BALANCING ACCOUNT AUDIT

BEAR VALLEY ELECTRIC SERVICE
FOR YEAR ENDED DECEMBER 31, 2017

PUBLIC UTILITIES COMMISSION
EUREKA
STATE OF CALIFORNIA

Utility Audit, Finance and Compliance Branch

November 30, 2018

A digital copy of this report can be found at:
http://www.cpuc.ca.gov/utilityaudits/

Thanks to:
Barbara Owens, Raymond Yin, Mabel Wu, and Bixia Ye

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Executive Summary

The California Public Utilities Commission (Commission) was established by Constitutional Amendment as the Railroad Commission in 1911. The Legislature passed the Public Utilities Act, expanding the Commission's regulatory authority to include natural gas, electric, telephone, and water companies as well as railroads and marine transportation companies in 1912. One of the Commission's duties is to oversee the balancing accounts administered by the energy Investor-Owned Utilities (IOUs) in California. They are Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E), Southern California Gas Company (SCG), Southwest Gas Company (SWGas), Pacific Power, Bear Valley Electric Service (BVES), and Liberty Utilities (CalPeco Electric), LLC.[1] The primary purpose of balancing accounts is that they are used as a mechanism to track specific costs and/or related revenue to provide a fair settlement for the ratepayers and the IOUs.

Pursuant to California Public Utilities Code (PUC) Section 792.5[2], whenever the commission authorizes any change in rates reflecting and passing through to customers specific changes in costs, the commission shall require as a condition of the order that the public utility establish and maintain a balancing account reflecting the balance, whether positive or negative, between the related costs and revenues, and the commission shall take into account by appropriate adjustment or other action any positive or negative balance remaining in the balancing account at the time of any subsequent rate adjustment. The Commission shall ensure the transactions recorded in the balancing accounts are for allowable purposes and are supported by appropriate documentation. The Commission has statutory authority to inspect and audit the books and records of the utilities to ensure that ratepayers' money is well spent, specifically, pursuant to PUC Sections 314.5, 314.6, 581, 582, and 584. Utility Audit, Finance, and Compliance Branch (UAFCB) conducted the audit of Bear Valley Electric Service's (BVES') Balancing Accounts for year ended December 31, 2017, in accordance with Generally Accepted Government Auditing Standards (GAGAS) as required in PUC Section 314.6(b).

The scope of this audit covered, but was not limited to, the period from January 1, 2017 to December 31, 2017. The overall objective of the audit was to determine whether BVES complied with the Commission's requirements and directives in billing ratepayers at the approved tariff rates and recording appropriate activities in its balancing accounts. In addition, UAFCB evaluated BVES' effectiveness of internal controls over compliance and recording of balancing accounts. Based on our audit, the following findings were identified:

- Finding 1: BVES did not timely refund to the ratepayers the over-collection in the Supply Cost Balancing Account (SCBA).

- Finding 2: BVES did not timely settle over-collection in Pension Balancing Account (PBA).

- Finding 3: BVES did not timely settle the over-collections in the California Energy Commission (CEC) – Renewable Balancing Account (CEC-RBA) and CEC – Research, Development and Demonstration Balancing Account (CEC-RD&DBA).

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[1] San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SCG) are affiliated subsidiaries of SEMPRA Energy.

[2] All statutory citations are the California Public Utilities Code (PUC), unless otherwise noted.

- Finding 4: BVES did not timely settle the over-collection in the Energy Savings Assistance Balancing Account (ESABA) and the under-collection in the California Alternate Rates for Energy Balancing Account (CAREBA).

- Finding 5: BVES did not use the updated authorized budget for CARE Program to adjust the Public Purpose Program (PPP) surcharge rates nor use the most recent sales data in the rate development calculation.

- Finding 6: BVES did not use accrual basis of accounting in recording revenues in its balancing accounts.

- Finding 7: BVES did not accurately record the Energy Efficiency Balancing Account (EEBA) due to the omission of recording $22,040 PPP surcharges in December 2016.

- Finding 8: BVES did not accrue interests on the ending balances of these balancing accounts: 1) Energy Savings Assistance Balancing Account (ESABA), 2) Energy Efficiency Balancing Account (EEBA), 3) Solar Initiative Balancing Account (SIBA), 4) CEC-Renewable Balancing Account (CEC-RBA), and 5) CEC-Research, Development and Demonstration Balancing Account (CEC-RD&DBA).

- Finding 9: BVES did not include the information of the CEC-RBA, the CEC-RD&DBA, and the Mobile Home Park balancing account (MHPBA) in its 2017 Annual Balancing and Memorandum Accounts Report submitted to the Commission. On the contrary, BVES reported General Rate Case Balancing Account (GRCBA) that has not been authorized by the Commission in its 2017 Annual Balancing and Memorandum Accounts Report.

- Finding 10: Rate schedule and preliminary statements of balancing accounts contained clerical errors and do not fully reflect BVES's current practice.

Audit Report

BACKGROUND

Pursuant to California Public Utilities Code (PUC) Section 792.5[3], whenever the commission authorizes any change in rates reflecting and passing through to customers specific changes in costs, the commission shall require as a condition of the order that the public utility establish and maintain a balancing account reflecting the balance, whether positive or negative, between the related costs and revenues, and the commission shall take into account by appropriate adjustment or other action any positive or negative balance remaining in the balancing account at the time of any subsequent rate adjustment. The Commission shall ensure the transactions recorded in the balancing accounts are for allowable purposes and are supported by appropriate documentation. Utility Audit, Finance, and Compliance Branch (UAFCB) conducted this audit of Bear Valley Electric Services' (BVES') Balancing Accounts for year ended December 31, 2017 pursuant to PUC Sections 314.5, 314.6, 581, 582, and 584.

Before setting up a balancing account, utilities must file and obtain a Commission-approved Preliminary Statement which specifies the purpose of the balancing account and the types of costs and/or revenue that are to be tracked in the account. Preliminary Statements also detail the specific accounting procedures that the utility must perform to record transactions in the balancing accounts.

A balancing account is a tracking mechanism to protect ratepayers and utilities by identifying and settling the differences between two elements consisting of any two of the following: revenue, cost, preliminary authorized revenue requirement, and adopted authorized revenue requirement. Depending on the purpose of a balancing account, the combination of the two elements varies.

Base on the recovery level or limit, every balancing account is classified under one of these two categories: one-way or two-way balancing account. A one-way balancing account matches actual expenditures against a spending target (or authorized revenue requirement). Often, one-way balancing account limits recovery to the lower of actual expenditures or the amount authorized; shareholders are at risk for amounts spent over authorized amounts. A two-way balancing account compares revenue and expenses, or actual revenue to authorized revenue; and allows over-collections to be refunded and under-collections to be recoverable through rates. A two-way balancing account does not provide for a limit or cap on expenditures. In general, the balance in a one-way or two-way balancing account can either be over- or under-collected depending on the difference between the components recorded in the balancing account. Unless approved otherwise, a balancing account accumulates interests periodically at a rate equal to one-twelfth of the interest rate on three-month commercial paper rate published by the Federal Reserve.

BVES is a division of Golden State Water Company (GSWC), whose parent company is American States Water Company (AWR). BVES served 24,274 electric customers in 2017. As a regulated public utility under the Commission, among other things, BVES is required to comply with and adhere to the Commission's directives, including but not limited to, pertinent rulings and guidelines related to balancing accounts and the related programs. BVES collects and records three kinds of revenues in its balancing accounts: Base Revenue, Supply Revenue, and Public Purpose Program (PPP) surcharges. The Base Revenue and Supply Revenue are grouped together as BVES' total operating revenue. The

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[3] All statutory citations are the California Public Utilities Code (PUC), unless otherwise noted.

PPP surcharges are used to fund BVES' six PPPs including: 1) California Energy Commission renewable technologies (CEC-Renewable) Program, 2) CEC-Research, Development and Demonstration (CEC-RD&D) Program, 3) Energy Saving Assistance (ESA) Program, 4) California Alternate Rates for Energy (CARE) Program, 5) Energy Efficiency (EE) Program, and 6) Solar Initiative (SI) Program.

BVES' last General Rate Case (GRC) Application (A.) 12-02-013 was filed in 2012 for GRC cycle of 2013-2016. The Commission's Decision (D.) 14-11-002, dated November 6, 2014, approved the rate increases. On February 25, 2016, D.16-02-021 approved BVES' request to extend one year of its GRC cycle from 2013-2016 to 2013-2017. In May 2017, BVES filed its GRC application A.17-05-004 to request rate increases for the GRC cycle of 2018-2021. BVES is waiting for the Commission's decision for this application.

The table below summarizes BVES' ten authorized balancing accounts as of December 31, 2017, including the six PPP balancing accounts discussed in the preceding paragraphs.

Table 1. BVES' Balancing Accounts Ending Balances and Authorized Revenue Requirements

Item No.	Name of Balancing Account	Ending Balances as of 12/31/2017 - Under-collection/ (Over-collection)	2017 Authorized Revenue Requirements	References
1.	Base Revenue Requirement Balancing Account (BRRBA)	($832,007)	$20,900,000	D.16-02-021
2.	Supply Cost Balancing Account (SCBA)	($4,566,521)	$13,174,235	D.02-07-041
3.	Pension Balancing Account (PBA)	($1,061,001)	Included into Base Revenue Requirement of GSWC	D.14-11-002
4.	California Alternate Rates for Energy Balancing Account (CAREBA)	$403,277	$273,096	D.14-11-005
5.	Energy Savings Assistance Balancing Account (ESABA)	($685,890)	$229,620	D.14-11-005
6.	Energy Efficiency Balancing Account (EEBA)	$396,910	$200,000 per year, for a total of $1,000,000 from 2013 through 2017. EE Program was closed in 2017.	D.14-11-002; D.16-02-021
7.	Solar Initiative Balancing Account (SIBA)	$618,219	$1,286,350 for a total in eight years starting 2013. The SI Program was closed in 2016.	D.14-11-002
8.	CEC-Renewable Balancing Account (CEC-RBA)	($98,351)	$27,160	Resolution E-4160
9.	CEC-Research, Development and Demonstration Balancing Account (CEC-RD&DBA)	($96,793)	$56,000	Resolution E-4160
10.	Mobile Home Park Balancing Account (MHPBA)	Not reported, nor audited	Established effective August 20, 2014.	Advice Letter 286-E

SCOPE

The scope of this audit covered, but was not limited to, the period from January 1, 2017 to December 31, 2017. The overall objective of the audit was to determine whether BVES complied with the Commission's requirements and directives in billing ratepayers at the approved tariff rates and recording appropriate activities in its balancing accounts. In addition, UAFCB evaluated BVES' effectiveness of internal controls over compliance and recording of its balancing accounts. The following balancing accounts are included in the scope of the audit.

1. Base Revenue Requirement Balancing Account (BRRBA)
2. Supply Adjustment/Cost Balancing Account (SCBA)
3. Pension Balancing Account (PBA)
4. California Alternate Rates for Energy Balancing Account (CAREBA)
5. Energy Saving Assistance Balancing Account (ESABA)
6. Energy Efficiency Balancing Account (EEBA)
7. Solar Initiative Balancing Account (SIBA)
8. CEC-Renewable Balancing Account (CEC-RBA)[4]
9. CEC-Research, Development and Demonstration Balancing Account (CEC-RD&DBA)[4]
10. General Rate Case Balancing Account (GRCBA)[5]

METHODOLOGY

To determine BVES' compliance with the requirements established in the Commission directives and to assess BVES' internal controls over balancing accounts, UAFCB performed, but was not limited to, the following:

1. Reviewed applicable Commission directives and BVES' internal policies and procedures.
2. Reconciled ending balances on the tracking statements to general ledger and Annual Balancing Account and Memorandum Account Reported submitted to UAFCB.
3. Interviewed key personnel at BVES to gain understanding of the accounting and reporting processes related to balancing accounts, billing process, rate development and adjustment process, and regulatory filing process.
4. Evaluated internal control over the balancing accounts.
5. Reviewed GSWC's independent CPA audit report on the annual financial statements to identify risks potentially affecting the UAFCB's audit on BVES' balancing accounts.
6. Performed risk assessment pertaining to the audit of the balancing accounts.
7. Obtained an understanding of the month-end revenue and expenditure accrual methodology.
8. Sample-tested BVES's customer billings to ensure that BVES complied with the Commission's directives, its internal billing policies and procedures, and to ensure that BVES properly billed its customers by using the Commission-approved tariffs.
9. Judgmentally selected and traced 2 or 3 months recorded revenues to the supporting documents to determine if revenues were accurately recorded or allocated to the balancing accounts' monthly tracking statements.

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[4] As noted in Finding 9, BVES did not report CEC-RBA and CEC-RD&DBA in its 2017 Annual Balancing and Memorandum Account Report.

[5] As noted in Finding 9, the establishment of GRCBA has not been authorized by the Commission.

10. Judgmentally selected and traced 2 or 3 months recorded expenditures to the supporting documents to determine if expenditures were properly recorded to the monthly tracking statements of the balancing accounts.
11. Determined the accuracy and legitimacy of the expenditures recorded in the balancing accounts.
12. Evaluated whether the year-end over-collection and under-collection were properly and timely settled.

FINDINGS AND RECOMMENDATIONS

FINDING 1: BVES did not timely refund to the ratepayers the over-collection in the Supply Cost Balancing Account (SCBA).

Condition:
BVES did not refund timely to the ratepayers the over-collection reported in the SCBA which tracks the power procurement related revenue and costs. The SCBA tracking statement discloses an over-collection of $4,555,344 as of December 31, 2017, which represents 34% of prior year revenues recorded in the SCBA tracking statement. The over-collection of $4,555,344 as of December 31, 2017 is comprised of a $1.6 million residual from an on-going amortization/refund, a $1.6 million over-collection incurred from March 2016 to December 2016, and another $1.3 million over-collection incurred from January 2017 to December 2017.

On April 26, 2018, BVES filed AL343-E with the Commission to terminate the refund approved in AL 314-E in 2016. On July 20, 2018, the Commission rejected the request in AL 343-E and directed BVES *"to continue the fund at the current rate through December 31, 218 or until the complete amortization of the balance ($878,541.74) as of April 30, 2018 is achieved, at which point the current refund will cease."*

Criteria:
The preliminary statement of SCBA states in Section 4 that *"The utility may make periodic advice letter filings to revise the Supply Adjustment Charge to reflect the most current status of the Balancing Account."*

Cause:
It is BVES' practice to file ALs to settle the ending balances of the balancing account. However, BVES believed that it did not need to file AL in 2017 to refund the additional over-collection since there was a 24-month amortization/refunding on-going, and also because BVES had filed the General Rate Case (GRC) Application (A.) 17-05-004 for GRC cycle of 2018-2021 in May 2017. On March 29, 2016, BVES filed AL 314-E and attempted to refund an over-collection in the amount of $4,729,499 as of February 28, 2016. The refunding covered a 24- month period from May 1, 2016 through April 31, 2018. After AL 314-E, BVES did not file additional AL with the Commission to refund subsequent over-collection of $2.9 million from March 2016 to December 2017.

Effect:
Not timely refunding the over-collection resulted in higher tariff rate in 2017 for ratepayers.

Recommendations:

- BVES should timely file ALs with the Commission to refund over-collection in the SCBA. Commission directives do not limit a utility's ability to file more than one AL in any given period to refund over-collection to its ratepayers.
- BVES should modify its Balancing and Memorandum Accounts Internal Procedures and Guidelines to ensure that over-collection or under-collection in the SCBA is settled timely.
- BVES should evaluate its current budget estimation method for supply cost and adjust its future budget accordingly.

FINDING 2: BVES did not timely settle over-collection in Pension Balancing Account (PBA).

Condition:
BVES did not timely settle over-collection recorded in its PBA. The informal PBA tracking statement discloses an over-collection in the amount of $1,061,001 as of December 31, 2017. Since the inception of the PBA in 2014, the pension benefits in the general ledger consistently showed accumulated over-collections. The over-collections were not settled by transferring ending balance to the Base Revenue Requirement Balancing Account (BRRBA) as stated in the PBA preliminary statement. Upon UAFCB's inquiry of BVES' intention for the $1,061,001 over-collection, BVES indicated that it was currently drafting an AL to address the over-collection.

Criteria:
The PBA preliminary statement states that *"By March of each year GSWC will transfer any over or under-collection in the PBA, with interest, to the Base Revenue Requirement Balancing account."*

Cause:
The PBA was established in late 2014 for the rate cycle 2013-2016. BVES' opportunities to settle the PBA should have been in March 2016, then again March 2017. The cause for not settling was due to BVES' oversight of the settlement requirement specified on the PBA preliminary statement.

Effect:
Not timely refunding the over-collection resulted in higher tariff rates in 2016 and 2017 for ratepayers.

Recommendations:

- BVES should settle the PBA ending balance in the BRRBA annually as required by the PBA Preliminary Statement.
- BVES should modify its Balancing and Memorandum Accounts Internal Procedures and Guidelines to ensure that the over-collection or under-collection in the PBA is settled timely.

FINDING 3: BVES did not timely settle over-collections in the California Energy Commission (CEC) – Renewable Balancing Account (CEC-RBA) and CEC – Research, Development and Demonstration Balancing Account (CEC-RD&DBA).

Condition:
As of December 31, 2017, the over-collection ending balances of CEC-RBA and CEC-RD&DBA were $98,351 and $96,793, respectively. Since 2008, BVES has continuously carried forward the over-collection balances in these two balancing accounts without filing any request with the Commission to settle them. Compared to their respective annual budgets of $27,160 and $56,000, the over-collections in CEC-RBA and CEC-RD&DBA had been excessive since 2008.

Criteria:
Page 17 of Resolution E-4160 states, in part, that, "*BVES... should amortize overcollected Public Goods Charge (PGC) funds in their applicable public purpose program balancing accounts associated with the reduction in renewables funding required by SB 1036, no later than their next consolidated rate change.*"

Cause:
BVES overlooked the Commission's requirements for settling the ending balances of CEC-RBA and CEC-RD&DBA.

Effect:
Since both CEC-Renewable and CEC-RD&D Programs are Public Purpose Programs (PPPs), the over-collections in the CEC-RBA and CEC-RD&DBA would affect the aggregated PPP surcharge rates. Not timely settling the over-collected ending balances in CEC-RBA and CEC-RD&DBA had resulted in higher PPP surcharge rates billed the ratepayers since 2009.

Recommendations:

- BVES should amortize the over-collections in CEC-RBA and CEC-RD&DBA as required by Resolution E-4160.
- BVES should establish controls in place to ensure that the balancing account ending balances are settled periodically and timely.

FINDING 4: BVES did not timely settle the under-collection in the California Alternate Rates for Energy Balancing Account (CAREBA) and the over-collection in the Energy Savings Assistance Balancing Account (ESABA).

Condition:
BVES did not file ALs with the Commission to settle the under-collection in CAREBA since 2014 even though the Commission ordered BVES, in Ordering Paragraph (OP) 17 of D.14-05-004, to adjust the CARE Program surcharge annually to reflect current activity. The under-collection in CAREBA was $283,011 in 2014, and it continued to increase to $403,277 as of December 31, 2017. The under-collection of $403,277 is around 1.5 times of the annual budget level of $273,096 for the CARE Program in 2017.

In addition, BVES did not file ALs with the Commission to settle the over-collection in ESABA since 2010 even though the Commission ordered BVES, in OP 10 of D.14-05-004, to adjust the ESA Program surcharge annually to reflect current activity. BVES started to have over-collection in ESABA since 2010. The over-collection was $99,717 in 2010, and it continued to increase to $685,890 as of December 31, 2017, with the exception of a slight decrease in 2015. The over-collection of $685,890 is nearly three times of the annual budget level of $229,620 for ESA Program in 2017.

Furthermore, the ending balance of ESABA includes an unrecovered cost of $84,799 in the tracking statement for the 2006-2008 ESA Program cycle. This lingering item should have been resolved in a timely manner.

Criteria:
OP 17 of D.14-05-004, issued on May 1, 2014, states, in part, that "*... Golden State Water Company/Bear Valley Electric... are authorized to make annual adjustments to the Public Purpose*

Program surcharge via advice letter to adjust the California Alternate Rates for Energy Program surcharges to reflect current activity with the initial advice letter to be filed within 60 days of this decision. Subsequent Public Purpose Program surcharge adjustment advice letters, if any, may be filed annually by October 31 with a requested effective date of January 1 of the following year."

The Commission specified similar requirement in OP 10 of D.14-05-004 for adjusting ESA Program surcharges.

Cause:
BVES is waiting for the Commission's approval for the budget for Program Years 2015-2020. In February and March 2015, the Joint Parties including BVES filed applications for approval of their respective CARE and ESA Programs and Budgets for Program Years 2015-2017, which matters are part of the instant consolidated proceeding for small and multi-jurisdictional utilities (SMJUs).[6] On November 21, 2016, the Commission issued D.16-11-022 approving the budgets and goals for the CARE and ESA program for years 2017-2020 for the four largest energy IOUs in California. D.16-11-022 also directed the SMJUs to submit updates to their respective 2015-2017 Applications for continuation of the CARE and ESA programs through program year 2020, including: 1) budget augmentations; 2) homes treated projections; 3) modifications to existing/proposed measures; 4) policy adjustments; and 5) pilot/study proposals. On August 25, 2017, SMJUs filed an updated A.15-02-001 to extend the programs until 2020. Until the cutoff of this report, the request is still pending on the review of Commission. Therefore, BVES did not consider that it is necessary to file an AL to request for settling the ending balances while waiting for approval of a new budget from the Commission.

Effect:
Since both CARE and ESA programs are PPPs, their budget information and the ending balances in CAREBA and ESABA would affect the aggregated PPP surcharge rates. Not timely settling ending balances in CAREBA and/or ESABA resulted in incorrect tariff PPP surcharge rates for ratepayers since 2011.

Recommendations:

- BVES should follow the Commission's requirement to timely settle its ending balance of CAREBA and ESABA.
- BVES should provide disposition to the lingering item recorded in its ESA program cycle of 2006-2008.
- The Commission should approve utilities' budget applications in a timely manner.

FINDING 5: BVES did not use the updated authorized budget for CARE Program to adjust the Public Purpose Program (PPP) surcharge rates nor use the most recent sales data in the rate development calculation.

Condition:
D.14-05-004 dated May 1, 2014 authorized BVES $273,096 annual budget and ordered BVES to adjust the CARE surcharges via advice letter to reflect current activity within 60 days of the decision. However, BVES did not file any subsequent ALs to incorporate the updated CARE Program budget to update the PPP surcharge rates after issuance of new budget of $273,096 authorized by D.14-05-004. Instead, BVES continued to use the prior CARE authorized budget of $172,420 and 2008 sales data to develop the PPP surcharge rates starting 2014. Therefore, the PPP surcharge rates billed to ratepayers

[6] Application (A.) 15-02-001, page 2.

during the audit period were not developed by using the most recent CARE authorized revenue requirement and sales data.

Criteria:
OP 17 of D.14-05-004 on May 1, 2014 states, in part, that "*... Golden State Water Company/Bear Valley Electric... are authorized to make annual adjustments to the Public Purpose Program surcharge via advice letter to adjust the California Alternate Rates for Energy Program surcharges to reflect current activity with the initial advice letter to be filed within 60 days of this decision. Subsequent Public Purpose Program surcharge adjustment advice letters, if any, may be filed* ***annually*** *by October 31 with a requested effective date of January 1 of the following year.*"

PUC, Section 451 states that, "*All charges demanded or received by any public utility, or by any two or more public utilities, for any product or commodity furnished or to be furnished or any service rendered or to be rendered shall be just and reasonable. Every unjust or unreasonable charge demanded or received for such product or commodity or service is unlawful.*"

Cause:
This was due to BVES Management oversight and the reasons outlined in Finding 4 above.

Effect:
Not using the updated authorized annual budget and proper sales data resulted in inaccurate PPP surcharge rates billed to ratepayers starting from 2014.

Recommendation:

- BVES should modify its Balancing and Memorandum Accounts Internal Procedures and Guidelines to ensure that the PPP rates were developed using the most recent authorized revenue requirements and sales data.

FINDING 6: BVES did not use accrual basis of accounting for recording and reporting revenue and PPP surcharges in the balancing accounts.

Condition:
BVES did not record revenue on accrual basis of accounting that is in accordance with generally accepted accounting principles (GAAP) and the Uniform System of Accounts (USOA) of the Federal Energy Regulatory Commission (FERC). BVES did not record the unbilled revenue that had been incurred but were not billed by month-end on its Supply Revenue and PPP surcharges. The revenue or PPP surcharges on balancing accounts were recorded based on billed amounts, which is a permissible practice per the preliminary statements of BVES' balancing accounts. While BVES used accrual basis of accounting to record all costs, it did not use the same basis of accounting to record revenue in balancing accounts.

Criteria:
The General Instructions of FERC USOA states that "*The utility is required to keep its accounts on the accrual basis. This requires the inclusion in its accounts of all known transactions of appreciable amount which affect the accounts. If bills covering such transactions have not been received or rendered, the amounts shall be estimated and appropriate adjustments made when the bills are received.*"

PUC Section 454.5(3)(d)(3) states that *"the commission shall establish power procurement balancing accounts to track the differences between recorded revenues and costs incurred pursuant to an approved procurement plan."*

Cause:
The balancing accounts' preliminary statements, which were submitted by BVES to the Commission for approval, use the term "revenue billed" instead of "revenue incurred". In addition, BVES considered that it could not use unbilled revenue to request for recovery or refund.

Effect:
BVES' inconsistent accounting treatments for revenues and costs could distort the ending balances in the balancing accounts, resulting in incomplete and/or inaccurate information to the Commission and ratepayers. All the balancing accounts that have recorded revenues or PPP surcharges were affected.

Recommendations:

- BVES should work with the Commission to revise its preliminary statements and ensure that the revenues are recorded on accrual basis of accounting consistent with the General Instructions of FERC USOA and PUC, Section 454.5(3)(d)(3).
- BVES should update its accounting procedures and practice to ensure transparency and consistency when reporting expenditures and revenues.

FINDING 7: BVES did not accurately record the Energy Efficiency Balancing Account (EEBA) due to omission of recording $22,040 PPP surcharges in December 2016.

Condition:
BVES did not record $22,040 of PPP surcharges allocated to the EE Program in December 2016 in its EEBA's tracking statement.

Criteria:
PUC Sections 581, 582, and 584 require Utilities to provide complete and accurate data to the Commission.

Cause:
This was due to BVES' Accounting Department's oversight.

Effect:
In its 2017 Annual Balancing Account and Memo Account Report submitted to the Commission, BVES overstated its under-collection balance of $418,951 by $20,040 as of December 31, 2017 due to recording error. The correct balance should have been an under-collection of $396,910 as of December 31, 2017.

Recommendations:

- BVES should correct its records and reports to reflect the correct under-collection balance of $396,910 as of December 31, 2017.
- BVES should demonstrate proper management oversight by evidence of reviewer sign-off on all balancing accounts.

FINDING 8: BVES did not accrue interests on the Ending Balances of Energy Savings Assistance Balancing Account (ESABA), Energy Efficiency Balancing Account (EEBA), Solar

Initiative Balancing Account (SIBA), CEC-Renewable Balancing Account (CEC-RBA) and CEC-Research, Development and Demonstration Balancing Account (CEC-RD&DBA).

Condition:
BVES did not accrue interests on its balances of ESABA, EEBA, SIBA, CEC-RBA and CEC-RD&DBA. In addition, BVES did not record any interests earned from the collected funds nor remitted the earned interests to CEC related to CEC renewable technologies (CEC-Renewable) Program and CEC-Research, Development and Demonstration (CEC-RD&D) Program.

Criteria:
All preliminary statements of ESABA, EEBA, SIBA, CEC-RBA and CEC-RD&DBA have the same description related to interest accrual that *"Interest should accrue to the balancing account on a monthly basis by applying a rate equal to 1/12 of the 3-month Commercial Paper (prime, 3 months) Rate, as reported in the Federal Reserve Statistical Release, to the average of the beginning-of-month and the end-of-month."*

In addition, for the CEC-RBA and CEC-RD&DBA, OP 3 of Resolution E-4160 states that *"Monies for the Renewables and RDD programs shall continue to be forwarded quarterly to the CEC, along with interest earned on collected funds, consistent with the treatment of these funds in Public Utilities Code §381. "*

The PUC Section 381 states, in part, that, *"... The commission shall allocate funds collected pursuant to subdivision (a), and any interest earned on collected funds, to programs that enhance system reliability and provide in-state benefits as follows: ... (2) Public interest research and development not adequately provided by competitive and regulated markets. (3) In-state operation and development of existing and new and emerging eligible renewable energy resources ..."*

Cause:
The omission is due to BVES' oversight of the interest accrual in the recording.

Effect:
The IOU was not in compliance with the interest requirements on the preliminary statements. The affected balancing accounts are ESABA, EEBA, SIBA, CEC-RBA and CEC-RD&DBA.

Recommendations:

- BVES should strictly follow its preliminary statements in recording accrued interest.
- BVES should record and remit to the CEC quarterly the earned interests from the collected funds allocated to the CEC-Renewable Program and CEC-RD&D Program, along with the quarterly payments of program funds to the CEC.

FINDING 9: BVES did not include the information of the CEC-RBA, the CEC-RD&DBA, and the Mobile Home Park balancing account (MHPBA) in its 2017 Annual Balancing and Memorandum Accounts Report submitted to the Commission. On the contrary, BVES reported General Rate Case Balancing Account (GRCBA) that has not been authorized by the Commission in its 2017 Annual Balancing and Memorandum Accounts Report.

Condition:
BVES omitted the reporting of the CEC-RBA, the CEC-RD&DBA, and the MHPBA in its 2017 Annual Balancing Account and Memo Account Report submitted to the Commission. BVES had

requested and obtained the Commission's authorization of the CEC-RBA and CEC-RD&DBA to establish rates to fund public purpose programs related to renewable resource technologies. The Commission approved the preliminary statements of CEC-RBA and CEC-RD&DBA, but BVES did not report the two balancing accounts in its Annual Report. Similarly, the preliminary statement of MHPBA was approved by the Commission, but BVES did not report the MHPBA in its 2017 Annual Report even though it recorded $1,458,000 MHP Program expenditures as of December 31, 2017 in its general ledger.

BVES reported General Rate Case Balancing Account (GRCBA) in its 2017 Annual Balancing and Memorandum Accounts Report. However, the GRCBA was not authorized by the Commission. The GRCBA should not be included in the Annual Report since the establishment of GRCBA was not authorized.

Criteria:
PUC Sections 581, 582, and 584 require Utilities to provide complete and accurate data to the Commission.

Cause:
BVES did not consider the CEC-RBA and CEC-RD&DBA as true balancing accounts; thus, it did not include them in its 2017 Annual Report.

For the MHPBA, BVES explained that there was only one mobile home park upgrade completed as of January 2018. BVES' Accounting Department had not yet closed the work orders related to this project. Therefore, it did not report the MHPBA in its 2017 Annual Report.

BVES explained that the GRCBA represents regulatory asset related to its GRC filing costs rather than a true balancing account. The GRC application costs could be recovered; therefore, it recorded the costs in the GRCBA.

Effect:
BVES' 2017 Annual Balancing and Memorandum Accounts Report, which is a matter of public record, did not accurately reflect the information of the balancing accounts.

Recommendations:
- BVES should report the CEC-RBA, CEC-RD&DBA, and MHPBA in the Annual Balancing and Memorandum Accounts Report submitted to the Commission.
- BVES should remove the GRCBA from the balancing accounts related reports.

FINDING 10: Rate schedule and preliminary statements of balancing accounts contained clerical errors and do not fully reflect BVES's current practice.

Condition:
The rate schedule No. DMS only showed the PPP surcharge of $0.00738/kWh for Non-CARE customers. It did not list the PPP surcharge rate of $0.00518/kWh for CARE customers. Nevertheless, UAFCB's testing of BVES' customer billings showed that BVES properly used the PPP surcharge rate of $0.00518/kWh to charge CARE customers during the audit period.

In addition, the BRRBA Preliminary Statement required that, *"The interest rate equal to 1/12 of the interest rate on three-month Commercial Paper for the previous month as reported in the Federal*

Reserve Statistical Release." However, UAFCB noted during the audit that BVES used the 90-day Commercial Paper rates for current month to calculate interest for all balancing accounts. BVES should update its BRRBA Preliminary Statement to reflect its current practice.

Criteria:
PUC Sections 581, 582, and 584 require Utilities to provide complete and accurate data to the Commission.

Cause:
This was due to management's overlook of the public documents.

Effect:
The tariff sheets and preliminary statements are public documents, but they did not present the accurate BA related information.

Recommendations:

- BVES should include the PPP surcharge rate for CARE customers in its tariff sheet with Rate Schedule No. DMS.
- BVES should update its BRRBA's Preliminary Statement to reflect its current practice.
- BVES should strengthen its internal control over its internal policies and procedures over the balancing accounts.

CONCLUSION

In conducting our audit, UAFCB obtained a reasonable understanding of BVES' internal controls, which were considered relevant and significant within the context of our audit objectives. UAFCB does not provide any assurance on BVES' internal control. Deficiencies in internal control that were identified during the audit and determined to be significant were communicated to BVES' management.

BVES' management is responsible for the development of its policies and procedures to ensure that its BAs were reported accurately and timely. The Commission shall ensure the transactions recorded in the balancing accounts are for allowable purposes and are supported by appropriate documentation.

UAFCB conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to afford a reasonable basis for our findings and conclusions based on our audit objectives. UAFCB believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our limited audit objectives.

UAFCB determined that, except for the non-compliance items noted in the Findings and Recommendation section, BVES has complied, in all material respects, with the recording and reporting requirements for its balancing accounts during the audit period of January 1, 2017 to December 31, 2017.

The report is intended solely for the information and use of the Commission and BVES and is not intended to be and should not be used by anyone other than these specified parties.

Barbara Owens, CIA, CISA, CGAP, CRMA
Director, Enterprise Risk and Utility Audits

cc: Ed Randolph, Director, Energy Division
Simon Baker, Deputy Director, Energy Division
Dorothy Duda, Manager, Energy Division
Elizabeth Echols, Director, Public Advocates Office
Raymond Yin, Supervisor, UAFCB
Mabel Wu, Auditor, UAFCB
Bixia Ye, Auditor, UAFCB

Appendices

APPENDIX A
Applicable Rules and Regulations

Rule/Regulation Types	Reference	Description
Public Utility Code	Section 314.5	Guidance providing the Commission the authority to inspect and audit the books and records for regulatory and tax purposes.
	Section 314.6 (b)	The commission shall complete any audit in a timely manner consistent with the Generally Accepted Government Auditing Standards.
	Section 381	Guidance mandating the utilities allocate funds collected and interests earned on collected funds to programs that enhance system reliability and provide in-state benefits.
	Section 451	Guidance mandating that all charges demanded or received by any public utility shall be just and reasonable.
	Section 454.5 (d). (3)	Guidance mandating that the Commission to ensure timely recovery of prospective procurement costs incurred pursuant to an approved procurement plan.
	Section 581	Guidance providing the Commission the authority to require a utility to file complete and correct reports in prescribed form and detail.
	Section 582	Guidance providing the Commission the authority to require a utility to provide applicable records timely.
	Section 584	Guidance providing the Commission the authority to require a utility to furnish reports to the Commission.
	Section 792.5	Guidance providing the Commission the authority to review a utility's balancing accounts to ensure that transactions recorded in the balancing accounts are for allowable purposes and are supported by appropriate documentation.
	Section 910.7	Guidance requires the commission shall annually provide the Legislature with an update on the status of its review of public utilities' balancing accounts and shall provide this update as part of its annual report.
Decisions (D.) & Rulemaking	D.14-05-004	Approving small and multijurisdictional utilities' 2012-2014 Energy Savings Assistance Program and California Alternate Rates for Energy Program and budgets.
	D.14-11-002	Decision resolving Bear Valley Electric Service Division for Approval of Costs and Authority to Increase General Rates and Other Charges for Electric Service for GRC cycle of 2013-2016.
	D.14-11-005	Decision adopting month-to-month bridge funding starting from January 1, 2015 for SMJUs' Energy Savings Assistance Program and California Alternate Rates for Energy Program.
	D.16-02-021	Decision granting petition to modify D.14-11-002 to extend GRC cycle of 2013-2016 to 2013-2017 and extend current rates for one year to 2017.
	D.16-11-022	Approving budgets and goals for the Energy Savings Assistance Program and California Alternate Rates for Energy Program for years 2017-2020 for the large IOUs.
	Resolution E-4160	This Resolution implements SB 1036 in the following ways: 1) Directs the IOUs to adjust their respective PPP rate components collecting the PGC; 2) Directs the IOUs to amortize funds transferred from the New Renewable Resources Account in their Public Purpose Program rate component; 3) Directs BVES to establish an account to record unencumbered renewable funds transferred from the CEC back to BVES.
Advice Letters (ALs)	AL 286-E	Establish Mobile Home Park Balancing Account.
Applications (A.)	A.12-02-013	Application for approval of costs and increase in rates and certain other charges for GRC cycle of 2013-2016.
	A.15-02-001	SMJUs' joint application for 2015-2020 Energy Savings Assistance Program and California Alternate Rates for Energy Program and budgets.
	A.17-05-004	Application for approval of costs and increase in rates and certain other charges for GRC cycle of 2018-2021.
Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts (USOA)	General Instruction #11. A	Requires the utility to keep its accounts on the accrual basis.

APPENDIX B

Summary of Reported Ending Balances of BVES' Balancing Accounts from Year 2008 Through 2017 [1]

Account Name	2008 EOY	2009 EOY	2010 EOY	2011 EOY	2012 EOY	2013 EOY	2014 EOY	2015 EOY	2016 EOY	2017 EOY
Base Revenue Requirement Balancing Account (BRRBA)	$0	$106,377	$1,889,488	$4,053,255	$6,832,778	$8,724,637	$7,760,897	$3,714,019	$1,376,706	($832,007)
Supply Cost Balancing Account (SCBA)	$16,077,170	$13,111,435	$10,304,961	$8,347,401	$5,558,243	$3,645,181	($1,040,876)	($4,059,687)	($5,155,018)	($4,566,521)
Pension Balancing Account (PBA)	N/A	N/A	N/A	N/A	N/A	N/A	($124,094)	($318,901)	($616,517)	($1,061,001)
California Alternate Rates for Energy Balancing Account (CAREBA)	$340,508	$346,336	$309,382	$323,107	$305,226	$273,691	$283,011	$337,414	$379,079	$403,277
Energy Saving Assistance Balancing Account (ESABA)	$226,421	$48,474	($99,717)	($235,632)	($273,711)	($400,079)	($486,938)	($444,921)	($536,873)	($685,890)
Solar Initiative Balancing Account (SIBA)	N/A	N/A	N/A	N/A	N/A	N/A	$7,736	$666,960	$770,676	$618,219
Energy Efficiency Balancing Account (EEBA) [2]	N/A	N/A	N/A	N/A	N/A	N/A	$163,009	$286,927	$403,523	$396,910
CEC-Renewable Balancing Account (CEC-RBA)	($69,090)	($104,976)	($105,139)	($105,329)	($104,158)	($103,464)	($101,151)	($100,659)	($99,540)	($98,351)
CEC-Research, Development and Demonstration Balancing Account (CEC-RD&DBA)	($69,007	($112,922)	($112,941)	($113,025)	($110,302)	($108,557)	($103,495)	($102,165)	($99,551)	($96,793)
Mobile Home Park Balancing Account (MHPBA)	MHPBA was established in 2014 (Advice Letter 286-E). BVES did not report this balancing account until 2017.									

Notes:

[1] Negative amounts denote over-collection and positive amounts denote under-collection.

[2] The EEBA ending balance of $396,910 as of December 31, 2017 included an UAFCB adjustment of $22,040 to correct recording error by BVES.

APPENDIX C
Purpose of BVES' Ten Balancing Accounts

Item No.	Description of Balancing Account	Purpose
1.	Base Revenue Requirement Balancing Account (BRRBA)	The purpose of the BRRBA is to record the difference between BVES adopted Base Revenue Requirements and the recorded revenues from base rates.
2.	Supply Cost Balancing Account (SCBA)	The SCBA is to record the difference between the accumulated billings of the Transmission Charge, the Supply Charge and the Supply Adjustment Charge, and the accumulated accrued Transmission Costs and Supply Costs.
3.	Pension Balancing Account (PBA)	The purpose of the PBA is to track the difference between Pension costs allocated to BVES by the Commission in the most recent General Rate Case application for GSWC and Actual BVES pension costs based on Accounting Standard Codification 715-10 ("ASC 715-10"), Compensation - Retirement Benefits.
4.	California Alternate Rates for Energy Balancing Account (CAREBA)	The purpose of this account is to track the PPP surcharge funds produced by the PPC-OLI Tariff allocable to CARE, and CARE programs costs. The CARE Program provides a discounted rate for eligible CARE ratepayers and non-profit group living facilities.
5.	Energy Saving Assistance Balancing Account (ESABA)	The purpose of the ESABA is to track the PPP surcharge funds allocable to the ESA Program and ESA Program costs. It is a one-way balancing account.
6.	Energy Efficiency Balancing Account (EEBA)	The purpose of the EEBA is to track the PPP surcharge funds allocable to the EE Program and Program costs. It is a one-way balancing account.
7.	Solar Initiative Balancing Account (SIBA)	The purpose of the SIBA is to track the PPP surcharge funds allocated to the SI Program and SI Program costs. It is a one-way balancing account.
8.	CEC-Renewable Balancing Account (CEC-RBA)	The purpose of this account is to record the revenues and expenses associated with Commission authorized payments for CEC Renewable Energy Program (Renewables).
9.	CEC-Research, Development and Demonstration Balancing Account (CEC-RD&DBA)	The purpose of this account is to record the revenues and expenses associated with Commission authorized payments for CEC RD&D Program.
10.	Mobile Home Park Balancing Account (MHPBA)	The purpose of this account is to record and recover the actual incurred costs of implementing the voluntary program to convert the electric master-meter/sub-meter service at mobile home parks and manufactured housing communities to direct service by BVES. The costs associated with the entries in the MHPBA shall include incremental incurred expenses for both "to the meter" and "beyond the meter" capitalized costs and ongoing incremental Operation and Maintenance (O&M) expenses. Actual construction costs for each MHP conversion shall be entered into a balancing account and recovered in the year immediately following service cut over for that MHP.

BVES' Response

Golden State
Water Company
A Subsidiary of American States Water Company

November 16, 2018

Ms. Barbara Owens
Director, Enterprise Risk and Utility Audits
California Public Utilities Commission
180 Promenade Circle, Suite 115
Sacramento, CA 95835

RE: Balancing Account Audit, Bear Valley Electric Service

Dear Ms. Owens

Bear Valley Electric Service (BVES) appreciates the opportunity to provide comments on the Balancing Account Audit Draft Report issued by the Utility Audit, Finance and Compliance Branch. The Draft Report was provided to BVES on November 1, 2018.

BVES appreciates the work by the audit team from the UAFC Branch. Your team conducted themselves at all times in a courteous and professional manner.

As a general matter, BVES is satisfied with the results of the audit which determined that, except for a few minor exceptions, BVES has complied in all material respects with the recording and reporting requirements for its balancing accounts during the audit period of January 1, 2017 to December 31, 2017.

Although BVES is content with the overall results of the audit, BVES does not agree with all of the individual findings of non-compliance identified in the Draft Report. Of the ten findings in the *Findings and Recommendations* section of the Draft Report, BVES does not dispute four of the findings. On four others, BVES does not necessarily object to the finding, but does provide significant comment herein as to how they are being portrayed. Lastly, BVES disputes two of the findings in the Draft Audit and will provide substantial comments explaining its disagreement.

FINDINGS THAT BVES DOES NOT DISPUTE

BVES does not dispute or object to Findings 2, 3, 9, and 10 in the Draft Report. BVES does provide the following limited comments to each of these five findings:

Finding 2: BVES did not timely settle over-collection in the Pension Balancing Account (PBA).

<u>BVES Comment</u>: BVES acknowledges the missed opportunities to settle the PBA in 2016 and 2017. BVES intends to dispose of the cumulative balance through year-end 2018 with the disposition of the Base Rate Revenues Balancing Account.

630 E. Foothill Blvd., San Dimas, CA 91773
Tel: (909) 394-3600 • Fax: (909) 394-1382 • www.gswater.com

Ms. Barbara Owens
Director, Enterprise Risk and Utility Audits
California Public Utilities Commission
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Finding 3: BVES did not timely settle the over-collections in the California Energy Commission (CEC)-Renewable Balancing Account (CEC-RBA) and CEC-Research, Development and Demonstration Balancing Account (CEC-RD&DBA)

BVES comment: BVES agrees with the Finding and will remit the balance, with interest, to the California Energy Commission.

Finding 9: BVES did not include the information of the CEC-RBA, CEC-RD&DBA, and the Mobile Home Park Balancing Account (MHPBA) in its 2017 Annual Balancing and Memorandum Accounts Report submitted to the Commission. On the contrary, BVES reported General Rate Case Balancing Account (GRCBA) that has not been authorized by the Commission in its 2017 Annual Balancing and Memorandum Account Report.

BVES comment: BVES agrees with the Finding and will correct the reporting mistakes going forward.

Finding 10: Rate Schedule and Preliminary Statements of balancing accounts contained clerical errors and do not fully reflect BVES' current practice.

BVES comment: BVES will correct the clerical errors in its tariff schedule and preliminary statement

ADDITIONAL NON-DISPUTED FINDINGS WITH BVES COMMENTS

In addition to the four non-disputed items listed above, BVES does not dispute Findings 4, 5, 7, and 8, but does wish to provide comments and clarifications on these Findings.

Finding 4: BVES did not timely settle the under-collection in the California Alternate Rates for Energy Balancing Account (CAREBA) and the over-collection in the Energy Savings Assistance Balancing Account (ESABA).

BVES Comment: In response to an early draft of this finding, BVES explained that until the Commission issued a final decision adopting appropriate budgets, it was impractical for BVES to dispose of any possible over-collection balances. BVES appreciates that the "Cause" section of the Draft Report has been expanded in response to BVES's earlier comments to acknowledge that BVES was waiting for Commission approval. A timely decision by the Commission would have resulted in an earlier disposition of the balances by BVES. BVES is of the view that this Finding could have been removed entirely from the Report.

Ms. Barbara Owens
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Finding 5: BVES did not use the updated authorized budget for the CARE Program to adjust the Public Purpose Program (PPP) surcharge rates nor use the most recent sales data in the rate development calculation.

BVES Comment: BVES does not dispute the fact that the PPP surcharge rates in the GRC application A.12-02-013 were developed based on the adopted budgets for the years 2009-2012. Nor does BVES dispute the assertion in the Draft Report that the PPP surcharge for 2014 should have been based on the budgets adopted in D.14-05-004. BVES disagrees however with the statement from the Draft Report that the cause for rates based on outdated data "was due to BVES Management oversight". At the time that BVES filed its GRC application, BVES used the most recently adopted budget data for the PPP surcharge. BVES filed its GRC in February 2012; the 2014 budgets were not adopted until May 2014. It was not BVES's oversight that caused the timing issue.

Finding 7: BVES did not accurately record the Energy Efficiency Balancing Account (EEBA) due to the omission of recording $22,040 PPP surcharges in December 2016.

BVES Comment: BVES acknowledges that the under-collection balance reported on the EEBA was over-reported by the amount of $22,040 due to the omission of the PPP surcharge revenues. However, the over-reported amount was an inadvertent error in reporting only, and did not affect the balance recorded in BVES's accounting records for this account. Moreover, BVES notes that the EEBA is a one-way balancing account that tracks BVES spending on the EE program. Because BVES spent more on the EE program than what was authorized for rate recovery, the over-collection balance in the EEA is not recoverable from BVES customers. Therefore, this reporting error did not impact any interest calculations since the balance is not recoverable.

Finding 8: BVES did not accrue interests on the ending balances of the Energy Savings Assistance Balancing Account (ESABA), Energy Efficiency Account (EEBA), Solar Initiative Balancing Account (SIBA), CEC Renewable Balancing Account (CEC-RBA), and CEC-Research, Development and Demonstration Balancing Account (CEC-RD&DBA).

BVES comment: BVES agrees with the Finding regarding the ESABA, the CEC-RBA, and the CEC-RD&DBA, and will calculate and include interest on the balance in those three accounts. With regards to the other two accounts, the EEBA and the SIBA, BVES disagrees with the recommendation to calculate interest on the balance. These two accounts are one-way balancing accounts, and BVES's spending for each account has exceeded the authorized level to be recovered in rates. Since BVES is not entitled to recover the under-collection balance due to the nature of the account, BVES believes it would be inappropriate to accrue interest on the balance.

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DISPUTED FINDINGS

BVES does dispute Findings 1 and 6. BVES provides the reasons for its dispute with each of these findings below.

Finding 1: BVES did not timely refund to the ratepayers the over-collection in the Supply Cost Balancing Account (SCBA).

BVES Response: BVES strongly disputes the finding that it has not been timely in addressing the over-collection balance in the Supply Cost Balancing Account. BVES believes that The Draft Report contains certain factual errors, it mis-characterizes BVES actions to address the over-collection, and it demonstrates a lack of procedural understanding. In addition, BVES questions the authority for the conclusion that BVES has not acted timely.

Factual errors: The Draft Report notes that the over-collection balance as of December 31, 2017 was \$4,555,344, which, according to the Draft Report, "represents 34% of prior year revenue". There are two errors with the Draft Report's presentation. First, BVES's annual revenues in 2016 were approximately \$35 million... The over-collection balance of \$4.5 million is 13% of 2016 annual revenues, not 34% as stated in the Draft Report. Secondly, as the Draft Report acknowledges, approximately \$1.6 million of the over-collection balance was being refunded via a sur-credit approved in March 2016. Consequently, the net un-addressed over-collection balance at year end 2017 was approximately \$2.9 million, which is approximately 8% of annual revenues. The Draft Report overstates by a factor of 4 times the relative magnitude of the over-collection.
BVES Actions to Address Over-Collection Balances: The SCBA was consistently in an under-collection position from 2001 until mid-year 2014. Once that situation changed and the balance moved into an over-collection position in September 2014, BVES has consistently filed timely advice letters to address the over-collection balance in the SCBA.

The Draft Report identifies one advice letter (Advice Letter 314 filed in March 2016) filed by BVES to address the over-collection in the SCBA. By limiting its discussion to the one advice letter, the Draft Report implies that BVES has not been diligent in addressing the over-collection balance. In fact, BVES has actually filed five advice letters addressing the over-collection balance since September 2014 when the account moved into an over-collection position. Those advice letters are summarized as follows:

- Advice Letter 289 filed in October 2014 to terminate the existing surcharge and to refund the over-collection balance of \$217,095 (This AL was rejected by Energy Division)
- Advice Letter 290 filed in November 2014 to terminate the existing surcharge
- Advice Letter 300 filed in March 2015 to refund the over-collection balance of \$868,362
- Advice Letter 304 filed in July 2015 informing the Commission of the over-collection balance of \$2.9 million
- Advice Letter 314 filed in March 2016 to refund the over-collection balance of \$4,729,499

As this list demonstrates, BVES has made five advice letter filings since September 2014 notifying the Commission and addressing the over-collection balance in the SCBA. The Commission has never informed BVES that the timing of its filings was inappropriate. Given the history of consistently addressing the over-collection balance, it seems inappropriate for the Draft Report to conclude otherwise.

Lack of Procedural Understanding: Two aspects of the Draft Report indicate a lack of understanding on the part of the audit team. First, the Draft Report states "After AL314-E, BVES did not file additional AL with the Commission to refund subsequent over-collection of $2.9 million from March 2016 to December 2017". However, BVES did file a general rate case application (GRC) in May 2017 (as noted in the Draft Report), and the review of the balance in the SCBA was an issue to be resolved as part of the GRC. Furthermore, BVES and ORA reached a Stipulation in the GRC regarding the balance and the disposition of the balance. As such, an advice letter filing was unnecessary. Second, the Draft Report recommends that "BVES should evaluate its current budget estimation method for supply costs and adjust its future budget accordingly." The audit team should understand that the recovery of supply costs is determined in a GRC, based on supply cost contracts in place at the time of the GRC. It has been BVES's experience that the Energy Division and the Commission have been reluctant to adjust the supply costs in rates outside of a GRC. Thus, the recommendation to adjust budgets accordingly is not practical within the rate-setting model used by the Commission.

Authority for Finding: The Draft Report does not cite to any authority for its conclusion that BVES's actions regarding the disposition of the over-collection balance has not been timely. BVES was provided a set of preliminary findings which indicated that BVES was out of compliance with Public Utilities Code Section 454.5(d).(3). In response, BVES provided documentation showing that BVES had been granted an exemption from PUC Section 454.5. This Draft Report removed the citation to PUC Section 454.5, but did not alter the conclusion regarding non-compliance in any significant manner. In addition, there is no mention in the Draft Report of the exemption from Section 454.5. BVES believes that its actions of filing five advice letters in four years refutes any notion that BVES has not acted timely.

Finding 6: BVES did not use accrual basis of accounting for recording and reporting revenue and PPP surcharges in the balancing accounts.

BVES Response: BVES strongly disagrees with this finding and the audit team's statement that "*BVES did not record revenue on accrual basis of accounting that is in accordance with generally accepted accounting principles (GAAP) and the Uniform System of Accounts (USOA) of the Federal Energy Regulatory Commission (FERC). BVES did not record the unbilled revenue that had been incurred but were not billed by month-end on its Supply Revenue and PPP surcharges.*" As explained to the audit team, BVES does maintain its accounting records and recognizes revenues on an accrual basis in accordance with GAAP. In fact, as of December 31, 2017, Golden State Water Company had approximately $18.9 million of unbilled receivables. Of this amount, approximately $1.1 million related to unbilled receivables for BVES. As an investor-owned utility and publicly traded company, the Company's books and records are subject to annual audits by an Independent Registered Public Accounting Firm. The last annual audit covered the year ended December 31, 2017 for which a clean audit opinion/report was received. In that annual report, revenue recognition is disclosed and considered one of the *"Critical Accounting Policies and Estimates"*, which receives a lot of attention and focus during the annual audits. Any non-compliance with GAAP in the revenue recognition area would have been disclosed. Therefore, to say that BVES does not record revenue on an accrual basis is inaccurate and perhaps shows a lack of complete understanding by the audit team over BVES's various regulatory mechanisms approved by the CPUC (described further below).

BVES accrues for expenses incurred but not yet invoiced, and records unbilled receivables, which represent estimated customer usage through the end of a reporting period not yet billed. GAAP requires rate-regulated entities, such as BVES, to follow the industry-specific accounting guidance under the Financial Accounting Standards Board's Accounting Standards Codification Topic 980 *"Regulated Operations"* (ASC 980). A regulated utility should comply with GAAP applicable to entities in general in regards to its accounting and financial reporting. However, if a regulated utility is also subject to the GAAP standard ASC 980, then the applicable provisions under ASC 980 are applied as an adjustment to or in lieu of other GAAP. BVES records its revenues pursuant to CPUC-authorized rates and policies, which is in accordance with the GAAP standard ASC 980.

The CPUC authorizes BVES to maintain a Base Revenue Requirement Adjustment Mechanism ("BRRAM"), which is an alternative revenue program as defined by GAAP, and is subject to ASC 980. The purpose of the BRRAM is to track the difference between the CPUC's authorized base revenue requirement for BVES, and the recorded revenue from base rates. If the recorded base revenue for a given period is higher than the authorized base revenue requirement, an over-collection is recorded in the BRRAM, with a corresponding decrease to revenue, in order for base revenues to equal the CPUC-authorized revenue requirement. Conversely, if the recorded revenue for a given period is lower than the authorized base revenue requirement, an under-collection is recorded in the BRRAM with a corresponding increase to revenue to bring recorded revenues equal to the revenue requirement. As a result of the BRRAM, BVES records its base revenues in its Statement of Income equal to the authorized adopted base revenue requirement. The corresponding entries to those recorded in the Statement of Income are reflected on the Balance Sheet as either Billed Accounts Receivable, Unbilled Receivable or a Regulatory Asset (e.g., BRRAM). The interplay between these accounts is only a matter of timing and reverse over time. If BVES was to record additional revenues, as suggested by the audit team, it would be in violation of GAAP, as BVES is not authorized by the CPUC to record higher (or lower) base revenues than the authorized revenue requirement. As previously noted, BVES does reflect unbilled usage as an increase in receivables (unbilled receivables), all while maintaining recorded revenues at the amount consistent with the CPUC's authorized revenue requirement. Any deviation not authorized by the CPUC would be a violation of GAAP (ASC 980).

During discussions with the audit team, there seemed to be understanding of BVES's GAAP accounting positions and requirements, and even acknowledgement that there is diversity in practice for how utilities account for unbilled usage. However, this observation should not result in an audit finding that BVES is in violation of GAAP. If the Commission has concerns regarding this diversity in practice for unbilled usage, it should be addressed on an industry-wide basis.

CONCLUSION

In conclusion, BVES is appreciative of the overall results of this audit, namely that BVES has complied, in all material respects, with the recording and reporting requirements for its balancing accounts. As noted in this letter, BVES disagrees with two of the audit Findings, and does not dispute the other eight Findings.

Thank you again for the opportunity to provide our comments on the Draft Report.

Sincerely

Keith Switzer
Vice President, Regulatory Affairs
Golden State Water Company

cc: Mabel Wu
Raymond Yin
Bixia Ye

Evaluation of Responses

BVES' responses to UAFCB's draft report have been reviewed and incorporated into our final report. In evaluating BVES' responses, we provide the following comments:

FINDING 1: BVES did not timely refund to the ratepayers the over-collection in the Supply Cost Balancing Account (SCBA).

BVES disputed the audit finding and alleged that the Draft Report contains certain factual errors, mis-characterization of BVES' actions, and lack of procedural understanding. We address BVES' comments below.

UAFCB clarifies that the "34% of prior year revenue" mentioned in the draft report represents the Supply Cost Balancing Account revenues recorded in 2016. UAFCB revised its final report to read "34% of prior year revenues recorded in the SCBA tracking statement."

BVES states that the *"Draft Report identifies one advice letter (Advice Letter 314 filed in March 2016) filed by BVES to address the over-collection in the SCBA. By limiting its discussion to the one advice letter, the Draft Report implies that BVES has not been diligent in addressing the over-collection balance. In fact, BVES has actually filed five advice letters addressing the over-collection balance since September 2014 when the account moved into an over-collection position."* Under the Cause section of this finding, UAFCB's Draft Report had already stated that *"It is BVES' practice to file ALs to settle the ending balances of the balancing account."* Thus, UAFCB determines that there is no need for modification.

Although BVES filed the application for GRC cycle of 2018-2021 in May 2017, it does not prevent BVES from filing additional advice letters to settle the over-collections in 2017. BVES also commented that *"Furthermore, BVES and ORA reached a Stipulation in the GRC regarding the balance and the disposition of the balance. As such, an advice letter filing was unnecessary. ... It has been BVES' experience that the Energy Division and the Commission have been reluctant to adjust the supply costs in rates outside of a GRC."* We consider that BVES' statements contradict with the instructions in the SCBA Preliminary Statement Section L. (4) and (5). Section L. (4) of the Preliminary Statement states that *"The utility may make periodic advice letter filings to revise the Supply Adjustment Charge to reflect the most current status of the Balancing Account."* Section L. (5) of the Preliminary Statement states that *"Not more often than once per year, the utility may file an application to revise the Transmission Charge and/or Supply Charge to recover in rates the most current estimates of its Transmission Costs and/or Supply Costs."* If there is any non-current information in the Preliminary Statement, BVES should have updated it and obtained approval from the Commission.

BVES also commented that *"The Draft Report does not cite to any authority for its conclusion that BVES's actions regarding the disposition of the over-collection balance has not been timely. BVES was provided a set of preliminary findings which indicated that BVES was out of compliance with the Public Utilities Code Section 454.5(d)(3). In response, BVES provided documentation showing that BVES had been granted an exemption from PUC Section 454.5. This Draft Report removed the citation to PUC Section 454.5, but did not alter the conclusion regarding non-compliance in any significant manner. In addition, there is no mention in the Draft Report of the exemption from Section 454.5. BVES believes that its actions of filing five advice letters in four years refutes any notion that*

BVES has not acted timely." UAFCB disagrees with BVES' comments because the SCBA preliminary statement is the basis we used to evaluate BVES' compliance. PUC Section 454.5 is not a relevant criterion in this case, nor it was included or cited in our report. BVES' contention in this regard is moot.

FINDING 2: BVES did not timely settle over-collection in Pension Balancing Account (PBA).

BVES did not dispute this finding.

FINDING 3: BVES did not timely settle over-collections in the California Energy Commission (CEC) – Renewable Balancing Account (CEC-RBA) and CEC – Research, Development and Demonstration Balancing Account (CEC-RD&DBA).

BVES did not dispute this finding. However, UAFCB reminds BVES that it should incorporate the over-collections in the CEC-RBA and CEC-RD&DBA in its PPP surcharge rates as required by Resolution E-4160. The over-collections should not be remitted to CEC.

FINDING 4: BVES did not timely settle the under-collection in the California Alternate Rates for Energy Balancing Account (CAREBA) and the over-collection in the Energy Savings Assistance Balancing Account (ESABA).

BVES did not dispute this finding but provided comments. UAFCB understands that BVES was waiting for the Commission's decision for the 2015-2017 CARE and ESA Programs' budget. However, OPs 10 and 17 of D.14-05-004 order BVES to adjust the PPP Surcharge annually to reflect CARE and ESA Programs' current activity. In addition, D.14-11-005, issued on November 6, 2014, authorized SMJUs to continue their ESA and CARE Programs from January 1, 2015, on a month-to-month basis, at the 2014 authorized budget levels until the Commission adopts a final decision approving each of the SMJU's 2015-2017 ESA and CARE Programs and Budgets Applications. D.14-11-005 further indicates that, *"The month-to-month bridge funding for the SMJUs for their ESA and CARE Programs allows the SMJUs to develop rates effective January 1, 2015."*

Even if the Commission has not issued a final decision on the ESA and CARE Programs, BVES still had applicable budget information for those Programs to comply with OPs 10 and 17 of D.14-05-004; but BVES failed to do so.

FINDING 5: BVES did not use the updated authorized budget for CARE Program to adjust the Public Purpose Program (PPP) surcharge rates nor use the most recent sales data in the rate development calculation.

BVES did not dispute this finding but provided comments. BVES commented that *"At the time that BVES filed its GRC application, BVES used the most recently adopted budget data for the PPP surcharge. BVES filed its GRC in February 2012; the 2014 budgets were not adopted until May 2014. It was not BVES' oversight that caused the timing issue."* UAFCB disagreed. OP 17 of D.14-05-004 on May 1, 2014 ordered BVES to make annual adjustments to the PPP surcharge to adjust the CARE Program surcharges to reflect the current activity. BVES did not file any advice letter to incorporate the 2014 budget information to adjust the CARE Program Surcharge Rates since May 2014 even though the Commission had issued D.14-05-004 for the adopted 2012-2014 CARE Program budget. As a result, the PPP rates billed to customer beginning mid-2014 through the end of 2017 contained outdated CARE budget information.

FINDING 6: BVES did not use accrual basis of accounting for recording and reporting revenue and PPP surcharges in the balancing accounts.

BVES disagreed with this finding. UAFCB would like to remind BVES that our audit scope is limited to the balancing accounts' reports that BVES filed with the Commission. Any revenues and expenditures being referenced to in our draft report are those recorded in the tracking statements of balancing accounts instead of those reported on BVES' financial statements in the 10-K report submitted to the U.S. Securities and Exchange Commission (SEC). We did not audit, nor do we express an opinion on, the revenues and expenditures recorded in BVES' income statement filed with the SEC.

As indicated in our final audit report, BVES did not record the unbilled revenue on its Supply Revenue and PPP surcharges. However, BVES used accrual basis in recording the expenditures in all the balancing accounts. Therefore, the debit and credit sides of the same balancing account used different accounting basis – revenues were recorded as billed, while the expenditures were recorded on accrual basis. This inconsistency created mismatches of revenues and expenditures in the balancing accounts and resulted in inaccurate balances on them. UAFCB noted that BVES had obtained the Commission's approval on all the balancing accounts' preliminary statements that using the "billed revenue" to record as revenue. To comply with GAAP and FERC's accrual basis requirement, BVES should work with the Commission to develop a better method for recording the revenues and expenditures in its balancing accounts.

We appreciate BVES' explanation of the BRRAM revenue recording method. However, this audit finding does not apply to BRRAM. Rather, it only pertains to the Supply Revenue and PPP surcharges.

FINDING 7: BVES did not accurately record the Energy Efficiency Balancing Account (EEBA) due to omission of recording $22,040 PPP surcharges in December 2016.

BVES did not dispute this finding but provided comments. UAFCB disagrees with BVES' comments that, *"Because BVES spent more on the EE program than what was authorized for rate recovery, the over-collection balance in the EEA is not recoverable from BVES customers,"* because BVES did not spend more on the EE Program than the authorized budget. The Commission authorized BVES a total budget of $1 million from 2013 through 2017 via D.14-11-002 and D.16-02-021, and BVES closed its EE Program at the end of 2017. According to BVES' tracking statement for the EE Program from 2013 through the end of 2017, BVES had collected $575,451 (this revenue was under-reported by $22,040 as this finding states) surcharges for the EE Program and incurred a total cost of $994,401, which is less than the authorized budget of $1 million for the five years from 2013 through 2017. Therefore, BVES' net balance of under-collection is $418,951 (i.e., $994,401 less $575,451) as of December 31, 2017. In our audit report, we present an under-collection balance of $396,910 to reflect the aforementioned under-reported revenue of $22,040.

UAFCB also disagrees with BVES' comments that *"BVES acknowledges that the under-collection balance reported on the EEBA was over-reported by the amount of $22,040 due to the omission of the PPP surcharge revenues. However, the over-reported amount was an inadvertent error in reporting only, and did not affect the balance recorded in BVES's accounting records for this account."* When BVES filed its GRC application A.17-05-004 in May 2017 for GRC cycle of 2018-2021, BVES requested to recover the under-collected portion for its EE Program over a four-year period. In the application, BVES reported $268,000 under-collected balance for the EE Program and requested to recover $67,000 annually over four years from 2018 through 2021 ($268,000 / 4 years = $67,000/year). Since the reported under-collected balance of $268,000 has not reflected the needed adjustment of $22,040, the unadjusted balance could potentially affect the calculation of annual recovery.

FINDING 8: BVES did not accrue interests on the Ending Balances of Energy Savings Assistance Balancing Account (ESABA), Energy Efficiency Balancing Account (EEBA), Solar Initiative Balancing Account (SIBA), CEC-Renewable Balancing Account (CEC-RBA) and CEC-Research, Development and Demonstration Balancing Account (CEC-RD&DBA).

BVES did not dispute this finding regarding the ESABA, CEC-RBA and CEC-RD&DBA, but BVES commented the finding regarding the EEBA and SIBA. UAFCB disagrees with BVES' comments on EEBA and SIBA that, *"…. These two accounts are one-way balancing accounts, and BVES's spending for each account has exceeded the authorized level to be recovered in rates."* See UAFCB's response to BVES' comments in FINDING 7 above regarding BVES did not spend over the budget for the EE Program.

For the SI Program, the Commission authorized BVES in D.14-11-002 a total program budget of $1,286,350 for an eight-year period beginning 2013. BVES' SI Program was closed in 2016. From 2013 through the end of 2017, BVES had collected $480,415 for the SI Program, and incurred a total cost of $1,098,634, which is under the budget of $1,286,350. Therefore, BVES had a net under-collected balance of $618,219 (i.e., $1,098,634 - $480,415 = $618,219) as of December 31, 2017.

Our audit also disclosed that in May 2017, BVES filed a GRC application (A.17-05-004), which included the program budget for the SI Program. In the application, BVES indicated a total under-collection balance of $627,344 for the SI Program and requested to amortize it over four years (i.e., $156,836 annually, computed as $627,344 divided by 4 years) from 2018 through 2021.

Therefore, BVES did not spend over the budgets for the EE and SI Programs as of December 31, 2017. BVES had requested to recover the under-collection ending balances in the EEBA and SIBA during the 2018-2021 GRC cycle. These facts contradict with BVES' statements that these two programs were over the authorized budgets and the under-collections could not be recovered. UAFCB's audit finding in this regard remains unchanged.

FINDING 9: BVES did not include the information of the CEC-RBA, the CEC-RD&DBA, and the Mobile Home Park balancing account (MHPBA) in its 2017 Annual Balancing and Memorandum Accounts Report submitted to the Commission. On the contrary, BVES reported General Rate Case Balancing Account (GRCBA) that has not been authorized by the Commission in its 2017 Annual Balancing and Memorandum Accounts Report.

BVES did not dispute this finding.

FINDING 10: Rate schedule and preliminary statements of balancing accounts contained clerical errors and do not fully reflect BVES's current practice.

BVES did not dispute this finding.