



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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14-30 Electric Cost of Service Study

November 2014

Purpose

Our review focused on the accuracy and consistency of the methodology used to develop the proposed rate changes. We also reviewed for compliance with rate development guidance approved by the Utilities Board. The review did not include verification of budget or forecast assumption data.

Highlights

We conclude the 2015 Cost of Service Study was prepared accurately using consistent methodology, and complied with rate development guidance approved by the Utilities Board.

Additionally, we concluded that Colorado Springs Utilities has taken appropriate action to implement recommendations from the Office of the City Auditor's prior report, as follows:

1) Rate balancing

The Office of the City Auditor's 2014 Rate Report noted that adjustments were made between the cost of service study and proposed rates, known as 'balancing' between rate classes.

Colorado Springs Utilities has addressed the 2014 City Auditor's report recommendation by:

- Studying cost of service load generation demand allocation factors and implementing a new methodology effective with the 2015 Cost of Service Study (see OCA report 14-18),
- disclosing balancing between rate classes in the cost of service study (see Utilities 2015 Electric Cost of Service Study schedule S8), and
- updating rate development guidance, which includes rate balancing principles and criteria.

The cost of service allocation methodology and rate development guidance was presented to the Utilities Board Finance Committee. The rate development guidance was approved by the Utilities Board.

2) Separating the cost of service for the small commercial class

The Office of City Auditor 2013 Rate Report noted that the small commercial and residential classes were combined for 2013, and recommended that small commercial customers be a separate rate class in the cost of service study. Colorado Springs Utilities agreed to track and report the small commercial rate class separately as data became available.

The small commercial class was not segregated as a separate rate class in the 2015 Cost of Service Study. Colorado Springs Utilities 2015 Rate Report states that additional meters were available in the 2013 load study for the small commercial class. Utilities combined the residential and small commercial classes for the 2015 Cost of Service Study as they observed that forecasts were closely related. Colorado Springs Utilities indicated they would continue to monitor the load study results of the small commercial class. The Office of the City Auditor will continue to monitor load study results.

(Continued on page 2)

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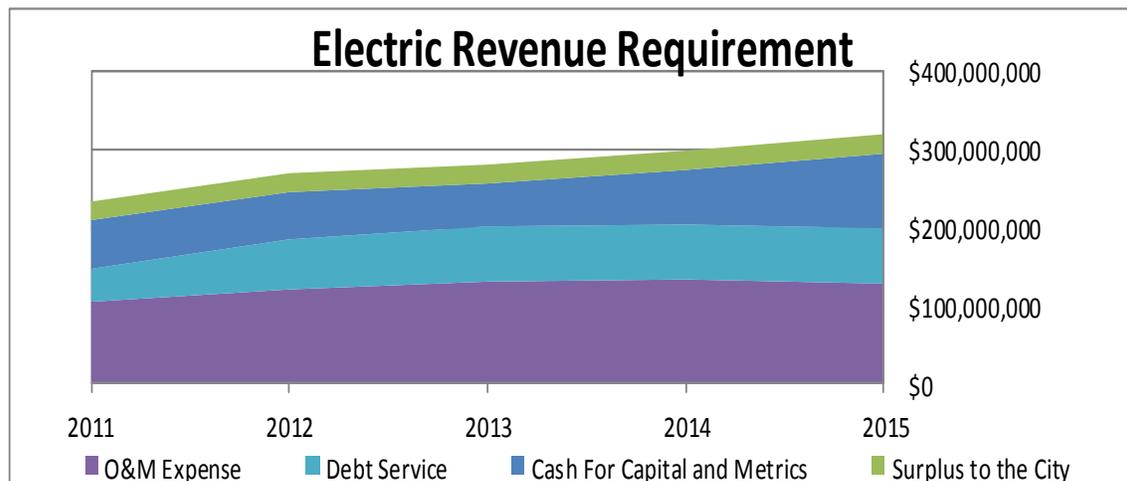
(Highlights continued from page 1)

Trend Data:

Over a four year period, non-fuel electric revenue requirements have increased 37% while forecasted consumption increased 1.3%. The proposed 2015 electric non-fuel revenue requirement increased 7.8% over 2014. Of this amount, 2.5% represented growth in forecasted revenue at current rates, and 5.3% represented increases to tariffed rates.

Rates were developed using forward looking data, including forecasted revenue requirements as well as forecasted sales and revenues for each rate class. The Office of the City Auditor will perform a review in 2015 to determine whether the rates designed by Colorado Springs Utilities have resulted in the collection of revenues that were projected.

The following chart presents an overview of the non-fuel electric revenue requirement by expenditure type taken from the cost of service studies from 2011 to 2015.



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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