



# REVIEW OF FINANCIAL SCHEDULES

## Liberty Utilities (Apple Valley Ranchos Water) Corporation

For the Year Ended December 31, 2021

Utility Audits, Risk and Compliance Division  
Utility Audits Branch  
March 6, 2023



## **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.cpuc.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

## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



Transmitted via e-mail

March 6, 2022

Mr. Edward Jackson  
President – California Region  
Liberty Utilities (Apple Valley Ranchos Water) Corporation  
9750 Washburn Road  
Downey, CA 90241

Dear Mr. Jackson:

**Final Report Transmittal Letter— Review of Liberty Utilities (Apple Valley Ranchos Water) Corporation’s Annual Report for Year Ended December 31, 2021**

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its review of Liberty Utilities (Apple Valley Ranchos Water) Corporation’s (LUAVRWC) 2021 Annual Report filed with the CPUC. The final review report is enclosed.

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

Please provide a Corrective Action Plan (CAP) addressing the finding and recommendation by April 20, 2023. The CAP should include specific steps and target dates to correct the finding identified. Please submit the CAP to the Utility Audits Branch at [UtilityAudits@cpuc.ca.gov](mailto:UtilityAudits@cpuc.ca.gov), with a copy to Bruce DeBerry, Program Manager of Water Division, at [Bruce.DeBerry@cpuc.ca.gov](mailto:Bruce.DeBerry@cpuc.ca.gov).

We appreciate LUAVRWC assistance and cooperation during the engagement, and your willingness to implement corrective actions.

Please contact us at [UtilityAudits@cpuc.ca.gov](mailto:UtilityAudits@cpuc.ca.gov) if you have any questions.

Sincerely,

*Angie Williams*

Angie Williams, Director  
Utility Audits, Risk and Compliance Division

cc: See next page.

Mr. Edward Jackson  
President – California Region  
Liberty Utilities (Apple Valley Ranchos Water) Corporation  
March 6, 2023  
Page 2

cc: Crystal Greene, Vice President, Finance, LUAVRWC  
Manasa Rao, Director, Rates and Regulatory Affairs, LUAVRWC  
Dan Marsh, Senior Manager, Rates and Regulatory Affairs, LUAVRWC  
Tiffany Thong, Manager, Rates and Regulatory Affairs, LUAVRWC  
Rachel Peterson, Executive Director, CPUC  
Kristin Stauffacher, Deputy Executive Director, Office of the Commission, CPUC  
Terence Shia, Director, Water Division, CPUC  
Masha Vorobyova, Assistant Director, UAB, CPUC  
Bruce DeBerry, 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

# TABLE OF CONTENTS

---

EXECUTIVE SUMMARY.....	1
INDEPENDENT ACCOUNTANT’S REVIEW REPORT.....	3
REVIEWED FINANCIAL SCHEDULES.....	5
Utility Plant in Service .....	5
Operating Revenues.....	8
Operating Expenses.....	9
Notes to Financial Schedules.....	12
APPENDIX A—REVIEW FINDING AND RECOMMENDATION .....	15
APPENDIX B—UTILITY’S RESPONSE .....	17
APPENDIX C—UAB’S EVALUATION OF UTILITY’S RESPONSE.....	21

## 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 Liberty Utilities (Apple Valley Ranchos Water) Corporation (LUAVRWC) for the year ended December 31, 2021, 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 applicable to Review Engagements prescribed by the generally accepted government auditing standards (GAGAS), except for obtaining an external peer review. UAB was unable to obtain an external peer review timely due to delays caused by the COVID-19 pandemic. However, this does not affect UAB's adherence to all other GAGAS requirements and our conclusion on this review engagement is not modified with respect to this matter.

Incorporated in California in 1947, LUAVRWC is wholly owned subsidiary of Liberty Utilities (Park Water) Corporation, which is a subsidiary of Western Water Holdings, LLC, a holding company. Western Water Holdings, LLC, is a wholly owned subsidiary of Liberty Utilities Company.<sup>1</sup> LUAVRWC is a Class A water utility, which serves a total of 20,736 metered customer connections, 243 private and 2,896 public fire hydrant service connections.<sup>2</sup> LUAVRWC serves customers in Apple Valley in San Bernardino County California. As a regulated water utility, LUAVRWC is required to prepare its Divisions' 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 10, 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 LUAVRWC's Annual Report for the year ended December 31, 2021, in order for them to be in accordance with the accounting framework prescribed by the USOA and CPUC's directives, including CPUC Water Division's Annual Report filing requirements.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial schedules in LUAVRWC'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 one material misstatement in LUAVRWC's Annual Report originally filed with the CPUC's Water Division, as described in the Appendix A—Review Finding and Recommendation. The finding is summarized below:

- Finding: LUAVRWC incorrectly reported \$5,185,353 of revenue generated from metered water supplied to commercial customers as Metered Residential Sales in Account 601-1.1 instead of reporting it as Metered Commercial Sales in Account 601-2. The USOA requires that separate subdivisions shall be maintained under each revenue account, as appropriate, for revenues derived from sales of water. As a result, LUAVRWC understated Account 601-2—Metered Commercial Sales by \$5,185,353 and overstated Account 601-1.1—Metered Residential Sales by the same amount.

---

<sup>1</sup> LUAVRWC 2021 Annual Report, General Information, Page 13.

<sup>2</sup> LUAVRWC 2021 Annual Report, Schedule D-4—Number of Active Service Connections, Page 68.

UAB discussed the finding and recommendation with LUAVRWC during fieldwork. LUAVRWC concurred with the finding and agreed to correct the misstatement identified above. LUAVRWC submitted its revised 2021 Annual Report for LUAVRWC on January 27, 2023, to the CPUC to correct the material misstatement described in Appendix A of this report. UAB further discussed this finding with LUAVRWC at the exit conference on February 7, 2023, and LUAVRWC concurred with the review results. We are not aware of any material modifications that should be made to the accompanying financial schedules in LUAVRWC's revised Annual Report.

UAB provided a draft review report to LUAVRWC for comments on February 7, 2023. LUAVRWC submitted its comments on February 22, 2023. LUAVRWC's response to the finding and recommendation is presented in Appendix B of this report. In its response, LUAVRWC requested a slight modification to clarify the condition of Finding 1 to indicate that LUAVRWC applied UAB's proposed adjusting journal entry to its Annual Report rather than its accounting records to correct the reporting error described in Finding 1. After considering LUAVRWC's comments, we provided this clarification in Finding 1. The remainder of the finding and recommendation remain unchanged. UAB's evaluation of LUAVRWC's response is presented in Appendix C of this report.

# INDEPENDENT ACCOUNTANT'S REVIEW REPORT

---

Mr. Edward Jackson  
President – California Region  
Liberty Utilities (Apple Valley Ranchos Water) Corporation  
9750 Washburn Road  
Downey, CA 90241

The Utility Audits Branch (UAB) of the California Public Utility Commission (CPUC) has reviewed the accompanying financial schedules in Liberty Utilities (Apple Valley Ranchos Water) Corporation's (LUAVRWC) revised Annual Report for the year ended December 31, 2021. LUAVRWC management is responsible for the preparation and fair presentation of the financial schedules in LUAVRWC'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, including Water Division's Annual Report filing requirements. Our responsibility is to express a conclusion on the financial schedules in the LUAVRWC'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 LUAVRWC's Annual Report in order for them to be in accordance with the accounting framework prescribed by the USOA and CPUC's directives. UAB conducted this review in compliance with the auditing standards of GAGAS, except for obtaining an external peer review within the required timeframe as discussed in the succeeding paragraph.

UAB was unable to obtain an external peer review timely due to delays caused by the COVID-19 pandemic. However, this does not affect UAB's adherence to all other GAGAS requirements and our conclusion on this review engagement is not modified with respect to this matter.

A review is substantially less in scope than an examination, the objective for which is to obtain reasonable assurance about whether the financial schedules in LUAVRWC'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.

We are required to be independent of LUAVRWC and to meet our other ethical responsibilities, in accordance with relevant ethical requirements related to our reviews.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial schedules in LUAVRWC's revised Annual Report for the year ended December 31, 2021, in order for them to be in accordance with the accounting framework prescribed by the USOA and CPUC's directives. However, UAB identified one material misstatement in LUAVRWC's Annual Report originally filed with the CPUC's Water Division, as described in the Appendix A–Review Finding and Recommendation. This misstatement has been corrected in the accompanying financial schedules.



***Views of Responsible Official***

UAB discussed the review finding and recommendation with LUAVRWC during fieldwork. LUAVRWC concurred with the finding and agreed to correct the misstatement in LUAVRWC's Annual Report originally filed with the Water Division. LUAVRWC submitted its revised Annual Report for LUAVRWC on January 27, 2023, to the CPUC to correct the material misstatements described in Appendix A of this report. UAB further discussed this finding with LUAVRWC at the exit conference on February 7, 2023, and LUAVRWC agreed with the review results.

UAB provided a draft review report to LUAVRWC for comments on February 7, 2023. LUAVRWC submitted its comments on February 22, 2023. LUAVRWC's response to the finding and recommendation is presented in Appendix B of this report. In its response, LUAVRWC requested a slight modification to clarify the condition of Finding 1. UAB's evaluation of LUAVRWC is presented in Appendix C of this report.

***Other Matter - Submission of a Corrective Action Plan***

LUAVRWC's management should submit a corrective action plan (CAP) to the UAB at [UtilityAudits@cpuc.ca.gov](mailto:UtilityAudits@cpuc.ca.gov), with a copy to Bruce DeBerry, Program Manager of Water Division, at [Bruce.DeBerry@cpuc.ca.gov](mailto:Bruce.DeBerry@cpuc.ca.gov) by April 20, 2023. The CAP should address how LUAVRWC will implement the recommendation. If LUAVRWC is unable to implement UAB's recommendation, the CAP should state the reason(s) for not being able to implement any of the recommendation. LUAVRWC should use the amounts reviewed by the UAB as presented in this report as the basis to file a revised 2022 Annual Report with the CPUC.

***Restricted Use of This Review Report***

The purpose of this report is to summarize the results of the review mandated by PU Code Section 314.5. Accordingly, this review report is intended solely for the information and use by the CPUC and the management of LUAVRWC, 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. This restriction is not intended to limit distribution of this report, which is a matter of public record and will be available on the CPUC website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

*Angie Williams*

---

Angie Williams, Director  
Utility Audits, Risk and Compliance Division

Sacramento, California  
March 6, 2023

## REVIEWED FINANCIAL SCHEDULES

### Liberty Utilities (Apple Valley) Corporation Utility Plant in Service As of December 31, 2021

#### INTANGIBLE PLANT (Note 2)

Organization	\$271,976
Other Intangible Plant	10,966
<b>Total Intangible Plant</b>	<u>282,942</u>

#### LANDED CAPITAL

Land and Land Rights	8,725,290
----------------------	-----------

#### SOURCE OF SUPPLY PLANT

Structures and Improvements	26,805
Wells	4,167,159
Other Source of Supply Plant	129,168
<b>Total Source of Supply Plant</b>	<u>4,323,132</u>

#### PUMPING PLANT

Structures and Improvements	5,666,287
Pumping Equipment	8,321,472
<b>Total Pumping Plant</b>	<u>13,987,759</u>

#### WATER TREATMENT PLANT

Water Treatment Equipment	1,834,956
<b>Total Water Treatment Plant</b>	<u>1,834,956</u>

#### TRANSMISSION AND DISTRIBUTION PLANT

Reservoirs and Tanks	6,644,292
Transmission and Distribution Mains	87,086,927
Services	21,796,556
Meters	5,934,158
Hydrants	10,769,339
<b>Total Transmission and Distribution Plant</b>	<u>132,231,272</u>

*(Continued on next page)*

Liberty Utilities (Apple Valley Ranchos Water) Corporation  
**Utility Plant in Service (Continued)**  
 As of December 31, 2021

**GENERAL PLANT**

Structures and Improvements	\$2,087,007
Office Furniture and Equipment	2,138,155
Transportation Equipment	1,544,693
Laboratory Equipment	887
Communication Equipment	3,403,113
Power Operated Equipment	1,943,092
Tools, Shop and Garage Equipment	667,825
<b>Total General Plant</b>	<b>11,784,772</b>

**UNDISTRIBUTED ITEM**

Other Tangible Property	555,867
<b>Total Undistributed Item</b>	<b>555,867</b>

<b>Total Utility Plant in Service</b>	<b>\$173,725,990</b>
---------------------------------------	----------------------

**RECYCLED WATER UTILITY PLANT**

Recycled Water Land and Land Rights	\$67,185
Recycled Water Depreciable Plant	534,389
<b>Total Recycled Water Utility Plant</b>	<b>\$601,574</b>

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

Liberty Utilities (Apple Valley Ranchos Water) Corporation  
**Depreciation and Amortization Reserves**  
 As of December 31, 2021

	Utility Plant	Limited- Term Utility Investments	Utility Plant Acquisition Adjustments	Recycled Water Utility Plant
Reserves, Beginning of Year	\$49,542,308	\$213,918	(\$6,480)	\$37,937
Credits				
Charged to Account 503	4,616,417			13,945
Charged to Account 505		8,488		
Charged to Account 265	184,357			1,160
Charged to clearing accounts	241,232			
Salvage recovered	22,603			
All other credits			810	
Total credits	<u>5,064,609</u>	<u>8,488</u>	<u>810</u>	<u>15,105</u>
Debits				
Book cost of property retired	(1,453,929)			
Cost of removal	(3,310)			
All other debits	(198,503)			(349)
Total debits	<u>(1,655,742)</u>	<u>0</u>	<u>0</u>	<u>(349)</u>
<b>Reserve, End of Year</b>	<b><u><u>\$52,951,175</u></u></b>	<b><u><u>\$222,406</u></u></b>	<b><u><u>(\$5,670)</u></u></b>	<b><u><u>\$52,693</u></u></b>

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

Liberty Utilities (Apple Valley Ranchos Water) Corporation  
**Operating Revenues**  
 For Year Ended December 31, 2021

**WATER SERVICE REVENUES (Note 3)**

Metered Sales to General Customers	
Residential Sales	\$18,278,773
Residential Low-Income Discount (Debit)	(456,561)
Commercial Sales	5,185,353
Industrial Sales	4,833
Sales to Public Authorities	1,182,735
Sub-total	<u>24,195,133</u>
Sales to Irrigation Customers	1,051,920
Private Fire Protection Service	429,422
Sub-total	<u>1,481,342</u>
<b>Total Water Service Revenues</b>	<u>25,676,475</u>

**OTHER WATER REVENUES**

Customer Surcharges	2,343,770
Miscellaneous Service Revenues	4,320
Other Water Revenues	1,257,325
Recycled Water Revenues	218,823
<b>Total Other Water Revenues</b>	<u>3,824,238</u>
<b>TOTAL OPERATING REVENUES</b>	<u><u>\$29,500,713</u></u>

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

Liberty Utilities (Apple Valley Ranchos Water) Corporation  
**Operating Expenses**  
 For Year Ended December 31, 2021

**SOURCE OF SUPPLY EXPENSE**

Operation	
Operation supervision and engineering	\$53,178
Operation labor and expenses	21,848
Miscellaneous expenses	57,872
Maintenance	
Maintenance of wells	575
<b>Total Source of Supply Expense</b>	<b>133,473</b>

**PUMPING EXPENSES**

Operation	
Pumping labor and expenses	425,338
Miscellaneous expenses	23,288
Fuel or power purchased for pumping	1,339,379
Maintenance	
Maintenance of structures and improvements	66,475
Maintenance of power pumping equipment	155,639
<b>Total Pumping Expenses</b>	<b>2,010,119</b>

**WATER TREATMENT EXPENSES**

Operation	
Operation labor and expenses	90,413
Chemicals and filtering materials	47,280
Maintenance	
Maintenance of water treatment equipment	34,394
<b>Total Water Treatment Expenses</b>	<b>172,087</b>

*(Continued on next page)*

Liberty Utilities (Apple Valley Ranchos Water) Corporation  
**Operating Expenses (Continued)**  
 For Year Ended December 31, 2021

**TRANSMISSION AND DISTRIBUTION EXPENSES**

Operation	
Operation supervision and engineering	\$195,600
Storage facilities expenses	39,617
Transmission and distribution lines expenses	97,811
Meter expenses	17,157
Customer installations expenses	69,934
Miscellaneous expenses	3,342
Maintenance	
Maintenance of transmission and distribution mains	657,937
Maintenance of fire mains	399
Maintenance of services	213,470
Maintenance of meters	11,557
Maintenance of hydrants	5,705
Maintenance of miscellaneous plant	18,466
<b>Total Transmission and Distribution Expenses</b>	<b>1,330,995</b>

**CUSTOMER ACCOUNT EXPENSES**

Operation	
Supervision, meter reading, other customer account expenses	63,053
Meter reading expenses	110,548
Customer records and collection expenses	474,536
Miscellaneous customer accounts expenses	6,089
Uncollectible accounts	23,679
<b>Total Customer Account Expenses</b>	<b>677,905</b>

**SALES EXPENSES**

Operation	
Demonstrating selling expenses	238,937
<b>Total Sales Expenses</b>	<b>238,937</b>

**RECYCLED WATER EXPENSES**

Operation and Maintenance	
Recycled water operation and maintenance expenses	153,853
<b>Total Recycled Water Expenses</b>	<b>153,853</b>

*(Continued on next page)*

Liberty Utilities (Apple Valley Ranchos Water) Corporation  
**Operating Expenses (Continued)**  
 For Year Ended December 31, 2021

**ADMINISTRATIVE AND GENERAL EXPENSES**

Operation	
Administrative and general salaries	\$1,239,443
Office supplies and other expenses	267,345
Property insurance	(227,646)
Injuries and damages	560,810
Employees' pensions and benefits	550,793
Franchise requirements	253,804
Regulatory commission expenses	128,387
Outside services employed	464,829
Miscellaneous general expenses	2,789
Main office allocation	3,825,238
Maintenance	
Maintenance of general plant	<u>497,451</u>
<b>Total Administrative and General Expenses</b>	<u>7,563,243</u>

**MISCELLANEOUS**

Customer surcredits	2,066,915
Rents	3,700
Administrative expenses transferred – Credit	<u>(1,269,227)</u>
<b>Total Miscellaneous</b>	<u>801,388</u>

**TOTAL OPERATING EXPENSES** \$13,082,000

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



# Liberty Utilities (Apple Valley Ranchos Water) Corporation

## Notes to Financial Schedules

Incorporated in California in 1947, LUAVRWC is wholly owned subsidiary of Liberty Utilities (Park Water) Corporation, which is a subsidiary of Western Water Holdings, LLC, a holding company. Western Water Holdings, LLC, is a wholly owned subsidiary of Liberty Utilities Company.<sup>3</sup> LUAVRWC is a Class A water utility, which serves a total of 20,736 metered customers connections, 243 private and 2,896 public fire hydrants service connections.<sup>4</sup> LUAVRWC serves customers in Apple Valley in San Bernardino County, California.

Regulated water utilities are required to prepare their financial statements on accrual basis of accounting set forth in the USOA for Water Utilities adopted in Decision (D.)16-11-006 by the CPUC on November 10, 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 (e.g., Account 100-1, Utility Plant in Service) from those for non-water operations (e.g., 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

---

<sup>3</sup> LUAVRWC 2021 Annual Report, General Information, Page 13.

<sup>4</sup> LUAVRWC 2021 Annual Report, Schedule D-4—Number of Active Service Connections, Page 68.

the account. The utility must obtain prior written approval from the CPUC for any practice deviates from the aforementioned guidelines.

LUAVRWC uses the estimated straight-line remaining life depreciation method for each class of utility plant. LUAVRWC's depreciation methodology approved by the CPUC's D.20-09-019.

## **(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 is 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.

LUAVRWC retired \$1,453,929 of assets during 2021, which consisted of Pumping, Water Treatment, Transmission and Distribution, and General Plant.<sup>5</sup>

## **3. Operating Revenues**

LUAVRWC generated about 86 percent of its revenue from metered water sales, 13 percent from other water revenues, and one percent from Fire Protection Services.

LUAVRWC incorrectly reported \$5,185,353 of revenue generated from metered water supplied to commercial customers as Metered Residential Sales in Account 601-1.1 instead of reporting it as Metered Commercial Sales in Account 601-2. As a result, LUAVRWC understated Account 601-2—Metered Commercial Sales by \$5,185,353 and overstated Account 601-1.1—Metered Residential Sales by the same amount. However, LUAVRWC incorporated UAB's proposed adjustment and corrected the noted misstatements in its revised 2021 Annual Report submitted to the CPUC's Water Division on January 27, 2023.

## **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.

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

## **5. Compliance filing of 2021 Annual Report with the CPUC**

PU Code Sections 581, 582, and 584, and the CPUC's directive (i.e., Water Division's annual memorandum to water and sewer utilities) require all regulated water utilities to file an Annual

---

<sup>5</sup> LUAVRWC 2021 Annual Report, Schedule A-1a—Utility Plant in Service, Page 24-25.

Report with the CPUC every year. For the year being reviewed, LUAVRWC has complied with these requirements.

## **6. Pending Legal Cases**

On January 7, 2016, Town of Apple Valley filed a condemnation lawsuit against LUAVRWC to obtain LUAVRWC's water supply and distribution system within the boundaries of Town of Apple by eminent domain. On November 12, 2021, the lawsuit against LUAVRWC was dismissed. On December 10, 2021, LUAVRWC filed a Memorandum of Costs seeking recovery of its litigation expense. On August 2, 2022, the Superior Court of California, County of San Bernardino (Court) granted LUAVRWC's motion for recovering its litigation expense. The Town of Apple Valley has appealed the fee awarded to LUAVRWC, but the outcome is pending.

## APPENDIX A—REVIEW FINDING AND RECOMMENDATION

### Finding: Misclassified Metered Commercial Sales Revenue

#### Condition:

LUAVRWC incorrectly reported \$5,185,353 of revenue generated from metered water supplied to commercial customers as Metered Residential Sales in Account 601-1.1 instead of reporting it as Metered Commercial Sales in Account 601-2. The USOA requires that separate subdivisions shall be maintained under each revenue account, as appropriate, for revenues derived from sales of water. As a result, LUAVRWC understated Account 601-2—Metered Commercial Sales by \$5,185,353 and overstated Account 601-1.1—Metered Residential Sales by the same amount.

UAB proposed, and LUAVRWC agreed and incorporated, the following adjusting entry to correct the misstatement identified above:

Adj. No.	Acct. No.	Description	DR	CR
1	601-1.1	Metered Residential Sales	\$5,185,353	
	601-2	Metered Commercial Sales		\$5,185,353
		<i>To reclassify Metered Commercial Sales Revenue to the correct account.</i>		

LUAVRWC applied this adjusting journal entry to correct its Annual Report and submitted a revised Annual Report to the CPUC on January 27, 2023.

#### Criteria:

The USOA states, in part, that:

#### 601. Metered Sales to General Customers

A. This account shall include all billings for measured water supplied for residential, commercial, and industrial purposes and also to public authorities where the total charge is, or may be, in any way dependent on the quantity of water delivered through measuring devices. Records shall be maintained so that the quantity of water sold and the amount of revenue under each rate schedule shall be readily available.

B. This account shall be divided into subaccounts as follows:

601-2. Commercial Sales

#### Cause:

LUAVRWC lacks adequate monitoring procedures over its reporting process to ensure that commercial sales are properly classified and reported in compliance with the accounting requirements of the USOA.

**Effect:**

Inaccurate reporting of commercial sales in Account 601-2 in the Annual Report, which may be used during LUAVRWC's General Rate Case application review process, could potentially impact water rates for LUAVRWC's ratepayers.

**Recommendation:**

LUAVRWC should strengthen its monitoring procedures over its reporting process to ensure that commercial sales are properly classified and reported in compliance with the accounting requirements of the USOA.

## APPENDIX B—UTILITY’S RESPONSE

---



Liberty Utilities (Park Water) Corp.  
9750 Washburn Road  
Downey, CA 90241-7002  
Tel: 562-923-0711  
Fax: 562-861-5902

**Transmitted via e-mail**

February 22, 2023

Director Angie Williams  
California Public Utilities Commission  
Utility Audits, Risk and Compliance Division  
400 R Street, Suite 221  
Sacramento, CA 95811

**Re: Liberty Utilities (Apple Valley Ranchos Water) Corp. Response to the Draft Review Report for Liberty Utilities (Apple Valley Ranchos Water) Corp.’s Annual Report for the year ended December 31, 2021**

Director Williams:

Liberty Utilities (Apple Valley Ranchos Water) Corp. (Liberty) hereby submits its response to the Draft Report issued on February 7, 2023 by the Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) regarding the Annual Report Review for the year ended December 31, 2021 (Draft Report).

Liberty appreciates the UAB’s review and ongoing engagement throughout the process. Liberty has implemented measures consistent with the UAB’s recommendation but requests edits to the language in the Draft Report to clarify the nature of the Finding (as illustrated in redline and strikethrough along with Liberty’s Response below).

Liberty  
Response to UAB Draft Review Report

February 22, 2022  
Page 2

**Appendix A—Review Finding and Recommendation**

**Finding: Misclassified Metered Commercial Sales Revenue**

**Condition:**

LUAVRWC incorrectly reported \$5,185,353 of revenue generated from metered water supplied to commercial customers as Metered Residential Sales in Account 601-1.1 instead of reporting it as Metered Commercial Sales in Account 601-2. The USOA requires that separate subdivisions shall be maintained under each revenue account, as appropriate, for revenues derived from sales of water. As a result, LUAVRWC understated Account 601-2—Metered Commercial Sales by \$5,185,353 and overstated Account 601.-1.1—Metered Residential Sales by the same amount.

UAB proposed, and LUAVRWC agreed and incorporated, the following adjusting entry to correct the misstatement **in its 2021 Annual Report** identified above:

Adj. No.	Acct. No.	Description	DR	CR
1	601-1.1	Metered Residential Sales	\$5,185,353	
	601-2	Metered Commercial Sales		\$5,185,353
		<i>To reclassify Metered Commercial Sales Revenue to the correct account.</i>		

LUAVRWC applied this adjusting journal entry to correct its ~~books~~ **Annual Report** and submitted a revised Annual Report to the CPUC on January 27, 2023.

**Liberty’s Response:**

Liberty clarifies that the misstatement of the above account only applies to the CPUC Annual Report. The misstatement was primarily due to the incorrect USOA assigned to Liberty’s general ledger (GL) transaction details for the metered commercial sales revenue as the USOA classification is used to extract information from the GL to populate the CPUC Annual Report. The USOA for the metered commercial sales revenue has been corrected in Liberty’s GL for future reporting.

**Criteria:**

The USOA states, in part, that:

**601. Metered Sales to General Customers**

A. This account shall include all billings for measured water supplied for residential, commercial, and industrial purposes and also to public authorities where the total charge is, or may be, in any way dependent on the quantity of water delivered through measuring

Liberty  
Response to UAB Draft Review Report

February 22, 2022  
Page 3

devices. Records shall be maintained so that the quantity of water sold and the amount of revenue under each rate schedule shall be readily available.

B. This account shall be divided into subaccounts as follows:  
601-2. Commercial Sales

**Liberty's Response:**

Liberty clarifies that all its billings are segregated by each rate schedule and customer class (i.e., residential, commercial, industrial, private fires, etc.) and records are maintained and readily available.

**Cause:**

LUAVRWC lacks adequate monitoring procedures over its reporting process to ensure that commercial sales are properly classified and reported in compliance with the accounting of the USOA.

**Liberty's Response:**

The USOA for the commercial sales has been corrected in Liberty's GL.

**Effect:**

Inaccurate reporting of commercial sales in Account 601-2 in the Annual Report, which may be used during LUAVRWC's General Rate Case application review process, could potentially impact water rates for LUAVRWC's ratepayers.

**Liberty's Response:**

Liberty clarifies the misstatement is on the CPUC Annual Report only. Revenues, including commercial sales revenue, are correctly recorded and reflected in Liberty's billing and financial systems and operating statements and will not impact ratepayers' water rates.

**Recommendation:**

LUAVRWC should strengthen its monitoring procedures over its reporting process to ensure that commercial sales are properly classified and reported in compliance with the accounting requirements of the USOA.

**Liberty's Response:**

Please see Liberty's response in the "Cause" and "Effect" statements above.



Liberty  
Response to UAB Draft Review Report

February 22, 2022  
Page 4

Sincerely,

LIBERTY UTILITIES (APPLE VALLEY RANCHOS WATER) CORP.

*/s/ Crystal Greene*

---

Crystal Greene

Vice President, Finance

[Crystal.Greene@libertyutilities.com](mailto:Crystal.Greene@libertyutilities.com)

cc:

Raymond Yin, UAB, [Raymond.Yin@cpuc.ca.gov](mailto:Raymond.Yin@cpuc.ca.gov)

Khusbindar Kaur, UAB, [Khusbindar.Kaur@cpuc.ca.gov](mailto:Khusbindar.Kaur@cpuc.ca.gov)

Judith Mason, UAB, [Judith.Mason@cpuc.ca.gov](mailto:Judith.Mason@cpuc.ca.gov)

Utility Audits Branch, UAB, [Utility.Audits@cpuc.ca.gov](mailto:Utility.Audits@cpuc.ca.gov)

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

---

We appreciate LUAVRWC's comments submitted on February 22, 2023. In its response, LUAVRWC requested UAB to clarify Finding 1 to indicate that LUAVRWC applied UAB's proposed adjusting journal entry to only its Annual Report and not its underlying accounting records. After evaluating LUAVRWC's response, we clarified the last sentence in the condition of Finding 1 to show that LUAVRWC applied the adjusting journal entry to its Annual Report.

In response to the effect of Finding 1, LUAVRWC asserted that the misstatement in the Annual Report would not impact ratepayers' water rates because the misstatement is only in the CPUC Annual Report and not in its billing and financial systems. UAB reiterates that LUAVRWC'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 the GRC review. The effect of Finding 1 remains unchanged.

Except for the clarification to the condition of Finding 1 as described above, the remaining parts of the finding and recommendation remain unchanged.