




City of Colorado Springs



City Council's Office of the City Auditor

INTEROFFICE MEMORANDUM

To: Mayor and City Council Members

From: Jeff Litchfield, City Auditor 

Cc: Jerry Forte, Springs Utilities Chief Executive Officer

Date: July 10, 2007

Subject: Audit 07-230a – Springs Utilities' Electric Cost Adjustment (ECA)

BACKGROUND

Colorado Springs Utilities (Springs Utilities) periodically files rate adjustments with the City Council. The ECA is intended to be an adjustment to billed rates for actual and projected increases or decreases in fuel and purchased power costs. When rate adjustments are filed, a copy is provided to my 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 Springs Utilities was regulated by the PUC. The last ECA review was performed during November 2006 and became effective January 1, 2007.

OBJECTIVES AND SCOPE

The purpose of this audit was to evaluate whether Springs Utilities prepared the ECA 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 electric 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 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.

ECA TARIFF

The tariff governing the calculation of the ECA is Sheet 31 of the Electric Rate Schedule. An excerpt is as follows:

The ECA will be computed as follows:

The sum of:

- a) the projected costs of purchased power and generation fuel for the future recovery period, divided by
 - b) the projected retail kWh sales subject to the ECA for the same period used in a) above.
- Plus:
- c) the cumulative under- or over-recovery of purchased power and generation fuel costs used to serve customers subject to the ECA, divided by
 - d) projected retail kWh sales, subject to the ECA for a period to be determined by Springs Utilities.
- Minus:
- e) the base cost of purchased power and generation fuel in the current retail electric rates.

THE CALCULATION

The calculation of the proposed ECA is based solely on the amount of \$21.3 million, which has been over recovered from customers through May 31, 2007. This amount is representative of component c in the above tariff calculation. This amount is being divided by a projected kWh sales volume as required in component d in the above tariff calculation. Components a, b and e from the tariff were not included in the calculation.

Findings and Recommendations

1. Accounts used to determine the over or under recovery amounts were not consistent between ECA rate cases.

One concept of the ECA involves calculating and tracking an amount that is either due to or due from utility customers. We question the soundness of the current method of using a spread sheet to track the over or under recovered amounts, especially when the numbers could have such a significant impact on the ECA calculation.

During our review, we found two instances where accounts used in previous rate cases were inadvertently omitted from the spread sheet. Both related to inconsistent treatment of cost accounts. The net impact of the omissions was to increase the amount of the over-recovery from customers by \$2,140,835. Springs Utilities corrected these omissions.

Auditor's Recommendation:

We recommend Springs Utilities establish a process to consistently calculate and track the cumulative effect of the over or under recovered amounts each month.

2. The specified ECA tariff calculation was not followed.

The tariff is very specific in the mathematical formula used to determine the ECA. It states, "The ECA will be computed as follows:" and then list the five components of the calculation.

The ECA as presented only contains two of the five components. The model used to project the over or under recovered amount includes a forward look at costs and consumptions. It appears these numbers were considered in the ECA process. However, they were not presented in the calculation in accordance with the tariff.

Auditor's Recommendation:

We recommend the ECA calculation found in the tariff be followed. Otherwise, the tariff needs to be changed to reflect the current method of calculation.

CONCLUSION

The ECA was not calculated in the format called for in the tariff. However, based on our review of the calculations and related background information, the model being used does show the current projected over-recovery of \$21.3 million will be returned to customers over the next 19 months.

Our office will work with Springs Utilities over the next few months to resolve the two findings.

Please contact me if you have any questions regarding this report. I will be at your July 10th City Council meeting when the ECA will be submitted for approval.