

BEFORE THE CITY COUNCIL OF
THE CITY OF COLORADO SPRINGS

IN THE MATTER OF THE REVISION)
OF THE NATURAL GAS TARIFF OF) DECISION & ORDER 15-02 (NG)
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 natural gas 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, Natural Gas, and Water Rate Schedules and Utilities Rules and Regulations (“URR”) in the 2016 Rate Case Filing.
3. The proposed effective date for the rate increase and all proposed changes is January 1, 2016, with the exception of the proposed change to the Electric Service Kilowatcher rate options and Natural Gas G4T Service, which have an effective date of April 1, 2016.
4. Utilities engages in the purchase, transportation, storage, and distribution of natural gas. These activities incur fuel related (purchases, transportation, and storage) and non-fuel related (distribution) expenditures. Fuel related expenditures are currently recovered through Gas Cost Charges and the Gas Cost Adjustment (GCA). Non-fuel related expenditures are recovered through Access and Facilities Charges. The filing proposes changes to fuel related rates. Non-fuel Access and Facilities rates are unchanged in the filing.
5. Utilities has completed a thorough review of its natural gas fuel related rates and rate structure. With the objectives of maximizing transparency and aligning rates with cost causation and usage, Utilities proposes the following changes in the filing:
 - a) Consolidation of Gas Cost Charges with the current GCA to establish one rate for fuel cost recovery;
 - b) Creation of a Gas Capacity Charge to recover transportation and storage related expenditures in a manner that better aligns capacity costs with usage characteristics; and
 - c) Reduction of the GCA to reflect current market conditions and manage collected balances during the remainder of the heating season.

If approved by City Council, these fuel related changes would represent a 5.2% decrease in the typical monthly Residential customer natural gas bill.

6. Utilities currently recovers fuel related costs through a two-part rate structure consisting of Gas Cost Charges and the GCA. The summation of these two rates represents a customer’s total effective fuel costs. Fuel related costs are the largest single variable

expenses for Utilities, and are driven by fluctuation in market prices. Although Gas Cost Charges have not been modified since 2008, City Council has periodically approved changes to the GCA to match market costs with the two rates combined.

7. The GCA regulatory procedure allows Utilities to request adjustments when actual sales and costs differ from the forecasted volumes and market price. In order to exercise the option to file a proposed GCA rate adjustment with City Council as often as monthly, as conditions warrant, Utilities closely monitors: (1) Actual revenue from Gas Cost Charges and GCA rates; (2) Actual fuel related costs; (3) Forecast sales and revenues; and (4) Forecast fuel related costs.
8. Balancing customer bill volatility with timely response to fluctuation in market price and consumption supports: (1) Providing a price signal to customers based on the true cost of natural gas; (2) Accurately reflecting customers' energy consumption volume and associated costs; (3) Effectively managing over- and under-collection balances; and (4) Utilities' financial stability.
9. The cost adjustment rate structure is standard in the industry and designed as a direct flow-through to recover fuel related costs. The filing consolidates the recovery of fuel related costs from the two-part rate structure discussed above to a single fuel related GCA rate. The objectives of the proposed change are: (1) Increase transparency of fuel cost recovery; (2) Eliminate confusion related to negative GCA rates; (3) Simplify communication and comprehension; and (4) Maintain a neutral bill impact.
10. Fuel rate consolidation adds the current Gas Cost Charge to the GCA rate to derive the consolidated GCA rate. The Gas Cost Charge has been removed from all applicable rate schedules. This change has no financial impact on the current customer bill.
11. Transportation and storage costs are currently recovered with other fuel related costs. Transportation and storage costs are largely comprised of fixed capacity charges in order to ensure firm delivery of natural gas to Utilities. These capacity costs are influenced less by market conditions than natural gas purchases. Currently, Utilities treats both of these distinct upstream functions similarly in the development of fuel related rates. Utilities proposes additional distinction between fuel and capacity related costs with the creation of a new Gas Capacity Charge ("GCC") (*See*, Natural Gas Rate Schedules, Sheet No. 11). Separation of capacity related costs from fuel better aligns recovery of transportation and storage costs with usage characteristics.
12. Segregating and recovering expenditures related to natural gas purchases separately from those associated with capacity costs of transporting and storing natural gas provides the following enhancements: (1) Improved alignment of rates with cost causation and customer usage; (2) Uniform cost recovery between rate schedules subject to the GCA and rate schedules subject to Index gas prices; and (3) Consistency of cost recovery practices between services.
13. The Average and Excess Coincident Peak cost allocation methodology was selected to allocate costs to be recovered through the GCC. This methodology allocates a portion of

costs based upon the contribution of each Rate Class to average daily usage, and allocates a portion of costs based upon the contribution to volumes in excess of average daily usage on the Natural Gas service's peak day. The use of this allocation methodology is appropriate given the characteristics of transportation and storage expenses. This methodology is also consistent with the allocation method used to allocate Electric capacity costs. The Average and Excess Coincident Peak methodology meets the following allocation standards: (1) Industry accepted allocation technique approved and tested through case law over time; (2) Reflects cost causation; (3) Reflects usage by Rate Class; (4) Produces stable results between Rate Class; and (5) Transparent and comprehensible.

14. Utilities utilizes forecasted test year sales data for allocation purposes in the filing, consistent with prior Natural Gas non-fuel rate filings. Key components of test year data: (1) Peak day forecast by Rate Class was not updated for 2016; as a result the filing uses 2011 through 2013 peak day data from the approved 2014 Natural Gas Rate Case Filing; (2) 2014 Natural Gas Rate Case Filing utilized historical average Rate Class volumes on the five highest system throughput days for peak day allocation; and (3) Interruptible service peak day volumes are calculated using an assumed 100% load factor, in alignment with industry best practice. Consistent with the use of forecast test year for allocating costs in other services, Utilities anticipates continued use of forecasted peak day data in future GCC filings.
15. The allocation of capacity costs realigns cost responsibility more appropriately to customer Rate Classes.
16. Utilities is requesting a change to the GCA rate effective January 1, 2016. The current rate of (\$0.2460) was approved by City Council on January 27, 2015 and has been in effect since February 1, 2015. Utilities has continued to monitor GCA conditions and has prepared projections of costs and revenues in conformance with the language in the GCA tariff as provided in the filing (see Natural Gas Rate Schedules, Sheet 10a). Based upon the consolidation of fuel rates, establishing a one-part GCA rate structure, and the collection of capacity costs through the GCC, a GCA rate of \$0.2126 represents the current state of Natural Gas system revenue needs.
17. In addition to the proposed rate increases, Utilities proposes the following changes to the Natural Gas Tariff:
18. Commercial Service Seasonal Option: This change clarifies availability to customers with at least 30 percent of annual usage occurring during the months of May through October. This change also revises customer termination rights, enabling customers to cancel contract service and revert to the standard option at any time upon providing 30 days' notice once the initial 12-month contract period is completed. (*Natural Gas Rate Schedules Sheet No. 3a.1*).
19. Industrial Service - Interruptible Sales: This change revises customer termination rights, enabling customers to cancel contract service and revert to the standard option at any time upon providing 30 days' notice once the initial 12-month contract period is completed. (*Natural Gas Rate Schedules, Sheet No. 4a*).

20. Industrial Service - Interruptible Sales Daily Index Option: This change removes the Daily Index Option that is unused by customers. (*Natural Gas Rate Schedules, Sheet No. 4a, 4a.1*).
21. Industrial Service and Contract Service Monthly Index Option: This change improves consistency between Monthly Index Options defining Index as the first of month index gas price as published in “Inside FERC’s Gas Market Report” for the average between Colorado Interstate Gas Company (Rocky Mountains) and Cheyenne Hub. (*Natural Gas Rate Schedules, Sheet No. 4a.1., 5a, 8a*).
22. Removal of United States Air Force Academy (USAFA) Construction Services Language: This change removes the American Recovery and Reinvestment Act of 2009 related USAFA specific contract construction services due to the completion of all applicable work and payment obligations as contractually executed with customer. (*Natural Gas Rate Schedules, Sheet No. 5a.1*).
23. Industrial Transportation Service – Firm (G4T): This change adds a fifth (5th) nomination cycle and adjusts the times for all other nomination cycles to align with regional pipeline and national standards that will become effective April 1, 2016. (*Natural Gas Rate Schedules, Sheet No. 7a.4, 7a.6*).
24. In addition to the proposed Natural Gas Tariff revisions, Utilities proposes changes to the Electric and Water Tariffs and the URR.
25. Utilities filed its cost-of-service study supporting the Electric, Natural Gas, and Water services base rate and Tariff changes and the URR changes with the City Auditor, Mr. Denny Nester, and with the City Attorney, Ms. Wynetta Massey, on August 21, 2015. Utilities then filed the enterprise’s formal proposals on September 22, 2015, 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 September 23, 2015, in *The Gazette* on September 29, 2015, and mailed as required on September 29, 2015. 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.
26. 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 19, 2015. The supplemental material contained revised resolutions, administrative corrections to tariff sheets, copies of the publications of required legal notice, and public outreach information.
27. 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 on November 12, 2015. A copy of that report is contained within the record.

28. On November 24, 2015, the City Council held a public hearing concerning the proposed changes to the Electric, Natural Gas, and Water 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.
29. 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.
30. 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 and Gas 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).
31. 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.
32. Mr. Bidlack also provided an excerpt of the Utilities Board Finance Committee minutes from the October 28, 2015, meeting to the City Clerk for inclusion in the record as an *ex parte* communication.
33. Utilities then began the presentation of the enterprise's proposals.
34. The first speaker was Ms. Sonya Thieme, Utilities' Rates Manager. Ms. Thieme provided background on the actions taken by Utilities in preparing the 2016 Rate Case. Utilities presented preliminary proposals to the Utilities Board: explaining fuel rate changes that (1) Combine ECA and Supply Charge rates into one ECA rate, (2) Combine GCA and Gas Supply Charge rates into one GCA rate, and (3) Create a new Gas Capacity Cost (GCC) rate; and noting base rate changes and changes to the URR. Utilities also presented the Utilities Board Finance Committee with the same information, as well as information on Natural Gas and Water Allocation reviews, Electric base/non-fuel and Water rate increases, the URR, and Electric and Gas Line Extension Standards.
35. Ms. Thieme then noted Utilities' rate case procedural compliance, stating that (1) the preliminary cost of service study was provided to Office of City Auditor and City

Attorney on August 21, 2015, (2) the hearing date was presented to and approved by City Council on September 22, 2015, (3) the formal rate filing was filed with the City Clerk on September 22, 2015, (4) rate case documents were posted online on September 23, 2015, and (5) legal notice was published and mailed on September 29, 2015.

36. Ms. Thieme explained that the September 22, 2015, filing included documentation for Electric, Natural Gas, Water, and the URR, and included several appendices.
37. Ms. Thieme then addressed Electric Service. She noted that the Electric Cost of Service was prepared following industry standards and practices and in compliance with rate design guidelines. The Total Base (non-fuel) Electric Revenue is \$329.7 million, which is \$15.7 million higher than revenue under current rates. This represents an overall system increase 5.0% higher than current rates, based on 2016 Sources & Uses proposed budget ordinances. Within the overall system base rate increase of 5.0%, there is a 4.6% increase for Residential and Small Commercial customers and a 6.0% increase for Large Commercial and Industrial customers. This proposed change continues Utilities transitioning of rate classes to be closer to the Cost of Service. Additionally, the changes include a 5.0% increase for Industrial TOU 500 KW Minimum (E8T) and Large Power and Light customers and a 5.0% increase for Contract Services – DOD customers.
38. Ms. Thieme noted that that the rate increase drivers are capital costs and the financial metrics required to maintain a “AA” credit rating.
39. Rate design of the Industrial Service Time of Day 1,000 kWh/Day Min (ETL) rate was addressed. It was explained that the ETL is a small diverse industrial class and that ETL revenue was less than anticipated for 2012 – 2014. Utilities is currently studying the disparity and the root cause analysis will be completed by March 31, 2016. Additionally, any potential under collection does not shift to other rate classes. Utilities proposes to manage the service under collection in collaboration with Utilities Board through expenditure reductions and financial metrics. Utilities will provide a Revenue Shortfall Contingency Plan in December 2015 to Utilities Board.
40. Ms. Thieme explained the rate design components. The rate design continues to combine the Residential (E1R) and Small Commercial (E1C) Rate Classes because the demand per kWh costs and energy per kWh continue to be related and the cost to serve the classes is closely associated. The optional Residential Time of Use rate is modified through the proposed changes to (1) better align with demand side management and peak shaving long-term goals, (2) increase the On-Peak per kWh rate from \$0.1450 to \$0.2017, (3) shorten the On-Peak time period from 7 hours to 4 hours, and (4) decrease the Off-Peak per kWh rate from \$0.0580 to \$0.0576. Lastly, the fixed daily charge is increased to enhance financial stability and align with other Front Range electric providers.
41. Next, Ms. Thieme provided a fuel rate overview. She explained that the proposed changes combine the Electric Cost Adjustment (“ECA”) and Supply Charge rates into one ECA rate. The proposed revisions also include a reduced ECA rate of \$0.0249 with Typical Bill Impacts: of Residential (1.2)%, Commercial (1.7)%, and Industrial (2.1)%.

42. To conclude her presentation on Electric service, Ms. Thieme reviewed the additional proposed changes to the Electric tariff.

- a) United States Air Force Academy (USAFA) – Direct Solar: This change adjusts the payment table to reflect contract payment changes as contractually executed with the customer.
- b) Removal of USAFA Construction Services Language: This change removes the American Recovery and Reinvestment Act of 2009 related to USAFA specific construction services contract due to the completion of all applicable work and payment obligations as contractually executed with the customer.
- c) Optional Contract Termination Rights: This change revises customer termination rights, enabling customers to cancel contract service and revert to the applicable rate at any time upon providing 30 days' notice once the initial 12-month contract period is reached.
- d) Community Solar Garden (CSG) Pilot Program Bill Credit: This change updates the CSG Pilot Program blended Bill Credit to reflect the proposed Electric service rate increases and takes the credit rate out to four decimal places. Per Utilities Board direction, Program garden capacity sunset was established (June 30, 2015) and the tariff change allows a single developer to own up to 1.5 MW.
- e) CSG Non-Pilot Bill Credit: This change updates the rates on the CSG Non-Pilot Bill Credit table based on the proposed Electric service rates. This change also modifies the tariff language to calculate the Bill Credit as: (Non-fuel) + (Capacity) + (ECA).
- f) Clarify Terms and Conditions for Totalization Service: This change clarifies the terms and conditions of aggregating multiple meters of the same service voltage for billing purposes to allow customers to totalize when premises are served with a mix of primary and secondary voltages.
- g) Renewable Energy Certificates (REC): This change reflects the completion of the REC program.
- h) Kilowatcher Rate Options: This change reflects the end of the Kilowatcher Rate Options. Existing contracts will complete the current term, but will not be renewed in April 2016.
- i) Woody Biomass Pilot Program: This change reflects the conclusion of the Woody Biomass Option Pilot Program on June 30, 2016 as supported by the applicable customer.
- j) Update the Reserved Capacity Charge (RCC) for Enhanced Power Service: This change modifies the charge for reserve capacity. 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. For 2016, the rate will be increased to \$0.0396 per kW per day.

43. Ms. Thieme then addressed Natural Gas service. The main proposed Natural Gas service change is the reconfiguration of the Gas Cost Adjustment (“GCA”) and Gas Supply rates into a single GCA rate. The proposed change is revenue neutral and results in a new Gas Capacity Cost (“GCC”), which is calculated for each rate class. The proposed changes

also include a new GCA rate of \$0.2126 per Ccf, with typical bill reductions of: Residential (5.2)%, Commercial (10.6)%, and Industrial (10.9)%.

44. To conclude her presentation on Natural Gas service, Ms. Thieme reviewed the additional proposed changes to the Natural Gas tariff.

- a) Commercial Service Seasonal Option: This change clarifies availability to customers with at least 30 percent of annual usage occurring during the months of May through October. This change also revises customer termination rights, enabling customers to cancel contract service and revert to the standard option at any time upon providing 30 days' notice once the initial 12-month contract period is completed.
- b) Industrial Service - Interruptible Sales: This change revises customer termination rights, enabling customers to cancel contract service and revert to the standard option at any time upon providing 30 days' notice once the initial 12-month contract period is completed.
- c) Industrial Service - Interruptible Sales Daily Index Option: This change removes the Daily Index Option that is unused by customers.
- d) Industrial Service and Contract Service Monthly Index Option: This change improves consistency between Monthly Index Options defining Index as the first of month index gas price as published in "Inside FERC's Gas Market Report" for the average between Colorado Interstate Gas Company (Rocky Mountains) and Cheyenne Hub.
- e) Removal of USAFA Construction Services Language: This change removes the American Recovery and Reinvestment Act of 2009 related USAFA specific contract construction services due to the completion of all applicable work and payment obligations as contractually executed with customer.
- f) Industrial Transportation Service – Firm (G4T): This change adds a fifth (5th) nomination cycle and adjusts the times for all other nomination cycles to align with regional pipeline and national standards that will become effective April 1, 2016.

45. Ms. Thieme then presented Utilities proposed changes for Water Service. The proposed changes to the Water rates are based on a Cost of Service Study prepared following industry standards and practices and in compliance with rate design guidelines. The total Water Revenue is \$188.0 million which is \$9.0 million higher than revenue under current rates. The proposed changes include an overall system increase 5.0% higher than current rates based on 2016 Sources & Uses proposed budget ordinances. The overall system base rate increase of 5% includes the following: 4.3% increase for Residential, 6.0% increase for Nonresidential, 6.5% increase for Contract Services – DOD, 0.0% increase for Large Nonseasonal, and 6.0% increase for Nonpotable and Augmentation.

46. She then noted that the rate increase drivers are the maintenance and replacement of infrastructure and the financial metrics required to maintain "AA" credit rating.

47. Ms. Thieme then addressed the proposed \$1 million surplus included in the Water rate filing. The final use of the undesignated planned surplus expense will be determined by Utilities Board no later than August 2016.
48. The rate design components for the proposed water rate changes focus on increased fixed daily charges to enhance financial stability and maintain conservation signals in a manner consistent with other Front Range water providers.
49. To conclude her presentation on Water service, Ms. Thieme reviewed the additional proposed changes to the Water tariff.
 - a) Large Nonseasonal Service: This change omits pilot language and renames the permanent rate option Large Nonseasonal Service. This change also revises customer termination rights, enabling customers to cancel contract service and revert to Nonresidential Service at any time upon providing 30 days' notice once the initial 12-month contract period is completed.
 - b) Large Potable Irrigator Water Conservation Rate Pilot Program: This change removes the Large Potable Irrigator Water Conservation Rate Pilot Program, which was withdrawn by City Council on July 10, 2012, effective August 1, 2014.
50. Next, Ms. Thieme provided a summary of typical bill impacts for Residential, Commercial, and Industrial customers across Electric, Natural Gas, Water and Wastewater service. The typical Residential customer bill will increase \$2.04 or 1.0% with the proposed changes. The typical Commercial customer bill will decrease \$48.16 or 3.3% with the proposed changes. The typical Industrial customer bill will decrease \$55.98 or 0.1% with the proposed changes.
51. Ms. Thieme then concluded the substantive portion of her presentation by summarizing the proposed changes to the URR.
 - a) Electric Plan Review Fee: This change adds the word "transformer" to the description of the fee to provide clarification that the cost is applied per building or transformer. The fee amount is unchanged; however, there is a more complete recovery of cost by capturing staff review time in circumstances where multiple transformers per building site exist.
 - b) Dispute Resolution Correction: This change corrects Utilities' address currently shown in the URR for submitting a dispute. The current incorrect address in the URR results in lost mail and processing delays. The new address will no longer be tied to an individual employee or work team, but to the general Utilities' address. Internal process will direct the mail to the attention of the Dispute Resolution group. In response to a request from the Utilities Board, Utilities examined whether the proposed address change would create any unintended consequences. The review of potential consequences determined that while the proposed address could limit some types of correspondence, it would not result in any customers being unable to provide Utilities with the necessary documentation. The proposed change also provides enhanced Utilities security.

Consequently, Utilities determined that the proposed change was properly vetted and does not create significant unintended consequences.

- c) Totalization Service: This change will allow customers served at both primary and secondary voltage levels to totalize meters when all the meters reside on the same campus setting. Currently, the tariff prohibits totalizing primary and secondary meters. There are no negative impacts to Utilities and this provides customers greater availability to totalize.
- d) 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 more closely to the current costs. The current Electric Line Extensions and Services fees are proposed to increase ten percent (10%). The current Natural Gas Mains and Services rate of sixteen percent (16%) will increase to eighteen percent (18%).
- e) Water & Wastewater Permit Fees: This change creates consistency between the Water and Wastewater payment process for permit fees. The current Wastewater payment process was changed several years ago to provide developers a choice to facilitate payment of the permit fee at the time of application, or to request a bill. Utilities' bill will reflect a single permit fee, or will aggregate multiple permit fees in a bill cycle, which will benefit customers who make a single payment. This change will align the payment process for Wastewater permit fees with that of Water permit fees, and the language will be uniform for both services.
- f) Water & Wastewater Development Charges Clarification: This change clarifies the language on applicable Development Charges associated with individually metered multi-family premises and master metered multi-family premises. Master metered multi-family premises pay the Development Charge correlated with meter size while individually metered multi-family premises are charged per the specific rates listed for that circumstance. There are no changes to the applicable Development Charges, and the change reflects the current practice and intent of the current language.
- g) Limited Water & Wastewater Development Charge Credit Transfers: This change will allow the limited transfer of unused Development Charge Credits (also referred to as Meter Credits) from a vacant parcel to another parcel under the same ownership, subject to program compliance. The City Code currently prohibits the transfer. Both City Code and URR changes are required for this revision.

52. Ms. Thieme then described the customer outreach provided to Utilities customers informing them of the contents of the proposed rate changes and the Utilities' programs currently in place to assist customers.

53. Ms. Thieme concluded her presentation by explaining the steps that will follow the rate hearing: City Council will be presented with draft Decisions and Orders at the City Council Work Session on December 7, 2015, and will be asked to approve final Decisions and Orders and resolutions at the City Council Meeting on December 8, 2015.

54. City Auditor, Mr. Denny Nester then presented his report. Mr. Nester stated that the Auditor's review is focused on the accuracy and consistency of the methodology used to develop the proposed rate changes; and compliance with rate development guidance approved by the Utilities Board. The audit scope includes: (1) using Utilities' Revenue Requirements, including the Operating and Capital budget, to review Utilities' allocation that determines cost by customer class; (2) recalculating the cost of service study mathematically; (3) reviewing forecasts for reasonableness to prior forecasts; and (4) comparing the filing to Board approved rate guidance. The audit scope does not include a review of the submitted budget or capital plan that drives the rate case.
55. In relation to the proposed Water Service Rate changes, the audit concluded that the cost of service study and proposed rates were prepared accurately using consistent methodology. However, the proposed Water Service surplus does not have supporting documentation in the rate case, as filed. The audit recommends that Utilities' management work with City Council to ensure Utilities 2016 appropriation includes a resolution related to the Surplus.
56. In relation to the proposed Electric Service Rate changes, the audit concluded that the revenues based on the proposed rates will not support the full recovery of the cost of service due to inaccuracies within the data used to forecast the ETL rate. The audit recommends 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. Mr. Nester noted that doubling the Electric Rate increase for ETL customers from 6% to 12% would result in an overall bill impact of 2% instead of 1%.
57. In relation to the ECA and GCA realignments and adjustments, the audit concludes that proposed ECA and GCA collected balances are not consistent with current Enterprise Scorecard guidance because Utilities has proposed an increase in collected balances outside of current guidelines. The adjustment results in an over collection that should be reduced faster than proposed. In Mr. Nester's opinion, the ECA and GCA rates should be further reduced than what is currently proposed. Mr. Nester noted that this issue has been previously discussed by the Utilities Board. The audit recommends that (1) City Council should decide whether ECA and GCA will be a pass through or a rate stabilization tool, if it is not to be used as a rate stabilization tool, the rates should be adjusted down so the projected balance approaches \$0 at some point in 2016; (2) Council could instruct Utilities to comply with current guidance, in which case, refunds to customers should be increased to reduce collected balances; and (3) based on Council's decision, Utilities Board should provide formal guidance and enterprise scorecard measures for ECA and GCA collected balances.

58. Councilmember Keith King presented on the proposed Utilities rate increases and his position on the proposal. Councilmember King provided his review of Utilities' rate changes between 2004 and 2014, concluding that Residential customers have been subject to disproportionately higher rate increases, when compared to Industrial and Commercial customers. Councilmember King asserted that the Cost of Service Studies performed have furthered the disparity between rate classes and that the consequences is that Utilities has failed to maintain competitive pricing for Residential customers as required by Utilities' mission statement.
59. Councilmember King next stated that since 2012, there have been increases to Electric Rates in 2013, 2014, 2015, and the proposed increases for 2016. He indicated that the Electric Rate increases are making Utilities less competitive and will result in Utilities failing to maintain a regional cost advantage. Councilmember King then provided a rate comparison of Residential, Commercial, and Industrial rates between Colorado Springs and Denver, Aurora, Lakewood, Pueblo, and Ft. Collins.
60. Councilmember King stated that rates for Commercial customers are competitive for electric and natural gas rates, but not for water and wastewater rates. He stated that rates for Industrial customers are competitive.
61. Councilmember King then explained his contention that rates for Residential customers create a competitive disadvantage for Residential rates compared to regional providers and that Residential rates are carrying more than their fair share of the rate increase burden. He stated that the rate structure is neither just nor reasonable and in fact discriminatory to Residential customers, specifically low income customers.
62. To conclude, Councilmember King provided several solutions to the concerns he addressed:
- a) The ECA and GCA must be changed to eliminate significant over collections and ensure that collections are maintained within the bounds of Utilities' energy score card.
 - b) Rate increases must be balanced between rate classes and Residential rates should not be increased at a higher percentage than Commercial and Industrial rates.
 - c) Industrial rate classes must pay their full cost of service and forecasts for Industrial rate classes must be more accurate.
 - d) \$100,000 of the proposed Water Service surplus should be allocated to Utilities Board in order to maintain a research staff, independent of Utilities, to address the Utilities Board's questions.
 - e) Cost of Service methodologies should be modified to eliminate inequitable Residential rates.
63. 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.

64. A single citizen spoke. The citizen asked whether the materials presented by Councilmember King would be made public and what accountability measures would be put in place to make sure that any surplus funds paid from Utilities to the City would be used as intended.
65. Following public comment, President Bennett opened the floor to questions from the City Council.
66. Councilmember Tom Strand started by asking several questions:
- a) What are the criteria for customers to participate in Utilities' low income program and how many people are involved in the program?
 - b) In relation to the ETL Electric rate, what evidence is available in relation to the forecasted revenues and actual revenues and what is the impact of the difference on Utilities?
 - c) In relation to the discussion on the ECA and GCA, has the annual audit report addressed the ECA and GCA as a pass through mechanism or a means of rate stabilization?
 - d) In relation to Councilmember King's presentation, is the disparity between the rate increases for Residential and Commercial/Industrial rates a result of previously overpriced Commercial/Industrial rates and/or is the difference an incentive to bring Commercial and Industrial customers to Colorado Springs?
 - e) In relation to Councilmember King's presentation, is the proposed Water surplus intended as a transfer to the City or is it intended as a reserve account for Utilities to use on City related issues as needed?
 - f) In relation to Councilmember King's presentation, have research staff been provided by Utilities and will that be the case in the future?
67. President Bennett then asked whether the City is receiving a fair and equitable rate for street light service given that street lights are generally used during off-peak times?
68. Councilmember Don Knight then asked (1) what will happen if the 2016 Rate Case is not approved before the end of December and (2) what will happen if Utilities' budget is not approved before the end of December?
69. Councilmember Bill Murray then asked two questions:
- a) In relation to the discussion of the ECA and GCA and whether they should be a pass through mechanism or a tool for rate stabilization, what is the turn over for Utilities' customers and what class of customer is negatively impacted if the ECA and GCA are used as rate stabilization tools?
 - b) Please provide a formal reconciliation between the rate change information from Councilmember King and Utilities.
 - i. In response, Councilmember King noted that he received his numbers from Utilities.

70. Councilmember King then asked several questions:

- a) In relation to the fixed rate daily charges, why are Residential customers subject to disproportionate increases?
- b) What can be done to make ECA and GCA practice consistent with the requirements of Utilities' score cards?
- c) In relation to the GCC, why is the cost higher for Residential customer than it is for Commercial and Industrial customers?
- d) How will the under collection of Industrial classes be remedied?

71. After the conclusion of City Council comment, President Bennett recessed the rate proceeding to allow Utilities to formulate answers to the City Council questions.

72. Following the recess, President Bennett reconvened the hearing.

73. Utilities then presented its response to the comments and questions.

74. Mr. William Cherrier, Utilities' Chief Planning and Finance Officer led Utilities' responses, first asking Mr. Nester to answer the questions directed at him.

75. Mr. Nester addressed his questions as follows:

- a) In relation to the request for additional information concerning the Electric ETL rate, Mr. Nester explained that in 2010 and 2011, Utilities collected more revenue than was initially forecasted for the ETL rate, but has since collected less revenue than has been forecasted. He explained that Utilities is currently analyzing the situation to determine the best solution.
- b) In relation to the ECA and GCA changes, Mr. Nester noted that ECA and GCA collections were historically more extreme, but that since the required collection bands were established by the Utilities Board, no ECA or GCA proposal has presented a forecasted collection outside of the established collection bands.

76. Ms. Kathleen Solano, Utilities General Manager of Customer Services next addressed Councilmember Strand's question concerning Utilities' low income program. Ms. Solano explained that the program, Low-Income Energy Assistance Program ("LEAP"), is a federally funded program open to low income utility customers to address winter heating costs. To be eligible a customer must pay heating costs directly to Utilities or as part of their rent. The amount of assistance available to a customer is dependent on the number of eligible residents living in a premises. During the 2013-2014 LEAP season, approximately \$3.3 million was distributed from the Federal program to benefit approximately 8,100 homes. During the 2014-2015 LEAP season, more than \$4 million was distributed from the Federal program to benefit nearly 7,800 homes.

77. Mr. Cherrier then addressed the remainder of the questions posed to Utilities. The questions and responses were addressed as follows.

78. Mr. Cherrier explained that fixed electric charges increase at a different rate for Residential customers than those for Commercial and Industrial customers because the charges are distinct and determined based on the nature and requirements of each rate class. As a result, the charges are not easily compared as they incorporate the different components and needs of each rate class. The overall rate increases are proportionate across rate classes.
79. Mr. Cherrier then addressed the questions concerning the over collection of the ECA and GCA. He stated that the collection should remain in line with the collection bands established by the Utilities Board and that Utilities has worked to maintain those metrics, discussing the issue regularly with the Utilities Board Finance Committee and Utilities Board. He stated that with fuel volatility, there is regular need for balance between prompt price changes and rate stabilization. Additionally, rate decreases are planned for the near future and at the November Utilities Board meeting, the Utilities Board sent the issue to the Finance Committee for additional study.
80. In relation to the question of why the proposed GCC impacts Residential customers differently than Commercial and Industrial customers, Mr. Cherrier explained that the different impact is intentional and is based on accurately placing the costs of serving each rate class on that rate class. He explained that much of this cost is based on costs imposed by gas pipelines and that prior rates did not fully match each rate class' charges with the cost to serve that rate class.
81. Mr. Cherrier then explained that Utilities is actively addressing the concerns surrounding the Electric ETL rate, having previously discussed the issue with both the Utilities Board Finance Committee and the Utilities Board; Utilities is committing to understanding the situation fully by the end of March 2016. Mr. Cherrier stated that the proposed rate increase for the ETL rate is 6% which is in-line with similar rates. The decision was made to treat the ETL rate in a manner consistent with similar rates until the forecasting issue is fully understood.
82. Next, Mr. Cherrier explained that the City Council and Utilities Board have, and have consistently had, full access to Utilities' staff for support and research. Utilities' staff works diligently to be responsive to any and all questions received from Councilmembers. Any change to this practice is ultimately a decision for City Council. Mr. Jerry Forte, Utilities' Chief Executive Officer noted that much of Utilities' staff support comes through the Utilities Board committee process, where Utilities dedicates significant staff resources.
83. Mr. Cherrier then addressed the provision of street light service to the City. He explained that the City does receive a fair and equitable rate. He noted that a full study was performed in 2008 and that the City Auditor has regularly reviewed the rate.
84. Then, Mr. Cherrier addressed Councilmember Knights questions about the consequences of the City Council's failure to approve the rate case and budget. Mr. Cherrier explained that if the rate case was not approved by the end of December 2015, the existing rates

would continue in effect and Utilities would consequently fail to meet the proposed financial metrics. Utilities would have to make significant changes to its expenditures. Utilities is currently working on contingency plans for 2016 revenue short falls of \$5 million, \$10 million, and \$20 million. Mr. Cherrier then explained that if Utilities' budget was not approved by the end of December 2015, Utilities would not have the authorization to expend any funds and could not practically operate. Mr. Cherrier emphasized that approving both a budget and rate case is critical for Utilities.

85. Mr. Cherrier then returned to the ECA and GCA, explaining that the tools are pass throughs but that there are currently over collections. He noted that all customers are treated equally and that all customers receive the same rate adjustments. It is true that a customer may have a net gain or loss depending on the times when they commence and/or terminate service, but that is generally true across the utility industry. He also explained that customer turnover is low and that customers often move within Utilities service territory as opposed to completely leaving Utilities' service territory.
86. Mr. Cherrier concluded by addressing the request for a reconciliation between the information presented by Councilmember King and Utilities. He explained that this issue was previously referred to the Strategic Planning Committee and that Utilities will follow up to ensure that it is addressed there.
87. President Bennett then concluded the discussion and explained that an executive session is not needed.
88. Councilmember Knight then addressed the City Council in his role as the Chair of the Finance Committee, providing additional perspective on the proposed rate case. He started by explaining that there are confusions within Utilities filing that need to be addressed and noting that some complexities within the Utilities rate/budget process can be improved upon in a manner similar to improvements made within the City budget process.
89. Councilmember Knight explained that while the proposed Utilities budget and rate case are not perfect, both should be approved. He noted that the Electric rate increase is driven by federal environmental requirements and that the failure to receive the necessary funds would create a significant risk that Utilities would fail to meet the federal mandates. He also explained that the Water rate increase is a result of the Southern Delivery System, but is significantly lower than was initially forecasted.
90. Next, Councilmember Knight addressed the three points of concern from the City Auditor's report. In relation to the Water surplus, he explained that the funds will remain unallocated and that as part of the rate filing it was required that they be listed as applying to parks watering. The Finance Committee is working on contingency plans for lower than forecasted revenues. Councilmember Knight explained that the Utilities Board needs to revisit the ECA and GCA philosophy to properly avoid over collections while addressing the intervals appropriate for changes. He said that this issue should not hold up the rate case process. Lastly, in relation to the Electric ETL rate, Councilmember

Knight stated that the issues presented should not prevent passage of the rate case, but that a solution should be expedited as quickly as possible.

91. President Bennett then made clear that City Council would not be taking a vote on the rate case until the December 8, 2015, City Council meeting.
92. Councilmember King then asked an additional question, whether the proposed Utilities budget reflects the ECA and GCA over collections. Mr. Cherrier responded that the budget does reflect those over collections.
93. At the conclusion of questions by the public and City Council, Utilities' responses, and discussion by City Council, Mr. Kenneth Burgess, Division Chief Rates and Regulatory, City Attorney's Office, polled Council Members regarding the issues central to the Electric, Natural Gas, and Water services and the URR.
94. The following are the proposed changes and the votes by City Council addressing the Natural Gas Tariff:

- a) Should Utilities modify the Gas Cost Adjustment, which includes the Gas Capacity Charge, as proposed in Utilities' rate filing?

The City Council held that Utilities shall modify the Gas Cost Adjustment, which includes the Gas Capacity Charge, as proposed in Utilities rate filing, with Councilmembers King and Collins opposed.

- b) Should Utilities set the reconfigured Gas Cost Adjustment, containing all natural gas fuel costs, at \$0.2126 per hundred cubic feet (Ccf), a net decrease to the current rates?

The City Council held that Utilities shall set the reconfigured Gas Cost Adjustment, containing all natural gas fuel costs, at \$0.2126 per hundred cubic feet (Ccf), a net decrease to the current rates, with Councilmembers King and Collins opposed.

- c) Should Utilities remove the American Recovery and Reinvestment Act of 2009 related USAFA specific contract construction services due to the completion of all applicable work and payment obligations as contractually executed with customer?

The City Council held that Utilities shall remove the American Recovery and Reinvestment Act of 2009 related USAFA specific contract construction services due to the completion of all applicable work and payment obligations as contractually executed with customer

- d) Should Utilities revise the contract termination rights of the Commercial Service – Firm Seasonal Option and the Industrial Service – Interruptible Sales?

The City Council held that Utilities shall revise the contract termination rights of the Commercial Service – Firm Seasonal Option and the Industrial Service – Interruptible Sales.

- e) Should Utilities modify qualifications to the Commercial Firm – Seasonal Option?

The City Council held that Utilities shall modify qualifications to the Commercial Firm – Seasonal Option.

- f) Should Utilities revise the nomination times for the Industrial Transportation Service – Firm in order to comply with new Federal Energy Regulatory Commission guidelines effective April 1, 2016?

The City Council held that Utilities shall revise the nomination times for the Industrial Transportation Service – Firm in order to comply with new Federal Energy Regulatory Commission guidelines effective April 1, 2016.

- g) Should Utilities remove the Industrial Service – Interruptible Sales – Daily Index Option?

The City Council held that Utilities shall remove the Industrial Service – Interruptible Sales – Daily Index Option.

95. President Bennett then concluded the 2016 Rate Case Hearing.

ORDER

THEREFORE, IT IS HEREBY ORDERED that:

The Natural Gas Tariff sheets as attached to the Resolution are adopted and will be effective on and after January 1, 2016, with the exception of the proposed change to the Natural Gas G4T rate option, which have an effective date of April 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 8th day of December, 2015.

CITY OF COLORADO SPRINGS

Council President

ATTEST:

City Clerk