

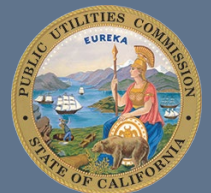


BALANCING ACCOUNTS PERFORMANCE AUDIT

Liberty Utilities (CalPeco Electric) LLC

January 1, 2022, through December 31, 2022

Utility Audits, Risk and Compliance Division
Utility Audits Branch
March 15, 2024



MEMBERS OF THE TEAM

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PUBLIC UTILITIES COMMISSION

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Transmitted via e-mail

March 15, 2024

Crystal Greene
Vice President, Finance
Liberty Utilities (CalPeco Electric) LLC
14920 W Camelback Road
Litchfield Park, Arizona 85340

Dear Crystal Greene:

Final Report Transmittal Letter—Audit of Liberty Utilities (CalPeco Electric) LLC's balancing accounts for the period of January 1, 2022, through December 31, 2022

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its audit of Liberty Utilities (CalPeco Electric) LLC's (Liberty) balancing accounts reported for the period of January 1, 2022, through December 31, 2022.

We issued the draft audit report on February 23, 2024. Liberty responded by email dated March 8, 2024, agreeing to implement measures consistent with UAB's recommendations. Liberty's response to the draft report is incorporated into this final report. We will post the final audit report on our website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

A Corrective Action Plan (CAP) addressing the findings and recommendations is required. Liberty's response to the draft audit report included information on corrective actions planned. Liberty should submit further detailed CAP information including specific steps and target dates to correct the findings identified within 45 days from the issuance of this final audit report to: UtilityAudits@cpuc.ca.gov.

We appreciate Liberty's assistance and cooperation during the engagement and its willingness to implement UAB's recommendations. If you have any questions regarding this report, please contact Nichelle Jackson, Program and Project Supervisor, at (916) 503-6096.

Sincerely,

Masha Vorobyeva for Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: See next page

Crystal Greene
Vice President, Finance
Liberty Utilities (CalPeco Electric) LLC
March 15, 2024
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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 Liberty Utilities (CalPeco Electric) LLC (Liberty) for the audit period of January 1, 2022, through December 31, 2022.

Our audit objectives were to determine whether 1) transactions recorded in Liberty's balancing accounts from January 1, 2022, through December 31, 2022, 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 Liberty's 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 audit findings are summarized as follows:

- **Finding 1: Inaccurate Reporting of Accounts by \$214,750**

Liberty's 2022 Annual Balancing and Memorandum Account Report (Annual Report), Schedule B: Balancing Accounts, filed with the CPUC was inaccurate and did not contain four authorized balancing accounts and also included one unauthorized account. As a result, Liberty's reported total year-end net under-collected balance of \$70,289,190 was understated by \$214,750 and should have been reported as \$70,503,940.

- **Finding 2: Misstated Interest Amounts by \$97,898**

Liberty misstated the interest accrued in its balancing accounts. Specifically, three balancing accounts over-accrued interest in the amount of \$232,808 and one balancing account under-accrued interest in the amount of \$134,910, resulting in a net misstatement amount of \$97,898.

- **Finding 3: Incomplete Preliminary Statement for the Vegetation Management Balancing Account**

Liberty did not accurately update its Vegetation Management Balancing Account (VMBA) Preliminary Statement, Section B., Accounting Procedures, which omitted two types of authorized accounting entries. Liberty is authorized to collect revenue under the vegetation management surcharge and track the annual authorized revenue requirement for vegetation management, however, these two accounting procedures were not included in the VMBA Preliminary Statement.

We issued a draft report on February 23, 2024. Liberty responded by email dated March 8, 2024, agreeing to implement measures consistent with UAB's recommendations. Liberty's comments are included in this final report as an attachment in Appendix A—Utility's Response to Draft Audit Report.

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 a 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 in 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 previous 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.

Liberty Utilities (CalPeco Electric) LLC

Liberty serves approximately 49,000 residential and commercial/industrial customers in California in portions of seven counties around the Lake Tahoe area. The service territory is geographically compact and generally encompasses the western portions of the Lake Tahoe Basin (almost 80% of Liberty's customers are in the Lake Tahoe Basin), extending north to Portola and south to Markleeville.

Liberty is winter-peaking with peak loads occurring at night, typically during the holiday season, as its electric load within the service territory reflects the economic activities in the Lake Tahoe area. While Liberty has few industrial customers, it has large seasonal and highly variable loads associated with ski resorts and hotel operations. Approximately half of the electricity Liberty delivers is to residential customers and approximately 60 percent of its residential accounts are second vacation homes or rentals.¹

In 2022, Liberty reported 11 balancing accounts for a total under-collected balance of \$70,289,190. A breakdown of the reported amounts over or under-collected in rates as of December 31, 2022, by each balancing account, is provided in the table below:

¹ Liberty's A.21-05-017 Test Year 2022 General Rate Case Application, II. Background, A. Liberty's Operations

Title of Account	Reported Under/(Over) Collected Balance as of 12/31/2022
Base Revenue Requirement Balancing Account (BRRBA)	\$ 34,941,618
Vegetation Management Balancing Account (VMBA)	8,218,830
Energy Cost Adjustment Clause (ECAC)	30,762,542
California Alternate Rates for Energy (CARE)	(115,607)
Energy Savings Assistance Program (ESAP)	(1,582,839)
Energy Efficiency Balancing Account (EEBA)	(709,260)
Greenhouse Gas Balancing Account (GHGBA)	(862,615)
Solar Incentive Program Balancing Account (SIPBA)	(467,502)
Mobile Home Park Balancing Account (MHPBA)	2,363,188
Solar on Multifamily Affordable Housing Program Balancing Account (SOMAHBA)	(2,307,606)
Energy Performance Test	48,440
Total Net Under-Collected Balance	\$ 70,289,190

Audit Authority

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

Objective and Scope

Our audit objectives were to determine whether 1) transactions recorded in Liberty's balancing accounts from January 1, 2022, through December 31, 2022, 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 Liberty's policies and procedures.

The scope of our audit covered the balancing accounts administered and/or reported by Liberty for the audit period of January 1, 2022, through December 31, 2022.

Methodology

In planning our audit, we gained an understanding of each balancing account and Liberty's operations by researching and reviewing relevant PU Code sections, preliminary statements, Liberty's internal rules, regulations, and policies, CPUC decisions, resolutions, advice letters, and interviewing Liberty personnel.

We conducted a risk assessment, including evaluating whether Liberty's key internal controls relevant to our audit objectives 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 Liberty's accounting and customer billings systems. Our assessment included examining extracted reports, tracing data between differing report formats to verify completeness, and tracing report data to source documents. 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, advice letters, proceedings, and preliminary statements to gain an understanding of the balancing accounts and applicable tariff rates.
- Reviewed Liberty's accounting system, policies, processes and procedures for tracking, monitoring, and recording transactions to its balancing accounts.
- Reviewed Liberty's customer billing system and policies, processes and procedures for recording and reporting revenues to its balancing accounts.
- Reviewed Liberty's internal control policies and procedures related to the administration and implementation of its balancing accounts.
- Assessed significance by performing an analysis of revenue and expenditure data and evaluating balancing account requirements.
- Reconciled balancing account totals recorded in Liberty's accounting system to the balances reported in Liberty's Annual Balancing Account Report as of December 31, 2022, for accuracy and completeness.
- Assessed whether any prior external and/or internal audit reports were significant to the audit objectives, and to identify potential risks relevant to the current engagement.
- Reviewed UAB's (formerly Utility Audit, Finance and Compliance Branch) prior balancing account audit of Liberty for the year ended December 31, 2017, that was issued on March 29, 2019. We determined there were potential risks or follow-ups required since the prior audit findings were relevant to the audit objectives. We performed follow-ups to verify whether corrective actions were appropriately addressed and implemented.
- Obtained an understanding of Liberty's key internal controls relevant to its balancing accounts, such as accounting and reporting processes, customer billing procedures, rate change processes, and assessed the design, implementation, and operating effectiveness of selected controls that were significant to the audit objectives by:
 - administering an internal control questionnaire;
 - reviewing Liberty's policies and procedures and performing walkthroughs of balancing account activities, its billing system, rate changes, and the annual reporting process;
 - verifying the changes made to rates were in accordance with approved tariffs; and

- assessing the reliability of billing data by verifying that appropriate rates were charged and calculated correctly on selected customer bills.
- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing.
- Traced Liberty’s interest calculation methodology to the balancing accounts’ preliminary statements, and determined whether 1) interest was accrued monthly, 2) interest rate was 1/12th the interest rate on three-month Commercial Paper for the previous month, and 3) interest was applied to the average net balance of the account.
- Determined whether Liberty properly reported and recorded monthly interest in each Balancing Account Monthly Tracking Statement by recomputing the monthly interest amounts reported for all 12 months for BRRBA, VMBA, ECAC and GHGBA.
- Performed testing of transactions by judgmentally selecting a non-statistical sample for significant balancing accounts as illustrated in the table below (for the selected sample, errors found, if any, were not projected to the intended (total) population):

Balancing Account Name / Type of Transaction Tested	Amount Tested	Amount of Population*	% of Population Tested
BRRBA Monthly Journal Entry	\$ 1,345,540	\$ 8,724,269	15.4%
ECAC Monthly Journal Entry	1,611,368	18,888,503	8.5%
VMBA Expenditures	407,042	8,170,318	5.0%
MHPBA Expenditures	124,200	448,200	27.7%
GHGBA Proceeds	1,454,516	5,365,389	27.1%
GHGBA Purchases	1,894,750	4,732,090	40.0%
GHGBA Expenditures	2,850,900	2,850,900	100.0%
Total Amounts	\$ 9,688,316	\$ 49,179,669	19.7%

* Amounts derived from Liberty's Tracking Statements.

- For the selected journal entries, recalculated the journal entry based on (1) revenue and kWh usage reports, (2) invoices, (3) allocation methodology, and/or (4) CPUC directives.
- For the selected expenditures, proceeds and purchases, traced the transaction recorded in Liberty’s accounting records to supporting documentation and determined costs were accurate, attributable to its respective balancing account, supported by appropriate source documents, and incurred in compliance with applicable CPUC directives, orders, rules, regulations, and Liberty’s policies and procedures by:
 - tracing transaction to invoices to ensure transactions (1) were incurred within 2022, (2) agreed to invoiced amount, and (3) were calculated accurately;

- verifying transactions were supported by appropriate source documents, such as detailed invoices, agreements/contracts, etc., to confirm the transactions were for authorized activities; and
- confirming payments were made for the transaction and the amounts agreed to invoice; and
- verifying that the activity occurred by:
 - obtaining inventory log with change history for tree pruning, pole clearance and line clearance work being completed;
 - tracing the number of software licenses issued to invoices;
 - confirming meeting invites and meeting notes to demonstrate consulting work occurred;
 - comparing images of before and after herbicide application; and
 - reviewing the invoice and inspection tracker reports.

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

We did not audit Liberty's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that Liberty reported, incurred, and maintained its balancing accounts in accordance with the applicable criteria. We considered Liberty's 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 (GAGAS). GAGAS requires 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, 2022, through December 31, 2022. These instances are described in the Findings and Recommendations section of this audit report.

Follow-up on Prior Audit Findings

Our prior audit of Liberty's balancing accounts for the period January 1, 2017, through December 31, 2017, issued on March 29, 2019, disclosed four audit findings. Based on the work performed in this current audit, and as noted in the Findings and Recommendations section of this audit report, Liberty continues to have findings related to inaccurate annual reporting of its balancing accounts information and inaccurate interest calculations, regardless of our prior audit report recommendations for similar issues.

Liberty did not identify any other 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 potential findings and recommendations.

Views of Responsible Officials

We issued a draft report on February 23, 2024. Liberty responded by email dated March 8, 2024, agreeing to implement measures consistent with UAB's recommendations. Liberty's response is included in this final audit report as an attachment in Appendix A – Utility's Response to Draft Audit Report.

Restricted Use

This audit report is intended solely for the information and use of Liberty 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 \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

Masha Vorobyova for Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

FINDINGS AND RECOMMENDATIONS

Finding 1: Inaccurate Reporting of Balancing Accounts by \$214,750

Condition:

Liberty's 2022 Annual Report, Schedule B: Balancing Accounts, filed with the CPUC did not include four authorized balancing accounts and included one unauthorized account.

- Liberty did not report the Electric and Magnetic Fields Experimental Research Balancing Account (EMFERBA), the Baseline Balancing Account, and the Rule 20 Balancing Account in its Annual Report because the accounts had a zero balance.
- Liberty erroneously reported the Wildfire and Natural Disaster Resiliency Rebuild Balancing Account (WNDRRBA) in the amount of \$263,190 in its Annual Report under Schedule D: Memorandum Accounts – Electric, Line Item 22, instead of Schedule B.
- Liberty incorrectly included the unauthorized Energy Performance Test account, in the amount of \$48,440, in the Annual Report, Schedule B.

As a result, Liberty's reported total year-end net under-collected balance of \$70,289,190 was understated by \$214,750 and should have been reported as \$70,503,940. The following table represents the authorized accounts and their amounts:

#	Title of Account	Under/(Over) Collected Balance as of 12/31/2022
1	BRRBA	\$ 34,941,618
2	VMBA	8,218,830
3	ECAC	30,762,542
4	CARE	(115,607)
5	ESAP	(1,582,839)
6	EEBA	(709,260)
7	GHGBA	(862,615)
8	SIPBA	(467,502)
9	MHPBA	2,363,188
10	SOMAHBA	(2,307,606)
11	WNDRRBA	263,190
12	EMFERBA	0
13	Baseline Balancing Account	0
14	Rule 20 Balancing Account	0
Total Net Under-Collected Balance		\$ 70,503,940

Liberty's inconsistencies and inaccuracies of reported information in its Annual Report is a repeat finding. In UAB's 2017 Balancing Account Examination report issued March 29, 2019, Findings 1 and 2 noted Liberty had a reporting error of \$99,955 and did not update the account description for VMBA. For the current audit period of 2022, Liberty omitted reporting authorized accounts and included an unauthorized account in its report. Liberty did not strengthen its internal control and oversight for reporting its balancing accounts to ensure complete and accurate information is reported to CPUC, as recommended in the prior 2017 Balancing Account Examination report.

Criteria:

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

Advice Letter (AL) 28-E filed on July 15, 2013, revised the preliminary statement for EMFERBA and the Baseline Balance account.

AL 176-E filed on July 6, 2021, implements the Rule 20 Balancing Account to track all costs to be included in the Rule 20 Annual Report, in addition to any figures typically tracked in a balancing account, in compliance with Decision (D).21-06-013.

AL 183-E filed on December 9, 2021, establishes the WNDRRBA to track its share of funding for the Wildfire and Natural Disaster Resiliency Rebuild program, in compliance with D.21-11-002.

Cause:

Liberty lacks adequate monitoring and oversight policies and procedures to ensure balancing accounts and related information are accurately reported in its Annual Report.

Effect:

Inaccurate and/or incomplete information reported in Liberty's Annual Reports, which may be used by decision-makers during the General Rate Case (GRC) application review process, could potentially impact the rates for Liberty's ratepayers. It is imperative that each utility ensure its Annual Reports contain complete and accurate information on all of its authorized balancing accounts to provide decision-makers with complete and accurate information when making decisions that can affect the ratepayers.

Recommendations:

Liberty should enhance its monitoring and oversight procedures for reporting information in its Annual Report to ensure that:

- all authorized balancing accounts are included in the Annual Report, regardless of whether there are activities recorded in the accounts during the reporting year,
- all authorized balancing accounts are included in the correct schedule of the Annual Report, and
- balancing accounts included in the Annual Report are authorized by the CPUC.

Finding 2: Misstated Interest Amounts by \$97,898**Condition:**

Liberty misstated the interest accrued in its balancing accounts. During our testing of reported interest amounts, we re-computed monthly interest amounts for significant accounts BRRBA, ECAC, GHGBA, and VMBA for each month in 2022. As a result, interest has a net misstatement amount of \$97,898 as shown in the table below:

Account	Over-(Under) Accrued Interest Amount
BRRBA	\$ 115,106
ECAC	78,878
GHGBA	38,824
VMBA	(134,910)
Net Misstatement Amount	\$ 97,898

The computation of interest is based on the specific instructions contained within balancing accounts' preliminary statements, and we noted the following errors and systemic inconsistencies:

- Liberty made interest entries quarterly instead of monthly for all of its balancing accounts, except ECAC. As a result, accumulated monthly interest is not included in the amount on which interest is accrued.
- Liberty utilized the current month's interest instead of the prior month's interest for all of its balancing accounts.
- Liberty applied interest to a fixed amount each month instead of using the average net balance for GHGBA, as outlined in the preliminary statement.
- Liberty stopped accruing interest for the VMBA in the third quarter instead of continuing to apply interest to the average net balance each month. Liberty filed Application (A).22-10-022 on October 31, 2022, and included the VMBA 2021 ending balance of \$7.3 million into its application and stopped accruing interest for accounts that were part of this application. The \$7.3 million reduced the balance in the account, however, the VMBA still had an average net balance for interest to accrue upon.

The inconsistencies in Liberty's calculation of interest is a repeat finding. In UAB's 2017 Balancing Account Examination report issued March 29, 2019, Finding 3 noted Liberty did not comply with the methodology prescribed in the preliminary statements to calculate interest because Liberty applied the interest rate to the ending balances rather than the average balances of the balancing accounts. For the current audit period of 2022, Liberty continued exhibiting interest computation inconsistencies. Liberty did not improve its protocols to either follow the directives of its preliminary statements in computing its interest for the balancing accounts or request the CPUC's approval to amend its preliminary statements, as recommended in the prior 2017 Balancing Account Examination report.

Criteria:

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

Liberty's BRRBA Preliminary Statement states, in part, that:

Liberty shall maintain the BRRBA by making entries at the end of each month as follows: (...)

d. Liberty shall apply interest to the average net balance in the BRRBA account at a rate equal to one-twelfth the interest rate on the three-month Commercial Paper for the previous month as reported in the Federal Reserve Statistical Release, H.15, or its successor publication. Accumulated interest will be included in the amount on which interest is accrued, but will be identified as a separate component of the BRRBA account.

Liberty's ECAC Preliminary Statement states, in part, that:

The Company shall maintain an Energy Cost Adjustment Account. Entries shall be made to this account at the end of each month as follows: (...)

(4) a debit entry (credit entry, if negative) equal to the average of the beginning and ending balance multiplied by the Interest Rate.

The Interest Rate to be applied to the Energy Cost Adjustment Account shall be 1/12 of the interest rate on the three-month Commercial Paper, for the previous month as reported in the Federal Reserve Statistical Release, H.15.

Liberty's GHGBA Preliminary Statement states, in part, that:

The Utility will: (...)

(4) Accrue interest monthly to the balancing account applying one-twelfth of the interest rate to the average of the beginning and ending balance of the GHGBRA and the sub-balancing account. The interest rate shall be the interest rate of the three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release H.15, or its successor.

Liberty's VMBA Preliminary Statement states, in part, that:

Liberty shall maintain the VMBA by making entries at the end of each month as follows: (...)

3. Liberty shall apply interest to the average net balance in the VMBA account at a rate equal to one-twelfth the interest rate on the three-month Commercial Paper for the previous month as reported in the Federal Reserve Statistical Release, H.15, or its successor publication. Accumulated interest will be included in the amount on which interest is accrued, but will be identified as a separate component of the VMBA account.

Cause:

Liberty lacks oversight and monitoring procedures to ensure interest is being calculated accurately, consistently, and in accordance with its balancing accounts' preliminary statements.

Effect:

Failure to properly calculate interest in compliance with its preliminary statement leads to inaccurate recording and reporting of interest in its balancing accounts. Any errors in the calculation of interest in its balancing accounts can diminish the benefit to ratepayers since balancing accounts accrue interest to be returned to ratepayers if the utility has over-collected or recovered as additional revenue if the utility has under-collected.

Furthermore, since any over or under-collected year-end balances, including interest, are carried over from year to year, potential incorrect interest amounts can impact customer rates by being amortized into future rates.

Recommendations:

Liberty should update its oversight and monitoring processes and procedures to ensure interest amounts are computed and recorded accurately, consistently, and in accordance with its balancing accounts' preliminary statements. In addition, Liberty should adjust the account balances as follows:

- BRRBA balance by \$115,106 for the over-accrued interest.
- ECAC balance by \$78,878 for the over-accrued interest.
- GHGBA balance by \$38,824 for the over-accrued interest.
- VMBA balance by \$134,910 for the under-accrued interest.

Finding 3: Incomplete Preliminary Statement for VMBA Balancing Account**Condition:**

Liberty did not accurately update its VMBA Preliminary Statement in its latest AL 219-E-B filed on May 30, 2023, with CPUC. The current VMBA Preliminary Statement does not contain the complete list of the accounting procedures for VMBA. Every balancing account has a preliminary statement found in the tariff book of its respective utility, detailing the purpose of the balancing account, the types of costs and/or revenues that are to be tracked in the account, and the specific accounting procedures that the utility must follow to record transactions in the balancing account.

The VMBA Preliminary Statement, Section D, Accounting Procedures, omitted two types of authorized accounting entries that Liberty records and tracks in the account. Liberty currently records the following accounting entries to the account:

1. Vegetation Management program expenditures,
2. revenue billed under the vegetation management surcharge,
3. interest, and
4. base rate adjustments to track the difference between the recorded and the annual authorized revenue requirement.

The VMBA Preliminary Statement, Section D, Accounting Procedures, reflects entries for Accounting Procedures 1 and 3, and omits entries for Accounting Procedures 2 and 4.

Criteria:

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

D.20-08-030 approved Liberty's annual vegetation management budget (...) with a cost cap of \$3.06 million to be included in rates each year.

AL 219-E filed on May 30, 2023, revised its rates and associated tariffs based on D.23-04-043, such as VMBA. Liberty's VMBA Preliminary Statement states, in part, that:

Liberty shall maintain the VMBA by making entries at the end of each month as follows:

1. A debit entry equal to Liberty's recorded vegetation management program expense for the month;
3. Liberty shall apply interest to the average net balance in the VMBA (...)

AL 72-E filed on December 28, 2016, revised its rates and associated tariffs based on several recent decisions, resolutions, and approvals by the CPUC, such as VMBA. Liberty's VMBA Preliminary Statement states, in part, that:

Liberty shall maintain the VMBA by making entries at the end of each month up to and including December 2018 as follows:

1. A debit entry equal to Liberty's recorded vegetation management program expense for the month;
2. A credit entry of \$210,250 equal to the amount adopted in Liberty's GRC Decision for vegetation management expense divided by 36; and
3. Liberty shall apply interest to the average net balance in the VMBA (...)

Cause:

Liberty lacks oversight and monitoring procedures to ensure the accuracy of its VMBA Preliminary Statement.

Effect:

Failure to properly disclose the type of accounting entries that occur within the account leads to inaccurate representation of the accounting procedures. It is critical the accounting entries that occur within the account are properly documented in the preliminary statement to ensure transparency of the balancing account.

Recommendations:

Liberty should update the VMBA Preliminary Statement, Section D, Accounting Procedures, to provide transparency of the actual entries that are recorded in the account by filing the appropriate AL with CPUC for approval. In addition, Liberty should update its oversight and monitoring process and procedures to ensure that the preliminary statement accurately reflects the accounting entries that occur within the account.

APPENDIX A—UTILITY'S RESPONSE TO DRAFT AUDIT REPORT



Liberty Utilities (CalPeco Electric) LLC
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South Lake Tahoe, CA 96150
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March 8, 2024

TRANSMITTED VIA E-MAIL

Utility.Audits@cpuc.ca.gov

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

Re: Liberty Utilities (CalPeco Electric) LLC Response to Draft Balancing Accounts Performance Audit

Director Williams:

Liberty Utilities (CalPeco Electric) LLC (Liberty) hereby submits its response to the draft report issued on February 23, 2024 by the Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) regarding the Balancing Accounts Performance Audit for the period of January 1, 2022 through December 31, 2022 (Draft Report).

Liberty appreciates the UAB's review and ongoing engagement throughout the audit process. Liberty will implement measures consistent with the UAB's recommendation and comments regarding these measures are listed below.

Finding 1:

- Liberty will include all Balancing Accounts on Annual Report. This includes the Electric Magnetic fields Experimental Research Balancing Account (EMFERBA), Baseline Balancing Account, and Rule 20 Balancing account, which all held a zero balance.
- Liberty will include the Wildfire and Natural Disaster Resiliency Rebuild Balancing Account (WNDRRBA) under Balancing Accounts on its Annual Report.
- Liberty will exclude the Energy Performance Test account from Balancing Accounts and the Annual Report. The amount of \$48,440 in the Energy Performance Test account is being reclassified.

Finding 2:

- Liberty will recalculate interest on balancing accounts based on the correct methodology for each account and make any necessary adjustments.
- Review and adjustments will be completed in Q2 2024.

Angie Williams, Director
California Public Utilities Commission
March 8, 2024
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Finding 3:

- The Vegetation Management Balancing Account (VMBA) Preliminary Statement is accurate as of 2023. Since VMBA is now part of the base revenue requirement, there are no surcharges and base rate adjustment entries that go in the VMBA account. Therefore, no changes need to be made to the VMBA Preliminary Statement.

Sincerely,

LIBERTY UTILITIES (CALPECO ELECTRIC) LLC

/s/ Crystal Greene

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