



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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22-01 Review of Colorado Springs Utilities February 2021 Natural Gas Price Event

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Purpose

The purpose of this audit was to review Colorado Springs Utilities (Utilities) February 2021 natural gas price event, their After Action Report, conclusions, and recommendations for completeness. Additionally, we reviewed to ensure appropriate reporting to stakeholders and follow up mechanisms for identified improvements.

Highlights

We conclude that Utilities conducted a thorough, complete and accurate review of the February 2021 natural gas price event. Overall, Utilities focus during the event was on reliable service delivery to customers. The After Action Report identified areas for improvements in both reliability and mitigation of price impacts to customers. We agree with the action items developed as a result of the after action review in the areas of communications, facility operations, reducing exposure to price volatility, demand side management (DSM), and increased modeling capabilities. We noted one observation to improve reporting of action items status.

A major winter weather system across much of the central United States February 13-16, 2021 disrupted energy supplies, leading to significant increases in natural gas and power prices. Daily usage for the Gas Service was the highest in the last ten years, and a new daily usage record for winter was set for the Electric Service. Natural gas prices increased from \$2.42 to \$173.00 per dekatherm during the event. The cost of natural gas during the event was \$112.6 million net of natural gas sales back into the market.

The severe weather impacts included an unplanned outage of approximately fourteen hours for the natural gas-fired Front Range Electric Generating facility on February 14, resulting in the need to buy replacement power. Utilities in the region, including Xcel Energy and Black Hills Energy, experienced similar price volatility, as indicated in testimony filed with the Colorado Public Utilities Commission.

The Gas Cost Adjustment (GCA) increased in March to cover approximately \$95 million in increased fuel costs over a 14 month period. The Electric Cost Adjustment (ECA) increased in April 2021 to recover approximately \$39 million in increased energy costs from customers over a 13 month period.

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Recommendations

1. Utilities Management should:

- Complete updates of the tracking site to include support for action items completed.
- Produce periodic status reports for stakeholders that provide details of improvements made related to the after action review.

Management Response

Management was in agreement with our recommendation.

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Utilities peak day natural gas plan indicated the various sources and quantities that would be used to meet peak day requirements from various contracts, spot purchases, propane, and storage. Utilities utilization of the lower cost gas storage during the weather event was 50% or less than the peak day plan usage. Utilities indicated that the lower utilization of storage during the event as compared to the peak day plan related to, a) the potential for forecasting error in case the weather turned colder, b) uncertainty surrounding natural gas supply deliveries, as well as, c) four days of purchases made in advance due to the holiday weekend.

The After Action Report proposed an additional scorecard measure related to resilience (different from reliability) and establishment of corporate metrics for resilience during extreme events. Additionally, opportunities for continuous improvement were identified in the following areas:

1) Operations and training - opportunities were identified to winterize assets and improve documentation, training, and coordination related to extreme weather events. This included winterization response activities and temporary heat to prevent facilities from freezing.

2) Communications - action items were developed to include a focused communications plan to trigger residential and commercial customers to conserve during extreme events. Additionally, action items were created related to internal communications and coordination.

3) Strategies to reduce exposure to price volatility - Utilities proposed a natural gas hedging program to be implemented in two phases over the next two winter seasons. The first phase implemented this winter involved reducing price exposure through fixed price supply contracts. The next phase to be implemented for the 2022-2023 winter will utilize financial instruments.

4) Demand side management - action items were identified to formalize electric curtailment communications for pricing events in addition to current curtailments for purposes of reliability. Additionally, an action item was created to develop more flexible curtailable load that can be called upon in extreme events.

5) Increased modeling capability - action items were created to increase capabilities for data collection, forecasting, and modeling for extreme events to include optimizing use of storage capabilities. Utilities Fuel and Purchased Power Department has made staffing changes to support analytics and related departmental goals and metrics will be adjusted accordingly.

Commendable Practice:

Utilities conducted a tabletop exercise to simulate a severe weather event on October 27, 2021. Participants included employees from Utilities Operations and Fuels and Purchased power groups.

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Observation 1

Support and documentation was not required to be included in the organization's after action status tracking site. Overall summary progress reports had not been produced since the event, although completion dates were updated.

Utilities created action items, with assigned responsible parties, due dates, and priorities as a result of the after action review. This list of action items was stored in a centrally available location.

Managers were responsible to update the tracking site for the date the action items were completed. However, support for the actions taken was not included. Subsequent to our review, Utilities began updating the tracking site to include detailed support for actions completed.

Management Response

Utilities is tracking organizational action items for this event in a planning tool. Tracking of action items includes responsible stakeholder, due date, completion date and any documentation that was identified as an outcome of the after action review. An update of the planning tool is completed monthly with a review by Utilities Management of action items to track progress. To date 86% of action items have been completed with the remaining items requiring longer term completion dates.

Recommendation

Utilities Management should:

- Complete update of support for actions taken in the after action tracking site.
- Produce periodic status reports for stakeholders that provide details of improvements made related to the after action review.