



# OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

Denny L. Nester, City Auditor  
MBA CPA CIA CFE CGFM CGAP

## 15-34 Colorado Springs Utilities Electric and Gas Cost Adjustments

December 2015

### **Purpose**

The purpose of this audit was to evaluate whether Colorado Springs Utilities prepared the Electric Cost Adjustment (ECA) and Gas Cost Adjustment (GCA) in accordance with the proposed tariff. The methodology was compared to prior filings for consistency and accuracy, as well as, compliance with enterprise scorecard guidance.

### **Summary**

Based on our review of the calculations and related background information, we conclude that the ECA and GCA adjustments were calculated accurately, consistently, and in accordance with the ECA and GCA tariffs as filed on December 1, 2015.

Colorado Springs Utilities is recommending a reduction in the ECA and GCA effective January 1, 2016, which will decrease customer bills. The proposed GCA rate is \$.1726 and the proposed ECA rate is \$.0229.

For 2015, a Colorado Springs Utilities enterprise scorecard measure was in place for ECA and GCA collected balances. Under the scorecard measure, the 'meets expectations' result for year-to-date average collected balance was no more than \$4 million over or under collected for the ECA and \$7 million over or under collected for the GCA. The over collected balance at October 31, 2015 was \$10.6 million for the ECA and \$6.9 million for the GCA, which results in year-to-date ratings in the 'needs improvement' categories. With the proposed decreases, Utilities' forecasts indicate over collected balances will decline to \$0 for ECA in late 2016. For GCA, the over collection is projected to remain between \$8 to \$11 million until declining to \$5.0 million in late 2016.

As stated in the City Auditor's report 15-29 2016 Rate Case Audit, ECA and GCA collected balances were not in compliance with existing guidance at that time. The observation, recommendation and management response from report 15-29 have been included on the following page. Subsequent to the issuance of that report, the Colorado Springs Utilities Finance Committee met to recommend actions in response to the City Auditor's recommendations. The Finance Committee recommended that the ECA filing be prepared with a target of a \$0 over collection by the end of 2016 (Alternative B from the Utilities Board meeting). They also recommended the GCA be filed as proposed by Utilities management (Alternative A from the Utilities Board meeting). The Finance Committee will be meeting to clarify their policy recommendation going forward for the Utilities Board to consider in December.

Please let me know if you have any questions or comments.

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.

City Council's Office of the City Auditor  
City Hall, 107 North Nevada Ave. Suite 205, Mail Code 1542, Colorado Springs CO 80901-1575  
Tel 719-385-5991 Fax 719-385-5699 Reporting Hotline 719-385-2387  
[www.ColoradoSprings.gov/OCA](http://www.ColoradoSprings.gov/OCA)

## 15-34 COLORADO SPRINGS UTILITIES ELECTRIC AND GAS COST ADJUSTMENTS

### ***Observation 1 (From Report 15-29)***

Current ECA and GCA collected balances were not in compliance with existing guidance. Colorado Springs Utilities management has proposed an increase in the targeted collected balances for the Electric Cost Adjustment (ECA) and Gas Cost Adjustment (GCA). However, formalized updated guidance instructing the Utilities to improve rate stabilization through over collection and providing tolerances for over and under collection had not been approved.

Year to date average collected balances for the ECA and GCA were in the 'needs improvement' category of the enterprise scorecard as of September 30, 2015. The forecast submitted with these filings indicated a collected balance of \$8-10 million for both the ECA and the GCA until late 2016.

The ECA and GCA were defined as a pass through of actual fuel costs. Over collection of balances did not align with the cost pass through objective. Recognizing seasonality, targeting a \$0 balance on a monthly basis would not be prudent. However, the forecasted collection balance should approach \$0 at least once a year to reflect a pass through of costs to current customers.

### ***Management Response***

The Electric and Gas Cost Adjustment is a direct pass-through rate structure regardless of the amount of over or under collection balance. EL-8 monthly monitoring provides Utilities Board current and projected over/under collection balances. Through monthly monitoring, Utilities Board directs Utilities to file rate adjustments based upon striking a balance between the following criteria; the magnitude of rate adjustments in consideration of impact to customer's bills, minimization of the number of ECA and GCA rate adjustment proceedings and maintaining financial stability associated with fuel cost recovery.

### ***Recommendation***

City Council should decide whether ECA and GCA will be a pass through or a rate stabilization tool. If it is not to be used as a rate stabilization tool, the rates should be adjusted down so the projected balance approaches \$0 at some point in 2016.

Council could instruct Utilities to comply with current guidance, in which case, refunds to customers should be increased to reduce collected balances.

Based on Council's decision, Utilities Board should provide formal guidance and enterprise scorecard measures for ECA and GCA collected balances.