

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



Transmitted via e-mail

August 26, 2021

Mr. Martin Kropelnicki
Chief Executive Officer
California Water Service Company
1720 North First Street
San Jose, CA 95112

Dear Mr. Kropelnicki:

Final Report Transmittal Letter—Review of California Water Company – Livermore District’s 2019 Annual Report for the year ended December 31, 2019

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its review of California Water Service Company (CWSC) – Livermore District’s Annual Report filed with the CPUC. The final review report is enclosed.

CWSC’s response to the draft report findings and our evaluation of the response are incorporated into this final report. We will post this review report on our website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/AuditReportsbyIndustry).

Please provide a Corrective Action Plan (CAP) addressing the findings and recommendations no later than October 11, 2021. The CAP should specifically address how CSWC will implement each of the UAB’s recommendations. Please submit the CAP to the UAB at UtilityAudits@cpuc.ca.gov, with a copy to Bruce DeBerry, Program Manager of Water Division, at Bruce.DeBerry@cpuc.ca.gov.

We appreciate CWSC’s assistance and cooperation during the engagement, and its willingness to implement corrective actions. If you have any questions regarding this report, please contact Raymond Yin, Program and Project Supervisor, at (415) 703-1818.

Sincerely,

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

Mr. Martin Kropelnicki
Chief Executive Officer
California Water Service Company
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cc: Natalie Wales, Regulatory and Policy and Compliance Director, CWSC
Teresita Cayas, Consultant, CWSC
Paul Townsley, Vice President, Corporate Development & CRO, CWSC
Greg Milleman, Vice President, California Rates, CWSC
Dave Healey, Vice President and Controller, CWSC
Tom Scanlon, Director of Financial Reporting, CWSC
Rachel Peterson, Executive Director, CPUC
Saul Gomez, Deputy Executive Director, Office of the Commission, CPUC
Terence Shia, Director, Water Division, CPUC
Masha Vorobyova, Assistant Director, UAB, CPUC
Bruce Berry, Program Manager, Water Division, CPUC
Raymond Yin, Program and Project Supervisor, UAB, CPUC
Khusbindar Kaur, Senior Management Auditor, UAB, CPUC
Judith Mason, Public Utility Financial Examiner IV, UAB, CPUC



REVIEW OF FINANCIAL SCHEDULES

California Water Service Company–Livermore District
For the Year Ended December 31, 2019

Utility Audits, Risk and Compliance Division
Utility Audits Branch
August 26, 2021



MEMBERS OF THE TEAM

Angie Williams, Director

Masha Vorobyova, Assistant Director

**Raymond Yin, CPA
Program and Project Supervisor**

**Khusbindar Kaur, CPA
Lead**

**Judith Mason
Staff**

**A digital copy of this report can be found at:
[Audit Reports by Industry \(ca.gov\)](https://www.cpr.ca.gov/audit-reports-by-industry)**

**You can contact our office at:
California Public Utilities Commission
Utility Audits, Risk and Compliance Division
400 R Street, Suite 221
Sacramento, CA 95811**

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EXECUTIVE SUMMARY

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a review of the financial schedules in the Annual Report of California Water Service Company (CWSC)–Livermore District (CWSC–Livermore) for the year ended December 31, 2019, pursuant to Public Utilities (PU) Code Sections 314.5, 314.6, 581, 582, and 584 that provide the CPUC the statutory authority to review or audit the books and records of the regulated utilities. We conducted this review in accordance with the standards prescribed under Review Engagements in the Generally Accepted Government Auditing Standards (GAGAS).

Incorporated in California in 1926, CWSC is a subsidiary of California Water Service Group.¹ CWSC is a Class A water utility with a total of 463,358 metered and 64,049 flat rate customer connections in 21 districts.² CWSC–Livermore was formed in 1927 and serves 18,473 metered and 3,477 flat rate customer connections in the vicinity of Livermore, California.³ As a regulated water utility, CWSC is required to prepare its Districts’ Annual Reports on accrual basis of accounting set forth in the Uniform System of Accounts (USOA) adopted in Decision (D.) 16-11-006 by the CPUC on November 16, 2016, which is a comprehensive basis of accounting other than the generally accepted accounting principles in the United States of America.

The purpose of this review was to obtain limited assurance as a basis for reporting whether we were aware of any material modifications that should be made to the financial schedules in CWSC–Livermore’s Annual Report for the year ended December 31, 2019, in order for them to be in accordance with the accounting framework prescribed by the USOA and CPUC’s directives.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial schedules in CWSC–Livermore’s revised Annual Report in order for them to be in accordance with the accounting framework prescribed by the USOA and CPUC’s directives. However, UAB identified four (4) material misstatements in CWSC–Livermore’s Annual Report originally filed with the CPUC’s Water Division, as described in Appendix A–Review Findings and Recommendations. The four findings are summarized below:

- Finding 1: CWSC–Livermore understated its Operating Revenues by \$3,391,892 in its 2019 Annual Report because it inadvertently excluded surcharges related to Water Revenue Adjustment Mechanism (WRAM), Modified Cost Balancing Account (MCBA) adjustments and related interest, and surcharges.
- Finding 2: CWSC–Livermore understated its Total Operating Expenses by \$12,893,144 due to mathematical errors in Schedule B-2 – Operating Expenses of its 2019 Annual Report.
- Finding 3: CWSC–Livermore reported the capitalized non-service component of its post-retirement benefits costs totaling \$134,678 using non-standardized USOA accounts.
- Finding 4: CWSC–Livermore underreported expenses in Account 726–Fuel or Power Purchased for Pumping by \$315,071 in its 2019 Annual Report. CWSC–Livermore

¹ CWSC 2019 Annual Report, General Information, Page 12.

² CWSC 2019 Annual Report, Schedule D-4–Number of Active Service Connections, Page 64.

³ CWSC–Livermore 2019 Annual Report, Schedule D-4–Number of Active Service Connections, Page 18.

incorrectly subtracted Subaccount 726250–MCBA Power Adjustment Account from Subaccount 726200–Purchased Power.

UAB discussed the above findings with CWSC during fieldwork. CWSC concurred with the findings and agreed to correct the misstatements identified. CWSC submitted CWSC–Livermore’s revised Annual Report on July 2, 2021, to the CPUC to correct the material misstatements described in Appendix A of this report. UAB further discussed the findings and recommendations presented in Appendix A of this report with CWSC at the exit conference on July 8, 2021, and CWSC concurred with the review results. We are not aware of any material modifications that should be made to the financial schedules in CWSC–Livermore’s revised Annual Report. We issued a draft review report on July 27, 2021. CWSC submitted its comments on August 6, 2021, describing the steps it has taken to address the review findings. In its response, CWSC also provided its perspective on the effect of each finding. CWSC’s response to the findings and recommendations is presented in Appendix B of this report. UAB’s evaluation of CWSC’s response is presented in Appendix C of this report.

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Mr. Martin Kropelnicki
Chief Executive Officer
California Water Service Company
1720 North First Street
San Jose, CA 95112

The Utility Audits Branch (UAB) of the California Public Utility Commission (CPUC) has reviewed the accompanying financial schedules in California Water Service Company (CWSC)–Livermore District's (CWSC–Livermore) revised Annual Report for the year ended December 31, 2019. CWSC's management is responsible for the preparation and fair presentation of the financial schedules in CWSC–Livermore's revised Annual Report in accordance with the accounting framework prescribed by the Uniform System of Accounts (USOA) adopted in CPUC's Decision (D.)16-11-006 and CPUC's directives. Our responsibility is to express a conclusion on the financial schedules in CWSC's revised Annual Report based on our review.

Our review was conducted in accordance with the standards of attestation engagement established by the Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States. Those standards require that we plan and perform the review to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial schedules in CWSC–Livermore's Annual Report in order for them to be in accordance with the accounting framework prescribed by the USOA and CPUC's directives. A review is substantially less in scope than an examination, the objective of which is to obtain reasonable assurance about whether the financial schedules in CWSC–Livermore's Annual Report is in accordance with accounting framework prescribed by the USOA and CPUC's directives, in all material respects, in order to express an opinion. Accordingly, we do not express such an opinion. We believe that our review provides a reasonable basis for our conclusion.

Based on our review, we are not aware of any material modifications that should be made to the financial schedules in CWSC–Livermore's revised Annual Report for the year ended December 31, 2019 in order for them to be in accordance with the accounting framework prescribed by the USOA and CPUC's directives. However, UAB identified four material misstatements in CWSC–Livermore's Annual Report originally filed with the CPUC's Water Division, as described in the Appendix A–Review Findings and Recommendations. These material misstatements have been corrected by CWSC–Livermore in the accompanying financial schedules.

Views of Responsible Official

UAB discussed the above findings with CWSC during fieldwork. CWSC concurred with the findings and agreed to correct the misstatements identified in its Annual Report originally filed with the CPUC's Water Division. CWSC submitted CWSC–Livermore's revised Annual Report on July 2, 2021, to correct the material misstatements described in Appendix A of this report. UAB further discussed these findings and recommendations presented in Appendix A of this report with CWSC at the exit conference on July 8, 2021, and CWSC concurred with the review results. We are not aware of any material modifications that should be made to the financial schedules in CWSC–Livermore's revised Annual Report. We issued a draft review report on July 27, 2021. CWSC submitted its comments on August 6, 2021, describing the steps it has taken to address each of the review findings and recommendations. In its response, CWSC also provided its perspective on the

effect of each finding. CWSC's response to the findings and recommendations is presented in Appendix B of this report. UAB's evaluation of CWSC's response is presented in Appendix C of this report.

Other Matter - Submission of a Corrective Action Plan

CWSC management should submit a Corrective Action Plan (CAP) to the UAB at UtilityAudits@cpuc.ca.gov, with a copy to Bruce DeBerry, Program Manager of Water Division, at Bruce.DeBerry@cpuc.ca.gov no later than October 11, 2021. The CAP should specifically address how CWSC will implement each of the UAB's recommendations. If CWSC is unable to implement UAB's recommendations, the corrective action plan should state the reason(s) for not being able to implement any of the recommendations. CWSC should use the amounts reviewed by the UAB as presented in this report as the basis to file its future Annual Reports with the CPUC.

Restricted Use of This Review Report

The purpose of this report is to summarize the results of the review mandated by Public Utilities Code Section 314.5. Accordingly, this review report is intended solely for the information and use by the CPUC and the management of CWSC, and it is not suitable for any other purpose. It is not intended to be used and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

REVIEWED FINANCIAL SCHEDULES

California Water Service Company – Livermore District Utility Plant in Service

As of December 31, 2019

INTANGIBLE PLANT	
Other Intangible Plant	\$158,510
LANDED CAPITAL	
Land and Land Rights	214,644
SOURCE OF SUPPLY PLANT	
Wells	535,417
PUMPING PLANT	
Structures and Improvements	3,336,909
Pumping Equipment	9,358,019
Total Pumping Plant	12,694,928
WATER TREATMENT PLANT	
Structures and Improvements	1,501,134
Water Treatment Equipment	2,730,578
Total Water Treatment Plant	4,231,712
TRANSMISSION AND DISTRIBUTION PLANT	
Structures and Improvements	375,633
Reservoirs and Tanks	7,993,009
Transmission and Distribution Mains	42,118,532
Services	17,903,377
Meters	4,286,329
Hydrants	2,412,683
Total Transmission and Distribution Plant	75,089,563
GENERAL PLANT	
Structures and Improvements	700,123
Office Furniture and Equipment	130,910
Transportation Equipment	650,113
Stores Equipment	43,045
Laboratory Equipment	3,714
Communication Equipment	29,829
Power Operated Equipment	851
Tools, Shop and Garage Equipment	277,013
Other General Plant	9,072
Total General Plant	1,844,670
UNDISTRIBUTED ITEMS	
Other Tangible Property	478
General Office Plant Allocation	5,546,723
Total General Plant	5,547,201
Total Utility Plant in Service	\$100,316,645

(See independent accountant's review report and accompanying notes.)

California Water Service Company – Livermore District
Depreciation and Amortization Reserves
 As of December 31, 2019

	Utility Plant	Limited-Term Utility Investments
Reserves, Beginning of Year	\$32,237,490	\$157,750
Credits		
Charged to Account 503	2,824,306	
Charged to Account 504		640
Salvage recovered	4,421	
Total credits	<u>2,828,727</u>	<u>640</u>
Debits		
Book cost of property retired	401,467	
Cost of removal	103,012	
All other debits	(4,205)	
Total debits	<u>500,274</u>	<u>0</u>
Reserve, End of Year	<u>\$34,565,943</u>	<u>\$158,390</u>

(See independent accountant's review report and accompanying notes.)

California Water Service Company – Livermore District
Operating Revenues
 For Year Ended December 31, 2019

WATER SERVICE REVENUES**Metered Sales to General Customers**

Residential Sales	\$15,013,757
Commercial Sales	899,086
Industrial Sales	2,827,074
Sales to Public Authorities	1,642,310
Sub-total	<u>20,382,227</u>

Sales to Irrigation Customers

Metered sales	<u>18,758</u>
Sub-total	18,758

Private Fire Protection Service	238,524
Public Fire Protection Service	30,396
Other Sales or Service	48,444
Sub-total	<u>317,364</u>

Total Water Service Revenues	<u>20,718,349</u>
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OTHER WATER REVENUES

Customer Surcharges	3,391,892
Miscellaneous Service Revenues	11,020
Other Water Revenue	97,822
Total Other Water Revenues	<u>3,500,734</u>

TOTAL OPERATING REVENUES	<u><u>\$24,219,083</u></u>
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(See independent accountant's review report and accompanying notes.)

California Water Service Company – Livermore District
Operating Expenses
 For Year Ended December 31, 2019

SOURCE OF SUPPLY EXPENSE**Operation**

Operation supervision and engineering	\$37,749
Operation labor and expenses	1,657
Miscellaneous expenses	885
Purchased Water	11,370,837

Maintenance

Maintenance supervision and engineering	35,205
Maintenance of wells	99,000

Total Source of Supply Expense	11,545,333
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PUMPING EXPENSES**Operation**

Operation supervision and engineering	163,718
Pumping labor and expenses	35,854
Miscellaneous expenses	33,030
Fuel or power purchased for pumping	307,066

Maintenance

Maintenance supervision and engineering	60,538
Maintenance of structures and improvements	496
Maintenance of power pumping equipment	15,469

Total Pumping Expenses	\$616,171
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(Continue on next page.)

California Water Service Company – Livermore District
Operating Expenses (Continued)
 For Year Ended December 31, 2019

WATER TREATMENT EXPENSES

Operation

Operation supervision and engineering	\$42,409
Operation labor and expenses	92,787
Miscellaneous expenses	23,681
Chemicals and filtering materials	72,347

Maintenance

Maintenance supervision and engineering	21,561
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Total Water Treatment Expenses	252,785
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TRANSMISSION AND DISTRIBUTION EXPENSES

Operation

Operation supervision and engineering	202,972
Transmission and distribution lines expenses	15,617
Meter expenses	436
Customer installations expenses	577
Miscellaneous expenses	263,533

Maintenance

Maintenance supervision and engineering	120,667
Maintenance of structures and improvements	696
Maintenance of reservoirs and tanks	85,081
Maintenance of trans. and distribution mains	51,627
Maintenance of services	34,176
Maintenance of meters	2,551
Maintenance of hydrants	1,080
Maintenance of miscellaneous plant	2,173

Total Transmission and Distribution Expenses	\$781,186
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California Water Service Company – Livermore District
Operating Expenses (Continued)
 For Year Ended December 31, 2019

CUSTOMER ACCOUNT EXPENSES**Operation**

Supervision	\$421,352
Meter reading expenses	358
Customer records and collection expenses	160,456
Miscellaneous customer accounts expenses	875,293
Uncollectible accounts	16,348
Total Customer Account Expenses	1,473,807

ADMINISTRATIVE AND GENERAL EXPENSES**Operation**

Administrative and general salaries	27,732
Office supplies and other expenses	46,999
Injuries and damages	25,786
Employees' pensions and benefits	844,887
Miscellaneous general expenses	2,791,581

Maintenance

Maintenance of general plant	52,127
Total Administrative and General Expenses	3,789,112

MISCELLANEOUS

Rents	51,260
Administrative expenses transferred	(184,257)
Total miscellaneous	(132,997)
Total Operating Expenses	\$18,325,397

(See independent accountant's review report and accompanying notes.)

California Water Service Company – Livermore District

Notes to Financial Schedules

California Water Service Company (CWSC) was incorporated in California in 1926. CWSC is a wholly owned subsidiary of California Water Service Group. CWSC is a Class A water utility with 463,358 metered and 64,049 flat rate customer connections through 21 Districts. CWSC–Livermore was formed in 1927. CWSC–Livermore serves 18,473 metered and 3,477 flat rate customer connections in the vicinity of Livermore, California.

Regulated water utilities are required to prepare their financial statements on accrual basis of accounting set forth in the Uniform System of Accounts (USOA) for Water Utilities adopted in Decision (D.) 16-11-006 by the CPUC on November 16, 2016, which is a comprehensive basis of accounting other than the generally accepted accounting principles (GAAP) in the United States of America. The followings describe certain differences in accounting treatments between GAAP and USOA, the company’s current accounting practices, and its compliance with applicable regulation and CPUC directives.

1. Purpose of Financial Information and Targeted Audience

The objective of preparing financial information in accordance with GAAP is to provide information that is useful in making decisions about providing resources to the entity. Users of the financial information include existing and potential investors, lenders, and other creditors.

The purpose of using USOA to prepare financial schedules is to have the utilities provide financial transparency of their water operations on a consistent basis. The primary user of the financial information is the CPUC for ratemaking and other compliance purposes.

2. Property, Plant and Equipment

The USOA distinguishes the plant assets for water operations (i.e., Account 101, Utility Plant in Service) from those for non-water operations (i.e., Account 110, Other Physical Property), for ratemaking purposes. The cost of additions, replacements, and betterments to utility plant is capitalized.

(1) Depreciation Methodology

GAAP allows entities to elect a depreciation methodology of their choices, such as straight-line, double-declining balance, or sum-of-the-years digits depreciation method.

USOA requires utilities to use “Straight-line remaining life method.” “Remaining life” implies that estimates of future life and salvage value will be re-evaluated periodically and that depreciation rates will be adjusted to reflect any changes in estimates. Class A water utilities are required to comply with the USOA and CPUC’s Standard Practice (SP) U-4-W when determining depreciation accruals. Specifically, depreciation reserve is determined for each primary plant account by dividing the original cost of depreciable utility plant, net of estimated salvage value and depreciation reserve, by the estimated remaining life of the surviving plant of the account. The utility must obtain prior written approval from the CPUC for any practice deviates from the afore-mentioned guidelines.

CWSC-Livermore uses straight-line remaining life method for each plant account. The depreciation rates for individual plant accounts were approved by the CPUC in D.16-12-042.

(2) Asset Retirement

USOA requires that water plant be recorded at original cost. In USOA's depreciation schedule, the difference between the estimated cost of removal and the salvage value are included in the depreciable base to obtain the annual depreciation expense. When retiring an asset, the cost of removal will reduce the balance of Account 250, Reserve for Depreciation of Utility Plant, while the cash received from the salvage value or sale price will increase the balance of Account 250, Reserve for Depreciation of Utility Plant. The gain or loss from the asset retirement that is recognized under GAAP is accumulated in Account 250, Reserve for Depreciation of Utility Plant under the USOA.

CWSC–Livermore's utility plants are recorded at original cost when first constructed or purchased, or at fair value when acquired through acquisition. When a depreciable plant is retired, the cost is removed from utility plant accounts and an equal amount is charged against accumulated depreciation.

During 2019, CWSC–Livermore retired utility plant totaling \$401,467. The cost of removal was \$103,012 and salvage value recovered from retirement was \$4,421.

(3) Sale and Acquisition of Properties

Under GAAP, entities recognize gain or loss from disposal of properties and recognize goodwill or gain from a bargain purchase of other entities' segment or properties. Under USOA, no goodwill or gain is recognized from the sale or acquisition of a water system or unit, unless it is approved by the CPUC.

When a Utility purchases a water system or unit, it shall first record the transaction into a temperate Account 391, Utility Plant Purchased. Within six months from the date of acquisition, the Utility shall file with the CPUC for approval of the proposed journal entries to clear this account.

When a Utility sells a water system or unit, it shall first record the transaction into a temporary account in Account 392, Utility Plant Sold. Within six months from the date of sale or transfer, the utility shall file with the CPUC for approval of the proposed journal entries to clear this account.

During 2019, the Utility did not sell or acquire properties.

3. Operating Revenues

CWSC–Livermore generated approximately 84 percent of its operating revenues from metered water sales to its 18,473 customer connections; 14 percent from customer surcharges; and two percent from fire protection services and other miscellaneous water revenues.

4. Water Utility Users Fee

PU Code, Sections 401 through 410 authorized the CPUC to set a fee annually to water utilities to cover the costs incurred by the CPUC in regulating them. A percentage of gross revenues is added

to customer bills and paid by the water utilities to the CPUC. Class A water utilities pay a percentage of gross revenues quarterly.

CWSC recorded the CPUC Users Fee as a pass-through activity. CWSC remitted the Users Fee to the CPUC on a quarterly basis.

5. Compliance filing of 2019 Annual Report with the CPUC

PU Code Sections 581, 582, and 584, and CPUC's directive (i.e., Water Division's annual memorandum to water and sewer utilities) require all regulated water utilities to file an Annual Report with the CPUC every year. For the year being reviewed, CWSC–Livermore has complied with these requirements.

APPENDIX A—REVIEW FINDINGS AND RECOMMENDATIONS

Finding 1: Understated Operating Revenues

Condition:

CWSC–Livermore understated its Operating Revenues by \$3,391,892 in its 2019 Annual Report originally filed with the CPUC’s Water Division on May 28, 2020. CWSC–Livermore inadvertently excluded surcharges relating to Water Revenue Adjustment Mechanism (WRAM), Modified Cost Balancing Account (MCBA) adjustments and related interest, and surcharges relating to conservation revenue billed totaling \$3,080,556, \$69,306, and \$242,030, respectively, from Schedule B-1 – Operating Revenues. As a result, Account 610–Customer Surcharges, Total Other Water Revenues, and Account 501–Total Operating Revenues in Schedule B-1 – Operating Revenues were understated by \$3,391,892. The misstatements occurred during implementation of the new automated reporting process. CWSC corrected these misstatements in CWSC–Livermore’s revised 2019 Annual Report submitted to the CPUC on July 2, 2021.

Criteria:

USOA defines Account 610-Customer Surcharges as follows:

This account shall be credited with all surcharges billed to customers that are approved by the Commission unless otherwise authorized or directed by the Commission.

PU Code Section 581 states, in part, that:

Every public utility receiving from the commission any blanks with directions to fill them shall answer fully and correctly each question propounded therein, and if it is unable to answer any question, it shall give a good and sufficient reason for such failure.

Cause:

CWSC used a new automated reporting process for its 2019 Annual Reports. During the implementation of this new process, CWSC inadvertently excluded surcharges for WRAM and MCBA balancing accounts, and conservation revenue from Schedule B-1 – Operating Revenues in CWSC–Livermore’s 2019 Annual Report. CWSC lacks an adequate monitoring and review process to capture and prevent potential errors and to ensure its financial data reported to the CPUC is complete and accurate.

Effect:

Understated Customer Surcharges, Total Other Water Revenues, and Total Operating Revenues provided inaccurate information to the CPUC and the public regarding CWSC–Livermore’s actual surcharges collected from its ratepayers and the potential need for collecting additional surcharges.

Recommendation:

CWSC should strengthen its automated reporting process and implement a thorough monitoring and review process for its annual reports to ensure the data submitted to the CPUC is complete and accurate.

Finding 2: Understated Operating Expenses

Condition:

CWSC–Livermore understated its Total Operating Expenses by \$12,893,144 due to mathematical errors in its 2019 Annual Report originally filed with the CPUC’s Water Division on May 28, 2020. While applying analytical procedures to Schedule B-2 – Operating Expenses in CWSC–Livermore’s 2019 Annual Report, we noted that the subtotals for various expense categories and Total Operating Expenses were not computed correctly. The mathematical errors occurred because CWSC- Livermore’s 2019 Annual Report template contained formula errors that led to certain expense categories being computed incorrectly. The table below outlines the noted variances:

<u>Account</u>	<u>Over/(Under) Reported</u>
Total Source of Supply Expense	(\$11,411,143)
Total Maintenance of Power Pumping Equipment	622,139
Total Administrative and General Expenses	(3,741,055)
Total Operating Expenses ⁴	<u>(\$12,893,144)</u>

CWSC corrected these mathematical errors in CWSC–Livermore’s revised 2019 Annual Report submitted to the CPUC on July 2, 2021.

Criteria:

PU Code Section 581 states, in part, that:

Every public utility receiving from the commission any blanks with directions to fill them shall answer fully and correctly each question propounded therein, and if it is unable to answer any question, it shall give a good and sufficient reason for such failure.

Cause:

CWSC-Livermore’s 2019 Annual Report template contained formula errors, resulting in some of the expense categories not being computed correctly. CWS lacks an adequate monitoring and review process to capture and prevent potential errors and to ensure that its financial data submitted to the CPUC is complete and accurate.

Effect:

Inaccurate reporting of CWSC–Livermore’s Operating Expenses could potentially impact water rates for CWSC–Livermore’s ratepayers during GWSC’s General Rate Case (GRC) application review process if these expenses were left unchecked.

Recommendations:

CWS should review and update the templates used to prepare its Annual Reports and ensure the formulas therein are configured properly. CWSC should also implement a monitoring and review process for its annual reports to ensure the data submitted to the CPUC is complete and accurate.

⁴ Does not foot due to mathematical errors.

Finding 3: Use of Non-Standardized USOA Accounts

Condition:

CWSC–Livermore reported the capitalized non-service component of its post-retirement benefits costs totaling \$134,678 using non-standardized USOA accounts in its 2019 Annual Report originally filed with the CPUC’s Water Division on May 28, 2020. CWSC–Livermore’s 2019 Annual Report included Account 149310 – Non-Service Benefit Regulatory Assets and Account 149316 – Non-Service Benefit Regulatory Assets–Blanket, which are non-standardized USOA accounts. After discussing with CWSC’s personnel, we noted that CWSC updated its accounting and reporting practice because of Accounting Standards Update (ASU) 2017-07 issued by the Financial Accounting Standards Board (FASB). ASU 2017-07 only allows capitalization of service cost component of post-retirement benefits for GAAP purposes. ASU 2017-07 does not change the accounting for regulatory assets relating to capitalization of non-service component of post-retirement benefits for rate-regulated entities. To account for the differences between GAAP assets and regulatory assets, CWSC–Livermore created non-standardized utility plant accounts and reported them in its 2019 Annual Report. However, the post-retirement benefits costs reported in Schedule A-1a in CWSC–Livermore’s Annual Report should have been allocated to each utility plant account based on their respective utility plant costs as required by the USOA. CWSC corrected these misstatements in CWSC–Livermore’s revised 2019 Annual Report submitted to the CPUC on July 2, 2021.

Criteria:

The USOA states, in part, that:

6. Overhead Construction Costs⁵

A. All overhead construction costs, such as engineering, supervision, general office salaries and expenses, construction engineering and supervision by others than the accounting utility, law expenses, insurance, injuries and damages, relief and pensions, taxes and interest, shall be charged to particular jobs or units on the basis of the amounts of such overheads reasonably applicable thereto, to the end that each job or unit shall bear its equitable proportion of such costs and that the entire cost of the unit, both direct and overhead, shall be deducted from the utility plant accounts at the time the unit of property is retired.

C. The records supporting the entries for overhead construction costs shall be so kept as to show the total amount of each overhead for each year, the nature and amount of each overhead expenditure charged to each construction work order and to each utility plant account, and the bases of distribution of such costs.

FASB paragraph 715-60-35-10A states:

Compensation—Retirement Benefits—Defined Benefit Plans—Other Postretirement

The service cost component shall be the only component of net periodic postretirement benefit cost eligible to be capitalized as part of the cost of inventory or other assets.

⁵ USOA, Utility Plant Accounts Instructions on page A55.

FASB paragraph 980-715-15-1 states, in part, that:

Regulated Operations—Compensation—Retirement Benefits

In addition, the provisions of paragraphs 715-30-35-7A and 715-60-35-10A shall not change the accounting for regulatory assets related to postretirement pension cost and other postretirement benefit cost for rate-regulated entities.

Cause:

CWSC lacks adequate monitoring and review procedures over its regulatory accounting and reporting process to ensure utility plant account balances are reported in accordance with the regulatory accounting and reporting requirements specified in the USOA.

Effect:

Using non-standardized USOA account to report utility plant balances results in noncompliance with USOA accounting requirements and reduces the comparability of utility plant financial data among Class A water utilities.

Recommendation:

CWSC should establish and implement monitoring and review procedures over its regulatory accounting and reporting process to ensure that it only uses standard USOA accounts to report utility plant account balances in its Annual Reports.

Finding 4: Understated Power Purchased Expense

Condition:

CWSC–Livermore understated expenses in Account 726–Fuel or Power Purchased for Pumping by \$315,071 in its 2019 Annual Report originally filed with the CPUC’s Water Division on May 28, 2020. CWSC–Livermore incorrectly subtracted \$315,071 recorded in Subaccount 726250–MCBA Power Adjustment Account from Subaccount 726200–Purchased Power. After discussing with CWSC’s personnel, we noted that CWSC automated its Annual Report reporting process in 2019. During the implementation of the new automated reporting process, CWSC inadvertently included Subaccount 726250–MCBA Power Adjustment (a contra-revenue account) as a subaccount of Account 726–Fuel or Power Purchased for Pumping expense. As a result, Account 726–Fuel or Power Purchased for Pumping, total Pumping Expenses and total Operating Expenses were understated by \$315,071. CWSC–Livermore corrected these material misstatements in its revised 2019 Annual Report submitted to the CPUC on July 2, 2021.

Criteria:

The USOA states, in part, that:

726. Fuel for Power Purchased for Pumping

A. This account shall include the cost of fuel or power purchased which is used directly in operation of pumps.

Cause:

CWSC lacks adequate oversight and an effective review process to ensure the design and configuration of its automated reporting process will generate complete and accurate data. CWSC

also lacks an adequate monitoring and review process over its regulatory reporting to capture and prevent potential errors and to ensure that data submitted to CPUC is complete and accurate.

Effect:

Improper reporting of Operating Expenses in CWSC–Livermore’s 2019 Annual Report, which could be used during CWSC–Livermore’s GRC application review process, could potentially impact water rates for their ratepayers.

Recommendations:

CWSC should strengthen its oversight and review over its automated reporting process to ensure that its reporting system is properly designed and configured to generate complete and accurate data. CWSC should also implement a thorough monitoring and review process over its regulatory reporting to ensure that data submitted to CPUC is complete and accurate.

APPENDIX B—UTILITY'S RESPONSE

August 6, 2021

California Public Utilities Commission
Utility Audits, Risk and Compliance division
400 R Street, Suite 221
Sacramento, CA 95811

California Water Service Company's Response to Draft Review Report for CWSC-Livermore
Report for the Year Ending December 31, 2019

This letter is in response to the draft review report issued by Utility Audit Branch on July 27, 2021. Cal Water's responses are below the noted findings.

Finding #1: Understated Operating Revenues

Condition:

CWSC – Livermore understated its Operating Revenues by \$3,391,892 in its 2019 Annual Report originally filed with the CPUC's Water division on May 28, 2020. CWS – Livermore inadvertently excluded surcharges relating to Water Revenue Adjustment Mechanism (WRAM) and Modified Cost Balancing Account (MCBA) adjustments and related interest, and surcharges relating to conservation revenue billed totaling \$3,080,556, \$69,306, and \$242,030, respectively, from Schedule B-1 – Operating Revenues. As a result, Account 610–Customer Surcharge, Total Other Water Revenues, and Account 501–Total Operating Revenues in Schedule B-1 Operating Revenues were understated by \$3,391,892. The misstatements occurred during implementation of the new automated reporting process. CWSC corrected these misstatements in CWSC-Livermore's revised 2019 Annual Report submitted to the CPUC on July 2, 2021.

Criteria:

USOA defines Account 610–Customer Surcharges as follows:

This account shall be credited with all surcharges billed to customers that are approved by the Commission unless otherwise authorized or directed by the Commission.

PU Code Section 581 states, in part, that:

Every public utility receiving from the commission any blanks with directions to fill them shall answer fully and correctly each question propounded therein, and if it is unable to answer any question, it shall give a good and sufficient reason for such failure.

Cause:

CWSC used a new automated reporting process for its 2019 Annual Reports. During the implementation of this new process, CWSC inadvertently excluded surcharges for WRAM and MCBA balancing accounts, and conservation revenue from Schedule B-1 – Operating Revenues

Review of California Water Service Company – Livermore District

For the Year Ended December 31, 2019

in CWSC-Livermore's 2019 Annual Report. CWSC lacks an adequate monitoring and review process to capture and prevent potential errors and to ensure its financial data reported to the CPUC is complete and accurate.

Effect:

Understated Customer Surcharges, Total Other Water Revenues, and Total Operating Revenues provided inaccurate information to the CPUC and the public regarding CWSC-Livermore's actual surcharges collected from its ratepayers and the potential need for collecting additional surcharges.

Recommendation:

CWSC should strengthen its automated reporting process and implement a thorough monitoring and review process for its annual reports to ensure the data submitted to the CPUC is complete and accurate.

Cal Water's Response:

Cal Water clarifies the "Effect" statement in the review report. The misstatement is on the CPUC Annual Report only. Revenues in general, including surcharges, are correctly booked and reflected in the CWSC-Livermore's financial system and operating statement and therefore will not impact ratepayers' actual and future surcharge collections. The error is a result of an incomplete criteria in creating a new automated macro used to extract information from Cal Water's financial system to populate the CPUC annual report template. The macro has been corrected to properly include all revenue accounts extracted from Cal Water's financial systems into the CPUC annual report template.

Finding #2: Understated Operating Expenses**Condition:**

CWSC – Livermore understated its Total Operating Expenses by \$12,893,144 due to mathematical errors in its 2019 Annual Report originally filed with the CPUC's Water division on May 28, 2020. While applying analytical procedures to Schedule B-2 – Operating Expenses in CWSC-Livermore's 2019 Annual Report, we noted that the subtotals for various expense categories and Total Operating Expenses did not foot (i.e., these subtotals were not summed up correctly). The mathematical errors occurred because CWSC-Livermore's 2019 Annual Report template contained formula errors that led to certain expense categories being computed incorrectly. The table below outlines the noted variances.

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For the Year Ended December 31, 2019

<u>Account</u>	<u>Over/(Under) Reported</u>
Total Source of Supply Expense	(\$11,411,143)
Total Maintenance of Power Pumping Equipment	622,139
Total Administrative and General Expenses	<u>(3,741,055)</u>
Total Operating Expenses	<u>(\$12,893,144)</u> ¹

CWSC corrected these mathematical errors in CWSC-Livermore’s revised 2019 Annual Report submitted to the CPUC on July 2, 2021.

Criteria:

PU Code Section 581 states, in part, that:

Every public utility receiving from the commission any blanks with directions to fill them shall answer fully and correctly each question propounded therein, and if it is unable to answer any question, it shall give a good and sufficient reason for such failure.

Cause:

CWSC-Livermore’s 2019 Annual Report template contained formula errors, resulting in some of the expense categories not being computed correctly. CWS lacks an adequate monitoring and review process to capture and prevent potential errors and to ensure that its financial data submitted to the CPUC is complete and accurate.

Effect:

Inaccurate reporting of CWSC-Livermore’s Operating Expenses could potentially impact water rates for CWSC-Livermore’s ratepayers during CWSC’s General Rate Case (GRC) application review process if these expenses were left unchecked.

Recommendations:

CWS should review and update the templates used to prepare its Annual Reports and ensure the formulas therein are configured properly. CWSC should also implement a monitoring and review process for its annual reports to ensure the data submitted to the CPUC is complete and accurate.

Cal Water’s Response:

Cal Water clarifies the “Effect” statement in the review report. The misstatement is on the CPUC Annual Report only. Expenses for the CWSC-Livermore district are correctly booked and reflected in CWSC-Livermore’s financial systems and operating statement and therefore will not impact CWSC’s General Rate Case (GRC) application. The error is a result of an incorrect sum formula in the CPUC Annual Report template. Cal Water’s GRC work papers pull directly from the financial systems by account and not from the CPUC Annual Report totals. The “sum

¹ Does not foot due to mathematical errors.

Review of California Water Service Company – Livermore District

For the Year Ended December 31, 2019

function” has been corrected to properly sum all expense amounts by accounts in the CPUC annual report template.

Finding #3: Use of Non-Standardized USOA Accounts**Condition:**

CWSC-Livermore reported \$134,678 of capitalized portion of its non-service cost component of its post-retirement benefits costs using non-standardized USOA accounts in its 2019 Annual Report originally filed with the CPUC’s Water Division on May 28, 2020. CWSC-Livermore’s 2019 Annual Report included account 149310 – Non-Service Benefit Regulatory Asset and Account 149316 – Non-Service Benefit Regulatory Asset – Blanket, which are non-standardized USOA accounts. After discussing with CWSC’s personnel, we noted that CWSC updated its accounting and reporting practice because of Accounting Standards Update (ASU) 2017-07 issued by the Financial Accounting Standards Board (FASB). ASU 2017-07 only allows capitalization of service cost component of post-retirement benefits for GAAP purposes. ASU 2017-07 does not change the accounting for regulatory assets relating to capitalization on non-service component of post-retirement benefits for rate-regulated entities. To account for the difference between GAAP assets and regulatory assets, CWSC-Livermore created non-standardized utility plant accounts and reported them in its 2019 Annual Report. However, the post-retirement benefits costs reported in Schedule A-1a in CWSC-Livermore’s Annual Report should have been allocated to each utility plant account based on their respective utility plant costs as required by the USOA. CWSC corrected these misstatements in CWSC-Livermore’s revised 2019 Annual Report submitted to the CPUC on July 2, 2021.

Criteria:

The USOA states, in part, that:

6. Overhead Construction Costs²

A. All overhead construction costs, such as engineering, supervision, general office salaries and expenses, construction engineering and supervision by others than the accounting utility, law expenses, insurance, injuries and damages, relief and pensions, taxes and interest, shall be charged to particular jobs or units on the basis of the amounts of such overheads reasonably applicable thereto, to the end that each job or unit shall bear its equitable proportion of such costs and that the entire cost of the unit, both direct and overhead, shall be deducted from the utility plant accounts at the time the unit of property is retired.

C. The records supporting the entries for overhead construction costs shall be so kept as to show the total amount of each overhead for each year, the nature and amount of

² USOA, Utility Plant Accounts Instructions on page A55.

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For the Year Ended December 31, 2019

each overhead expenditure charged to each construction work order and to each utility plant account, and the bases of distribution of such costs.

FASB paragraph 715-60-35-10A states:

Compensation-Retirement Benefits-Defined Benefit Plans-Other Postretirement

The service cost component shall be the only component of net periodic postretirement benefit cost eligible to be capitalized as part of the cost of inventory or other assets.

FASB paragraph 980-715-15-1 states, in part, that:

Regulated Operations-Compensation-Retirement Benefits

In addition, the provisions of paragraphs 715-30-35-7A and 715-60-35-10A shall not change the accounting for regulatory assets related to postretirement pension cost and other postretirement benefit cost for rate-regulated entities.

Cause:

CWSC lacks adequate monitoring and review procedures over its regulatory accounting and reporting process to ensure utility plant account balances in accordance with the regulatory accounting and reporting requirements specified in the USOA.

Effect:

Using non-standardized USOA account to report utility plant balances results in noncompliance with USOA accounting requirements and reduces the compatibility of utility plant financial data among Class A water utilities.

Recommendation:

CWSC should establish and implement monitoring and review procedures over its regulatory accounting and reporting process to ensure that it only uses standard USOA accounts to report utility plant account balances in its Annual Reports.

Cal Water's Response:

Cal Water clarifies the "Effect" statement in the review report. The misstatement is on the CPUC Annual Report only as explained in the "Condition" section above. However, for the CPUC annual report, Cal Water has implemented a process to allocate the account 149310 – Non-Service Benefit Regulatory Asset and Account 149316 – Non-Service Benefit Regulatory Asset – Blanket to the standard USOA for utility plant to comply with CPUC requirements.

Finding #4: Understated Purchased Power Expense

Condition:

CWSC-Livermore understated expenses in Account-726-Fuel or Power Purchased for Pumping by \$315,071 in its 2019 Annual Report originally filed with the CPUC's Water Division on May

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For the Year Ended December 31, 2019

28, 2020. CWSC-Livermore incorrectly subtracted \$315,071 recorded in Subaccount 726250-MCBA Power Adjustment Account from Subaccount 726200-Purchased Power. After discussing with CWSC's personnel, we noted that CWSC automated its Annual Report reporting process in 2019. During the implementation of the new automated process, CWSC inadvertently included Subaccount 726250-MCBA Power Adjustment (a-contra-revenue account) as a subaccount of Account 726-Fuel or Power Purchased for Pumping expense. As a result, Account 726-Fuel or Power Purchased for Pumping, total Pumping Expenses and total Operating Expenses were understated by \$315,071. CWSC-Livermore corrected these material misstatements in its revised 2019 Annual Report submitted to the CPUC on July 2, 2021.

Criteria:

The USOA states, in part, that:

726. Fuel for Power Purchased for Pumping

A. This account shall include the cost of fuel or power purchased which is used directly in operation of pumps.

Cause:

CWSC lacks adequate oversight and an effective review process to ensure the design and configuration of its automated reporting process will generate complete and accurate data. CWSC also lacks an adequate monitoring and review process over its regulatory reporting to capture and prevent potential errors and to ensure that the data submitted to CPUC is complete and accurate.

Effect:

Improper reporting of Operating Expenses in CWSC-Livermore's 2019 annual Report, which could be used during CWSC-Livermore's GRC application review process, could potentially impact water rates for their ratepayers.

Recommendations:

CWSC should strengthen its oversight and review over its automated reporting process to ensure that its reporting system is properly designed and configured to generate complete and accurate data. CWSC should also implement a thorough monitoring and review process over its regulatory reporting to ensure that data submitted to CPUC is complete and accurate.

Cal Water's Response:

Cal Water clarifies the "Effect" statement in the review report. The misstatement is on the CPUC Annual Report only. Expenses and revenues for the CWSC-Livermore district are correctly booked and reflected in CWSC-Livermore's financial systems and operating statement and therefore will not impact CWSC's General Rate Case (GRC) application. The error is a result of an incorrect criteria for the newly automated macro used to extract information from Cal Water's financial system to populate the CPUC report template. Cal Water's GRC work papers

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For the Year Ended December 31, 2019

pull directly from the financial systems by account and not from the CPUC Annual Report totals. The macro has been corrected to extract only the proper expense accounts from Cal Water's financial systems into the CPUC annual report template.

APPENDIX C—UAB'S EVALUATION OF UTILITY'S RESPONSE

We appreciate CWSC's comments submitted on August 6, 2021. In its response, CWSC provided its perspective on the effect of each finding by explaining that the misstatements only occurred in its 2019 Annual Report originally filed with the CPUC's Water Division. CWSC further asserted that expenses and revenues are correctly recorded in its financial systems and operating statement. CWSC also stated that its GRC work papers are pulled directly from its financial system and not from the CPUC Annual Report totals. Therefore, CWSC believes that the misstatements in its Annual Report would not impact its GRC application. UAB reiterates that CWSC's Annual Reports filed with the CPUC are for regulatory purposes and any information presented in them should be complete and accurate to avoid any potential impact on CPUC's decision making during any GRC review. The findings and recommendations remain unchanged.