



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

13-04 Colorado Springs Utilities Drought Response Tariff

March 2013

Purpose

The objective of our review was to determine that the proposed Colorado Springs Utilities Drought Tariff complies with Executive Limitation 10. We also verified the tariff was reasonable in the current circumstances.

Highlights

We concluded that Colorado Springs Utilities proposed drought tariff generally complied with industry best practices as noted by the American Water Works Association¹ and was reasonable.

To ensure water supplies allow for the safety and health of the community, Colorado Springs Utilities developed a drought response plan. The plan provides a phased approach that increases restrictions and increases rates to send a price signal that encourages conservation. Over recent months, Colorado Springs Utilities has provided governance with regular robust updates related to drought preparedness to the Utilities Board and City Council. Updates provided appropriate information related to water supplies and proposed actions to reduce demand and ensure that financial shortfalls are minimized.

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1 American Water Works Association, *Principles of Water Rates, Fees, and Charges: Manual of Water Supply Practices—M1*, Sixth Edition, 2012.

Management Response

Management was generally in agreement with the recommendations.

Item related to the financial reporting

Colorado Springs Utilities will track revenue and expenses during watering restrictions and include the information in the monthly report to the Utilities Board related to drought.

Item related to the expenditures deferral

Colorado Springs Utilities has evaluated and compiled a list of capital and O&M planned expenditures for 2013 that may be deferred to offset new drought response costs and the potential reduced water sales revenue associated with the implementation of a Stage under the Water Shortage Ordinance and the corresponding implementation of the drought response pricing under the Water Shortage Tariff. Colorado Springs Utilities will monitor the water supply and financial condition of the water system during irrigation season to determine which, if any, of these expenditures will be funded in 2013 or deferred.

Recommendations

Colorado Springs Utilities should finalize plans for drought update reporting per Best Industry practices noted on page 2 of this report.

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(Highlights continued from page 1)

We reviewed Colorado Springs Utilities calculations and verified that if the average residential customer complied with restrictions such as reducing irrigation from 3 days to 2 days, they would not have an increase on their bill as indicated.

We noted that the criteria for average usage specified 1/2 inch per watering for a 3,000 square foot area being irrigated. Average indoor usage was calculated as 50 gallons per resident per day, using a family size of 5.

Colorado Springs Utilities customers with on-line account access will be able to access daily usage data, a new feature which will assist them in managing their usage.

We noted industry best practices were appropriately included in the drought response plan with the exception of two areas which were under development at the time of our review.

Best Practice

Implemented

Restrictions and charges increase with drought severity	✓
Customer education plan with date restrictions will start and reason for restrictions	✓
Charge is separate line item on bill	✓
Average customer will not see increases if they comply with restrictions	✓
Report drought revenue and expenses to ensure accountability	Not yet finalized
Make plans to reduce or defer expenditures	Not yet finalized

Recent warm, dry summers resulted in increased local watering. Consequently, water revenues for 2012 were above plan. Colorado Springs Utilities should consider the availability of these funds when evaluating drought related expenses.

Respectfully Submitted,



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City Auditor

The audit was conducted in a manner that meets or exceeds the International Standards for the Professional Practice of Internal Auditing, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors, with the exception of the requirements under standards 1312 and 1321 to obtain an external quality assurance review once every five years. We do not believe this non-compliance impacted the quality of our audit.