



# OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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## 15-24 Colorado Springs Utilities Comparison of Projected to Actual Revenue

August 2015

### **Purpose**

The purpose of this audit was to determine whether the rates designed by Colorado Springs Utilities have resulted in the collection of revenues that were projected. We will also identify the cause of significant variances. We reviewed years 2010 to 2014.

### **Highlights**

We conclude that gas and wastewater projected to actual revenue did not have significant variances. For the electric service in total, planned revenues were within 2-6% of forecast for the years reviewed. However, we observed a trend of significant revenue shortfalls (on average \$9 million under plan) for the large commercial and industrial customers as a combined class. The water service exceeded plan in 2011 and 2012, while significant revenue shortfalls occurred in 2013 and 2014. Timing of the forecasting process, methodology and variability due to weather accounted for the forecasting to actual variances. See charts on page two for additional detail.

- Gas and Wastewater—Revenues for the gas and wastewater services were within 6% of forecast for 4 of the 5 years reviewed.
- Electric— Electric service variances were noted during the City Auditor 2015 rate case review. Colorado Springs Utilities has researched the cause of the forecast variance and has proposed appropriate solutions to increase forecast accuracy and adjust rates as appropriate over time. Please see the chart on next page for more detail.
- Water—We noted that this service is highly weather dependent and changes in customer behavior as a result of drought events and price elasticity were not known during the annual 2013 and 2014 forecast process.

For this review, The Office of the City Auditor prepared an analysis of forecasted units and non-fuel revenues to actual for the years 2010-2014. In collaboration with Colorado Springs Utilities, we identified significant variances in water and electric, which were further reviewed. Please see page three of this report for observation details.

*(Continued on page 2)*

### **Management Response**

Management was in agreement with our recommendations.

### **Recommendations**

1. Actual non-fuel revenues as compared to forecast should be reported to The Office of the City Auditor and Utilities Board as part of an annual reporting process.
2. Colorado Springs Utilities should monitor significant forecast to plan variances by customer class and implement appropriate forecasting and proposed rate changes to address significant variance trends.

### **Opportunity for Improvement:**

1. We support Colorado Springs Utilities in their continued consideration of a reserve or stabilization fund for revenues in excess of plan.

City Council's Office of the City Auditor

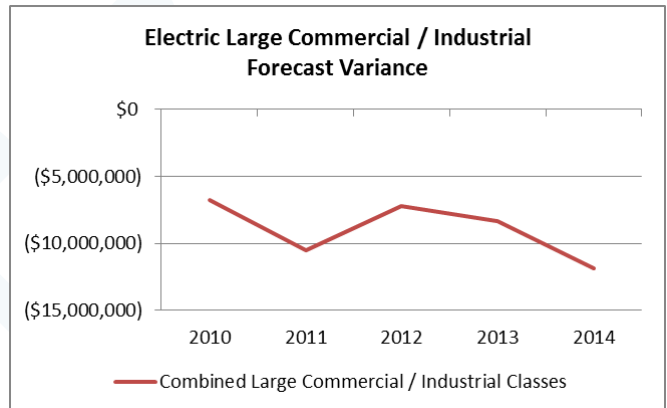
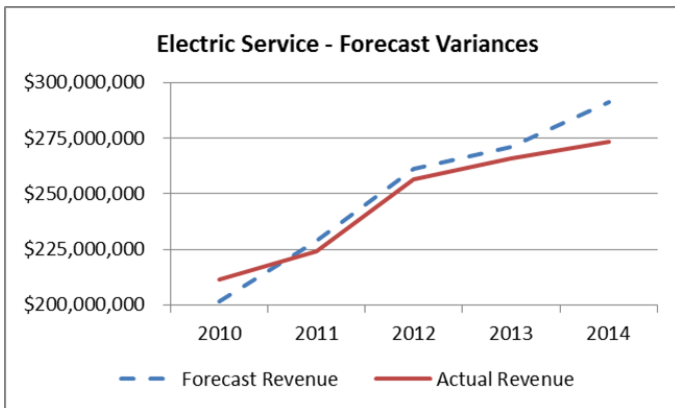
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# 15-24 COMPARISON OF PROJECTED TO ACTUAL REVENUE

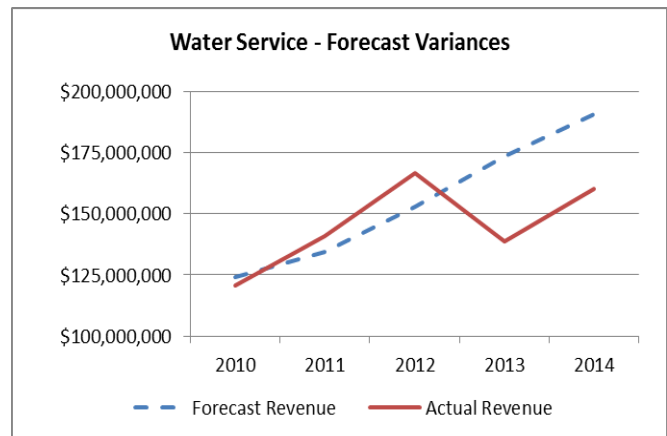
Colorado Springs Utilities prepares an annual consumption forecast by service and customer class in the spring of each year. This forecast, along with the annual budget, is the basis for rates effective the following year. The forecast is prepared in advance of the summer peak electric and irrigation season. Therefore, the forecast did not include trend data from the current year. For example, the 2014 forecast used to develop rates was based on historical data from the 2012 irrigation season. This schedule was necessary to obtain City Council budget approval by January 1. The water forecast to actual variances were in part a result of customer usage changes due to drought and price changes that were not identified.

Total electric service revenues from 2010 to 2014 were comparable to plan. The large commercial and industrial customer classes when combined trended a variance shortfall of on average, \$9 million each year. In the most recent years, the variance was primarily in the Commercial TOD 1000 kWh/Day Min (ETL) customer class. The 2013 and 2014 ETL customer class shortfall was \$10 million and \$13.8 million, respectively.



Colorado Springs Utilities researched the variances in the large commercial and industrial electric revenues. The demand billing units were significantly different than the forecast. Recently, historical demand data was obtained that had not been available for forecasting previously. Query functionality has now been developed and will be available to improve forecast accuracy for these customer classes. Additionally, Utilities noted that the ETL class may not be homogeneous, and as a result, more difficult to forecast due to the different ways customers within the class use energy. Utilities indicated that it plans to study this rate class in order to determine whether splitting of the class into two or more homogeneous classes is appropriate.

While 2013 and 2014 water revenues were significantly under plan, revenues in 2011 and 2012 exceeded plan by \$20 million and \$13 million, respectively. Colorado Springs Utilities does not formally reserve excess revenues to plan.



## 15-24 COMPARISON OF PROJECTED TO ACTUAL REVENUE

### **Observation 1**

Comparison of actual to non-fuel forecasted revenue by service and customer class has not been performed in recent years. Utilities prepares and reviews robust financial information. They do not prepare a comparison of revenue requirements per the rate cases (as presented to City Council) to the actual revenues achieved by customer class.

Colorado Springs Utilities researched the large commercial and industrial electric service variances identified in the audit and proposed appropriate solutions.

### **Recommendation**

Actual non-fuel revenues as compared to forecast should be reported to The Office of the City Auditor and Utilities Board as part of the annual reporting process.

### **Management Response**

Colorado Springs Utilities agrees with the recommendation and currently prepares a monthly Financial Forecast reporting packet that includes by service fuel and non-fuel revenue forecast to plan variance analysis which is provided to Utilities Board and the Finance Committee.

Colorado Springs Utilities agrees to provide by service and rate class revenue forecast to plan variance analysis to the Office of the City Auditor and Utilities Board Finance Committee on an annual basis within a reasonable period of time after the official closing of the prior year's books.

### **Observation 2**

Our review noted that the five large commercial and industrial customer rate classes, when combined, averaged negative variance to plan of \$9 million annually for years 2010 to 2014. In 2013 and 2014, the variance was primarily in the ETL customer class where forecasted billing units were higher than actual resulting in under recovery.

Colorado Springs Utilities research indicated a need to perform additional load study for the commercial ETL class. Utilities indicated they plan to address this variance according to approved rate design guidance. Utilities also plans to consider revisions to this class to obtain more homogeneous groupings.

### **Recommendation**

Colorado Springs Utilities should monitor significant forecast to plan variances by customer class and implement appropriate forecasting along with proposed rate changes to address significant variance trends.

### **Management Response**

Colorado Springs Utilities agrees with this recommendation and currently prepares a monthly Financial Forecast reporting packet that includes by service fuel and non-fuel revenue forecast to plan variance analysis which is provided to Utilities Board and the Finance Committee. Additionally, the Pricing-Rates and Forecasting departments will continue to monitor significant variance trends by rate class and address these as is appropriate through the rate making process.

The anticipated completion time for the study of this class is by end of the first quarter of 2016.

## 15-24 COMPARISON OF PROJECTED TO ACTUAL REVENUE

### ***Opportunity for Improvement***

We observed significant variability in water revenues during the 2010-2014 period. Revenues in excess of plan were not reserved or recorded as a regulatory asset to stabilize rates in years when revenue does not meet plan. Governmental accounting allows a regulatory asset to be created for rate stabilization.

Under current rate making methodology, positive cash balances in the water service would be taken into account in successive rate cases. However, as funds are not specifically reserved or recorded as a regulatory asset, this practice would not be transparent to the ratepayer. Colorado Springs Utilities has been exploring options to address revenue variability.

### ***Recommendation***

We support Colorado Springs Utilities in their consideration of a reserve or stabilization fund for the water service.