



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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24-04 Colorado Springs Utilities Sustainable Energy Plan Monitoring - 2023

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Purpose

The purpose of this audit was to monitor the Colorado Springs Utilities (Utilities) multi-year Sustainable Energy Plan which includes project management, procurement, contract review, budget/cost, land acquisition, project commissioning and closeout, change orders, oversight and governance, and internal controls.

Highlights

For 2023, we conclude the project management efforts to date continue to be effective. Processes and procedures were in place and consistently followed to manage scope of work, cost, schedule, and quality/performance. No reportable issues were identified. Three commendable practices were identified and highlighted on page 2 of this report. Through 2023, auditors continued to evaluate cost proposals and contract terms as new projects started in the procurement phase. Utilities procedures were followed and contract terms were adhered to for existing and new projects.

Utilities has been effective in overcoming constraints to continue to move projects forward. As in previous years, initial budget projections have been exceeded due to design changes, supply chain, and continuing pandemic impacts. Through 2023, we evaluated change orders for design and other changes as requested by vendors. All change orders were properly documented and approved.

The objective of timely decommissioning of the coal-fired Drake Coal Power Plant and replacement with cleaner Natural Gas Generators (NGGs) was successfully achieved. The deconstruction of the retired Drake Coal Power Plant began in the summer of 2023 and is scheduled to complete by the end of 2024.

We plan to continue monitoring SEP projects as work progresses into 2024 to include monitoring substation and transmission construction projects and the Drake deconstruction project. We will also continue reviewing Requests for Proposals (RFPs) as part of Utilities efforts to meet its goal of reducing carbon emissions by 2030 with the addition of solar, wind, battery storage, and natural gas generation.

The Sustainable Energy Plan (SEP) is a multi-year effort that includes planning, engineering, procurement, delivery, and implementation of projects designed to achieve an 80% reduction in carbon emissions, retirement of coal-fired power plants, grid modernization, integration of renewable energy, and incorporation of new technologies such as energy storage. SEP is divided into sub-portfolios: Electric, Gas, Distributed Generation Resources, Advanced Technologies Campus, and the deconstruction of the Drake and Nixon Power Plants, each consisting of numerous projects. To augment and support Utilities, an outside professional portfolio management firm has been engaged. Information on each sub-portfolio projects can be found on page 3 of this report.

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Commendable Practices:

During our review, we noted that the SEP Project Manager documented and implemented excellent process improvement practices based on lessons learned from the Natural Gas Generator project, such as earlier stakeholder engagement.

The second commendable practice recognizes Utilities use of a Portfolio Management Services company to oversee the SEP projects. For the Electrical Sub Portfolio Packages, use of a Portfolio Manager with specialized expertise provided for a more detailed evaluation of various Guaranteed Maximum Price (GMP) proposals resulting in better cost efficiency.

Lastly, Utilities use of a pre-qualification phase for solar, wind, battery storage, and natural gas generation RFPs demonstrated use of procurement best practices. Initial respondents were required to meet capacity, energy, and reliability requirements while providing the highest best value to the total portfolio.

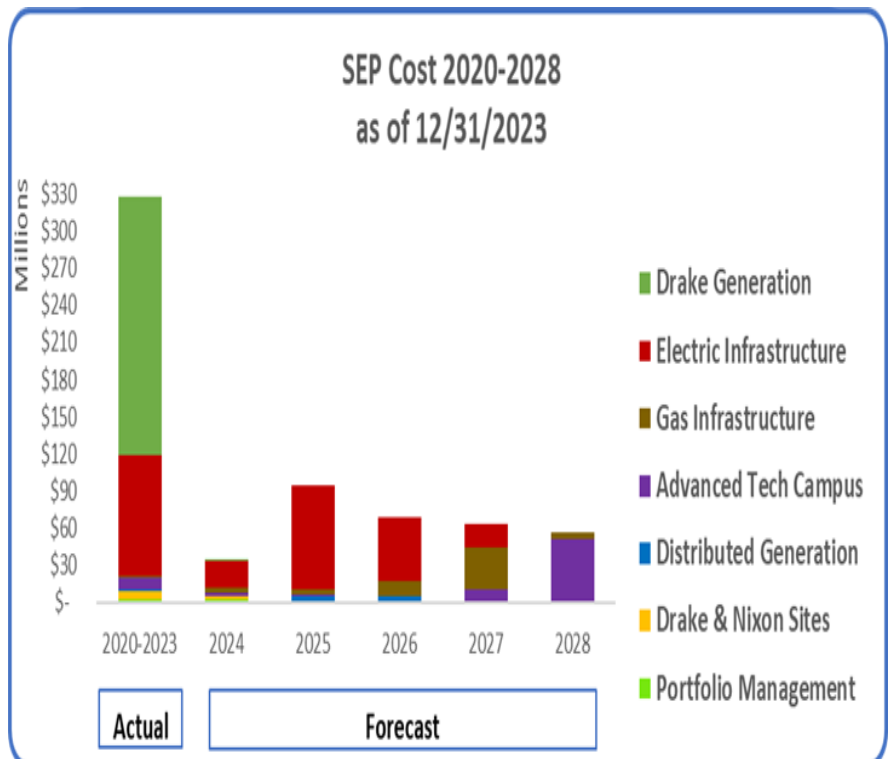
2023 SEP Portfolio Accomplishments

Utilities completed the installation and commissioning of the six NGGs and continued construction of expanding three substations and transmission lines to support the retirement of the Drake Coal Power Plant, as well as adding system reliability and to support future growth.

Utilities presented its updated Electric Integrated Resource Plan (EIRP) to the Utilities Board in June 2023. The EIRP addresses the plan to meet revised regulatory State requirements to reduce Greenhouse Gas (GHG) emissions and to meet the projected increase in load forecasts through 2050. To meet its GHG emission reduction targets and growing electrical demand, Utilities is planning to add new electrical generation and storage capacity starting in 2026. Requests for Proposals are currently in work to acquire additional megawatts of new generation from solar, wind, battery storage, and gas generation.

Due to design refinements, supply chain issues, and pandemic impacts, the actual cost in 2023 has been higher than originally budgeted. The Annual Operating Financial Plan budgeted in 2023 was \$44,796,630 for the SEP portfolio. Actual expenditures totaled \$64,229,279. Some planned 2023 project expenditures were moved to future years to help balance the budget.

The chart shows annual cost and forecast by sub-portfolio.



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The following describes the progress made in each sub-portfolio in 2023:

- 1. Drake Generation:** The Drake Coal Power Plant was decommissioned on September 1, 2022. To replace Drake coal generation, six NGGs were installed and commissioned into service June 1, 2023 to meet reliability and support growth. The NGGs will remain at this location for the foreseeable future.
- 2. Electrical Infrastructure:** Final completion of the Briargate and Williams Creek substations along with new construction of the Horizon and Kelker substations has been performed. New and additional overhead transmission lines are being designed and planned to be constructed in 2025-2026.
- 3. Gas Infrastructure:** This area supports electric generation needs from a gas perspective. Utilities released two RFPs to acquire additional natural gas generation.
- 4. Advanced Technologies Campus (ATC):** Some site improvements were made to the campus in 2023.
- 5. Distributed Generation Resources:** The Pike Solar array was brought online in 2023 adding 175-megawatts (MW) of renewable energy generation to Utilities customers. Utilities released RFPs to acquire additional MW of new electric generation identified in the 2023 EIRP update. The RFPs will allow for new generation resources to be purchased under a Purchase Power Agreement, as well as procurement of natural gas generation and battery energy storage systems. Utilities is planning to add 1,500 MW of new generation capacity and 200 MW of new storage capacity from 2026 through 2028.
- 6. Drake & Nixon Sites:** The deconstruction of the Drake Coal Power Plant started in Spring 2023 with substantial completion anticipated by the end of 2024. The Nixon Power Plant is anticipated to be decommissioned by 2030.
- 7. Portfolio Management:** Costs for outside specialized professional portfolio management firm. The professional portfolio management firm has implemented adequate controls for effective project management.

We would like to thank Colorado Springs Utilities staff for their support during this audit.