phase 5 Undergrounding and E0141: Business Loop 70 Phase 6 Undergrounding be reduced from \$5,000,000 and \$100,000, respectively, to \$0 each. These projects are cosmetic and do not impact the reliability of the system. With the financial uncertainty facing the utility, delaying these projects allows the utility more financial flexibility in FY23. The projects will remain in the CIP and can be funded in future years.
4. A significant amount of funding and a large number of the CIP projects are being held up due to a lack of direction on what transmission project to pursue. The WLAB recommends that Council provide staff with clear direction on transmission projects and priorities.
5. The WLAB would once again like to emphasize the immense uncertainty in the electricity market and the market for materials and supplies. The budget documents for FY23 are based on the best information from today, but may not reflect future conditions. The utility market could get better or worse going forward, but Council needs to be aware of the uncertainty and be willing to financially plan for the future given the immense costs to the utility in the present.
6. With this in mind, the WLAB recommends that Council make revisions to the CWL's Fuel Adjustment Factor a high priority as the Cost of Services Study concludes. If fuel prices continue to be high, the increased O&M budget could have a direct impact on CIP projects in the future. It is detrimental for the city's utility to be in a position where they are deferring essential projects related to regulatory compliance, system reliability, and safety due to unexpected changes in the market. Natural gas and purchased power prices have remained high in recent months.

A few final points:

7. The WLAB believes CWL, Council, and the WLAB should reevaluate how costs for new development are shared between the city and developers. It may be necessary to come up with a better model for balancing the needs of development with the financial stability of the utility. The WLAB will make investigating this a priority in the coming year.

8. The WLAB recommends that the Finance Department investigate how to best position the utility to secure bonds at competitive rates moving forward. The financial uncertainty facing both the water and electric utilities mean that we need to be proactive in planning for the financial future of the utility, especially as the sale of new bonds will be necessary for both water and electric projects moving forward.