



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: May 21, 2010

Subject: 10-12 – Colorado Springs Utilities' Gas Cost Adjustment (GCA)

#### BACKGROUND

Colorado Springs Utilities (CSU) 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 during March 2010 and became effective April 1, 2010.

#### OBJECTIVES AND SCOPE

The purpose of this audit was to evaluate whether CSU prepared the GCA in accordance with the approved tariff. The methodology was compared to prior filings 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 June 1, 2010 to February 28, 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 (\$0.08) GCA to return approximately \$15.2 million to gas customers. During the same time period, CSU projects to under-collect approximately \$8.4 million considering the projected cost of natural gas to further reduce the over-collected balance. The over-collected amount of \$23.6 million will be fully returned to gas customers by the end of February 2011, assuming all future projections are accurate.

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

CSU was in an under-collected position of \$5.2 million in June 2009 when the GCA rate of \$0.1338 was approved for the period July to December 2009. Due to colder than normal weather in the months of October, November and December 2009, the GCA ended the year \$20.9 million over-collected. CSU is monitoring the changes in gas prices and forecasts monthly to ensure over-collected balances are significantly reduced by the end of 2010 according to plan. A GCA refund of \$0.030 was approved in March and implemented in April 2010. Given the April 2010 over-collected balance of \$23.6 million, CSU is currently recommending an increase in the refund to \$0.080 effective June 2010. Projections for the over-collected balance, given the GCA proposed refund, indicate the amount would be \$8.7 million at the end of 2010 and fully repaid to customers before the end of February 2011.

### **FINDING – ACCOUNT RECLASSIFICATION CHANGE AND MISCOMMUNICATION:**

As noted in prior reports, we found changes in the accounts used to calculate the GCA. The accounting of certain transactions were reclassified (from being recorded in one general ledger account to another) impacting the GCA calculation. The change effective in the general ledger February 2010 was not adequately documented and communicated. Consequently the change was not incorporated in the GCA until identified due to an irregular account balance in May 2010.

The reclassification resulted in revenue being moved from a margin related account to two gas sales accounts and represents a change in consistency related to GCA. The reclassification was identified by the Pricing Department as an irregular margin account balance that was

further investigated. The greater risk appears to be the lack of documented communication and coordination between the Accounting and Pricing Departments. Account reclassifications, moving revenue or expense from one account to another, that are not adequately communicated and documented could impact the accuracy of the GCA charged or refunded to customers.

We recommend all changes to GCA and Electric Cost Adjustment accounts be documented for historical reference, accountability and accuracy.

**COMMENDABLE PRACTICES:**

In our review of the events surrounding the reclassifications and GCA changes, it should be noted that the accounting changes were made to ensure compliance with Generally Accepted Accounting Principles. Also identification and research by Pricing led to further review with Energy Forecasting of the accuracy in modeling this activity in the GCA and is being used to refine and improve the GCA model. CSU has displayed a commitment to their goals for rate stability, accounting accuracy, and quality. We commend these efforts.

**CONCLUSION**

Based on our review of the calculations and related background information, the model being used indicates the current over-recovery of \$23.6 million will be returned to customers by the end of February 2011.

Please contact me if you have any questions regarding this report. I will be at your May 25th City Council meeting when the GCA will be submitted for approval.