

BEFORE THE CITY COUNCIL OF
THE CITY OF COLORADO SPRINGS

IN THE MATTER OF THE REVISION)
OF THE UTILITIES RULES AND) DECISION & ORDER 17-04 (URR)
REGULATIONS OF 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”), conducted a review of its Utilities Rules and Regulations (“URR”). During that review, Utilities identified needed changes. Utilities’ rate case filing contains all of these revisions and changes.
2. Utilities proposes changes to the Electric and Water Rate Schedules, URR, and the Open Access Transmission Tariff (“OATT”) in the 2018 Rate Case filing.
3. The proposed effective dates for Utilities’ tariff changes are January 1, 2018, and January 1, 2019.
4. Utilities noted in its filing that although Wastewater rates are not addressed in the filing, previously approved Wastewater rates will go into effect on January 1, 2018. On November 8, 2016, City Council approved a two-year phase-in of certain Wastewater rates in the 2017 Rate Case Filing. The final phase of the Wastewater rate adjustments is effective January 1, 2018. As a result, rates for Residential Service will decrease by 0.8%, Nonresidential Service will increase by 1.8%, and Contract Services, Military and Outside City will increase by 5.5%.
5. Utilities’ URR is a part of the collective Tariffs that govern Utilities in accordance with the Colorado Springs City Code. The URR establishes terms and conditions for all Utilities Customers across all utility services and also provides service specific terms and conditions. Utilities is proposing the following URR changes in its filing:
6. Contributions in Aid of Construction – Electric Line Extension: This change will update the current contribution in aid of construction fee amounts collected through Electric Line Extensions and Services. The filing incorporates the rates associated with the final year of a three-year phase-in approved with the 2016 Rate Case. Two Electric Line Extension fee amounts will increase by \$1.04 and \$2.23 per linear foot to achieve full cost recovery for all Line Extension fees. (*Utilities Rules and Regulations Section I, Sheets 12 and 13*)
7. Infill and Redevelopment – Economic Development and Special Contracts: This change will expand Economic Development Special Contracts to include infill/redevelopment projects. The purpose is to promote infill and redevelopment activities by removing utility barriers; therefore, increasing the efficient use of inactive or underutilized infrastructure. Additional revenue will be generated from this change and provides an

opportunity to upgrade aged system infrastructure through private development investment. (*Utilities Rules and Regulations Section III, Sheet 32.1*)

8. Water Extension Policy – Recovery Agreement: This change allows a developer who installs an oversize main to recover on a standard size main after being reimbursed for the oversize portion. Currently, the tariff allows for either reimbursement or recovery, but not both. Utilities will reimburse the developer for the differential cost of an oversize main and then the developer can initiate a recovery agreement on the remaining standard size main. This change will create consistency in Utilities’ Cost Recovery program. (*Utilities Rules and Regulations Section 42, Sheet 118*)
9. Water Development Charge – Less than 1,500 square foot lot size: This change adds a Water Development Charge for lot sizes less than 1,500 square feet for both Inside City and Outside City Limits utilizing consistent calculation methodology. Currently, the tariff identifies the smallest Water Development Charge as lot sizes less than 3,000 square feet. The proposed Water Development Charge for lots less than 1,500 square feet for Inside City is \$5,887.00 or \$108 less than the current 3,000 square foot lot. The proposed Water Development Charge for lots less than 1,500 square feet for Outside City is \$8,830.00, or \$161 less than the current 3,000 square foot lot. (*Utilities Rules and Regulations Section 41, Sheet 108*)
10. In addition to the proposed URR revisions, Utilities proposes changes to the Electric and Water Tariffs and the OATT.
11. Utilities filed its Cost of Service (“COS”) study supporting the OATT and the Electric and Water services base rate and Tariff changes with the City Auditor, Mr. Denny Nester, and with the City Attorney, Ms. Wynetta Massey, on September 8, 2017. Utilities then filed the enterprise’s formal proposals on October 10, 2017, 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 October 10, 2017, in *The Gazette* on October 12, 2017, and mailed on October 13, 2017. 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.
12. The information provided to the City Council and held open for public inspection at the City Clerk’s Office was supplemented by Utilities on November 9, 2017. The supplemental material contained updated typical bill comparisons, corrections to typographical errors, copies of the publications of required legal notice, public outreach information, the City Auditor’s report, and the Statement Position of the Department of Defense.
13. 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 November 2017. A copy of that report is contained within the record.

14. On November 14, 2017, the City Council held a public hearing concerning the proposed changes to the Electric and Water Tariffs, the URR, and the OATT. 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.
15. President of the Council Richard Skorman commenced the rate hearing.
16. 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 service must be reasonable and appropriate in light of all circumstances, City Code § 12.1.107(F).
17. 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.
18. Mr. Bidlack then presented the hearing agenda, noting that the OATT presentation would precede the general rate case presentation. He then noted that Utilities' filing fulfilled proper procedural compliance requirements by (1) filing a preliminary COS study with the OCA on September 8, 2017, (2) requesting a public hearing date and filing the 2018 Rate Case with the City Clerk on October 10, 2017, (3) posting the filing to www.csu.org on October 10, 2017, (4) publishing notice on October 12, 2017, and (5) mailing required legal notices on October 13, 2017.
19. Mr. Nester, the Colorado Springs City Auditor then presented his report on the entirety of Utilities filing. Mr. Nester explained that his office reviewed Utilities' cost of service and concluded that it supports the proposed rate changes and was accurately and properly prepared. He noted that his report provided one observation for future improvement and that Utilities agreed to work on that issue.
20. Councilmember Tom Strand asked Mr. Nester for additional information on his observation. Mr. Nester explained that in reviewing historical information, projected amounts have not matched actual funds received by Utilities. Mr. Nester clarified that his observation represents an opportunity for improvement, not a finding.

21. Ms. Sonya Thieme, Utilities' Rates Manager, provided the enterprise's proposals.
22. Ms. Thieme first gave Utilities presentation on the OATT. She explained that the OATT sets forth terms and conditions for wholesale high voltage electric transmission service and was adopted in 2000, and updated in 2005 and 2009. The proposed changes in the 2018 Rate Case Filing: (1) Modernize terms and conditions provisions; and (2) Update the Annual Transmission Revenue Requirement ("ATRR") based on Utilities' 2018 Electric COS. The primary driver of the filing is the Mountain West Transmission Group study and possible future participation in a Regional Transmission Organization.
23. She explained Utilities' recommendation to phase the ATRR increase over two years is due to the *de minimus* impact such a phase in would have on Utilities' base customers.
24. To conclude the OATT presentation, Ms. Thieme highlighted City Council's regulatory authority and noted that City Council may determine whether to follow Utilities' recommendation of a two-year phase in.
25. Following the OATT presentation, President Skorman opened public comment regarding the proposed OATT changes.
26. Mr. Curtis Mitchell, the Utilities Director for the City of Fountain spoke. Mr. Mitchell noted that the City of Fountain is the largest OATT customer and that it supports the proposed changes to the OATT. Mr. Mitchell also noted his appreciation for Utilities' staff's inclusion of Fountain in OATT discussions.
27. President Skorman then opened City Council comments and discussion.
28. Councilmember Don Knight commented that Utilities and City Council received a statement from the Department of Defense. The statement indicated that the Department of Defense has several concerns regarding Utilities' selected methodologies, but that the solution is to work with Utilities in future years to address the concerns. Utilities told the Department of Defense it will continue to work with them.
29. Following the conclusion of City Council comments, Mr. Bidlack presented the issues for decision related to the OATT. City Council directed that the terms and conditions be approved as proposed and that the ATRR be phased in over two years.
30. Ms. Thieme then presented Utilities' Rate Case presentation. She started by providing an overview of the 2018 Rate Case. She noted that the 2018 Rate Case filing includes proposed changes to the (1) Electric Rate Schedules, (2) Water Rate Schedules, and (3) URR. Additionally, the COS is prepared following industry standards and practices and rates are designed in compliance with Rate Design Guidelines.
31. Ms. Thieme first noted the proposed changes to the URR. Those proposed changes are as follows:

- a) Contributions in Aid of Construction - Electric Line Extensions and Services: This change is the final year of a three year phase-in plan approved with the 2015 Rate Case to increase all Line Extension fees to full Colorado Springs Utilities costs. The changes are two Electric fee increases at \$1.04 and \$2.23 per linear foot to achieve full cost fees for all line extensions and services effective January 1, 2018. (*Utilities Rules and Regulations Section I, Sheet 12 and 13*)
 - b) Infill and Redevelopment - Economic Development and Special Contracts: This change expands Economic Development Special Contract use to include infill/redevelopment projects by adding infill/redevelopment to the list of justifications for entering a contract under this provision. This supports increased revenue from available assets by removing utility barriers for infill and redevelopment projects. The Economic Development process will be updated to include return on investment analysis for infill/redevelopment projects. (*Utilities Rules and Regulations Section III, Sheet 32.1*)
 - c) Recovery Agreement-Water Extension Policy: This change allows a developer who installs an oversize main to recover on a standard size main after developer is reimbursed for the oversize portion. The existing tariff language allows for either reimbursement or recovery, but not both. The proposed change clarifies that Colorado Springs Utilities will reimburse the developer for differential cost of an oversize main. The developer can then initiate a recovery agreement on the remaining standard size main. (*Utilities Rules and Regulations Section 42, Sheet 118*)
 - d) Water Development Charges – Lot size less than 1,500 square feet: This change adds a water development charge for Inside City and Outside City Limits for lot sizes less than 1,500 square feet for new connections to Utilities’ supply system. (*Utilities Rules and Regulations Section 41, Sheet 108*)
32. Next, Ms. Thieme provided a summary of the Electric Service changes. The revenue requirement reflects the implementation of Phase 3 of a three 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 \$329.9 million. This is \$7.8 million higher than the 2017 Electric revenue requirement, with an overall system increase of 2.4% compared to current rates. This increase moves the electric revenue requirement back to the approximate 2016 revenue requirement. This phased approach is primarily due to the previously anticipated revenue shortfall from the Industrial Service - Time of Day 1,000kWh/Day Minimum (ETL) class.
33. Ms. Thieme then summarized the rate impacts to the different customer types. The proposed rates include a 1.8% increase for Residential and Small Commercial rate classes and a 7.1% increase for Large Commercial customers. The Industrial Rate Classes rate increases range from 0.0% to 12.5%, as follows: (1) No required increase for Industrial TOU 500 KW Minimum (E8T) or Industrial TOU 1,000 kWh/Day Minimum (ETL); (2) 3.0% Large Power and Light (ELG); (3) 12.5% Industrial TOU 4,000 kW Minimum

(E8S); and (4) 12.5% Industrial Transmission Voltage TOD (ETX). There is also a proposed 5.0% increase for Contract Services – DOD.

34. The presentation then specifically noted the optional rate option, Commercial Time-of-Day (ETC). Optional Time-of-Day rates provides a price signal to help reduce system peak demand and provide customers: the opportunity to adjust usage patterns to align with off-peak periods and the potential to realize savings over the standard rates. The ETC rate does not currently reflect the appropriate price signal. The proposed ETC rate addresses the price signal by increasing the rate by 18%, which represents a \$279,353 increase in revenue.
35. Ms. Thieme concluded her presentation on Electric service changes by noting the additional proposed Electric tariff changes: (1) the Enhanced Power Service Reserved Capacity Charge (“RCC”) was evaluated and the filing proposes to reduce the RCC from \$0.0499 to \$0.0265 per kW per day based on a revised methodology to the RCC pricing; (2) the Community Solar Garden (CSG) Pilot Program Bill Credit is updated to reflect the proposed Electric service rate increases; and (3) the CSG Non-Pilot Bill Credit is updated based on the proposed Electric service rate increases.
36. Ms. Thieme then addressed the proposed changes to the Water tariff.
37. Councilmember Knight noted his appreciation that the start of the Water tariff presentation started with a picture of the late Gary Bostrom. His appreciation was roundly echoed.
38. The proposed total water revenue is \$191.7 million, which is \$7.7 million higher than revenue under current rates. The overall system increase is 4.2% higher than current rates. The increase breaks down as a 3.0% increase for Residential, 5.3% increase for Nonresidential, 7.0% increase for Contract Services – DOD, and 12.1% increase for Nonpotable customers. The Large Nonseasonal rate class is not impacted by the proposed filing, but is subject to a 3.5% increase effective January 1, 2018, that was approved on November 8, 2016.
39. The proposed water rate increases are driven by (1) operating and maintenance increases (a) to assess and repair critical infrastructure in support of long-term asset management goals, (b) for planning and investment in supply, delivery, and treatment to ensure continued compliance of drinking water regulations, and (c) for allocated costs for technology upgrades; and (2) debt service related to water capital projects and financial metrics to maintain “AA” Credit Rating.
40. The proposed water rate increases are consistent with the Rate Design Guidelines. All rate classes are within +/- 10% of COS, with the exception of Nonpotable service which will be at 84.5% of the proposed revenue as a percentage of COS as part three of a five year phase in. Additionally, the proposed increase for Residential Water Service is limited to Block 1. The proposed Block 1 increase is from \$0.0349 to \$0.0381 for the first 999 cubic feet. This price increase results in the Block 1 price being approximately

22% below the Average Commodity Cost of \$.0488 per cubic foot. This approach stabilizes revenue as approximately 70% of unit sales are estimated in Block 1. This also increases total water bill in proportion to use and provides customer control.

41. Ms. Thieme concluded her review of proposed changes to the service tariffs by addressing Wastewater. While there are no proposed Wastewater changes in Utilities' filing, Wastewater rate changes were approved by City Council in 2016 and will be effective on January 1, 2018. The changes include a 0.8% decrease for Residential service, a 1.8% increase for Nonresidential service, and a 5.5% increase for Contract Services – Military and Outside the City service.
42. Ms. Thieme then provided a summary of the overall impact of the proposed rate changes (and the previously approved Wastewater changes) to a four service utility bill. The typical Residential customer will see a 1.9% or \$4.21 increase to their bill. The typical Commercial customer will see a 2.7% or \$39.57 increase to their bill. And, the typical Industrial customer will see a 0.54% or \$194.89 increase to their bill.
43. Next, Ms. Thieme addressed the customer outreach Utilities performed in relation to the 2018 Rate Case filing. The customer outreach was carried out throughout October and November 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.
44. Ms. Thieme concluded by addressing the statement provided by the Department of Defense and the discussions Utilities held with the Department of Defense. Ms. Thieme concurred with the characterization of the statement provided by Councilmember Knight previously. She also noted the strong working relationship between Utilities and the Department of Defense.
45. After Utilities' presentation, President Skorman opened the floor for public comment. President Skorman 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.
46. No customers made comments on Utilities' proposed changes.
47. Following the opportunity for public comment, President Skorman opened the floor to questions from the City Council.
48. Councilmember David Geislinger provided the first comment. He explained that he does not have any concerns regarding the proposed rates, but asked Utilities' CEO, Mr. Jerry Forte, to address and facilitate a discussion on the customer concerns regarding high water bills in August 2017 in the northeast portion of Colorado Springs.

49. Councilmember Strand spoke next and emphasized that the apparent ease of the rate proceedings should not discount the extensive work that was done by Utilities' staff on the 2018 Rate Case. He expressed his appreciation for Utilities' staff and noted the difficult work that goes into capturing the cost to provide utility service to the varying customers that Utilities serves.
50. Next to speak was Councilmember Andy Pico. He echoed Councilmember Strand's comments and emphasized that the Utilities Board Finance Committee spent significant time working with Utilities' staff to vet all of the proposed rates and changes.
51. Councilmember Knight concluded Council comments. He expressed similar appreciation for Utilities' Staff and noted the diligent work of the current and former Finance Committee members. Councilmember Knight explained to the public that the proposed changes were not being approved without careful review, because the changes were reviewed, discussed, and modified over more than a year.
52. At the conclusion of the City Council discussion, President Skorman determined that neither a break to formulate responses to questions nor an executive session were needed.
53. Mr. Bidlack then polled Council Members regarding the issues central to the Electric and Water Tariffs and the URR.
54. The following are the proposed changes and the votes by City Council addressing the URR:

- a) Should Utilities update the current contribution in aid of construction fee amounts collected through Electric Line Extensions and Services to complete a three-year phase-in?

The City Council held that Utilities shall update the current contribution in aid of construction fee amounts collected through Electric Line Extensions and Services to complete a three-year phase-in.

- b) Should Utilities expand the scope of Economic Development Special Contracts to include infill/redevelopment projects?

The City Council held that Utilities shall expand the scope of Economic Development Special Contracts to include infill/redevelopment projects.

- c) Should Utilities change language within the water extension policy for recovery agreements to clarify the practice and create consistency?

The City Council held that Utilities shall change language within the water extension policy for recovery agreements to clarify the practice and create consistency

- d) Should Utilities add a Water Development Charge for lot sizes less than 1,500 square feet for both Inside City and Outside City Limits utilizing a consistent calculation methodology?

The City Council held that Utilities shall add a Water Development Charge for lot sizes less than 1,500 square feet for both Inside City and Outside City Limits utilizing a consistent calculation methodology.

55. President Skorman then concluded the 2018 Rate Case Hearing.

ORDER

THEREFORE, IT IS HEREBY ORDERED that:

The URR sheets as attached to the Resolution are adopted and will be effective on and after January 1, 2018. 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 November, 2017.

CITY OF COLORADO SPRINGS

Council President

ATTEST:

City Clerk