



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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23-18 Colorado Springs Utilities 2024 Electric and Gas Rate Case

October 2023

Purpose

The 2024 Rate Case review focused on accuracy and consistency of the methodology used to develop the proposed rate changes. We also reviewed for compliance with rate development guidance approved by the Colorado Springs Utilities (Utilities) Board.

Highlights

We conclude the cost of service studies supporting the proposed rate changes for electric service and gas service, effective January 1, 2024, were prepared accurately. Methodology was consistent with prior rate cases and proposed rate changes were within tolerances approved by Utilities Board guidance. We identified one observation in our review. Please see page two of this report for observation details.

Proposed rate changes were based on the 2024 budgets and forecasted sales data. The electric revenue requirements increased \$27.3 million or 8% over the revenue at current rates. Gas revenue requirements increased \$5.0 million or 6% over revenues at current rates. Utilities also proposed a new natural gas charge known as the Colorado Clean Heat Plan Charge which will recover the cost of energy efficiency programs needed to meet Colorado's Clean Heat Plan regulation.

In 2022 Utilities began a multiyear effort to construct a next generation optical fiber network to be completed in 2028 at a total cost of approximately \$600 million. The city-wide modern network is projected to enhance utility operations, allow better service to customers, and meet community needs by enabling multi-gigabit internet activity to every home and business in the City. We noted that all fiber project costs were charged to the Electric Service with a 2024 budget of \$68.4 million. The project is cash funded and no debt funding will be necessary.

The business plan for fiber shows that excess capacity will be leased to third parties and these revenues will offset this expense in the long term. In addition, Utilities indicated that in the future if the Water or Gas Services utilize the fiber network, reimbursement to the Electric Service will be required.

Management Response

Management was in agreement with our recommendations.

Recommendations

1. Utilities Planning and Financial Division management should:
 - Ensure sample meters for the 2024 load study are selected by the end of first quarter 2024.
 - At least a year prior to completing a cost of service study, confirm that sample data is complete, accurate, and in accordance with load research best practices.

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23-XX COLORADO SPRINGS UTILITIES 2024 ELECTRIC AND GAS RATE CASE

Observation 1

- The load study used to allocate demand related costs in the Electric Cost of Service Study was reasonably accurate but utilized 2017 trended data.

Utilities conducts load studies to allocate certain costs to the customer classes that place the most demand on the system at any one time. Load research data was available for large commercial classes but not for other classes due to a billing system implementation in May 2023.

The third party consultant utilized 2017 data and escalated the data points based on available trend data. We note that the load study used to allocate demand related costs was reasonably accurate. However, guidance from the National Association of Regulatory Utility Commissioners stated new samples should be selected every 1-2 years.

Utilities plans to conduct a new load study in 2024 utilizing updated data using best practices for load research data.

Recommendation

Utilities Planning and Financial Division management should:

- Ensure sample meters for the 2024 load study are selected by the end of first quarter 2024.
- At least a year prior to completing a cost of service study, confirm that sample data is complete, accurate, and in accordance with load research best practices.

Management Response

Colorado Springs Utilities agrees with the recommendations. We will select load study samples by March 31, 2024 for the 2024 load study.

Observation 1—Glossary of Terms

Load Study — Statistical research of demand data for the purpose of estimating rate class profiles.

Demand — Amount of electric power being consumed at a given point in time.

Source: Colorado Springs Utilities Pricing and Rates