



City of Colorado Springs



City Council's Office of the City Auditor

INTEROFFICE MEMORANDUM

To: Mayor and City Council Members

From: Denny L. Nester, Interim City Auditor

Cc: Jerry Forte, Springs Utilities Chief Executive Officer

Date: March 17, 2010

Subject: 10-03 – Colorado Springs Utilities' Gas Cost Adjustment (GCA)

BACKGROUND

Colorado Springs Utilities (CSU) periodically files rate adjustments with the City Council. The GCA is intended to be an adjustment to billed rates for actual and projected increases or decreases in natural gas costs. When rate adjustments are filed, a copy is provided to our office, in accordance with Section 12.1.107(D) of the City Code. Our office reviews the proposed adjustments, much like the Public Utility Commission (PUC) staff would do at the state level if CSU was regulated by the PUC. The last GCA review was performed during December 2009 and became effective January 1, 2010.

OBJECTIVES AND SCOPE

The purpose of this audit was to evaluate whether CSU prepared the GCA in accordance with the approved tariff. The methodology was compared to prior filings to ensure consistency and to determine whether it met the intended objective (i.e., adjust billing rates for gas costs while maintaining some level of pricing stability). Calculations were tested for accuracy and verified to the appropriate source documentation.

The audit was conducted in accordance 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. The audit included such tests of records and other supporting documentation as we deemed necessary in the circumstances. Sufficient competent evidential matter was gathered to support our conclusions.

GCA TARIFF

The tariff governing the calculation of the GCA is Sheet 35 of the Natural Gas Rate Schedule. An excerpt is as follows:

The GCA will be computed as follows:

The sum of:

- a) the projected costs of natural gas subject to the GCA for the future period, divided by
 - b) the projected sales subject to the GCA for the same period used in a) above.
- Plus:
- c) the cumulative under- or over-recovery of natural gas costs subject to the GCA, divided by
 - d) the projected sales subject to the GCA for a period to be determined by Springs Utilities.
- Minus:
- e) the base cost of gas in the current rates for sales and transportation services.

In applying the computation above, the period of April 1, 2010 to June 30, 2011 was used for the "future period" described in a), b), and the "period to be determined" in d). In other words, the net amount of the projected cost of natural gas subject to GCA that is not already included in the base rates and the \$20.6 million over-collected will be returned to gas customers. The reduction of the over-collected balance will be accomplished through the proposed (\$0.03) GCA to return approximately \$9.5 million to gas customers. During the same time period, CSU projects to under-collect approximately \$11.1 million considering the projected cost of natural gas. The over-collected amount of \$20.6 million will be fully returned to gas customers in June 2011, assuming all future projections are accurate.

CSU was in an under-collected position of \$5.2 million in June 2009 when the last GCA rate of \$0.1338 was approved for the period July to December 2009. Due to colder than normal weather in the months of October, November and December 2009, the GCA ended the year \$20.9 million over-collected. The February 2010 over-collected balance was \$20.6 million. Projections for the remainder of 2010, given the GCA proposed refund, indicate the over-collected amount would be reduced by approximately half at the end of 2010 and would be fully repaid to customers in June 2011.

CONCLUSION

Based on our review of the calculations and related background information, the model being used indicates the current over-recovery of \$20.6 million will be returned to customers by June 2011.

Please contact me if you have any questions regarding this report. I will be at your March 23rd City Council meeting when the GCA will be submitted for approval.