



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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23-08 Colorado Springs Utilities Sustainable Energy Plan Monitoring—2022

March 2023

Purpose

The purpose of this audit was to monitor the multi-year Sustainable Energy Plan (SEP) initiative to include project management and internal controls.

Highlights

The Sustainable Energy Plan (SEP) is a multi-year program 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. The SEP includes six sub-portfolios, each consisting of numerous projects. To augment and support Utilities an outside professional portfolio management firm has been engaged and is included as a seventh portfolio.

We conclude the program and project management efforts to date have been 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. Auditors evaluated cost proposals and contract terms for projects in the procurement phase and provided feedback which was incorporated into contract changes. We conclude Utilities procedures were followed and the contract terms were adhered to. Through 2022, contractors have complied with the contracted scope of work and costs were being reported accurately. However, initial budget projections have been exceeded due to design changes, supply chain, and pandemic impacts. Utilities has been effective in overcoming constraints in order to continue to move the projects forward, managing cost increases, and successfully achieving the objective of timely decommissioning the coal fired Drake Power Plant. We identified one commendable practice. We plan to continue monitoring SEP as work progresses.

Commendable Practice:

We noted good planning early in the SEP project to research and identify long-lead time items impacted by supply chain constraints. Utilities identified a three-year lead time to obtain substation transformers and submitted procurement in advance, thereby preserving the schedule and reducing risk. Thoughtful consideration was given to identifying and procuring long-lead time items. We encourage Utilities to continue to look forward to identify and take action to minimize risk areas in order to avoid impact and delays to SEP projects.

2022 Accomplishments

Utilities executed numerous lump sum contracts for construction work to install the natural gas generators, expand substations and construct transmission lines to support the retirement of the Drake and Nixon coal power plants. Six Natural Gas Generators (NGGs) have been installed at the Drake location. All (6) NGGs are anticipated to be commissioned by April 2023. The deconstruction of Drake will start in 2023.

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23-08 COLORADO SPRINGS UTILITIES SUSTAINABLE ENERGY PLAN MONITORING 2022

Due to design refinements, supply chain issues, and pandemic impacts, the actual cost in 2022 has been higher than originally anticipated or budgeted. The Annual Operating Financial Plan budgeted in 2022 was \$114,799,644 for the SEP projects. Actual expenditures totaled \$115,553,453. Some planned 2022 project expenditures were moved to future years to help balance the budget. The chart below shows annual cost and forecast by sub-portfolio.

The following describes the progress made and costs incurred in each sub-portfolio in 2022.

1. Drake Generation: The Drake Power Plant was decommissioned on September 1, 2022. To replace Drake coal generation, six NGGs have been installed and are projected to be in service by April 2023. The potential relocation of NGGs after the completion of the other sub-portfolio upgrades has not been finalized. Active years: 2020-2023

2. Electrical Infrastructure: Substantial construction of the Briargate and Williams Creek substations along with construction of new and additional transmission lines have been made in 2022. Active years: 2020-2030

3. Gas Infrastructure: Supports electric generation needs from a gas perspective. Most of these projects have yet to be implemented. Active years: 2020-2049

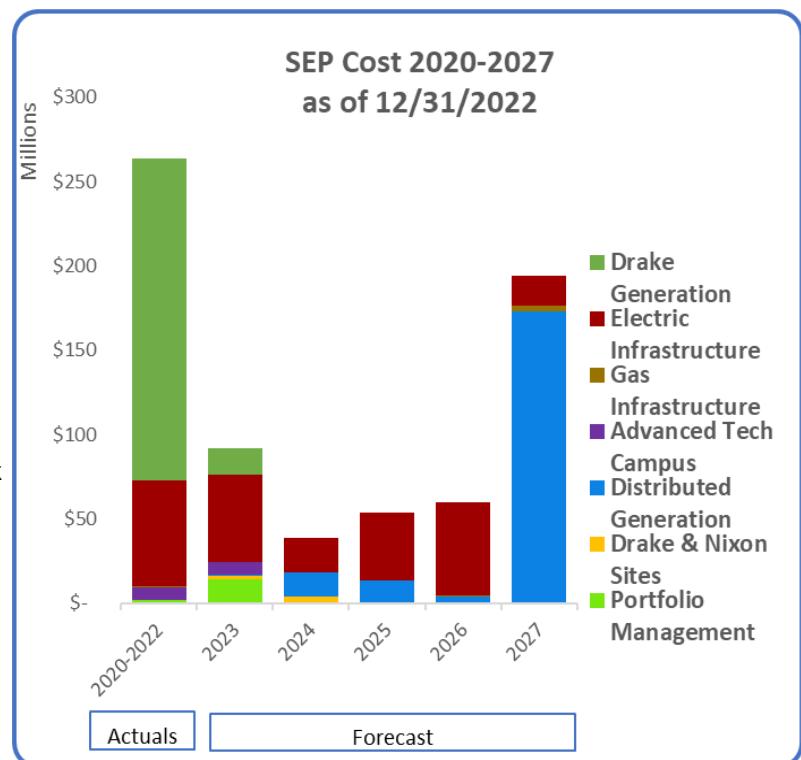
4. Advanced Technologies Campus (ATC): The new technology in the utility sector will be tested at this location. The majority of projects under this area are in the design phase. Active years: 2020-2029

5. Distributed Generation Resources: Includes adding 500 MW of wind, 417 MW of battery capacity, 150 MW of solar, 76 MW of demand-side management, and 10 MW each of biomass and geothermal. Designed to replace coal-fired generation with renewable energy. Most of these projects have yet to be implemented. Active years: 2020-2049

6. Drake & Nixon Sites: Decommission and deconstruction of the Drake and Nixon coal power plants. The deconstruction of Drake will start in Spring 2023. Substantial completion is anticipated by July 2024. Active years: 2020-2030

7. Portfolio Management: Cost for outside specialized professional portfolio management firm. The professional portfolio management firm have implemented adequate controls for effective project management.

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



This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors.