



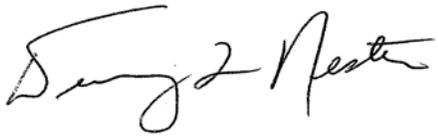
City of Colorado Springs



## City Council's Office of the City Auditor

### INTEROFFICE MEMORANDUM

To: Mayor and City Council Members

From: Denny L. Nester, Interim City Auditor 

Cc: Jerry Forte, Springs Utilities Chief Executive Officer

Date: October 6, 2010

Subject: 10-18 – Colorado Springs Utilities' Gas Cost Adjustment (GCA)

#### BACKGROUND

Colorado 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. The last GCA review was performed in May 2010 and became effective June 1, 2010.

#### OBJECTIVES AND SCOPE

The purpose of this audit was to evaluate whether Colorado Springs Utilities prepared the GCA in accordance with the approved tariff. The methodology was compared to prior filings and any changes in methodology approved by Colorado Springs Utilities management to ensure policy compliance, 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 financial systems and internal forecasts.

The audit was conducted in accordance 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. 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.

In applying the computation above, the period of November 1, 2010 to March 31, 2011 was used for the "future period" described in a), b), and the "period to be determined" in d). The reduction of the over-collected balance will be accomplished through the proposed (\$.1499) GCA to return approximately \$26.3 million to gas customers. Presuming all future projections are accurate, the projected over-collected amount should be fully returned to gas customers by the end of March 2011.

## **POLICY CHANGE IMPLEMENTATION**

Colorado Springs Utilities policy QBD 12652 was submitted to and approved by City Council with the 2010 rate filings. Based on QBD 12652, certain costs and revenues previously included in gas non fuel related rates will be moved to the gas fuel costs, or GCA related costs effective January 2011, when a proposed non fuel rate case is planned to be implemented. The forecasted impact to the GCA total costs will be an increased cost of \$1.8 million for the 12 months ending December 2011. The shift of these costs should cause an equal reduction in the 2011 gas non fuel related costs.

## **SUMMARY OF RECENT CHANGES TO GCA RATES:**

A GCA refund of \$0.030 was approved in March and implemented in April 2010. This refund was subsequently increased to \$0.080 effective June 2010. Gas prices have continued to trend lower than forecasted. To ensure the achievement of refunding customers the over-collected balance, a refund rate of \$0.1499 was considered necessary by Colorado Springs Utilities to be effective November 1, 2011.

## **CONCLUSION**

Based on our review of the calculations and related background information, the model being used indicates the August 2010 over-recovery of \$20.7 million will be returned to customers by the end of March, 2011.

Please contact me if you have any questions regarding this report. I will be at your October 12, 2010 City Council meeting when the GCA will be submitted for approval.