




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 07-230b – Springs Utilities' Gas Cost Adjustment (GCA)

#### BACKGROUND

Colorado Springs Utilities (Springs Utilities) 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 Springs Utilities was regulated by the PUC. The last GCA review was performed during May 2006 and became effective June 1, 2006.

#### OBJECTIVES AND SCOPE

The purpose of this audit was to evaluate whether Springs Utilities 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 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.

## **THE PREVIOUS CALCULATION**

When Springs Utilities calculated the projected costs of natural gas for the period April 2006 to December 2007, they determined the costs would be within one percent of the revenues that should be received during the same period, when calculated by taking the base gas cost multiplied by the projected consumption. Therefore, they elected to not perform the calculation listed in a) and b) above. By not including a) and b) in the calculation, you must also remove e) from the calculation. Therefore, their calculation only included items c) and d).

The GCA presented for your approval was calculated as follows:

c) the cumulative over-recovery of natural gas costs as of March 31, 2006 =	\$18,703,185
divided by	
d) the projected sales subject to the GCA for the 12 month period June 1, 2006 to May 31, 2007 (in Ccf) =	282,500,043
Equals	(.0662)

## **THE CURRENT CALCULATION**

Like the previous calculation, the current calculation does not include components a, b and e of the tariff.

The current rate proposal is unique in that it takes the GCA to 0.0000 per Ccf. While this could send a message to customers the base rate is reflective of current cost conditions, in looking at the data that backs up the rate, we find the reverse is true.

In the previous calculation, the over-recovery of \$18,703,185 was being returned to the customers over a projected 12 month period. In actuality, it took almost 14 months to return the over-recovery. However, during the same 14 month period, an additional \$20.9 million was over-recovered.

With the \$20.9 million over-recovery as a starting point, Springs Utilities projects the \$0.0000 GCA will reduce the over-recovery to \$0 over the next 17 months. Their projection shows the over-recovery will grow to \$28.9 million at the end of 2007 and then be reduced to \$0 in January 2009.

#### **FINDINGS AND RECOMMENDATIONS**

Note - on this same date, a report was issued on the ECA. The two recommendations in the ECA report are also applicable to the GCA.

#### **CONCLUSION**

The GCA 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 \$20.9 million will be returned to customers over the next 17 months.

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