



**Minutes
Finance Committee
Colorado Springs Utilities Board
August 14, 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:

Michelle Talarico and Brian Risley

Staff members present via Microsoft Teams or Rosemont Conference Room:

Travas Deal, Tristan Gearhart, Lisa Barbato, Mike Francolino, Renee Adams, Natalie Lovell, Scott Shirola, Natalie Watts, John Hunter, Andie Buhl, Bethany Schoemer, Christian Nelson, Angelia Mora, Lisa Barbato, Somer Mese, Kory Bond and Adam Hegstrom

City of Colorado Springs staff members present via Microsoft Teams or Rosemont

Conference Room: Renee Congdon, David Beckett, Sally Barber and Chris Bidlack

Citizens present via Microsoft Teams or Rosemont Conference Room:

Hilary Dussing, Gary Burghart, Scott Smith, Marla Novak and Larry Barrett

1. Call to Order

Committee Chair Nancy Henjum called the meeting to order at 1:34 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 17, 2023 Finance Committee meeting were reviewed and approved for posting.

3. Compliance Reports:

- a. **I-2 Financial Condition and Activities (to include Contracts Over \$500K)
G-7 – Q2**
- b. **I-8 Asset Protection**
- c. **I-4 Risk Management (Semi-annual)**

Mr. Tristan Gearhart, Chief Planning & Finance Officer, reviewed the I-2. He provided the committee with an update for the April 1, 2023-June 30, 2023 reporting period, which states:

The Chief Executive Officer shall direct that financial condition and activities and actual expenditures are consistent with Board Expected Results. Accordingly, the CEO shall:

- 1. Operate within total appropriations for the fiscal year and inform the Utilities Board of:
 - a. Significant financial variances*
 - b. Expenditures that exceed the Federal Energy Regulatory Commission capital and operating and maintenance budget classifications in electric, natural gas, water, wastewater and common.*
 - c. Budget transfers and canceled major capital projects over \$500,000 in the Approved Budget or new major capital projects not funded in the Approved Budget.**
- 2. Inform the Utilities Board of contracts that have been issued over \$500,000.*
- 3. Invest funds in accordance with Bond Ordinance requirements and Utilities Investment Plan.*
- 4. Ensure controls are in place for receiving, processing, or disbursing funds and allow only bonded personnel access to material amounts of funds.*
- 5. Ensure receivables are resolved within a reasonable grace period.*
- 6. Settle payroll and debts in a timely manner.*
- 7. Ensure tax payments or other government ordered payments are timely and materially accurate.*
- 8. Operate within Colorado State Procurement Code, Colorado Springs Utilities*
- 9. Procurement Code and Procurement procedures assuring legal and fiscal compliance with competitive acquisition practices, conflict of interest, favoritism, and procurement from local vendors.*
- 10. Inform the Utilities Board of significant financial impacts on the Municipal Government.*

Mr. Gearhart also reviewed the Executive Summary - variance analysis for the 6+6 projected year-end Dec. 31, 2023. He said the variance analysis is intended to serve as an objective, easily readable analysis of the significant financial activities for the projected year-end Dec. 31, 2023.

4. Electric Cost Adjustment (ECA)/Gas Cost Adjustment (GCA) Update

Mr. Scott Shirola, Pricing and Rates Manager, provided natural gas prices as of Aug. 1, 2023, and highlighted prices during the heating season (November – March). He concluded with ECA and GCA projections for August 2023.

5. 2024 Budget and Rate Case

Mr. Gearhart introduced the process for the 2024 budget and rate case. He said Sep. 12 is the deadline for Utilities Board members to provide feedback to Springs Utilities staff about the budget/rate case.

Mr. John Hunter, Financial Planning and Risk Manager, gave an overview of the proposed 2024 budget consisting of financial metrics, rate adjustments and proposed expenditures – all of which he explained are responsibly balanced.

Mr. Hunter also reviewed the proposed 2024 budget summary (in thousands) by line item:

Mr. Hunter reviewed the 10-year forecast as well as the 2024 service level summary (in thousands) and corresponding financial metrics.

Mr. Shirola provided an overview of the annual review and approval process for the rate case, saying the 2024 rate case filing is based on 2024 sources and uses budget ordinances. He explained that the rate case filing includes proposed changes to:

- Electric, natural gas, and certain water rate tables
- Electric and natural gas tariff provisions
- Utilities Rules and Regulations (URR)

Mr. Shirola said the effective date of proposed changes is Jan. 1, 2024 and the 2024 rate case filing will contain the comprehensive proposed changes: reports, resolutions, tariffs, cost of service studies (COS), and other supporting materials.

Mr. Shirola reviewed the Clean Heat Plan Law which requires gas utilities to adopt programs to reduce greenhouse gas emissions.

Mr. Shirola said the Colorado Clean Heat Plan charge proposes a new bill component to transparently recover cost of complying with Clean Heat Plan requirements. He said revenue will be used to fund energy efficiency programs that help reduce greenhouse gas emissions. Programs include customer rebates for:

- Energy efficient water heaters and furnaces
- Insulation
- Heat pumps

Mr. Shirola highlighted a residential sample total service bill, and other tariff changes for electric and water:

Mr. Shirola concluded with next steps for the 2024 proposed utilities preliminary budget and rate case.

The Finance Committee took a break at 3:58 p.m. and reconvened at 4:05 p.m.

6. Utilities Policy Advisory Committee Recovery Assignment Update

Mr. Shirola reviewed the purpose of the cost recovery assignment, which is to provide a recommendation to the Utilities Board on whether Springs Utilities should revise and/or establish new cost recovery policies. He said the four assignment questions are:

1. Should Utilities be forward looking on cost recovery for resource and infrastructure investments?
2. Should 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. Shirola provided background information about the assignment, saying that new regulations, customer behavior, industry transformation and community planning and growth are all influential factors for this assignment – more specifically:

- Increasing pressure on utility rates
 - Complying with new regulations, adapting service delivery to a changing customer and investing in industry transformations
- Growth and system expansion place additional pressure on rates under existing development policies

Mr. Shirola reviewed the current cost recovery mechanisms for each service and shared the proposed timeline for the UPAC cost recovery assignment. Chair Henjum and Mr. Gearhart emphasized the importance of this assignment and appreciate staff taking their time with it.

Mr. Christian Nelson, Public Affairs Lead, reviewed the process for UPAC assignments and how UPAC updates the Utilities Board. Mr. Larry Barrett, UPAC Chair, explained the relationship UPAC has with the Utilities Board and Ms. Hilary Dussing, UPAC Vice Chair, reiterated the need to not duplicate previous work, so UPAC and staff can move forward. Mr. Gary Burghart, UPAC Member, said the optimal approach for this assignment is to follow the timeline, and that UPAC should report directly to the Utilities Board instead of through committees to avoid duplicate efforts. He also said this approach allows engagement opportunities with the community. Mr. Scott Smith, UPAC Member, echoed comments of his fellow UPAC Members.

Finance Committee Member Donelson said moving forward, UPAC will report directly to the Utilities Board with updates rather than through committees; however, UPAC assignments will be brought to the Strategic Planning Committee meetings if deeper dives are required.

Chair Henjum and Utilities Board Member Risley agreed to coordinate agenda items that are related to both Strategic Planning Committee and Finance Committee.

7. Drake Decommissioning Regulatory Asset

Ms. Natalie Lovell, Accounting Controller Manager, introduced new Accounting Supervisor, Kory Bond. Ms. Lovell informed the committee that Springs Utilities will be seeking approval from City Council in October to establish a regulatory asset to record

the decommissioning and obsolete inventory expenses associated with the Martin Drake Power Plant. She said these costs will be expensed over a 10-year period as they are incurred to help smooth the rate impact. She said with City Council approval, the proposed total regulatory asset, currently estimated at \$17,900,000, would be established starting with 2023 and adjusted through 2024 as final expenses are tried up with the completion of the decommissioning project. She said incurred actual costs each year will be amortized over the 10-year rolling period for a total of 11 years.

Ms. Lovell said the Government Accounting Standards Board (GASB) is a private non-governmental organization that creates accounting reporting standards, or generally accepted accounting principles (GAAP), for state and local governments in the United States. She said regulatory Asset is allowed by standards, if:

- Rates are established by governing board empowered by statute to establish rates
- Regulated rates are designed to recover the costs of the utility providing the regulated services
- It is reasonable to assume that rates can be charged and collected from customers

Ms. Lovell explained financial implications, which include:

- Defers expended costs to the balance sheet as a regulatory asset
- Amortized expenses are recorded on the income statement over a set period of time

Ms. Lovell said on Dec. 21, 2009, by Resolution No. 312-09, City Council approved a resolution to establish a similar regulatory asset for certain expenditures associated with the Southern Delivery System to level their rate impact. She explained that again on March 26, 2013, through Resolution 26-13, City Council approved a resolution to establish a similar regulatory asset for debt issuance cost related to current outstanding and future debt issues. She said without the establishment of a regulatory asset, the annual expenses would be recorded against income in the year they occur and potentially drive short term rate increases. Ms. Lovell reviewed an example amortization schedule for the regulatory asset and concluded with next steps.

8. Water Revenue Report

Mr. Gearhart said the water operating revenue for the month of July is \$(2.1) million or 7.6% under the Annual Operating Financial Plan (AOF) and year-to-date revenue is \$(7.8) million or 6.1% under the AOF. He also said the water reserve account as of July 2023 is \$16 million. Mr. Gearhart reviewed 2023 water revenue by month.

9. Financial Monitoring Update

Chair Henjum requested any comments about this report be brought offline to Mr. Gearhart.

10. Plan for Future Meeting: Friday, Sep. 22, 2023

There were no additional comments.

11. Adjournment: The meeting adjourned at 4:52 p.m.