

**Minutes  
Finance Committee  
Colorado Springs Utilities Board  
June 10, 2022**

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

Chair Nancy Henjum, Tom Strand, Bill Murray and Dave Donelson

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

Adam Hegstrom, Andie Buhl, Mallorie Hansen, Scott Shirola, Christian Nelson, Danielle Nieves, Tristan Gearhart, Kyle Wilson, Angelia Mora, John Hunter, Kelly Guisinger, Alex Baird, Natalie Eckhart, Matthew Thieme, Monica Indrebo, Jennifer Franceschelli, Patricia Marlow, Thad Clardy, Natalie Watts, Mike Francolino, Travas Deal, Mike Maksimowicz, David Padgett and Renee Adams

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

Chris Bidlack and Sally Barber

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

Sam Masias

**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.

Chair Henjum acknowledged all members of the Finance Committee for their hard work, and Ms. Mallorie Hansen, Accounting Controller Manager, thanked members of the Planning and Finance Department for their collaboration. Mr. Tristan Gearhart, Chief Planning and Finance Officer, introduced Mr. John Hunter as the new Financial Planning and Risk Manager.

**2. Review Minutes**

Minutes from the May 17, 2022 Finance Committee meeting were reviewed and approved for posting.

**3. Fuel Filing Updates and Policy Review**

Cost Adjustment Guidelines

Mr. Scott Shirola, Pricing and Rates Manager, said the purpose of cost adjustment guidelines is to pass through fuel costs that are outside the organization's control. He said the organization has been following a quarterly filing system, so changes are not as frequent for customers.

Mr. Shirola reviewed three band types and their implications for Finance Committee to consider:

1. Narrower band (current)
  - More frequent application of multiplier with potentially smaller impact on rates.
  - Lower collection balances - Less financial metric impact from in-band balance swings.
2. Wider band
  - Less frequent application of multiplier with potentially larger impact on rates.
  - Larger collection balances - Greater financial metric impact from in-band balance swings.
3. Overcollection band
  - Targets overcollection balance
    - Requires intentional overcollection to build initial balance.
  - Results in same rate volatility as narrower or wider bands
    - Requires lengthened balance recovery period to mitigate rate volatility.
      - Lengthened recovery period may increase financial risk.

Mr. Shirola said the three band types will be brought to the June Utilities Board meeting for further discussion and review.

#### ECA/GCA

Mr. Shirola reviewed the agenda and explained types of fuel costs:

- Energy costs are variable and driven by price fluctuations in the coal, natural gas, and purchase power markets.
- Capacity costs are primarily fixed based on contracted/reserved transmission and transportation capacity.

Mr. Shirola said the organization recovers costs with a passthrough rate structure, which is a fair and equitable industry accepted methodology that manages recovery/refund in a timely manner. Mr. Shirola explained natural gas prices as of June 1, 2022 and Mr. Alex Baird, Fuels and Purchasing Power Manager, explained three natural gas price pressures:

1. Increased exports, stable supply
  - Geopolitical issues, coupled with U.S. natural gas infrastructure
  - With increase demand abroad, limited increase in production
2. Coal retirements
  - As coal plants continue to retire across the nation, power generation is being shifted to renewables/natural gas generation
  - Coal commodity prices are not immune to volatility
3. Profit seeking

- Oil/natural gas producers are comfortable existing in the current energy commodity environment
- Organization of the Petroleum Exporting Countries (OPEC) have committed to modest increases in supply

Mr. Shirola discussed electric cost adjustment (ECA) projections for June 2022 with and without a multiplier. He also reviewed gas cost adjustment (GCA) projections for June 2022 without a multiplier.

#### Large Power and Light (ELG) Supply Credit

Mr. Shirola reviewed the Large Power and Light (ELG) Supply Credit and said it was designed to attract and retain customers with a large industrial load and high load factor. He said explained the rate design guidelines for base or nonfuel rates, as well as the cost adjustment guidelines for ECA and supply credits.

Mr. Shirola further explained the ELG Supply Credit and said the annual evaluation utilizes ELG usage characteristics to estimate energy cost relative to the average cost system; however, in July 2019, the Utilities Board directed a phase-out of the ELG Supply Credit. In 2020, a review supported continuing the phase-out and in 2022, it was finalized to be phased-out and removed from the tariff.

Mr. Shirola said the ELG Supply Credit recommendations are to:

- Implement final phase-out of the ELG Supply Credit
  - Bring the ELG Supply Credit down to \$0.0000 from the current \$0.0006/kWh effective July 1, 2022
- Remove the ELG Supply Credit reference from Electric Rate Table in 2023 Rate Case effective Jan. 1, 2023
- Remove the ELG Supply Credit reference from Cost Adjustment Guideline (G-6) effective Jan. 1, 2023

#### ECC/GCC and Sample Bill Impacts

Mr. Shirola reviewed both the Electric Capacity Charge (ECC) and the Gas Capacity Charge (GCC) projections for June 2022, and sample total monthly bills for the proposed effective date of July 1, 2022. He concluded with payment options and long-term assistance programs for customers.

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

Mr. John Hunter, Interim Financial Planning and Risk Manager, gave an overview of the proposed 2023 budget, which includes financial metrics, rate adjustments and proposed expenditures – all of which need to be responsibly balanced. He explained 2023 funding appropriations, and the proposed 2023 budget. Mr. Hunter concluded with next steps for reviewing and finalizing the 2023 budget.

#### **5. 2022AB Bond Ordinance**

Mr. Adam Hegstrom, Treasury and Finance Manager, provided an overview of the plan of finance, which is an annual strategic effort to effectively obtain and manage debt obligations to support Springs Utilities' capital needs. He said it is critical to the Utilities Board's strategic focus and it is collectively executed by Springs Utilities' leadership, planning and finance staff, key advisors (financial advisor and bond counsel), and key banking partners and counterparties.

Mr. Hegstrom said the plan of finance efforts are dedicated to four key objectives:

1. Fund the debt-backed portion of Springs Utilities' upcoming capital plan
2. Manage and optimize Springs Utilities' current debt portfolio
3. Procure and manage debt-supporting instruments and ancillary services
4. Manage credit rating agency relationships

Mr. Hegstrom explained objective one, which aims to support Springs Utilities' operations by funding the debt-backed portion of the enterprise's future capital plan ("new money issuances"). He said the enterprise needs an estimated \$400 million in total capital spend between September 2022 and August 2023, support for the continued financial recovery from Winter Storm Uri, and flexibility for potential future capital plan changes – all of which lead to an anticipated action of issuing new money debt in September 2022. Mr. Hegstrom also reviewed the anticipated issuance details, structure and market update of objective one.

Mr. Hegstrom explained objective two, which is to manage and optimize Springs Utilities' current debt portfolio ("refunding issuances"). He said currently, there is \$1.78 billion in outstanding fixed rate bonds and a vast majority can be refinanced 10 years after issuance if interest rate economies are favorable. He said the anticipated action is to issue a current refunding transaction in September 2022 to refinance all parts of debt.

Mr. Hegstrom explained objective four, which is to successfully manage credit rating agency relationships. He said staff is currently preparing messaging materials for upcoming rating agency visits, and the anticipated topics of interest to address are:

- Recovery from Winter Storm Uri
- Major project highlights
- Inflation and supply chain impacts
- Fuel price volatility
- Short- and long-term financial planning processes
- Environmental, Social and Governance Factors ("ESG")

Mr. Hegstrom concluded with a debt issuance working timeline for next steps.

**6. By Exception:**

- a. Financial Monitoring Update
- b. Enterprise Risk Management Report
- c. Year to Date Water Revenue

**d. Financial Forecast Dashboard**

Mr. Hunter reviewed projects that make up the 2022 monthly financial forecast dashboards and Mr. Gearhart explained how these projects are funded and forecasted.

**7. Plan for Future Meeting: July 15, 2022**

Committee members requested type of actions be added to items on future agendas.

**8. Adjournment**

The meeting adjourned at 3:19 p.m.