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18-10 Colorado Springs Utilities ECA and GCA Account Verification Review

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Purpose

The purpose of this audit was to evaluate the accuracy and appropriateness of accounts included as fuel costs when calculating Electric and Gas cost adjustments by Colorado Springs Utilities (Utilities).

Highlights

We conclude that the accounts used as fuel costs were appropriate, and in compliance with Utilities policies. The audit included review of the tariffs and fuel adjustment process as compared to Board approved guidance. During the course of our review, we noted one observation and one opportunity for improvement. Please see page two of this report for details.

Background

Fuel adjustments for Electric and Gas, (ECA) and (GCA) respectively, are separate line items on the customer's bill which reflect the fuel and purchased power related costs to provide service. As a non-profit, community owned utility, fuel costs are passed directly on to customers through the ECA and GCA. Since fuel related costs and energy usage are variable, the ECA and GCA can be adjusted as often as monthly upon approval by City Council. (See tariffs in Table 1 to this report).

Utilities' internal policies and procedures provided guidance on specific accounts and costs to be included in the ECA and GCA. In addition to commodity costs for fuel and circulating cooling water, the ECA and GCA included direct labor related costs of personnel involved in activities such as fuel handling, procurement, accounting, and portfolio management.

Utilities' Rate Manual included guidance related to ECA and GCA which was approved by Utilities Board in January, 2016 (see attachment 1 to this report). The Rate Manual guidance includes the following ECA and GCA related objectives:

- Provide a timely price signal to customers
- Effectively manage over or under collected balances
- Ensure Utilities' financial stability
- Provide transparency to the public regarding setting of rates

Routine adjustments would be proposed by Utilities to target a zero balance within 12 months. Non-routine adjustments could be proposed with a recovery period of one to twelve months.

Management Response

Management agrees with the recommendation. See page 2 for details.

Recommendation

1. Utilities should review the ELG fuel credit in the ECA tariff to determine if it should be updated to reflect current costs and tariff revisions. Policy should be developed for timing of ELG supply credit reviews.

Opportunities for Improvement

1. Utilities Board may consider working with staff to identify potential efficiency improvements for the ECA and GCA adjustments and filing process.

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Observation 1

The ELG fuel credit included in the ECA tariff had not been adjusted since 2014.

The ELG fuel credit was a reduction in ECA cost for large industrial customers served under the ELG rate. The credit was intended to reflect the assumption that higher load factor customers were served by lower cost resources.

The ELG credit had not been adjusted with ECA rate changes and movement of some costs to the Electric Capacity Charge (ECC), for recovery. If the ELG credit was not accurate, ELG customers, and other customers subject to the ECA, could be paying more or less than the appropriate fuel related costs.

Recommendation

Utilities' Pricing Department should:

Review the ELG fuel credit in the ECA tariff to determine if it should be updated to reflect current costs and tariff revisions.

Develop policy that specifies when the ELG credit should be reviewed and updated.

Management Response

Colorado Springs Utilities agrees to review the ELG fuel credit and discuss with Finance Committee to identify potential policy recommendations.

Opportunity 1

Significant time was required by Utilities Board members and pricing staff to submit and review proposed ECA and GCA fuel adjustments.

Utilities Board approved guidance in 2016 to provide criteria and direction to Utilities in managing fuel adjustments. Criteria in the guidance stated that collected balances were to be managed within a tolerance and that over or under collected balances should be targeted to reach zero in a recovery period of 12 months.

Given that clear criteria was in place, it was possible that efficiencies could be gained requiring less administrative time of Board members and staff.

ECA and GCA costs were a direct pass through in that over or under collections were returned to or charged to customers.

Recommendation

Utilities Board may consider working with staff to identify potential efficiency improvements for the ECA and GCA adjustments and filing process.

Table 1 ECA and GCA Tariffs source: www.csu.org/rates and tariffs

ELECTRIC COST ADJUSTMENT

The ECA will be computed, as follows: a) the forecasted generation fuel, purchased power, and related costs for the future recovery period determined by Utilities plus b) an amount determined by Utilities as a projected over or under collected balance at the end of the recovery period used in a) above less the over or under collected balance of fuel and purchased power costs at the beginning of the recovery period. Divided by: c) forecasted sales subject to the ECA for the same period used in a) above.

GAS COST ADJUSTMENT

The GCA will be computed as follows: The sum of: a) the forecasted cost of purchasing natural gas for the future recovery period to be determined by Utilities, plus b) an amount determined by Utilities as a projected over or under collected balance at the end of the recovery period used in a) above less the over or under collected balance of natural gas costs at the beginning of the recovery period. Divided by: c) the forecasted sales subject to the GCA for the same period used in a) above.

Attachment 1—Electric Cost Adjustment (ECA) and Gas Cost Adjustment (GCA) Rate Manual Guidance

Cost Adjustment Description—The cost adjustment is a direct flow-through rate structure, standard in the industry and designed to recover fuel related costs. Initiating a timely response to fluctuation in market prices and consumption supports:

- Providing a price signal to customers based on the true cost of electricity and natural gas;
- Accurately reflecting customers' energy consumption volume and associated costs;
- Effectively managing over and under collection balances; and
- Utilities' financial stability.

Cost Adjustment Guidelines - (Approved by Utilities Board January 20, 2016)

Utilities initiates ECA and/or GCA rate adjustments in a timely manner to respond to fluctuations in market price and consumption and it is incumbent upon Utilities Board to provide direction to the Staff in its establishment of Cost Adjustment Guidelines when using its professional judgment to initiate ECA and/or GCA rate adjustments.

This direction provides transparency to the public regarding the setting of rates for services provided by Utilities.

Band of Reasonableness Measurement

Actual sales and costs differ from forecasted volumes and market price resulting in over or under collected balances. Utilities will manage collected balances within a Band of Reasonableness of plus or minus five million dollars.

Routine Rate Adjustments

Routine ECA and GCA rate adjustments will be filed with the City Council on a quarterly basis. The routine rates adjustments will be calculated utilizing actual and forecasted sales and volume data targeting a zero dollar ($0) collected balance at the end of a twelve month forecast recovery.

Non-Routine Rate Adjustments

Non-routine ECA and/or GCA rate adjustments are triggered when volatility of actual and forecast sales and cost data result in collected balances outside the defined Band of Reasonableness.

The non-routine volatility response path will continue to target a zero dollar ($0) collected balance, however Staff will exercise professional judgment to determine frequency of adjustments and appropriate forecast recovery period from one to twelve months based on magnitude and relevant circumstances.

Source: Excerpt from Utilities Rate Manual filed with Cost of Service Studies