



# OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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## 16-21 Colorado Springs Utilities 2017 Rate Case Audit

October 2016

### **Purpose**

The review focused on the accuracy and consistency of the methodology used to develop the proposed rate changes. We also reviewed for compliance with rate development guidance approved by the Utilities Board.

### **Highlights**

We conclude that the cost of service studies supporting the proposed rate changes were prepared accurately. Overall methodology was consistent and any methodology changes were reported in Utilities Rate Service Reports. Proposed rate changes were within tolerances prescribed by Utilities Board approved guidance.

Colorado Springs Utilities rate filing included changes to the Electric Service Base Rates, Water Service Rates, and Wastewater Service Rates effective January 1, 2017. Overall, depending on rate class, Electric Service increases range from 0-12.5% with the exception of the Commercial TOD General option that increases by 18% in an effort to send the correct price signal. Water rates will increase 5.1%-12%. Wastewater rates will increase for some classes by 3.9%-11.6% and decrease by 1.5%-10.5% for other classes.

Proposed rate changes were based primarily on the 2017 budgets and forecasted data. Our office reviewed the mathematical accuracy of the rate development models. The consistency of rate development models and compliance with approved guidance was also reviewed. Sales and Load forecast data was reviewed for reasonableness.

We identified one observation and one opportunity for improvement in our review. Additional information on page 2 of this report.

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### **Management Response**

Colorado Springs Utilities was in agreement with our recommendations.

### **Recommendations**

1. For future demand forecasts which are used in the Electric cost of service studies, we recommend that Colorado Springs Utilities:

- Use historical peak demand averages as the foundation for developing demand forecasts.
- When the demand forecast deviates from historical average, provide documentation to support the adjustments.

### **Opportunities for Improvement**

1. For future Electric cost of service studies, consider:

- Alternatives that would allow additional ETL sample meter data to be incorporated in load research for the 2018 rate case.
- Additional efforts to determine the reason that load study results require calibration.

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# 16-21 COLORADO SPRINGS UTILITIES 2017 RATE CASE AUDIT

## **Observation 1—Electric Service**

The demand forecast for most classes was comparable to historical data, and allocations supporting the cost of service study were accurate. We noted the following related to the demand forecast:

- Criteria for adjustments to historical data was not clearly defined.
- Support was not readily available for some instances in which historical data was adjusted.

The peak demand forecasts for each rate class were utilized as cost allocators in the Electric Cost of Service Study. Prior to 2013, cost of service study allocations were based on historical class demands.

## **Management Response**

Management agrees to continue to utilize historical data as the foundation of demand forecasts and will provide documentation to support any deviation from historical averages.

## **Recommendation**

For future demand forecasts which are used in the cost of service studies, we recommend that Colorado Springs Utilities:

- Use historical peak demand averages as the foundation for developing demand forecasts.
- When the demand forecast deviates from historical average, provide documentation to support the adjustments.

## **Opportunity for Improvement 1—Electric Service**

Colorado Springs Utilities' March 2016 demand study report determined that load data was comparable to billing data for all classes with the exception of the ETL class.

For this class, the load forecast was adjusted or calibrated to be no more than the maximum billing demand. To obtain more data for this customer class, additional meters were placed in April 2016.

The load study was performed on a calendar year basis, which included those meters for which twelve months data was available.

## **Management Response**

Management agrees with the Opportunity for Improvement and believes that Colorado Springs Utilities' staff have specifically suggested alternatives that would allow additional ETL sample meter data to be incorporated in load research for the 2018 rate case.

An objective of performing a detailed review of the sales and load forecasting processes and related tools is to obtain confidence in the results. In the event calibration continues to be required, the reasons for calibration will be fully comprehended.

## **Recommendation**

For future rate cases, consider:

- Alternatives that would allow additional ETL sample meter data to be incorporated in load research for the 2018 rate case.
- Additional efforts to determine the reason that load study results require calibration.