

BEFORE THE CITY COUNCIL OF
THE CITY OF COLORADO SPRINGS

IN THE MATTER OF THE REVISION)
OF THE WATER TARIFF OF) DECISION & ORDER 18-01 (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 proposes changes to the Water and Wastewater Rate Schedules in the 2019 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 conducted Cost of Service (“COS”) studies following generally accepted ratemaking practices and proposes rates designed in compliance with all governing policy. The test year for this filing is the 2019 proposed budget. The rate analysis concluded rate adjustments are required for the Water and Wastewater services.
5. The proposed rate changes for Water service will result in total revenue of \$199.6 million, which is \$6.7 million, or 3.5%, higher than the projected revenues under current rates.
6. The proposed rate changes for Wastewater service will result in total revenue of \$70.4 million, which is \$1.4 million, or 2.0%, higher than the projected revenues under current rates.
7. The proposed effective date for Utilities’ tariff changes is January 1, 2019.
8. Utilities operates an extensive network of water 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. In preparation for its filing, Utilities performed a comprehensive review of the pricing of all water services and determined that the proposed changes are necessary.
9. The primary water rate drivers for the proposed changes are (1) funding the replacement and repair of aging infrastructure, (2) increasing debt service, and (3) compliance with the Water Surplus Rates established in City Council Resolution No. 49-18.

10. The effect of the water rate increase on the typical monthly residential water bill is an additional \$3.80, or 5.8%, over the current typical residential water bill.

11. Utilities filing explained changes to the specific Water services as follows:

- a) Residential Service – This service is available for general residential purposes. The filing proposes increases to the total Residential revenue by 3.6%. Proposed changes include adjustments to the Service Charge and continued flattening of price differentials between the inclining block Commodity Charge rates that began with the approved 2018 Rate Case. This rate design strategy is estimated to produce stable revenue while maintaining the customer’s ability to influence their bill and encourage wise water use to support a healthy, living landscape. The proposed charges are as follows:
 - i. Service Charge (meters less than one inch) increase of 2.3% or \$0.0161 per day, changing the rate from \$0.7079 to \$0.7240 per day; and
 - ii. Commodity Charge: (1) First 999 cf - increase of 8.9% or \$0.0034 per cf, changing the rate from \$0.0381 to \$0.0415 per cf, (2) 1,000 to 2,499 cf - decrease of 1.1% or \$0.0007 per cf, changing the rate from \$0.0654 to \$0.0647 per cf, and (3) 2,500 cf or greater - decrease of 1.2% or \$0.0012 per cf, changing the rate from \$0.0988 to \$0.0976 per cf.
- b) Nonresidential Service – This service is available for master meter and general nonresidential purposes. The filing proposes increases to the total Nonresidential revenue by 2.4%. Proposed changes include adjustments to the Service Charge and flattening of the price differentials between the Winter and Summer Commodity Charge rates. The proposed charges are as follows:
 - i. Service Charge (meters less than two inches) increase of 2.5% or \$0.0414 per day, changing the rate from \$1.6562 to \$1.6976 per day; and
 - ii. Commodity Charges: (1) November through April - increase of 10.2% or \$0.0046 per cf, changing the rate from \$0.0451 to \$0.0497 per cf, and (2) May through October - no change.
- c) Large Nonseasonal Service – This service is available to nonresidential customers with annual consumption of at least 4 million cf and a maximum summer month (May – October) cf consumption of no greater than 1.3 times the monthly average use across the prior 12-month period. There is a proposed commodity charge increase of 5.7% or \$0.0025 per cf, changing the rate from \$0.0442 to \$0.0467 per cf.
- d) Contract Service – Military – 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. The filing proposes increases to the total Contract Service revenue by 7.4%. This filing continues a phased-in approach to bring the rate within an appropriate range

of the COS study. With the proposed increase, this service is outside the plus or minus five percent (5%) of COS study requirement per Rate Design (G-5) Guideline, 2. A. defined in the Governance Policy Manual. Proposed changes include flattening of the price differential between Winter and Summer Commodity Charge rates. The proposed commodity charges are as follows:

- i. November through April increase of 12.0% or \$0.0045 per cf, changing the rate from \$0.0375 to \$0.0420 per cf; and
 - ii. May through October increase of 5.8% or \$0.0031 per cf, changing the rate from \$0.0536 to \$0.0567 per cf.
 - e) Nonpotable – Miscellaneous Service – The filing increases the commodity charge by 11.7% or \$0.0025 per cf, changing the rate from \$0.0213 to \$0.0238 per cf. This filing continues a phased-in approach to bring the rate within an appropriate range of the COS study. With the proposed increase, this service is outside the plus or minus five percent (5%) of COS study requirement per Rate Design (G-5) Guideline, 2. A. defined in the Governance Policy Manual.
 - f) Nonpotable – Contract Service – The filing increases the commodity charge for this service by 11.4% or \$0.0014 changing the rate from \$0.0123 to \$0.0137 per cf.
 - g) Augmentation Service – Utilities proposed a pricing methodology based on the locational price of replacement water as established by the existing contract cost of \$500.00 per acre-foot or \$0.0115 per cf. This contract represents the lowest replacement water cost currently available to Utilities. The current Augmentation rate of \$0.0072 per cf is 37% below the replacement cost of \$0.0115. Utilities proposed a phased-in approach to bring this rate to full cost. The proposed commodity charges increase is 4.2% or \$0.0003 per cf, changing the rate from \$0.0072 to \$0.0075 per cf. Utilities’ filing includes an Attachment, starting on page 5 of the Water Report, that provides additional information and detail regarding Augmentation.
 - h) Temporary Service – Hydrant Use – Utilities proposed a pricing methodology based on the weighted average cost of Residential and Nonresidential net revenue requirement for this service. This modification will remove references to permit classes that are no longer applicable and remove the Customer Charge of \$5.4216 per day as it will be incorporated into the commodity charge. This filing increases the Temporary Service - Hydrant Use commodity charges by 0.4% or \$0.0353 changing the rate from \$9.8176 to \$9.8529 per 1,000 gallons. The impact of this proposed change is dependent upon a customer’s usage.
12. In addition to the proposed Water Tariff revisions, Utilities proposes changes to the Wastewater Tariff.
13. Utilities filed its COS study supporting the 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 10, 2018. Utilities then filed the enterprise's formal proposals on September 11, 2018, 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 11, 2018, and in *The Gazette* on September 13, 2018. These various notices and filings comply with the requirements of §12.1.108 of the City Code and the applicable provision of the Colorado Revised Statutes. Copies of the published and mailed notices are contained within the record. Additional public notice was provided through Utilities' website, www.csu.org, and a complete copy of the proposals was placed on that website for public inspection.

14. 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 17, 2018. The supplemental material contained updated typical bill comparisons (including Electric Cost and Gas Cost Adjustment information), corrections to typographical errors, copies of the publications of required legal notice, public outreach information, and the City Auditor's report.
15. 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 September 2018. A copy of that report is contained within the record.
16. On October 23, 2018, the City Council held a public hearing concerning the proposed changes to the Water and Wastewater Tariffs. This hearing was conducted in accordance with §12.1.108 of the City Code, the procedural rules adopted by City Council, and the applicable provisions of state law.
17. President of the Council Richard Skorman commenced the rate hearing.
18. The presentations started with Mr. Christopher Bidlack of the City Attorney's Office. Mr. Bidlack first presented the rate hearing agenda.
19. Mr. Bidlack then briefed 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 Water and Wastewater service must be reasonable and appropriate in light of all circumstances, City Code § 12.1.108(F).
20. 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. Councilmember Andres Pico stated that he received one relevant phone call, but that no issues emerged from the call.

21. Ms. Tamela Monroe, Utilities' Chief Planning and Finance Officer, provided the enterprise's proposals.
22. Ms. Monroe started by providing an overview of the 2019 Rate Case. She noted that the 2019 Rate Case filing is based on the 2019 Sources and Uses Budget Ordinances and includes proposed changes to the (1) Water Rate Schedules and (2) Wastewater Rate Schedules. Additionally, the COS is prepared following industry standards and practices and rates are designed in compliance with Rate Design Guidelines.
23. Ms. Monroe then noted that Utilities' filing fulfilled proper procedural compliance requirements by (1) filing a preliminary COS study with the City Auditor on August 10, 2018, (2) requesting a public hearing date and filing the 2018 Rate Case with the City Clerk on September 11, 2018, (3) posting the filing to www.csu.org on September 11, 2018, and (4) publishing notice on September 13, 2018.
24. Next, Ms. Monroe addressed the proposed changes to the Water tariff.
25. The proposed total water revenue is \$199.6 million, which is \$6.7 million higher than revenue under current rates. The overall system increase is 3.5% higher than current rates. The increase breaks down as a 3.6% increase for Residential, 2.4% increase for Nonresidential, 5.6% increase for Large Nonseasonal, 7.3% increase for Contract Services – Military, and 11.7% increase for Nonpotable – Miscellaneous customers.
26. The proposed water rate increases are driven by (1) funding the replacement and repair of aging infrastructure, (2) increasing debt service, and (3) compliance with the Water Surplus rates established in City Council Resolution No. 49-18.
27. The proposed water rate increases are consistent with the Rate Design Guidelines. All rate classes are within +/- 5% of COS, with the exceptions of (1) Contract Services – Military at 80.1% of COS and (2) Nonpotable – Miscellaneous service at 78.8% of COS. The proposed rates are designed to continue flattening the price differential between blocks or between summer and winter rates.
28. Ms. Monroe also presented the Water COS Study chart that was included in Utilities' filing.
29. Ms. Monroe then addressed several remaining Water Tariff Changes. Explaining that:
 - a) Utilities' filing establishes an Augmentation Rate methodology based on the replacement cost of water, which if not used for augmentation could otherwise be exchanged and stored for future diversion and use by Utilities. The proposed Augmentation rate is an increase of 4.2% or \$0.0003 per cf from \$0.0072 to \$0.0075 per cf;
 - b) Utilities filing proposed to increase the Nonpotable – Contract Service commodity charges by 11.4%, changing the rate from \$0.0123 to \$0.0137 per cf; and

- c) Utilities filing proposes a change in the pricing methodology for Temporary Service – Hydrant Use. The pricing is based on the weighted average of Residential and Nonresidential Net Revenue Requirement (COS) and recovered through a commodity charge applied to metered usage. The proposed commodity charge increases from \$9.8176 to \$9.9064 per 1,000 gallons, with the impact being dependent on usage. Because this commodity charge incorporates all costs, including customer expenditures, the daily customer charge of \$5.4216 is removed the tariff. Reference to permit classes is also removed as they are no longer applicable to the service.
- 30. Ms. Monroe concluded her review of proposed changes to the service tariffs by addressing Wastewater. The proposed total wastewater revenue is \$70.4 million, which is \$1.4 million higher than revenue under current rates. The overall system increase is 2.0% higher than current rates. The increase breaks down as a 2.7% increase for Residential, 0.1% decrease for Nonresidential, 1.6% increase for Contract Services – Military and Outside City Limits, and no change for Liquid Waste Hauler customers.
 - 31. Next, Ms. Monroe explained that the wastewater rate increase drivers are (1) inflationary increases, since the last rate increase in 2010, in operations and maintenance of the system and (2) funding the replacement and repair of aging infrastructure. She also noted that the last rate increase for wastewater service was in 2010, with a rate neutral change, that did impact some rates, in 2017.
 - 32. Ms. Monroe ended her presentation on wastewater by stating that the proposed wastewater rate increases are consistent with the Rate Design Guidelines. All rate classes are within +/- 5% of COS, with the exceptions of Liquid Waste Hauler service which is at 128.0% of COS. Ms. Monroe also presented the Wastewater COS Study chart that was included in Utilities' filing.
 - 33. Ms. Monroe concluded her substantive presentation with a summary of the impact to customer bills, addressing the impact of the proposed rates and the November 1, 2018, Electric Cost Adjustment and Gas Cost Adjustment, approved by City Council on October 23, 2018.
 - 34. Next, Ms. Monroe addressed the customer outreach Utilities performed in relation to the 2019 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.
 - 35. Ms. Sonya Thieme, Utilities' Rates Manager, addressed the report on the rate case filed by Mr. Denny Nester, the Colorado Springs City Auditor. The Auditor's report was included

in Utilities' supplemental filing and did not present any findings or comments on Utilities' rate filing.

36. After Utilities' presentation, President Skorman opened the floor for public comment. No comments were provided by the public.
37. Following the opportunity for public comment, President Skorman opened the floor to questions from the City Council. No comments were provided by the City Councilmembers.
38. Due to the lack of public and Council questions and discussion, Mr. Bidlack noted that neither a break nor executive session were necessary.
39. Mr. Bidlack then polled Council Members regarding the issues central to the Water and Wastewater Tariffs.
40. 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 \$6.7 million appropriate for the 2019 rate case test-year period?

The City Council held that an increase to the Water Service revenues of approximately \$6.7 million is appropriate.

- b) Should rates and tariffs for the following Water Service Rate Schedules be revised as proposed:
 - i. Residential Service – Inside City Limits
 - ii. Residential Service – Outside City Limits
 - iii. Nonresidential Service – Inside City Limits
 - iv. Nonresidential Service – Outside City Limits
 - v. Large Nonseasonal Service
 - vi. Contract Service – Military
 - vii. Nonpotable – Miscellaneous Service
 - viii. Nonpotable – Contract Service
 - ix. Augmentation Service
 - x. Temporary Service – Hydrant Use

The City Council held that the rates and tariff for the following Water Service Rate Schedules shall be revised as proposed: 1) Residential Service – Inside City Limits; 2) Residential Service – Outside City Limits; 3) Nonresidential Service – Inside City Limits; 4) Nonresidential Service – Outside City Limits; 5) Large Nonseasonal Service, 6) Contract Service – Military, 7) Nonpotable – Miscellaneous Service, 8) Nonpotable – Contract Service, 9) Augmentation Service, and 10) Temporary Service – Hydrant Use.

41. President Skorman then concluded the 2019 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, 2019. 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 13th day of November, 2018.

CITY OF COLORADO SPRINGS

Council President

ATTEST:

City Clerk