

BEFORE THE CITY COUNCIL OF  
THE CITY OF COLORADO SPRINGS

IN THE MATTER OF THE REVISION        )  
OF THE WATER TARIFF OF                )        DECISION & ORDER 22-04 (W)  
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 water utility service within the City and for those areas approved by the City Council on a long-term, contractual basis.
2. Utilities’ 2023 Rate Case filing includes proposed Cost of Service (“COS”) driven rate changes for Water and Wastewater services and proposes changes to the Electric, Natural Gas, Water, and Wastewater Rate Schedules, Utilities Rules and Regulations (“URR”) and Utilities’ Open Access Transmission Tariff (“OATT”).
3. Utilities operates an extensive network of Supply, Treatment, Transmission, and Distribution facilities to maintain a dependable water supply for the largest city in Colorado not located on a major water source.
4. Utilities conducted a COS study based on a revenue requirement from the proposed 2023 Budget. The COS analysis indicates for Utilities to recover the proposed revenue requirement it is necessary to increase rates. The primary rate drivers are (1) inflationary increases in labor, benefits, and system maintenance, and (2) funding infrastructure investments, including Advanced Metering Infrastructure, the Airport Highline Project, and Water Debt Additions.
5. The proposed rate increase will result in total revenue of \$219.8 million, which is \$10.4 million or 5.0% higher than the projected revenues under current rates.
6. Utilities’ COS study following generally accepted ratemaking practices and proposes rates designed in compliance with all governing policies. Full detail of rate changes can be found in Schedule 3 of the COS with additional information found in the Rate Manual in the Appendix of Utilities’ filing. The Nonpotable rate class has been removed as a separate rate class in the COS and the Residential class is finalizing a phased-in approach to flatten the prices of the block structure.
7. Utilities filing explained changes to the specific Water services as follows:
  - a) **Residential Service** – (*Water Rate Schedules Sheet No. 2*) – This service is available for general residential purposes. Proposed rates were designed balancing the objectives of water conservation, affordability, and revenue stability. Proposed changes include adjustments to the Service Charge and a final phase to flatten the price differentials between the inclining block Commodity Charge rates that began

with the approved 2018 Rate Case. This rate design strategy is estimated to produce more stable revenue while maintaining the customer's ability to influence their bill and encourage wise water use to support a healthy, living landscape. The targeted rates to meet this goal include recovering approximately 36% of the cost to serve the residential class from the Service Charge and 64% of the cost from the three blocks of Commodity Charges. To keep Block One affordably priced, the proposed Commodity Charge is set at approximately 90% of the average cost per cubic foot (cf). Encouraging water conservation, Block Two price increases 25% from the Block One price and Block Three price increases 50% from the Block Two price.

- b) **Nonresidential Service** – (*Water Rate Schedules Sheet No. 2.1*) – This service is available for master meter and general nonresidential purposes. Proposed changes include adjustments to the Service Charge and both the Winter and Summer Commodity Charges. Proposed Commodity Charges maintain a 1.25 Summer to Winter differential.
- c) **Large Nonseasonal Service** – (*Water Rate Schedules Sheet No. 2.2*) – This service is available to nonresidential customers with annual consumption of at least four million cf and a maximum summer month (May – October) cf consumption of no greater than 1.3 times the monthly average use across the prior 12-month period. Proposed changes include adjustments to the Service Charge and Commodity Charge. Additionally, Utilities' filing proposes modifications to standardize the contract expiration (December 31st) and renewal (January 1st) dates to improve contract administration efficiency.
- d) **Contract Service – Military** – (*Water Rate Schedules Sheet No. 2.2*) – This service is available by contract in Utilities' water service territory to the United States of America at the Fort Carson Military Installation, the Peterson Air Force Base, the United States Air Force Academy, and Cheyenne Mountain Air Force Station. Proposed changes include adjustments to the Summer and Winter Commodity Charges. Utilities' filing continues a phased-in approach to bring the rate within an appropriate range of the COS study. With the proposed increase, this service is outside the plus or minus 5% of COS study requirement per Rate Design (G-5) Guideline, 2. A. defined in the Governance Policy Manual.
- e) **Contract Service – Regional** – (*Water Rate Schedules Sheet Nos. 2.2 and 7.1*) – Contract Service – Regional is available to Regional Customers outside the corporate limits of the City in areas where Utilities' water supply system is available for use to serve institutions, plants, organized water districts, municipal corporations, or other similar organizations and only with prior approval by City Council. This service has both the option of Full Service or Convey, Treat, and Deliver ("CTD"). Both options' rates are based on average system costs - excluding certain costs where appropriate. The filing increases the Full Service and CTD Commodity Charges. A new Standby (interruptible as needed) service is proposed for Regional Customers. This service will be available to help meet the needs of a Regional Customer, on a temporary basis, when the normal operations

of the Regional Customer are disrupted. Regional Customers using this service will pay the Full Service Commodity Charge or the CTD Commodity Charge as appropriate. This service will only be available upon approval by the City Council.

- f) **Nonpotable – Miscellaneous Service** – (*Water Rate Schedules Sheet No. 2.2*) – A new pricing methodology is being proposed for the Nonpotable rate class. The current methodology calculates the nonpotable rate based on direct costs of operating and maintaining the nonpotable system. Given the nonpotable system’s mostly fixed costs, large price swings can occur when a large nonpotable customer(s) connects or leaves the system. To avoid potential large nonpotable rate volatility, Utilities is proposing a different pricing methodology. Since the nonpotable system is primarily a distribution system, the new methodology would be based on the entire water system’s distribution costs divided by the total system sales to arrive at the average system distribution cost per unit. This rate would be added to a portion of Surplus Payments to the City and the Augmentation rate, which is the replacement cost of water. This methodology is cost of service based and will produce a more stable rate over time. The new methodology necessitates removing the Nonpotable Rate Class from the COS. All direct nonpotable costs and revenues will be shared among the other rate classes. The new rate calculation results in a 27.8% rate increase to the Nonpotable rate. A multi-year phased-in approach would be employed to reach full cost of service. The proposed increase in this filing is 7.5%.
  - g) **Nonpotable – Contract Service** – (*Water Rate Schedules Sheet No. 2.2*) – Utilities’ filing proposes an increase to the Commodity Charge.
  - h) **Miscellaneous – Augmentation** – (*Water Rate Schedules No. 2.3*) – Augmentation service pricing is based on the replacement cost of water, utilizing Utilities’ lowest cost supplementary water long-term contract at \$500 per acre foot, or \$0.0115 per cf. Utilities continues a multi-year phased-in approach to bring this rate to full cost. Utilities’ filing increases the Augmentation Commodity Charge.
  - i) **Temporary Service – Hydrant Use** – (*Water Rate Schedules Sheet No. 2.3*) – Utilities’ filing increases the commodity charge.
- 8. In addition to the proposed Water Tariff revisions, Utilities’ 2023 Rate Case filing also proposes changes to the Electric, Natural Gas, and Wastewater Rate Schedules and the URR and OATT.
  - 9. The proposed effective date for Utilities’ tariff changes is January 1, 2023, except where otherwise noted in Utilities’ filing as June 1, 2023, and October 1, 2023.
  - 10. Utilities filed its tariff changes with the City Auditor, Mrs. Jacqueline Rowland, and with the City Attorney, Ms. Wynetta Massey, on August 12, 2022. Utilities then filed the enterprise’s formal proposals on September 13, 2022, 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, 2022, and in *The Gazette* on September 14, 2022. These various notices and filings comply with the requirements of §12.1.108 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.

11. The information provided to City Council and held open for public inspection at the City Clerk's Office was supplemented by Utilities on October 18, 2022. The supplemental materials contained:
  - a) Updates to electric rate schedules based on the Electric Cost Adjustment ("ECA") rates effective October 1, 2022;
  - b) The Office of the City Auditor's audit report;
  - c) The legal notice affidavit of publication; and
  - d) Public outreach information.
12. The City Auditor issued her findings on the proposed tariff changes prior to the rate hearing, dated October 2022, which found no need for formal recommendations and that Utilities' filing was prepared accurately. A copy of that report is contained within the record.
13. On October 25, 2022, the City Council held a public hearing concerning the proposed changes to the Natural Gas, Electric, Water, and Wastewater Rate Schedules, URRs, and OATT. This hearing was conducted in accordance with §12.1.108 of the City Code, the procedural rules adopted by City Council, and the applicable provisions of state law.
14. City Council President Tom Strand commenced the rate hearing.
15. The presentations started with Mr. Christopher Bidlack, a Senior Attorney with the City Attorney's Office – Utilities Division. Mr. Bidlack first presented the rate hearing agenda.
16. Mr. Bidlack then briefed City Council on its power to establish rates, charges, and regulations for Utilities' services. In setting rates, charges, and regulations for Utilities' services, 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 analogous to a quasi-judicial proceeding 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 Water and Wastewater service must be reasonable and appropriate in light of all circumstances, City Code §12.1.108(F). Rates for Natural Gas and Electric

service must be just, reasonable, sufficient, and not unduly discriminatory, City Code §12.1.108(E).

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 that no *ex parte* communications were received
18. Mr. Tristan Gearhart, Utilities' Chief Planning and Finance Officer, provided the enterprise's proposals.
19. Mr. Gearhart started by providing a summary of Utilities' procedural compliance with rate case standards and then moved to the 2023 Rate Case Overview, noting proposed changes to the Electric, Natural Gas, Water, and Wastewater Rate Schedules, the URR, and the OATT.
20. Mr. Gearhart's first topic of presentation was Water Service. He explained Utilities' need for a water rate increase. The water rate drivers are (1) inflationary increases in labor, benefits, and system maintenance and (2) funding infrastructure investments, including the Advanced Metering Infrastructure ("AMI") and Airport Highline projects and water debt additions.
21. Councilmember Nancy Henjum asked for clarification about what constitutes the referenced water debt additions, specifically whether it is solely for continued water rights acquisitions. Mr. Gearhart explained that the water debt listed as a rate driver includes both prior acquired debt and new debt associated with additional acquisitions.
22. President Strand then asked for clarification about the time frame of the rate drivers. Mr. Gearhart noted that the rate drivers associated with Utilities' filing are based on the 2023 budget and the need to cover those associated costs.
23. Next, Mr. Gearhart noted that the total water proposed revenue from rates is \$219.8 million for 2023, which is \$10.4 million higher than revenue under current rates. These factors result in an overall water system rate increase of 5.0%. He also explained that the residential rates are designed in compliance with the Rate Design Guidelines in support of water conservation, affordability, and revenue stability; and explained the impact of the proposed rates on each residential rate block.
24. Following Mr. Gearhart's comments in relation to Utilities' residential water block structure, several councilmembers provided comments and questions.
25. Councilmember Mike O'Malley commented that he received comments from several rate payers expressing concern about tiered water pricing and the impact that it has on families. Mr. Gearhart responded that it is impossible to comment on the impact to a specific customer without knowing their specific utility usage, but that the block rate structure has reduced water use over many years, as it was designed to do. Councilmember O'Malley stated that the block water rate structure should be revisited.

26. Councilmember Randy Helms expressed concern about the current sizes of the tiered water rate blocks and the potential for a customer to move into Block Two too easily. He also asked for historical information on the block structure. Mr. Gearhart noted that Utilities' transition to AMI will provide additional data that may help guide future revisions.
27. Mr. Scott Shirola, Utilities' Manager of Pricing and Rates, provided additional background information on Utilities' water rate block structure. Prior to 2007, there was a brief period of interim block rate structure during summer months, with a flat water rate structure in the winter months. Prior to that period, all water usage was billed at a flat rate. Additionally, in 2017 a study determined that 92% of residential customers stay within Block One for their domestic use, with the average residential indoor use being around 500 cf per month.
28. Councilmember Henjum expressed her opinion that Utilities' block water rate structure should be celebrated as a success given the dramatic improvement in water conservation since its implementation, particularly when paired with the City's increased population.
29. Councilmember Dave Donelson noted his personal experience with the block water rate structure and how it has encouraged him to monitor his use and conservation methods.
30. President Strand then asked for clarification regarding the price differentials between the water rate blocks and why the rates for Blocks Two and Three are presented as in relation to Blocks One and Two, as opposed to the cost of providing water service. Mr. Shirola noted that each rate block is designed to drive conservation and ensure that the full revenue requirement of water service is recovered.
31. Councilmember Wayne Williams commented that there are multiple ways to look at the pricing allocations within the block water rate structure and that while it may be beneficial to reevaluate the size of the blocks, such a change would be appropriate following a full evaluation in a future rate case.
32. The proposed water rate changes for individual classes are: (1) Residential Service 5.1%, (2) Nonresidential Service 4.4%, (3) Large Nonseasonal Services 5.9%, and (4) Contract Service – Military 7.6%. Additionally, water rate changes include: (1) Contract Service – Regional – Full Service 9.5%, (2) Contract Service – Regional – Convey, Treat and Deliver 12.5%, (3) Nonpotable – Miscellaneous Service 7.5%, (4) Nonpotable – Contract Service 7.5%, (5) Augmentation 4.8%, and (6) Temporary Service – Hydrant Use 4.4%.
33. President Strand then asked for clarification on the definition of “nonresidential.” Mr. Gearhart noted that nonresidential water customers are those that do not have a residential purpose and include industrial and commercial customers.
34. Councilmember Henjum asked why the percentage increase to the Contract Service – Regional – Convey, Treat and Deliver rate is higher than the percentage increase to the Contract Service – Regional – Full Service, given the importance of water. Mr. Gearhart noted the differences between the two rates and that the proposed increases are the changes

to the cost of the rates, not the rates overall. Mr. Shirola added that the cost of service looks at the different components of Utilities' water system and that the base rates primarily deal with infrastructure. Because the different services have different cost components subject to different inflation impacts, the rates may not move in parallel.

35. President Strand then asked for additional information on the Temporary Service – Hydrant Use rate and the impact to fire suppression activities. Mr. Gearhart explained the use of the rate for temporary construction use, and Mr. Shirola added that the Colorado Springs Fire Department is not charged for water used in fire suppression.
36. Mr. Gearhart next presented the enterprise's proposed changes to Wastewater Service. He explained the rate drivers for the proposed wastewater rate increase are (1) inflationary increases in labor, benefits, and system maintenance and (2) funding infrastructure investments, including the Clear Spring Ranch Biogas and the North Monument Creek Interceptor projects. Utilities' proposed changes reflect a total wastewater proposed revenue from rates of \$73.6 million for 2023, which is \$2.8 million more than revenue under current rates. The overall proposed wastewater system rate increase is 4.0%.
37. The proposed wastewater rate changes for individual classes are: (1) Residential Service 2.3%, (2) Nonresidential Service 9.9%, (3) Contract Service – Military 10.2%, (4) Liquid Waste Hauler 0.0%, and (5) Contract Service – Regional 7.7%.
38. To close the portion of his presentation addressing base rate adjustments, Mr. Gearhart provided a sample, total service bill. The overall impact of the proposed water and wastewater rate changes to the sample bill are: (1) Residential 2.1%, (2) Commercial 0.9%, and (3) Industrial 0.5%. The presentation also noted that nationwide inflation has risen significantly more than the proposed changes over the period of time since the last changes to the water and wastewater rates that went into effect on January 1, 2020.
39. President Strand then confirmed that the proposed water and wastewater rate changes are effective January 1, 2023.
40. Councilmember Henjum commented that while Utilities' budget is increasing significantly, much of that is for the cost of natural gas; and that customers' utility bills are not increasing because of the budget change.
41. Councilmember Donelson commented to highlight that the proposed water and wastewater rate increases compare very favorably to price increases of many forms around the country.
42. Next, Mr. Gearhart provided a summary of the proposed, non-base rate changes to the Electric Service:
  - a) Residential Service Time of Day ("TOD") Option – Modification to on-peak and off-peak period definitions, with the On-Peak Period being 4:00pm – 8:00pm Monday through Friday; modification to seasonal definitions with the Summer

Period being June through September; and adjustment to On-Peak and Off-Peak Access and Facilities Charges.

- b) Commercial Service – General TOD Option – Adjustment to On-Peak and Off-Peak Access and Facilities Charges.
  - c) Green Power Service – Increase program availability from 7,000,000 kWh per month to 12,000,000 kWh per month and modify pricing to reflect firm nature of service and transfer of Renewable Energy Credit (“REC”).
  - d) Industrial Service – Interruptible – Addition of a new interruptible rate schedule, which is available to customers whose maximum demand exceeds 500 kW. These customers are subject to Utilities’ direct load control without notice and provided an interruptible credit based on Utilities’ avoided capacity cost.
  - e) Electric Vehicle Public Charging – TOD – Addition of a new electric vehicle public charging rate schedule providing On-Peak and Off-Peak TOD pricing for two levels of service: Level II and Direct Current Fast Charging. The rate includes time of use elements and idle fees starting 15 minutes after charge is complete.
43. During Mr. Gearhart’s presentation, President Strand asked how many electric vehicle chargers Utilities operates and Mr. Gearhart answered six chargers across four charging stations.
44. Mr. Gearhart concluded the portion of his presentation on tariff changes by noting the remaining non-rate based changes proposed in Utilities’ filing, including changes to the Electric, Natural Gas, and Water Rate Schedules, as well as, the URR and the OATT:
- a) Administrative Changes in Electric, Natural Gas, Water, and Wastewater Rate Schedules – Modifications to standardize contract expiration and renewal dates as well as other administrative corrections.
  - b) Electric Rate Schedules – Additional changes include removal of the reference to the ELG supply credit in the Industrial Service – Large Power and Light (“ELG”), and broadening the availability of the Community Solar Garden Bill Credit Pilot Program (currently limited to residential customers and educational institutions) to include non-profit organizations.
  - c) Natural Gas Rate Schedules – Changes to the Natural Gas Rate Schedule are (1) modifications to the Industrial Service – Interruptible rate with the addition of provisions allowing waiver of overrun charges; removal of exemption from backup fuel supply for warm weather process loads; and lengthening customer termination notice from 30 to 60 days; and (2) the addition of provisions allowing waiver of overrun charges to the Contract Service – Military Interruptible rate.
  - d) Water Rate Schedules – A change to the Contract Service – Regional with the addition of Standby Service for customers requiring temporary service.
  - e) Utilities Rules and Regulations – The changes to the URR are (1) the addition of account access provisions allowing Utilities to accept information release authorizations from customers provided in forms used by authorized assistance agencies; (2) the modification within the Water and Wastewater Oversize Recovery provisions of capacity determinations and elimination of the Large Main Extension



Fund 25% upfront requirement; and (3) addition of a Standby Service Water Regional System Availability Fee.

- f) Open Access Transmission Tariff – Changes eliminate certain terms and conditions associated with the crediting-related provisions related to network upgrades within the Standard Large Generator Interconnection Procedures Standard Large Generator Interconnection Agreement.
45. Next, Mr. Gearhart addressed the customer outreach Utilities performed in relation to the 2023 Rate Case filing. The customer outreach included electronic communications, social media channel communications, newsletter information about the proposal and hearing dates, required public notice, and meetings with commercial and industrial customers. He 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, (3) payment plans through Utilities’ Budget Billing program, and (4) efficiency rebates.
  46. Mrs. Rowland noted that the Office of the City Auditor reviewed Utilities’ filing and found no issues with it. City Council did not have any questions for Mrs. Rowland.
  47. After Utilities’ presentation, President Strand opened the floor for public comment. One member of the public spoke. Mr. Jaymen Johnson complemented Utilities’ filing and expressed his support for the proposals. He also asked for the location of Utilities’ electric vehicle charging stations and the proposed rates associated with them. Mr. Gearhart summarized the electric vehicle charging station rates included in Utilities’ filing and noted that the stations are located at Utilities’ Mesa Conservation Center, Utilities’ Leon Young Service Center, and the City Administration Building Parking Garage.
  48. Following the opportunity for public comment, President Strand opened the floor to questions or comments from City Council; however, there were no additional comments or questions.
  49. Based on the lack of questions or comments, President Strand determined that neither a break nor executive session were necessary.
  50. Mr. Bidlack provided clarity on the procedural process for the hearing and explained that no motion was needed at the hearing as formal action on the resolutions related to Utilities’ proposed changes will be taken by City Council at the November 8, 2022, City Council meeting.
  51. Mr. Bidlack then polled City Council regarding the issues central to the Natural Gas, Electric, Water, and Wastewater Rate Schedules, the URR and the OATT. Per City Council’s request, Mr. Bidlack did not present every Issue for Decision, but instead asked that City Council indicate approval of Utilities’ proposals as a whole, while noting any exceptions. City Council indicated approval and did not note any exceptions.

52. Mr. Bidlack then restated the future schedule for Utilities' rate filing, with the draft Decisions and Orders being presented to City Council for review on November 7, 2022, and for final approval on November 8, 2022.

53. The following are the proposed changes and the votes by City Council addressing the Water Tariff:

- a) Is an increase to the Water Service revenues of approximately \$10.4 million appropriate for the 2023 rate case test-year period?

The City Council held that an increase to the Water Service revenues of approximately \$10.4 million is appropriate for the 2023 rate case test-year period.

- b) Should rates and tariffs for the following Water Service Rate Schedules be revised as proposed:

- i. Residential Service
- ii. Nonresidential Service
- iii. Large Nonseasonal Service
- iv. Contract Service – Military
- v. Contract Service – Regional
- vi. Nonpotable
- vii. Augmentation
- viii. Temporary Service – Hydrant Use

The City Council held that the rates and tariff for the following Water Service Rate Schedules shall be revised as proposed: 1) Residential Service; 2) Nonresidential Service; 3) Large Nonseasonal Service; 4) Contract Service – Military; 5) Contract Service – Regional; 6) Nonpotable; 7) Augmentation Service; and 8) Temporary Service – Hydrant Use.

- c) Should Utilities modify Large Nonseasonal Service to standardize optional rate contract expiration and renewal dates?

The City Council held that Utilities shall modify Large Nonseasonal Service to standardize optional rate contract expiration and renewal dates.

- d) Should Utilities add Contract Service – Regional, Standby Service as proposed?

The City Council held that Utilities shall add Contract Service – Regional, Standby Service as proposed.

54. President Strand then concluded the 2023 Rate Case Hearing.

**ORDER**

THEREFORE, IT IS HEREBY ORDERED that:

The Water Tariff sheets as attached to the Resolution are adopted and will be effective on and after January 1, 2023. Such tariff sheets shall be published and held open for public review and shall remain effective until changed by subsequent Resolution duly adopted by City Council.

Dated this 8<sup>th</sup> day of November, 2022.

CITY OF COLORADO SPRINGS

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Council President

ATTEST:

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City Clerk