



**Utilities Policy Advisory Committee (UPAC)
Wednesday, February 2, 2022, 8:00 a.m. – 10:30 a.m.**

Blue River Board Room, 121 S. Tejon Plaza of the Rockies or Microsoft Teams

Join on your computer or mobile app

[Click here to join the meeting](#)

Or call in (audio only)

[+1 719-733-3651,,707846569#](tel:+17197333651707846569)

Agenda

8:00 a.m.	1. Call to Order	
8:05 a.m.	2. Approval of January 12, 2021 UPAC Meeting Minutes	Decision
8:10 a.m.	3. Ethics, Open Meetings and Colorado Open Records Act (CORA) Review	Discussion
8:30 a.m.	4. Water Acquisition Funding Assignment <ul style="list-style-type: none">• Situation Assessment• Drivers• Integrated Water Resource Plan (IWRP) Implementation	Discussion
10:20 a.m.	5. Citizen Comment <p>Citizens can provide comment in person, by joining the meeting from computer or by phone using the link above. If you would like to speak during the Citizen Comment period, please sign up to speak through BoardSubmissions@csu.org prior to the meeting.</p>	
10:25 a.m.	6. Committee Member General Discussion	Discussion
10:30 a.m.	7. Adjournment	

Next meeting: March 2, 2022

Note: UPAC Bylaws, Rule 6: Customer and Public Comment: (b) At the discretion of the Chair, or the majority of the Committee Members present, customers and members of the public will be allowed to comment or ask questions concerning items discussed at regular meetings or concerning matters discussed at special meetings. Comments or questions by individuals will be limited to five minutes each, and all customer or public comments will not exceed twenty minutes on any agenda item unless time is extended by the Chair or majority of the Committee Members present.



Minutes
Utilities Policy Advisory Committee (UPAC)
Wednesday, January 12, 2022
Blue River Boardroom, 5th floor, 121 S. Tejon St., Colorado Springs, CO
and Microsoft Teams Virtual Meeting

Committee members present in the boardroom or via Microsoft Teams: Chair Gary Burghart, Vice Chair Larry Barrett, Rex Adams, Hilary Dussing, Chris Francis, Katherine Danner, Michael Borden, and Alternate Members Scott Callihan and Ruth Ann Schonbachler

Committee members excused: n/a

Staff members present in the boardroom or via Microsoft Teams: Cindy Newsome, Dave Grossman, Kerry Baugh, Al Wells, Kim Gortz, Pat Wells, Andie Buhl, Bethany Schoemer, and Joe Marcotte

City of Colorado Springs staff present in the boardroom or via Microsoft Teams: David Beckett

1. Call to Order

Chair Gary Burghart called the meeting to order at 8:00 a.m.

2. Approval of December 1, 2021 UPAC Meeting Minutes

Committee Member Hilary Dussing motioned, and Vice Chair Larry Barrett seconded the motion to approve the December 1, 2021 UPAC meeting minutes. The minutes were unanimously approved with a voice vote.

3. Resolution of Appreciation for Strategic Planning & Governance Manager Dave Grossman

Chair Burghart read the resolution of appreciation for Strategic Planning & Governance Manager Dave Grossman. UPAC Members, Mr. David Beckett, City of Colorado Springs Attorney, and Colorado Springs Utilities staff thanked Mr. Grossman and expressed appreciation for his outstanding work with UPAC.

Chair Burghart called for a voice vote and the resolution was unanimously adopted.

4. Water Acquisition Funding Assignment

Mr. Pat Wells, Water Resources and Demand Management General Manager, and Ms. Kim Gortz, Water Resource Planning Supervisor, explained the scope of UPAC's new assignment, Water Acquisition Funding, and said the deliverable is to provide recommendation on financial strategies for funding water resource acquisitions.

a. Water in Colorado

Mr. Wells discussed Colorado's historic average annual water stream flows explaining where water originates, is stored and travels to throughout the state. He explained the statewide water supply gap, which exists across water use sectors and gave background information on Colorado Water Law.

Mr. Wells gave an overview of key takeaways for this assignment.

b. Water System Overview

Mr. Wells gave an overview of Springs Utilities' water delivery systems and explained how and when they were created.

UPAC took a break at 9:08 a.m. and reconvened at 9:15 a.m.

c. Water Planning Fundamentals

Mr. Wells explained the fundamentals of water planning, including water rights, infrastructure, and hydrology. He said the overall water resource goal is to optimize water system yield. He then listed the factors that affect the ability to develop yield:

- Cost
- Regulations and permitting
- Political landscape
- Availability of water rights
- Others

Mr. Wells further explained the scenario of water planning, stating that if hydrologic patterns show a shift to less precipitation overall, additional water rights and infrastructure would be needed.

d. Integrated Water Resource Plan (IWRP)

Mr. Wells explained the Integrated Water Resource Plan (IWRP) which is Springs Utilities' plan for meeting future water needs and managing risks for the community. Ms. Gortz emphasized how the community's economic vitality and quality of life is dependent upon responsible risk mitigation and proactive water resource development, and the IWRP helps with this process.

Mr. Wells said Springs Utilities is implementing scenario planning, which is a forward-focus approach to finding robust solutions to address the broadest range of potential futures and risks. By doing so, Springs Utilities can better balance risk with water resource goals. He said the key risks for building out Springs Utilities' portfolio selection are:

- Hydrology
- Climate
- Infrastructure risks
- Colorado River Basin shortages

Mr. Wells gave an overview of approved levels of service for water.

Ms. Gortz explained buildout and demand forecasting. She said buildout is the current service territory, per the 2006 City Annexation Plan, completely built out in a mix of commercial, residential, and industrial uses; and demand forecasts use three scenarios – low, moderate, and high demand levels to estimate the range of future demand.

Mr. Wells explained how the IWRP identified the amount of new water supplies that will be needed to serve the future population of Colorado Springs within the current 200 square mile boundary. It also identified different sources of new water supplies that will be developed to meet the anticipated 40,000-acre feet (AF) of additional supplies needed by 2070 for the existing service territory and the infill. He said the forecasted population at buildout was estimated to be approximately 720,000 people.

Mr. Wells concluded with key takeaways:

- Scenario planning helps Springs Utilities prepare and adapt to a wide range of possible futures
- Additional projects are needed to accommodate future growth and mitigate risks
- The IWRP Balanced Portfolio and Level of Service criteria balances costs and risks, according to our community values

e. Next Steps

Mr. Wells explained the timeline for this UPAC assignment and discussion topics for the February meeting.

5. Citizen Comment

Mr. Tad Foster thanked staff for their long-range water planning and expressed concerns about water reduction levels and Colorado Springs Utilities' timeframe to address the changes.

6. Committee Member General Discussion

There was no further business.

7. Adjournment

Chair Burghart adjourned the meeting at 10:34 a.m.

Next meeting: Wednesday, February 2, 2022 at 8:00 a.m.



Colorado Springs Utilities
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Ethics, Open Records, Open Meetings 2022 Update

David Beckett

Presented to

Colorado Springs Utilities Policy Advisory Committee

February 2, 2022

UPAC Bylaws – Non-Ethics Provisions

- Committee composition
 - Emphasis on a range of perspectives and expertise
 - Up to two members can reside outside of municipal boundary so long as the member is in a Utilities service area or is an El Paso County resident and works within the city limits
- Members wishing to step down are not required to hold over
- Seniority not a factor in determining Chair and Vice-Chair
- Regular attendance requirement; Board authority to remove members
- Alternate members may engage in all discussions, are non-voting, and must comply with all ethics obligations

Ethics - Themes of the Ethics Guidelines

- Act with complete honesty, utmost integrity, and fair dealing
- Strive to avoid any conduct creating the appearance of impropriety
- No tolerance for violations

Ethics - UPAC Bylaws Rules of Conduct

- UPAC members may seek employment with Colorado Springs Utilities; if a job application is pending, member receives “excused absences”
- UPAC members may offer products and services to Colorado Springs Utilities after a “no conflict” determination from Colorado Springs Utilities’ CEO (who must consult with the Chair of the Utilities Board)
- UPAC members may not use their position to influence Colorado Springs Utilities’ procurement decisions
- UPAC members may ask for an advisory opinion regarding future action

Ethics – City Code of Ethics

- Conduct your activities with UPAC's best interests in mind
- Safeguard Colorado Springs Utilities' confidential and proprietary information
- Avoid conflicts of interest
 - Engaging in activities that might interfere with one's objectivity; offering preferential treatment; misuse of financial or customer information
- Disclose promptly any circumstances that might constitute a conflict of interest or an appearance of a conflict
- Unofficial messages should have clear disclaimers that the views expressed do not necessarily represent UPAC's views

Ethics: Gifts

Ethics - Gifts

- Applies to “covered persons” and “immediate family members”
- Whether something is a “gift” is fact-based
- Whether the gift is “related to the covered person’s duties and responsibilities on behalf of the City” is an important fact
- Cannot exceed \$65 in value in a year from one donor
- Do not accept gifts (event tickets, tours, etc.,) that could be perceived to influence objectivity or when a substantial interest may exist

Ethics - Gifts Continued

- “Gifts” of fees, meals, lodging and transportation are generally OK when Colorado Springs Utilities pays for an approved conference, seminar, event or meeting
- Keep all documentation
- Report all gifts by contacting Colorado Springs Utilities’ UPAC liaison, Kerry Baugh

Ethics - Gifts are Tricky; If in Doubt, ask Yourself:

- Is the action legal?
- Does it comply with UPAC's and Colorado Springs Utilities' values?
- If you do it/accept it, how will you feel?
"You" includes Immediate Family Members and Covered Persons
- How will it appear to the public and the media?



Ethics Guidelines Citations

UPAC members are subject to

- UPAC's Bylaws
- The City of Colorado Springs Ethics Code (City Code §§ 1.3.101, *et seq.*)

Questions about Ethics

Contact the City Attorney's Office 719-385-5909

CORA - Colorado Open Records Act

The Incorrect Approach . . .



Colorado Open Records Act

- Strong presumption that the records you make, maintain or keep are public and can be “inspected”
- Both paper and electronic “writings” are “public records”
- “Writings” include emails (sent, received, opened, unopened), text messages, notes you take in meetings, photos, recordings, receipts, calendars, vendor proposals and other solicitation process documents, etc.
- Emails related to this Project are subject to CORA
- No specific CORA requirement that you retain documents
 - Colorado Springs Utilities will destroy records in accordance with its document deletion practices (such as 3 years for emails)
 - Exception – no destruction of relevant records once a CORA request is received

CORA's Exceptions: Records that are NOT Public

- Work Product: all intra- or inter-agency materials assembled for the benefit of elected officials that advise and express an opinion for the purpose of assisting the elected officials to make a decision
- Work product includes preliminary drafts and discussion copies that are NOT distributed to UPAC for discussion
- The elected official, however, can release any work product prepared by UPAC

Final Thoughts on CORA

- Responding to CORA likely will be the responsibility of Colorado Springs Utilities:
 - Official records: Agendas, minutes, bylaws, meeting recordings
 - Emails that staff have sent or received and retained per retention policy
- Copy Kerry Baugh on any UPAC-related correspondence
- UPAC members have no obligation to keep UPAC-related materials, notes, or correspondence unless there is a current CORA request
- 2022 Examples: Denver Group Living Advisory Committee
Jon Gruden

Open Meetings

Colorado Open Meetings Law

- Formation of public policy is public business and shall not be conducted in secret: All “meetings” shall be open to the public
- A “meeting” occurs any time **three** or more members of UPAC discuss UPAC or Colorado Springs Utilities’ public business or take formal action in person, over the telephone, or by email
- Assume a “meeting” occurs when using “reply all” by email
 - Avoid “reply all”; get assistance from Kerry Baugh

Open Meetings - What is Not a “Meeting”

A chance meeting at a social gathering at which discussion of public business is not the central purpose.

Open Meetings Require Notice

- Notice is required when UPAC
 - Has **three** or more members present or expected to be present
AND
 - Intends to discuss or conduct UPAC or Colorado Springs Utilities public business; OR
 - Intends to adopt a proposed policy or position; OR
 - Needs to take formal action
- Notice shall be provided no less than 24 hours prior to the meeting
- Notice preferably posted on a public website and be searchable
 - Transitioning away from physical notices in physical places

Public Forum Surprises – No Public Notice

- UPAC Assignment is on the Same Topic as Forum
 - Three UPAC members attend unexpectedly
 - Best Practice: Just listen
 - Report back at next UPAC meeting
 - Less than three UPAC members attend unexpectedly
 - You may speak in your non-UPAC capacity
 - Report back at next UPAC meeting
- UPAC Assignment is not related to forum topic
 - Multiple UPAC members attend unexpectedly
 - You may speak in your non-UPAC capacity
- In all instances, immediately notify Kerry Baugh afterwards

Open Meetings – UPAC May Hold Closed “Executive Sessions”

- UPAC may not adopt any proposed policy, position, resolution, rule, regulation or other formal action in an executive session
- Examples of purposes:
 - Legal advice on specific legal questions
 - Matters required by federal or state law or rules and regulations to be kept confidential
 - Transactions involving real, personal, or other property interests
 - Documents protected by CORA’s mandatory nondisclosure provisions

Final Thoughts on Open Meetings

- Work with Colorado Springs Utilities' UPAC liaison, Kerry Baugh, whenever a meeting needs to be noticed
- Before sharing material with other members that might be discussed as part of UPAC or Colorado Springs Utilities' public business ask yourself:
 - Am I sending this to two or more members of UPAC?
 - Might a discussion commence?
 - Can Kerry Baugh facilitate distribution of this material to the rest of the UPAC members?
- **Questions?**



Colorado Springs Utilities

It's how we're all connected

Utilities Policy Advisory Committee
Water Acquisition Funding Assignment
February 2, 2022
Work Session 2

Colorado Springs Utilities is the largest community-owned, not-for-profit, four-service utility in the nation. For almost 100 years, we have provided Colorado Springs with safe, reliable and competitively priced electric, natural gas, water and wastewater services.



Workbook Description

The purpose of the workbook is to provide information on key issues and drivers that lead to the recommendation outlined in section 11.7.1 of the Integrated Water Resource Plan and the current UPAC Assignment.

Per the IWRP:

“Water Acquisition Fund – It is recommended that Utilities establish a Water Acquisition Fund, a proactive acquisition policy, and streamlined process that would provide Utilities’ management with a dedicated budget, direction and timely means with which it could pursue small projects or portions of large projects recommended in the IWRP on an opportunistic basis.”

There are four sections in the workbook. The first is a recap of the information shared in Work Session 1 with additional information regarding UPAC questions asked during the session. The second section covers the situation assessment with “Issues Identification” of the trends and drivers influencing water supply development coupled with information on the current Colorado water market. There is a list of resources, to include articles and videos that provide examples and can be previewed by UPAC prior to the work session. Staff will use a quadrant risk mapping tool to demonstrate how these influence overall success and costs of acquisitions and projects. The third section will cover Colorado Springs Utilities current practices for funding and implementing water resource acquisitions along with related policy. Section four outlines guiding principles for discussion and application during the next sessions regarding potential ways to implement the IWRP recommendation.

Work Session 2 Key Discussion Questions

The workbook aims to guide discussion around the key recommendations and considerations outlined in the Integrated Water Resource Plan to include:

- Why is the water acquisition fund recommended in the IWRP an appropriate adaptive management strategy for Colorado Springs Utilities to implement?
- Are the guiding principles for developing water supply acquisition funding appropriate and aligned with the IWRP recommendation?

Supplemental questions have been identified to help facilitate discussion around current issues and drivers and current practices and policies guiding water supply acquisition. Several sections end with a series of questions that will be addressed during the presentation of workbook content. The UPAC will be asked if they have additional questions and feedback related to each topic discussed.



**UPAC Assignment Work Session 2
Agenda
February 2, 2022**

#	Item	Presenter(s)
8:30 AM	Welcome and Introductions	Earl Wilkinson III
	Workbook Overview	Pat Wells
	Section I: Where We've Been <ul style="list-style-type: none"> • Work Session 1 – Summary 	
	Section II: Situation Assessment & Issues Identification <ul style="list-style-type: none"> • IWRP Recommendation • Trends and Drivers Affecting Water Supply Development • Colorado Water Markets 	
9:00 AM	Section III: Current Practices for Funding Water Supply Development <ul style="list-style-type: none"> • Capital Budget Process • Current Funding Options • I-7 Policy • Case Study: Recent Acquisition 	Sonya Thieme Scott Shirola Pat Wells
9:45 AM	Section IV: Work Session Assignment <ul style="list-style-type: none"> • Revisit IWRP Recommendation • Guiding Principles 	Earl Wilkinson
10:15 AM	Next Steps	Pat Wells

Common Acronyms

AF – acre-feet

AFY or AF/yr – acre-feet per year

GPCD – gallons per capita per day

IWRP – Integrated Water Resource Plan

I-7 – Board Instruction 7 per Colorado Springs Utilities Excellence in Governance Policy Manual

LOS – Level of Service

NGO – Non-Governmental Organization

RMD – Reliably Met Demand

UPAC – Utilities Policy Advisory Committee

YOD – Years of demand in storage

Glossary of Terms

Balanced Portfolio – A mix of projects, programs and policies that ensure reliable water service over a 50-year planning horizon and possible future conditions.

Buildout – The composition of Springs Utilities’ service territory once completely developed according to a forecasted mix of residential, commercial and industrial uses. Forecasted Buildout conditions are based on the 2006 City of Colorado Springs Annexation Plan boundaries in the 2017 IWRP.

Level of Service (LOS) – is a measure used to analyze system performance to ensure safe and reliable water and wastewater services are maintained. For water supply, LOS criteria were adopted in the 2017 IWRP and are related to years of demand in storage (YOD) and frequency of watering restrictions.

Reliably Met Demand (RMD) - Maximum annual demand that can be met by the water supply system while maintaining Levels of Service under an assumed system configuration and set of risks. The current RMD is 95,000 AF/yr.

Section I

Where We've Been

Key Findings from Previous Workshops



Assignment Introduction

- **Policy** development will be necessary to mitigate risks and provide a benefit to the City and Springs Utilities' citizen owners and customers.
- **Growth** is inevitable, how we plan for growth is crucial for maintaining system resiliency and reliability. The pace, timing and types of development that will occur are hard to predict.
- **Water Supply Development** is needed to meet future demands and mitigate risks.
- **Funding Water Acquisitions** properly to support resource acquisitions is a critical component of success.



Work Session 1

- **Long-term** sustainability of Springs Utilities' infrastructure and resources is essential to the community's economic vitality and quality of life.
- **Drivers for Water Supply Development** include scarcity, variable hydrology, risk mitigation and meeting future demands. These factors also influence the rate, timing and amount of water supply and infrastructure development necessary.
- **Adaptive Resource Management** requires careful monitoring, new methods and approaches to utilities development while considering broader interconnected issues.

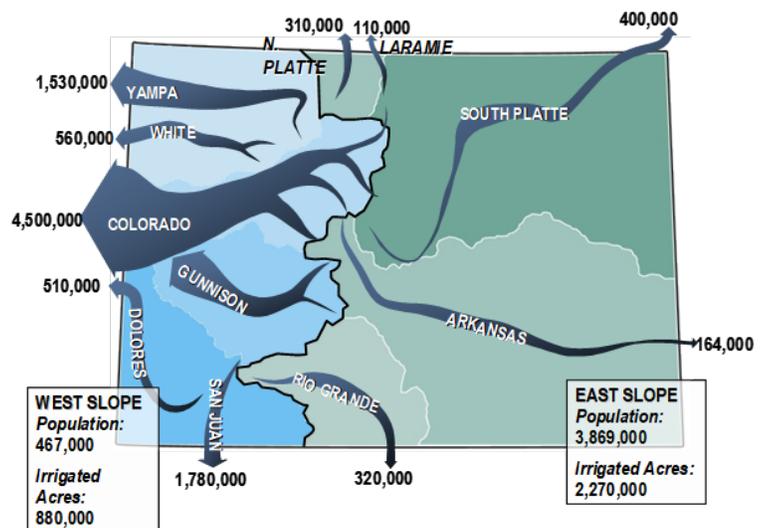
Recap: Work Session 1

The following recap pages provides background and summary information based on the discussion and questions that transpired during January 12 UPAC meeting.

Colorado Springs has developed its water rights and infrastructure for over a century to address drought and growth of the city. Substantial effort is required to collect, convey, and deliver water resources to Colorado Springs. The investments of the past and those yet to come aim to optimize water system yield and maintain reliability through hydrologic variability.

Springs Utilities has built a state-of-the-art planning toolbox and “Robust Decision Making” processes to analyze hundreds of potential futures around climate, hydrology, infrastructure configurations and demands. This allows Springs Utilities to evaluate and understand risks and tradeoffs that can impact water system reliability. Then, there can be a comparison of potential policies, programs and projects that can maintain levels of service and system reliability.

Colorado’s Historic Average Annual Streamflow in Acre Feet



There are geographic disparities between the location of supplies in comparison to the location of demand centers. Approximately 80% of the precipitation falls on the Western Slope of Colorado, however 80% of the population lives on the Eastern Slope. This disparity plus Colorado’s climate results in extreme hydrologic variability and periods of shortage.

Recap contd.

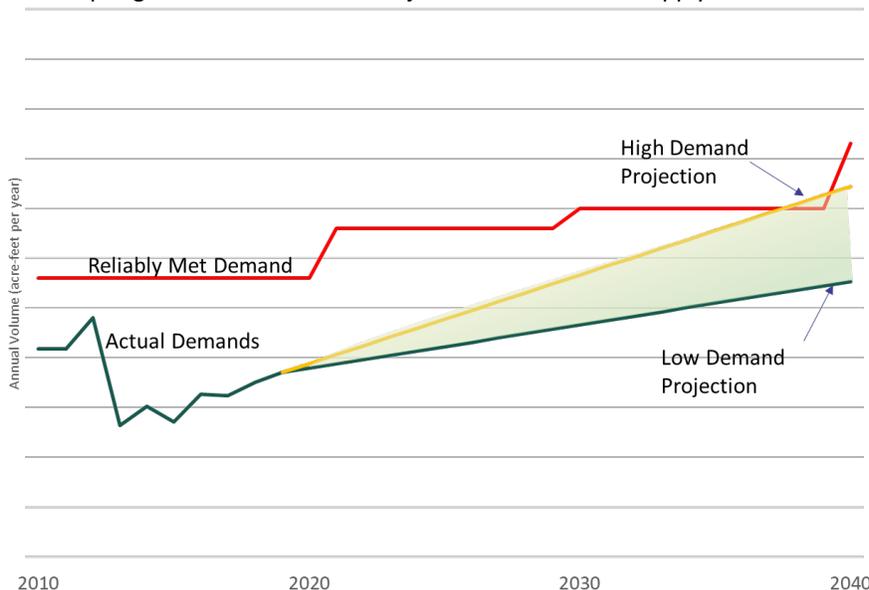
Overarching Policy Drivers

- In coming decades Colorado Springs is projected to become the largest city in Colorado.
- Our community’s economic vitality and quality of life depend on responsible risk mitigation and proactive water resource development.
- As a result of increasing water scarcity, hydrologic variability, and increased competition, current water supply development is transitioning from an era where new, easily accessible sources are available to develop to an era where finite water supplies must be reallocated from one use to another.

Growing Need

- The Colorado Water Conservation Board projects the population of Colorado to grow from approximately 5.5 million residents today to between 7.7 and 9.3 million people by 2050.
- Colorado Springs’ population has grown 10% from a 2015 population of 470,513 to over 517,000 people. Population has been growing 1.56% per year on average since 2015.
- The City’s PlanCOS report shows available acres for redevelopment, infill and greenfield development these acres continue to decline from 37,661 acres in 2016 to 31,206 acres in 2020.
- Risks such as climate variability, water rights administration and growing populations are considered additive factors that create a “water supply gap” in all basins across the state.

Springs Utilities Near Term Projected Demands and Supply.



The IWRP includes a range in future water demand scenarios (low, moderate, and high), through buildout. This range is compared to anticipated water supplies measured in RMD. Each project completed incrementally raises RMD. At buildout, all the projects in the Balanced Portfolio would need to be successfully implemented, to sufficiently satisfy the low and moderate demand

Key Assumptions



Integrated Water Resource Plan (IWRP) Balanced Portfolio

- Full implementation of all components is necessary to assure enough water supply for Colorado Springs over the 50-year planning horizon.
- The timing is driven by variable factors such as the rate of growth, climate and hydrology as well as water consumption behaviors.
- Partial or delayed implementation of projects in one category of the Balanced Portfolio means additional or accelerated project implementation in another category.

Planning Assumptions

- The IWRP, technical studies are based on the 2006 Annexation Plan and projected buildout conditions. Since that time about 1500 additional acres have been annexed.
- Changes to the current 200 square mile boundary through annexation will change planning factors, such as demand scenarios and buildout portfolios.
- Current population trends average 1.56% per year since 2015. The IWRP has used a 1.18% growth rate to represent moderate demand and 1.48% to represent the high bookend for demand.

Water Services Assumptions

- Level of Service criteria, include:
 - Maintain a minimum of 1.5 years of demand in storage 90% of the time.
 - Maintain a minimum of 1 year of demand in storage 100% of the time.
 - Meet indoor demands at all times.
- Buildout forecasts look at a 50-year planning horizon. Forecasts include high, medium and low growth estimates recognizing that development varies over time and is difficult to predict.

Water Resource Assumptions

Several risk assumptions used for planning include:

- Hydrologic traces with droughts in greater severity and timing than in the historic record plus a climate risk represented by a 3-degree warmer climate that is consistent with observed 1 degree per decade increases in temperature.
- No change in amount of precipitation.
- Twenty (20) percent reduction in Colorado River supplies and twenty-five (25) percent reduction in exchange potential.
- One year Otero pump station outage to represent critical infrastructure failure.

Section II

Situation Assessment and Issue Identification

Trends and Drivers Affecting Water Supply Development

The following list of resources are a few examples that demonstrate the trends and drivers that affect water supply development across the state. These should not be considered as specific situations to Springs Utilities but examples for why water supply development occurs, transaction trends and how these factors can impact overall success and cost of projects. Examples like these are drivers behind the IWRP recommendation. UPAC can preview these before the work session or use as a post-work session reference.

Example Resources

Colorado River Basin Drought articles provide examples of growing scarcity across Colorado.

- [The water fight over the shrinking Colorado River - BBC News](#)
- [How the U.S. Megadrought Will Affect 2022 and beyond | Discover Magazine](#)

Moffat Firming Project is an example of the time, extent of mitigation and potential opposition to water projects.

- <https://co.grand.co.us/416/11767/West-Slope-Water-Agreements>
- <https://www.denverwater.org/sites/default/files/colorado-river-cooperative-agreement-summary.pdf>

Audubon Society is an example of a national NGO that engages in water issues and advocacy for protecting environmental uses.

- <https://www.audubon.org/news/colorado-legislature-votes-expand-key-instream-flow-program>

The Nature Conservancy represents a well-funded national NGO that is investing in water issues, projects and environmental protection. Some opportunity exists to partner with these types of organizations if goals and objectives align.

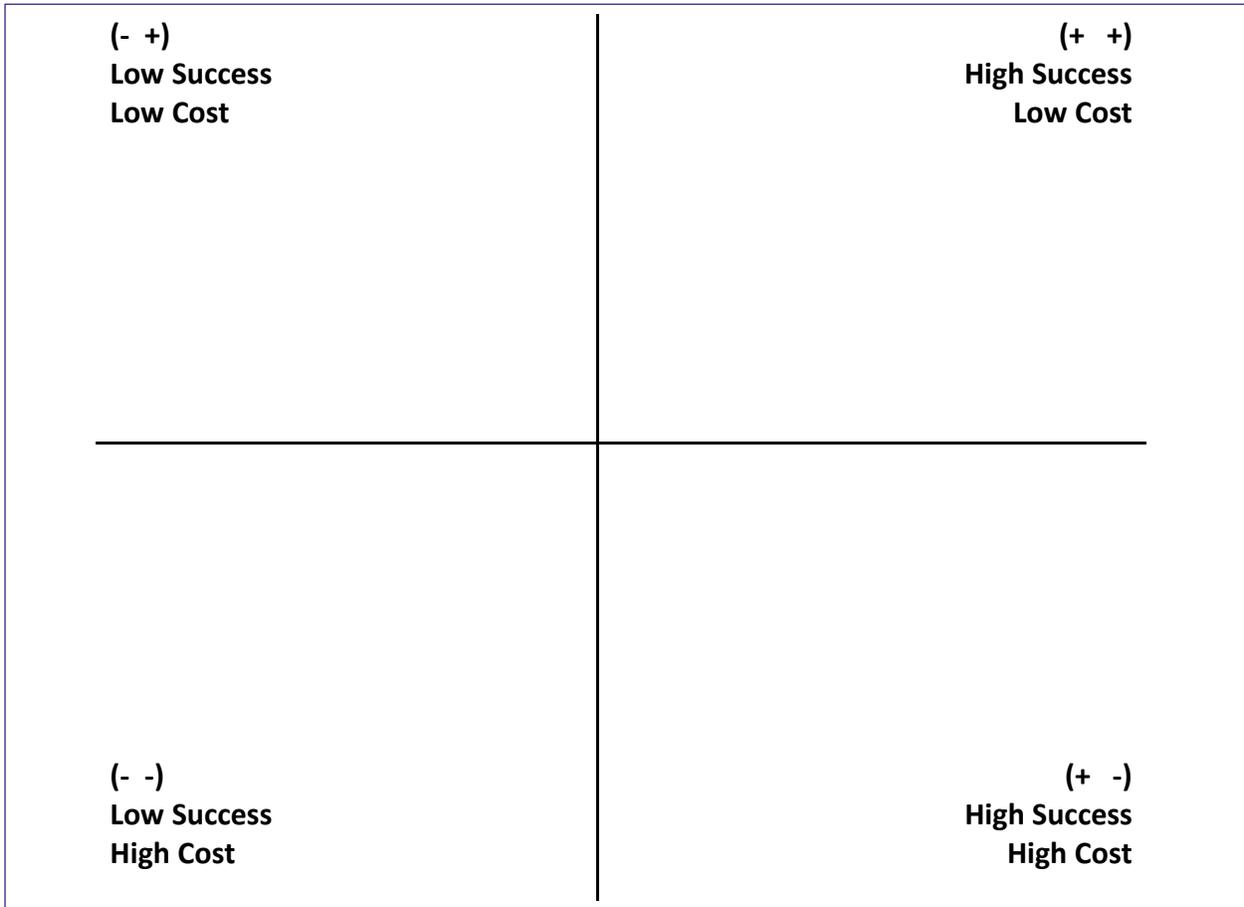
- https://www.nature.org/content/dam/tnc/nature/en/documents/NatureVest_2021_Impact_Report.pdf

Investment Groups in these articles cover trends and issues with speculation.

- <https://www.the-journal.com/articles/colorado-wants-to-keep-investors-from-flipping-water-rights-let-the-speculation-begin/>
- <https://www.watereducationcolorado.org/fresh-water-news/denver-developer-former-governor-make-118m-play-for-san-luis-valley-water/>

UPAC Assignment: Water Acquisition Funding

The following quadrant-based risk mapping tool will be used to demonstrate qualitatively how certain trends and drivers could affect development of water resources and infrastructure. The companion resources above are examples that will be covered through the demonstration.



For the following examples:

Low Cost is considered a positive factor in managing expenditures and expenses. Keeping costs low is assumed to translate into lower rates for Springs Utilities customers.

High Success is considered a positive factor meaning implementation of projects are completed on time with minimal impacts to Springs Utilities customers. Successful implementation increases reliability of service which is a primary factor to delivering quality services.

Guiding Questions

Issue 1:
How does scarcity drive water development?

Issue 2:
How do social values on water use influence water development?

Issue 3:
How does the changing make-up of competition change water markets?

Issue Identification Cont.

Colorado Water Market

The following list of resources provide an overview of Colorado Water Markets and provide general processes and language along with a few examples that demonstrate how water markets affect water supply development across the state.

Resources List:

Brett Bovee of Westwater Research

- <https://youtu.be/h9ohYhB9zQ>
- <https://crej.com/news/northern-co-needs-new-water-market-benchmarks/>

Recent Transactions

- <https://theprowersjournal.com/2018/07/lawma-approves-model-water-sharing-agreement/>
- https://gazette.com/news/colorado-springs-utilities-purchasing-water-from-lower-arkansas-valley-farmers/article_74cfa43c-5ddf-11ec-9147-c3d2b982b8e6.html

Guiding Questions

Issue 4:

How are the trends affecting water supply development affecting the Front Range water market?

Issue 5:

What unique drivers affect our local Arkansas Basin market?

There are many considerations and factors that influence water supply development and the need for appropriate funding to quickly respond and compete in today’s markets. The following table highlights the considerations Springs Utilities accounts for when planning and implementing the IWRP. This list is provided to guide discussion with UPAC on the trends and drivers that lead to the IWRP recommendation and continue to play a role in future acquisitions.

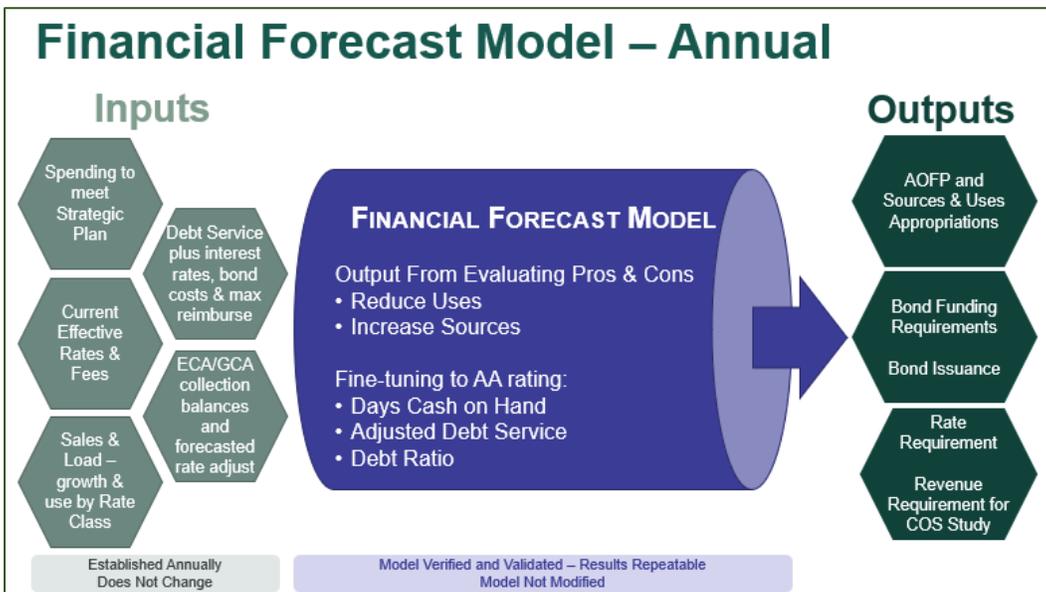
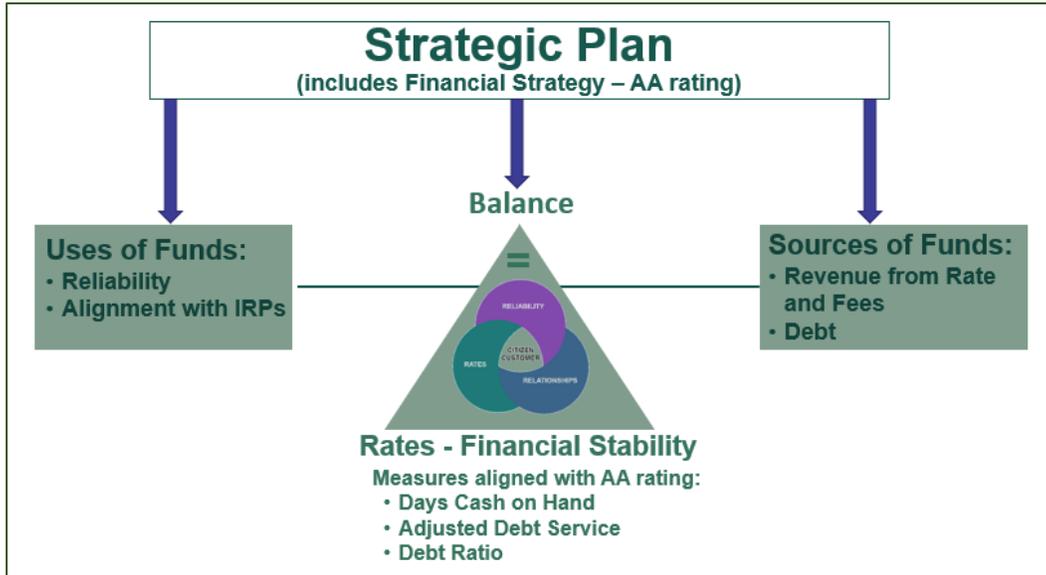
Market Considerations

	Supply Development	Funding
Trends	<ul style="list-style-type: none"> • Political, social, economic, and environmental “megatrends” are affecting the ability of water users to develop adequate water supplies within desired timelines. • More investment groups, NGOs, and water providers are entering the market. • Social values for the use of water are shifting. 	<ul style="list-style-type: none"> • Water users have access to new and growing revenue streams for funding water acquisitions. • Well-funded entities can develop resources and projects quickly.
Markets	<ul style="list-style-type: none"> • Historically, conditional and/or junior rights have generated yield; however, this yield will become more uncertain and less reliable as basins become increasingly over appropriated. • Increasing water scarcity and over appropriated systems are shifting water rights development to an era of reallocation. 	<ul style="list-style-type: none"> • Timely, adequate and flexible funding is critical and provides a competitive advantage for market participation. • Market forces of supply and demand can quickly affect water acquisition markets, driving up the value of water rights and shares quickly.

Section III

Current Practices

Overview



- Financial Forecast Model provides both annual and 5-year planning at service level output and enterprise roll-up.

Annual Appropriation - City Council Authority with City Code § 12.1.104:

- Authority to appropriate funds and adopt annual budgets.
 - Appropriation approved by ordinance.
 - Ordinance must be adopted annually not later than December 31st.

Capital Budget Process:

- Compilation of Annual Budget, including Capital, is based on the 5-year Financial Forecast.
 - Fine-tuning to AA rating includes balancing the funding of capital with cash and debt funding.
 - Annual capital spending targets driven by Financial Forecast Model output by service.

Capital Prioritization



Ensure projects align with Utilities' Capitalization Policy criteria



Capital projects are entered into our Tracking System and rated considering the following:

- Legal / Regulatory / Safety
- Financial Benefit
- Operational Reliability
- Customer Service



Engineering managers planning service line work:

- Water
- Wastewater
- Electric
- Gas

Collaborate with Operations teams:

- Prioritize and balance the current and 5-year based upon:
 - Annual funding targets
 - Service line risk

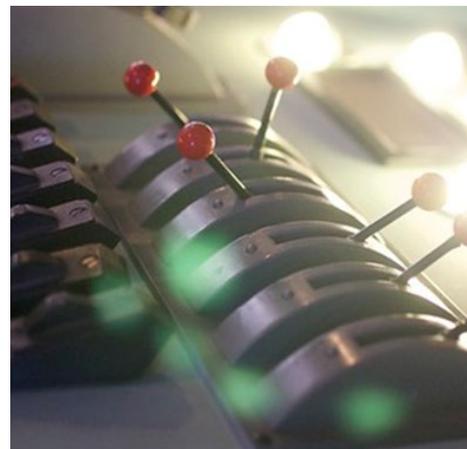


Quarterly meet with leadership across the enterprise to review planned Capital expenditures:

- Monitor and manage current year to budget appropriation
- Evaluate next 5 to 20 years

Capital Expenditures for unplanned Water Right Acquisition

- Manage spending to Approved Budget with levers to evaluate pros/cons.
- Reduce Uses
 - Shift water spending prioritization
 - Reduce or delay other Water Capital projects
- Supplemental Appropriation
- Evaluate using Financial Forecasting Model
 - Financial stability metrics
 - Identify source of funding to offset uses, such as rate adjustments or financing



Current Funding Options

1. Water Rates

Generally accepted ratemaking practices to develop utility rates involves the following analytic procedures:

1. Determine the total annual Revenue Requirement for the time period when the rates are to be in effect.
2. Perform a Cost-of-Service Study.
3. Utilize the results from the Revenue Requirement and the Cost-of-Service analysis to establish cost-based rates that meet the overall rate design goals and objectives of the utility.

Utilities uses a version of the “Cash-Needs Method” to determine the Revenue Requirement. The essence of this method is to provide sufficient revenues from the service to cover all cash obligations as they come due for the period over which the rates are to be in effect. This Revenue Requirement method is depicted in the following formula:

$$\text{Net Revenue Requirement} = \text{Operating and Maintenance Expense} + \text{Surplus Payments Transferred to City} + \text{Debt Service Payments} + \text{Cash Funded Capital} + \text{Addition to Cash} - \text{Miscellaneous Revenues}$$

2. Water Development Charges

Water Development Charges are assessed at the time of connection for capacity in the existing water system. Development Charges collect a portion of cost incurred by past and existing customers in developing the system and offset a portion of cost incurred for building and maintaining the system.

Utilities uses the “Equity Buy-In” approach which bases charges on the value of the existing water system (infrastructure and water rights) and total system capacity. The amount of the charge depends on the lot size for residential customers and meter size for nonresidential customers. A multiplier of 1.50 is assessed for customers outside the city limits.

Forecasted revenues from Water Development Charges are credits to the Revenue Requirement and reduce capital funding needs from Water rates.

3. Water Resource Fee

Water Resource Fees are assessed at the time of connection to the water system for capacity based on the 10-year cost of projected capital expenditures for growth and expansion within Utilities’ service territory. Fees are based on the forecasted cost of specific growth-related capital projects and the additional capacity of those specific projects. The amount of the fee depends on lot size for residential customers and meter

size for nonresidential customers. A multiplier of 1.5 is assessed for customers outside the city limits.

Forecasted revenues from Water Resource Fees are credits to the Revenue Requirement and reduce capital funding needs from Water rates.

Current Policy: I-7 Water Supply Management

The Chief Executive Officer shall direct that new and existing water resources and systems are aggressively developed, protected and optimized to maintain and enhance water system sustainability and responsibly balance costs and risks to reliably meet the needs of current and future customers. Accordingly, the CEO shall:

Paragraph 3. Provide a reliable water supply to existing and future customers, including requests for regional service contracts and annexations, by planning for, developing, and managing water resources and infrastructure in accordance with the following criteria:

- A. At all times maintain a minimum of one year of customer demand in water system storage.
- B. Meet or exceed 90 percent reliability for maintaining a minimum of 1.5 years of customer demand in water system storage.
- C. Conduct an evaluation of the need for water shortage response measures when water system storage is forecast to fall below 1.5 years of customer demand on or after April 1 of any year.

Case Study: Recent Acquisition

In 2018 Springs Utilities and the Lower Arkansas Water Management Association (LAWMA) entered into a permanent water sharing agreement. The agreement allowed for Springs Utilities to acquire 2,500 LAWMA water shares from an existing LAWMA member and take deliveries of water associated to the shares in 5 out of 10 years.

Acquisition Process Considerations

The following table highlights the considerations and lessons learned around current practices and recent water supply acquisitions. Colorado Springs Utilities takes these into account when planning capital budgets and implementing processes.

	Budget	Acquisition
Current Practice	<ul style="list-style-type: none"> Financial forecast is based on the 5-year capital budget. Annual appropriations are approved by ordinance. Supplemental appropriations are also approved by ordinance. Development charges are used to collect equity-buy-in and a portion of cost incurred from growth. 	<ul style="list-style-type: none"> Since 1980s, water acquisitions were considered as opportunities arose. Funding is secured through rates, shifts in approved capital budget, supplemental appropriations, or borrowing. Springs Utilities' Water Sharing Program is built around a proactive approach to developing innovative new practices and partnerships. Water sharing reflects the "new" market for acquisitions.
Tradeoffs	<ul style="list-style-type: none"> Fees are established on the financial forecast horizon and not to Buildout. Annual appropriations often do not reflect pending or future acquisitions until highly probable with known contractual terms. Development charges are not dedicated to specific water supply projects or acquisitions. Water Resource Fee is dedicated to specific infrastructure projects. 	<ul style="list-style-type: none"> No dedicated funding for acquisitions. Rate changes impact current customers. Shifts in approved appropriations impact other planned capital projects. Supplemental appropriations impact financial strength. The market for water sharing is still developing and creates uncertainty for cost implications over time.

Section IV

Work Session Assignment

In considering the IWRP recommendation:

“Water Acquisition Fund – It is recommended that Utilities establish a Water Acquisition Fund, a proactive acquisition policy, and streamlined process that would provide Utilities’ management with a dedicated budget, direction and timely means with which it could pursue small projects or portions of large projects recommended in the IWRP on an opportunistic basis.”

Guiding principles can be considered as broadly stated philosophies or sets of values that express a framework for a particular action or decision-making process. Springs Utilities’ planning and experiences implementing recent acquisitions highlights several principles that should guide water acquisitions and water resource management regardless of circumstances or external forces influencing supply development. First and foremost, water acquisition policies and funding should reflect the reality that water is becoming increasingly scarce with more competition for water, translating to water becoming more expensive to acquire in the future. Accordingly, dedicated water acquisition funding should:

- Responsibly balance costs and risks to reliably meet the needs of current and future customers.
- Ensure responsible financial and asset management.
- Proactively and aggressively address challenges to providing and maintaining a dependable water supply for current and future residents and businesses in our community.
- Be based on the resource requirement to serve a reasonable level of demands, mitigate water supply risks and meet water system level of service goals.
- Be implemented in a manner and at a time that is complimentary with other related rates, fees, charges and consistent with revised codes, policies, and regulations.

Discussion Questions

1. Is the water acquisition fund recommended in the IWRP an appropriate adaptive management strategy for Colorado Springs Utilities to implement?
2. Are the guiding principles for developing water supply acquisition funding appropriate and aligned with the IWRP recommendation?

Key Takeaways



Next Steps

