



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

14-08 Water Shortage Tariff

March 2014

Purpose

The objective of our review was to determine that the proposed changes to the water shortage tariff comply with Executive Limitations 10 and 12. Limitation 10 requires protection of water resources. Limitation 12 requires rates that are just, reasonable, sufficient, and not unduly discriminatory.

Highlights

We conclude that proposed changes to the water shortage tariff methodology encouraged conservation while maintaining revenue stability in compliance with Executive Limitations 10 and 12.

Under City Code, Section 12.1.107, City Council may authorize changes to water rates or charges necessary to avoid a water shortage. City Council will approve water restrictions and pricing under the tariff, if considered necessary, to be effective May 1, 2014, through October 15, 2014. The proposed tariff structure includes pricing for two-day irrigation restrictions (level B) and one-day irrigation restrictions (level C). We reviewed the pricing structure proposed by Colorado Springs Utilities, as well as an alternative under consideration by the Colorado Springs Utilities Board Finance Committee. This alternative is similar to the current water shortage tariff structure.

Increased prices send a signal to customers to encourage conservation. A number of pricing structures could be put in place to accomplish this objective. Selection of the appropriate pricing structure is a policy decision subject to City Council approval.

Colorado Springs Utilities proposed changes to the existing water shortage tariff with the following goals : 1) preserve water supply, 2) all customers participate in saving water through price signals, 3) maintain financial stability, 4) not unduly hinder business or economic development.

Residential Customers—Colorado Springs Utilities' proposed residential pricing structure differs from the existing water shortage tariff, which applied increased
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Recommendations

No formal recommendations were made.

Management Response

No response was requested from Colorado Springs Utilities.

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pricing only for block three usage. The proposed methodology requires increased pricing for 100% of usage for residential customers. As usage increases, rates for the indicated block also increase.

The alternative residential pricing structure was similar to the existing water shortage tariff, except that block 1 was reduced by 50 cf. Under this alternative, ratepayers conserving by 5% would not see an increase in their bill for block 1 usage.

Commercial Customers—We note that Colorado Springs Utilities proposed water shortage tariff commercial pricing structure was generally as follows:

- Commercial customer rates will increase 8% for all consumption under the threshold.
- Increased rates which vary by customer class are applied to consumption over the customer's 2012 consumption threshold.

We noted the pricing structure differed for some commercial groups. For example, large non-seasonal rate included an 8% increase for all consumption with no additional price thresholds. The Conservation Rate Pilot (Municipal Government; Parks) had no increase if consumption was within the allocation and a 200% increase if the allocation was exceeded. Utilities provided consumption data under this rate for 2011 through 2013. The allocation was exceeded for only one month during this period. Colorado Springs Utilities provided a rate design rationale for these customer classes.

The Conservation Pilot Rate expires on August 1, 2014, after which regular commercial rates will apply. Usage after this date would be priced at the regular non-residential rate with the water shortage tariff pricing applied.

Forecast—Colorado Springs Utilities prepared the revenue forecast for the proposed tariff with the assumption that, overall, consumption would be 10% less than the 2014 forecast. We believe this assumption to be reasonable.

Sincerely,



Denny L. Nester, MBA CPA CIA CGFM CFE CGAP

City Auditor

The audit was conducted in a manner that conforms 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.

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