

**Minutes  
Finance Committee  
Colorado Springs Utilities Board  
June 19, 2023**

**Committee members present via Microsoft Teams or Rosemont Conference Room:**

Committee Chair Nancy Henjum, Lynette Crow-Iverson and Dave Donelson

**Board Members present via Microsoft Teams or Rosemont Conference Room:**

Randy Helms, Mike O'Malley and Michelle Talarico

**Staff members present via Microsoft Teams or Rosemont Conference Room:**

Tristan Gearhart, Lisa Barbato, Mike Francolino, Somer Mese, Renee Adams, John Hunter, Adam Hegstrom, Scott Shirola, Alex Baird, Joe Awad, David Longrie, Danielle Nieves, Natalie Watts, Andie Buhl, Tara McGowan and Abigail Ortega

**City of Colorado Springs staff members present via Microsoft Teams or Rosemont Conference Room:**

Sally Barber and David Beckett

**Citizens present via Microsoft Teams or Rosemont Conference Room:**

Larry Barrett and Mary Shinn

**1. Call to Order**

Committee Chair Nancy Henjum called the meeting to order at 1:30 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 May 15, 2023 Finance Committee meeting were reviewed and approved for posting.

**3. 2023AB Bond Ordinance**

Mr. Adam Hegstrom, Treasury and Finance Manager, reviewed the 2023 Plan of Finance regarding the 2023AB Bond Ordinance. He said the Plan of Finance is an annual strategic effort to effectively obtain and manage debt obligations to support Colorado Springs Utilities' capital needs. He said the Plan of Finance is critical to the Utilities Board's Strategic Focus on rates. Its core tenets are prudence, efficiency, and flexibility.

Mr. Hegstrom said collectively, the Plan of Finance is executed by Springs Utilities leadership, planning and finance staff, key advisors (financial advisor and bond counsel),

and key banking partners and counterparties. He reviewed and discussed each key objective:

1. New Money Debt Issuance: 2023As
  - a. Support Springs Utilities' operations by funding the debt-backed portion of the Enterprise's future capital plan
  - b. Enterprise need:
    - i. Estimated \$432 million in total capital spend between September 2023 and September 2024
  - c. Anticipated actions:
    - i. Issue new money debt in August 2023
  - d. Anticipated issuance details:
    - i. Current estimated - \$225 million (proceeds)
    - ii. Ordinance ceiling - \$250 million
    - iii. More clarity in coming months surrounding 2024 Annual Operating Plan/Capital Plan
    - iv. Effective balance between cash and debt to optimize financial metric performance
  - e. Structure:
    - i. Traditional tax exempt fixed-rate debt
    - ii. Maturity-by-maturity optimization near issuance date
  - f. Market Update:
    - i. Interest rates are roughly unchanged since last issuance
    - ii. However, the yield curve has shifted greatly
    - iii. Inflation is still above the Federal Reserve's target range
    - iv. Municipal supply has dropped dramatically
    - v. Investor flows have stabilized after large outflows in 2022
    - vi. To best match short-term market supply and demand/liquidity, pricing date has been accelerated to mid-august
2. Refunding Debt Issuance: 2023Bs
  - a. Manage and optimize Springs Utilities' current debt portfolio
    - i. \$1.78 billion in outstanding fixed rate bonds
    - ii. Vast majority can be refinanced 10 years after issuance if interest rate economics are favorable
  - b. Anticipated actions:
    - i. Issue a current refunding transaction in August to refinance all/parts of the 2013A, 2013B-1, and 2013B-2 issuance
3. Procure and manage debt-supporting instruments and ancillary services
4. Industry and investor relationships
  - a. Manage Springs Utilities' financial reputation and industry relationships to ensure market access
  - b. JP Morgan Investor Conference
    - i. Presentation to ~50 institutional investors on the state of Colorado Springs Utilities and our credit
    - ii. Q&A meetings with interested portfolio managers and analysts
  - c. Underwriter pool selection
    - i. Competitive process from 12 banks

- ii. Six chosen for pool for an anticipated five-year term
- iii. Team selected for 2023AB issuance:
- iv. Senior Manager - Goldman Sachs
- v. Co-Managers - Bank of America, Morgan Stanley and Piper Sandler
- d. Credit rating agencies
  - i. Currently preparing messaging materials for upcoming rating agency meetings
  - ii. Site tours included
  - iii. Anticipated topics of interest to address:
    1. Fuel price volatility management
    2. Funding of large future capital programs
    3. Environmental regulation
    4. Colorado River Compact implications
    5. Major project highlights
    6. Inflation and supply chain impacts
    7. Short- and long-term financial planning processes

Mr. Hegstrom concluded with a tentative debt issuance working timeline for the rest of the year.

#### **4. 2023 Budget Draft Review**

Mr. John Hunter, Financial Planning and Risk Manager, reviewed the proposed 2024 budget consisting of financial metrics, rate adjustments and proposed expenditures – all of which are responsibly balanced. He explained the funding 2024 appropriations and proposed 2024 budget.

Mr. Hunter concluded with 10-year forecast and next steps.

#### **5. Fuel Related Filing Update**

Mr. Scott Shirola, Pricing and Rates Manager, explained non-fuel (base) and fuel-related rates for electric and natural gas. He reviewed the three types of fuel-related costs:

1. Energy cost: Electric Cost Adjustment (ECA) and Gas Cost Adjustment (GCA)
  - Energy costs are variable and driven by price fluctuations in the coal, natural gas and purchase power market
    - Monitored monthly and adjusted quarterly
2. Capacity cost: Electric Capacity Charge (ECC) and Gas Capacity Charge (GCC)
  - Capacity costs are primarily fixed based on contracted/reserved transmission capacity
    - Reviewed and adjusted annually
3. Two-part fuel rate composition
  - Part one: Forecasted expense for the period the rate will be in effect

- Part two: True-up of over/under collected cost over 12 or 24-month period

Mr. Shirola provided natural gas prices as of June 1, 2023, and highlighted prices during the heating season (November – March). Mr. Alex Baird, Portfolio Management Manager, further explained natural gas prices from an energy market perspective. Mr. Shirola concluded with ECA, GCA, ECC and GCC projections for June 2023. He reviewed sample bills based on the proposed effective date of July 1, 2023 and concluded with financial assistance programs for customers.

The Finance Committee accepted the recommendation to the Utilities Board for the upcoming meeting.

## **6. Utilities Policy Advisory Committee (UPAC) Cost Recovery Assignment Recommendation**

Mr. Shirola reviewed the scope and purpose for the cost recovery assignment, which is to provide a recommendation to the Utilities Board on whether Colorado Springs Utilities should revise and/or establish new cost recovery policies. Four questions that pertain to this assignment are:

1. Should Springs Utilities be forward looking on cost recovery for resource and infrastructure investments?
2. Should Springs Utilities align cost recovery mechanisms across four services?
3. What role should incentives play in supporting resource and infrastructure planning objectives?
4. What are the appropriate ways to balance costs between existing and future customers for required future investments?

Mr. Tristan Gearhart, Chief Financial and Planning Officer, reviewed the I-1 (Pricing of Services) from the Governance Manual, which states:

*The Chief Executive Officer shall direct that pricing practices result in rates that are just, reasonable and not unduly discriminatory. Accordingly, the CEO shall:*

1. *Establish pricing practices that result in revenues that are sufficient to provide safe, reliable utility services to Colorado Springs Utilities citizens and customers.*
2. *Establish pricing practices that maintain financial viability of each separate regulated service.*

Mr. Shirola provided background information about the assignment – specifically, increasing pressure on utility rates and growth and system expansion on rates under existing development policies. He also reviewed stakeholder input from the City of Colorado Springs Planning and Community Development, City of Colorado Springs Economic Development Office, Housing and Building Association and Pikes Peak Association of Realtors. Ms. Tara McGowan, Engineering Manager, reiterated ongoing

capacity concerns due to city population growth and Mr. Shirola reviewed current cost recoveries for each service.

Mr. Shirola concluded with UPAC's draft recommendation for cost recoveries for each service, as well as the remaining timeline for this assignment.

### **7. Regional Transmission Organization (RTO)**

Mr. Baird said the Southwest Power Pool (SPP) is a regional transmission organization (RTO) and a not-for-profit. He said Springs Utilities entered SPP's Western Energy Imbalance Service Market (WEIS) in August 2022. He reviewed WEIS' benefits, which include:

- \$2.1 million in energy cost savings in the last five months of 2022
- Forecasted \$3-4.5 million annual energy cost savings
- Increased accessibility to resource mix (2023 capacity mix)

Mr. Baird said the RTO's expanded resource pool and resource adequacy standards forecasted \$13-20 million per year in energy cost savings and increased accessibility to resource mix. He reviewed RTO benefits and concluded with next steps, which include the commitment agreement, project kick-off, gap analysis and process evaluation, and go-live date of April 1, 2026.

### **8. Water Revenue Report**

Mr. Gearhart provided a brief update about the water reserve account which as of May 2023 is \$15.8 million.

### **9. Financial Monitoring Update**

Mr. Gearhart reviewed May's revenue for each service, operating expenses (monthly and year to date), and gross margins for electric and natural gas services.

### **10. Plan for Future Meeting: Monday, July 17, 2023**

The Finance Committee reviewed agenda/discussion topics for the next month's meeting.

### **11. Adjournment:** The meeting adjourned at 3:34 p.m.