



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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24-21 Colorado Springs Utilities 2025-2029 Proposed Rate Increases

October 2024

Purpose

The 2025 proposed electric, gas, water and wastewater five-year rate case review focused on accuracy and consistency of the methodology used to develop the proposed base rate changes effective January 1, 2025. 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 base rate changes, effective January 1, 2025, for electric, gas, water, and wastewater services were prepared accurately. Methodology changes were appropriately disclosed in Utilities filing reports and rate changes were within tolerances approved by Utilities Board guidance. We identified one opportunity for improvement in our review. Please see page three for details.

The 2025 Rate Case was part of a five-year financial plan which proposed annual rate increases to electric, gas, water, and wastewater effective January 1st for each of the years 2025 through 2029. Utilities used a forecast for 2026 through 2029 and smoothed the percentage increases each year to phase-in rate increases for each service. The proposed total increase for years 2025-2029 is \$79.79 or 28.9% for residential, \$395.67 or 25% for commercial, and \$10,618.09 or 21.7% for industrial for all four services based on the monthly sample bill provided by Utilities.

Additionally, Utilities proposed to establish Energy-Wise Time-of-Day (Energy-Wise) as the standard rate option for most customers with changes effective October 1, 2025. Customers will pay different rates for electricity based on the time of day use. Utilities reported a systematic, managed approach to transition applicable customers to the Energy-Wise option will occur over a period of time to be established by them. Utilities engaged a third-party consultant to design the Energy-Wise rates and indicated they were designed to collect the same revenue as the legacy rates within the rate class. Given the timeframe for our review, testing of this assertion was not performed but we plan to perform a separate review next year.

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Management Response

Management was in agreement with our recommendations.

Opportunity for Improvement

1. Utilities Management should:

- Incorporate more comprehensive reporting related to capital spending into the I-2 report to Utilities Board.
- Consider performing annual review of actuals to forecast to determine if changes in proposed rates are needed. Results should be reported to the Utilities Board.

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Our review consisted of verifying the consistency of allocation to ratepayers using the following methods:

- Comparison of proposed rate case to prior case to identify significant changes or trends
- Testing mathematical accuracy and agreeing specific line items to supporting documentation to ensure all other forecasted revenues were accounted for in the case
- Reviewing rate case for format and methodology changes
- Verifying proposed rates were within Utilities Board approved guidance

We will consider additional review of actual results against the proposed rate case in the future.

2025 Forecasted Revenue Requirement by Service

The electric revenue requirement increased \$24.2 million or 6.5%. Gas revenue requirements increased \$3.6 million or 4% over the revenue at current rates. Water revenue requirements increased \$13.9 million or 6.5% over the revenue at current rates. Wastewater revenue requirements increased \$6.6 million or 9% over the revenue at current rates. See *Proposed 5-Year Rate Increase by Service for Residential* table below for percentage increases proposed for 2026 through 2029.

The primary rate drivers for increased rates were reported as funding reliability, regulatory, and growth infrastructure investments for all four services. Utilities advised the Eastern Wastewater System Expansion (eastern expansion) was a driver included in growth infrastructure for the wastewater service. The eastern expansion consists of three large, complex projects that will provide the critical backbone needed to serve customers in a rapidly growing area in the city's eastern portion.

Also, Colorado state regulation requires a reduction in carbon emissions. Utilities will acquire the needed renewable energy using Purchase Power Agreements (PPA's). PPA's are contracts to purchase a certain amount of renewable energy for a period of time. The costs are not known at this time but Utilities anticipates costs will increase when PPA's are put in place. PPA's are not part of this base rate case but will be included in fuel cost adjustments. Changes to fuel cost adjustments directly reflect the cost Utilities are paying and passing directly through to customers. Changes to the fuel cost adjustments are typically made quarterly.

Budget and base rate proposals are presented to the Utilities Board and approved by City Council each year. Base rates pay for major projects, system improvements and maintenance to meet regulations, support customer needs, and maintain service reliability. Utilities anticipates their need to build new infrastructure over the next five years will increase capital projects \$600 to \$950 million annually. This resulted in the proposed five-year rate case.

Proposed 5-Year Rate Increase by Service for Residential					
	2025	2026	2027	2028	2029
Electric	6.6%	6.4%	6.4%	6.4%	6.4%
Gas	3.9%	4.3%	4.3%	4.3%	4.3%
Water	5.4%	6.4%	6.4%	6.4%	6.4%
Wastewater	9.2%	9.0%	9.0%	9.0%	9.0%

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Opportunity for Improvement 1

Significant changes to forecasts could be required during the five year period. Utilities is also implementing Energy-Wise rates beginning in 2025 which could result in changes to the forecast.

Annually, Utilities proposes a budget to include planned capital projects as part of the annual appropriation. Instruction 2 (I-2) Financial Condition and Activities reported to Utilities Board required reporting of cancelled projects and new projects over \$500,000. Additional key capital budget variances were reported quarterly to the Utilities Finance Committee.

Research of nine other large public power utilities ratemaking practices indicated that five of the nine approved rates annually. The remainder utilized a 2-3 year rate increase approval cycle. This is likely because of the rapid changes in the electric industry that require more frequent forecast updates.

As would be expected, project cost estimates and project timing may change after budget submission with management approval. There was a possibility that capital spending requirements would increase in one service and decrease in another during the five year period proposed in the rate case.

Utilities has considered developing more comprehensive reporting of actual capital spending as compared to the annual budget as part of the I-2 report. More comprehensive reporting including a breakdown by project would provide greater visibility for stakeholders into capital budget adjustments.

Management Response

Utilities Management agrees with the City Auditor's Office identification for this Improvement to our reporting. Utilities will work in partnership with the City Auditors' Office and the Utilities Board Finance Committee to bring suggested improvements to the I-2 reporting. We anticipate any improvement suggestions to our reporting will be completed by the end of the 1st quarter 2025.

Recommendation

Utilities Management should:

- Incorporate more comprehensive reporting related to capital spending into the I-2 report to Utilities Board.
- Consider performing annual review of actuals to forecast to determine if changes in proposed rates are needed. Results should be reported to the Utilities Board.