

BEFORE THE CITY COUNCIL OF
THE CITY OF COLORADO SPRINGS

IN THE MATTER OF THE REVISION)
OF THE ELECTRIC TARIFF OF) DECISION & ORDER 16-01 (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 a change to its Electric Rate Schedules in the 2016 ETL Electric Rate Case Filing.
3. Electric service under the Industrial Service – Time-of-Day Service 1,000 kWh/Day Minimum (ETL) Electric Rate Schedule (“ETL”) is available to Utilities customers whose average daily usage equals or exceeds 1,000 kWh in any billing period and whose Maximum Demand is less than 500 kW in any of the last twelve (12) billing periods. Utilities’ filing proposes a four percent (4.0%) increase to the ETL Demand Charges effective July 1, 2016.
4. In August 2015, the Office of the City Auditor (“OCA”) released audit report “15-24 Colorado Springs Utilities Comparison of Projected to Actual Revenue.” In this report, the OCA observed that actual electric non-fuel revenues for all Industrial Rate Classes combined were significantly less than forecasted. In particular, the ETL Rate Class appeared to be the primary driver of the revenue variances. Utilities analyzed the electric non-fuel revenue variances for all Industrial Rate Classes for the years 2010 through 2014 and attributed any revenue under recovery primarily due to the variances between forecasted and actual billed demands. The analysis indicated that the projected demand billing determinants were not in line with the historical billed demands for several Rate Classes, particularly for the ETL Rate Class.
5. At the 2016 Rate Case hearing, City Auditor, Mr. Denny Nester addressed the ETL issues and recommended that: (1) Utilities should continue to research the root cause of the significant shortfall between forecast and actual revenues in the ETL rate class; (2) Utilities management should report results to the Utilities Board and propose appropriate forecast and rate changes, if needed; and (3) City Council should determine if the rate case should be approved as submitted, or if additional rate increases are warranted for this class; alternatively, City Council could consider rate changes after March 31, 2016, when root cause analysis is scheduled to be complete.
6. On December 8, 2015, the Colorado Springs City Council approved the 2016 Electric Rate Filing. In that Rate Case Filing, Utilities implemented a process improvement which based forecasted demand billing determinants on actual billed demands. This

improvement was expected to bring forecasted demand revenues more in line with the actual billed demand revenues.

7. Implementing this methodology change as part of the 2016 Rate Case study indicated reasonable revenue recovery for all the Industrial Rate Classes with the exception of ETL. This methodology change impacted the ETL Rate Class significantly, and required a phased-in approach to mitigate rate impact to that class.
8. As an interim step in the phase-in process, City Council approved a six percent (6%) increase to the ETL Non-fuel charges effective January 1, 2016. With that approved six percent (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 Case. 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 for the ETL rate class by March 31, 2016.
9. As committed, Utilities completed the ETL Demand Study and provided results to the Utilities Board Finance Committee on March 23, 2016. The ETL Demand Study utilized a comprehensive set of billing data elements to investigate four aspects of the ETL 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) Objective: Assess the impact of Demand Side management (“DSM”) on forecasted demand.
Determination: Variances are unrelated to DSM.
 - b) Objective: Evaluate ETL Rate Class diversity.
Determination: Rate Class structure is appropriate.
 - c) Objective: Assess representativeness of the Load Study sample.
Determination: Load Study sample is adequately representative of Rate Class.
 - d) Objective: Examine the relationship of billing and load study demands.
Determination: Forecasted demands based on load study results have been overstated.
10. The study confirmed the root cause of the ETL revenue shortfall is the divergence between projected and actual billed demands. The study also validates the appropriateness of using forecast demands based on historical billing data in rate design.
11. On April 20, 2016, the Utilities Board directed Utilities to pursue a four percent (4%) increase to the ETL rate to be effective July 1, 2016. A second rate increase, not to exceed twelve and a half percent (12.5%), is expected to be filed in the fall of 2016 and

go into effect on January 1, 2017. A third increase is anticipated to be filed in fall 2017, to take effect January 1, 2018. The impact of the third change will be based on the best and most timely data available at that time.

12. The proposed rates increase the ETL Demand Charges by four percent (4%), effective July 1, 2016. If approved, the ETL rate will result in projected non-fuel revenues of \$25.2 million for the forecast period of July 1, 2016, to December 31, 2016, which is \$0.9 million or 3.9% higher than revenue under current rates.
13. The information included in the 2016 ETL Electric Rate Case is based on the cost-of-service study filed to support the 2016 Rate Case. That cost-of-service study was filed with the City Auditor, Mr. Denny Nester, and with the City Attorney, Ms. Wynetta Massey, on August 21, 2015. The cost-of-service study was addressed by Mr. Nester in his November 12, 2015, report. Consequently, the rates proposed in Utilities' filing are supported by the City Council approved 2016 Rate Case Filing.
14. Utilities provided the draft proposal for the 2016 ETL Electric Rate Case to the City Auditor and the City Attorney's Office on May 3, 2016. Utilities then filed the enterprise's formal proposals on May 10, 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 on May 12, 2016, in *The Gazette* on May 11, 2016, and mailed to affected customers as required on May 12, 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 and a complete copy of the proposals was placed on that website for public inspection.
15. The City Auditor issued his findings on the proposed rate and tariff changes, dated June 2016. A copy of that report is contained within the record.
16. The information provided to the City Council and held open for public inspection at the City Clerk's Office was supplemented by Utilities on June 9, 2016. The supplemental material contained proof of publication of legal notice, public outreach information, and the City Auditor's Report.
17. On June 14, 2016, the City Council held a public hearing concerning the proposed changes to the Electric Tariffs. 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.
18. 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.
19. The presentations started with Mr. Christopher Bidlack of the City Attorney's Office-Utilities Division, 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).

20. 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. City Council indicated there were no *ex parte* communications.
21. Utilities then began the presentation of the enterprise's proposals.
22. The speaker was Ms. Sonya Thieme, Utilities' Rates Manager. Ms. Thieme explained that the ETL Industrial Service Rate requires modification because the revenue collected through it was less than anticipated between 2012 and 2014. She noted that the ETL rate is used by a diverse class of small industrial customers. The ETL rate was modified in the 2016 Electric Rate Case through a six percent (6%) increase. Utilities also pledged to complete a root cause analysis by March 31, 2016, at that time.
23. Ms. Thieme then summarized the Utilities' actions taken and Utilities Board discussion. Utilities presented the Revenue Shortfall Contingency Plan in December 2015. Utilities then presented results of the root cause analysis in April 2016. Utilities concluded that the ETL revenue shortfall is due to overestimated billing determinants. Utilities Board directed Utilities to bring the ETL to full cost of service with a three year phase-in of non-fuel rate increases.
24. She then explained that the Utilities Board recommended that the first stage of the phase-in be this rate cases' proposed four percent (4%) increase, to be effective July 1, 2016. The proposed increase is supported by the 2016 Rate Case filing. The forecast period between July 1, 2016, and December 31, 2016, based on the proposed increase, shows \$25.2 million non-fuel revenue. That forecast is \$0.9 million or 3.9% higher than revenue under current rates. Phases II and III will be filed in subsequent rate cases to be effective January 1, 2017, and January 1, 2018, and will be based on the most recent data available at that time.
25. Ms. Thieme noted Utilities' procedural compliance and customer outreach; providing the dates of filing and publication, as noted above.
26. Ms. Jacqueline Rowland, Assistant City Auditor, spoke on behalf of the OCA. Ms. Rowland stated that the OCA reviewed Utilities' filing and supports it.

27. Ms. Thieme concluded her presentation by explaining the steps that will follow the rate hearing: City Council will be presented with a draft Decision and Order at the City Council Work Session on June 27, 2016, and will be asked to approve the final Decision and Order and resolution at the City Council Meeting on June 28, 2016.
28. 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 Council, and then Utilities would have a short break to formulate responses, if necessary.
29. No members of the public addressed the Council with questions or comments.
30. Following the opportunity for public comment, President Bennett opened the floor to questions from the City Council. No members of the Council presented any comments or questions.
31. President Bennett stated that, because no comments or questions were presented, no recess or executive session was necessary.
32. To conclude, Mr. Bidlack polled Council Members regarding the issues central to the Electric services.
33. The following is the proposed change and the votes by City Council addressing the Electric Tariff:
 - a) Utilities proposed a rate change to the Electric Service Rate Schedule, Industrial Service – Time-of-Day Service 1,000 kWh/Day Minimum (ETL) rate which will be the first step in bringing the rate class revenues to equal its costs to serve. Should the ETL schedule be revised as proposed?

The City Council held that the ETL schedule shall be revised as proposed.

34. President Bennett then concluded the 2016 ETL Electric 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 July 1, 2016. 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 28th day of June, 2016.

CITY OF COLORADO SPRINGS

Council President

ATTEST:

City Clerk