



Office of the City Auditor

Date: January 8, 2009

To: Honorable Mayor and Members of City Council
Kathy Young, City Clerk

Re: 2009 Rate Case Filing Review Report for Electric, Water, and Wastewater Rates

We have reviewed the Rate Cases, cost of service studies and tariffs submitted to you by Colorado Springs Utilities (Springs Utilities). These filings included the Electric Cost of Service, Water Cost of Service, and Wastewater Cost of Service. The filings are scheduled to be heard during a Public Hearing on January 13th. This report contains our comments on the information we reviewed.

EXECUTIVE SUMMARY

The purpose of our review (audit) was to evaluate whether Springs Utilities prepared and submitted the Rate Cases in an accurate and consistent manner. Our review for accuracy generally focuses on the calculations within the models, i.e., is the math correct. Our review for consistency compares data submitted this year with that submitted in prior years as well as data submitted within this year's cases.

Overall, the filing appears to be in line with the direction provided by the Executive Limitations and is fairly consistent with prior filings. We have no findings to report.

AUTHORIZATION

We conducted this examination under the authority of Chapter 12, Article 1, Part 107 and Rules and Procedures of City Council as adopted by Resolution 20-00. These documents state:

"12.1.107: REGULATION OF ELECTIC, STREETLIGHT, NATURAL GAS, WATER AND WASTEWATER RATES, CHARGES AND REGULATIONS:

C. Adopted by Resolution; Hearing: Base rates or regulations or any change shall be adopted by resolution, which shall adopt by reference the appropriate tariff sheet or sheets to be established or revised.

1. Preliminary Information For The City Auditor And City Attorney: When Utilities proposes to change base rates, and the proposed change will result in the determination of a new revenue requirement supported by a cost of service

CITY AUDITOR JEFF LITCHFIELD, CPA CIA CFE CGAP

TEL 719-385-5991 • FAX 719-385-5699 • FRAUD HOTLINE 719-385-2387

30 South Nevada Avenue, Suite 604 • P.O. Box 1575, Mail Code 640 • Colorado Springs, CO 80901-1575

study, Utilities will provide a draft of the proposal and cost of service study to the City Auditor and the City Attorney at least thirty (30) days prior to filing the proposed resolution with City Council. When changes to base rates are proposed, but do not involve a cost of service study, a draft of the proposal will be provided to the City Auditor and the City Attorney seven (7) days prior to the filing of a proposed resolution. Any request for additional information by the City Auditor and any response by Utilities, will be in writing. Drafts of the proposed resolution and tariff sheets will be provided to the City Attorney seven (7) days prior to filing of the final proposed resolution with City Council."

Rules and Procedures of City Council, adopted by Resolution 20-00:

"PART 4 – UTILITIES PRICING AND TARIFF HEARING PROCEDURE

1. HEARING PROCESS

A. Pre-hearing Procedures

4) If the change in pricing is supported by a cost of service study, Utilities shall provide a draft copy of the proposal and cost of service study to the City Auditor at least thirty (30) calendar days prior to the filing. If the proposed changes do not require a supporting cost of service study, Utilities shall provide a draft of the proposal to the City Auditor seven (7) calendar days prior to the filing of the proposed resolution. If the City Auditor chooses to file a report on the proposal, such report shall be filed with the City Clerk and Utilities at least five (5) calendar days prior to the public hearing."

BACKGROUND AND SCOPE

Springs Utilities periodically files rate adjustments with City Council. These rates become the basis for bills produced by Springs Utilities and are its primary revenue source. When rate changes are proposed, they are reviewed by the City Auditor.

Springs Utilities' last base electric service rate case was approved by City Council in May 2008. There were changes in policy and practice and technical procedural changes from the 2008 electric service rate case that Springs Utilities proposed in this case, they are:

- Sources and Uses Statement was replaced by a Revenue Requirements Statement,
- Non fuel expenses were allocated using the Predominance Method,
- Cash rebates were replaced with rebate amortization,
- Terminology was changed from "Cash Funded Capital" to "Capital Improvement Fund",
- Removed certain allocations that were assigned to the EXT rate, and
- Terminology was changed from "Unrestricted Cash" to "Working Capital".

Springs Utilities' last water service rate case was approved by City Council in March 2006. There were changes in policy and practice and technical procedural changes from the 2006 water service rate case that Springs Utilities proposed in this case, they are:

- Sources and Uses Statement was replaced by a Revenue Requirements Statement,
- Only 90% of Development Charge revenue was used to offset operations—10% was moved to the Capital Improvement Fund,
- Cash rebates were replaced with rebate amortization,
- Terminology was changed from “Cash Funded Capital” to “Capital Improvement Fund”,
- Quantities for a typical residential bill were changed from 1,600 cf per month to 1,100 cf per month,
- Terminology was changed from “Unrestricted Cash” to “Working Capital”, and
- Administrative and General costs were allocated based on O&M Labor costs, instead of total O&M costs.

Springs Utilities' last wastewater service rate case was approved by City Council in December 2007. There were changes in policy and practice and technical procedural changes from the 2007 water service rate case that Springs Utilities proposed in this case, they are:

- Sources and Uses Statement was replaced by a Revenue Requirements Statement,
- Only 90% of Development Charge revenue was used to offset operations—10% was moved to the Capital Improvement Fund,
- Terminology was changed from “Cash Funded Capital” to “Capital Improvement Fund”,
- Quantities for a typical residential bill were changed from 800 cf per month to 700 cf per month,
- Terminology was changed from “Unrestricted Cash” to “Working Capital”, and
- Administrative and General costs were allocated based on O&M Labor costs, instead of total O&M costs.

Springs Utilities requested a change in the Capacity Charge for Electric Service. This was the first time this charge was requested to be changed since it was implemented in May 2008. The charge is based on the cost of capacity payments to Front Range Power and to WAPA. The requested change was accurate and consistent with the initial calculation of the charge.

Springs Utilities also requested a change to the Water and Wastewater Development Charges, which were supported in a December 2007 rate case, but previously only partially implemented. The requested change also includes the implementation of the next phase-in of the meter ratios from the approved 1999 Black & Veatch study as previously approved by City Council. We verified that the calculations presented were accurate and consistent with prior submissions.

As previously mentioned, the purpose of the audit was to evaluate whether Springs Utilities had prepared and submitted the Rate Case Filings in an accurate and consistent manner.

The audit was conducted in accordance with the *International Standards of 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 circumstance.

OVERALL OPINION

Overall, the filing appears to be in line with the direction provided by the Executive Limitations and is fairly consistent with prior filings. We have no findings to report.

We thank Springs Utilities and especially the Pricing and Forecasting Department for their cooperation during this review.

Please contact me if you have any questions regarding this report.

Sincerely,



Jeff Litchfield
City Auditor

cc: Jerry Forte, Chief Executive Officer
Stella Chan, Manager, Pricing and Forecasting
Dave Maier, Manager, Enterprise Risk Manager
Henry Henderson, Principal Pricing Analyst