

RESOLUTION NO. 118-16

**A RESOLUTION SETTING THE WATER RATES
WITHIN THE WATER SERVICE AREA OF
COLORADO SPRINGS UTILITIES**

WHEREAS, Colorado Springs Utilities (Utilities) has analyzed the cost of providing water utility service to its Customers and has analyzed its current and expected revenue needs; and

WHEREAS, Utilities has prepared a Cost-of-Service Study that shows that the water service is currently in an unacceptable net income situation on a *pro forma* basis; and

WHEREAS, to rectify the unacceptable cash net income position, water service revenues will need to increase by approximately \$11.15 million for 2017 and an additional \$0.15 million in 2018; and

WHEREAS, Utilities has proposed, and the City Council finds it prudent, to modify the Residential, Nonresidential, Contract, Hydrant, Augmentation, and Nonpotable rates to reflect the appropriate cost for the service; and,

WHEREAS, in consideration of the hardship the proposed rate adjustment to the Large Nonseasonal Service rates may cause to some customers, City Council finds it prudent to phase in the rate adjustments over a two year period, with approximately 6% of the change effective January 1, 2017, and the remainder of the change effective January 1, 2018; and

WHEREAS, the details of the changes for each rate class, including the pricing changes noted above and all changes noted in the following clauses, are reflected in the tariff sheets attached to this resolution, are provided in red-line format within Utilities' 2017 Rate Case Filing, and are discussed further in the City Council Decision and Order for this case; and

WHEREAS, Utilities has provided public notice of the proposed changes and has complied with the requirements of the City Code for changing its water rate schedules; and

WHEREAS, the City Council finds that the proposed modifications to the water rate schedules and tariffs are reasonable in light of all circumstances and allow Utilities to collect revenues that enable Utilities to continue to operate in the best interest of all of its Customers; and

WHEREAS, Utilities has proposed to make the water rate schedule and tariff changes effective January 1, 2017 and January 2018 as applicable; and

WHEREAS, specific rates, policy changes, and changes to any terms and conditions of service are set out in the attached tariffs for adoption with the final City Council Decision and Order in this case.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF COLORADO SPRINGS:

Section 1: That Colorado Springs Utilities Tariff, City Council Volume No. 5, Water Rate Schedules shall be revised as follows:

Effective January 1, 2017

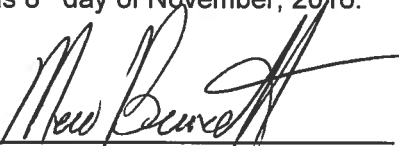
City Council Vol. No. 5		
Sheet No.	Title	Cancels Sheet No.
Eighth Revised Sheet No. 2	Residential Service – Inside City Limits	Seventh Revised Sheet No. 2
Eighth Revised Sheet No. 3	Nonresidential Service – Inside City Limits	Seventh Revised Sheet No. 3
Eighth Revised Sheet No. 4	Residential Service – Outside City Limits	Seventh Revised Sheet No. 4
Eighth Revised Sheet No. 5	Nonresidential Service – Outside City Limits	Seventh Revised Sheet No. 5
Eighth Revised Sheet No. 6	Contract Service	Seventh Revised Sheet No. 6
Eighth Revised Sheet No. 7	Temporary Service – Hydrant Use	Seventh Revised Sheet No. 7
Third Revised Sheet No. 8	Miscellaneous Service – Augmentation	Second Revised Sheet No. 8
Third Revised Sheet No. 9	Miscellaneous Service - Nonpotable	Second Revised Sheet No. 9
Fourth Revised Sheet No. 10	Contract Service - Nonpotable	Third Revised Sheet No. 10
Third Revised Sheet No. 12	Large Nonseasonal Service	Second Revised Sheet No. 12

Effective January 1, 2018

Fourth Revised Sheet No. 12	Large Nonseasonal Service	Third Revised Sheet No. 12
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Section 2: The attached Tariff Sheets, Council Decision and Order, and other related matters are hereby approved and adopted.

Dated at Colorado Springs, Colorado, this 8th day of November, 2016.



 City Council President

ATTEST:



 Sarah B. Johnson, City Clerk





WATER RATE SCHEDULES

RESIDENTIAL SERVICE – INSIDE CITY LIMITS W-R

AVAILABILITY

Available in the corporate limits of the City in Utilities’ water service territory for general residential purposes. Whether or not the end use of the water is residential in nature, this rate is not available for master metered accounts.

RATE

The billing statements are the sum of:

Service Charge, Per Meter Size in Inches, Per Day

5/8" - 1 inch	\$0.7079
1 1/2"	\$1.4158
2"	\$2.2653
3"	\$4.2474

Commodity Charge

First 999 cf	\$0.0349
1,000 to 2,499 cf	\$0.0654
2,500 cf or greater	\$0.0988

RULES AND REGULATIONS

Service under this rate schedule will be in accordance with City ordinances, resolutions and policies, the provisions of Utilities’ Rules and Regulations and *Line Extension & Service Standards* for Water.

Approval Date: November 8, 2016
Effective Date: January 1, 2017
Resolution No. _____



WATER RATE SCHEDULES

NON-RESIDENTIAL SERVICE – INSIDE CITY LIMITS W-G, W-M

AVAILABILITY

Available in the corporate limits of the City in Utilities’ water service territory for master meter and general non-residential purposes.

RATE

The billing statements are the sum of:

Service Charge, Per Meter Size in Inches, Per Day

Less than 2 inch	\$1.6562
2 inch.....	\$2.6499
3 inch.....	\$4.9686
4 inch.....	\$8.2810
6 inch.....	\$16.5620
8 inch.....	\$26.4992
10 inch.....	\$38.0926

Commodity Charge

November through April, per cf	\$0.0424
May through October, per cf.....	\$0.0637

RULES AND REGULATIONS

Service under this rate schedule will be in accordance with City ordinances, resolutions and policies, the provisions of Utilities’ Rules and Regulations and *Line Extension & Service Standards* for Water.

Approval Date: November 8, 2016
Effective Date: January 1, 2017
Resolution No. _____



WATER RATE SCHEDULES

RESIDENTIAL SERVICE - OUTSIDE CITY LIMITS W-R

AVAILABILITY

Available outside the corporate limits of the City in areas where water service is available from Utilities for general residential purposes and only with prior approval by the City Council. Whether or not the end use of the water is residential in nature, this rate is not available for master metered accounts.

RATE

The billing statements are the sum of:

Service Charge, Per Meter Size in Inches, Per Day

5/8" - 1 inch	\$1.0619
1 1/2"	\$2.1237
2"	\$3.3980
3"	\$6.3711

Commodity Charge

First 999 cf	\$0.0524
1,000 to 2,499 cf	\$0.0981
2,500 cf or greater	\$0.1482

RULES AND REGULATIONS

Service under this rate schedule will be in accordance with City ordinances, resolutions and policies, the provisions of Utilities' Rules and Regulations and *Line Extension & Service Standards for Water*.

Approval Date: November 8, 2016
Effective Date: January 1, 2017
Resolution No. _____



WATER RATE SCHEDULES

NON-RESIDENTIAL SERVICE - OUTSIDE CITY LIMITS W-G, W-M

AVAILABILITY

Available outside the corporate limits of the City in areas where water service is available from Utilities for master meter and general non-residential purposes and only with prior approval by the City Council.

RATE

The billing statements are the sum of:

Service Charge, Per Meter Size in Inches, Per Day

Less than 2 inch	\$2.4843
2 inch.....	\$3.9749
3 inch.....	\$7.4529
4 inch.....	\$12.4215
6 inch.....	\$24.8430
8 inch.....	\$39.7488
10 inch.....	\$57.1389

Commodity Charge

November through April, per cf	\$0.0636
May through October, per cf.....	\$0.0956

RULES AND REGULATIONS

Service under this rate schedule will be in accordance with City ordinances, resolutions and policies, the provisions of Utilities' Rules and Regulations and *Line Extension & Service Standards* for Water.

Approval Date: November 8, 2016

Effective Date: January 1, 2017

Resolution No. _____



WATER RATE SCHEDULES

CONTRACT SERVICE WSC-MIL

AVAILABILITY

Available by contract in Utilities' water service territory to the United States of America at the Fort Carson Military Installation, the Peterson Air Force Base, the United States Air Force Academy, and Cheyenne Mountain Air Force Station.

RATES

The billing statements are the sum of:

Commodity Charge

November through April, per cf	\$0.0348
May through October, per cf.....	\$0.0502

RULES AND REGULATIONS

Service under this rate schedule will be in accordance with City ordinances, resolutions and policies, the provisions of Utilities' Rules and Regulations, *Line Extension & Service Standards* for Water and the conditions of any associated contract.

Approval Date: November 8, 2016
Effective Date: January 1, 2017
Resolution No. _____



WATER RATE SCHEDULES

TEMPORARY SERVICE - HYDRANT USE WHYDM

AVAILABILITY

Available by Utilities' permit for development and construction-related activities, health and safety purposes, or other approved uses, as determined by Utilities.

PERMIT FEE

Per Permit\$100.0000

RATE

The billing statements are the sum of:

Customer Charge (All Permit Classes)

Per Day\$5.4216

Meter Charge (Utilities Owned Meter)

Per Day\$4.0000

Equipment Charge (Utilities Owned Back Flow Preventer)

Per Day\$4.0000

Commodity Charge

Class A Permit, Per 1,000 gallons\$9.2462

Class B Permit, Per 1,000 gallons.....\$9.2462

Class C Permit (Use of Fire Hydrant without Meter - Specified Capacity),
Per 1,000 gallons.....\$9.2462

PAYMENT

Billing statements are due and payable by the date indicated on the statement.

DEPOSIT

A cash deposit of three hundred dollars (\$300.00) may be required to guarantee performance of any permit. Utilities may require an additional deposit in the event the three hundred dollars (\$300.00) deposit is determined by Utilities to be insufficient.

RULES AND REGULATIONS

Service under this rate schedule will be in accordance with City ordinances, resolutions and policies, the provisions of Utilities' Rules and Regulations and *Line Extension & Service Standards* for Water.

Approval Date: November 8, 2016

Effective Date: January 1, 2017

Resolution No. _____



WATER RATE SCHEDULES

MISCELLANEOUS SERVICE - AUGMENTATION WIG

AVAILABILITY

Available to non-residential Customers for replacement of stream depletions associated with groundwater withdrawn from Customer drilled and maintained groundwater wells, evaporation from ponds or lakes, and surface water diversions within the corporate limits of the City. Augmentation water service is typically available only for single user, stand alone, on-site installations. Service is based on quantities and availability determined by Utilities.

RATE

The billing statements are the sum of:

Commodity Charge

Per cf\$0.0072

RULES AND REGULATIONS

Service under this rate schedule will be in accordance with City ordinances, resolutions and policies, the provisions of Utilities' Rules and Regulations and *Line Extension & Service Standards* for Water.

Approval Date: November 8, 2016
Effective Date: January 1, 2017
Resolution No. _____



WATER RATE SCHEDULES

MISCELLANEOUS SERVICE - NONPOTABLE W-N

AVAILABILITY

Available to all Customers using Utilities' nonpotable water from a Utilities' owned, operated, and maintained supply system. Nonpotable water may consist of raw water, reclaimed water, groundwater, or any combination of these. Service is based on pressures, quantities, and availability determined by Utilities.

RATE

The billing statements are the sum of:

Commodity Charge

per cf\$0.0190

RULES AND REGULATIONS

Service under this rate schedule will be in accordance with City ordinances, resolutions and policies, the provisions of Utilities' Rules and Regulations, Nonpotable policy, and *Line Extension & Service Standards* for Water.

Approval Date: November 8, 2016
Effective Date: January 1, 2017
Resolution No. _____



WATER RULES AND REGULATIONS

CONTRACT SERVICE – NONPOTABLE W1P

AVAILABILITY

Available to existing special contract Customer for nonpotable water service to the Kissing Camels Golf Course.

RATE

The billing statements are the sum of:

Commodity Charge

per cf\$0.0110

RULES AND REGULATIONS

Service under this rate schedule will be in accordance with City ordinances, resolutions and policies, the provisions of Utilities’ Rules and Regulations, Nonpotable policy manual, *Line Extension & Service Standards* for Water and the conditions of any associated contract.

Approval Date: November 8, 2016

Effective Date: January 1, 2017

Resolution No. _____



WATER RATE SCHEDULES
LARGE NONSEASONAL SERVICE - WLNS

AVAILABILITY

Service under this rate schedule is available by contract in Utilities' Exclusive Water Service Territory for Non-residential customers with annual consumption (based upon the most recent twelve month period) of at least 4 million cubic feet (cf) and a maximum summer month (based upon the most recent period of May – October) cubic feet (cf) consumption of no greater than 1.3 times the monthly average use across the prior twelve month period. Qualifying water consumption must occur through meters located on contiguous service properties on a Customer campus setting. Customers may apply for service under this tariff upon meeting the eligibility requirements.

Service is offered for a 12-month contract period. As long as the customer continues to meet the eligibility requirements, service shall be automatically renewed. After the initial 12-month contract period, Customer may provide written notice thirty (30) days prior to the beginning of the month for which Customer elects not to renew. Customers will be evaluated periodically to insure they continue to meet eligibility requirements. In the event that a customer is no longer eligible, the contract for service shall not renew at the close of the contract anniversary date and Customer shall be required to move to the rate schedule to which they are eligible upon the end of the contract period.

RATE

The billing statements are the sum of:

Service Charge, Per Metered Service Point Size in Inches, Per Day

Less than 2 inch	\$1.6562
2 inch.....	\$2.6499
3 inch.....	\$4.9686
4 inch.....	\$8.2810
6 inch.....	\$16.5620
8 inch.....	\$26.4992
10 inch.....	\$38.0926

Commodity Charge

Per cf	\$0.0427
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RULES AND REGULATIONS

Service under this rate schedule will be in accordance with City ordinances, resolutions and policies, the provisions of Utilities' Rules and Regulations and *Line Extension & Service Standards* for Water.

Approval Date: November 8, 2016
 Effective Date: January 1, 2017
 Resolution No. _____



WATER RATE SCHEDULES
LARGE NONSEASONAL SERVICE - WLNS

AVAILABILITY

Service under this rate schedule is available by contract in Utilities' Exclusive Water Service Territory for Non-residential customers with annual consumption (based upon the most recent twelve month period) of at least 4 million cubic feet (cf) and a maximum summer month (based upon the most recent period of May – October) cubic feet (cf) consumption of no greater than 1.3 times the monthly average use across the prior twelve month period. Qualifying water consumption must occur through meters located on contiguous service properties on a Customer campus setting. Customers may apply for service under this tariff upon meeting the eligibility requirements.

Service is offered for a 12-month contract period. As long as the customer continues to meet the eligibility requirements, service shall be automatically renewed. After the initial 12-month contract period, Customer may provide written notice thirty (30) days prior to the beginning of the month for which Customer elects not to renew. Customers will be evaluated periodically to insure they continue to meet eligibility requirements. In the event that a customer is no longer eligible, the contract for service shall not renew at the close of the contract anniversary date and Customer shall be required to move to the rate schedule to which they are eligible upon the end of the contract period.

RATE

The billing statements are the sum of:

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3 inch.....	\$4.9686
4 inch.....	\$8.2810
6 inch.....	\$16.5620
8 inch.....	\$26.4992
10 inch.....	\$38.0926

Commodity Charge

Per cf.....	\$0.0442
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RULES AND REGULATIONS

Service under this rate schedule will be in accordance with City ordinances, resolutions and policies, the provisions of Utilities' Rules and Regulations and *Line Extension & Service Standards* for Water.

Approval Date: November 8, 2016
 Effective Date: January 1, 2018
 Resolution No. _____

BEFORE THE CITY COUNCIL OF
THE CITY OF COLORADO SPRINGS

IN THE MATTER OF THE REVISION)
OF THE WATER TARIFF OF) DECISION & ORDER 16-03 (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 utility service within the City.
2. Utilities is proposing changes to the Electric, Water, and Wastewater Rate Schedules and Utilities Rules and Regulations (“URR”) in the 2017 Rate Case filing.
3. Utilities uses a Cash-Needs method to determine the total revenue requirement derived from the annual budget. This technique is frequently utilized by other government-owned enterprise utilities in order to set rates at an appropriate level to recover sufficient revenues to cover all cash needs. A major advantage of this technique is consistency with the budgeting and accounting systems used by these entities.
4. Utilities has conducted a Cost of Service (“COS”) study for Electric, Water, and Wastewater. The test year for this filing is the 2017 proposed budget. The rate analysis concluded rate adjustments are required for the Electric, Water, and Wastewater services.
5. The proposed effective date for the proposed tariff changes is January 1, 2017.
6. 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.
7. Utilities conducted the COS which 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 \$199.5 million, which is \$11.3 million, or 6.0%, higher than the projected revenues under current rates. The effect of this increase on the typical monthly residential water bill is an additional \$3.09, or 5.2%, over the current typical water bill.
8. Utilities states that the major rate drivers to the proposed Water rate changes for 2017 are (a) Water operating and maintenance expenses, (b) Water debt service, and (c) enterprise financial metrics.
 - a) The Water service requires an Operating and Maintenance (“O&M”) increase of \$10.1 million to assess the distribution system and repair critical infrastructure. Additional drivers of Water O&M increases in 2017 are planning and investment efforts in supply, delivery, and treatment, and ongoing maintenance and replacement costs to the overall Water system, which have purposely been

reduced due to the Southern Delivery System (“SDS”) construction and revenue shortfalls.

- b) Year over year projected debt service expense is up by \$0.9 million as Utilities continues to pay the debt incurred to fund water capital projects, including the recently completed SDS project.
- c) 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 adjusted 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.

Utilities’ 2017 proposed appropriation provides for an adjusted debt service coverage of 1.91, including Surplus Payments to the City in the calculation. Rating agencies expect a “AA” rated utility to carry 100 to 120 Days Cash on Hand, not including open lines of credit. The 2017 Days Cash on Hand is projected to be 135.4 days, which exceeds the goal and provides additional cash to fund capital projects if proposed revenue from rates are recognized through the course of the year. Rating agencies expect a “AA” rated utility that owns generation to maintain a Debt Ratio of 60% or less. Due to the large capital program over the past several years, the Debt Ratio has exceeded 60%. A planned approach to cash-funding more capital has allowed for a projected 2017 Debt Ratio of 57.60%, which meets the sub 60.0% target.

- 9. 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.
10. Utilities allocates debt service and cash funded capital components of the revenue requirement to each Water function based on the proportion of that function's assets to the total assets of the Water service. Currently this allocator is calculated based on gross plant including construction work-in-progress. Utilities is proposing that the allocation be based on net plant (gross plant less accumulated depreciation) including construction work-in-progress.
 11. Debt and cash funded capital costs are incurred consistent with Utilities' Capital Policy and are associated with additions to capital. The change in methodology facilitates a closer alignment between the funding of capital costs and the remaining useful life of the asset. Utilities continues to be committed to continuous improvement and believes this change more appropriately allocates capital related cost to the functions.
 12. 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.
 13. 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.
 14. With the overall system increase of 6.0% as a baseline, Utilities examined the relationship of the customer rate classes to their respective COS. Utilities sought to bring rate classes 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 5.1% to 12.5%. This holistic rate design approach continues to move rate classes closer to COS and achieves full recovery of the system revenue requirement.
 15. In 2014, Utilities actively undertook a five 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.

16. Rate design in this filing achieves a larger portion of fixed cost recovery through the Per Day charge, supporting revenue stability and maintaining an appropriate conservation balance, consistent with Rate Design Guidelines and best management practices within the water industry. This filing increases that portion of customer charge by rate class for both Residential and Nonresidential by 17.0% and 8.5%, respectively, with Total Water Service increases of 5.1% and 6.2%, respectively.
17. Specifically, the Residential – Inside City Limits Service Charge Per Day Charge increased by \$0.1030 per day, changing the current rate from \$0.6049 to \$0.7079. This represents a total increase of \$3.09 per month, from \$18.15 to \$21.24. Residential commodity rates are unchanged in this filing.
18. Utilities filing also proposes changes to Contract Service. This service is available to the United States of America at the Fort Carson Military Installation, the Peterson Air Force Base, the United States Air Force Academy and the Cheyenne Mountain Air Force Station. This filing increases the total Contract Service cost by 10% with changes to the winter and summer commodity charges of 13.4% and 8.9% respectively. The winter commodity charge is increased by \$0.0041, changing from \$0.0307 to \$0.0348 per cf, while the summer commodity charge is increased by \$0.0041, changing from \$0.0461 to \$0.0502 per cf.
19. This filing continues a phased-in approach, which started in 2016 to bring the Contract Service rates within an appropriate range of the COS study results. The phased approach is based in the Supporting Guideline of Rate Stability, which seeks to mitigate and levelize impacts of rate increases.
20. Changes are also proposed to the Miscellaneous Service – Nonpotable rate class. This service is available to all customers using Utilities’ nonpotable water from a Utilities owned, operated and maintained supply system. The Miscellaneous Service – Nonpotable rate was unchanged from 2009 through 2015. Continuing a phased-in approach started in 2016 to bring the Nonpotable rate within an appropriate range of the COS study results, Utilities proposes increases the Nonpotable rate by 12.0%, or \$0.0020, changing the rate from \$0.0170 to \$0.0190 per cf. The phased approach is based in the Supporting Guideline of Rate Stability, which seeks to mitigate and levelize impacts of rate increases. Revenues from the Nonpotable rate class are projected to be \$1.4 million under the COS study results, which is offset by a COS adjustment that reduces the Nonpotable revenue requirement and increases the Nonresidential revenue requirement by \$1.4 million. The total Nonpotable revenue requirement after adjustments is approximately \$2.3 million, or 1.2%, of the total revenue requirement of \$199.5 million. Utilities anticipates continued refinement of a comprehensive long-term strategy for the Nonpotable service.

21. In addition to the changes to the Water tariff explained above, Utilities proposes the following changes.
22. Temporary Service – Hydrant Use: Utilities proposes increasing the Temporary Service – Hydrant Use customer charge by 8.5%, or \$0.4229, changing the rate from \$4.9987 to \$5.4216 per day. Commodity charges per 1,000 gallons are increased by 5.9%, or \$0.5172, changing the rate from \$8.7290 to \$9.2462 per 1,000 gallons for Classes A, B, and C. (*Water Rate Schedule Sheet No. 7*)
23. Miscellaneous Service – Augmentation: Utilities proposes increasing the Miscellaneous Service – Augmentation rate by 12.5%, or \$0.0008, changing the rate from \$0.0064 to \$0.0072 per cf. The operational characteristics of augmentation service are not appropriately represented through embedded cost analysis, which overstates the value of the service. The augmentation rate proposed in this filing is supported by market and marginal cost analysis and represents an initial step in a phased-in approach to bring the rate within a reasonable range of the service’s value. Utilities anticipates developing and bringing forth a comprehensive long-term strategy for augmentation service in 2017. (*Water Rate Schedule Sheet No. 8*)
24. Contract Service – Nonpotable: This tariff is available to an existing special contract customer for nonpotable water service to the Kissing Camels Golf Course. This filing increases the Contract Service – Nonpotable rate by 12.2%, or \$0.0012, changing the rate from \$0.0098 to \$0.0110 per cf. (*Water Rate Schedule Sheet No. 10*)
25. In addition to the proposed Water Tariff revisions, Utilities proposes changes to the Electric and Wastewater Tariffs and the URR.
26. Utilities filed its COS study supporting the Electric, Water, and Wastewater services base rate and Tariff changes with the City Auditor, Mr. Denny Nester, and with the City Attorney, Ms. Wynetta Massey, on August 12, 2016. Utilities then filed the enterprise’s formal proposals on September 13, 2016, with the City Clerk, Ms. Sarah Johnson, and a complete copy of the proposals was placed in the City Clerk’s Office for public inspection. Notice of the filing was published on-line at www.csu.org on September 13, 2016, in *The Gazette* on September 16, 2016, and mailed as required on September 16, 2016. These various notices and filings comply with the requirements of §12.1.107 of the City Code and the applicable provision of the Colorado Revised Statutes. Copies of the published and mailed notices are contained within the record. Additional public notice was provided through Utilities’ website, www.csu.org and a complete copy of the proposals was placed on that website for public inspection.
27. The information provided to the City Council and held open for public inspection at the City Clerk’s Office was supplemented by Utilities on October 18, 2016. The supplemental material contained a supplemental customer feedback report, copies of the publications of required legal notice, public outreach information, and the City Auditor’s report.

28. Prior to the public hearing, Utilities provided a copy of the complete rate filing to the City Auditor and to the City Attorney for review. The City Auditor issued his findings on the proposed rate and tariff changes, dated October 2016. A copy of that report is contained within the record. A supplemental audit report was filed by the City Auditor on November 7, 2016.
29. On October 25, 2016, the City Council held a public hearing concerning the proposed changes to the Electric, Water, and Wastewater 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.
30. 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.
31. The presentations started with Mr. Christopher Bidlack of the City Attorney's Office, briefing the City Council on its power to establish rates, charges, and regulations for Utilities' services. In setting rates, charges, and regulations for Utilities' services, the City Council is sitting as a legislative body because the setting of rates, charges, and regulations is necessary to carry out existing legislative policy of operating the various utility systems. However, unlike other legislative processes, the establishment of rates, charges, and regulations is quasi-judicial and requires a decision based upon evidence in the record and the process is not subject to referendum or initiative. Mr. Bidlack provided information on the statutory and regulatory requirements on rate changes. Rates for Electric service must be just, reasonable, sufficient, and not unduly discriminatory, City Code §12.1.107(E). Rates for Water and Wastewater service must be reasonable and appropriate in light of all circumstances, City Code § 12.1.107(F).
32. 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. Mr. Bidlack noted that he provided all Council Members with supplemental information on October 24, 2016, based on requests for additional information presented by City Council Members. Mr. Bidlack also noted that Council Member Andy Pico provided a copy of an *ex parte* email he received in relation to customer concerns about the proposed rate increases. City Council indicated there were no additional *ex parte* communications.
33. Utilities then began the presentation of the enterprise's proposals.
34. The speaker was Ms. Sonya Thieme, Utilities' Rates Manager. She started by providing an overview of the 2017 Rate Case. She noted that the 2017 Rate Case filing includes proposed changes to the (1) Electric Rate Schedules, (2) Water Rate Schedules, (3) Wastewater Rate Schedules, and (4) URR. Additionally, the COS is prepared following industry standards and practices and rates are designed in compliance with Rate Design Guidelines.

35. Ms. Thieme then explained that the preliminary 2017 filing was presented to the Utilities Board and the Utilities Board Finance Committee. She then noted that the filing fulfilled proper procedural compliance requirements by (1) filing a preliminary COS study with the OCA on August 12, 2016, (2) requesting a public hearing date, (3) filing the 2017 Rate Case with the City Clerk, (4) posting the filing to www.csu.org on September 13, 2016, and (5) publishing and mailing required legal notices on September 16, 2016.
36. Next, Ms. Thieme provided a summary of the Electric Service changes. The revenue requirement reflects the implementation of Phase 2 of a 3 Phase plan to address Electric revenue shortfall as directed by the Utilities Board in April of 2016. The total base (non-fuel) Electric revenue is \$320.7 million. This is \$13.9 million lower than the 2016 Electric revenue requirement. The reduction is primarily due to the anticipated revenue shortfall from the Industrial Service - Time of Day 1,000kWH/Day Minimum (ETL) class. Additionally, the rate filing continues a phased in approach to bring rate classes within plus or minus 10% of respective COS. Such increases are not to exceed 12.5% and apply to all standard rate classes below COS. No rate increases have been applied to rate classes at or above COS.
37. She then noted the electric rate classes for which rate increases are proposed and those for which no change is proposed.
38. Ms. Thieme provided information on general changes to Residential and Commercial rate options. Optional Time-of-Day rates provide a price signal to help reduce system peak demand and provide customers with (1) an opportunity to adjust their usage patterns to align with off-peak periods and (2) the potential to realize savings over the standard rates. Both Residential and Commercial Time-of-Day rates are modified in the proposed rates to properly reflect the appropriate price signal. Residential Time-of-Day rates are decreased by 15.2% and Commercial Time-of-Day rates are increased by 18%.
39. Ms. Thieme concluded her presentation on Electric service changes by noting the additional proposed Electric tariff changes: (1) the Kilowatcher Rate Options is removed from tariff sheets as the existing contracts expired in March of 2016 and the option is no longer offered; (2) the Contract Service – Wheeling (ECW) rate is modified to remove some ancillary services currently offered in the tariff that Customers either have not made use of or required; (3) clarification of the tariff language for Totalization Service to remove obsolete language is provided; (4) the Renewable Energy Net Metering rate is updated to align the sheet numbering with past revisions; (5) the Reserved Capacity Charge (RCC) for Enhanced Power Service is increased to complete a five year phase in to full cost; (6) the Community Solar Garden (CSG) Pilot Program Bill Credit is updated to reflect the proposed Electric service rate increases; (7) the CSG Non-Pilot Bill Credit is updated based on the proposed Electric service rate increases; and (8) the Wind Power Tariff is removed due to expiration.
40. Ms. Thieme then addressed the proposed changes to the Water tariff. The proposed total water revenue is \$199.5 million, which is \$11.3 million higher than revenue under current rates. The overall system increase is 6.0% higher than current rates. The increase breaks

down as a 5.1% increase for Residential, 6.2% increase for Nonresidential, 10.0% increase for Contract Services – DOD, 9.7% increase for Large Nonseasonal, and 12.0% increase for Nonpotable and Augmentation customers.

41. The rate design components are (1) continuing to move rate classes closer to COS and (2) increasing the fixed daily charge to enhance financial stability and maintain a conservation signal, specifically for Residential customers.
42. Ms. Thieme concluded her review of proposed changes to the service tariffs by addressing Wastewater. The current Wastewater rates are sufficient to cover the 2017 revenue requirement of \$68.0 million. While no additional revenue is required, the rate classes were updated to use allocations and methodologies consistent with the other services as the Wastewater rates have not been modified since 2010. The proposed rate changes decrease Residential rates by 1.5% and increase Nonresidential rates by 4.0% and Contract Services – Outside City Limits by 11.6%. Additionally, a new rate class is added for Military customers to be consistent with the rate structure provided across the three other services.
43. Ms. Thieme then provided a summary of the overall impact of the proposed rate changes to a four service utility bill. The typical Residential customer will see a 1.3% or \$2.60 increase to their bill. The typical Commercial customer will see a 3.4% or \$44.34 increase to their bill. And, the typical Industrial customer will see a 0.6% or \$225.91 increase to their bill.
44. Ms. Thieme concluded the substantive portion of her presentation by noting the proposed changes to the URR. Those proposed changes are as follows:
 - a) Restoration of Service: This change proposes to increase the maximum time from 12 hours to 24 hours in which Utilities must restore service to customers disconnected for non-payment and other customer-controlled situations identified in Section 13 of URR. Additionally, Utilities proposes a minor clean-up changing “normal working hours of 7:00 a.m. to 7:00 p.m., Monday through Friday” to “normal working business day.”
 - b) 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 at or close to the current costs. The current Electric Line Extensions and Services fees are proposed to increase Electric fee increases range from 5.8% to 10% to achieve full cost fees for nine (9) out of eleven (11) total line extensions and services. The current Natural Gas Mains and Services rate of 18% will increase to full cost at 20%.
 - c) Water and Wastewater Development Charges: This change proposes to reduce the multiplier for all meters greater than $\frac{3}{4}$ inch to a meter capacity ratio. This change will lower the current charge for Water Development Charge meter sizes

greater than 4 inch. Additionally, this change will also lower the current charge for Wastewater Development Charge meter sizes meter sizes greater than the $\frac{3}{4}$ inch.

- d) Correction of City Code reference in Applicability of City Code: This change is to correct an incorrect reference to a section of the City Code. There is no policy or financial impact of this change.
45. Next, Ms. Thieme addressed the customer outreach Utilities performed in relation to the 2017 Rate Case filing. The customer outreach was carried out throughout September and October and included newsletter information about the proposal and hearing dates, required public notice, and meetings with commercial and industrial customers. She then noted Utilities programs that are in place to assist customers: (1) bill assistance through Project COPE and the Low income Energy Assistance Program, (2) high bill counseling through conservation education and the Home Energy Assistance Program, and (3) payment plans through Utilities' Budget Billing program.
46. The next issue discussed was Utilities Supplemental Customer Feedback Report, which Utilities included within the Supplemental Filing. Utilities received some customer feedback in relation to the proposed rate changes. Those customers were concerned because they face the proposed base-rate increases and the likelihood of Electric Cost Adjustment ("ECA") and Gas Cost Adjustment ("GCA") increases. One of the most impacted customer groups is the Industrial Service – Time-of-Day Service 1,000 kWh/Day Minimum (ETL). There are approximately 1,300 ETL customers impacted by the proposed 12.5% increase. Seventeen (17) of these customers are impacted by Nonpotable proposed 12.0% increase and three (3) of these customers are impacted by Large Nonseasonal proposed 9.7% increase with all of those customers impacted by Nonresidential Wastewater proposed 4% increase. In addition to factors outlined in this rate hearing presentation, the magnitude of bill impact is greatly influenced by the fluctuation in fuel and purchase power costs.
47. Ms. Thieme then explained that the City Council will be presented with ECA and GCA increases on an agenda item following the rate hearing. The proposed changes would be effective November 1, 2016. The proposed ECA rate is approximately \$0.0273 per kWh which impacts bills as follows: typical Residential electric bill increase of \$3.18 or 4.2%; typical Commercial electric bill increase of \$31.80 or 6.3% and; typical Industrial electric bill increase of \$2,120.00 or 6.8%. The proposed GCA rate is approximately \$0.1815 per Ccf which impacts bills as follows: typical Residential gas bill increase of \$2.68 or 7.4%; typical Commercial gas bill increase of \$55.43 or 10.7% and; typical industrial gas bill increase of 554.28 or 11.9%.
48. She then noted that many customers have experienced much lower bills since 2015 because of soft fuel markets. In 2016, Utilities' has reduced the combined ECA and GCA over collection balances by \$18.1 million. The lowest ECA rate was approximately 23% below cost and the lowest GCA rate was approximately 46% below cost. Generally, the ECA and GCA charges represent a significant portion of the business customer's bill.

Utilities compiled five (5) year typical bill history to capture both base rate adjustments and ECA and GCA rate adjustments for different customer classes. These compilations show minimal bill impacts over the five (5) year period.

49. Ms. Thieme explained that while Utilities supports the 2017 Rate Case as filed, Utilities created rate alternatives based on the customer feedback. In accordance with City Code § 12.1.107(C)(4), the City Council may amend or revise the proposed rates based on information presented at the rate hearing.
50. If City Council elects to modify the Water rates proposed by Utilities, Utilities proposes modifying the rates to function as a two year phase in for the most affected rate classes. Doing so would create rates effective on January 1, 2017, and January 1, 2018. The alternate proposal would modify the (1) Contract Service – MIL, (2) Miscellaneous Service – Nonpotable, and (3) Large Non-seasonal Service to create a phased in approach that will increase each rate by 6.0% effective January 1, 2017, and additional increases of 6.0%, 4.0%, and 3.7%, respectfully, to bring the rates to cost of service effective January 1, 2018.
51. If City Council elects to not modify the Wastewater rates as proposed by Utilities, Utilities proposes that the changes be implemented over two years, with the first 50% of the change being effective January 1, 2017, and the second 50% of the change being effective January 1, 2018.
52. Ms. Thieme then addressed the supplemental information provided to City Council by Mr. Bidlack on October 24, 2016. The additional information addressed five (5) points of additional information requested by Council Members. Ms. Thieme provided high level summaries of each item listed below.
 - a) Item 1: A slide showing the current different electric rate classes and the percent and dollar value of their fair share of COS they are paying under current rates and how they will stand if the 2017 rate case is approved.
 - b) Item 2: Slides showing the total bill impact for industrial, commercial, and residential for the different proposed ECA/GCA adjustments to be effective November 1, 2016, the rate changes to be effective January 1, 2017, and the ECA/GCA adjustments estimated to be effective February 1, 2017.
 - c) Item 3: Slides showing what the military customer's current dollar amount and fair share is for COS for Water and Wastewater and what it would be under the proposed rates.
 - d) Item 4: Slides showing revenue impact of varying percentages of the proposed residential water rate increase being applied to the daily access charge in comparison to the complete increase being applied to the daily access charge as proposed.
 - e) Item 5: Slides providing a five (5) year history of rate changes for residential, commercial, and industrial customers.

53. Assistant City Auditor, Ms. Jacqueline Rowland then presented the Auditor's report. Ms. Rowland stated that the OCA reviewed the COS for each service and concluded that they were prepared accurately and that the methodology was consistent. The OCA report included two recommendations for future improvements, but supported the Utilities rate filing. Ms. Rowland noted that the OCA also reviewed the proposed ECA and GCA changes, but has not reviewed the alternative options noted by Utilities for Water and Wastewater.
54. 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 City Council, and then Utilities would have a short break to formulate responses, if necessary.
55. Representatives of three customers spoke to address their concerns with the proposed rate increases.
56. Mayor of Manitou Springs Nicole Nicholetta and Ms. Shelly Cobau of Manitou Springs Public Services spoke about the concerns the City of Manitou Springs has with the proposed rate increases in relation to both cost and customer complaints. Both requested that City Council consider the alternatives proposed by Utilities to phase Water and Wastewater changes in over a two year period.
57. Mr. Jason Lachance, the Chief Financial Officer of dpiX, spoke to his concerns about the proposed rate increases and noted his concern that the proposed rate increases will harm dpiX's ability to be a competitive entity and Colorado Springs' ability to remain competitive in the context of attracting and retaining businesses.
58. Lastly, Mr. Dan Malinaric, Vice President of Operations for Microchip, expressed his concerns about the proposed rate increases, specifically the impact of the rate increases on Microchip's business competitiveness and Utilities' ability to be a "low cost utility" and the impact the rate increases will have when Utilities' rates are compared with other entities.
59. Following public comment, President Bennett opened the floor to questions from the City Council.
60. Council Member Don Knight spoke to explain his questions that led to a portion of the additional information provided on October 24, 2016. He noted that two of his four questions were answered with the provided materials (military impact and daily charges), but that he had additional questions related to the COS calculation across rate classes in relation to the proposed 2017 rates and the collective bill impact of the proposed 2017 rates, the November 1, 2016, ECA and GCA changes, and the estimated February 1, 2017, ECA and GCA changes.

61. Ms. Thieme addressed Council Member Knight's first question by presenting the supplemental slide on COS. Council Member Knight emphasized that the presented rates comply with the Utilities Board direction to keep rate classes within +/- 10% of the COS.
62. Council Member Tom Strand then asked whether Utilities received any feedback from Department of Defense customers. Ms. Thieme replied that Utilities worked directly with military customers and that those customers understand the rate drivers and do not opposed the proposed rates.
63. Council Member Strand then asked Ms. Rowland to perform a review of the alternate proposals presented by Utilities. Ms. Rowland confirmed that the analysis would be performed and that the review will be submitted to City Council.
64. Council Member Andy Pico then spoke to the nature of the proposed changes, emphasizing that the majority of the bill impact that customers expressed concern for is driven by the fuel costs contained within the ECA and GCA and that those costs are a direct pass through by Utilities.
65. President Bennett then asked Utilities Chief Executive Officer, Mr. Jerry Forte whether a recess was necessary to prepare any Utilities' responses. Mr. Forte stated that no break was necessary.
66. Council Member Knight then asked for further clarification on the second question he presented, as noted above. Ms. Thieme provided a walkthrough of the additional materials to demonstrate how they provided a summary of bill impact across the proposed rate changes and the ECA and GCA changes planned for November 1, 2016, and February 1, 2017. Council Member Knight confirmed that the information presented was the requested information.
67. At the conclusion of the City Council discussion, President Bennett determined that an executive session was not needed.
68. Prior to Mr. Bidlack polling the City Council on the issues central to the proposed changes, the City Council had further discussion on whether to address the Water and Wastewater tariffs as proposed by Utilities or whether to support the alternatives presented for each service. Support for the alternatives was given by the City Council and additional discussion followed.
69. Council Member Knight first addressed the Water service alternatives. He contended that while the alternative, phase in approach for the Large Non-seasonal Service should be pursued, the alternative should not be pursued for the Contract Service – Military rate and Nonpotable rate. He explained that the Military customers noted support for the proposed rates and that the Nonpotable rate is significantly below the COS and requires significant increases to reach COS.

70. Following Council Member Knight's comments, consensus was reached to support the alternative two year phase in for only the Large Non-seasonal rate with a 6.0% increase to be effective January 1, 2017, and a 3.7% increase to be effective January 1, 2018. Additionally, there was consensus to reduce the revenue requirement for Water service for 2017 by \$149,552, in correlation with the Large Non-seasonal rate phase in approach.

71. Discussion on the Wastewater alternatives led to a consensus to support the totality of the alternative phase in approach. That approach will implement first 50% of proposed rates to be effective January 1, 2017, and second 50% of the proposed rates to be effective January 1, 2018.

72. At the conclusion of questions by the public and City Council, Utilities' responses, and discussion by City Council, Mr. Bidlack, polled Council Members regarding the issues central to the Electric, Water, and Wastewater services and the URR. Eight members of the City Council were present, with Council Member Bill Murray excused.

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

- a) Is an increase to the Water Service revenues of approximately \$11.15 million, which is the proposed amount less the revenue that will not be collected as a result of the two year phase in for the Large Non-seasonal Service rate, appropriate for the 2017 rate case test-year period?

The City Council held that an increase to the Water Service revenues of approximately \$11.15 million, which is the proposed amount less the revenue that will not be collected as a result of the two year phase in for the Large Non-seasonal Service rate, is appropriate.

- b) Should the rates and tariffs for the Large Non-seasonal Service rate be modified through a two year phase in that will increase the rate by 6% to be effective January 1, 2017, and increase the rate by 3.7% to be effective January 1, 2018.

The City council held that the Large Non-seasonal Service rate shall be modified through a two year phase in that will increase the rate by 6% to be effective January 1, 2017, and increase the rate by 3.7% to be effective January 1, 2018, with Council Member Collins opposed.

- c) 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. Miscellaneous Service – Nonpotable
- ix. Contract Service – Nonpotable

The City Council held that the rates and tariff for the following Electric Service Rate Schedules shall be revised as proposed, with Council Member 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) Miscellaneous Service Nonpotable; and 9) Contract Service – Nonpotable.

74. President Bennett then concluded the 2017 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, 2017 and January 1, 2018, as applicable. 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 November, 2016.

CITY OF COLORADO SPRINGS



Council President

ATTEST:



City Clerk

