

**Minutes
Finance Committee
Colorado Springs Utilities Board
August 15, 2022**

Committee members present via Microsoft Teams or Rosemont Conference Room:

Chair Nancy Henjum, Bill Murray, Dave Donelson and Tom Strand

Staff members present via Microsoft Teams or Rosemont Conference Room:

Tristan Gearhart, Scott Shirola, John Hunter, Andie Buhl, Natalie Watts, Lisa Barbato, Mike Francolino, Travas Deal and Renee Adams

City of Colorado Springs staff members present via Microsoft Teams or Rosemont Conference Room: Chris Bidlack, Sally Barber, Bethany Burgess and Callie Moyers

1. Call to Order

Committee Member Tom Strand called the meeting to order at 2:49 p.m. and read a statement regarding the Colorado Open Meetings Law and the City Charter and noted that public comment would not be a part of the meeting.

2. Review Minutes

Minutes from the July 15, 2022 Finance Committee meeting were reviewed and approved for posting.

3. Compliance Reports:

- I-2 Financial Condition and Activities (to include Contracts Over \$500,000**) G-7 – Q2
- I-4 Risk Management
- I-8 Asset Protection

The Finance Committee reviewed and discussed the I-2 Compliance Report. Committee Member Murray expressed concerns about numbers being out of variance.

4. ECA/GCA Monitoring

Revision to Cost Adjustment Guideline

Mr. Scott Shirola, Rates and Pricing Manager, reviewed the revision to the Electric and Gas Cost Adjustment Guideline (G-6). He said the revision is a flexible band by which he reviewed its characteristics and considerations:

- Characteristics
 - Targets \$0 collection balance
 - Balances refunded/recovered over 24 months when balances are within +\$10.0 to -\$5.0 million

- Balances refunded/recovered over 12 months when balances exceed +\$10.0 to -\$5.0 million
- Considerations
 - 24-month recovery
 - Increases financial impact
 - Decreases rate volatility
 - Simplifies communication and implementation

Mr. Shirola reviewed the draft revisions to the guidelines and concluded with next steps.

ECA/GCA Update

Mr. Shirola reviewed natural gas prices as of Aug. 1, 2022, and highlighted the volatility of the market. He concluded with electric cost adjustment (ECA) and gas cost adjustment (GCA) projections for August 2022.

5. 2023 Preliminary Budget and Rates Case

2023 Preliminary Budget

Mr. John Hunter, Financial Planning and Risk Manager, provided highlight changes of the budget summary and gave an overview of the proposed 2023 budget, which includes financial metrics, rate adjustments and proposed expenditures – all of which need to be responsibly balanced. He reviewed the 2023 funding appropriations and the proposed 2023 budget.

Mr. Hunter explained the top five capital projects for each service:

1. Electric
 - a. Operational Fiber Network - \$78.8 million
 - b. Central Substation - \$15.2 million
 - c. Sustainable Energy Plan (SEP) Kelker Substation Rebuild - \$14.3 million
 - d. Advanced Metering Infrastructure (AMI) Project - \$14.0 million
 - e. New Natural Gas Generation at Drake site - \$12.8 million
2. Operations
 - a. AMI Project - \$6.2 million
 - b. New Construction Billable - \$3.6 million
 - c. Gas Distribution Integrity Management Program (DIMP) 150P System Renewals - \$3.3 million
 - d. 150P Over Pressure Protection - \$1.9 million
 - e. Tapping and Stopping Equipment - \$1.8 million
3. Water
 - a. Finished Water Linear Asset Program - \$11.2 million
 - b. AMI Project - \$7.9 million

- c. Potable Water Tank Refurbishment and Replacement (R&R) - \$6.8 million
 - d. Highline Pressure Zone Ext. - \$5.5 million
 - e. Potable Pumping Station R&R - \$4.2 million
4. Wastewater
- a. Clear Springs Biogas Utilization - \$9.6 million
 - b. North Monument Creek Interceptor Project - \$5.5 million
 - c. Sanitary Sewer Creek Crossing (SSCC) Collection System R&R - \$3.3 million
 - d. Local Collectors Evaluation - \$2.5 million
 - e. Las Vegas Street Water Resource Recovery Facility (LVSRRF) Blower and Aeration - \$2.0 million
5. Common
- a. Customer Technology Modernization - \$6.3 million
 - b. Financial System Upgrade - \$4.1 million
 - c. Data Analytics and Strategy - \$2.0 million
 - d. Network Enterprise Services - \$1.5 million
 - e. Service Now Rebuild - \$1.3 million
 - i. Mr. Larry Dunn, Information Technology General Manager, further explained these projects.

Mr. Hunter reviewed the budget summary by line item:

- Capital Projects (26.4% of proposed appropriation)
 - Debt funding – 41.7%
 - Largest capital portfolio expenditures:
 - Operational Fiber Network \$78.8 million
 - Sustainable Energy Plan (SEP) \$31.1 million
 - Advanced Metering Infrastructure (AMI) \$29.1 million
 - Ms. Gina Smith, Advanced Utilities Technology Manager, provided an update about AMI. She said we have worked through the vendor’s technology issues to proceed with water and 65% have been deployed on our network.
 - Central Substation \$15.2 million
 - New Generation \$12.8 million

Mr. Hunter reviewed a chart that demonstrates an example of natural gas price volatility. He said November 2021 through March 2022 heating season, the forecasted natural gas prices increased with each monthly forecast update.

- Operations & Maintenance (O&M) – Fuel (33.4% of appropriation)
 - Fuel Operations and Maintenance:
 - 2023 proposed budget (in thousands): \$323,716

- 2022 approved budget (in thousands): \$251,184
 - Fuel Contingency:
 - 2023 proposed budget (in thousands): \$197,722
 - 2022 approved budget (in thousands): N/A
 - Key drivers:
 - Increasing natural gas and coal costs
 - Generation Mix (Coal/Gas/Purchase Power)
- Operations & Maintenance (O&M) – Non-Fuel (24.3% of proposed appropriation)
 - 2023 proposed budget (in thousands): \$379,717
 - 2022 approved budget (in thousands): \$352,215
 - Key drivers:
 - Labor and Benefits
 - Plant Outages and Maintenance
 - Fort Carson Intergovernmental Agreement
- Debt Service (13.5% of appropriation)
 - 2023 proposed budget (in thousands): \$210,863
 - 2022 approved budget (in thousands): \$206,212
 - Key drivers:
 - 2021 new bond issue \$230.0 million, \$150.0 million in 2022
 - Principal and Interest (P&I) increase of existing debt
 - 53.1% bond funded capital program in 2021, 32.8% in 2022
- Total Labor and Benefits (including O&M and Capital)
 - 2023 proposed budget (in thousands): \$274,277
 - 2022 approved budget (in thousands): \$249,302
- Regular Base Pay (including O&M and Capital)
 - Key Drivers:
 - Salary Structure Adjustments - \$11.9 million
 - Pay Adjustments - \$3.4 million
 - New Positions - \$2.5 million
 - Fort Carson Intergovernmental Agreement - \$1.3 million
- Community Outreach
 - 2023 proposed budget (in thousands): \$1,218
 - 2022 approved budget (in thousands): \$1,218
- Demand Side Management/Renewable Incentives
 - 2023 proposed budget (in thousands): \$3,120
 - 2022 approved budget (in thousands): \$5,381
 - Mr. Pat Wells, Interim Resource and Infrastructure Planning General Manager, and Ms. Lisa Barbato, Chief Systems

Planning and Projects Officer, explained how the organization has implemented new rebate/incentive programs and learned how to better communicate these changes to staff, the Utilities Board and the community.

Mr. Hunter concluded with a service level summary and corresponding financial metrics.

2023 Preliminary Rate Case Review

Mr. Scott Shirola, Pricing and Rates Manager, said the 2023 rate case filing is based on 2023 sources and Uses Budget Ordinances, and explained the proposed changes for water and wastewater services:

- Water Service
 - Rate drivers:
 - Inflationary increases in labor, benefits and system maintenance
 - Funding infrastructure investments
 - Advanced Metering Infrastructure (AMI) and Airport Highline projects
 - Water debt additions
 - Total Water proposed revenue from rates is \$219.8 million
 - \$10.4 million higher than revenue under current rates
 - Overall system increase - 5.0%

Mr. Shirola gave a cost analysis and rate design summary for water service by rate class. He reviewed each rate class and the percent revenue change. He also said the proposed revenue from rates is calculated using the rate design completed to collect the overall net revenue requirement. Mr. Shirola said the residential rates are designed to be consistent with rate design guidelines in support of water conservation, affordability, and revenue stability. He also reviewed a sample water bill and additional water rate changes.

- Wastewater Service
 - Rate drivers:
 - Inflationary increases in labor, benefits and system maintenance
 - Funding infrastructure investments
 - Clear Springs Ranch Biogas and North Monument Creek Interceptor projects
 - Total Wastewater proposed revenue from rates is \$73.6 million
 - \$2.8 million higher than revenue under current rates
 - Overall system increase - 4.0%

Mr. Shirola gave a cost analysis and rate design summary for wastewater service by rate class. He reviewed each rate class and the percent revenue change. He also said the proposed revenue from rates is calculated using the rate design completed to collect the overall net revenue requirement.

Mr. Shirola reviewed a sample total service bill with a proposed effective date of Jan. 1, 2023. He also explained changes to electric rate schedules – rate design and other tariffs:

Electric Rate Schedules – Rate Design

- Residential Service Time-of-Day (TOD) Option
 - Modification to on-peak and off-peak period definitions
 - On-Peak Periods: 4:00 p.m. – 8:00 p.m. Monday through Friday
 - Modification to seasonal definitions
 - Summer Period: June through September
 - Adjustment to On-Peak and Off-Peak Access and Facilities Charges
- Commercial Service – General TOD Option
 - Adjustment to On-Peak and Off-Peak Access and Facilities Charges
- Green Power Service
 - Increase program availability from 7 million kWh per month to 12 million kWh per month
 - Modify pricing to reflect firm nature of service and transfer of Renewable Energy Credit (REC)
- Industrial Service - Interruptible
 - Addition of new interruptible rate schedule
 - Available to customers whose maximum demand exceeds 500 kW
 - Customers are subject to Springs Utilities' direct load control without notice
 - Interruptible credit based on Springs Utilities' avoided capacity cost
- EV Public Charging – TOD
 - Addition of new EV public charging rate schedule
 - On-Peak and Off-Peak TOD pricing for two levels of service:
 - Level II
 - Direct Current Fast Charging (DCFC)
 - Idle fees apply starting 15 minutes after charge is complete

Other Tariff Changes

- Electric Rate Schedules

- Industrial Service – Large Power and Light (ELG)
 - Remove reference to ELG Supply Credit
- Community Solar Garden Bill Credit Pilot Program
 - Broaden the availability currently limited to residential customers to include non-profit organizations
- Natural Gas Rate Schedules
 - Industrial Service and Contract Service – Military Interruptible
 - Addition of provisions allowing waiver of Overrun Charges
 - Removal of exemption from backup fuel supply for warm weather process loads
 - Lengthen customer termination notice from 30 to 60 days
- Water Rate Schedules
 - Contract Service – Regional
 - Addition of Standby Service for customers requiring temporary service
- Electric, Natural Gas, Water and Wastewater Rate Schedules
 - Rate Option Contracts
 - Modifications to standardize contract expiration and renewal dates
 - Other administrative corrections
- Utilities Rules and Regulations (URR)
 - Account Access
 - Addition of provisions allowing Springs Utilities to provide information to authorized agencies
 - Water and Wastewater Oversize Recovery
 - Modification of capacity determinations and elimination of Large Main Extension Fund 25% upfront requirement
 - Water Regional System Availability Fee (WRSAF)
 - Addition of Standby Service WRSAF
- Open Access Transmission Tariff (OATT)
 - Large Generator Interconnection Agreement and Procedures
 - Elimination of credit provisions related to network upgrades

Mr. Shirola concluded with next steps.

Committee Chair Henjum and Mr. Gearhart thanked the rates and pricing team for their hard work on preparing the preliminary 2023 budget and rate case.

6. By Exception:

- a. Financial Monitoring Update

- b. Enterprise Risk Management Report
- c. Year to Date Water Revenue
- d. Financial Forecast Dashboard

There were no comments.

7. Plan for Future Meeting: September 16, 2022

8. Adjournment

The meeting adjourned at 5:43 p.m.