



**COLORADO**

Department of  
Regulatory Agencies

Public Utilities Commission

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# **Joint Select Committee on Rising Utility Rates** **March 7, 2023**

## **Utility Bill Affordability -- Winter 2022-23**

**Erin O'Neill, Chief Economist**  
**Colorado Public Utilities Commission**

# Overview

- Introduction to the PUC and utility ratemaking concepts
- Analysis of the drivers of high utility bills during the winter of 2022-2023
- Summary of ongoing PUC activities that may help alleviate current and future energy burden
- Resources for consumers

# The Commission's Mission

The Colorado Public Utilities Commission (PUC) serves the public interest by effectively regulating utilities and facilities so that the people of Colorado receive safe, reliable, and reasonably-priced services consistent with the economic, environmental and social values of our state.

# Why do Public Utility Commissions Exist?

A natural monopoly occurs when the most efficient number of firms in a market is one. Such a monopoly typically has very high fixed infrastructure costs making it impractical to have more than one firm producing the good.

Without appropriate regulatory oversight, such firms could abuse their market power and set higher prices. Utility commissions provide that oversight in all states.

The Colorado Public Utilities Commission regulates the rates for two electric and four gas utilities considered to be natural monopolies:



# Commission Process

Commission proceedings are litigated, quasi-judicial proceedings under formal administrative law process, and are conducted "on the record" where representation by an attorney is generally necessary. When the Commission sets rates, it acts in a legislative capacity, but it also decides cases like a judge, based on the evidence that comes before it in the record.

# The PUC approves all rates charged by utilities

## **NATURAL GAS CHARGES**

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### DESCRIPTION

Service & Facility

Usage Charge

Interstate Pipeline

Natural Gas 1 Qtr

Natural Gas

DSMCA

GRSA-P

EGCRR

GRSA

Energy Assistance Chg

**Base Rates:** Recover the utility cost of service including a return on investment

**Fuel Rider:** Recovers the commodity cost of fuel

**Other Rate Riders:** Recover the costs of specific utility programs (e.g., demand side management) and other volatile or temporary costs (e.g., deferred costs from Winter Storm Uri)

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### **Subtotal**

Franchise Fee

Sales Tax

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### **Total**

# Overview of Winter 2022-2023

*Coloradans experienced historically high utility bills this winter. This presentation attempts to explain what is driving high bills, what is not driving high bills, and some of the activities ongoing at the Commission to address affordability.*

# Sample of Recent Customer Comments

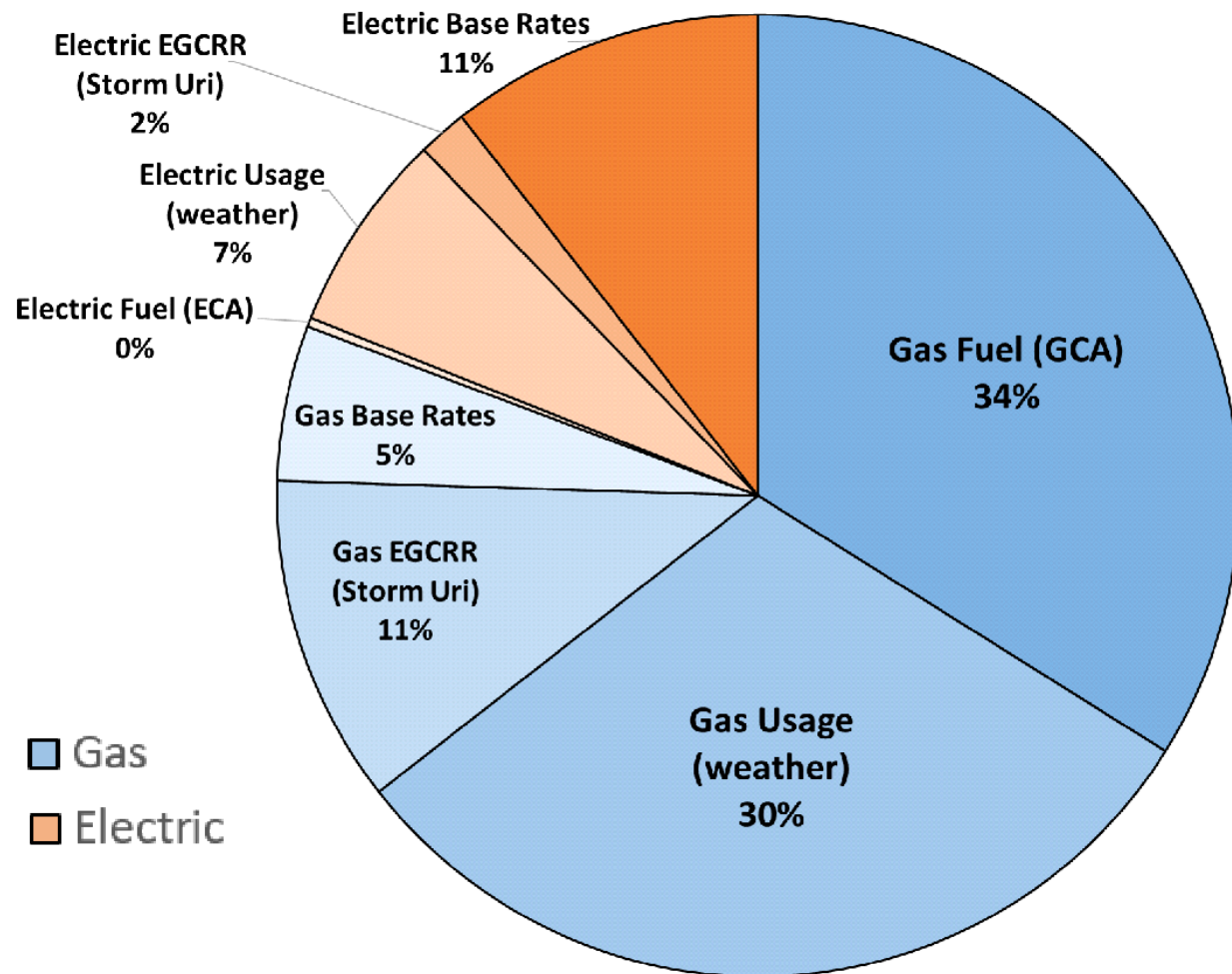
- *My most recent Xcel statement is double what it was a year ago... Coloradans should not be forced to decide between putting food on the table or having heat and hot water. -- Ashleigh in Denver*
- *The recent increase in natural gas cost to customers through Xcel Energy is astronomical... One can expect gradual increases over the years, but to pop your customers with instant increases of these proportions is [painful]. Our recent billing reflected a 62% increase... at a time when our retirement income has not even hinted of any increase even remotely similar. -- Larry in Longmont*
- *I understand energy saving tips and whatnot, and we have a smart thermostat to help towards this end. I looked at my bill for January and it was even higher - up to \$443.94. I am at a complete loss - how can they expect the average consumer to pay utility fees like this? This is not sustainable for us to keep paying each month and is untenable. Please help! -- Brad in Littleton*
- *I want to express my concern with Xcel's ... rate hikes. Xcel is currently reporting record profits. In the last year alone, they made an increased \$70M more than the previous year. Up from \$588M in to 2020 to \$660M in 2021. This monopoly and public resource is not hurting financially. Instead, they are hurting their end consumers: the people of Colorado. -- Susan in Denver*



# Customers' Experience This Winter

- While this presentation often focuses on Xcel Energy, conditions were similar across all Colorado utilities.
- For many customers, utility bills for natural gas service in November 2022 to January 2023 more than doubled from the previous year. For a typical Xcel customer:
  - o Electric bills increased by ~25% compared to the previous year;
  - o Gas bills have increased by ~75% compared to the previous year;
  - o Gas bills are approximately 80% of the combined increase.
- These high bills come at a very difficult time for consumers as many costs have been increasing across the entire economy.
- Circumstances and bills vary substantially for individual consumers based on utility, usage, billing cycle, geographic location/weather, solar, heating fuel, etc.

# Four Factors Driving High Utility Bills



1. Cost of natural gas **fuel**: gas fuel rate increased 40% compared to last year.
2. Roughly 30% increase in gas **usage** due to substantially colder weather vs. previous December. Gas is mainly a heating fuel.
3. Extraordinary Gas Cost Recovery Rider for **Winter Storm Uri** recovering costs deferred from February of 2021.
4. Increases in Xcel utility **base rates** for both gas and electric service.

# Factors Not Currently Driving High Utility Bills

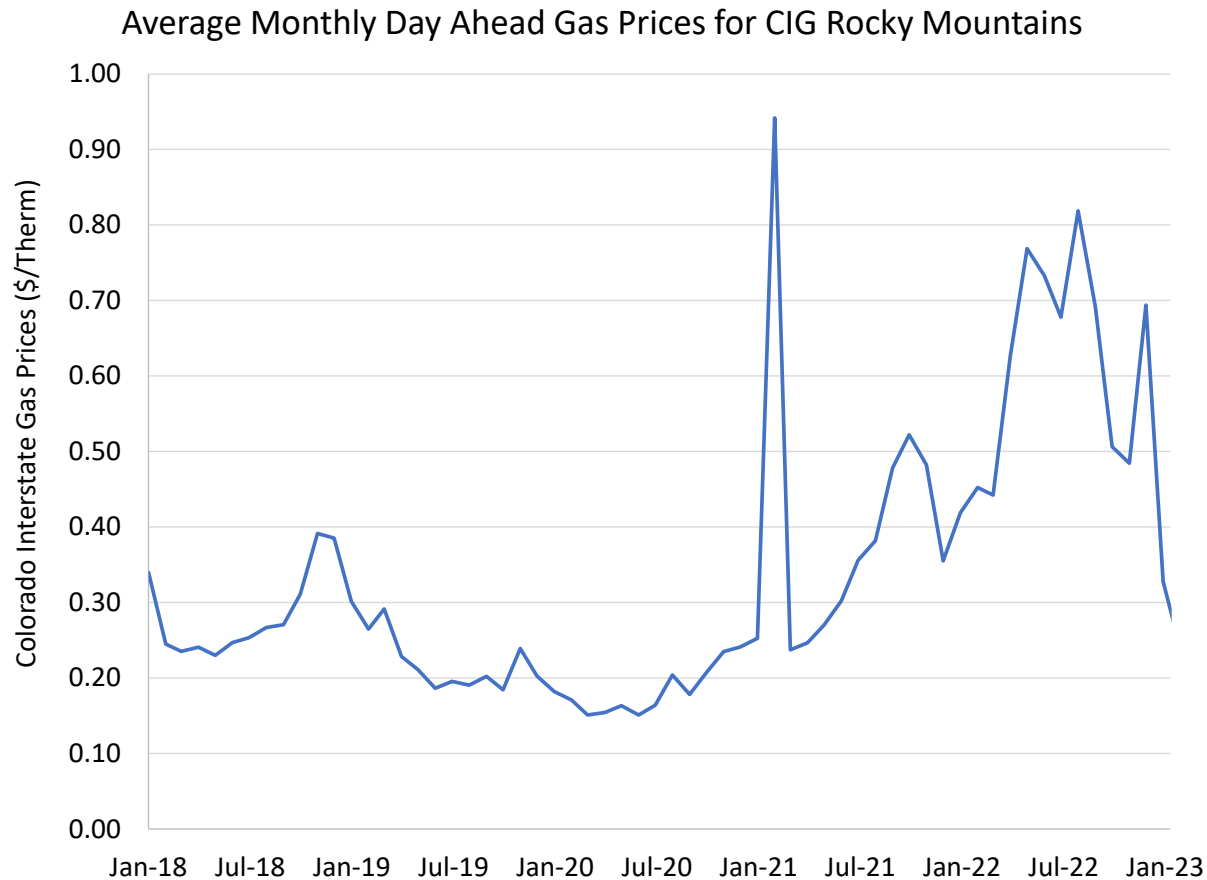
For the typical customer using gas as a heating fuel, gas bills are the main driver of high utility costs. This means that the following are not large contributors to current rate impacts:

- Xcel currently rolling out **Smart Meters** for electric customers;
- **Time-of-use rates** being introduced for electricity customers;
- Investment in **renewables** (wind/solar) and beneficial or transportation electrification impacts electricity rates but not gas rates;
- **Clean Heat Plans** for gas utilities are currently being developed but have not yet impacted rates.

To the extent Colorado has invested in renewable generation for electricity production, that has helped insulate electric bills from the impact of high and volatile gas commodity prices.

# Driver #1: Commodity Price of Natural Gas

Utility fuel charges reflect the recent trend in natural gas markets.

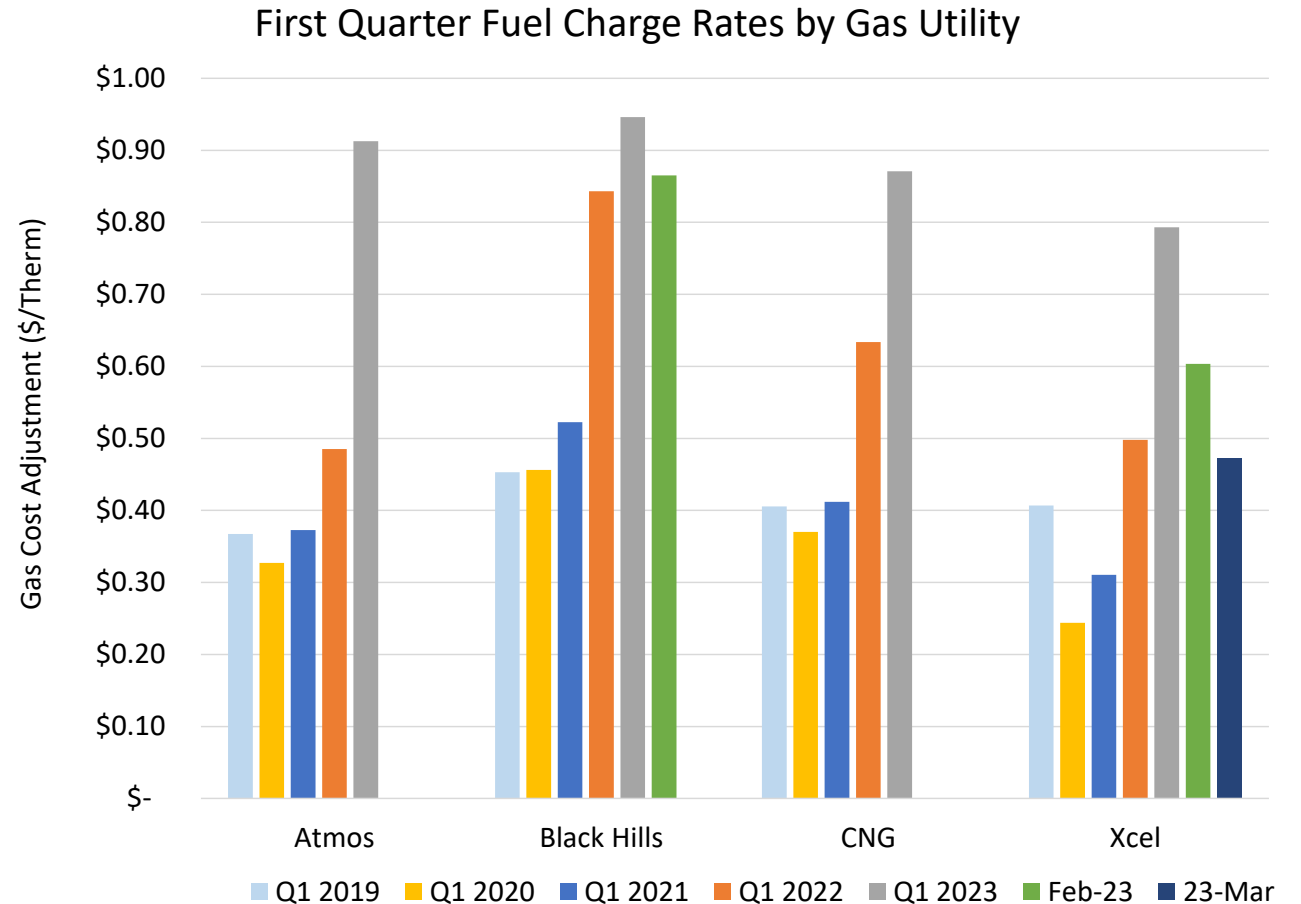


- CIG (Colorado Interstate Gas) is the price point representative of the Front Range;
- Natural Gas Prices had been relatively low and stable for years coming up to 2021;
- Starting with Winter Storm Uri in February of 2021 and continuing with Russia's invasion of Ukraine, prices have been higher and more volatile;
- January fuel rates incorporated the \$0.6 to \$0.8/Therm pricing available in the market.

# Driver #1: Gas Cost Adjustment History

Fuel charges are the largest component of gas utility bills and currently comprise more than half of the total bill. Gas rates for all Colorado gas utilities have increased substantially in recent years, peaking in January of 2023.

Both Xcel and Black Hills reduced fuel rates starting in February based on lower market prices.



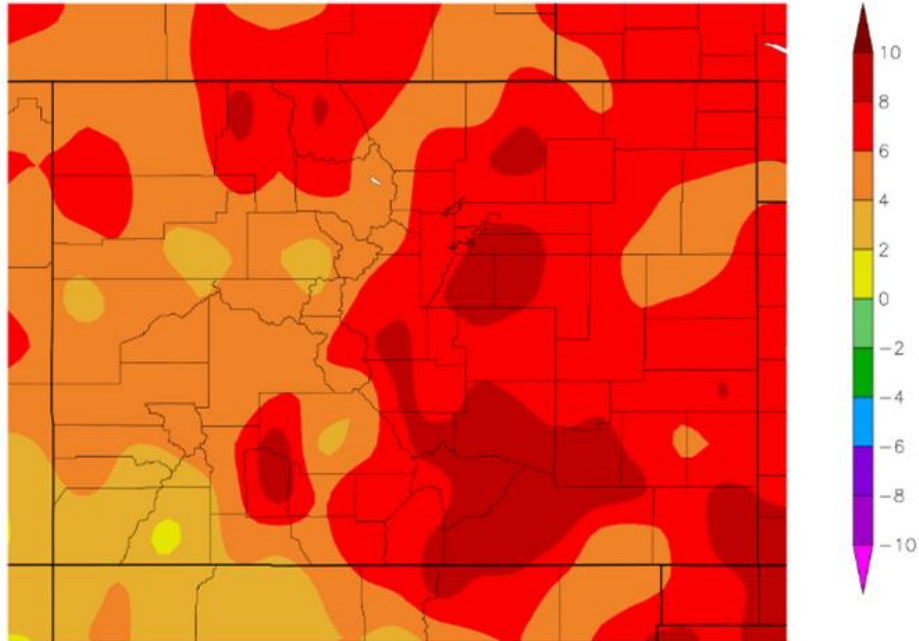
# Driver #1: Wholesale Gas Prices and the Fuel Charge

## Gas Cost Adjustment (Fuel Rider) Structure:

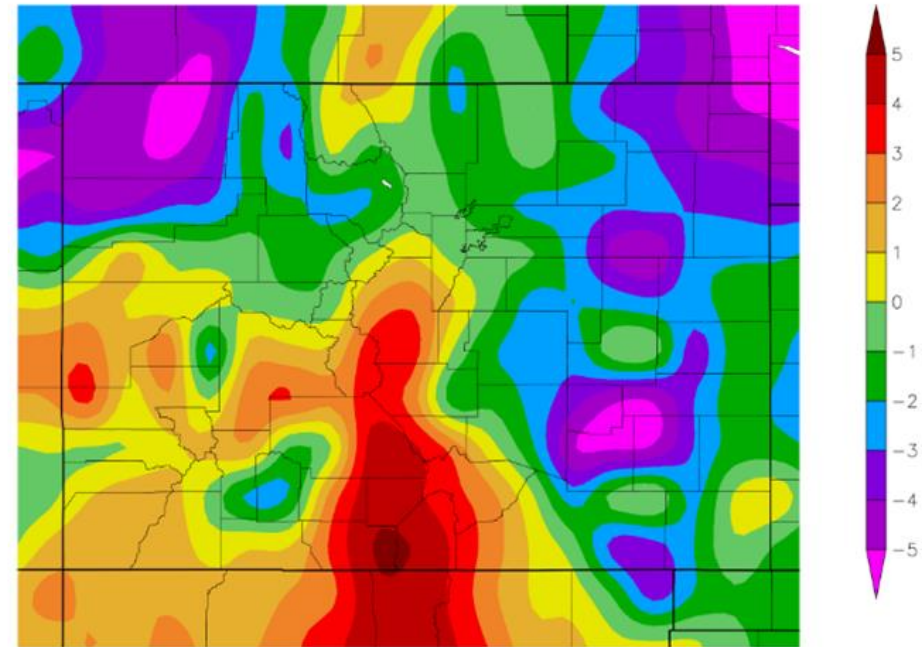
- Utilities do not earn on fuel charges. Gas costs are passed through to customers on a dollar-for-dollar basis;
- The wholesale natural gas market was deregulated by the federal government in 1985. Neither the PUC nor the gas utilities have control over wholesale gas prices;
- While prices vary geographically, the market for natural gas is national and increasingly international due Liquefied Natural Gas (LNG) exports;
- The PUC does approve the fuel rates charged by Colorado utilities but does not regulate the natural gas market.
- The fuel rider is “trued-up” over time to ensure utilities collect only their actual costs.

# Driver #2: Winter 2022 to 2023 Has Been Cold

Departure from Normal Temperature (F)  
12/1/2021 – 12/31/2021



Departure from Normal Temperature (F)  
12/1/2022 – 12/31/2022



The relatively cold winter of 2022-'23 led to higher demand for heating and subsequently higher utility bills. PUC Staff estimate that gas demand was approximately 30% higher in December 2022 vs. 2021 and electric demand was 8% higher.



# Driver #3: Winter Storm Uri Cost Deferral

All Colorado utilities have implemented Extraordinary Gas Cost Recovery Riders to recover the deferred gas costs associated with the Winter Storm Uri in February of 2021:

	Start of Recovery	Recovery Period	Typical Bill Impact per Winter Month**
Atmos Energy	February '22	12 to 24 months	\$6.50
Black Hills Colorado Gas	April '22	36 months	\$14.60
Colorado Natural Gas*	April 22	24 months	\$16.50
Xcel Energy – Gas	August '22	30 months	\$7.20
Black Hills Colorado Electric	April '22	24 months	\$3.50
Xcel Energy - Electric	August '22	24 months	\$1.40

All Colorado utilities are collecting the deferred costs from Winter Storm Uri without applying financing charges.

\* CNG has filed an amended application to recover addition Storm Uri costs associated with Operation Flow Order penalties.

\*\* Based on 100 therms/month for all utilities. Actual bill impacts vary.



# Driver #4: Base Rates are driven by the utility “Cost of Service”

Xcel Energy implemented approved base rate increases on April 1, 2022 for electric and on November 1, 2022 for gas.

Base rates are determined based on the utility’s “cost of service” considering the utility’s actual costs to provide a service or function. The Commission establishes a revenue requirement and an authorized return on investment based on the utility’s cost to serve customers. Legally, the amounts set must be “just and reasonable.”

Revenue Requirement = Total Investment \* Authorized Return + Expenses

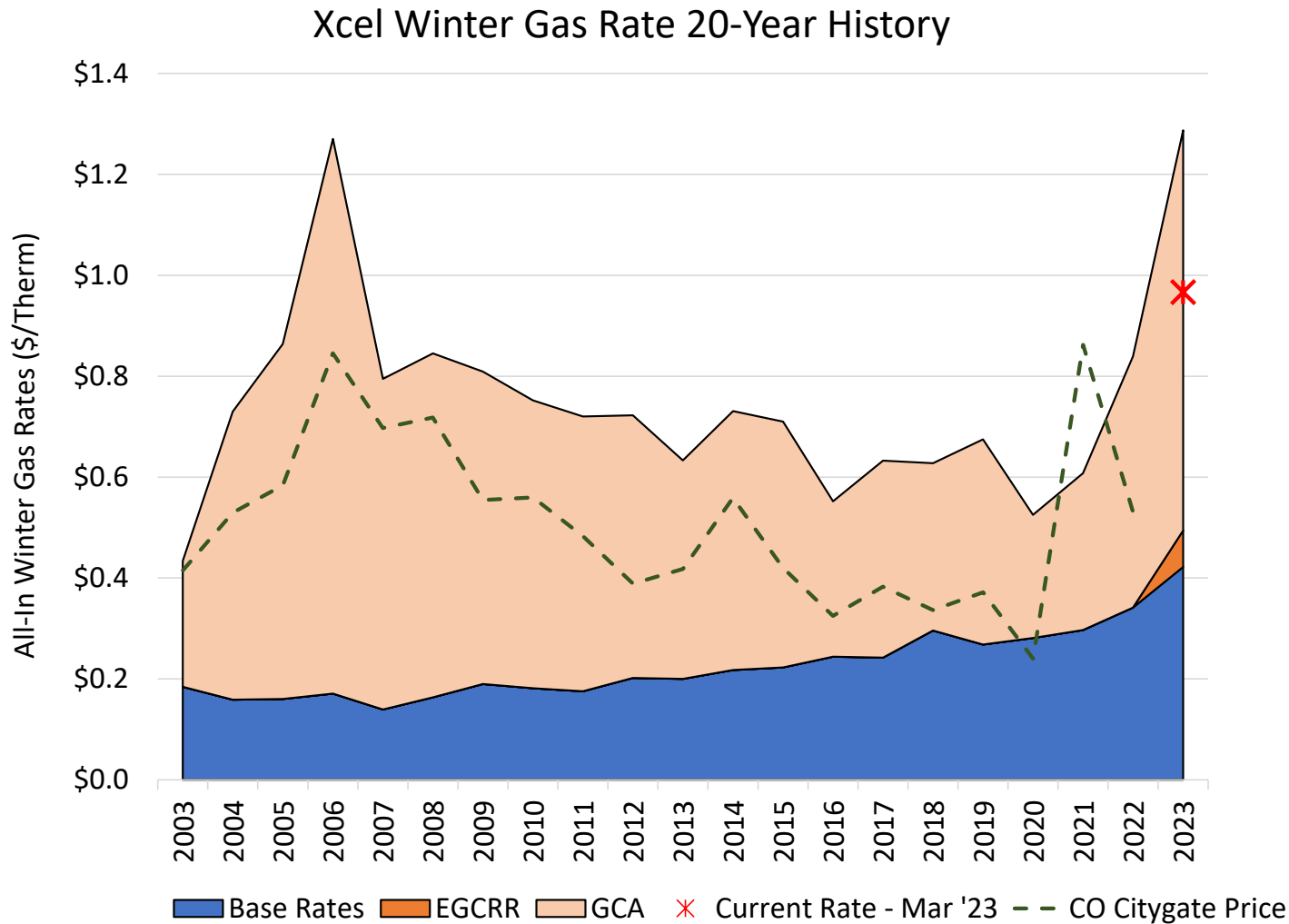
Expenses include: operations, maintenance, labor, taxes, depreciation, administrative costs, etc.

# Driver #4: Base Rate Changes

## Xcel Gas Rate Case (22AL-0046G):

- Company requested a \$107 million net increase in revenue for 2022 with an additional \$40 million increase in each of the next two years (i.e., total increase of \$187 million for 2024)
- Commission authorized a single \$64 million increase based on specific adjustments to the requested increase, including:
  - Denial of multi-year step increases
  - Lower return on investment (\$-43.7 million)
  - Test Year (\$-9.2 million reduction in year 1; \$-89.2 million in year 3)
  - Other adjustments (\$-5.7 million)
  - Accelerated depreciation (\$+15.8 million)

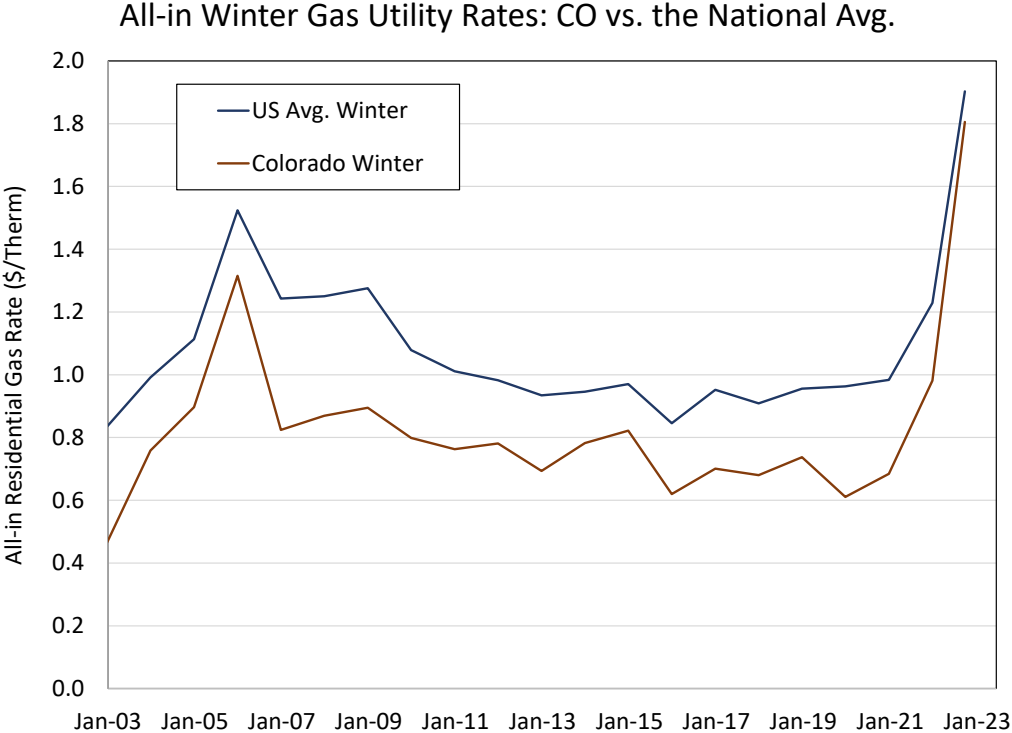
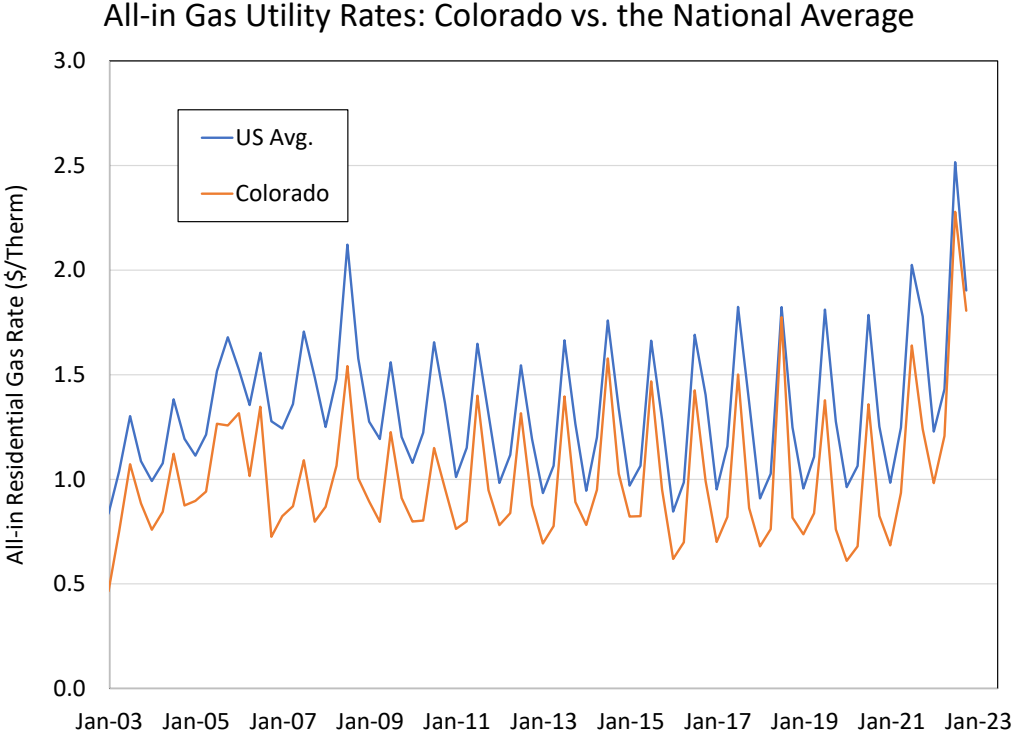
# Xcel Winter Gas Rates in Perspective



- Total gas rates track closely with the wholesale price of natural gas;
- Total rates did not track closely in 2021 due to the deferred recovery of the costs from Winter Storm Uri;
- Xcel base gas rates have increased steadily over time;
- History based on rates for typical usage – actual all-in rates vary by usage.

# Colorado Gas Rates in Perspective

The federal Energy Information Administration provides composite data by state:



# Summary of PUC Activities

Many of the on-going activities at the PUC attempt to address the affordability concerns impacting Colorado consumers this winter. The following slides describe some of these efforts. These activities generally serve one of the following objectives:

1. Protect customers and provide more or more efficient income-qualified assistance
2. Reduce customer exposure to high and volatile gas commodity prices
3. Enhance Commission review of infrastructure investments in the gas utility sector
4. Consider programs and incentives to reduce gas consumption

## Ongoing Activities at the PUC:

## Customer Protections and Bill Assistance

- Rulemaking to examine utility disconnection policies (Proceeding 22R-0557EG) and facilitate same-day reconnection.
- Monthly reporting on disconnections and arrearages for gas and electric utilities, with the first reports due March 10 (Proceeding 23M-0042EG).
- Working with the Colorado Energy Office to evaluate utilities' Percentage of Income Payment Plan (PIPP) Programs (Proceeding 23M-0013EG). This triennial review process includes:
  - A Commission Information Meeting on February 22, 2023 discussed current PIPP programs and the scope of work for the evaluation.
  - A broader scope will examine best practices, provide more context for PIPP programs, assess overall energy burden in Colorado, and consider barriers to participation.

# Ongoing Activities at the PUC:

## Gas Purchasing and Planning

- Recently approved rules require utilities to file applications for performance incentives around gas purchasing (Proceeding 21R-0314G). As the rules go into effect, the following proceedings will occur:
  - Gas Performance Incentive Mechanism applications; First application are expected later this Spring
- The Commission is in the process of finalizing rules regarding gas industry investments (Proceeding 21R-0449G). As the rules go into effect, the following proceedings will occur:
  - Gas Infrastructure Plan filings
  - Clean Heat Plan applications
  - Changes to Certificate of Public Convenience & Necessity applications when filed
  - New Gas Demand Side Management requirements

# Ongoing Activities at the PUC:

## Natural Gas Hedging

- Our three largest gas utilities -- Atmos Energy, Black Hills Colorado Gas, and Xcel Energy -- have Commission authorized gas hedging programs.
- These programs use financial hedging contracts to help mitigate the impact of medium term price movements in the natural gas commodity markets.
- Like any other form of insurance, hedging programs generally cost ratepayers money.

	<u>Years of:</u>		<u>Cost per Dekatherm Hedged</u>	
	Active Hedging	Ratepayer Benefit	Last 5 Years	Total History
<b>Electric Utilities</b>				
BHCOE	5	0	(\$1.06)	(\$1.06)
PSCo Electric	12	1	(\$1.35)*	(\$0.56)
<b>Gas Utilities</b>				
Atmos Energy	6	1	(\$0.21)	(\$0.23)
BHCOG (Legacy BH)	9	1	(\$0.24)	(\$0.71)
BHGD (Legacy SourceGas)	11	2	(\$0.20)	(\$0.45)
PSCo Gas	13	1	(\$0.16)	(\$0.67)
<b>Total CO Utilities</b>	<b>56</b>	<b>6</b>	<b>(\$0.29)</b>	<b>(\$0.67)</b>

Source: *CO Utility Hedging Overview*, 2017 presentation by PUC Staff



## Ongoing Activities at the PUC:

## Other PUC Initiatives

- The Commission is currently collecting comments and information regarding the implementation of the Inflation Reduction Act (IRA) and Infrastructure Investment and Jobs Act (IIJA) (Proceeding 23M-0053ALL). These comments will help indicate where federal grants and loan programs may impact proceedings before the Commission.
- As a result of Winter Storm Uri, all Colorado utilities committed to more robust “Conservation Messaging” protocols including the tracking and reporting of the results of such messaging. In addition:
  - Xcel Energy committed to conduct a Longer-Term Conservation Messaging study to identify tools and tariff options;
  - Xcel Energy committed to analyze options for expanding capabilities for its dual-fuel generating units.

# Ongoing Activities at the PUC: Public Participation

- The Commission is working to improve accessibility to its proceedings generally and as part of the implementation of SB 21-272 and HB 21-1110. Activities include:
  - Web revisions, including “how to participate” and “key proceedings” webpages
  - Making available new opportunities to provide comments, including by online form, email, voicemail, and mail
  - Exploring new types of educational meetings for rulemaking proceedings, including informational meetings and community meetings
  - Developing an approach to offering simultaneous interpretation services where requested, and to collecting comments in languages besides English
  - Exploring opportunities to coordinate outreach activities across agencies

# Activities for Future Consideration at the PUC

As an adjudicator of proceedings, the Commission must uphold due process and so cannot commit to specific outcomes. However, the Commission may seek to take up further activities subject to resources and where policy and evidence suggest additional work could be of benefit:

**Utility Assistance  
Programs**

**Gas Commodity &  
Infrastructure Costs**

**Consumer Protections**

**Gas Efficiency,  
Conservation, and  
Electrification**

# Who to Contact if You Are Concerned About Being Able to Pay Your Utility Bills

Colorado Low-Income Energy Assistance Program (LEAP) [cdhs.colorado.gov/leap](https://cdhs.colorado.gov/leap)

211 Resource Navigator [211colorado.org](https://211colorado.org)

Colorado PUC Resource List [puc.colorado.gov/LIprograms](https://puc.colorado.gov/LIprograms)

Energy Outreach Colorado [www.energyoutreach.org/bill-payment/](https://www.energyoutreach.org/bill-payment/)

Atmos Energy [www.atmosenergy.com/assistance](https://www.atmosenergy.com/assistance)

Black Hills Energy [www.blackhillsenergy.com/billing-and-payments/assistance-programs/assistance-programs](https://www.blackhillsenergy.com/billing-and-payments/assistance-programs/assistance-programs)

Colorado Natural Gas [www.coloradonaturalgas.com/PaymentAssistance](https://www.coloradonaturalgas.com/PaymentAssistance)

Xcel Energy [co.my.xcelenergy.com/s/billing-payment/energy-assistance](https://co.my.xcelenergy.com/s/billing-payment/energy-assistance)

# Budget Billing Options

All Colorado utilities are required to offer Budget Billing (BB) or Averaged Monthly Payment (AMP). This billing option make monthly bills more predictable by averaging the amount you pay each month. This helps avoid bill spikes based on seasonal usage:

- Xcel Energy: <https://co.my.xcelenergy.com/s/billing-payment/manage-bill/averaged-monthly-payment>
- Atmos Energy: <https://www.atmosenergy.com/customer-service/budget-billing>
- Black Hills: <https://www.blackhillsenergy.com/billing-and-payments/billing-options> and select “Enroll in Budget Billing”
- Colorado Natural Gas: <https://www.coloradonaturalgas.com/payment-options> and select “Budget Billing”

# Engaging with the PUC

[puc.colorado.gov/how-to-participate](http://puc.colorado.gov/how-to-participate)



## Submit written comments:

Use the [online comment form](#) or [dora\\_puc\\_website@state.co.us](mailto:dora_puc_website@state.co.us)

Or mail: Colorado Public Utilities Commission, 1560 Broadway, Suite 250, Denver, CO 80202



## Speak at a public comment hearing:

Learn about opportunities to comment on the [public calendar](#) or the [key proceedings webpage](#).

Verbal comments can also be provided in English and Spanish by calling (303) 869-3490.



## How to learn more:

Sign up for email updates and press releases [here](#).

Search for individual proceedings in [E-Filings](#).

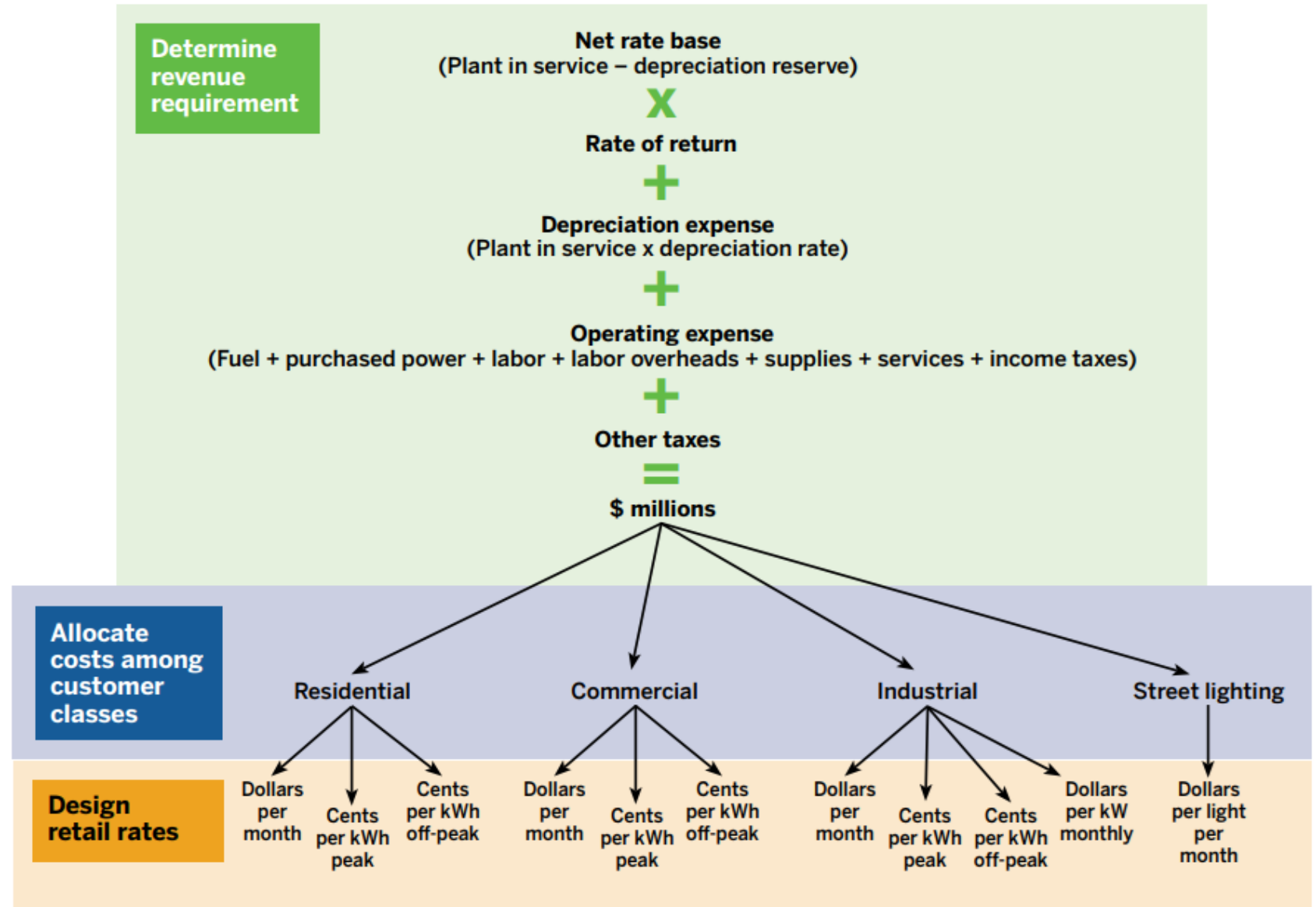
# Appendix

## Additional Information:

- Illustration of the ratemaking process
- Recent Natural Gas Market Dynamics
- Current Gas Market Trends
- Recent Trend in Commission Authorized Return for Xcel Eenergy

# Introduction: Simplified Ratemaking Process

**Source:** *Electric Cost Allocation for a New Era* by the Regulatory Assistance Project, January, 2020

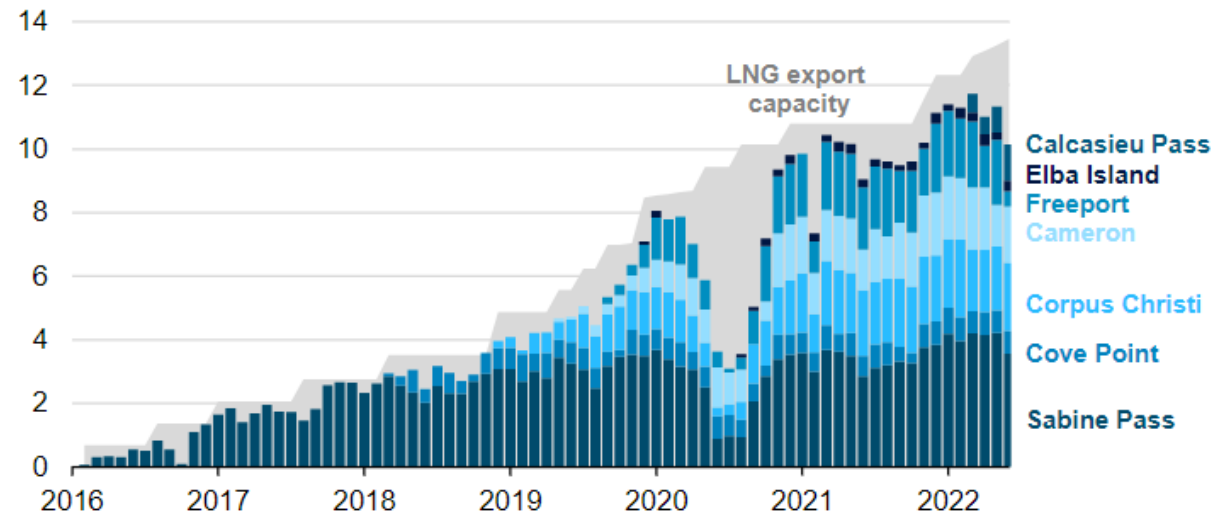




# Recent Natural Gas Market Dynamics

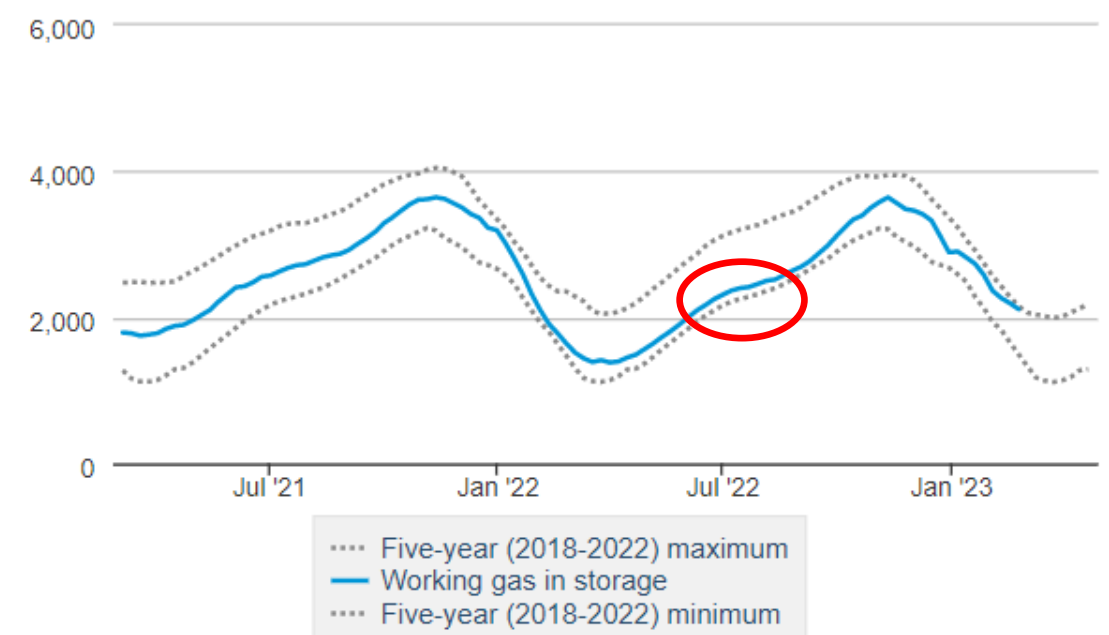
Monthly U.S. liquefied natural gas (LNG) exports (Jan 2016–Jun 2022)

billion cubic feet per day



Working natural gas in underground storage

billion cubic feet



High LNG exports combined with low storage inventory over the summer of 2022 combined to drive high commodity prices early this winter.



Data source: U.S. Energy Information Administration Form EIA-912, *Weekly Underground Natural Gas Storage Report*

# Current Gas Market Dynamics

Gas held in storage has made up ground to put current reserves close to the 5-year maximum.

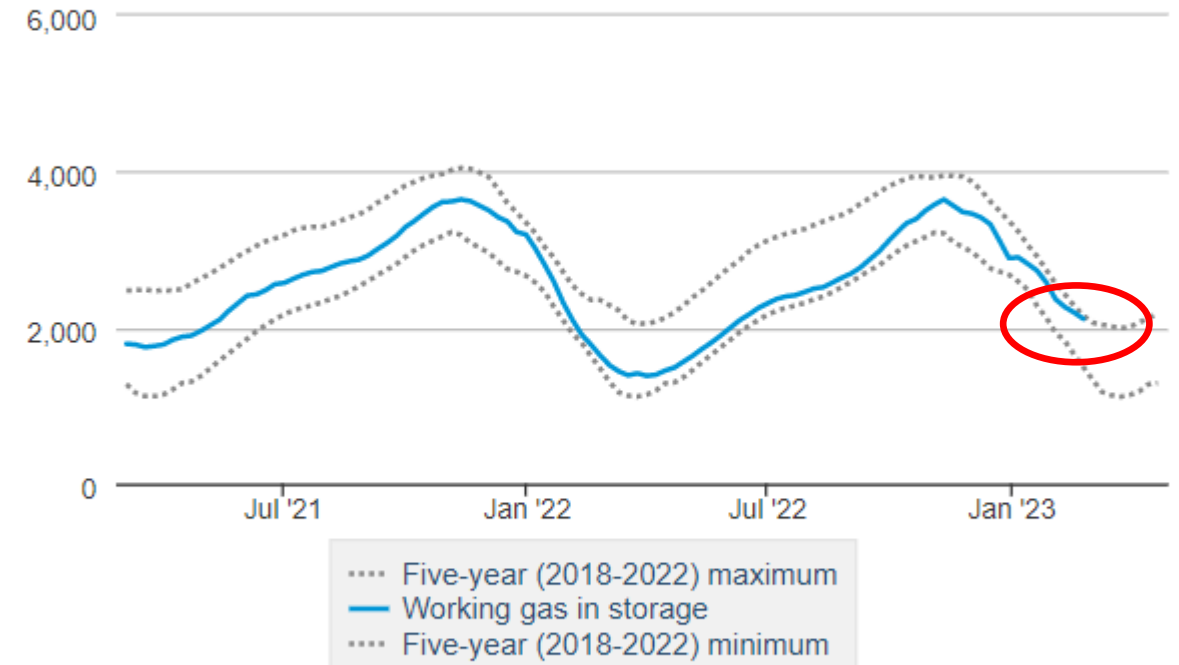
“Natural gas prices have tanked 34% since the start of the year, with the latest drop spurred by warm weather forecasts for the coming weeks.”

-- Markets Insider, March 6, 2023

Prices remain very volatile and are currently projected to climb back to \$0.42 for next winter.

Working natural gas in underground storage

billion cubic feet



Data source: U.S. Energy Information Administration Form EIA-912, Weekly Underground Natural Gas Storage Report

**Recent Trend  
in Commission  
Authorized  
Returns for  
Xcel Energy**

