



AGENDA ITEM SUMMARY

City Council

STAFF

Lance Smith, Director of Finance, Planning & Analysis
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SUBJECT

Items Relating to 2023 Utility Rates, Fees, and Charges.

EXECUTIVE SUMMARY

A. Second Reading of Ordinance No. 127, 2022, Amending Chapter 26 of the Code of the City of Fort Collins to Revise Electric Rates, Fees and Charges and Updating Related Provisions.

B. Second Reading of Ordinance No. 128, 2022, Amending Chapter 26 of the Code of the City of Fort Collins to Revise Water Rates, Fees and Charges.

C. Second Reading of Ordinance No. 129, 2022, Amending Chapter 26 of the Code of the City of Fort Collins to Revise Wastewater Rates, Fees and Charges.

D. Second Reading of Ordinance No. 130, 2022, Amending Chapter 26 of the Code of the City of Fort Collins to Revise Stormwater Rates, Fees and Charges.

E. Second Reading of Ordinance No. 131, 2022, Amending Chapter 26 of the Code of the City of Fort Collins Regarding Calculation and Collection of Development Fees Imposed for the Construction of New or Modified Electric Service Connections.

F. Second Reading of Ordinance No. 132, 2022, Amending Chapter 26 of the Code of the City of Fort Collins to Revise Sewer Plant Investment Fees.

G. Second Reading of Ordinance No.133, 2022, Amending Chapter 26 of the Code of the City of Fort Collins to Revise the Stormwater Plant Investment Fees.

H. Second Reading of Ordinance No. 134, 2022, Amending Chapter 26 of the Code of the City of Fort Collins to Revise Water Plant Investment Fees.

This Ordinance, unanimously adopted on First Reading on November 1, 2022, adopts Ordinances related to proposed 2023 rates and fees being brought forward for Council consideration, including the following items:

Items (A-D) – Monthly utility charges to increase 5% for Electric customers, 4% for Water customers, 4% for Wastewater customers, and 3% for Stormwater customers.

Items (E-H) – A 9% inflationary increase to development fees including Electric Capacity Fees (ECFs) and Water, Wastewater, Stormwater Plant Investment Fees (PIFs).

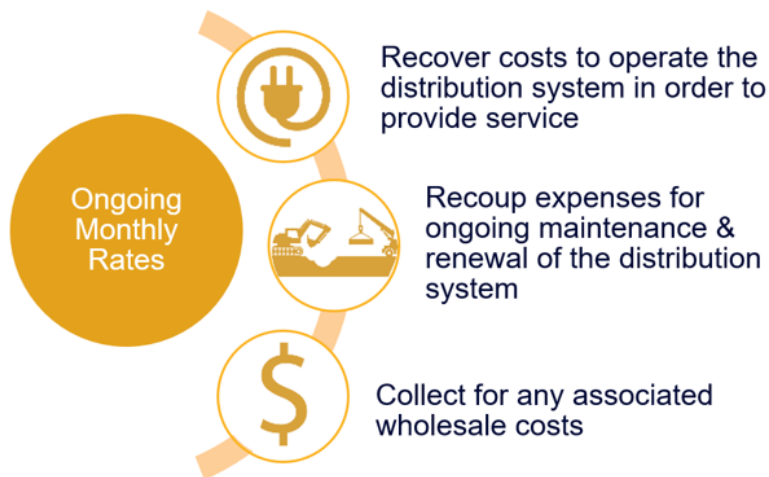
STAFF RECOMMENDATION

Staff recommends adoption of these Ordinances on Second Reading.





BACKGROUND / DISCUSSION

Proposed Changes to Monthly Utility Rates

The revenues needed to support the ongoing operation and maintenance costs of providing each of the four essential services to customers are collected through monthly utility rates. As costs change over time it is necessary to adjust rates to reflect those changes. Long-term financial planning is important to ensure revenues are adequate and reserves are available to maintain and replace infrastructure in a timely fashion to continue to provide high quality and reliable services to our customers. Frequent review and updating of the cost-of-service allocation models behind the monthly utility rates maintains equity across rate classes and helps to reduce the impacts on customers of higher utility rates by providing gradual, modest rate adjustments over time rather than less frequent and larger rate adjustments. These actions help ensure the delivery of current and future utility services in a fiscally responsible manner, balancing both costs and levels of service with affordability and prudent planning and investments.



A summary of the proposed rate increases for the four utility services are shown in the table below.

UTILITY		2023 PROPOSED INCREASE
 ELECTRIC		5%
 WATER		4%
 WASTEWATER		4%
 STORMWATER		3%

The proposed increases shown above are higher than what was presented to the Council Finance Committee last December due to higher than anticipated inflation being realized across the utilities in 2022 and being forecasted into the future. The need for the higher increases was determined early in the Budgeting For Outcomes process. The revenues which serve as a basis for the 2023 budget include the increases shown in the table above.

The rate forecasts presented last December were developed assuming inflation over the next decade would be similar to the inflation experienced over the last decade. Inflation this year quickly exceeded those levels. The increased inflation realized in 2022 is likely to persist over the next few years before returning to more modest levels but for how long, and to what level, is not clear at this point. The primary driver of the rate increases are inflationary pressures on operating costs with the secondary driver being the total 10-year capital investments.

Electric

Staff is proposing a 5.0% retail rate increase for the electric fund in 2023. This increase is driven by a combination of a 5% increase in wholesale electric expenses in 2023, as well as an increase to cover distribution operating & maintenance costs and investments in capital projects. Roughly two-thirds of costs incurred each year to provide electric service are attributable to wholesale expenses, while the other one-third is attributable to costs related to operating & maintaining the distribution system.

Staff has updated financial models to better understand future needs related to growing costs around operating and maintaining the distribution system, including the cost of capital projects. The outcome shows a need for a rate increase to cover anticipated operating and maintenance costs and to continue to invest in updating the system for continued reliability and resiliency. The portion of the proposed 5% increase that is not applied to wholesale cost increases will be used to help fund the distribution system needs.

Platte River Power Authority (Platte River) is planning to increase their wholesale blended rate (\$/MWh) by 5% in 2023 at their October 2022 Board meeting. There is variability in how this increase is applied to individual component charges. The owner community charge will increase 14.8%. The transmission demand charge will increase 1.5% and the generation demand charge will increase 0.8% or 2.7%, depending on the season. The fixed energy charge is increasing 0.9% and the variable energy charge is increasing 10%.

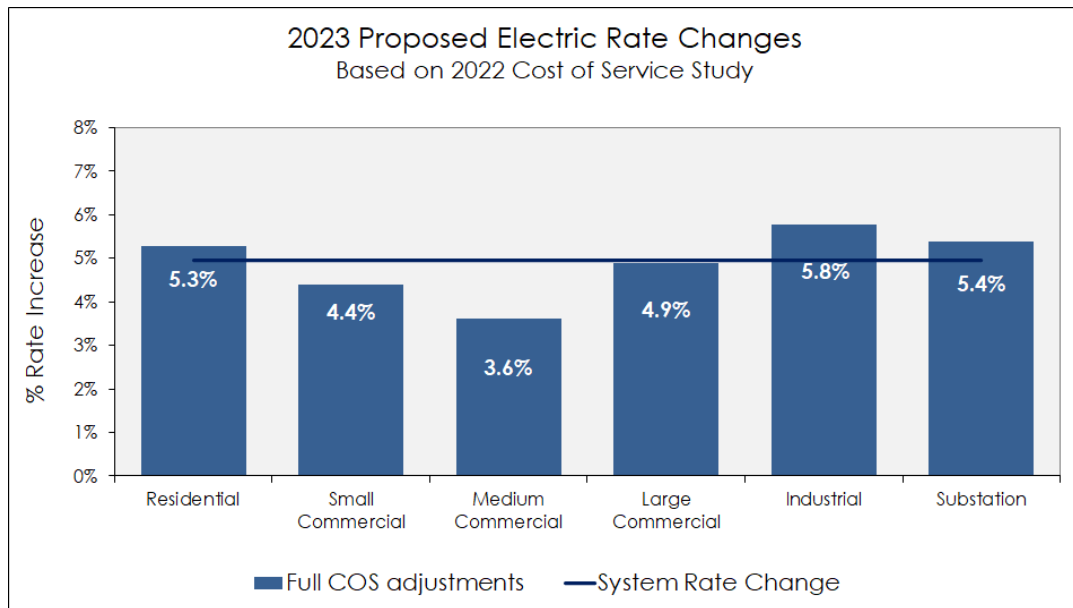
The impact to each of the four owner-communities will vary slightly from the 5% overall change in \$ / MWh, with Fort Collins Utilities projected to see a slightly lower \$ / MWh change than the other owner-

communities, at 4.9%. This result is driven largely by a more favorable load factor, as compared to Loveland, Longmont, and Estes Park. This more favorable load factor is due in part to demand-side management efforts that Fort Collins has collaborated on with commercial customers over the years, as well as the rollout of residential TOD rates in 2018. The lower relative impact for Fort Collins has been a financial benefit to utility customers in recent years, as wholesale rates are passed directly on to retail customers.

After separating the intermittent and dispatchable energy rate in 2020, Platte River is now planning to blend the intermittent and dispatchable energy rate back together for 2023. Given there is some variability in the generation and delivery of intermittent resources, the change will shift the risk associated with having separate variable energy component charges back to Platte River from the owner communities and assist with budgeting purchased power expenses more accurately for the owner communities.

Every two years, staff updates the electric cost of service model, which accounts for changes in consumption and costs. Given the frequency of these updates, there are generally relatively minor adjustments necessary. There are many factors that go into these updates, including how load factors change across rate classes, consumption increases or decreases, and average demand during coincident peak hours, which accounts for the wholesale demand cost allocations.

The updates proposed for each rate class for 2023 are shown in the graph below, which range from 3.6% to 5.8%, depending on the rate class. The dark horizontal line represents the average 5% increase for the electric fund.



Based on the current levels of inflation being realized by each utility, a revised 10-year rate forecast is shown here by utility. For electric customers this rate forecast reflects the 5% wholesale increase forecasted through 2028 by Platte River. Note it may be necessary to exceed the 5% annual rate increase ceiling which has historically resulted in more gradual rate adjustments for a few years due to inflationary pressures.

Electric	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Rate Increase	2.0%	5.0%	5.0%	4-5%	4-5%	4-6%	6-8%	6-8%	6-8%	4-7%	4-7%

Net-metering

Solar credit rates use the same advanced metering in place in Fort Collins that allow for time differentiated directional rates to be applied that can simultaneously support customer solar value, financial sustainability for operations and equity between solar and non-solar customers. Residential homes with solar use the same metering and time-of-day (TOD) consumption rates as all other residential customers. There is also a solar credit TOD structure with specific rates for seasonal on and off-peak periods. The advanced meters measure and record the electric net consumption of the home every fifteen minutes. If the use is greater than the solar generation then the customer purchases energy from the grid. When the use is less than the solar generation the customer is exporting energy to the grid.

Solar credit rates for residential customers are proposed to stay flat from 2022 to 2023. Maintaining a level solar credit rate, as retail rates increase over time, is Utility's gradual approach to transition to a sustainable solar financial model. This approach does not reduce the financial benefits to existing solar customers who still receive the full retail value for self-consumed solar.

Staff is also proposing to modify the solar credit for generation pushed back to the grid for small and medium commercial solar customers. Currently, the credit only accounts for the wholesale energy component and going forward would include both the wholesale energy and wholesale demand component. This will increase the credit these customers get from ~4.2 cents / kWh to ~6.2 cents per kWh. Making this change will further incentivize solar installations for these commercial customers and help increase solar installations across the city.

Water

The cost-of-service model for the "wet utilities" (water, wastewater and stormwater services) will be updated in 2023 consistent with the two year update cycle. Rate class specific adjustments will be proposed for 2024 based on those updated models. For 2023, the same rate increase is applied equally to all rate classes.

Staff is proposing a 4% retail rate increase for the water fund in 2023. This is higher than the initially proposed 2% increase due to the higher costs of materials and impacts to the cost of borrowing which will increase the amount of interest being paid on any revenue bonds that will be needed in the coming decade for infrastructure investments.

The updated ten-year rate forecast reflecting higher inflation on operating and material expenses for water rates is shown below. Just as for electric services, it may be necessary to have rate increases in the 5-8% range for a few years, if inflation stays above 5%.

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Water											
Rate Increase	0.0%	4.0%	4.0%	4-7%	5-8%	5-8%	5-8%	4-7%	4-7%	4-7%	4-7%

Wastewater

Staff is proposing a 4% retail rate increase for the wastewater fund in 2023, as well. There has been a trend in recent years of declining operating revenues for this utility. As this utility is not immune to the impacts of inflation on its operating costs, it is necessary to increase operating revenues through rate adjustments to offset these higher costs of providing this service to our community. At this point the financial model is not indicating a need to exceed the previous 5% rate limit although it is still driving higher rates than the December forecast contained.

The updated ten-year forecast for wastewater rates is shown here:

Wastewater	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Rate Increase	0.0%	4.0%	4.0%	3-5%	3-5%	3-5%	3-5%	3-5%	3-5%	3-5%	3-5%

Stormwater

Staff is proposing a 3% retail rate increase for the stormwater fund in 2023. This is 1% higher than the December 2021 forecast but a smaller incremental increase than what is being proposed for the other utilities. The reason for the smaller proposed adjustment for this utility is that a larger portion of operating revenues are available in this fund for infrastructure investments than the other utilities. It should be noted that there will be a need to issue revenue bonds for the Oak Street stormwater improvement project this budget cycle (Offer 4.2).

The updated ten-year rate forecast for stormwater services is shown here:

Stormwater	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Rate Increase	0.0%	3.0%	3.0%	3-5%	3-5%	3-5%	3-5%	3-5%	3-5%	3-5%	3-5%

Customer Bill Impacts

The table below shows the impacts of the proposed rate change to the average residential monthly bill. Under the proposed rate changes, a residential customer’s total utility bill, for a customer receiving all four municipal utility services, would increase by 4.3%, or \$7.98 per month.

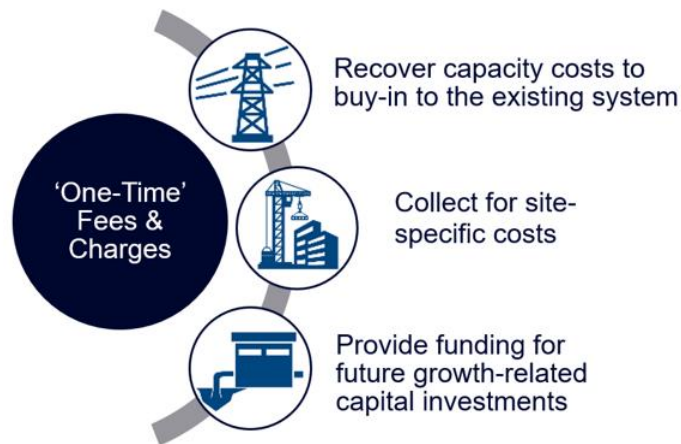
Fort Collins Utilities Comparative Residential Monthly Bill					
Utility	2022	2023	\$ Change	% Change	
Electric	\$ 80.01	\$ 84.01	\$ 4.00	5.0%	
Water	\$ 49.03	\$ 50.99	\$ 1.96	4.0%	
Wastewater	\$ 34.25	\$ 35.62	\$ 1.37	4.0%	
Stormwater	\$ 21.74	\$ 22.40	\$ 0.65	3.0%	
Total Average Bill	\$ 185.04	\$ 193.02	\$ 7.98	4.3%	

The table below compares typical residential electric, water, wastewater, and stormwater monthly utility bills across neighboring utilities along the Front Range, based on 2022 charges. In total, Fort Collins Utilities comes in the lowest at \$185.04 for all four services. With the proposed increases, Fort Collins would move to second lowest, although there are known increases proposed amongst these other utilities for 2023, as well, with some of them being substantially higher than the percentage increases proposed for our community.

2022 Residential Average Monthly Utility Bill					
Utility	Electric	Water	Wastewater	Stormwater	Total
Ft Collins	\$ 80.01	\$ 49.03	\$ 34.25	\$ 21.74	\$ 185.04
Longmont	\$ 73.57	\$ 62.97	\$ 34.10	\$ 14.90	\$ 185.53
Loveland	\$ 82.42	\$ 54.95	\$ 39.61	\$ 18.86	\$ 195.84
Greeley	\$ 90.07	\$ 69.60	\$ 28.49	\$ 15.77	\$ 203.93
Boulder	\$ 90.07	\$ 58.31	\$ 42.70	\$ 22.00	\$ 213.08
Colorado Springs	\$ 109.39	\$ 93.26	\$ 29.85	N/A	\$ 232.51

Proposed Changes to Development Fees

Development fees are the mechanism for Utilities to recover the impact of adding new demand to the services Utilities provides, including electric, water, wastewater, and stormwater. Plant Investment Fees (PIFs) and Electric Capacity Fees (ECFs) are one-time charges for new development or re-development. These fees recover costs for infrastructure already in place to serve new customers based on the “buy-in” approach, where customers pay according to new demands they will put on the system. For example, the water and wastewater PIF are based on peak day demands as an allocation method, which is the driver for sizing the infrastructure necessary to provide the service, while the stormwater PIF is based on developing an acre of land.



The models for each of the services are updated every two years and considers the replacement value of each system and average demands by customer type. For water and wastewater, the fee varies with the number of dwelling units and the lot area served for residential users, and with the size of the water meter for non-residential users. For stormwater, the fee applies when a lot or parcel of land is developed and creates an impervious surface (the area that does not absorb water such as buildings and parking lots) of more than 350 square feet.

Every other year, when models are not updated, an inflationary adjustment is applied to utility development fees. Staff uses the Engineering News Record (ENR) construction cost index to apply adjustments. With the current uncertainty in the economy driving higher than normal inflation across the board for most goods and services, staff is proposing a 9% increase to fees for 2023. These fees include the Electric Capacity Fees, Water Plant Investment Fees, Wastewater Plant Investment Fees, and Stormwater Plant Investment Fees. There has some variability in the monthly ENR percentages, but the percentages have hovered close to 9% for most of 2022. Utilities has experienced even higher cost increases with various items,

such as electric transformers, which have increased substantially due to supply chain issues and higher material costs.

Utility Fee	2023 Proposed Increase
Electric Capacity Fee (ECF)	9.0%
Water Plant Investment Fee (PIF)	
Wastewater Plant Investment Fee (PIF)	
Stormwater Plant Investment Fee (PIF)	

Staff is proposing to modify the ECF categories to eliminate the distinction for “electric heat.” This distinction in the ECF categories and amounts made sense in the past with traditional all-electric homes using electric resistance heat sources (e.g., baseboard heat). As Utilities will be increasingly focused on building electrification using efficient heat pump technology, the prior distinctions are a disincentive for electrification given a lower demand required. In addition, the current energy code strongly encourages efficient electric technologies that align with the new ECF definitions.

The changes eliminate electric heat categories, apply a standard 200-amp sizing value for detached and attached single-family dwellings, and apply a standard 150-amp sizing value for multifamily dwellings. The code also adds a 150-amp credit value to be applied when customers are increasing their service entrance capacity.

Utilities Affordability Programs

Utilities offers a portfolio of affordability options for those in need. Staff understands that higher costs related to utilities impacts customers differently and customers are encouraged to reach out for assistance when necessary. The Income-Qualified Assistance Program (IQAP) was rolled out in 2018 to provide bill credit for customers, while the Medical Assistance Program (MAP) also provides bill credit for those that have medical requirements pertaining to electric consumption. Adjustments to the IQAP are being considered for adoption by a separate ordinance before City Council at this meeting. There are one-time funds available through the Payment Assistance Fund, as well as support through Larimer County Conservation Corp and Colorado Affordable Residential Energy for water and energy upgrades to assist with water and electricity conservation.

CITY FINANCIAL IMPACTS

The 2023 City Manager's Recommended Budget includes these proposed increases in revenues available for the budget. The electric increase would offset increased wholesale costs for 2023, as well as contribute to increasing distribution system operating and maintenance and capital costs. The water, wastewater, and stormwater increases would contribute to operating and maintenance costs, as well as assist in funding future capital costs incorporated in the most recent capital plan update.

BOARD / COMMISSION / COMMITTEE RECOMMENDATION

At its October 13, 2022, meeting, the Energy Board unanimously recommended adoption of the proposed changes to the Utility electric rates, fee, and charges. An excerpt of the Board minutes is attached.

At its October 20, 2022, meeting, the Water Commission considered the proposed changes to the Utility water, wastewater, and stormwater rates, fee, and charges. An excerpt of the Commission minutes (unapproved) is attached.

PUBLIC OUTREACH

The electric outside city limit postcard was mailed the last week of September and a notice was posted in the Coloradoan on October 9, 2022. Rates and fees presentations were provided to the Council Finance Committee on October 20, 2022, the Chamber of Commerce on October 21, 2022, and at the Business Accounts meeting for all commercial customer accounts on October 25, 2022.

ATTACHMENTS

First Reading attachments not included.

1. Ordinance A for Consideration
2. Ordinance B for Consideration
3. Ordinance C for Consideration
4. Ordinance D for Consideration
5. Ordinance E for Consideration
6. Ordinance F for Consideration
7. Ordinance G. for Consideration
8. Ordinance H for Consideration