BALANCING ACCOUNTS PERFORMANCE AUDIT

Great Oaks Water Company

January 1, 2020, through December 31, 2020

Utility Audits, Risk and Compliance Division
Utility Audits Branch
June 16, 2022

MEMBERS OF THE TEAM

Angie Williams, Director

Masha Vorobyova, Assistant Director

Kevin Nakamura, Supervisor

Jared Smith, Lead

Yosief Hailemichael, Staff

A digital copy of this report can be found at:
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You can contact our office at:
California Public Utilities Commission
Utility Audits, Risk and Compliance Division
400 R Street, Suite 221
Sacramento, CA 95811

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

Transmitted via e-mail

June 16, 2022

Mr. Tim Guster
Vice President and General Counsel
Great Oaks Water Company
PO Box 23490
San Jose, California 95153

Dear Mr. Guster:

Final Report Transmittal Letter—Audit of Great Oaks Water Company's Balancing Accounts for the period of January 1, 2020, through December 31, 2020

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its audit of Great Oaks Water Company's (Great Oaks) balancing accounts for the period of January 1, 2020, through December 31, 2020. The final audit report is enclosed.

We issued the draft audit report on May 24, 2022, and Great Oaks' response to the draft report required further analysis. As a result of our analysis, we made a minor correction to the table on page 6 of the Methodology section of the final report. Great Oaks' response to the draft report and our evaluation of the response are incorporated into this final report. We will post the final audit report on our website at Audit Reports by Industry (ca.gov).

Please provide a Corrective Action Plan (CAP) addressing the findings and recommendations within 45 days from the issuance of this final audit report. The CAP should include specific steps and target dates to correct the findings identified. Please submit the CAP to the Utility Audits Branch at UtilityAudits@cpuc.ca.gov

We appreciate Great Oaks' assistance and cooperation during the engagement, and its willingness to implement corrective actions. If you have any questions regarding this report, please contact Kevin Nakamura, Program and Project Supervisor, at (916) 928-4736.

Sincerely,

Masha Vorobyova for Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: See next page

cc: John Roeder, Chairman and CEO, Great Oaks
Ron Ceolla, Chief Financial Officer, Great Oaks
Rachel Peterson, Executive Director, CPUC
Kristin Stauffacher, Deputy Executive Director, Office of the Commission, CPUC
Terence Shia, Director, Water Division, CPUC
Bruce DeBerry, Program Manager, Water Division, CPUC
Masha Vorobyova, Assistant Director, UAB, CPUC
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Jared Smith, Senior Management Auditor, UAB, CPUC
Yosief Hailemichael, Associate Management Auditor, UAB, CPUC

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EXECUTIVE SUMMARY

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a performance audit of the Balancing Accounts administered and reported by Great Oaks Water Company (Great Oaks) for the audit period of January 1, 2020, through December 31, 2020.

Our audit objectives were to determine whether 1) transactions recorded in Great Oaks' balancing accounts from January 1, 2020, through December 31, 2020, were for allowable purposes and supported by appropriate documentation; and 2) the balancing accounts were established and maintained as required by applicable Public Utilities (PU) Code sections, CPUC directives, orders, rules, regulations, and Great Oaks' policies and procedures.

Based on our audit objectives, procedures performed, samples tested, and evidence gathered, we found instances of noncompliance with the requirements. These instances are described in the Findings and Recommendations section of this audit report. The findings are summarized as follows:

- **Finding 1: Three Balancing Accounts Omitted from the Preliminary Statement**

  Great Oaks did not include three of seven of its balancing accounts authorized by the CPUC in its Preliminary Statement as mandated in General Order (GO) 96-B. Specifically, Great Oaks omitted its Purchased Power, Pump Tax-Agricultural, and Pump Tax-Non-Agricultural balancing accounts and related required information from its Preliminary Statement.

- **Finding 2: Understated Balance in the Purchased Power Balancing Account**

  Great Oaks understated the year-end incremental balance in its Purchased Power balancing account by a total of $1,644 for the audit period. The year-end balance in the Purchased Power balancing account reflects the incremental difference between the authorized power costs approved for recovery in its General Rate Case (GRC) and the actual power costs paid by Great Oaks.

- **Finding 3: Incorrect Interest Rate in its Balancing and Recovery Accounts**

  Great Oaks used an incorrect interest rate when calculating interest in its seven balancing accounts and four recovery accounts. The Federal Reserve publishes two 90-Day Commercial Paper interest rates, a Financial and Non-Financial rate. Great Oaks used the 90-Day Financial Commercial Paper interest rate when calculating interest for its balancing and recovery accounts instead of using the 90-Day Non-Financial Commercial Paper interest rate which led to discrepancies in the total interest amounts recorded and reported in its balancing accounts during the audit period.

We issued a draft report on May 24, 2022. Great Oaks' Vice President and General Counsel responded by letter dated June 7, 2022, disagreeing with Finding 1 and proposing an edit in the draft audit report to appropriately reference a specific balancing account. Great Oaks' response is included in this final report as an attachment in Appendix A—Utility's Response to Draft Audit Report and our evaluation of the response is included in Appendix B—UAB's Evaluation of Utility's Response.

AUDIT REPORT

Background

Balancing Accounts

The CPUC has a responsibility to authorize the rates that regulated utilities may charge their customers. Considering that the rates are derived from projected costs and projected consumption of service, the CPUC authorizes regulated utilities to establish balancing accounts to track the actual costs and the related revenues the utilities collect from ratepayers for specified activities. The primary purpose of a balancing account is to ensure that a utility recovers its CPUC-authorized revenue requirement from ratepayers for a given program or function, but not more or less.

Functionally, a balancing account tracks the difference between actual expenditures associated with the account, revenue authorized for recovery by the CPUC (authorized revenue requirement), and the actual revenues collected within customer rates to cover those specific expenditures. Applicable rules for a given balancing account are presented in the utility's Preliminary Statement, which also includes description of the purpose of the account, the types of costs and/or revenues that are to be tracked in the account, and specific accounting procedures that the utility must follow to record transactions for the balancing account. Additionally, unless approved otherwise, a balancing account is required to accumulate 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.

Actual revenues collected by a utility in rates can be more or less than what CPUC had authorized to collect because rates are always forward-looking and based on forecasted sales. Thus, the balance in a balancing account can either be over-or under-collected. If a balancing account is over- or under-collected, the net balance is typically recovered from or refunded to ratepayers on an annual basis through an adjustment in rates.

In 2020, Great Oaks was authorized a total of seven balancing accounts to track differences between actual expenditures associated with the account and authorized for recovery, and the revenues collected within customer rates to cover those specific expenses. Additionally, Great Oaks utilized four recovery accounts[1] to track the amortization of prior year-end over- or under-collected balances transferred from its balancing accounts. In 2020, Great Oaks reported a total combined under-collected balance of $1,992,999 in its balancing and recovery accounts. A breakdown of the reported amounts over- or under-collected in rates as of December 31, 2020, by each balancing and recovery account is provided in the table below:

[1] According to Great Oaks, once the CPUC approves the amortization of any year-end over-or-under-collected balance via Advice Letter filing, Great Oaks then establishes and transfers the remaining year-end over-or-under-collected balance amount to a recovery account. The year-end over-or-under-collected balance amount transferred to the recovery account is then reduced by CPUC approved surcharges or surcredits.

Title of Accounts	Reported Net (Over)/Under-Collected Balance as of Dec. 31, 2020
Balancing: Pump Tax - Non-Agricultural	$ 172,261
Balancing: Pump Tax - Agricultural	(3)
Balancing: Purchased Power	102,918
Balancing: Low Income Customer Assistance Program (LICAP) – 9/3/13 to 2/24/15	0
Balancing: Pension Expense Account (PEBA)	(128,801)
Balancing: Low Income Customer Assistance Program Surcharge	(30,025)
Balancing: Monterey-Style Water Rate Adjustment Mechanism (MWRAM)	465,739
Recovery: LICAP Balancing & Memorandum Accounts Under Collection	35,908
Recovery: Multiple & Various Balancing & Memorandum Accounts Under Collection	(282,097)
Recovery: M-WRAM Balancing & Memorandum Accounts Under Collection	1,027,228
Recovery: M-WRAM Balancing & Memorandum Accounts Under Collection	629,871
Total Net Under-Collected Balance	**$1,992,999**

Note: The above Recovery accounts were established by Great Oaks pursuant to the CPUC's approval of Advice Letters 281-W-A, 287-W-A, 290-W, and 293-W, respectively.

Audit Authority

The UAB conducted this audit under the general authority outlined in PU Code sections 314.5, 314.6, 451, 581, 582, and 584. Furthermore, PU Code section 792.5 requires the CPUC to review or audit all balancing accounts periodically to ensure that the transactions recorded in the balancing accounts are for allowable purposes and supported by appropriate documentation.

Objective and Scope

Our audit objectives were to determine whether 1) transactions recorded in Great Oaks' balancing accounts from January 1, 2020, through December 31, 2020, were for allowable purposes and supported by appropriate documentation; and 2) the balancing accounts were established and maintained as required by applicable PU Code sections, CPUC directives, orders, rules, regulations, and the Great Oaks' policies and procedures.

The scope of our audit covered the seven balancing accounts and four recovery accounts administered and reported by Great Oaks for the audit period of January 1, 2020, through December 31, 2020.

Due to the absence of the Purchased Power, Pump Tax Agriculture, and Pump Tax Non-Agriculture balancing accounts in Great Oaks' Preliminary Statement, we were unable to validate the CPUC's original purpose, intent, and provisions related to these accounts. Therefore, our scope relating to these three balancing accounts was limited to testing of expenditures and incremental rates and ensuring that Great Oaks followed its own practices and procedures.

Methodology

In planning our audit, we gained an understanding of each balancing account and Great Oaks' operations by researching and reviewing relevant PU Code sections, Preliminary Statements, Great Oaks' internal rules, regulations, and policies, CPUC decisions, resolutions, advice letters (AL), and interviewing Great Oaks' personnel.

We conducted a risk assessment, including evaluating whether Great Oaks' key internal controls relevant to our audit objective were properly designed, implemented, and operating effectively. Our assessment included conducting interviews, observing processes, performing walkthroughs, and testing transactions. Deficiencies in internal control that were identified during our audit and determined to be significant within the context of our audit objective are included in this report.

Additionally, we assessed the reliability of the data extracted from Great Oaks' customer billings system. Our assessment included observing the entire billing process from beginning to end for one billing cycle. Specifically, this included the uploading of data from handheld meter read devices to computer servers, reviewing and correcting billing errors identified by the billing software, production of internal reports to record revenues to each appropriate balancing and recovery accounts, and the creation and issuance of customer billing statements for the billing cycle. We determined the data to be sufficiently reliable to address the audit objectives.

Based on the results of our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objectives. To achieve our audit objectives, we:

- Reviewed applicable CPUC decisions, ALs, General Rate Case (GRC) proceedings, and Great Oaks' Preliminary Statement to gain an understanding of the accounts and applicable tariff rates.

- Reviewed external audit reports prepared by independent Certified Public Accounting firm on Great Oaks' annual financial statements and internal controls to identify potential risks relevant to the audit objectives.

- Assessed significance by performing analysis of revenue and expenditure data and evaluating balancing account requirements.

- Reviewed Great Oaks' accounting processes and procedures for tracking, monitoring, and recording transactions to its balancing accounts.

- Reviewed Great Oaks' customer billing system and processes and procedures for recording and reporting revenues to its balancing accounts.

- Reviewed Great Oaks' practices and procedures related to the administration and implementation of its balancing accounts.

- Obtained an understanding of Great Oaks' key internal controls relevant to its balancing accounts, such as accounting and reporting process, customer billing procedures, rate adjustment process, and assessed the design and implementation that were relevant to the audit objectives by:

- interviewing key personnel;
- completing an internal control questionnaire; and
- performing walkthroughs and observations of selected customer billings and transactions.

- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing.

- Performed testing of expenditures by judgmentally selecting a non-statistical sample of significant expenditure transactions for the following balancing accounts as illustrated in the table below:

Balancing Account Name	Total Expenditures Tested	Total Expenditures Recorded in 2020	Percent Tested
Pump Tax Non-Agriculture Balancing Account	$ 79,553	$ 172,096	46%
Purchased Power Balancing Account	46,993	102,813	46%
Pension Expense Balancing Account	910,336	1,590,336	57%
Totals	**$1,036,882**	**$1,865,245**	**56%**

Note: For the selected samples, errors found, if any, were not projected to the total population.

- Traced sampled expenditures recorded in Great Oaks' accounting records to supporting documentation and determined whether transactions were accurate, allowable, supported by appropriate source documents, and maintained in compliance with applicable CPUC directives, orders, rules, regulations, and Great Oaks' policies and procedures.

- Performed testing of revenues recorded and reported for the Water Rate Adjustment Mechanism (MWRAM) balancing account by judgmentally selecting a non-statistical sample of revenue amounts recorded for the months of January, July, August, September, and December of 2020 totaling $818,782 as summarized in the table below:

Balancing Account Name	Total Revenue Tested	Total Revenue Recorded in 2020	Percent Tested
Monterey-style Water Rate Adjustment Mechanism Balancing Account (MWRAM)	$818,782	$1,917,973	43%

Note: For the selected samples, errors found, if any, were not projected to the total population.

- Traced sampled MWRAM revenue amounts to billing reports to determine whether appropriate rates were applied in the calculation of the monthly billing reports, revenue amounts were appropriately recorded and reported in the monthly tracking statement, the beginning balance reconciled to the prior year's ending balance, and that the recorded ending balance matched the amount reported to the CPUC in Great Oaks' annual report.

- Performed testing of revenue amounts transferred from significant balancing accounts to selected recovery accounts by judgmentally selecting a non-statistical sample of monthly transfers as summarized in the table below:

Recovery Account Name	Months Tested	Total Revenue Tested	Total Revenue Recorded in 2020	Percent Tested
Recovery Account - AL 287-W-A	July, Sept., Dec.	$258,717	$763,303	34%
Recovery Account for MWRAM - AL 290-W	July, Oct., Dec.	115,067	259,804	44%
Recovery Account for MWRAM - AL 293 -W	Dec.	6,153	6,153	100%
Totals		**$379,936**	**$1,029,261**	**37%**

Note: For the selected samples, errors found, if any, were not projected to the total population.

- Traced sampled revenue transfer amounts to verify that the amounts transferred from respective balancing account were accurate, approved surcharge/surcredit were correctly recorded to the appropriate recovery account, the correct surcharge/surcredit amount on customer billings were in compliance with CPUC directives and approved ALs, the revenue amounts were appropriately recorded within each recovery account tracking statements, and the recorded ending balance matched the amount reported to the CPUC in Great Oaks' annual report.

- Determined whether Great Oaks properly reported and recorded monthly interest in its Balancing Account Monthly Tracking Statement by recomputing the monthly interest amounts reported for each month in four of seven of its balancing accounts.

- Reconciled year-end balances recorded in the Balancing Account Monthly Tracking Statements to Great Oaks' Annual report filed with the CPUC's Water Division.

We did not audit Great Oaks' financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that Great Oaks reported, incurred, and maintained its balancing accounts in accordance with the applicable criteria. We considered Great Oaks internal controls only to the extent necessary to plan the audit and achieve our audit objectives.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Conclusion

Based on our audit objectives, procedures performed, samples tested, and evidence gathered, we found instances of noncompliance with the requirements for the audit period from January 1, 2020, through December 31, 2020. These instances are described in the Findings and Recommendations section of this audit report.

Follow-up on Prior Audit Findings

We have not previously conducted an audit of the Great Oaks' regulatory balancing accounts. Furthermore, Great Oaks did not identify any prior engagements that are significant within the context of our audit objectives that would require us to determine if appropriate corrective actions have been taken to address the findings and recommendations.

Views of Responsible Officials

We issued a draft report on May 24, 2022. Great Oaks' Vice President and General Counsel responded by letter dated June 7, 2022, disagreeing with Finding 1 and proposing an edit in the draft audit report to appropriately reference a balancing account. Great Oaks' response is included in this final report as an attachment in Appendix A—Utility's Response to Draft Audit Report and our evaluation of the response is included in Appendix B—UAB's Evaluation of Utility's Response.

Restricted Use

This audit report is intended solely for the information and use of Great Oaks and the CPUC; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this audit report, which is a matter of public record and will be available on the CPUC website at Audit Reports by Industry (ca.gov).

Masha Vorobyova for Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

FINDINGS AND RECOMMENDATIONS

Finding 1: Three Balancing Accounts Omitted from the Preliminary Statement

Condition:

Great Oaks did not include three of seven of its balancing accounts authorized by the CPUC in its Preliminary Statement as mandated in GO 96-B. During the planning phase of the audit, we discovered that Great Oaks failed to include its Purchased Power, Pump Tax Agriculture, and Pump Tax Non-Agriculture balancing accounts and the related required information in its Preliminary Statement as prescribed by the CPUC directives. Due to the absence of the required information for the Purchased Power, Pump Tax Agriculture, and Pump Tax Non-Agriculture balancing accounts in its Preliminary Statement, we were unable to validate the purpose of these balancing accounts, types of costs and/or revenues allowed to be recorded, applicable accounting procedures that must be followed to record transactions, and other provisions that support tariff rules or rate schedules for these balancing accounts. Our procedures relating to these accounts were limited to testing of expenditures and incremental rates and ensuring that Great Oaks followed its own practices and procedures.

Criteria:

GO 96-B, Section 9.5.3 states:

> The Preliminary Statement shall describe or explain: the territory served; the types and classes of service rendered; the general conditions under which services are rendered; the memorandum accounts (if any), balancing accounts, and adjustment clauses that might affect the utility's rates; and other tariff provisions that do not appear in the tariff rules or rate schedules.

Cause:

During the audit, Great Oaks acknowledged that it did not include the Purchased Power, Pump Tax Agriculture, and Pump Tax Non-Agriculture balancing accounts in its Preliminary Statement because Great Oaks believed it was not specifically required to do so.

Effect:

It is imperative that all balancing accounts be included in the Preliminary Statement in order to provide transparency to members of the public and/or ratepayers, and other stakeholders by documenting the balancing account's purpose, the applicability of tariff rates, types of costs and/or revenues recorded in the account, accounting procedures, and other provisions that do not appear in tariff rules or rate schedules. Without such information clearly documented in the Preliminary Statement, it is impossible to validate whether given balancing accounts function within the regulatory framework and prescribed guidelines. Including required information for all balancing accounts in the Preliminary Statement facilitates accountability and helps ensure that each balancing account follows applicable laws, rules, regulations, and directives so that ratepayers do not pay any more or less in applicable rates than necessary.

Recommendations:

Great Oaks should develop and submit an updated Preliminary Statement that contains and describes its Purchased Power, Pump Tax Agricultural and Pump Tax Non-Agricultural balancing accounts and publish the updated Preliminary Statement on its website once reviewed and approved by the CPUC's Water Division.

Finding 2: Understated Balance in the Purchased Power Balancing Account

Condition:

Great Oaks understated the year-end incremental balance in its Purchased Power balancing account by a total of $1,644 for the audit period. The Purchased Power Balancing Account tracks the incremental difference between the CPUC adopted power rates approved in Great Oaks' GRC and the actual power rates paid by the utility. During testing of expenditures, we discovered that Great Oaks failed to utilize the proper daily power rates when determining the incremental amounts recorded in its Purchased Power balancing account. Specifically, Great Oaks did not account for all three daily power rate increases from its electric service provider in 2020 when calculating the incremental amounts recorded in its Purchased Power balancing account. Additionally, we found that Great Oaks inputted the incorrect kilowatt hour (kWh) rates on 7 out of 44 occurrences in its calculation. As a result of these errors, the 2020 year-end incremental under-collected balance in its Purchased Power balancing account of $102,908 was understated and should be reflected as an adjusted under-collected balance of $104,562 as outlined in the table below.

Purchased Power Balancing Account	**Under-Collected Balance**
2020 year-end reported balance	$102,918
Understated amount	1,644
Adjusted 2020 year-end balance	**$104,562**

Criteria:

PU Code sections 581, 582, and 584 require that the utility provide timely, complete, and accurate data to the CPUC.

GO 104-A mandates that each utility file an annual report of its operations in such form and content as prescribed by the CPUC.

Cause:

During the audit period, Great Oaks lacked oversight and monitoring policies and procedures to detect errors and to ensure the incremental amounts are properly and accurately recorded and reported in its Purchased Power balancing account. In addition, Great Oaks lacked an accounting mechanism to incorporate the rate changes from its electric service provider into Great Oaks' accounting computations.

Effect:

It is imperative for each utility to ensure that its over or under-collected balances in its balancing accounts are accurate, complete, and in compliance with applicable laws, rules, regulations, directives, etc., to ensure ratepayers do not pay any more or less in rates than necessary.

Recommendations:

Great Oaks should develop, document, and implement processes and procedures for the preparation and review of the incremental rate calculation to detect errors and to ensure the incremental amount is accurately recorded and reported. Additionally, Great Oaks should correct its calculations and reflect the corrected under-collected balance in its Purchased Power balancing account.

Finding 3: Incorrect Interest Rates in its Balancing and Recovery Accounts

Condition:

Great Oaks used an incorrect interest rate when calculating interest in its seven balancing accounts and four recovery accounts. During testing of reported interest amounts, we noted that the Federal Reserve Publishes two 90-Day Commercial Paper interest rates, a Financial and a Non-Financial rate. Additionally, we found that Great Oaks' Pension Expense Balance Account (PEBA) included in its Preliminary Statement required that interest be accrued by using the 90-Day Non-Financial Commercial Paper interest rate. However, Great Oaks used the 90-day Financial Commercial Paper interest rate, which led to discrepancies in the total interest amounts recorded and reported in its balancing accounts during the audit period. Although the total amount for this audit period was immaterial ($7,379 instead of $7,888), if left uncorrected, the amounts could become significant over time. In addition, as discussed in Finding 1, Great Oaks did not document the proper interest rate for the Purchased Power, Pump-Tax Non-Agricultural, Pump Tax Agricultural accounts because these accounts were omitted in its Preliminary Statement; and the remaining three balancing accounts did not specify which interest rate to apply.

Criteria:

The Preliminary Statement for Great Oaks' PEBA account states that interest will accrue monthly on the balance by applying a rate equal to one-twelfth of the 90-Day Non-Financial Commercial Paper interest rate, as reported in the Federal Reserve Statistical Release, to the average of the beginning-of-month and the end-of-month balances.

CPUC's Water Division Standard Practice U-27-W states that the average in the reserve account each month accrues interest at the current 90-Day Commercial Paper interest rate.

CPUC Decision 94-06-033, Ordering Paragraph (OP) 1, states that all water companies subject to the jurisdiction of this Commission are authorized to add interest at the 90-Day Commercial Paper interest rate to balancing account and memorandum account postings that occur on or after the effective date of this order.

Cause:

Great Oaks lacked oversight and monitoring policies and procedures to ensure the appropriate interest rates are applied in its balancing and recovery accounts in accordance with the CPUC directives.

Effect:

Failure to use the correct interest rate in the calculation of monthly interest can lead to inaccurate recording and reporting of interest in its balancing and recovery accounts. Any errors in the calculation of interest in the balancing and recovery accounts can diminish the benefit to ratepayers since balancing accounts accrue interest to be returned to ratepayers if the utility is over-collected or recovered as additional revenue if the utility is under-collected. Furthermore, since any over or under-collected year-end balance, including interest, are carried over from year to year, any potential incorrect interest amount can impact customer rates by being amortized into future rates.

Recommendation:

Great Oaks should develop, document, and implement monitoring policies and procedures to ensure the appropriate interest rates are applied in accordance with the CPUC directives in all its balancing and recovery accounts to avoid any potential errors. Great Oaks should use the 90-Day Non-Financial Commercial Paper interest rate moving forward.

APPENDIX A—UTILITY'S RESPONSE TO DRAFT AUDIT REPORT

GREAT OAKS WATER COMPANY

P. O. Box 23490
San Jose, California 95153
(408) 227-9540

June 7, 2022

California Public Utilities Commission
Attention: Angie Williams, Director
Utility Audits, Risk and Compliance Division
505 Van Ness Avenue
San Francisco, CA 94102-3298

RE: Great Oaks Water Company Comments to Draft Report on Audit of Great Oaks Water Company's Balancing Accounts for the Period of January 1, 2020 through December 31, 2020

Dear Director Williams:

On May 24, 2022, Great Oaks Water Company (Great Oaks) was provided with a draft of the Calendar Year 2020 Balancing Account Audit Report (Draft Report). Please consider the following comments pertaining to the Draft Report.

<u>General Comments</u>

Throughout the 2020 Balancing Account Audit, Great Oaks complied with every request made by the representative of the Utility Audits, Risk and Compliance Division (Audit Division). No request for information made by the Audit Division to Great Oaks went unanswered. The representatives of the Audit Division expressed satisfaction with all of Great Oaks' responses to their information and data requests.

The Draft Report omits the fact that throughout the audit, the Audit Division was provided with full and complete responses and cooperation from Great Oaks.

Comments to Findings

Finding 1: Three Balancing Accounts Omitted from the Preliminary Statement

During the closing stages of the audit, during direct conversations with the representatives of the Audit Division, Great Oaks was advised of a concern about there not being descriptions of the Purchased Power, Pump Tax – Agricultural, and Pump Tax – Non-Agricultural balancing accounts in Great Oaks' Preliminary Statement. During the conversation, the Audit Division representatives had researched the matter and had discovered that many, if not most, of the Class A water utilities do not have descriptions of these kinds of balancing accounts in their Preliminary Statements.

The Audit Division representatives also indicated that they had performed some research on the issue and believed that General Order 96-B, Section 9.5.3 may apply to the situation.

Great Oaks advised the representatives of the Audit Division that during the entire time Great Oaks has been regulated by the California Public Utilities Commission (Commission), Great Oaks has never been required to include the three above-referenced balancing accounts in its Preliminary Statement. Great Oaks further advised that the three balancing accounts are authorized under Public Utilities Code Section 792.5 and that Great Oaks has included such balancing accounts in its Semi-Annual Balancing Account Reports to the Commission. At no time has the Commission advised Great Oaks to include such balancing accounts in its Preliminary Statement. That the three balancing accounts are established by stature, rather than by a Commission Decision or Resolution or Standard Practice, is the likely explanation for why many, if not most of the Class A water utilities also do not have the accounts in their Preliminary Statements.

Moreover, the Commission's Water Division has reviewed numerous Advice Letters filed by Great Oaks over the years to amortize balances in the three balancing accounts and at no time has the Water Division commented or made any other form of statement about the three balancing accounts not being in Great Oaks' Preliminary Statement.

Great Oaks advised the representatives of the Audit Division that Great Oaks did not object to including the absence of the three balancing accounts from the Preliminary Statement in its eventual audit report but did object to highlighting and/or singling out Great Oaks on this issue, as the Audit Division has full knowledge that this is not a "Great Oaks" problem, but is an industry issue. The Audit Division representatives agreed that the eventual audit report would not highlight the absence of the balancing accounts in the Preliminary Statement in its audit report, nor would Great Oaks be singled out on this issue.

Great Oaks recommended that the Audit Division work with the Water Division, and that if the Water Division advised Great Oaks and the other water utilities were instructed to include the three balancing accounts in its Preliminary Statements, Great Oaks would willingly comply.

During the exit interview with the same Audit Division representatives, Great Oaks was advised that this issue would be both highlighted in the audit report and Great Oaks would be singled out on this finding. The Audit Division representatives acknowledged that this action was directly contrary to the agreement reached between them and Great Oaks, as described above. The Audit Division representatives indicated that they had no control over the issue and that leadership in the Audit Division had made the decision to breach the agreement previously made with Great Oaks.

The Draft Report does, in fact, highlight this finding by making it Finding 1. The Draft Report also singles out Great Oaks on this finding by omitting the Audit Division's knowledge that the absence of these balancing accounts is prevalent among Class A water utilities.

The Draft Report also omits any mention of Great Oaks' recommendation that the Audit Division work with the Water Division on this Preliminary Statement issue and that Great Oaks would comply with any directive of the Water Division to include the balancing accounts in its Preliminary Statement.

It must also be noted that the Draft Report states that because the three balancing accounts were not included in Great Oaks' Preliminary Statement that "we were unable to validate the purpose of these balancing accounts, types of costs and/or revenues allowed to be recorded, applicable accounting procedures that must be followed to record transactions, and other provisions that support tariff rules or rate schedules for these balancing accounts."[1] The statement is not accurate.

As the Draft Report shows, the Audit Division was, in fact, able to audit the Purchased Power and two Pump Tax balancing accounts without the balancing accounts included in the Preliminary Statement. In other words, the Draft Report contradicts the statement quoted above and proves that the Audit Division was able to audit the three balancing accounts without those accounts being described in the Preliminary Statement.

In addition, the Draft Report states that Great Oaks did not include the three balancing accounts in its Preliminary Statement "because Great Oaks believed it was not specifically required to do so."[2] In reality, over the more than sixty years

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[1] Draft Report, at p. 8.
[2] *Id.*

Great Oaks has been regulated by the Commission, Great Oaks has not been required to include the three balancing accounts in its Preliminary Statement. Despite numerous general rate cases and numerous Advice Letters reviewed and approved to amortize balances in the three balancing accounts, the Commission has never commented about the absence of the three balancing accounts from the Preliminary Statement. When asked about the absence of the three balancing accounts from its Preliminary Statement, Great Oaks advised the representatives of the Audit Division that the Commission has never required Great Oaks to include the balancing accounts in the Preliminary Statement even after full reviews of those accounts in general rate cases and Advice Letter filings and that it's belief that it is not specifically required to do so stems from more than sixty years of regulation without any mention of the issue.

Finding 1 omits important information provided to the Audit Division by Great Oaks and then highlights the Preliminary Statement issue and singles out Great Oaks on the issue in direct contravention of the agreement reached on the issue between Great Oaks and the representatives of the Audit Division who actually performed the audit. This should be corrected, and the Audit Division should work with the Water Division to establish a standard procedure to move forward on the issue.

Additional Comments

On page 6 of the Draft Report, reference is made to "Purchased Water Balancing Account – AL 287-W-A." This is an error. Great Oaks does not purchase water and has no such balancing account. The error should be corrected.

Advice Letter 287-W was filed on May 1, 2020 to amortize the combined balances of six different balancing and memorandum accounts, none of which was a "Purchased Water Balancing Account." Advice Letter 287-W-A was approved by the Water Division on June 9, 2020, with an effective date of May 26, 2020. The Water Division made no mention of the Preliminary Statement issue raised by the Audit Division when reviewing or approving Advice Letter 287-W-A.

Respectfully submitted,

Timothy S. Guster

Timothy S. Guster
Vice President and General Counsel
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cc: (All By Email)
Kevin Nakamura
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APPENDIX B—UAB'S EVALUATION OF UTILITY'S RESPONSE

We appreciate Great Oaks' comments. Great Oaks provided general comments and responses regarding Finding 1 and did not comment on Findings 2 and 3. Below is our assessment of Great Oaks' responses.

<u>Finding 1: Three Balancing Accounts Omitted from the Preliminary Statement</u>

Great Oaks contends that Finding 1 omitted some background information provided to the UAB and that the draft report highlighted the Preliminary Statement issue which singled out Great Oaks. Great Oaks also contends that an agreement was reached between Great Oaks and the representatives of the UAB who performed the audit to not include the Preliminary Statement issue in the audit report and to not single out Great Oaks on this issue.

To clarify, at no time did the representatives of the UAB make any agreements with Great Oaks. This audit was conducted under the generally accepted government auditing standards, which among other things include standards of ethics and independence. And while we held multiple discussions with Great Oaks' representatives regarding all findings throughout the engagement and their tentative disposition in the upcoming audit report, we did not engage in nor enter into any agreements with Great Oaks, as this would be contrary to our policies and independence requirements.

Great Oaks also expresses concerns that the draft audit report did not discuss industry-related circumstances surrounding the Preliminary Statement. To clarify, our audit scope specifically covered Great Oaks and the Balancing Accounts it administered and reported from January 1, 2020, through December 31, 2020. Therefore, our audit report content, including findings and recommendations, is confined to our specific audit objectives. The audit report includes all the necessary information to describe issues at hand and to facilitate resolution of the findings moving forward. We, therefore, feel that the audit report accurately represents the facts relevant to this engagement and Finding 1 remains unchanged.

In addition, Great Oaks' comments suggest some contradictions existed in the draft audit report due to Finding 1 pointing out our inability to validate certain aspects of the three balancing accounts in question and yet reporting on specific audit procedures completed for these balancing accounts. We disagree that the draft audit report included any contradictory statements. We were able to audit the three balancing accounts omitted in Great Oaks' Preliminary Statement only to the extent that Great Oaks followed its own practices and procedures by conducting interviews with Great Oaks and CPUC industry staff, observing processes, performing walkthroughs, recalculating rates, and testing expenditure transactions. As such, our scope was limited for these three balancing accounts as stated in Finding 1 and clarified in the Objective and Scope section of this report.

Lastly, Great Oaks' response points out that the three balancing accounts in question were established by statute, rather than by a Commission Decision or Resolution, which could be attributed as one of the reasons these balancing accounts have been omitted from the Preliminary Statement. However, the requirement to include the balancing accounts in the Preliminary Statement does not differentiate between the balancing accounts' origin and applies to all balancing accounts uniformly.

The findings and recommendations remain unchanged.

Additional Comments

We acknowledge that the use of title “Purchase Water Balancing Account – AL 287-W-A” in the table on page 6 of the draft report was in error. The Recovery Account referenced in the report has been renamed “Recovery Account - AL 287-W-A” that was approved as part of AL 287-W-A. As such, the correction has been addressed in the final audit report.