




Interoffice Memorandum

MEETING DATE: May 27, 2014

TO: President and Members of City Council

FROM: Jerry Forte, P.E., Chief Executive Officer 

RE: **A RESOLUTION SETTING THE ELECTRIC COST ADJUSTMENT EFFECTIVE JUNE 1, 2014**

UTILITIES' STRATEGIC GOAL(S) THIS ITEM SUPPORTS: F1 - Ensure sufficient revenue to meet service and financial requirements, F2 – Keep rates competitive

SUMMARY: Colorado Springs Utilities is requesting a change to its Electric Cost Adjustment (ECA) rate. The current ECA rate of \$0.0013 per kWh was implemented March 1, 2014. Current revenue and cost projections indicate that without a rate adjustment Colorado Springs Utilities could accumulate an under-collected balance of \$23.0 million at the end of fiscal year 2014. To maintain financial stability and minimize the fluctuations associated with less frequent adjustments during periods of price volatility, Colorado Springs Utilities recommends an ECA rate change from the current rate of \$0.0013 per kWh to a proposed rate of \$0.0102 per kWh effective June 1, 2014.

PREVIOUS COUNCIL ACTION: On February 25, 2014, by Resolution No. 22-14, City Council resolved to set the ECA at the current rate of \$0.0013 per kWh effective March 1, 2014.

BACKGROUND: Colorado Springs Utilities sought approval for the current ECA rate at the February 25, 2014 City Council meeting. The ECA rate has remained at the approved level since March 1, 2014. To recover the additional cost to replace power normally generated at the Martin Drake Power Plant ("Drake"), Utilities proposes an increase to the ECA. As a result of the Drake outage, the lower cost baseload coal-fired generation is replaced with Utilities' higher cost gas-fired generation and/or purchase power from other electric providers in the region. Projections indicate that without an ECA adjustment the collected balance will be under-collected \$23.0 million by the end of fiscal year 2014. The ECA rate mechanism supports recovery of higher energy costs before December 31 to maintain financial stability, liquidity and debt service coverage. Colorado Springs Utilities staff continues to provide regular updates to the Utilities Board on the collected balance, and will recommend timely changes to the ECA rate as is deemed appropriate.

Colorado Springs Utilities has performed the ECA calculation in conformance with the language in the ECA tariff.

FINANCIAL IMPLICATIONS: Implementing the proposed ECA rate will impact the respective customer's bill as follows:

Monthly Electric bill:

Typical residential bill at 600 kWh	=	\$5.34 or 7.4%
Typical commercial bill at 6,000 kWh	=	\$53.40 or 10.4%

Typical industrial bill at 400,000 kWh = \$3,560.00 or 11.2%

ALTERNATIVES: Keep the current ECA rate and under-collect electric fuel and purchased power costs.

BOARD/COMMISSION RECOMMENDATION: N/A

STAKEHOLDER PROCESS: N/A

RECOMMENDATIONS: Colorado Springs Utilities recommends the adoption of the attached Resolution.

PROPOSED MOTION: Move adoption of the proposed Resolution.

c: Officer Team