

# Balancing Account Examination

PacifiCorp d/b/a Pacific Power

For Year Ended December 31, 2018

Utility Audits Branch  
February 13, 2020





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**<http://www.cpuc.ca.gov/utilityaudits/>**

**Thanks to:**  
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# EXECUTIVE SUMMARY

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The California Public Utilities Commission (CPUC) was established by Constitutional Amendment as the Railroad Commission in 1911. The Legislature passed the Public Utilities Act in 1912 to expand CPUC's regulatory authority over electric, natural gas, telephone, and water utilities as well as railroads and marine transportation companies. The Utility Audits Branch (UAB), was known as Utility Audit, Finance and Compliance Branch, is in the Utility Audits, Risk and Compliance Division, which reports directly to the Executive Director of the CPUC.

One of CPUC'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, Southern California Edison Company, San Diego Gas & Electric Company (SDG&E), Southern California Gas Company (SCG), Southwest Gas Company, PacifiCorp d/b/a Pacific Power (PacifiCorp), Bear Valley Electric Service, and Liberty Utilities (CalPeco Electric), LLC.<sup>1</sup> 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 (PU Code) Section 792.5, whenever CPUC authorizes any change in rates reflecting and passing through to customers specific changes in costs, CPUC 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 CPUC 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. CPUC shall ensure the transactions recorded in the balancing accounts are for allowable purposes and are supported by appropriate documentation. CPUC 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 PU Code Sections 314.5, 581, 582, and 584. UAB conducted the examination of PacifiCorp's balancing accounts for year ended December 31, 2018 to comply with the statutory requirements, as detailed in Appendix A.

The scope of this examination covered, but was not limited to, the period from January 1, 2018 to December 31, 2018. The overall objectives of this examination were to determine whether PacifiCorp complied with CPUC's requirements and directives in recording appropriate activities in its balancing accounts and to determine whether PacifiCorp properly settled the ending balances in a timely manner in compliance with CPUC's directives. In addition, UAB evaluated PacifiCorp's effectiveness of internal controls over compliance and recording of balancing accounts. Based on our examination, the following findings were identified:

- Finding 1: PacifiCorp did not timely settle the year-end balances of Energy Savings Assistant Program Balancing Account (ESABA) and California Alternative Rate for Energy Balancing Account (CAREBA).
- Finding 2: PacifiCorp did not fully refund the estimated over-collection balance of ESABA as of December 31, 2016 when it developed the ESA Program Surcharge Rates.

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<sup>1</sup> SDG&E and SCG are affiliated subsidiaries of SEMPRA Energy.



- Finding 3: PacifiCorp did not properly adjust its Demand Side Management (DSM) Program Surcharge Rates.
- Finding 4: Incorrect Weighted Average Costs (WAC) in PacifiCorp's GHG Application resulted in inaccurate Adjusted GHG Allowance Surcharge Rates.
- Finding 5: PacifiCorp's GHG Application reported different GHG Allowance Costs than those in the 2018 tracking statement of GHG Allowance Costs Sub-Balancing Account (GHGBA-Cost).
- Finding 6: PacifiCorp incorrectly reported the GHGBA-Cost monthly balances in its 2018 tracking statement due to three recording errors.
- Finding 7: PacifiCorp did not reasonably estimate the collected GHG Allowance surcharges in its GHG Application (A.18-08-001), resulted in an understatement of surcharges by \$716,756.
- Finding 8: PacifiCorp incorrectly included the Greenhouse Gas Allowance Revenue Balancing Account (GHGBA-Revenue) related customer outreach costs and administrative costs in its GHGBA-Revenue tracking statement.
- Finding 9: PacifiCorp did not fully use the required accrual basis of accounting to record revenues/surcharges or expenditures in its balancing accounts.
- Finding 10: PacifiCorp did not accrue interests in the tracking statements of Demand Side Management Balancing Account and Solar Incentive Program Balancing Account.



# EXAMINATION REPORT

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## BACKGROUND

Pursuant to California Public Utilities Code (PU Code) Section 792.5, whenever California Public Utilities Commission (CPUC) authorizes any change in rates reflecting and passing through to customers specific changes in costs, CPUC 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 CPUC 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. CPUC shall ensure the transactions recorded in the balancing accounts are for allowable purposes and are supported by appropriate documentation. The Utility Audits Branch (UAB) is in the Utility Audits, Risk and Compliance Division, which reports directly to the Executive Director of the CPUC. The UAB provides auditing, accounting, financial, and advisory services on regulated utilities and monitors compliance with laws and Commission directives. UAB conducted the examination of PacifiCorp's d/b/a Pacific Power's (PacifiCorp) balancing accounts for the year ended December 31, 2018 pursuant to PU Code Sections 314.5, 581, 582, and 584.

Before setting up a balancing account, utilities must file and obtain a CPUC-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. A Preliminary Statement also details the specific accounting procedures that the utility must follow to record transactions in the balancing account.

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 elements of the following: revenue, incurred 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.

Based on the recovery level or limit, balancing account is classified under one of these two categories: one-way or two-way balancing account. It is CPUC's policy that 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 monthly interest at a rate equal to one-twelfth of the most recent month's interest rate on three-month Commercial Paper published by the Federal Reserve. According to PacifiCorp, only one out of its eight reported balancing accounts, the Energy Savings Assistance Program Balancing Account, is one-way balancing account.

PacifiCorp is an indirect, wholly owned subsidiary of Berkshire Hathaway Energy Company. PacifiCorp is a multi-jurisdictional utility providing retail electric service to customers in California,



Idaho, Oregon, Utah, Washington, and Wyoming. In northern California, PacifiCorp serves approximately 45,000 customers spread over more than 11,000 square miles in portions of Del Norte, Modoc, Shasta, and Siskiyou counties.<sup>2</sup> As of December 31, 2018, PacifiCorp had 36,036 residential customers, which represented about 80 percent of its total California customers.<sup>3</sup> As a public utility regulated by the CPUC, PacifiCorp is required to comply with and adhere to CPUC's directives, including but not limited to, pertinent rulings and guidelines related to balancing accounts and the related programs.

PacifiCorp's 2018 balancing accounts related to the following programs: (1) California Alternative Rates for Energy (CARE) Program; (2) Energy Savings Assistance (ESA) Program; (3) Demand Side Management (DSM) Program; (4) California Air Resources Board's (ARB) Cap-and-Trade Program; (5) Mobile Home Park Conversion (MHPC) Program; (6) Solar Incentive (SI) Program; and (7) Solar on Multifamily Affordable Housing (SOMAH) Program. Of these programs, CARE, ESA, and DSM programs are Public Purpose Programs (PPP).

PacifiCorp collects and records four kinds of surcharges in its balancing accounts: (1) Surcharge to fund Residential CARE Program from its rate schedule S-100; (2) Surcharge to fund DSM Program from its rate schedule S-191; (3) Surcharge to fund ESA Program from its rate schedule S-192; and (4) Surcharge to recover Greenhouse Gas (GHG) Allowance Cost from its rate schedule GHG-92. In addition, PacifiCorp is required to return the California Climate Credit to its small business customers and residential customers according to its rate schedule GHG-93. The credits are the proceeds from the consignment of the GHG Allowances in ARB's allowance auctions in compliance with the Cap-and-Trade regulations, after reserving 10 percent of the proceeds for use in the SOMAH Program as required by CPUC's Decision (D.) 17-12-022 and setting aside an appropriate amount of GHG allowance revenues to fund customer outreach and education activities and initial and on-going administrative costs related to Cap-and-Trade Program authorized by D.12-12-033. PacifiCorp did not have an associated rate schedule in effect in 2018 for the MHPC, SI, and SOMAH programs.

PacifiCorp filed its most recent general rate case (GRC) application (A.)18-04-002 on April 12, 2018 for GRC Cycle 2019-2021. This application is still pending on CPUC's approval as of the date of this report. Prior to A.18-04-002, PacifiCorp filed its GRC application with CPUC on November 20, 2009, for the GRC Cycle 2011-2013, which was approved by the CPUC in D.10-09-010. The CPUC subsequently approved multiple requests from PacifiCorp to extend its GRC Cycle 2011-2013 to Year 2018.

Table 1 below summarizes PacifiCorp's authorized balancing accounts with their reported balances as of December 31, 2018.

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<sup>2</sup> PacifiCorp's Application for an Order Authorizing a General Rate Increase Effective January 1, 2019 (A.18-04-002)

<sup>3</sup> Per PacifiCorp's Low Income Assistance Programs 2018 Annual Report.



**Table 1. Summary of PacifiCorp's Balancing Accounts with Ending Balances and Authorized Revenue Requirements**

Item No.	Name of Balancing Account	2018 Authorized Revenue Requirements	Accumulated Ending Balances as of 12/31/2018 - Under-collection	Accumulated Ending Balances as of 12/31/2018 - (Over-collection)
1.	California Alternate Rates for Energy Balancing Account (CAREBA)	\$4,050,000	\$281,623	
2.	Energy Savings Assistant Program Balancing Account (ESABA)	\$740,000		(\$435,264) - see Note 1
3.	Demand Side Management Program Balancing Account (DSMBA)	\$2,675,000		(\$2,922,817)
4.	GHG Allowance Costs Sub-Balancing Account (GHGBA-Cost)	N/A		(\$486,085) - see Note 2
5.	GHG Allowance Revenue Balancing Account (GHGBA-Revenue)	N/A		(\$192,768) - see Note 3
6.	Mobile Home Park Conversion Balancing Account (MHPCBA)	N/A	\$198,710 - see Note 4	
7.	Solar Incentive Program Balancing Account (SIBA)	Total budget of \$4,253,256 from inception to closure (from 2011 through 2018).		(\$623,230)
8.	Assembly Bill 693 Balancing Account = Solar on Multifamily Affordable Housing Program Balancing Account (SOMAHBA)	10 percent of the proceeds from the sale of GHG allowances.		(\$2,696,305)
9	Total		\$480,333	(\$7,356,469)

**Notes:**

- ESABA: The reported over-collection balance of \$435,264 is incorrect because PacifiCorp did not accrue interest of \$952 for December 2018. The correct balance should have been an over-collection of \$436,216.
- GHGBA-Cost: The reported balance is incorrect. Refer to Findings 4, 5 and 6.
- GHGBA-Revenue: The reported balance is incorrect. Refer to Finding 8.
- MHPCBA: The reported ending MHPCBA balance of \$198,710 as of December 31, 2018, which includes \$14,079 for To-the-Meter projects, \$180,522 for Beyond-the-Meter projects, and \$4,109 for interests.

**SCOPE**

The scope of the examination covered, but was not limited to, the period from January 1, 2018 to December 31, 2018. The overall objectives of this examination were to determine whether PacifiCorp complied with CPUC's requirements and directives in recording appropriate activities in



its balancing accounts, and to determine whether PacifiCorp properly settled the ending balances in a timely manner in compliance with CPUC's directives and other applicable criteria detailed in Appendix A.

CPUC authorized PacifiCorp to implement the Energy Cost Adjustment Clause (ECAC) mechanism to recover its net power costs in D.06-12-011. Among other things, PacifiCorp filed annual applications to adjust its ECAC rates. PacifiCorp excluded ECAC from its 2018 Annual Balancing and Memorandum Accounts Report. It stated in its response to Question 1 of UAB's data request (DR) 001, in part, that,

*"While the ECAC functions similar to a balancing account, it does not have a balancing account for ratemaking purposes. The ECAC is maintained under a separate tariff schedule consistent with General Rule 9.5.3 of General Order 96-B and it is not included in the preliminary statement. PacifiCorp files an ECAC Application annually and it is subject to regular audits by the California Public Advocates Office."*

Because CPUC's Public Advocates Office performed annual reviews of PacifiCorp's ECAC applications, UAB excluded ECAC from its examination scope pursuant to PU Code Section 792.5(f), which states, in part, that

*"The commission may forgo the review of a balancing account pursuant to this section if the Public Advocate's Office of the Public Utilities Commission or an independent auditor plans to review or audit the balancing account."*

For GHG Allowance Costs Sub-Balancing Account (GHGBA-Cost) and GHG Allowance Revenue Balancing Account (GHGBA-Revenue), Ordering Paragraph (OP) 14 of D.13-12-041 stated that,

*"PacifiCorp, an Oregon Company (PacifiCorp), shall file future Greenhouse Gas (GHG) Revenue and Reconciliation Applications concurrently with its future Energy Cost Adjustment Clause (ECAC) Forecast Proceeding applications, or, if no ECAC application is anticipated in a given year, PacifiCorp shall file its GHG Revenue and Reconciliation Application on August 1st of that year."*

OP 10 of D.14-10-033 ordered that,

*"Each utility named in OP 1 shall file its greenhouse gas forecast revenue and reconciliation request as an additional chapter or section within its annual Energy Resource Recovery Accounts or Energy Cost Adjustment Clause forecast application (as applicable), but in any event not later than August 1 of each year."*

PacifiCorp adjusts its GHG Allowance Surcharge Rate and California Climate Credit Rate through the application, which we refer to as GHG or ECAC Application filed by August 1 of each year, required by the CPUC. Therefore, we extended our examination scope of GHGBA-Cost and GHGBA-Revenue to include the review of the GHG Application A.18-08-001 filed on August 1, 2018.



## METHODOLOGY

To determine PacifiCorp's compliance with the requirements established in the CPUC directives and to assess PacifiCorp's internal controls over its balancing accounts, UAB obtained sufficient, appropriate evidence and analyzed it to address the examination objectives. The specific procedures performed during this examination included, but were not limited to, the following:

1. Reviewed applicable CPUC directives and PacifiCorp's internal policies and procedures.
2. Reconciled ending balances on the tracking statements to general ledger and Annual Balancing Account and Memorandum Account Report submitted to the CPUC.
3. Interviewed key personnel at PacifiCorp to obtain an understanding of the accounting and reporting processes relating to balancing accounts, billing process, rate development and adjustment process, and regulatory filing process.
4. Evaluated PacifiCorp's internal control over its balancing accounts.
5. Reviewed PacifiCorp's independent CPA audit report on the annual financial statements to identify risks potentially affecting the UAB's examination on PacifiCorp's balancing accounts.
6. Performed risk assessment pertaining to the examination of the balancing accounts.
7. Obtained an understanding of PacifiCorp's methodology for recording the month-end revenues and expenditures.
8. Sample-tested PacifiCorp's customer billings to ensure that PacifiCorp complied with CPUC's directives and PacifiCorp's internal billing policies and procedures, and to ensure that PacifiCorp properly billed its customers by using the CPUC-approved tariffs.
9. Judgmentally selected and verified recorded revenues to the supporting documents to determine if revenues were accurately recorded or allocated to the monthly tracking statements of each balancing account.
10. Judgmentally selected and verified the expenditures recorded in the balancing accounts to the supporting documents to determine the accuracy and legitimacy of those expenditures.
11. Evaluated whether the year-end over-collection and/or under-collection were properly and timely settled.
12. Determined if PacifiCorp properly computed and recorded monthly interest in the respective balancing accounts.
13. Determined if authorized revenue requirements were accurately recorded.
14. Determined other items such as adjustments and transfers were recorded in accordance with CPUC's directives.

## FINDINGS AND RECOMMENDATIONS

**Finding 1: PacifiCorp did not timely settle the year-end balances of Energy Savings Assistant Program Balancing Account (ESABA) and California Alternative Rate for Energy Balancing Account (CAREBA).**

**Condition:**

During the four-year period from 2015 through 2018, PacifiCorp had only filed one advice letter (AL), AL 545-E, in 2016 to settle the ESABA ending balance. Even though PacifiCorp filed



AL 573-E in 2018 to adjust the ESA Surcharge Rates effective January 1, 2019, it did not incorporate the 2018 ESABA year-end balance in the AL. In other words, PacifiCorp did not settle the ESABA ending balances as of December 31, 2015, 2017 and 2018. PacifiCorp reported over-collection year-end balances of \$722,146, \$546,845 and \$435,264 in the ESABA for 2015, 2017 and 2018, respectively. The percentages of ESABA balance to the annual budgets are significant for the three years as shown in Table 2 below. Annual filing to settle these material over-collections will prevent continuous accumulation of excessive over-collections and/or lead to potential suspension of billing these surcharges in rates.

**Table 2**

Year	ESA Program Annual Budget	ESABA Year-End Balance	Percentage of ESABA Balance to the Annual Budget
2015	\$937,500	(\$722,146)	77.0%
2017	\$937,500	(\$546,845)	58.3%
2018	\$740,000	(\$435,264)	58.8%

In addition, PacifiCorp did not settle the 2017 and 2018 CAREBA year-end under-collection balances of \$524,500 and \$281,623, respectively, as shown in PacifiCorp’s 2017 and 2018 CAREBA tracking statements. Although PacifiCorp did not settle its 2015 CAREBA year-end under-collection balance of \$3,091, UAB excluded it from our examination findings due to immateriality.

**Criteria:**

For ESABA, OP 10 of D.14-05-004, issued on May 1, 2014, states, in part, that

*“PacifiCorp, ... are authorized to make annual adjustments to the Public Purpose Program surcharge via advice letter to adjust the Energy Savings Assistance 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.”*

Regarding PacifiCorp’s responses to Question 12 of UAB’s DR 011 that “The decision did not state that the company is required make such a filing”, UAB would like to refer to Section 4.1.4 titled “Annual Adjustments to the PPP Surcharges” on pages 23 through 25 of D.14-05-004, which mandates that

*“... In short, the SMJUs **must** seek annual adjustments to the PPP surcharge by submitting an advice letter to adjust ESA surcharges to reflect current activity and minimize the occurrence of under and over collection of ratepayers funds as previously directed in D.08-12-019. The initial advice letter **must** be filed within 60 days of this decision. Subsequent PPP surcharge adjustment advice letters, if any, **must** be filed annually by October 31 with a requested effective date of January 1 of the following year.”* [Emphasis added in bold font.]

For CAREBA, similar languages could be found in OP 17 of D.14-05-004 and in Section 4.2.4, titled “Annual Adjustments to the PPP Surcharges” on pages 38 and 39 of D.14-05-004, respectively.



**Cause:**

In its response to Question 12 of UAB’s DR 011, PacifiCorp cited the word “may” in OPs 10 and 17 of D.14-05-004 to justify for not filing ALs with the CPUC to adjust its surcharge rates annually as follows:

*“The Commission neither uses the words ‘required’ or ‘mandatory.’ Instead, the language in these ordering paragraphs states that the utility ‘**may**’ file to update the surcharges through an advice letter annually to reflect current activity. The decision did not state that the company is required make such a filing. The usage of the word ‘may’ to indicate the possibility of a subsequent filing is strengthened by the addition of the phrase ‘if any.’” [Emphasis added in bold font.]*

UAB disagrees with PacifiCorp’s interpretation because CPUC’s guidance in Section 4.2.4 of D.14-05-004 (as presented in the Criteria section) uses the word “must.”

**Effect:**

Not timely settling the over-collection ending balance of ESABA in 2015, 2017 and 2018 had resulted in the over-stated ESA Program Surcharge Rates effective 2016, 2018 and 2019. Not timely settling the under-collection ending balance of CAREBA in 2017 and 2018 had resulted in the under-stated CARE Program Surcharge Rates effective 2018 and 2019.

**Recommendations:**

PacifiCorp should annually file an advice letter providing an evaluation of the need to settle the ending balance by October 31 of each year. If the ending balance of ESA or CARE is significant, PacifiCorp should comply with OPs 10 and 17 of D.14-05-004 and adjust the ESA and CARE Program Surcharge Rates.

**Finding 2: PacifiCorp did not fully refund the estimated over-collection balance of ESABA as of December 31, 2016 when it developed the ESA Program Surcharge Rates.**

**Condition:**

In the adjustment of the ESA Program Surcharge Rates effective 2017 in AL 545-E, PacifiCorp retained \$325,889, around 50 percent of the estimated over-collection balance of ESABA as of the end of 2016, as a safeguard. In other words, PacifiCorp did not refund to ratepayers for 100 percent of the estimated over-collection balance of ESABA in the rate development effective January 1, 2017.

A one-way balancing account caps the program expenditures at the program’s authorized budget. For one-way balancing account, the portion of program expenditures in exceed of authorized budget should be removed from the record because they are not recoverable. Therefore, PacifiCorp should not retain the 50 percent or any portion of the over-collection balance of ESABA when it adjusted the ESA Program Surcharge Rates as a safeguard unless the retention had been specifically authorized by the CPUC in writing for specific purposes.

**Criteria:**

PU Code, 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."*

On page 35 of D.08-12-019, CPUC stated, in part, that,

*"It is Commission policy for all SMJUs that... LIEE funds are recovered through one-way balancing accounts where the approved budgeted amounts by the Commission are recovered. Any LIEE funds spent over the approved budgeted amount are disallowed ..."*<sup>4</sup>

**Cause:**

PacifiCorp responded in part to Question 1 of UAB's DR 012 that,

*"The ESA Balancing Account is a one-way balancing account which PacifiCorp understands to mean that ... if the balancing account does not have sufficient funds to cover authorized expenditures then any undercollected amounts may not be recovered from customers in future rates. ... The retained outstanding balance in the account is to ensure that, in the event collections under the surcharge are less than the target amount, the balancing account does not undercollect, leaving PacifiCorp unable to recover from customers, amounts properly spent under the approved program budget."*

PacifiCorp misunderstood the proper treatment of one-way balancing account, which led to its withholding of \$325,889, or about 50 percent of the over-collection balance as a safeguard.

**Effect:**

PacifiCorp only refunded \$325,889, or about 50 percent of the total estimated ESABA balance of \$652,000 as of December 31, 2016 to its ratepayers. As a result, the targeted collection for the ESA program was over-estimated by \$325,889 when PacifiCorp developed the ESA Program Surcharge Rates effective January 1, 2017.

**Recommendation:**

PacifiCorp should fully refund the total estimated ESABA year-end over-collection balance to its ratepayers through ESA Program Surcharge Rates development.

**Finding 3: PacifiCorp did not properly adjust its Demand Side Management (DSM) Program Surcharge Rates.**

**Condition:**

PacifiCorp filed A.17-09-010 in September 2017 to propose reducing the DSM Program surcharges. The kWh and "Present Base Rev with ECAC" used in the A.17-09-010 were from A.17-08-005 filed in August 2017 for its 2018 Energy Cost Adjustment Clause and Greenhouse Gas-Related Forecast and Reconciliation of Costs and Revenue (ECAC or GHG Application).

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<sup>4</sup> SMJUs is the acronym for Small and Multi-Jurisdictional Utilities, which includes Southwest Gas Company, PacifiCorp, Bear Valley Electric Service, and Liberty Utilities (CalPeco Electric), LLC. LIEE is the acronym for Low-Income Energy Efficiency, which has been renamed to the ESA Program.



OP 2 of D.18-11-033, issued in November 2018, ordered PacifiCorp to provide a new version of Exhibit D of A.17-09-010 that should be included in a Tier 1 advice letter. PacifiCorp filed AL 576-E in December 2018 to comply with the order for DSM Program surcharges effective January 1, 2019. Per Attachment B of AL 576-E for the updated Exhibit D, however, PacifiCorp only updated the Target Annual Collection Amount to \$920,000. PacifiCorp did not update the amounts of kWh and "Present Base Rev with ECAC" to reflect the current amounts reported in the ECAC Application A.18-08-001 filed in August 2018 for approval of rates effective 2019. The updated kWh and "Present Base Rev with ECAC" were available when PacifiCorp filed the AL 576-E.

Regarding PacifiCorp's response to Question 6 of UAB's DR 011 under the Cause section below, UAB respectfully disagrees with PacifiCorp's position that updating the kWh and "Present Base Rev with ECAC" in Exhibit D is out of the scope of D.18-11-033. Since PacifiCorp filed the AL 576-E to request the rates effective 2019, PacifiCorp should have used the most updated available data in A.18-08-001 to closely reflect the 2019 situation for adjusting the 2019 DSM Surcharge Rates. Therefore, the adjusted DSM Surcharge Rates for 2019 were incorrect.

**Criteria:**

OP 2 of D.18-11-033 states that,

*"PacifiCorp must re-calculate the Public Purpose Programs Surcharge to reflect the Demand Side Management Balancing Account balance as of the issue date of this decision. PacifiCorp shall then submit a Tier 1 advice letter within ten days of the issue date of this decision to provide: (a) a new version of Exhibit D to the Application and (b) tariffs that incorporate the new Public Purpose Programs Surcharge amount."*

PU Code 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:**

Regarding "a new version of Exhibit D" required in OP 2 of D.18-11-033, PacifiCorp responded to Question 6 of UAB's DR 011 that,

*"The ordering paragraph required PacifiCorp to update the Public Purpose Programs Surcharge to collect the budget amounts discussed in paragraph 5 of the decision and to incorporate the Demand Side Management (DSM) Balancing Account (DSMBA) as of the issuance date of the decision. **The ordering paragraph did not require that PacifiCorp update for rate changes outside of the immediate application which may have occurred during the course of review of the immediate application nor is it common practice for PacifiCorp to make such updates. Accordingly, the assertion in the statement above is outside the scope of D.18-11-033.**"* [Emphasis added in bold font.]



Since PacifiCorp did not properly interpret the requirements specified in OP 2 of D.18-11-033, PacifiCorp did not use the available, updated kWh data to calculate the DSM surcharge rates effective January 1, 2019.

**Effect:**

Not using the most updated kWh and "Present Base Rev with ECAC" to develop its DSM Program Surcharge Rates effective 2019 resulted in inaccurate 2019 DSM Surcharge Rates.

**Recommendation:**

PacifiCorp should ensure that it incorporates the most updated available data in the rate development schedules.

**Finding 4: Incorrect Weighted Average Costs (WAC) in PacifiCorp's GHG Application resulted in inaccurate adjusted GHG Allowance Surcharge Rates.**

**Condition:**

The WACs that were used to record or estimate GHG costs were incorrect in the GHG Applications filed from 2015 through 2018, resulted in the incorrect adjusted GHG Allowance Surcharge Rates effective January 2016 through 2019.

When filing its GHG Application each year, PacifiCorp recorded the estimated surrendered emissions due on November 1 of the current year in Exhibit PAC-201: Calculate Weighted Average Cost of Compliance Instruments of GHG Application (WAC Calculation Schedule). In the same exhibit, PacifiCorp should true up the estimated surrendered emissions (MTCO<sub>2e</sub>) to actual volumes for prior years when the actual amounts were known at the time of filing. However, until the GHG Application A.18-08-001 was filed on August 1, 2018, PacifiCorp had not adjusted in the WAC Calculation Schedule the estimated surrendered emissions to actual for those transactions due in November 2014, 2015, and 2016, which had been verified and approved by the ARB.<sup>5</sup>

**Criteria:**

PU Code, Sections 581, 582, and 584 require Utilities to provide complete and accurate data to the CPUC.

On pages 4 and 5 in attachment C of D.15-01-024, CPUC stated that,

*"When a utility files its GHG Forecast Revenue and Reconciliation Application, it shall use Template C to show its WAC calculations. Each utility will use Template C to develop a calculation worksheet for each applicable compliance period. The application should also show a calculation of direct costs based on the WAC formula above. This calculation of recorded direct costs should match the emissions expenses in the utility's balancing accounts."*

The referred Template C is the Exhibit PAC-201 that PacifiCorp used in its GHG Application.

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<sup>5</sup>The actual surrendered emissions for 2017 was unknown until September 2018, which was after the GHG Application filing deadline August 1, 2018. Thus, UAB excluded the 2017 from this finding.



**Cause:**

This is due to PacifiCorp’s oversight when it filed the GHG Application.

**Effect:**

Since the GHG Allowance costs are calculated based on the WAC of compliance instruments held in inventory where surrendered emissions is deducted, the incorrect recording of the quantity of surrender emissions caused the incorrect calculation of WACs and resulted in the incorrect GHG Allowance Surcharge Rates effective January 1, 2016 through 2019.

**Recommendation:**

PacifiCorp should closely monitor its calculation of WAC of compliance instruments by adjusting the estimated emissions to the actual data in a timely manner.

**Finding 5: PacifiCorp’s GHG Application reported different GHG Allowance costs than those in the 2018 tracking statement of GHG Allowance Costs Sub-Balancing Account (GHGBA-Cost).**

**Condition:**

PacifiCorp filed the GHG Application A.18-08-001 on August 1, 2018 to request for the GHG Allowance Surcharge Rates effective January 1, 2019. In the application, the GHG Allowance costs were recorded to the date as of May 31, 2018 with historical information and the estimated data for the remaining year. The reconciliation of the GHG Application with the GHGBA-Cost tracking statement disclosed that the monthly actual GHG Allowance costs for the first five months recorded in the 2018 GHGBA-Cost tracking statement did not agree with those shown on the WAC Calculation Schedule of A.18-08-001. Table 3 below shows the variances. The two historical GHG allowance cost records should have been reconciled with each other, as required by D.15-01-024. Regarding PacifiCorp’s response to Question 4 of UAB’s DR 005 shown in the Cause section below, UAB considered that as of the application filing date, August 1, 2018, PacifiCorp should have had the actual monthly emissions volumes. Therefore, the GHG Allowance costs recorded in the WAC Calculation Schedule of A.18-08-001 from January 2018 through May 2018 should agree with the amounts recorded in the 2018 tracking statement from January through May. Even though the GHGBA-Cost tracking statement included monthly adjustments, PacifiCorp’s provided document “Attach CPUC Audit 1.3 CONF”, which was used to support the recorded GHG Allowance costs in the tracking statement for January, July and December 2018, shows that the GHG Allowance costs in January 2018 was \$570,927 before the adjustments applicable to the prior periods. The \$570,927 still differs from the \$555,250 recorded in the WAC Calculation Schedule for January 2018.

**Table 3**

Month of 2018	GHG Allowance Costs from GHGBA-Cost Tracking Statements	GHG Allowance Costs from A.18-08-001 Exhibit PAC/201	Variance
January	\$579,535	\$555,250	\$24,285
February	\$456,223	\$413,543	\$42,680
March	\$416,605	\$507,707	(\$91,102)
April	\$363,218	\$391,314	(\$28,096)
May	\$310,776	\$452,875	(\$142,099)
<b>Total:</b>	<b>\$2,126,357</b>	<b>\$2,320,689</b>	<b>(\$194,332)</b>



**Criteria:**

In Attachment C of D.15-01-024, CPUC stated that,

*“When a utility files its GHG Forecast Revenue and Reconciliation Application, it shall use Template C to show its WAC calculations. Each utility will use Template C to develop a calculation worksheet for each applicable compliance period. The application should also show a calculation of direct costs based on the WAC formula above. This calculation of recorded direct costs should match the emissions expenses in the utility’s balancing accounts.”*

The referred Template C is the Exhibit PAC-201 PacifiCorp used in its 2018 GHG Application.

**Cause:**

PacifiCorp’s response to UAB’s Question 4 of DR-005 stated that,

*“Exhibit PAC 201 of Application (A) 18-08-001 from January 2018 through December 2018 was based on the best available estimates at the time of that the energy cost adjustment clause (ECAC) filing was submitted to the California Public Utilities Commission (CPUC) on August 1, 2018. The information provided included forecasted monthly emissions (MT) volumes. The dollar amounts included in Exhibit PAC 201 (A.18-08-001) were calculated by multiplying these volumes by the weighted average cost (WAC) with no adjustment for updates made to preliminary volumes. Dollars that accrued to the regulatory asset (SAP Account 187042), are based on the volumes estimated at the time of the accrual multiplied by the WAC. This includes adjustments to prior month accruals for changes in volumes that were seen after the initial monthly accrual. Dollars shown in SAP Account 187042 are based on estimated volumes for the entire year. These dollars will be adjusted using actual volumes once the final filing is made for the 2018 greenhouse gas (GHG) obligation in 2019.”*

**Effect:**

Inconsistent recording of GHG Allowance costs between the GHGBA-Cost tracking statement and GHG Application resulted in inaccurate reported GHGBA-Cost balances that impacted the GHG Allowance Surcharge Rates.

**Recommendations:**

PacifiCorp should comply with CPUC’s requirement by consistently recording GHG Allowance costs in the GHGBA-Cost tracking statement and the GHG Application. In its next GHG Application for GHG Allowance Surcharge Rates effective January 1, 2021, PacifiCorp should ensure that it uses consistent GHG Allowance costs between its GHG Application and the GHGBA-Cost tracking statement by reconciling the data between those records.

**Finding 6: PacifiCorp incorrectly reported the GHGBA-Cost monthly balances in its 2018 tracking statement due to three recording errors.**

**Condition:**

Our review of the GHGBA-Cost tracking statement from 2015 through 2017 and GHGBA-Cost 2018 tracking statement disclosed the following three recording errors:

- PacifiCorp's 2017 GHGBA-Cost tracking statement showed an ending balance of \$1,035,694 as of December 31, 2017, while its 2018 GHGBA-Cost tracking statement showed a beginning balance of \$1,033,417 as of January 1, 2018. A discrepancy of \$2,277 was noted. The ending balance of a preceding year should have agreed with the beginning balance of current year.
- PacifiCorp incorrectly recorded \$1,660,570 for the March 2017 GHG purchased allowance in its GHGBA-Cost tracking statement from 2015 through 2017. The actual cost for that month was \$1,628,400. As a result, a discrepancy of \$32,170 was noted.
- The accrued interests recorded in GHGBA-Cost 2018 tracking statement incorrectly included the amounts of two purchased allowance transactions (the amounts were not disclosed here due to confidentiality) and one surrendered transaction with the amount of \$9,814,164 related to wholesale transactions in the interest calculation. Only costs related to retail transactions could be recorded in GHGBA-Cost's records.

**Criteria:**

PU Code Sections 581, 582, and 584 require utilities to provide complete and accurate data to the CPUC.

**Cause:**

This was due to PacifiCorp's oversight, and PacifiCorp responded to Questions 5 and 6 of UAB's DR 012 that, *"Wholesale transactions were incorrectly included in the interest calculation. It is an error that was corrected in the first quarter of 2019."*

**Effect:**

The incorrect recording of GHGBA-Cost's tracking statement resulted in inaccurate 2018 GHGBA-Cost balances being reported.

**Recommendations:**

PacifiCorp should strengthen its oversight over the recording and reporting of its balancing accounts and keep evidence of proper management reviews and approvals of its monthly balancing account tracking statements.

**Finding 7: PacifiCorp did not reasonably estimate the collected GHG Allowance surcharges in its GHG Application (A.18-08-001), resulted in an understatement of surcharges by \$716,756.**

**Condition:**

In Exhibit PAC-203: Summary of the GHG Allowance Costs Sub-Balancing Account of A.18-08-001, PacifiCorp estimated \$2,795,527 for GHG Allowance surcharges from June 1, 2018 to December 31, 2018. This amount was subtracted from the total GHG Allowance Costs to derived at cost recoverable through GHG Allowance Surcharge Rates effective January 1, 2019. However, the actual collected surcharges from June 1, 2018 through December 31, 2018 was \$3,512,283 per PacifiCorp's GHGBA-Cost 2018 tracking statement. An understatement of \$716,756, or 20.4 percent of the actual GHG Allowance Surcharge collection, was noted.



**Criteria:**

PU Code, 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:**

PacifiCorp responded to Question 6 of UAB's DR 010 that, *"The 20.4 percent under-estimation is due to an outdated assumption for the collection rate, which had not been updated from a prior year."*

**Effect:**

PacifiCorp reported an under-collection ending balance of \$1,060,254 for GHGBA-Cost as of December 31, 2018 in Exhibit PAC-203 of A.18-08-001. This amount was used to calculate the GHGBA-Cost Surcharge Rates effective January 1, 2019. Since PacifiCorp underestimated the 2018 GHG Allowance Surcharge collection by \$716,756, the GHG Allowance Surcharge Rates effective January 1, 2019 were higher than what they should have been.

**Recommendations:**

PacifiCorp should strengthen the oversight of its GHG Application to ensure proper data was used to calculate its GHG Allowance Surcharge Rate for the upcoming year. PacifiCorp should also maintain proper evidence to prove that PacifiCorp's management has properly reviewed and approved its GHG Application.

**Finding 8: PacifiCorp incorrectly included the Greenhouse Gas Allowance Revenue Balancing Account (GHGBA-Revenue) related customer outreach costs and administrative costs in its GHGBA-Revenue tracking statement.**

**Condition:**

PacifiCorp recorded the GHGBA-Revenue related customer outreach costs and administrative costs into GHGBA-Revenue tracking statement. These costs should have been tracked in memorandum account only as required by OPs 16 and 17 of D.12-12-033. For example, the 2018 tracking statement of GHGBA-Revenue has included customer outreach cost of \$65,690 and administrative cost of \$1,985.

In OPs 1 and 2 of D.12-12-033, CPUC ordered the utilities to set aside funds from the GHG allowance revenue to cover administrative and customer outreach costs before determining the amount of GHG allowance revenue available to return to eligible customers. Template D-1 in Attachment D of D.15-01-024 provides guidance to calculate GHG allowance revenues that are available for California Climate Credit. However, the template did not specify that the GHG allowance revenues available for California Climate Credit should be the balance of GHGBA-Revenue. Since CPUC had required that the tracking of the customer outreach and administrative costs should be in memorandum account, PacifiCorp should not have included these costs in the GHGBA-Revenue tracking statement.

In addition, we noted that PacifiCorp used the term "GHG Allowance Revenue Balancing Account (Under)/Over" to describe the calculated result in Line 25 of Exhibit PAC-207, titled "Summary of



the GHG Allowance Revenue Balancing Account,” of A.18-08-001. The accurate description for this item should have been “GHG allowance revenues available for California Climate Credit.”

**Criteria:**

OP 16 of D.12-12-033 states, in part, that, “Customer outreach costs must be tracked in a memorandum account.”

OP 17 of D.12-12-033 states, in part, that, “Administrative costs must be tracked in a memorandum account and are subject to reasonableness review.”

**Cause:**

PacifiCorp responded to UAB’s Question 7 of DR 010 that,

*“Commission Decision D.12-12-033 directed the utilities to set aside funds from the GHG allowance revenue to cover administrative and customer outreach costs before determining the amount of GHG allowance revenue available to return to eligible customers. Refer to Commission required Template D-1 (provided as Confidential Exhibit 505 in PacifiCorp’s 2019 ECAC application A.18-08-001), which shows the components that must be subtracted from the GHG allowance revenue before calculating the amount of GHG allowance revenue available to return to eligible customers through the California Climate Credit. In order to comply with the Commission’s requirements, the company must set aside a portion of the GHG allowance revenues to cover the customer outreach and administrative costs from the GHG allowance revenues. This tracking statement is used to ensure that the company is properly tracking the GHG allowance revenue net of available to return to eligible customers through the California Climate Credit.”*

**Effect:**

The incorrect GHGBA-Revenue tracking statement recording had resulted in inaccurate reported balance of GHGBA-Revenue.

**Recommendation:**

PacifiCorp should not include the GHGBA-Revenue related customer outreach costs and administrative costs in the GHGBA-Revenue tracking statement. Rather, it should follow CPUC’s directive to track the GHGBA-Revenue related customer outreach costs and administrative costs in a memorandum account.

**Finding 9: PacifiCorp did not fully use the required accrual basis of accounting to record program revenues/surcharges or expenditures in its balancing accounts.**

**Condition:**

For program revenues/surcharges, PacifiCorp recorded them in the tracking statements of the balancing accounts using billed surcharges without accruing the unbilled surcharges. In addition, PacifiCorp recorded revenues in its tracking statements based on revenue period instead of the traditional calendar period ended December 31, 2018. The revenue period for December 2018 captured electricity used in the first two days of January 2019 by PacifiCorp’s customers who fell into the last billing cycle #21 of the month. Except for revenue, PacifiCorp recorded other activities based on traditional calendar period. Therefore, PacifiCorp’s tracking statement as of December 31, 2018 included revenue incurred in the subsequent year. Furthermore, in GHGBA-Revenue tracking statement, PacifiCorp recorded revenues based on the date received rather than the auction



completion date. This practice appears to be on cash basis of accounting rather than accrual basis of accounting.

For recording program expenditures, PacifiCorp did not consistently follow its own accrual policy, PacifiCorp's Guidelines and Procedures for Monthly Manual Cost Accruals. We noted that PacifiCorp accrued the program expenditures in the Solar Incentive Balancing Account (SIBA) and Mobile Home Park Conversion Balancing Account (MHPCBA) based on the invoice dates. To test the expenditures recorded in the ESABA tracking Statement, we selected four samples totaling \$194,069, or 41.9 percent of the total 2018 ESABA expenditure of \$462,696. Our tests on those samples disclosed that PacifiCorp recorded ESA program expenditures based on the dates invoices were approved by PacifiCorp's management. In addition, the tests disclosed that the recorded dates for three out of the four samples, with the amounts of \$58,093, \$31,909, and \$48,922, respectively, were in the following month after receiving the invoices. This practice deviated from PacifiCorp's policy which states under the "Month End Accruals" section that "...Items between \$10,000 and \$100,000 should also be accrued if they happen to be identified."

**Criteria:**

The General Instructions of the Uniform System of Account published by the Federal Energy Regulatory Commission 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."*

PacifiCorp's "Guidelines and Procedures for Monthly Manual Cost Accruals."

**Cause:**

This is due to lack of proper oversight of the balancing account recording.

**Effect:**

Using non-accrual basis of accounting to record revenues and expenditures may not accurately capture all balancing account activities. The practice could distort the ending balances in the balancing accounts, resulting in incomplete and/or inaccurate information provided to CPUC and the public.

**Recommendations:**

PacifiCorp should consistently use accrual basis of accounting in recording program revenues/surcharges and expenditures in its balancing accounts. PacifiCorp should also strengthen its oversight on balancing accounts by timely reviewing and approving the accounting records and keeping the evidence for proper audit trail.

**Finding 10: PacifiCorp did not accrue interests in the tracking statements of Demand Side Management Balancing Account (DSMBA) and Solar Incentive Program Balancing Account (SIBA).**

**Condition:**

PacifiCorp did not accrue interests in its DSMBA and SIBA tracking statements. The calculation of interest should be based on the average of the beginning and ending balance in balancing account at the rate of 1/12 of the Commercial Paper for the previous month as published in the Federal Reserve Statistical Release, H.15. PacifiCorp reported over-collection DSMBA balances of \$2,922,817 and \$1,175,496 as of December 31, 2018 and 2017, respectively. Based on the DSMBA’s 2018 tracking statement and the interest rate on federal 90-day Commercial Paper for the previous month, we calculated that the accrued interest was \$36,609 for 2018 alone. Interest should be accrued on all balancing accounts whenever there is a non-zero monthly balance, including the over-collection of \$1,175,496 as of December 31, 2017 and for prior years.

The SIBA had over-collection balances of \$623,229.57 and \$1,087,424.53 as of as of December 31, 2018 and 2017, respectively. The SIBA consistently maintained year-end over-collection balances from 2011 through 2018 as shown in Table 4. Using the monthly account balances of PacifiCorp 2018 SIBA tracking statement and the relevant published federal 90-day Commercial Paper rates, we estimated the accrued interest to be \$20,956 for 2018.

**Table 4**

As of	Year-end Balance
12/31/2018	(623,229.57)
12/31/2017	(1,087,424.53)
12/31/2016	(1,217,124.81)
12/31/2015	(1,530,060.81)
12/31/2014	(945,655.66)
12/31/2013	(123,782.20)
12/31/2012	(354,069.84)
12/31/2011	(246,351.61)

Although there are no explicit languages regarding interest accrual stated in D.11-03-007 or in the DSMBA and SIBA Preliminary Statements approved by the Energy Division (ED) of the CPUC, accrued interest is a component in every balancing account. Except for DSMBA and SIBA, PacifiCorp accrued interest in all its balancing accounts. PacifiCorp knew or should have known that it is necessary to accrue interest in its DSMBA and SIBA. The inadvertent omission of interest requirement in the DSMBA and SIBA Preliminary Statements, which were submitted by PacifiCorp and approved by ED, did not excuse PacifiCorp from its obligations to properly accrue and refund interest owed to its ratepayers.

Regarding PacifiCorp’s response to Item 15 of UAB’s DR 013, in part, that

*“Item 15 of the UAFCB<sup>6</sup> potential findings and recommendations is outside the scope of the audit in that it deviates from the express language in the Commission approved tariff and appears to apply a new policy retroactively.”*

<sup>6</sup> UAFCB (Utility Audit, Finance and Compliance Branch) was renamed to UAB (Utility Audits Branch) in January 2020.



UAB indicated that based on PU Code Section 792.5.(d) presented in the Criteria section below, the balancing account's examination should verify whether all related costs and revenues in the balancing account were recorded correctly. Unless PacifiCorp could prove that it has obtained specific written exemption from the CPUC, it should record interest in the balancing accounts. As required in PU Code Section 451 described in the Criteria section below, PacifiCorp's not recording of interest in its balancing accounts is unjust and unreasonable.

**Criteria:**

PU Code Sections 581, 582, and 584 require utilities to provide complete and accurate data to CPUC.

PU Code Section 792.5.(d) states that,

*"The commission shall require the public utility to record all related costs and revenues in the balancing account, unless those costs or revenues are specifically exempted by the commission."*

PU Code 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:**

PacifiCorp responded to Question 4 of UAB's DR 008 that,

*"The Demand-Side Management (DSM) Balancing Account section of the Preliminary Statement Part D, does not include language on accruing interest." The Preliminary Statement erroneously left out the interest accrual requirement.*

PacifiCorp responded to Question 4 of UAB's DR 006 that,

*"The requirement of interest accrual is not referenced in the order addressing the company's Solar Incentive Balancing Account (SIBA) (Decision (D.) 11-03-007, Application (A.)10-03-002). In addition, Advice Letter No, 440-E to implement Schedule S-190 Surcharge to Fund the Solar Incentive Program, included no interest accrual in the preliminary statement. Lastly, Advice Letter No. 526-E was filed to cancel Schedule S-190."*

**Effect:**

Without accruing interests in the tracking statements of DSMBA and SIBA or refunding the accrued interest owed to ratepayers, PacifiCorp unfairly obtained an interest-free loan from the ratepayers by over-collecting on billings.

**Recommendations:**

PacifiCorp should immediately work with CPUC to add the requirement for interest accrual on the Preliminary Statements of DSMBA and SIBA. PacifiCorp should accrue interest in the DSMBA and SIBA from the balancing accounts' inceptions to date. The interest owed to the ratepayers should be immediately refunded to them.

## CONCLUSION

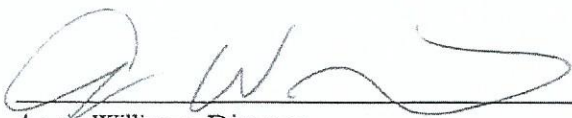
In conducting our examination, UAB obtained a reasonable understanding of PacifiCorp's internal controls, which were considered relevant and significant within the context of our examination objectives. UAB does not provide any assurance on PacifiCorp's internal control. Deficiencies in internal control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

PacifiCorp's management is responsible for the development of its policies and procedures to ensure that its balancing accounts were reported completely, accurately, and timely. CPUC reviews whether the transactions recorded in the balancing accounts are for allowable purposes and supported by appropriate documentation.

UAB conducted the examination of PacifiCorp's balancing accounts for the year ended December 31, 2018 pursuant to PU Code, Sections 314.5, 581, 582, 584, and 792.5, which state that, CPUC has statutory authority to inspect and audit the books and records of the utilities to ensure that ratepayers' money is well spent. We planned and performed the examination to obtain sufficient, appropriate evidence to afford a reasonable basis for our findings and conclusions based on our examination objectives. UAB believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our limited examination objectives.

UAB determined that, except for the items noted in the Findings and Recommendations section, PacifiCorp has complied, in all material respects, with the recording and reporting requirements for its balancing accounts during the examination period of January 1, 2018 to December 31, 2018.

The report is intended solely for the information and use of the CPUC and PacifiCorp and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



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# APPENDICES

## APPENDIX A Applicable Rules and Regulations

Rule/Regulation Types	Reference	Description
Public Utilities Code	Section 314.5	Guidance providing CPUC the authority to inspect and audit the books and records for regulatory and tax purposes.
	Section 451	Guidance mandating that all charges demanded or received by any public utility shall be just and reasonable.
	Section 581	Guidance providing CPUC the authority to require a utility to file complete and correct reports in prescribed form and detail.
	Section 582	Guidance providing CPUC the authority to require a utility to provide applicable records timely.
	Section 584	Guidance providing CPUC the authority to require a utility to furnish reports to CPUC.
	Section 792.5	Guidance providing CPUC 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.
Decisions (D.)	D.10-09-010	Decision approves PacifiCorp's general rate increases for GRC cycle 2011-2013.
	D.16-09-046	Decision granting petition to extend GRC cycle to 2018 and approved PacifiCorp to file the GRC application for test year 2019.
	D.08-12-019	Decision on Small and Multijurisdictional Utilities' 2009-2011 Low-Income Energy Efficiency (LIEE) and California Alternate Rates for Energy (Care) Applications.
	D.14-05-004	Decision regarding the annual adjustment of surcharge rates for SMJUs' Energy Savings Assistance Program and California Alternate Rates for Energy Program.
	D.12-12-033	Decision adopting Cap-and-Trade Greenhouse Gas Allowance Revenue Allocation Methodology for Electric utilities.
	D.13-12-041	Phase 1 Decision Adopting Cap-And-Trade Greenhouse Gas Program Cost and Allowance Revenue Forecasts methodology for Incorporation into Electricity Rates.
	D.14-10-033	Phase 2 Decision Adopting Standard Procedures for Electric Utilities to File Greenhouse Gas Forecast Revenue and Reconciliation Requests.
	D.15-01-024	Attachment C: Calculation of Weighted Average Cost of Compliance Instruments. Attachment D: GHG Revenue and Reconciliation Application Form.
	D.18-08-020	Decision on Small and Multi-Jurisdictional Utilities' 2018-2020 Energy Savings Assistance Program and California Alternate Rates for Energy Program authorized budget.
	D.17-11-020	Decision authorized PacifiCorp 2018 Demand Side Management Program budget.
	D.18-11-033	This decision approves PacifiCorp to continue administering Demand Side Management (DSM) Program through 2020 and approves PacifiCorp's request to reduce its DSM Surcharge.
	D.11-03-007	Decision Approving PacifiCorp's Solar Incentive Program.
D.17-12-022	Decision authorized the Solar On Multifamily Affordable Housing Program.	
Applications (A.)	A.18-08-001	Application of Energy Cost Adjustment Clause and Greenhouse Gas-Related Forecast and Reconciliation of Costs and Revenue (ECAC or GHG Application) for rates effective January 2019.
	A.17-08-005	Application of Energy Cost Adjustment Clause and Greenhouse Gas-Related Forecast and Reconciliation of Costs and Revenue (ECAC or GHG Application) for rates effective January 2018.
Advice Letters (ALs)	AL 573-E	To adjust CARE and ESA Program Surcharge Rates effective January 2019.
	AL 545-E	To adjust CARE and ESA Program Surcharge Rates effective January 2017.
	AL 576-E	To adjust DSM Program Surcharge Rates effective January 2019.
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 PacifiCorp's Balancing Accounts from Year 2009 through 2018 <sup>1</sup>

Account Name	2009 EOY	2010 EOY	2011 EOY	2012 EOY	2013 EOY	2014 EOY	2015 EOY	2016 EOY	2017 EOY	2018 EOY
California Alternate Rates for Energy Balancing Account (CAREBA)	\$1,396,569	\$253,983	(\$237,632)	(\$621,982)	(\$896,054)	(\$674,990)	\$3,091	\$660,564	\$524,500	\$281,623
Energy Savings Assistant Program Balancing Account (ESABA)	N/A	N/A	N/A	N/A	N/A	N/A	(\$722,146)	(\$724,546)	(\$546,845)	(\$435,264) <sup>2</sup>
Demand Side Management Program Balancing Account (DSMBA)	N/A	N/A	N/A	N/A	N/A	N/A	\$266,787	\$458,212	(\$1,175,496)	(\$2,922,817)
Greenhouse Gas Allowance Costs Sub-Balancing Account (GHGBA-Cost) <sup>3</sup>	N/A	N/A	N/A	N/A	\$7,099,190	(\$1,044,018)	(\$5,298,180)	(\$1,602,541)	(\$1,035,694)	(\$486,085)
Greenhouse Gas Allowance Revenue Balancing Account (GHGBA-Revenue) <sup>4</sup>	N/A	N/A	N/A	(\$2,434,345)	(\$9,106,055)	\$5,617,412	(\$718,381)	\$1,190,708	(\$1,303,053)	(\$192,768)
Mobile Home Park Conversion Balancing Account (MHPCBA)	N/A	N/A	N/A	N/A	N/A	N/A	\$1,728	\$10,270	\$73,822	\$198,710 <sup>5</sup>
Solar Incentive Program Balancing Account (SIBA)	N/A	N/A	(\$246,352)	(\$354,070)	(\$123,782)	(\$945,656)	(\$1,530,061)	(\$1,217,125)	(\$1,087,425)	(\$623,230)
Solar on Multifamily Affordable Housing Program Balancing Account (SOMAHBA)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(\$1,551,785)	(\$2,696,305)

**Notes:**

1. Negative amounts denote over-collection and positive amounts denote under-collection.
2. ESABA: The reported over-collection balance of \$435,264 is incorrect because PacifiCorp did not accrue interest of \$952 for December 2018. The correct balance should have been an over-collection of \$436,216.
3. GHGBA-Cost: The reported balance is incorrect. Refer to Findings 4, 5 and 6.
4. GHGBA-Revenue: The reported balance is incorrect. Refer to Finding 8.
5. MHPCBA: The reported ending MHPCBA balance of \$198,709.79 as of December 31, 2018, which includes \$14,079 for To-the-Meter projects, \$180,522 for Beyond-the-Meter projects, and \$4,108.79 for interests.



## APPENDIX C

### Purpose of PacifiCorp's Reported Balancing Accounts

Item No.	Description of Balancing Account	Purpose
1.	California Alternate Rates for Energy Balancing Account (CAREBA)	The purpose of CAREBA is to reflect in rates, through application of the CARE Surcharge, the revenue shortfall and administrative and general costs associated with the CARE Program as authorized by the CPUC.
2.	Energy Savings Assistant Program Balancing Account (ESABA)	The purpose of ESAPBA is to track the funds allocable to the energy savings assistance programs and the program expenses.
3.	Demand Side Management Program Balancing Account (DSMBA)	The purpose of the DSM Balancing Account is to provide a summary of the Surcharge to Fund the Public Purpose Programs collected under Schedule S-191 that funds the DSM Program offered by the Company.
4.	Greenhouse Gas Allowance Costs Sub-Balancing Account (GHGBA-Cost)	The GHGBA-Cost is to track and defer costs from the purchase of GHG allowances for subsequent recovery in rates. GHG costs will be based on the forecast of GHG allowance costs included in the Company's Energy Cost Adjustment Clause (ECAC) Application.
5.	Greenhouse Gas Allowance Revenue Balancing Account (GHGBA-Revenue)	The GHGBA-Revenue is to track and defer revenue from the sale of GHG allowances for subsequent allocation to eligible customer classes. Estimated GHG revenues will be based on the forecast of GHG revenues included in the Company's Energy Cost Adjustment Clause (ECAC) Application.
6.	Mobile Home Park Conversion Balancing Account (MHPCBA)	The purpose of the MHPCBA, a two-way, interest-bearing balancing account, is to record costs associated with implementing the voluntary conversion of master-metered mobile home parks or manufactured housing communities to direct utility service by PacifiCorp. The costs associated with the entries to the MHPCBA 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.
7.	Solar Incentive Program Balancing Account (SIBA)	The SIBA is established in accordance with D.11-03-007 to track program collections and expenditures under the SI Program. Collections in the SIBA shall be capped at the approved total program costs as set forth in D.11-03-007.
8.	Assembly Bill (AB) 693 Balancing Account = Solar on Multifamily Affordable Housing Program Balancing Account (SOMAHBA)	The purpose of SOMAHBA is to track authorized funding for the SOMAH Program. Specifically, SOMAHBA will track the funds set aside from PacifiCorp's sale of Greenhouse Gas Allowances (GHG Allowance Proceeds) and all the costs associated with the SOMAH Program which may include, but are not limited to, initial costs of fielding a request for proposal, utility administrative costs (including but not limited to reporting), contributions to the Program Administrator administrative budget, and incentive payments.

# PacifiCorp's Responses



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December 13, 2019

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**RE: PacifiCorp (U 901-E) Balancing Account Examination Response to Utility Audit, Finance and Compliance Branch Draft Report for Year Ending December 31, 2018**

Thank you for the opportunity to provide comments on the Balancing Account Audit Draft Report (Draft Report) issued by the Utility Audit, Finance and Compliance Branch (UAFCB), and the substantial amount of work completed by the audit team.

The Draft Report was provided to PacifiCorp on November 25, 2019, and PacifiCorp appreciates the review and the feedback to improve its practices. As a general matter, PacifiCorp does not object to the majority of the recommendations and either already has or plans to implement corrections or process improvements to its accounting practices related to the balancing accounts approved by the California Public Utilities Commission (Commission).

PacifiCorp, however, does not agree with all of the individual findings or recommendations identified in the Draft Report, and takes specific issue with findings based on interpretations that are inconsistent with, or at time directly contradict, Commission-approved tariffs, Commission decisions, and established regulatory procedures. Additionally, the Draft Report includes a factual inaccuracy in the background description of PacifiCorp.

PacifiCorp has requested clarification regarding the process for challenging findings and recommendations from the Balancing Account Examination, but has not as yet received a response from UAFCB. PacifiCorp again requests that UAFCB identify the specific procedural process for seeking Commission review of the findings.

PacifiCorp addresses each finding and the factual inaccuracy below.

## **FACTUAL INACCURACY**

As a preliminary matter, on page 7 the Draft Report states that "PacifiCorp filed its first general rate case (GRC) with the CPUC on November 20, 2009." This is not correct. PacifiCorp has been a public utility in California for the better part of the last century. PacifiCorp's 2009 GRC was its most recent GRC before filing Application 18-04-002 in 2018. PacifiCorp has filed other GRCs with the Commission.



## **PACIFICORP RESPONSE TO INDIVIDUAL FINDINGS**

### **Finding 1: PacifiCorp did not timely settle the year-end balances of Energy Savings Assistant Program Balancing Account (ESABA) and California Alternative Rate for Energy Balancing Account (CAREBA)**

**PacifiCorp Response:** PacifiCorp disputes this finding, but does not object to the recommendation. Ordering Paragraphs (OP) 10 and 17 both state that “surcharge adjustment advice letters, if any, may be filed annually by October 31” the utility “may” file to update the surcharges through an advice letter annually “if any.” The plain language of Decision (D.) 14-05-004 that provides that ESABA and CAREBA surcharge adjustment advice letters, if any, must be filed annually by October 31, must be read to mean exactly what it says: the Commission clearly expected that there would be years where the surcharge did not need to be adjusted and where the utility would not file an advice letter. Requiring a utility to file an adjustment advice letter in a year where the ESA or CARE surcharge does not need to be adjusted is contrary to the plain language of D.14-05-004 and therefore impermissible.

This raises a specific issue of interpretation of the Decision by the UAFCB. The basis for the finding is not included in any OP. It is inappropriate to audit to a standard that is unclear, or where the utility has no prior notice of the interpretation. Further, UAFCB’s Draft Report is deficient and arbitrary because it merely cites to Section 4.2.4 of D. 14-05-004, and ignores the clearly contradictory language in the OPs.

PacifiCorp, however, does not object to the recommendation because it is prospective in nature and has clarified the Commission’s interpretation of one-way balancing accounts. PacifiCorp has incorporated this new requirement in its procedures to annually file an advice letter by October 31 addressing the ESA and CARE surcharges.<sup>1</sup>

### **Finding 2: PacifiCorp did not fully refund the estimated over-collection balance of ESABA as of December 31, 2016 when it developed the ESA Program Surcharge Rates.**

**PacifiCorp Response:** PacifiCorp objects to the use of Public Utility Code (P.U.C.) Section 451 as an audit criteria. The first paragraph of the Background section in the Draft Report specifically states that UAFCB conducted the examination of PacifiCorp’s balancing accounts pursuant to P.U.C. Sections 314.5, 581, 582, and 584. The UAFCB is not empowered to make determinations of what is a just and reasonable rate under P.U.C. Section 451. Any such determination must provide an opportunity for the utility to present its case before the Commission, meaning the voting members of the Commission, unless there is delegated authority. The Draft Report does not cite to any such delegated authority. UAFCB’s use of this criteria is arbitrary unless backed by a specific

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<sup>1</sup> On October 31, 2019, PacifiCorp filed Advice Letter 593-E to reduce the ESA surcharge and to not modify the CARE surcharge. On November 22, 2019, the Energy Division notified PacifiCorp that the request made through Advice Letter 593-E was granted, effective January 1, 2020.



Commission rule or decision. Further, such criteria does not provide prior notice to the utility regarding the specific compliance requirements. PacifiCorp specifically explained its interpretation of the one-way balancing account in its 2017 filing, AL 545-E, which was accepted by the Commission.

While the basis for the finding is arbitrary and well beyond the scope of the audit, PacifiCorp does not object to UAFCB's recommendation for this finding. As included in PacifiCorp's response to CPUC Data Request 13.11, PacifiCorp appreciates the clarification from the UAFCB that for one-way balancing accounts, program costs exceeding the budget level should be removed from the record because this portion could not get recovery; while all expenditures within the budget level can be recovered by PacifiCorp. PacifiCorp has incorporated the estimated balance of the ESABA into its next ESA program surcharge rate calculation effective January 1, 2020. This change in process was reflected in the company's October 31, 2019 Advice Letter filing 593-E which also referenced in response 1.

**Finding 3: PacifiCorp did not properly adjust its demand Side Management (DSM) Program Surcharge Rates.**

**PacifiCorp Response:** The UAFCB should remove this finding from the Audit Report. The Draft Report provides no clear basis to conclude that PacifiCorp did not properly interpret the requirements of OP 2 of D. 18-11-033. UAFCB is prohibited from reinterpreting a Commission decision which has ordered a utility to take a certain action. The Commission unequivocally directed PacifiCorp to re-calculate the Public Purpose Programs surcharge to reflect the DSM balancing account (DSMBA) balance as of the issue date of D.18-11-033 and to submit the updated charge in a Tier 1 Advice Letter within 10 days. (D.18-11-033, OP 2.) The Commission did not direct PacifiCorp to include updated kilowatt-hour (kWh) and/or "Present Base Rev with ECAC" as recommended by the Draft Report. Had PacifiCorp included that data on its own motion, it would not have been in compliance with the Commission's order.

Moreover, when it ordered PacifiCorp to recalculate the surcharge, D.18-11-003 observed that the surcharge rates were partly based on December 2011 forecasted sales and partly on forecasted on December 2019 Test Year sales, which were—and still are—under review in PacifiCorp's current general rate case. (D.18-11-003, p. 10.) At the time the Commission directed PacifiCorp to revise the surcharge, the Commission had not yet approved the forecasted sales component of the revised surcharge; the forecasted sales remained unapproved at the time PacifiCorp was required to file the update to the surcharge. In addition to the fact that the Commission did not order PacifiCorp to include updated kWh in its surcharge calculation, and in addition to the fact that the Commission acknowledged that PacifiCorp's forecasted 2019 Test Year sales were still under review, had PacifiCorp included un-approved forecasted sales in its surcharge recalculation, the resulting rate would be *per se* unreasonable. If included in the report, this finding would undermine decades of established Commission process.



UAFCB’s finding again identifies in its listing of applicable criteria P.U.C. Section 451. As discussed above, this in an inappropriate criteria for this audit. Audits should be based on objective criteria, not a subjective analysis based on the arbitrary interpretation of a statutory requirement outside of the established procedural process. The UAFCB is not authorized to make a determination as to what charges are just and reasonable.

**Finding 4: Incorrect Weighted Average Costs (WAC) in PacifiCorp’s GHG Application resulting in inaccurate Adjusted GHG allowance Surcharge Rates.**

**PacifiCorp Response:** PacifiCorp disagrees with the basis for the finding. PacifiCorp has filed these calculations with the Commission, which have been reviewed repeatedly and found in compliance by Energy Division. PacifiCorp is not aware of any Commission decision directing the company to “true up the actual surrendered emissions (MTC02e) for prior years when the actual amount was known at the time of filing”. Accordingly, this finding appears to be based on a policy determination not previously communicated to PacifiCorp. PacifiCorp, however, does not object to this recommendation on a prospective basis.

**Finding 5: PacifiCorp’s GHG Application reported different GHG allowance Costs than those in the 2018 tracking statement of GHG allowance Costs Sub-Balancing Account (GHGBA-Cost).**

**PacifiCorp Response:** PacifiCorp does not object to this finding and recommendation.

**Finding 6: PacifiCorp incorrectly reported the GHGBA-Cost monthly balances in its 2018 tracking statement due to three recording errors.**

**PacifiCorp Response:** PacifiCorp does not object to this finding.

**Finding 7: PacifiCorp did not reasonably estimate the collected GHG Allowance surcharges in its GHG Application (A. 18-08-001), resulted in an understatement of surcharges by \$716,756.**

**PacifiCorp Response:** UAFCB’s finding identifies as the sole applicable criteria P.U.C. Section 451. As discussed above, this in an inappropriate criteria for this type of audit. Audits should be based on objective criteria, not a subjective analysis. PacifiCorp, however, does not object to the recommendation. Despite the inappropriate use of P.U.C. Section 451 as a criteria for the audit, PacifiCorp will incorporate the recommendation of the UAFCB into the company’s regulatory and accounting procedures going forward.

**Finding 8: PacifiCorp incorrectly included the Greenhouse Gas Allowance Revenue Balancing Account (GHGBA-Revenue) related customer outreach costs and administrative costs in its GHGBA-Revenue tracking statement.**

**PacifiCorp Response:** PacifiCorp does not object to this finding and recommendation.



**Finding 9: PacifiCorp did not fully use the required accrual basis of accounting to record revenues/surcharges or expenditures in its balancing accounts.**

**PacifiCorp Response:** PacifiCorp disagrees with the broad scope of this finding. PacifiCorp follows an accrual basis of accounting. UAFCB alleges that the company does not use an accrual basis of accounting in accordance with Code of Federal Regulations (CFR) Title 18, Part 101, General Instructions No. 11A – Accounting to be on an accrual basis. PacifiCorp disagrees with the implication that there is a requirement to record unbilled revenue at the balancing account level. PacifiCorp records unbilled revenue in accordance with its policy, on a monthly basis at the customer class level by state. The company does not, due to the additional burden, record unbilled revenue at the individual balancing account level. PacifiCorp is not aware of, and the Draft Report has not identified, a specific requirement to do so. The impact of this is not material because of the timing component, meaning that the unbilled revenue (i.e. estimated revenue) will be more accurately billed and recorded the following month for the applicable balancing accounts.

During the audit, PacifiCorp provided the company's established month-end accrual policy which states that every effort should be made to ensure incurred costs over \$100,000 have been identified for accrual posting and items between \$10,000 and \$100,000 should also be accrued if they can be identified. The company, as a major utility with over \$4.0 billion in annual utility operating expenses and over \$1.2 billion in annual capital expenditures, has established and applied consistently these materiality thresholds for monthly accruals that we believe represent a reasonable assessment of appreciable amounts that should be included in accounts to result in financial statements that present fairly, in all material respects, the financial position of the company and the results of our operations and cash flows in conformity with accounting principles generally accepted in the United States of America. The specific examples referenced by the UAFCB were limited in nature and related to specific customer programs. PacifiCorp will conduct additional training with employees working on the Solar Incentive Balancing Account (SIBA) and the Mobile Home Park Conversion Balancing Account.

**Finding 10: PacifiCorp did not accrue interests in the tracking statements of Demand Side Management Balancing account and Solar Incentive Program Balancing Account.**

**PacifiCorp Response:** PacifiCorp objects to this finding as it constitutes retroactive ratemaking and contradicts the terms of PacifiCorp's tariff on file with the Commission. The Commission approved PacifiCorp's tariffs and Advice Letters which establish the DSMBA and SIBA without a provision for accrual of interest on either account. The rates established pursuant to those tariffs were therefore deemed reasonable by the Commission. (See CLFP v. PG&E, D.91-10-045 [1991 Cal. PUC LEXIS 699], p. \*4.) Under P.U.C. Section 451, all rates charged by a public utility must be just and reasonable; the Commission has held this requirement applicable to tariffs (Application of Rosella Water Company, 45 CPUC 2d 424 [1992 Cal. PUC LEXIS 692], p. \*16.) The



Commission has also held that Section 451 requires that rates be approved only if they are just and reasonable. (Application of PG&E for its 2012 Nuclear Decommissioning Cost Triennial Proceeding, D.14-12-082, p. 19.) Section 454(a) further requires that a public utility shall not change its rates, practices, or rules, except upon a showing to the Commission that the new rate is justified. The Commission approved PacifiCorp's Solar Incentive program budget and the associated balancing account in D.11-03-007, and directed PacifiCorp to revise its tariffs by a Tier 1 Advice Letter. Commission staff approved PacifiCorp's tariffs under the authority delegated to staff in General Order 96-B, Rule 7.6.1. PacifiCorp's tariffs, as filed, were approved and deemed reasonable by the Commission.

It should also be noted that the Commission has delegated authority to staff for ministerial decision-making regarding utilities' Tier 1 and Tier 2 Advice Letter filings (GO 96-B, Rule 7.6.1.) Tier 1 and 2 Advice Letters implement Commission-authorized changes to tariffs, whereas any proposed tariff provision that deviates from the language of a statute or Commission order must be reviewed and approved by the Commission itself (GO 96-B, Energy Industry Rules 5.1–5.3.) The Tier 1 Advice Letters approved by the Energy Division to implement the tariff changes related to the SIBA and DSMBA adhered with the directives in the Commission decisions authorizing the change. Consequently, the approved tariffs must be considered reasonable as originally approved. UAFCB acknowledges that a tariff change is required by stating PacifiCorp "should work with the Commission to add back the interest accrual...." This statement acknowledges that a separate Commission action is required to effectuate the finding and recommendation. If this is the case, the finding and recommendation are outside the scope of the audit because the audit is limited to compliance with "applicable laws and regulations, the Commission's directives, pertinent Rulings, and guidelines related to balancing accounts." (See e.g. UAFCB January 16, 2019 Compliance Examination letter to PacifiCorp) Incorporating interest accrual would require a revision to the balancing accounts through a new filing and subsequent approval by the Commission. PacifiCorp is not aware of any authority that would allow UAFCB to direct a change to a filed tariff or Commission order.

PacifiCorp has collected and recorded the surcharges in its SIBA and DSMBA in accordance with its Commission-approved tariffs. Requiring PacifiCorp to accrue interest to the accounts going back to the date of inception would be inconsistent with the principle that funds should be collected and recorded in accordance with the approved tariff provisions (P.U.C. Section 532 [prohibiting utilities from charging rates that deviate from their approved tariffs]; GO 96-B, Rule 9.2.1 ["[A] utility shall serve its California customers only at rates and under conditions contained in its tariffs then in effect."]; see, e.g., Pac. Tel. & Tel. Co., 81 CPUC 510 [1977 Cal. PUC LEXIS 1282]. p. \*63 ["We cannot, and will not, condone deviations from a utility's tariffs . . . ."].) The UAFCB cannot pick which Commission policies, rules and decisions, or parts thereof, it will enforce through an audit. The UAFCB must consider all Commission policies, rules, and language in decisions, including those that clearly contradict a potential finding in the Draft Report. The Draft Report's dismissal of regulatory policy



and language directly from Commission decisions is inappropriate and raises significant procedural and due process concerns.

Further, the retroactive accrual of interest would also be inconsistent with past UAFCB recommendations. For instance, UAFCB's audit of Bear Valley Electric Service's (BVES) 2017 balancing accounts determined that BVES did not accrue interest on the balances of five accounts, nor did it record any interest earned for the collected funds; UAFCB recommended that BVES should strictly follow the preliminary statements in its tariffs for recording accrued interest and should record and remit to the CEC quarterly earned interest for specific programs. No recommendation was made to back-date these remedies. Similarly, the audit of Liberty Utilities' 2017 balancing accounts determined that Liberty either incorrectly calculated or failed to accrue interest on a number of its balancing accounts; UAFCB's recommendation was that Liberty follow the directives in the Preliminary Statements of its tariffs to compute interest or request the Commission's approval to amend its Preliminary Statements.

While the basis for this finding is not an appropriate criteria for an audit, PacifiCorp does not object to revising the tariff on a prospective basis to include an interest calculation. PacifiCorp does, however, object to the specific recommendation of a refund as it directly contradicts the tariff and would constitute retroactive ratemaking.

PacifiCorp appreciates the overall determination that the company has complied, in all material respects, with the recording and reporting requirements for balancing accounts during the examination period. PacifiCorp is committed to improving its practices, processes and controls related to compliance with Commission directives and recording of balancing accounts. PacifiCorp's objections to the Draft Report are limited to findings that directly contradict appropriate Commission decisions and appear to be based on arbitrary interpretations.

Sincerely



Matthew McVee  
Chief Regulatory Counsel  
PacifiCorp

cc: Raymond Yin  
Bixia Ye



# Evaluation of Responses

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PacifiCorp submitted its comments to Utility Audits Branch's (UAB's) draft report on December 13, 2019. The responses have been reviewed and incorporated into our final report. Regarding PacifiCorp's request for clarification of specific procedural process for challenging UAB's findings and recommendations, PacifiCorp may contact the Executive Director of CPUC. In evaluating PacifiCorp's comments, we noted that PacifiCorp does not object to the Findings 5, 6 and 8, and Recommendations 1, 2, 4, 5, 6, 7, and 8. Therefore, we devoted our evaluation to address PacifiCorp's comments that disagreed with our findings and recommendations. We would like to reiterate that our findings and recommendations are closely inter-related; and the recommendations were developed based on our fact findings. UAB's evaluation of PacifiCorp's comments are presented below.

## Factual Inaccuracy

UAB acknowledged that it made an inadvertent typo on page 7 of its draft report.<sup>1</sup> UAB has corrected the typo in this final report and we appreciated PacifiCorp's feedback.

### **Finding 1: PacifiCorp did not timely settle the year-end balances of Energy Savings Assistant Program Balancing Account (ESABA) and California Alternative Rate for Energy Balancing Account (CAREBA).**

UAB disagrees with PacifiCorp's comments that the words "may" and "if any" in Ordering Paragraphs (OP) 10 and 17 of D.14-05-004 relieve PacifiCorp of its obligations to timely settle the year-end balances of ESABA and CAREBA. UAB also disagrees with PacifiCorp's assertions that "...UAFCB's Draft Report is deficient and arbitrary because it merely cites to Section 4.2.4 of D.14-05-004, and ignores the clearly contradictory language in the OPs." The discussion sections 4.1.4 and 4.2.4 of D.14-05-004 provide not only the background information but also the basis for the eventual CPUC directives presented in OPs 10 and 17. Those two sections are an integral part of D.14-05-004 which provide CPUC directives to the SMJUs. The conclusion of the discussions in these two sections and the two OPs was, as stated on pages 24 and 39 of D.14-05-004, "...going forward, all of the SMJUs must effectively manage any potential over and under collections."

In addition, UAB disagrees with PacifiCorp's comments that, "Requiring a utility to file an adjustment advice letter in a year where the ESA or CARE surcharge does not need to be adjusted is contrary to the plain language of D.14-05-004 and therefore impermissible." As shown in Table 2 under Finding 1 of this report, PacifiCorp maintained over-collection balances in ESABA from 2015 through 2018, and the percentages of ESABA year-end balances to the annual ESA Program budgets in these three years ranged from 58 to 77 percent. These material over-collection balances certainly had significant impacts on determining the program surcharge rates; and thus, should have triggered PacifiCorp to timely settle the over-collection balances by filing advice letters to adjust the program surcharge rates. The absolute values of PacifiCorp's ESABA and CAREBA year-end over- or under-collection balances were material enough (ranging from \$281,623 to \$722,146 as presented in Finding 1) that they had impacts on adjusting the programs' surcharge rates, and should have been settled timely.

For the reasons stated above, UAB's Finding 1 remains unchanged. UAB appreciates that PacifiCorp has implemented the recommendation of this finding.

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<sup>1</sup> UAB intended to say that "PacifiCorp filed its *prior* general rate case (GRC) with CPUC on November 20, 2009..." on Page 7 of the draft report; however, UAB inadvertently made a typo to say that "PacifiCorp filed its *first* general rate case (GRC) with CPUC on November 20, 2009." The inadvertent typo has been corrected on Page 7 of this final report.



**Finding 2: PacifiCorp did not fully refund the estimated over-collection balance of ESABA as of December 31, 2016 when it developed the ESA Program Surcharge Rates.**

PacifiCorp objects to UAB's use of PU Code Section 451 as an audit criterium; however, PacifiCorp did not dispute UAB's finding and recommendation.

UAB disagrees with PacifiCorp's comments. UAB cites PU Code, Sections 314.5, 581, 582, and 584 as the basis for our examination because these sections specified CPUC's authority to audit regulated public utilities under the purview of the CPUC, as well as the obligations the regulated public utilities to cooperate with the CPUC's delegates and provide documents requested by the CPUC. CPUC's power to regulate public utilities under its purview is by no means limited to these specific PU Code sections. In fact, all PU Code sections should be used by the CPUC to oversee the regulated public utilities. UAB is the audit branch of the CPUC that is duly authorized to audit PacifiCorp's financial records to evaluate and determine whether PacifiCorp complies with regulatory requirements and CPUC's directives. Appendix A details the specific criteria used for this examination.

For the reasons stated above, UAB's Finding 2 remains unchanged. UAB appreciates PacifiCorp's implementation of the recommendation in this finding.

**Finding 3: PacifiCorp did not properly adjust its Demand Side Management (DSM) Program Surcharge Rates.**

PacifiCorp acknowledged that it did not use the updated kWh and "Present Base Rev with ECAC" to update its DSM Program Surcharge Rates. PacifiCorp stated that:

*"The Commission did not direct PacifiCorp to include updated kilowatt-hour (kWh) and/or "Present Base Rev with ECAC" as recommended by the Draft Report. Had PacifiCorp included that data on its own motion, it would not have been in compliance with the Commission's order."*

UAB disagrees with PacifiCorp's comments. Refer to the Criteria section of this finding, OP 2 of D.18-11-033 does not limit PacifiCorp to only update the "Target Annual Collection Amount." Rather, it requires PacifiCorp to "provide: (a) a new version of Exhibit D to the Application..." PacifiCorp updated the "Target Annual Collection Amount" to \$920,000 in its AL 576-E, which was filed to comply with OP 2 of D.18-11-033, that, "The updated amount to be collected through the Surcharge annually in 2019 and 2020 is \$920,000." However, PacifiCorp did not update the other related data that were used to develop the Program Surcharge Rates. That is, PacifiCorp updated the numerator to reflect the revenue requirement for 2019, but did not concurrently update the denominator in the formula used to compute DSM surcharge rates for 2019, which had resulted in incorrect and unreasonable surcharge rates. UAB considered that "A new version of Exhibit D" mentioned in OP 2 of D.18-11-033 should include updates of all relevant data presented in Exhibit D. The kWh and "Present Base Rev with ECAC" included in Exhibit D were closely related to the calculation of the DSM Program Surcharge Rates; and should have been updated for consistency. Therefore, UAB does not agree with PacifiCorp's comments that "Had PacifiCorp included that data on its own motion, it would not have been in compliance with the Commission's order."

Furthermore, UAB disagrees with PacifiCorp's comments that:

*"...had PacifiCorp included un-approved forecasted sales in its surcharge recalculation, the resulting rate would be per se unreasonable. If included in the report, this finding would undermine decades of established Commission process."*



During the examination, UAB found that it is PacifiCorp's practice to use the information from current year ECAC Application to adjust program surcharge rates effective the following year. For example, PacifiCorp used the kWh and "Present Base Rev with ECAC" from PacifiCorp's ECAC Application (A.18-08-001) to adjust its ESABA and CAREBA Surcharge Rates effective January 1, 2019 in its AL 573-E dated October 31, 2018, the date before the issuance of D.18-12-007, which approved A.18-08-001. PacifiCorp's arguments above contradict with its existing practice. PacifiCorp should use consistent data including but not limited to the kWh and "Present Base Rev with ECAC" to adjust its programs' surcharge rates effective 2019 for all of its Public Purpose Programs including DSM, ESA, and CARE programs.

See Finding 2 above for UAB's response to PacifiCorp's disagreement on the use of PU Code Section 451 as an audit criterium.

For the reasons stated above, UAB's Finding 3 and the related recommendation remain unchanged. PacifiCorp should implement UAB's recommendation.

**Finding 4: Incorrect Weighted Average Costs (WAC) in PacifiCorp's GHG Application resulted in inaccurate adjusted GHG Allowance Surcharge Rates.**

PacifiCorp disagrees with this finding and asserted that CPUC's Energy Division (ED) had reviewed the annual GHG calculations in PacifiCorp's application and found them in compliance. UAB reiterates that its examination is independent of CPUC's industry division's (i.e., ED's) reviews and UAB's evaluation is based on the directives of the CPUC as well as the documents filed by PacifiCorp with the CPUC.

To address PacifiCorp's comments that it is not aware of the need to true up the actual surrendered emissions for prior years and the statement that, "...*this finding appears to be based on a policy determination not previously communicated to PacifiCorp,*" UAB wants to point to the calculation methodology of WAC required by the CPUC in Attachment C of D.15-01-024 as shown below:

*When a utility calculates the WAC of compliance instruments in inventory, it should consider all compliance instruments in its inventory that are **valid for current** compliance period. [Emphasis added in bold font.]*

*At any period of time, the WAC is calculated as the total cost of all compliance instruments **held in inventory**, divided by the total quantity of compliance instruments. [Emphasis added in bold font.]*

*For WAC calculation purposes, allowances remain on the balance sheets as inventory (current or noncurrent) until surrendered to ARB. **When allowances are surrendered to ARB, the balance sheet will be reduced by the number of allowances surrendered to ARB.** [Emphasis added in bold font.]*

For the reasons stated above, UAB's Finding 4 remains unchanged. UAB appreciates that PacifiCorp agreed to prospectively implement UAB's recommendation of this finding.

**Finding 5: PacifiCorp's GHG Application reported different GHG Allowance costs than those in the 2018 tracking statement of GHG Allowance Costs Sub-Balancing Account (GHGBA-Cost).**

PacifiCorp does not object to this finding and recommendation. PacifiCorp should implement UAB's recommendation of this finding.



**Finding 6: PacifiCorp incorrectly reported the GHGBA-Cost monthly balances in its 2018 tracking statement due to three recording errors.**

PacifiCorp does not object to this finding. PacifiCorp should implement UAB's recommendation of this finding.

**Finding 7: PacifiCorp did not reasonably estimate the collected GHG Allowance surcharges in its GHG Application (A.18-08-001), resulted in an understatement of surcharges by \$716,756.**

PacifiCorp agrees with this finding but disagrees with the use of PU Code Section 451 as an audit criterium. See Finding 2 above for UAB's response to PacifiCorp's disagreement in that regard.

For the reasons stated above, UAB's Finding 7 remains unchanged. UAB appreciates the PacifiCorp agreed to prospectively implement UAB's recommendation of this finding.

**Finding 8: PacifiCorp incorrectly included the Greenhouse Gas Allowance Revenue Balancing Account (GHGBA-Revenue) related customer outreach costs and administrative costs in its GHGBA-Revenue tracking statement.**

PacifiCorp does not object to this finding and recommendation. PacifiCorp should implement UAB's recommendation of this finding.

**Finding 9: PacifiCorp did not fully use the required accrual basis of accounting to record program revenues/surcharges or expenditures in its balancing accounts.**

PacifiCorp disagrees with this finding without basis. PacifiCorp stated that it follows an accrual basis of accounting, yet it admitted that *"The company does not, due to the additional burden, record unbilled revenue at the individual balancing account level."* Without recording unbilled revenue in the balancing account is an example of PacifiCorp not using accrual basis of accounting to record transactions in its balancing accounts. PacifiCorp did not dispute the other two examples of not following accrual basis of accounting that UAB described in this finding – (1) PacifiCorp included billing of the first two days in January 2019 for customers in the billing cycle #21 into 2018 revenue; and, (2) PacifiCorp used cash basis to record the revenue in its GHGBA-Revenue.

Regarding not using accrual basis of accounting to record expenditures, PacifiCorp did not dispute UAB's finding of facts, but states that, *"The specific examples referenced by the UAFRCB were limited in nature and related to specific customer programs."* Out of the reported eight balancing accounts or related programs, we found inconsistencies in PacifiCorp's part of not following its own accrual policy in three programs – Energy Savings Assistant Program, Solar Incentive Program, and Mobile Home Park Conversion Program. UAB found that in three out of eight of PacifiCorp's programs, or 37.5 percent, PacifiCorp did not follow its own accrual policy. UAB appreciated that PacifiCorp recognized the need for and agreed to provide trainings to its employees working on the Solar Incentive Balancing Accounts and Mobile Home Park Conversion Balancing Account. However, UAB recommends that PacifiCorp expands this training to all its employees working on balancing accounts.

For the reasons stated above, UAB's Finding 9 and related recommendation remain unchanged.



**Finding 10: PacifiCorp did not accrue interests in the tracking statements of Demand Side Management Balancing Account (DSMBA) and Solar Incentive Program Balancing Account (SIBA).**

PacifiCorp disagrees with this finding because PacifiCorp considered this finding constitutes retroactive ratemaking and contradicts the terms of PacifiCorp's tariff on file with the CPUC.

PacifiCorp argued that it did not include the interest accrual requirement in its DSMBA and SIBA preliminary statements because there were no explicit languages regarding interest accrual stated in any CPUC decision for the DSMBA and SIBA. PacifiCorp used the approved preliminary statements to justify for not recording interest in its DSMBA and SIBA. PacifiCorp claimed that it was following the provisions of its approved tariffs. In addition, PacifiCorp questioned UAB's authority in directing a change to a filed tariff or CPUC order.

While PacifiCorp cited multiple sources for support, it did not have any comments on the requirements specified in the California regulation, specifically PU Code Section 792.5(d) as cited by UAB in this finding. The section states that,

*"The commission shall require the public utility **to record all related costs and revenues in the balancing account, unless those costs or revenues are specifically exempted by the commission.**"* [Emphasis added in bold font.]

The PU Code Section 792.5(d) explicitly requires the public utility [PacifiCorp included] to record all related costs and revenues unless specifically exempted by the CPUC. That PU Code section does not restrict PacifiCorp to only record the costs and revenues explicitly stated by the CPUC. PacifiCorp is required to comply with PU Code, Section 792.5(d) and record all costs and revenues in its balancing accounts unless PacifiCorp is specifically exempted by the CPUC. PacifiCorp could not prove it has obtained such an exemption from the CPUC. Rather, it only used the CPUC-approved preliminary statements, in which it omitted the requirement for recording interest in the balancing accounts, as justification. UAB wants to emphasize that PacifiCorp's DSMBA and SIBA preliminary statements were filed with ED via Tier 1 advice letters, the lowest tier among all three tiers of advice letters and became effective upon disposition. As described under the Condition section of this finding, PacifiCorp records interest in all its balancing accounts except for DSMBA and SIBA. PacifiCorp knew or should have known that accrued interest is a component in every balancing account, and it is necessary to accrue interest in its DSMBA and SIBA. The inadvertent omission of interest requirement in the DSMBA and SIBA Preliminary Statements does not excuse PacifiCorp from its obligations to properly accrue and refund interest owed to its ratepayers. Thus, UAB does not consider PacifiCorp's justification adequate.

As presented in this finding, PacifiCorp maintained material over-collection balances in the DSMBA and SIBA for many years. The interests earned on those over-collection balances were deposited into its bank account but were not recorded in these balancing accounts for those years. Therefore, UAB determines that this practice is unjust and unreasonable to PacifiCorp's ratepayers.

PacifiCorp also argued that UAB's recommendation of retroactive accrual of interest was not consistent with previous examinations by using UAB's examinations of Bear Valley Electric Service (BVES) and Liberty Utilities as examples. UAB does not consider PacifiCorp's analogy proper because every UAB audit is independent and our recommendations could be different based on our consideration of many factors, including materiality. Although BVES and Liberty Utilities both had multiple balancing accounts without recording accrued interest, their balancing accounts had concurrent over- and under-collection balances from year to year. UAB analyzed all



relevant data of those two utilities' balancing accounts and determined that the net impacts of not recording interest revenue and interest expenses in their balancing accounts were immaterial. Contrary to BVES and Liberty Utilities' cases, PacifiCorp's SIBA and DSMBA carried material over-collection balances from year to year. Consequently, PacifiCorp owed material amount of interest to its ratepayers that should have been refunded. Therefore, PacifiCorp should accrue interest in the DSMBA and SIBA from the balancing accounts' inceptions to date and refund them to the ratepayers.

For the reasons stated above, UAB's Finding 10 and the related recommendation remain unchanged.