BEFORE THE CITY COUNCIL OF
THE CITY OF COLORADO SPRINGS

IN THE MATTER OF THE REVISION	)	
OF THE WATER TARIFF OF	)	DECISION & ORDER 15-03 (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 service to the City of Colorado Springs and within its water service territory.

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 Water Tariff changes is January 1, 2016.

4. Utilities operates an extensive network of Supply, Treatment, Transmission, and Distribution facilities in order to maintain a dependable water supply for the largest city in Colorado not located on a major water source.

5. Utilities has conducted a Cost of Service ("COS") study utilizing the proposed 2016 Budget. The COS analysis indicates that, in order for Utilities to recover the proposed revenue requirement, it is necessary to increase rates. The rate increase will result in total revenue of $188.0 million, which is $9.0 million, or 5.0%, higher than the projected revenues under current rates. The effect of this increase on the typical monthly residential water bill is an additional $2.55, or 4.5%, over the current typical water bill.

6. Utilities has performed a COS following generally accepted ratemaking practices to establish a starting point for determining reasonable and appropriate rates in the filing. The COS uses systematic analytical procedures to equitably allocate the revenue requirement between various customer classes of service. As described in the Rate Manual in the Appendix of the filing, COS is used to:

   a) Functionalize, at the account level, the relevant expenditure items to the basic functional categories (e.g. source of supply, treatment, transmission and distribution and customer);
   b) Classify each functionalized cost into broad categories utilizing cost causation principles (e.g. commodity, demand, customer); and
   c) Allocate to the customer Rate Classes based on the service characteristics of each class.

7. Utilities applied a change to the COS cost allocation methodology for allocation of functional costs associated with treatment, transmission and distribution mains and reservoirs.

8. To ensure cost allocations used in the COS study are appropriate given the current characteristics of the system, Utilities initiated an allocation study. This study reviewed industry accepted allocation methodologies based upon five selection criteria as follows: (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.

9. After this comprehensive evaluation, the Base-Extra Capacity allocation methodology was selected to allocate costs related to treatment, transmission and distribution mains and reservoirs. Similar to the methodology used in the previous filing, this methodology allocates a portion of costs based upon the contribution of each Rate Class to average daily usage. The distinction between the two methodologies is that Base-Extra Capacity methodology uses the average contribution to volumes in excess of average daily usage on the peak day, whereas the methodology used in prior Water filings uses total contribution to peak day volumes to allocate the demand portion of costs. The Base-Extra Capacity allocation methodology more appropriately aligns cost responsibility with customer Rate Classes based upon system usage characteristics.

10. No changes were made to allocation methodologies for Source of Supply and Pumping, Services, Meters, Installations, Hydrants, Nonpotable, or Customer functionalized costs.

11. Utilities applied a change to the COS test year data. The most recent changes to the Water Rate Schedules were approved by City Council in 2012 and the filing relied on historic calendar year data to allocate Revenue Requirement to Rate Classes. Utilities has subsequently obtained City Council approval of Electric and Natural Gas Rate Schedule filings that utilized forecasted test year data. The reasons for the change from historical to forecasted test year are as follows:

    a) Prior year actual sales and peak day demand are subject to weather abnormalities that can skew allocations between Rate Classes. Load studies show that each Rate Class' sales and peak day demand is affected differently by unusually warm, cool, wet, or dry weather, thus the revenue requirement can be allocated to each Rate Class differently under different weather conditions. Since Utilities develops its sales and demand forecast on average weather, allocating revenue requirement based on forecasts can prevent potential inequities between Rate Classes and dampen rate swings from year to year due to weather.
    b) Components of the Operations and Maintenance expense budget are based on the sales forecast. In order to better align the allocation of these budgeted costs to the Rate Classes, using the weather normalized sales forecast is more appropriate than historical sales.
    c) After the revenue requirement is allocated to the Rate Classes, forecasted units are used to derive the resulting rates. In order to better align the costs allocated to Rate Classes with the calculation of rates, it is appropriate to allocate these costs based on the same forecasted billing units rather than historical sales.
    d) Implementing this change in the Water service achieves appropriate consistency between services.

12. Demand allocations are used to allocate costs related to peak usage including portions of the treatment and transmission and distribution functions. Prior Water filings have used peak month sales data to estimate peak day sales by Rate Class. Recent availability of reliable automated meter reading (“AMR”) data enables the use of actual peak day sales by Rate Class to be used as the basis for forecasting peak day volumes. The filing uses a forecasted two coincident peak, average of June and July peak days, to allocate demand related costs to Rate Classes utilizing the Base-Extra Capacity allocation methodology.

13. A new allocation factor based on Rate Class contribution to average daily sales, including nonpotable sales, was added to allocate a proposed surplus funds to City, revenue requirement item in the amount of $1.0 million. This allocation methodology is consistent with the allocation of Surplus Funds within the Electric and Natural Gas services.

14. The Nonresidential Service – Large Nonseasonal Water User Rate Pilot Program was added effective January 1, 2013. The service is available to nonresidential customers with annual sales of at least 4 million cubic feet (cf) and maximum summer month (May – October) cf sales of no greater than 1.3 times their annual average monthly usage. Based upon the positive results of the pilot program, the filing ends the pilot phase, establishes the Large Nonseasonal Service as a permanent Rate Class and includes the Rate Class in the COS.

15. In September 2014, Utilities Board approved the Rate Design Guidelines that establish guidance, structure and transparency in the development of revenue requirement by Rate Class. The fundamental guidance directs that rates should be designed such that each customer Rate Class recovers costs that are appropriately assigned to that class utilizing COS, professional judgment and discretion, and if necessary, is supported by additionally identified Supporting Guidelines. Supporting Guidelines include reasonableness, rate stability, asset maximization, and economic development.

16. With COS as the starting point for establishing each Rate Class’ contribution to the revenue requirement, Utilities is proposing rates in compliance with the approved Rate Design Guidelines.

17. With the overall system increase of 5.0% as a baseline, Utilities examined the relationship of the customer Rate Classes to their respective COS. Utilities sought to bring Rate Classes to within plus or minus 10.0% of their total COS in accordance with the Reasonableness Guideline while lending credence to the Rate Stability Guideline to mitigate rate shock. Using these guidelines collaboratively, Utilities proposes rate increases ranging from 0.0% to 6.5%. This holistic rate design approach continues to move Rate Classes closer to COS and achieves full recovery of the system revenue requirement.

18. In 2014, Utilities actively undertook a 5-year strategic business plan approach and began investigating the concept of revenue stabilization to buffer the impacts of revenue shortfalls and lessen the future rate impact of atypical events, such as natural disasters,

weather variability, and capital financing to address new regulatory requirements and aging infrastructure.

19. Rate design in the filing achieves a larger portion of fixed cost recovery through the Daily Charge, supporting revenue stability and maintaining an appropriate conservation balance consistent with Rate Design Guidelines and best management practices within the water industry. The filing increases the portion of Customer Charge by Rate Class for both Residential and Nonresidential by 16.3% and 16.4%, respectively, with Total Water Service increases of 4.3% and 6.0%, respectively. Specifically, the Residential – Inside City Limits Service Charge increased by $0.0849 per day, changing the current rate from $0.5200 to $0.6049. This represents a total increase of $2.55 per month, from $15.60 to $18.15. Residential commodity rates are unchanged in the filing.

20. Miscellaneous Service – Nonpotable is available to all customers using Utilities' nonpotable water from a Utilities owned, operated and maintained supply system. The filing increases the Miscellaneous Service – Nonpotable rate by 6.0%, or $0.0010, changing the rate from $0.0160 to $0.0170. This rate has been unchanged since 2009. In evaluating the Nonpotable service, as adjusted, it is projected to collect approximately $1.8 million less than the COS, which is offset by Nonresidential Service. Total Nonpotable Revenue Requirement after Adjustments is approximately $2.6 million, or 1.4%, of the Total Revenue Requirement of $187.9 million. Utilities anticipates developing and bringing forth a comprehensive long-term strategy for the Nonpotable service in 2016.

21. Utilities' filing increases the Temporary Service - Hydrant Use Customer Charge by 16.4%, or $0.7038, changing the rate from $4.2949 to $4.9987. Commodity charges per 1,000 gallons are increased by 4.6%, or $0.3857, changing the rate from $8.3433 to $8.7290 for Classes A, B, and C.

22. Utilities' filing increases the Miscellaneous Service – Augmentation rate by 6.7%, or $0.0004, changing the rate from $0.0060 to $0.0064. Utilities anticipates also developing and bringing forth a comprehensive long-term strategy for the augmentation service in 2016.

23. The Contract Service – Nonpotable tariff is available to existing special contract customers for nonpotable water service to the Kissing Camels Golf Course. Utilities' filing increases the Contract Service – Nonpotable rate by 6.5%, or $0.0006, changing the rate from $0.0092 to $0.0098.

24. Utilities states that the major drivers to the proposed Water rate changes for 2016 are (a) operating expenses, (b) financial metrics, and (c) debt service and surplus funds to the City.

    a) The Water service requires an Operating and Maintenance ("O&M") increase of $4.1 million to assess the distribution system and repair critical infrastructure. Additional drivers of Water O&M increases in 2016 are the initial phase of the

Southern Delivery System ("SDS") coming into service and ongoing maintenance and replacement costs to the overall Water system, which have purposely been reduced due to SDS construction and revenue shortfalls. The revenue requirement has been offset by use of cash on hand of $5.5 million in 2016 as compared to $11.7 million in 2015 due to Water cash levels continuing to deteriorate due to multiple years of lower than expected Water revenue.

b) Utilities has a "AA" (Aa2 Moody's) bond rating, one of the highest credit ratings among all public power utilities in the nation. Maintaining this rating requires achieving financial metrics which are vital to provide assurances to the rating agencies of a sound financial position. The three metrics most closely monitored by the rating agencies are debt service coverage, debt ratio, and day's cash on hand. While there are guidelines from each agency on what level these three metrics should be maintained, it is the combination of these metrics and many other factors that result in a final rating.

In September of 2015, all three rating agencies (Moody's, Fitch Ratings, and Standard & Poor's) affirmed a "AA" (Aa2 Moody's) rating for Utilities and assigned a stable outlook. Moody's stated that its rationale gave consideration to the Utilities' good financial performance, with a board policy of achieving adjusted debt service coverage of at least 2.0 that includes surplus payments to the City in the calculation. The stable outlook reflects the Utilities' long record of relatively stable debt service coverage margins and the rating agencies' expectation that debt service coverage and liquidity will remain sound as the Utilities completes a large capital program. The 2016 revenue requirement provides for adjusted debt service coverage of 2.05, again accounting for surplus payments to the City in the calculation.

Rating agencies expect a "AA" rated utility to carry a minimum of 100 to 120 days cash on hand, not including open lines of credit. The 2016 total days of cash on hand is projected to be 125.4 days, slightly exceeding the goal while allowing for more cash when combined with debt to fund capital projects.

Rating agencies expect a "AA" rated utility that owns its generation to maintain a debt leverage ratio of 60% or less. Due to the large capital program over the past several years, Utilities debt leverage ratio has exceeded 60%. Utilities' planned approach to cash fund more capital has allowed for a projected 2016 debt ratio of 55.7% which meets the sub 60.0% standard.

c) Year over year debt service expense is up by $3.7 million as Utilities continues to pay the debt incurred to fund the SDS project. The Water service has a proposed new $1.0 million surplus fund transfer to the City expense for the 2016 test year.

25. In addition to the proposed rate increases, Utilities proposes the following changes to the Water Tariff:

26. 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. *(Water Rate Schedules Sheet No. 12).*

27. 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. *(Water Rate Schedules Sheet No. 11, 11.1, 13.5).*

28. In addition to the proposed Water Tariff revisions, Utilities proposes changes to the Electric and Natural Gas Tariffs and the URR.

29. 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.

30. 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.

31. 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.

32. 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.

33. 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.

34. 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).

35. 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.

36. 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.

37. Utilities then began the presentation of the enterprise's proposals.

38. 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.

39. 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.

40. Ms. Thieme explained that the September 22, 2015, filing included documentation for Electric, Natural Gas, Water, and the URR, and included several appendices.

41. 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.

42. Ms. Thieme noted that that the rate increase drivers are capital costs and the financial metrics required to maintain a "AA" credit rating.

43. 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.

44. 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.

45. 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)%.

46. 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.

47. 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)%.

48. 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 (5^{th}) 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.

49. 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.

50. 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.

51. 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.

52. 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.

53. 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.

54. 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.

55. 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.

56. 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.

57. 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.

58. 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.

59. 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 Waster 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.

60. 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%.

61. 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, he 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.

62. 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 disproportionally 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.

63. 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.

64. 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.

65. 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.

66. 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.

67. 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.

68. 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.

69. Following public comment, President Bennett opened the floor to questions from the City Council.

70. 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?

71. 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?

72. 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?

73. 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.

74. 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?

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

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

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

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

79. 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.

80. 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.

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

82. 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.

83. 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.

84. 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.

85. 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.

86. 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.

87. 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.

88. 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.

89. 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.

90. 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.

91. President Bennett then concluded the discussion and explained that an executive session is not needed.

92. 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.

93. 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.

94. 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.

95. 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.

96. 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.

97. 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.

98. 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 $9.0 million appropriate for the 2016 rate case test-year period?

       The City Council held that an increase to the Water Service revenues of $9.0 million appropriate for the 2016 rate case test-year period is appropriate, with Councilmembers King and Collins opposed.

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

       i. Residential Service – Inside City Limits
       ii. Nonresidential Service – Inside City Limits
       iii. Residential Service – Outside City Limits
       iv. Nonresidential Service – Outside City Limits
       v. Contract Service
       vi. Temporary Service – Hydrant Use
       vii. Miscellaneous Service – Augmentation
       viii. Contract Service – Nonpotable
       ix. Large Non-Seasonal Service
       x. Water Shortage Tariff

       The City Council held that the rates and tariff for the following Electric Service Rate Schedules shall be revised as proposed, with Councilmembers King and Collins opposed: 1) Residential Service – Inside City Limits; 2) Nonresidential Service – Inside City Limits; 3) Residential Service – Outside City Limits; 4) Nonresidential Service – Outside City Limits; 5) Contract Service; 6) Temporary Service – Hydrant Use; 7) Miscellaneous Service – Augmentation; 8) Contract Service – Nonpotable; 9) Large Non-Seasonal Service; and 10) Water Shortage Tariff

    c) Should Utilities establish the Large Nonseasonal Service as a permanent rate and revise the contract termination rights within it?

       The City Council held that Utilities shall establish the Large Nonseasonal Service as a permanent rate and revise the contract termination rights within it.

    d) Should Utilities remove the large Potable Irrigator Water Conservation Rate Pilot Program?

The City Council held that Utilities shall remove the large Potable Irrigator Water Conservation Rate Pilot Program.

99. President Bennett then concluded the 2016 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, 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

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Council President

ATTEST:

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City Clerk