OFFICE OF THE CITY AUDITOR
COLORADO SPRINGS, COLORADO

Electric Cost Adjustment Review

September 2011

Purpose

The purpose of this audit was to evaluate whether Colorado Springs Utilities (CSU) prepared the Electric Cost Adjustment (ECA) in accordance with the approved tariff. The methodology was compared to prior filings for consistency and to determine whether it met the intended objective (i.e. adjust billing rates for electric costs while maintaining some level of pricing stability). Calculations were tested for accuracy and to verify documentation to the general ledger and forecast data.

Highlights

Based on our review of the calculations and the related background information, the ECA was calculated in accordance with the approved tariff. The actual under collected balance at July 31, 2011 per this review was approximately $6.5 million. Colorado Springs Utilities proposes in this filing to increase the ECA charge from $.0030 to $.0040 per kWh.

The last ECA adjustment was effective June 1, 2011 authorizing a charge of $.0030 per kWh unit. The under collected balance at May 31, 2011 was approximately $8.8 million dollars.

We noted two primary reasons for the current proposed increase in ECA charge. See chart on page two for combined financial impact.

- As previously reported by Colorado Springs Utilities in the March 2011 Resolution Setting the ECA, dividends and revenue associated with Front Range Power will no longer be received and credited to customers through the ECA. These changes were effective January 1, 2011 and resulted in $9.4 million net revenue reduction from 2010 to 2011.

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Management Response

Colorado Springs Utilities (CSU) agrees with the Office of the City Auditor. In the future, CSU will provide the information that is currently being provided to the Utilities Board regarding the Energy Cost Adjustment (ECA). More specifically, ECA information related to historical over/under collections, ECA costs recovered, actual energy costs and forecasted energy costs, energy costs collected from customers and forecasted over/under ECA collections balance.

Recommendations

1) We recommend future requests to adjust the ECA include an explanation of the driving factors in revenues, expenses or sales that impact the ECA calculation as background supporting the change.

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- The other significant reason for the increase in the ECA charge was the increase in non-capacity fuel cost from $130.1 million in 2010 to $136.8 million for 2011 (actuals through July 31 with forecasted costs through December 31.) This represents a 5.2% increase in fuel costs over 2010. Total Sales volumes appeared relatively unchanged from 2010 to 2011.

The combined financial impact to the ECA is summarized below:

2010 Front Range Power Dividends and Related Revenues Decrease	$9.4 million
Increase in Fuel Costs	$6.7 million
Combined Negative Impact To ECA Over 2010	$16.1 million

While generally stated that the requested change was driven by revenue and cost projections, we noted that the September 13, 2011 Memorandum to Council did not provide details regarding the changes in revenues, expenses or sales. We recognize Colorado Springs Utilities has not been required to provide this level of detail in past filings. However, we are recommending that future request identify the drivers for the requested change.

Respectfully,

Denny L. Nester

City Auditor