

BEFORE THE CITY COUNCIL OF  
THE CITY OF COLORADO SPRINGS

IN THE MATTER OF THE REVISION     )  
OF THE ELECTRIC TARIFF OF         )     DECISION & ORDER 16-02 (E)  
COLORADO SPRINGS UTILITIES     )

1. Colorado Springs Utilities, an enterprise of the City of Colorado Springs (“City”), a Colorado home-rule city and municipal corporation, (“Utilities”), provides electric utility service within the City and within its Colorado Public Utilities Commission-certificated service territory outside of the City.
2. Utilities is proposing changes to the Electric, Water, and Wastewater Rate Schedules and Utilities Rules and Regulations (“URR”) in the 2017 Rate Case filing.
3. Utilities uses a Cash-Needs method to determine the total revenue requirement derived from the annual budget. This technique is frequently utilized by other government-owned enterprise utilities in order to set rates at an appropriate level to recover sufficient revenues to cover all cash needs. A major advantage of this technique is consistency with the budgeting and accounting systems used by these entities.
4. Utilities has conducted a Cost of Service (“COS”) study for Electric, Water, and Wastewater. The test year for this filing is the 2017 proposed budget. The rate analysis concluded rate adjustments are required for the Electric, Water, and Wastewater services.
5. The proposed effective date for the proposed tariff changes is January 1, 2017.
6. Utilities engages in the production, purchase, and distribution of electricity. These activities incur fuel related (production and purchases) and non-fuel related (production and distribution) expenditures. Fuel related expenditures are currently recovered through the Electric Cost Adjustment (“ECA”). Non-fuel related expenditures are recovered through Access and Facilities Charges and Demand Charges. This filing proposes changes to the non-fuel related charges.
7. Utilities conducted the COS study utilizing the Proposed 2017 Budget. The 2017 Electric revenue requirement reflects the implementation of Phase 2 of a 3 Phase plan directed by the Colorado Springs Utilities Board (“Utilities Board”) in April 2016, to address Electric revenue shortfall. As part of Phase 2, the 2017 Electric revenue requirement is reduced by \$13.9 million from the 2016 Electric revenue requirement, primarily due to the anticipated revenue shortfall from the Industrial Service - Time of Day 1,000kWH/Day Minimum (ETL) rate class (“ETL”). Additionally, increases not to exceed 12.5% have been applied to all standard rate classes below COS and no rate increases have been applied to rate classes at or above COS.

8. As part of its review of the 2015 Electric Rate Filing, the Office of the City Auditor (“OCA”) observed that actual non-fuel revenues were significantly less than forecast for the Electric Industrial rate classes combined. OCA recommended Utilities research the variances. In particular, the ETL rate class appeared to be the primary driver of the revenue variances observed. In 2015, Utilities initial analysis of the 2010 through 2014 period attributed revenue under recovery to variances between forecasted and actual billed demands. Specifically, the analysis indicated that the projected demand billing determinants were not in line with the historical billed demands for several rate classes, but especially for the ETL Rate Class.
9. On December 8, 2016, the Colorado Springs City Council (“City Council”) approved the 2016 Electric Rate filing. In that filing, Utilities implemented a process improvement for deriving demand billing determinants used in rate design which utilizes forecasted demands based on actual billed demands. This improvement is expected to bring forecasted demand revenues more in line with the actual billed demand revenues.
10. Implementing this methodology change produced reasonable revenue recovery for all the Industrial rate classes with the exception of ETL. The ETL rate class was impacted to a greater degree requiring a phased-in approach of forecasted demand billing determinants to mitigate rate impact. As an interim step, City Council approved a 6% increase to the ETL non-fuel charges at that time.
11. With the approved 6% increase and actual expected billing demands, Utilities projected the 2016 ETL revenue shortfall to exceed \$20 million. The anticipated revenue shortfall was not shifted to other rate classes in the approved 2016 Rate Filing. In December of 2015, Utilities provided Utilities Board a shortfall contingency plan to manage under collections through expenditure reductions and financial metrics. Utilities also committed to complete a comprehensive demand study to identify root causes of the divergence between forecasted and actual billed demands by March 31, 2016.
12. The ETL Demand Study utilized a comprehensive set of billing data elements to investigate four aspects of the rate class that could potentially be root causes or subsidiary issues of demand variances. All billing data extracted for study was independently validated as accurate and complete. The four key objectives of the study and the associated determinations are summarized below:
  - a) Assess the impact of Demand Side management (“DSM”) on forecasted demand  
Determination: Variances are unrelated to DSM
  - b) Evaluate ETL Rate Class diversity  
Determination: Rate Class structure is appropriate
  - c) Assess representativeness of the Load Study sample  
Determination: Load Study sample is adequately representative of rate class

- d) Examine the relationship of billing and load study demands

Determination: Forecasted demands based on load study results have been overstated

13. The study confirmed that the root cause of the ETL revenue shortfall was divergence between projected and actual billed demands. The study also validated the appropriateness of fully implementing the process improvement of using forecast demands based on historical billing data in rate design.
14. On April 20, 2016, the Utilities Board directed a long term approach to bring the ETL rate to full COS. The first increase of 4% to the ETL rate was approved by City Council on June 28, 2016, and effective July 1, 2016. The second rate increase of 12.5% is proposed with this rate filing and if approved, effective January 1, 2017. A third increase is anticipated to be filed in fall 2017, to take effect January 1, 2018. The amount and impact of the third change will be based on the best and most timely data available at that time.
15. Utilities has performed a COS following generally accepted ratemaking practices to establish a starting point for determining just and reasonable rates in the filing. The COS uses systematic analytical procedures to equitably allocate the revenue requirement between various customer classes of service. As described in the Rate Manual in the Appendix of the filing, COS is used to:
  - a) Functionalize, at the account level, the relevant expenditure items to the basic functional categories (e.g. source of supply, transmission and distribution and customer);
  - b) Classify each functionalized cost into broad categories utilizing cost causation principals (e.g. commodity, demand, customer); and
  - c) Allocate to the customer rate classes based on the service characteristics of each individual rate class.
16. Based on conclusions from the ETL Demand Study completed in the first quarter of 2016, two process improvements were incorporated into the Electric Rate Filing.
17. The first improvement is a continuation of the use of actual historical billed demands to derive forecasted billing demand determinants that was introduced in the 2016 Rate Case. Utilities implemented a methodology change for deriving forecasted billing demands changing from Noncoincident Peak (“NCP”) demands to include more actual billed demands. The ETL rate class was impacted to a greater degree requiring a phased-in approach of this process improvement in order to mitigate rate impact and provide opportunity to further validate this approach for the ETL rate class. The appropriateness of fully implementing this process improvement for the ETL rate class was validated in the ETL Demand Study. Therefore, the COS study for 2017 fully incorporates using forecast demands based on historical billing data in rate design for all rate classes with demand rate components, to include ETL.

18. The second improvement focuses on the forecasted NCP. The ETL Demand Study concluded that the NCP for the ETL rate class has been overestimated and recommended an additional step of calibrating the NCP with the class maximum month billing demands to ensure a more appropriate relationship is maintained between the two data points. Since the results of the 2016 Load Study used in forecasting demand again reflected an overestimated NCP, this process improvement was implemented to calibrate the NCP to a reasonable forecast for use in the COS study.
19. Utilities allocates debt service and cash funded capital components of the revenue requirement to each Electric function based on the proportion of that function's assets to the total assets of the Electric service. Currently this allocator is calculated based on the gross plant. Utilities is proposing that the allocation be based on net plant (gross plant less accumulated depreciation) including construction work-in-progress.
20. Debt and cash funded capital costs are incurred consistent with Utilities' Capital Policy and are associated with additions to capital. The change in methodology facilitates a closer alignment between the funding of capital costs and the remaining useful life of the asset. Utilities continues to be committed to continuous improvement and believes this change more appropriately allocates capital related cost to the functions.
21. In September 2014, the Utilities Board approved the Rate Design Guidelines that establish guidance, structure, and transparency in the development of the revenue requirement by Rate Class. The fundamental guidance directs that rates should be designed such that each customer rate class recovers costs that are appropriately assigned to that rate class utilizing COS, professional judgment, and discretion, and if necessary, is supported by additionally identified Supporting Guidelines. Supporting Guidelines include reasonableness, rate stability, asset maximization, and economic development.
22. With COS as the starting point for establishing each Rate Class' contribution to the revenue requirement, Utilities has proposed rates in compliance with approved Rate Design Guidelines.
23. Utilities examined the relationship of the customer rate classes to their respective COS. Utilities sought to bring rate classes to within plus or minus 10% of their total COS in accordance with the Reasonableness Guideline while lending credence to the Rate Stability Guideline to mitigate rate shock.
24. Using these guidelines collaboratively and in conjunction with Utilities Board direction, Utilities proposes rate changes ranging from 0.0% to 12.5% for all standard rate offerings.
25. Utilities also proposes rate changes from -15.2% to 18.0% for some of the optional rate offerings.
26. The highest proposed rate increase of 18.0% was applied to the optional Commercial Time-of-Day (ETC) customer Rate Class which was largely driven by an adjustment in

the rate design as part of an initiative to reduce peak demand and provide a more appropriate price signal. This holistic rate design approach continues to move rate classes closer to COS and achieves full recovery of the system revenue requirement.

27. The Large Power and Light (ELG) (“ELG”) rate class was designed to attract and retain customers with a large industrial load and high system load factor. Asset maximization characteristics of the ELG rate are demonstrated through a narrower range between average and peak loads, increased Electric system efficiency gained through high load factor and deferral of capacity capital cost. The ELG rate was originally designed at 75.0% of COS. Utilities has not proposed any rate change for the ELG Rate Class in this filing resulting in proposed revenues at 80.1% of COS supported through the application of the Rate Design Guidelines, asset maximization, and economic development supporting guidelines.
28. In the 2016 Rate Case, the ETR rate was enhanced as a measure of seeking to reduce system peak demand. This was accomplished by shortening the Summer on-peak period and expanding the ratio between the on-peak and off-peak rate for the ETR customer class. The Summer on-peak hours were reduced to more accurately coincide with the top summer hours of system demand. In conjunction with reducing the number of on-peak hours, increasing the ratio between the on-peak and off-peak rates helped to maintain revenue neutrality as well as sending an adequate price signal to consumers for energy conservation during the summer on-peak timeframe. Upon further review, it was determined that an overabundance of off-peak usage is required for those able to adjust their usage patterns in order to realize savings over the standard residential rate. The proposed rates are modified to provide customers greater flexibility in their usage patterns to realize savings over the standard residential rate while maintaining the price signal to help reduce system peak demand.
29. The ETC rate class is a rate option offering commercial customers an opportunity to potentially lower their bill by adjusting their usage patterns to align with off-peak periods, as denoted in the tariff. In reviewing the rate, it was noted that the rates, in their current state, are not designed with the appropriate price signal intended for this rate offering. As the rates currently exist, bringing them to an adequate price signal would require a significant increase of approximately 69.0%. In order to mitigate rate shock associated with such an increase, Utilities proposes a three year phase-in of rate adjustments for this rate option. The proposed rate increase of 18.0% for 2017 is the first step of the three year phase-in plan.
30. In addition to the general Electric tariff changes explained, Utilities 2017 Rate Case proposes the following additional changes.
31. Kilowatt-hour Rate Options: This change reflects the removal of all the Kilowatt-hour Rate Options from the tariff sheets. Existing contracts were completed at the end of March 2016, and the option is no longer offered. (Electric Rate Schedule Sheet Nos. 9, 9.1, 9.2, 9.3, 9.4, 11, 12, 12.1, 12.2, 16, 17, 23, 23.1, 23.2, 23.3)

32. Contract Service – Wheeling (ECW): This change removes some ancillary services currently offered in the tariff since no customers use or require those services. (Electric Rate Schedule Sheet Nos. 28, 30)
33. Totalization Service: This change removes obsolete language regarding customers paying for installation and wiring costs. A different system is now in place rendering this tariff language no longer applicable. (Electric Rate Schedule Sheet No. 33.1)
34. Renewable Energy Net Metering: This change updates the tariff header to align the numbering with past revisions. (Electric Rate Schedule Sheet No 34.1)
35. Enhanced Power Service Reserved Capacity Charge (“RCC”): This change modifies the charge for reserve capacity. The RCC is incurred by Enhanced Power customers and is designed to recover the costs of reserving capacity on Utilities’ system which are associated with the customer’s requested redundant feed. The specific costs recovered by this charge include operation, maintenance and future replacement costs associated with the transmission and substation functions for redundant service. In order to balance recovery of costs and stabilization of rates, Utilities proposed and City Council approved in the 2013 Electric Rate filing to phase in the rate increase over a five year period. 2017 represents the final year of the five year period and so for 2017, the rate will be increased to the full calculated rate of \$0.0499 per kW per day. (Electric Rate Schedule Sheet No. 37)
36. Community Solar Garden Pilot Program: This change updates the Community Solar Garden Pilot Program blended Bill Credit to reflect the proposed Electric service rate increases. (Electric Rate Schedule Sheet No. 40.5)
37. Community Solar Garden (Non-Pilot): This change updates the rates on the Community Solar Garden (Non-Pilot) Bill Credit table based on the proposed Electric service rates. (Electric Rate Schedule Sheet No. 40.14)
38. Wind Power: This change removes the Wind Power tariff. The current rate expires on December 31, 2016, and will not be renewed. (Electric Rate Schedule Sheet No 41)
39. Non-Municipal Street Lighting Service: The rate proposals included in this filing address changes to Electric Street Lighting (Electric Rate Schedules Sheet Nos. 21 and 21.1). The 2017 Street Lighting COS study is based on a model originally developed by a consultant (Halcrow, Inc.) retained by Utilities several years ago. Overall, the cost allocation methodology remains unchanged for 2017. Variances from 2016 rates are primarily attributable to changes in inventory, labor and metrics.
40. In addition to the proposed Electric Tariff revisions, Utilities proposes changes to the Water and Wastewater Tariffs and the URR.
41. Utilities filed its COS study supporting the Electric, Water, and Wastewater services base rate and Tariff changes with the City Auditor, Mr. Denny Nester, and with the City

Attorney, Ms. Wynetta Massey, on August 12, 2016. Utilities then filed the enterprise's formal proposals on September 13, 2016, with the City Clerk, Ms. Sarah Johnson, and a complete copy of the proposals was placed in the City Clerk's Office for public inspection. Notice of the filing was published on-line at [www.csu.org](http://www.csu.org) on September 13, 2016, in *The Gazette* on September 16, 2016, and mailed as required on September 16, 2016. These various notices and filings comply with the requirements of §12.1.107 of the City Code and the applicable provision of the Colorado Revised Statutes. Copies of the published and mailed notices are contained within the record. Additional public notice was provided through Utilities' website, [www.csu.org](http://www.csu.org) and a complete copy of the proposals was placed on that website for public inspection.

42. The information provided to the City Council and held open for public inspection at the City Clerk's Office was supplemented by Utilities on October 18, 2016. The supplemental material contained a supplemental customer feedback report, copies of the publications of required legal notice, public outreach information, and the City Auditor's report.
43. Prior to the public hearing, Utilities provided a copy of the complete rate filing to the City Auditor and to the City Attorney for review. The City Auditor issued his findings on the proposed rate and tariff changes, dated October 2016. A copy of that report is contained within the record.
44. On October 25, 2016, the City Council held a public hearing concerning the proposed changes to the Electric, Water, and Wastewater Tariffs and to the URR. This hearing was conducted in accordance with §12.1.107 of the City Code, the procedural rules adopted by City Council, and the applicable provisions of state law.
45. President of the Council Merv Bennett commenced the rate hearing by providing a summary of the rate hearing agenda and explaining the rate hearing procedure.
46. The presentations started with Mr. Christopher Bidlack of the City Attorney's Office, briefing the City Council on its power to establish rates, charges, and regulations for Utilities' services. In setting rates, charges, and regulations for Utilities' services, the City Council is sitting as a legislative body because the setting of rates, charges, and regulations is necessary to carry out existing legislative policy of operating the various utility systems. However, unlike other legislative processes, the establishment of rates, charges, and regulations is quasi-judicial and requires a decision based upon evidence in the record and the process is not subject to referendum or initiative. Mr. Bidlack provided information on the statutory and regulatory requirements on rate changes. Rates for Electric service must be just, reasonable, sufficient, and not unduly discriminatory, City Code §12.1.107(E). Rates for Water and Wastewater service must be reasonable and appropriate in light of all circumstances, City Code § 12.1.107(F).
47. At the conclusion of his presentation, Mr. Bidlack polled the City Council Members concerning any *ex parte* communication that they may have had during the pendency of this proceeding. Mr. Bidlack noted that he provided all Council Members with

supplemental information on October 24, 2016, based on requests for additional information presented by City Council Members. Mr. Bidlack also noted that Council Member Andy Pico provided a copy of an *ex parte* email he received in relation to customer concerns about the proposed rate increases. City Council indicated there were no additional *ex parte* communications.

48. Utilities then began the presentation of the enterprise's proposals.
49. The speaker was Ms. Sonya Thieme, Utilities' Rates Manager. She started by providing an overview of the 2017 Rate Case. She noted that the 2017 Rate Case filing includes proposed changes to the (1) Electric Rate Schedules, (2) Water Rate Schedules, (3) Wastewater Rate Schedules, and (4) URR. Additionally, the COS is prepared following industry standards and practices and rates are designed in compliance with Rate Design Guidelines.
50. Ms. Thieme then explained that the preliminary 2017 filing was presented to the Utilities Board and the Utilities Board Finance Committee. She then noted that the filing fulfilled proper procedural compliance requirements by (1) filing a preliminary COS study with the OCA on August 12, 2016, (2) requesting a public hearing date, (3) filing the 2017 Rate Case with the City Clerk, (4) posting the filing to [www.csu.org](http://www.csu.org) on September 13, 2016, and (5) publishing and mailing required legal notices on September 16, 2016.
51. Next, Ms. Thieme provided a summary of the Electric Service changes. The revenue requirement reflects the implementation of Phase 2 of a 3 Phase plan to address Electric revenue shortfall as directed by the Utilities Board in April of 2016. The total base (non-fuel) Electric revenue is \$320.7 million. This is \$13.9 million lower than the 2016 Electric revenue requirement. The reduction is primarily due to the anticipated revenue shortfall from the Industrial Service - Time of Day 1,000kWH/Day Minimum (ETL) class. Additionally, the rate filing continues a phased in approach to bring rate classes within plus or minus 10% of respective COS. Such increases are not to exceed 12.5% and apply to all standard rate classes below COS. No rate increases have been applied to rate classes at or above COS.
52. She then noted the electric rate classes for which rate increases are proposed and those for which no change is proposed.
53. Ms. Thieme provided information on general changes to Residential and Commercial rate options. Optional Time-of-Day rates provide a price signal to help reduce system peak demand and provide customers with (1) an opportunity to adjust their usage patterns to align with off-peak periods and (2) the potential to realize savings over the standard rates. Both Residential and Commercial Time-of-Day rates are modified in the proposed rates to properly reflect the appropriate price signal. Residential Time-of-Day rates are decreased by 15.2% and Commercial Time-of-Day rates are increased by 18%.
54. Ms. Thieme concluded her presentation on Electric service changes by noting the additional proposed Electric tariff changes: (1) the Kilowatcher Rate Options is removed



from tariff sheets as the existing contracts expired in March of 2016 and the option is no longer offered; (2) the Contract Service – Wheeling (ECW) rate is modified to remove some ancillary services currently offered in the tariff that Customers either have not made use of or required; (3) clarification of the tariff language for Totalization Service to remove obsolete language is provided; (4) the Renewable Energy Net Metering rate is updated to align the sheet numbering with past revisions; (5) the Reserved Capacity Charge (RCC) for Enhanced Power Service is increased to complete a five year phase in to full cost; (6) the Community Solar Garden (CSG) Pilot Program Bill Credit is updated to reflect the proposed Electric service rate increases; (7) the CSG Non-Pilot Bill Credit is updated based on the proposed Electric service rate increases; and (8) the Wind Power Tariff is removed due to expiration.

55. Ms. Thieme then addressed the proposed changes to the Water tariff. The proposed total water revenue is \$199.5 million, which is \$11.3 million higher than revenue under current rates. The overall system increase is 6.0% higher than current rates. The increase breaks down as a 5.1% increase for Residential, 6.2% increase for Nonresidential, 10.0% increase for Contract Services – DOD, 9.7% increase for Large Nonseasonal, and 12.0% increase for Nonpotable and Augmentation customers.
56. The rate design components are (1) continuing to move rate classes closer to COS and (2) increasing the fixed daily charge to enhance financial stability and maintain a conservation signal, specifically for Residential customers.
57. Ms. Thieme concluded her review of proposed changes to the service tariffs by addressing Wastewater. The current Wastewater rates are sufficient to cover the 2017 revenue requirement of \$68.0 million. While no additional revenue is required, the rate classes were updated to use allocations and methodologies consistent with the other services as the Wastewater rates have not been modified since 2010. The proposed rate changes decrease Residential rates by 1.5% and increase Nonresidential rates by 4.0% and Contract Services – Outside City Limits by 11.6%. Additionally, a new rate class is added for Military customers to be consistent with the rate structure provided across the three other services.
58. Ms. Thieme then provided a summary of the overall impact of the proposed rate changes to a four service utility bill. The typical Residential customer will see a 1.3% or \$2.60 increase to their bill. The typical Commercial customer will see a 3.4% or \$44.34 increase to their bill. And, the typical Industrial customer will see a 0.6% or \$225.91 increase to their bill.
59. Ms. Thieme concluded the substantive portion of her presentation by noting the proposed changes to the URR. Those proposed changes are as follows:
  - a) Restoration of Service: This change proposes to increase the maximum time from 12 hours to 24 hours in which Utilities must restore service to customers disconnected for non-payment and other customer-controlled situations identified in Section 13 of URR. Additionally, Utilities proposes a minor clean-up changing

“normal working hours of 7:00 a.m. to 7:00 p.m., Monday through Friday” to “normal working business day.”

- b) Electric Line Extensions and Services and Extension of Natural Gas Mains and Services: This change will update the current contribution in aid of construction fee amounts collected through Electric Line Extensions and Services and Natural Gas Mains and Services, moving the recovery at or close to the current costs. The current Electric Line Extensions and Services fees are proposed to increase Electric fee increases range from 5.8% to 10% to achieve full cost fees for nine (9) out of eleven (11) total line extensions and services. The current Natural Gas Mains and Services rate of 18% will increase to full cost at 20%.
  - c) Water and Wastewater Development Charges: This change proposes to reduce the multiplier for all meters greater than  $\frac{3}{4}$  inch to a meter capacity ratio. This change will lower the current charge for Water Development Charge meter sizes greater than 4 inch. Additionally, this change will also lower the current charge for Wastewater Development Charge meter sizes greater than the  $\frac{3}{4}$  inch.
  - d) Correction of City Code reference in Applicability of City Code: This change is to correct an incorrect reference to a section of the City Code. There is no policy or financial impact of this change.
60. Next, Ms. Thieme addressed the customer outreach Utilities performed in relation to the 2017 Rate Case filing. The customer outreach was carried out throughout September and October and included newsletter information about the proposal and hearing dates, required public notice, and meetings with commercial and industrial customers. She then noted Utilities programs that are in place to assist customers: (1) bill assistance through Project COPE and the Low income Energy Assistance Program, (2) high bill counseling through conservation education and the Home Energy Assistance Program, and (3) payment plans through Utilities’ Budget Billing program.
61. The next issue discussed was Utilities Supplemental Customer Feedback Report, which Utilities included within the Supplemental Filing. Utilities received some customer feedback in relation to the proposed rate changes. Those customers were concerned because they face the proposed base-rate increases and the likelihood of Electric Cost Adjustment (“ECA”) and Gas Cost Adjustment (“GCA”) increases. One of the most impacted customer groups is the Industrial Service – Time-of-Day Service 1,000 kWh/Day Minimum (ETL). There are approximately 1,300 ETL customers impacted by the proposed 12.5% increase. Seventeen (17) of these customers are impacted by Nonpotable proposed 12.0% increase and three (3) of these customers are impacted by Large Nonseasonal proposed 9.7% increase with all of those customers impacted by Nonresidential Wastewater proposed 4% increase. In addition to factors outlined in this rate hearing presentation, the magnitude of bill impact is greatly influenced by the fluctuation in fuel and purchase power costs.

62. Ms. Thieme then explained that the City Council will be presented with ECA and GCA increases on an agenda item following the rate hearing. The proposed changes would be effective November 1, 2016. The proposed ECA rate is approximately \$0.0273 per kWh which impacts bills as follows: typical Residential electric bill increase of \$3.18 or 4.2%; typical Commercial electric bill increase of \$31.80 or 6.3% and; typical Industrial electric bill increase of \$2,120.00 or 6.8%. The proposed GCA rate is approximately \$0.1815 per Ccf which impacts bills as follows: typical Residential gas bill increase of \$2.68 or 7.4%; typical Commercial gas bill increase of \$55.43 or 10.7% and; typical industrial gas bill increase of 554.28 or 11.9%.
63. She then noted that many customers have experienced much lower bills since 2015 because of soft fuel markets. In 2016, Utilities' has reduced the combined ECA and GCA over collection balances by \$18.1 million. The lowest ECA rate was approximately 23% below cost and the lowest GCA rate was approximately 46% below cost. Generally, the ECA and GCA charges represent a significant portion of the business customer's bill. Utilities compiled five (5) year typical bill history to capture both base rate adjustments and ECA and GCA rate adjustments for different customer classes. These compilations show minimal bill impacts over the five (5) year period.
64. Ms. Thieme explained that while Utilities supports the 2017 Rate Case as filed, Utilities created rate alternatives based on the customer feedback. In accordance with City Code § 12.1.107(C)(4), the City Council may amend or revise the proposed rates based on information presented at the rate hearing.
65. If City Council elects to modify the Water rates proposed by Utilities, Utilities proposes modifying the rates to function as a two year phase in for the most affected rate classes. Doing so would create rates effective on January 1, 2017, and January 1, 2018. The alternate proposal would modify the (1) Contract Service – MIL, (2) Miscellaneous Service – Nonpotable, and (3) Large Non-seasonal Service to create a phased in approach that will increase each rate by 6.0% effective January 1, 2017, and additional increases of 6.0%, 4.0%, and 3.7%, respectfully, to bring the rates to cost of service effective January 1, 2018.
66. If City Council elects to not modify the Wastewater rates as proposed by Utilities, Utilities proposes that the changes be implemented over two years, with the first 50% of the change being effective January 1, 2017, and the second 50% of the change being effective January 1, 2018.
67. Ms. Thieme then addressed the supplemental information provided to City Council by Mr. Bidlack on October 24, 2016. The additional information addressed five (5) points of additional information requested by Council Members. Ms. Thieme provided high level summaries of each item listed below.
- a) Item 1: A slide showing the current different electric rate classes and the percent and dollar value of their fair share of COS they are paying under current rates and how they will stand if the 2017 rate case is approved.

- b) Item 2: Slides showing the total bill impact for industrial, commercial, and residential for the different proposed ECA/GCA adjustments to be effective November 1, 2016, the rate changes to be effective January 1, 2017, and the ECA/GCA adjustments estimated to be effective February 1, 2017.
  - c) Item 3: Slides showing what the military customer's current dollar amount and fair share is for COS for Water and Wastewater and what it would be under the proposed rates.
  - d) Item 4: Slides showing revenue impact of varying percentages of the proposed residential water rate increase being applied to the daily access charge in comparison to the complete increase being applied to the daily access charge as proposed.
  - e) Item 5: Slides providing a five (5) year history of rate changes for residential, commercial, and industrial customers.
68. Assistant City Auditor, Ms. Jacqueline Rowland then presented the Auditor's report. Ms. Rowland stated that the OCA reviewed the COS for each service and concluded that they were prepared accurately and that the methodology was consistent. The OCA report included two recommendations for future improvements, but supported the Utilities rate filing. Ms. Rowland noted that the OCA also reviewed the proposed ECA and GCA changes, but has not reviewed the alternative options noted by Utilities for Water and Wastewater.
69. After Utilities' presentation, President Bennett opened the floor for public comment. President Bennett explained that the questions would be collected, both from the public and the City Council, and then Utilities would have a short break to formulate responses, if necessary.
70. Representatives of three customers spoke to address their concerns with the proposed rate increases.
71. Mayor of Manitou Springs Nicole Nicholetta and Ms. Shelly Cobau of Manitou Springs Public Services spoke about the concerns the City of Manitou Springs has with the proposed rate increases in relation to both cost and customer complaints. Both requested that City Council consider the alternatives proposed by Utilities to phase Water and Wastewater changes in over a two year period.
72. Mr. Jason Lachance, the Chief Financial Officer of dpiX, spoke to his concerns about the proposed rate increases and noted his concern that the proposed rate increases will harm dpiX's ability to be a competitive entity and Colorado Springs' ability to remain competitive in the context of attracting and retaining businesses.
73. Lastly, Mr. Dan Malinaric, Vice President of Operations for Microchip, expressed his concerns about the proposed rate increases, specifically the impact of the rate increases on Microchip's business competitiveness and Utilities' ability to be a "low cost utility" and the impact the rate increases will have when Utilities' rates are compared with other entities.

74. Following public comment, President Bennett opened the floor to questions from the City Council.
75. Council Member Don Knight spoke to explain his questions that led to a portion of the additional information provided on October 24, 2016. He noted that two of his four questions were answered with the provided materials (military impact and daily charges), but that he had additional questions related to the COS calculation across rate classes in relation to the proposed 2017 rates and the collective bill impact of the proposed 2017 rates, the November 1, 2016, ECA and GCA changes, and the estimated February 1, 2017, ECA and GCA changes.
76. Ms. Thieme addressed Council Member Knight's first question by presenting the supplemental slide on COS. Council Member Knight emphasized that the presented rates comply with the Utilities Board direction to keep rate classes within +/- 10% of the COS.
77. Council Member Tom Strand then asked whether Utilities received any feedback from Department of Defense customers. Ms. Thieme replied that Utilities worked directly with military customers and that those customers understand the rate drivers and do not oppose the proposed rates.
78. Council Member Strand then asked Ms. Rowland to perform a review of the alternate proposals presented by Utilities. Ms. Rowland confirmed that the analysis would be performed and that the review will be submitted to City Council.
79. Council Member Andy Pico then spoke to the nature of the proposed changes, emphasizing that the majority of the bill impact that customers expressed concern for is driven by the fuel costs contained within the ECA and GCA and that those costs are a direct pass through by Utilities.
80. President Bennett then asked Utilities Chief Executive Officer, Mr. Jerry Forte whether a recess was necessary to prepare any Utilities' responses. Mr. Forte stated that no break was necessary.
81. Council Member Knight then asked for further clarification on the second question he presented, as noted above. Ms. Thieme provided a walkthrough of the additional materials to demonstrate how they provided a summary of bill impact across the proposed rate changes and the ECA and GCA changes planned for November 1, 2016, and February 1, 2017. Council Member Knight confirmed that the information presented was the requested information.
82. At the conclusion of the City Council discussion, President Bennett determined that an executive session was not needed.
83. Prior to Mr. Bidlack polling the City Council on the issues central to the proposed changes, the City Council had further discussion on whether to address the Water and

Wastewater tariffs as proposed by Utilities or whether to support the alternatives presented for each service. Support for the alternatives was given by the City Council and additional discussion followed.

84. Council Member Knight first addressed the Water service alternatives. He contended that while the alternative, phase in approach for the Large Non-seasonal Service should be pursued, the alternative should not be pursued for the Contract Service – Military rate and Nonpotable rate. He explained that the Military customers noted support for the proposed rates and that the Nonpotable rate is significantly below the COS and requires significant increases to reach COS.
85. Following Council Member Knight’s comments, consensus was reached to support the alternative two year phase in for only the Large Non-seasonal rate with a 6.0% increase to be effective January 1, 2017, and a 3.7% increase to be effective January 1, 2018. Additionally, there was consensus to reduce the revenue requirement for Water service for 2017 by \$149,552, in correlation with the Large Non-seasonal rate phase in approach.
86. Discussion on the Wastewater alternatives led to a consensus to support the totality of the alternative phase in approach. That approach will implement first 50% of proposed rates to be effective January 1, 2017, and second 50% of the proposed rates to be effective January 1, 2018.
87. At the conclusion of questions by the public and City Council, Utilities’ responses, and discussion by City Council, Mr. Bidlack, polled Council Members regarding the issues central to the Electric, Water, and Wastewater services and the URR. Eight members of the City Council were present, with Council Member Bill Murray excused.
88. The following are the proposed changes and the votes by City Council addressing the Electric Tariff:

- a) Is an increase to the non-fuel revenues of \$10.1 million appropriate for the 2017 rate case test-year period?

The City Council held that an increase to the non-fuel revenues of \$10.1 million appropriate for the 2017 rate case test-year period is appropriate.

- b) Should rates and tariffs for the following Electric Service Rate Schedules be revised as proposed:
  - i. Residential Service
  - ii. Commercial Service – General – E2C
  - iii. Commercial Service – General – ETC
  - iv. Industrial Service – Time-of-Day Transmission Voltage
  - v. Industrial Service – Time-of-Day 1,000 KWh/Day Minimum
  - vi. Industrial Service – Time-of-Day 500 KW/Day Minimum
  - vii. Industrial Service – Time-of-Day 4,000 KW/Day Minimum

- viii. Contract Service – Street Lighting
- ix. Contract Service – ECD
- x. Contract Service – Wheeling – ECW
- xi. Totalization Service
- xii. Renewable Energy Net Metering
- xiii. Community Solar Garden Bill Credit (Pilot Program)
- xiv. Community Solar Garden Program

The City Council held that the rates and tariff for the following Electric Service Rate Schedules shall be revised as proposed, with Council Member Helen Collins opposed: 1) Residential Service; 2) Commercial Service – General – E2C; 3) Commercial Service General – ETC; 4) Industrial Service – Time-of-Day Transmission Voltage; 5) Industrial Service – Time-of-Day 1,000 KWh/Day Minimum; 6) Industrial Service – Time-of-Day 500 KW/Day Minimum; 7) Industrial Service – Time-of-Day 4,000 KW/Day Minimum; 8) Contract Service – Street Lighting; 9) Contract Service - ECD; 10) Contract Service – Wheeling – ECW; 11) Totalization Service; 12) Renewable Energy Net Metering; 13) Community Solar Garden Bill Credit (Pilot Program); and 14) Community Solar Garden Program.

- c) Should Utilities remove the optional Kilowatcher program from the Industrial Service – Time-of-Day Service 1,000 kWh/Day Minimum, Industrial Service – Time-of-Day Service 500 kW Minimum, Industrial Service - Time-of-Day Service 4,000 kW Minimum, and Contract Service?

The City Council held that Utilities shall remove the optional Kilowatcher program from the Industrial Service – Time-of-Day Service 1,000 kWh/Day Minimum, Industrial Service – Time-of-Day Service 500 kW Minimum, Industrial Service - Time-of-Day Service 4,000 kW Minimum, and Contract Service with Council Member Collins opposed.

- d) Should Utilities increase the Reserved Capacity Charge incurred by Enhanced Power Customers which will complete a five year phase in program to bring this rate to full cost?

The City Council held that Utilities shall increase the Reserved Capacity Charge incurred by Enhanced Power Customers which will complete a five year phase in program to bring this rate to full cost.

- e) Should Utilities remove of the Wind Power tariff due to expiration of the program?

The City Council held that Utilities shall remove of the Wind Power tariff due to expiration of the program.

89. President Bennett then concluded the 2017 Rate Case Hearing.



**ORDER**

THEREFORE, IT IS HEREBY ORDERED that:

The Electric Tariff sheets as attached to the Resolution are adopted and will be effective on and after January 1, 2017. Such tariff sheets shall be published and held open for public review and shall remain effective until changed by subsequent Resolution duly adopted by the City Council.

Dated this 8<sup>th</sup> day of November, 2016.

CITY OF COLORADO SPRINGS

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Council President

ATTEST:

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City Clerk