



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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17-27 Colorado Springs Utilities 2018 Rate Case Audit

November 2017

Purpose

The 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.

Highlights

Overall, we conclude the cost of service studies supporting the proposed rate changes were prepared accurately. Methodology was consistent with prior rate cases. Proposed rate changes were aligned with ratemaking principles in the Colorado Springs Utilities Rate Manual and within tolerances approved by Utilities Board guidance.

Colorado Springs Utilities rate filing included changes to the Electric Service Base Rates and Water Service Rates effective January 1, 2018. Proposed rate changes were based on the 2018 budgets and forecasted sales data. The water revenue requirement increased \$ 7.7 million or 4.2%. Electric revenue requirements increased \$7.7 Million or 2.4%.

We identified one opportunity for improvement in our review. This opportunity relates to the use of the budget as the basis for rates. Prior to 2005, the basis for rates was a test year. The test year was calculated using 12 months of actual operating results adjusted for known changes such as an increase in the cost of labor. When we noted discrepancies between 2016 historical and budgeted amounts, it caused the auditor to question whether the budget is the best basis for rate making. Our recommendation asks Colorado Springs Utilities to analyze historical trends in an effort to increase the accuracy of budget forecasts in the future. We believe this analysis would be beneficial to Colorado Springs Utilities and their rate payers.

Additional information may be found on page 2 of this report. The Office of the City Auditor appreciates the responsiveness of Utilities Financial Planning and Analysis Department along with Pricing-Rates Department in support of our review.

Management Response

See Colorado Springs Utilities response along with the Auditor Response on page 2 of this report.

Recommendation

1. For future rate cases, We recommend that Colorado Springs Utilities:

- Analyze historical trends for non-operating and other operating revenues.
- Identify ways to increase accuracy of non-operating and other operating revenue forecasts.

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Opportunity for Improvement

- For 2016, Utilities' analysis showed that Electric and Water actual non-operating and other operating revenues for the organization exceeded forecast by \$10.6 million in total.

Utilities Financial Planning and Analysis Department prepared a comparison of 2016 forecasted revenues to actual revenues and expenses in a cost of service format.

Revenues were greater than budget for items such as water sales to other districts. Utilities' forecasts these revenue items in a conservative manner. Accurate revenue forecasts help ensure rates are set at appropriate levels to recover required costs.

Management Response

Colorado Springs Utilities incorporates both historical and forward looking data in preparation of its annual budget and will continue to do so. Total non-operating revenues are \$12.2M and represent 1.2% of the 2018 Budget. Management will look to enhance accuracy of the non-operating revenue forecast as recommended by the City Auditor. Management does not believe that enhanced accuracy of non-operating revenues will have a material impact on rates.

Recommendation

For future rate cases, Colorado Springs Utilities should:

- Analyze historical trends for non-operating and other operating revenues forecast to actual.
- Identify ways to increase accuracy of non-operating and other operating revenue forecasts.