



REVIEW OF FINANCIAL SCHEDULES

San Gabriel Valley Water Company-Los Angeles County Division

For the Year Ended December 31, 2020

Utility Audits, Risk and Compliance Division
Utility Audits Branch
January 19, 2022



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**

**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



January 19, 2022

Mr. Joseph Harris
Vice President and Treasurer
San Gabriel Valley Water Company
P. O. Box 6010
El Monte, CA 91734

Dear Mr. Harris:

**Final Report Transmittal Letter—Review of San Gabriel Valley Water Company (SGVWC)—
Los Angeles County Division’s Annual Report for the year ended December 31, 2020**

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its review of SGVWC-Los Angeles County Division’s 2020 Annual Report filed with the CPUC. The final review report is enclosed.

SGVWC-Los Angeles County Division’s response to the draft report finding and our evaluation of the response are incorporated into this report. We will post this review report on our website at [Audit Reports by Industry \(ca.gov\)](http://www.cpuc.ca.gov/AuditReportsbyIndustry).

Please provide a Corrective Action Plan (CAP) addressing the finding and recommendations of this report by March 7, 2022. 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, with a copy to Bruce DeBerry, Program Manager of Water Division, at Bruce.DeBerry@cpuc.ca.gov.

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

Sincerely,

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: on next page

Mr. Joseph Harris
Vice President and Treasurer
San Gabriel Valley Water Company
January 19, 2022
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cc: Joel Reiker, Vice President of Regulatory Affairs, SGVWC
Chanisa Hutangkura, Controller, SGVWC
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 Berry, Program Manager, Water Division, CPUC
Raymond Yin, Program and Project Supervisor, UAB, CPUC
Khusbindar Kaur, Senior Management Auditor, UAB, CPUC
Judith Mason, Public Utility Financial Examiner IV, UAB, CPUC

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EXECUTIVE SUMMARY

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a review of the financial schedules in the Annual Report of San Gabriel Valley Water Company (SGVWC)–Los Angeles County Division (SGVWC–LA Division) for the year ended December 31, 2020, pursuant to Public Utilities (PU) Code Sections 314.5, 314.6, 581, 582, and 584 that provide the CPUC the statutory authority to review or audit the books and records of the regulated utilities. We conducted this review in accordance with the standards prescribed under Review Engagements in the Generally Accepted Government Auditing Standards (GAGAS).

Incorporated in California in 1945, SGVWC is a wholly owned subsidiary of Utility Investment Company, which is a wholly owned subsidiary of United Resources, Inc. SGVWC is a Class A water utility with a total of 95,196 metered customer service connections and 11,892 flat rate private/public fire customer service connections throughout California.¹ SGVWC-LA Division serves approximately 48,122 metered service connections and 5,370 flat rate private/public fire service connections in Los Angeles County of California.² As a regulated water utility, SGVWC is required to prepare its Districts' Annual Reports on accrual basis of accounting set forth in the Uniform System of Accounts (USOA) adopted in Decision (D.) 16-11-006 by the CPUC on November 16, 2016, which is a comprehensive basis of accounting other than the generally accepted accounting principles in the United States of America.

The purpose of this review was to obtain limited assurance as a basis for reporting whether we were aware of any material modifications that should be made to the financial schedules in SGVWC–LA Division's Annual Report for the year ended December 31, 2020, in order for them to be in accordance with the accounting framework prescribed by the USOA and CPUC's directives.

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

- Finding 1: SGVWC–LA Division understated both of its Metered Residential Sales Revenue and Metered Residential Low-Income Discount (Debit) by \$2,232,705 in its 2020 Annual Report. This material misstatement occurred because SGVWC-LA Division netted its Metered Residential Low-Income Discount (Debit) against the Metered Residential Sales Revenue due to its billing system's limitation. SGVWC–LA Division should have separately reported the gross Metered Residential Sales Revenue of \$49,258,548 and the Metered Residential Low-Income Discount (Debit) of \$2,232,705 in its 2020 Annual Report rather than reporting a netted amount.

¹ SGVWC 2020 Annual Report, Schedule D-4 Number of Active Service Connections, Page 69

² SGVWC–LA County Division 2020 Annual Report, Schedule D-4 Number of Active Service Connections, Page 16

UAB discussed the above finding with SGVWC during fieldwork. SGVWC concurred with the finding and agreed to correct the misstatement identified above. SGVWC submitted a revised 2020 Annual Report for the SGVWC–LA Division on November 12, 2021, to the CPUC to correct the material misstatement described in Appendix A of this report. UAB further discussed the finding and recommendation presented in Appendix A of this report with SGVWC at the exit conference on November 17, 2021, and SGVWC concurred with the review results. We are not aware of any material modifications that should be made to the accompanying financial schedules in SGVWC–LA Division’s revised Annual Report.

We issued a draft review report on December 8, 2021. SGVWC submitted its comments on December 20, 2021. SGVWC’s response to the finding and recommendations is presented in Appendix B of this report. In its response, SGVWC suggested a slight modification to the condition of Finding 1. After considering SGVWC’s comments, we updated the account description for Account 601-1.2 from “Metered Residential Low-Income Discount” to “Metered Residential Low-Income Discount (Debit)” for clarification purposes. The remainder of the finding and recommendations are unchanged. UAB’s evaluation of SGVWC’s response is presented in Appendix C of this report.

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Mr. Joseph Harris
Vice President and Treasurer
San Gabriel Valley Water Company
P.O. Box 6010
El Monte, CA 91734-2010

The Utility Audits Branch (UAB) of the California Public Utility Commission (CPUC) has reviewed the accompanying financial schedules in San Gabriel Valley Water Company (SGVWC)–Los Angeles County Division's (SGVWC–LA Division) revised Annual Report for the year ended December 31, 2020. SGVWC's management is responsible for the preparation and fair presentation of the financial schedules in SGVWC–LA Division's revised Annual Report in accordance with the accounting framework prescribed by the Uniform System of Accounts (USOA) adopted in CPUC's Decision (D.)16-11-006 and CPUC's directives. Our responsibility is to express a conclusion on the financial schedules in the SGVWC'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 SGVWC–LA Division's Annual Report in order for them to be in accordance with the accounting framework prescribed by the USOA and CPUC's directives. A review is substantially less in scope than an examination, the objective for which is to obtain reasonable assurance about whether the financial schedules in SGVWC–LA Division's Annual Report is in accordance with accounting framework prescribed by the USOA and CPUC's directives, in all material respects, in order to express an opinion. Accordingly, we do not express such an opinion. We believe that our review provides a reasonable basis for our conclusion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial schedules in SGVWC–LA Division's revised Annual Report for the year ended December 31, 2020, 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 SGVWC–LA Division's Annual Report originally filed with the CPUC's Water Division, as described in the Appendix A–Review Finding and Recommendations. The misstatement has been corrected by SGVWC in the accompanying financial schedules.

Views of Responsible Official

UAB discussed the results of the review with SGVWC during fieldwork. SGVWC concurred with the finding and agreed to correct the misstatement identified in its Annual Report originally filed with the CPUC's Water Division. SGVWC submitted a revised 2020 Annual Report for the SGVWC–LA Division on November 12, 2021, to correct the material misstatement described in Appendix A of this report. UAB further discussed the finding and recommendation with SGVWC at the exit conference on November 17, 2021, and SGVWC concurred with the review results. We are not aware of any material modifications that should be made to the accompanying financial schedules in SGVWC–LA Division's revised Annual Report.

We issued a draft review report on December 8, 2021. SGVWC submitted its comments on December 20, 2021. SGVWC's response to the finding and recommendations is presented in Appendix B of this report. In its response, SGVWC suggested a slight modification to the condition of Finding 1. UAB's evaluation of SGVWC's response is presented in Appendix C of this report.

Other Matter - Submission of a Corrective Action Plan

SGVWC's management should submit a corrective action plan (CAP) to the UAB at UtilityAudits@cpuc.ca.gov, with a copy to Bruce DeBerry, Program Manager of Water Division, at Bruce.DeBerry@cpuc.ca.gov by March 7, 2022. The CAP should address how SGVWC will implement the recommendation. If SGVWC is unable to implement UAB's recommendation, the CAP should state the reason(s) for not being able to implement the recommendation. SGVWC should use the amounts reviewed by the UAB as presented in this report as the basis to file its future Annual Reports with the CPUC.

Restricted Use of This Review Report

The purpose of this report is to summarize the results of the review mandated by PU Code Section 314.5. Accordingly, this review report is intended solely for the information and use by the CPUC and the management of SGVWC, 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 \(ca.gov\)](http://www.cpuc.ca.gov/AuditReportsbyIndustry).

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

REVIEWED FINANCIAL SCHEDULES

San Gabriel Valley Water Company–LA Division

Utility Plant in Service

As of December 31, 2020

INTANGIBLE PLANT

Organization	\$13,810
Franchises and Consents	2,500
Other Intangible Plant	10
Total Intangible Plant	<u>16,320</u>

LANDED CAPITAL

Land and Land Rights	25,623,637
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SOURCE OF SUPPLY PLANT

Wells	9,815,064
Total Source of Supply Plant	<u>9,815,064</u>

PUMPING PLANT

Structures and Improvements	15,219,220
Pumping Equipment	31,552,099
Total Pumping Plant	<u>46,771,319</u>

WATER TREATMENT PLANT

Structures and Improvements	2,450,913
Water Treatment Equipment	54,233,206
Total Water Treatment Plant	<u>\$56,684,119</u>

(Continued on next page)

San Gabriel Valley Water Company–LA Division
Utility Plant in Service (continued)
 As of December 31, 2020

TRANSMISSION AND DISTRIBUTION PLANT

Reservoirs and Tanks	\$19,842,795
Transmission and Distribution Mains	136,629,064
Fire Mains	15,129
Services	64,067,658
Meters	2,613,639
Hydrants	7,649,291
Total Transmission and Distribution Plant	230,817,576

GENERAL PLANT

Structures and Improvements	2,172,999
Office Furniture and Equipment	3,145,546
Transportation Equipment	3,120,721
Communication Equipment	420,814
Tools, Shop and Garage Equipment	1,142,381
Total General Plant	10,002,461

Undistributed Item

Common Plant (General Office Prorate)	19,501,916
Total Undistributed Item	19,501,916

Total Utility Plant in Service \$399,232,412

Recycled Water Utility Plant

Recycled water depreciable plant	3,150,374
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Total Recycled Water Utility Plant \$3,150,374

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

San Gabriel Valley Water Company–LA Division
Depreciation and Amortization Reserves
As of December 31, 2020

	Utility Plant	Limited Term Utility Investment	Utility Common Property	Recycled Water Utility Plant
Reserves, Beginning of Year	\$113,682,380	\$1,360	\$2,958,697	\$210,877
Credits				
Charged to Account 503	6,486,199		448,143	45,096
Charged to Account 504		63		
Charged to Account 265	2,239,069			16,716
Charged to clearing accounts	357,235		96,988	
Salvage recovered	55,553		23,243	
Total credits	<u>9,138,056</u>	<u>63</u>	<u>568,372</u>	<u>61,812</u>
Debits				
Book cost of property retired	(660,900)		(166,746)	
Cost of removal	(67,571)			
Total debits	<u>(728,471)</u>	<u>0</u>	<u>(166,746)</u>	<u>0</u>
Reserve, End of Year	<u>\$122,091,965</u>	<u>\$1,423</u>	<u>\$3,360,325</u>	<u>\$272,689</u>

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

San Gabriel Valley Water Company–LA Division
Operating Revenues
 For Year Ended December 31, 2020

WATER SERVICE REVENUES

Metered Sales to General Customers

Residential Sales	\$49,258,548
Residential Low-Income Discount (Debit)	(2,232,705)
Commercial Sales	15,449,178
Industrial Sales	3,374,158
Sales to Public Authorities	4,477,024
Sub-total	<u>70,326,203</u>

Sales to Irrigation Customers

Metered sales	1,336,432
Sub-total	<u>1,336,432</u>

Private Fire Protection Service

Other Sales or Service	1,454,536
Sub-total	<u>132,769</u>

Total Water Service Revenues	<u><u>73,249,940</u></u>
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OTHER WATER REVENUES

Miscellaneous Service Revenues	60,233
Other Water Revenues	8,147,382
Recycled Water Revenues	1,917,490
Total Other Water Revenues	<u><u>10,125,105</u></u>

TOTAL OPERATING REVENUES	<u><u>\$83,375,045</u></u>
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(See independent accountant's review report and accompanying notes.)

San Gabriel Valley Water Company–LA Division
Operating Expenses
 For Year Ended December 31, 2020

SOURCE OF SUPPLY EXPENSE

Operation	
Purchased water	\$19,224,752
Maintenance	
Maintenance of wells	49,713
Total Source of Supply Expense	<u>19,274,465</u>

PUMPING EXPENSES

Operation	
Operation supervision and engineering	113,858
Pumping labor and expenses	442,853
Miscellaneous expenses	263,496
Fuel or power purchased for pumping	4,038,739
Maintenance	
Maintenance supervision and engineering	76,339
Maintenance of structures and improvements	317,277
Maintenance of power pumping equipment	317,356
Total Pumping Expenses	<u>5,569,918</u>

WATER TREATMENT EXPENSES

Operation	
Operation supervision and engineering	225,255
Operation labor and expenses	4,140,995
Miscellaneous expenses	85
Chemicals and filtering materials	2,656,461
Maintenance	
Maintenance supervision and engineering	44,242
Maintenance of structures and improvements	5,798
Maintenance of water treatment equipment	492,820
Total Water Treatment Expenses	<u>\$7,565,656</u>

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San Gabriel Valley Water Company–LA Division
Operating Expenses (Continued)
 For Year Ended December 31, 2020

TRANSMISSION AND DISTRIBUTION EXPENSES

Operation

Operation supervision and engineering	\$298,725
Storage facilities expenses	6,011
Transmission and distribution lines expenses	343,785
Meter expenses	183,860
Customer installation expenses	108,786
Miscellaneous expenses	49,982

Maintenance

Maintenance supervision and engineering	31,067
Maintenance of reservoirs and tanks	29,434
Maintenance of trans. and distribution mains	490,087
Maintenance of services	741,176
Maintenance of meters	54,033
Maintenance of hydrants	190,878
Maintenance of miscellaneous plant	139,770

Total Transmission and Distribution Expenses	2,667,594
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CUSTOMER ACCOUNT EXPENSES

Operation

Supervision	424,174
Meter reading expenses	664,376
Customer records and collection expenses	1,533,453
Miscellaneous customer accounts expenses	768,446
Uncollectible accounts	345,579

Total Customer Account Expenses	3,736,028
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RECYCLED WATER EXPENSES

Operation and Maintenance

Recycled water operation and maintenance	1,167,811
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Total Recycled Water Expenses	\$1,167,811
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San Gabriel Valley Water Company–LA Division
Operating Expenses (Continued)
 For Year Ended December 31, 2020

ADMINISTRATIVE AND GENERAL EXPENSES

Operation

Administrative and general expenses	\$3,780,481
Office supplies and other expenses	728,763
Property insurance	115,816
Injuries and damages	1,255,712
Employees' pensions and benefits	4,698,106
Franchise Requirements	729,408
Regulatory commission expenses	219,218
Outside services employed	109,735
Miscellaneous General Expenses	172,990

Maintenance

Maintenance of general plant	630,689
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Total Administrative and General Expenses	<u>12,440,918</u>
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MISCELLANEOUS

Rents	56,640
Administrative expenses transferred – Cr.	<u>(2,139,900)</u>

Total miscellaneous	<u>(2,083,260)</u>
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Total Operating Expenses	<u><u>\$50,339,130</u></u>
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(See independent accountant's review report and accompanying notes.)

San Gabriel Valley Water Company–LA Division

Notes to Financial Schedules

SGVWC is a class A water utility located in El Monte, CA. SGVWC a wholly owned subsidiary of Utility Investment Company (founded in 1980), which is a wholly owned subsidiary of United Resources, Inc. SGVWC distributes water for customers of domestic, commercial, industrial, and public authorities. SGVWC has 95,196 metered customer service connections and 11,892 flat rate private/public fire customer service connections throughout California as of December 31, 2020.³ SGVWC–LA Division has 48,122 metered customer service connections and 5,370 of flat rate service connections and serves a total population of 254,000.⁴

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

1. Purpose of Financial Information and Targeted Audience

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

The purpose of using the 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

³ SGVWC 2020 Annual Report, Schedule D-4 Number of Active Service Connections, Page 69

⁴ SGVWC–LA County Division 2020 Annual Report, Schedule D-7 Number of Active Service Connections, Page 17

determining depreciation accruals. Specifically, depreciation reserve is determined for each primary plant account by dividing the original cost of depreciable utility plant, net of estimated salvage value and depreciation reserve, by the estimated remaining life of the surviving plant of the account. The utility must obtain prior written approval from the CPUC for any practice deviates from the aforementioned guidelines.

SGVWC uses the straight-line remaining life depreciation method for each class of utility plants. SGVWC submitted its Depreciation Review to CPUC's Water Division in a letter dated July 23, 1997. The Depreciation Review outlined the depreciation rates for each class of utility plant. There have been no changes made to the depreciation rates since the 1997 Depreciation Review.

(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.

SGVWC-LA Division's utility plant is recorded at original cost when first constructed or purchased. When a depreciable plant is retired, the cost is removed from utility plant account and an equal amount is removed from accumulated depreciation.

During 2020, SGVWC-LA Division retired utility plant totaling \$451,679, primarily consisting of removal of transmission services, transportation equipment, and various other plant assets.

(3) Sale and Acquisition of Properties

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

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

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

During 2020, SGVWC-LA Division sold utility plant totaling \$706,304, consisting of land and pump structures and various other plant assets.

3. Operating Revenues

SGVWC-LA Division generated approximately 84 percent of its operating revenues from metered water sales; 12 percent from other water revenues, two percent water sales to its irrigation customers, and two percent water sales to the public authorities.

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.

SGVWC-LA Division 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 Report with the CPUC every year. For the year being reviewed, SGVWC-LA Division has complied with these requirements.

APPENDIX A—REVIEW FINDING AND RECOMMENDATIONS

Finding 1: Understated Metered Residential Sales Revenue and Metered Residential Low-Income Discount (Debit)

Condition:

SGVWC–LA Division understated both of its Metered Residential Sales Revenue and Metered Residential Low-Income Discount (Debit) by \$2,232,705 in its 2020 Annual Report originally filed with the CPUC’s Water Division on April 28, 2021. While analyzing the metered water revenues, we noted that SGVWC incorrectly netted the Metered Residential Low-Income Discount (Debit) against Metered Residential Sales Revenue. Further inquiries with SGVWC disclosed that this material misstatement occurred because SGVWC-LA Division netted \$2,232,705 Metered Residential Low-Income Discount (Debit) against the Metered Residential Sales Revenue due to its billing system’s limitation. However, SGVWC did not make appropriate adjusting journal entries to reclassify the \$2,232,705 Metered Residential Low-Income Discount (Debit) to Account 601-1.2 and gross up the Metered Residential Sales Revenue by the same amount to \$49,258,548 before reporting them separately in its 2020 Annual Report. As a result, both Account 601-1.1 Metered Residential Sales Revenue and Account 601-1.2 Metered Residential Low-Income Discount (Debit) were understated by \$2,232,705.

SGVWC indicated that it was aware of the USOA requirement, but its billing system was incapable of separating a discount portion from the monthly basic charges when automated transactions were posted to SGVWC’s accounting system. However, SGVWC’s billing system had the functionality to generate a separate report showing discounts applied to its low-income customers. SGVWC should have posted adjusting entries to record the low-income discounts and gross up the Metered Residential Sales Revenue in its accounting records. Per discussions with SGVWC, it expects to implement a new billing system in 2022, which will be able to record the Metered Residential Sales Revenue and the Metered Residential Low-Income Discount (Debit) separately.

SGVWC corrected these misstatements in SGVWC–LA County Division’s revised 2020 Annual Report submitted to the CPUC on November 12, 2021.

Criteria:

The USOA states, in part, that:

Account 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:

601-1.1 Residential Sales

601-1.2 Residential Low-Income Discount (Debit).

Subaccount 601-1.2 shall be used to record low-income discounts given to metered residential customers unless otherwise authorized or ordered by the Commission.

Cause:

SGVWC lacks monitoring procedures over its accounting and reporting process to ensure that proper adjusting entries are made in its accounting records to ensure that its Metered Residential Sales Revenue and Metered Residential Low-Income Discount (Debit) are accurately reflected in its general ledger before reporting them in SGVWC–LA Division’s 2020 Annual Report.

Effect:

Inaccurate reporting of SGVWC–LA Division’s Metered Residential Sales Revenue and Metered Residential Low-Income Discount (Debit) could potentially impact water rates for SGVWC–LA Division’s ratepayers during SGVWC’ General Rate Case (GRC) application review process if they were left uncorrected.

Recommendations:

SGVWC should implement accounting procedures that require adjusting entries to ensure proper segregation of the Metered Residential Low-Income Discount (Debit) from the Metered Residential Sales Revenue. SGVWC should also implement a monitoring and review process to ensure that all reported amounts in its Annual Reports are complete and accurate.

APPENDIX B—SGVWC'S RESPONSE

SAN GABRIEL VALLEY WATER COMPANY

December 20, 2021

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

(by email)

Re: Draft Report Review of San Gabriel Valley Water Company – Los Angeles County Division Annual Report for the year ended December 31, 2020

Dear Ms. Williams:

In response to your letter dated December 8, 2021, San Gabriel Valley Water Company (“San Gabriel” or “Company”) offers the following comments and suggested edits to the Draft Report of San Gabriel Valley Water Company – Los Angeles County Division Annual Report for the year ended December 31, 2020 (“Draft Report”).

In the Draft Report, Account 601.12 is referred to as “Metered Residential Low-Income Discount” and “Metered Residential Low-Income Discount (Debit).” The references should be consistent, and San Gabriel recommends that the former be revised to “Metered Residential Low-Income Discount (Debit).”

In both the Executive Summary and Appendix A of the Draft Report the finding is described as “... understated both of its Metered Residential Sales Revenue and Metered Residential Low-Income Discount”. In order to make the nature of the finding clearer San Gabriel suggests that the phrasing be revised to “... understated its Metered Residential Sales Revenue and overstated its Metered Residential Low-Income Discount (Debit)”. [Emphasis added]. This revised wording would make it clearer to the reader the nature of the misstatement and why no additional adjustments to revenue are necessary.

San Gabriel believes that these revisions are necessary to clarify the misstatement and to aid the reader in understanding the impact to the originally submitted annual report and the revision.

END OF RESPONSE

Please call me at (626) 448-6183 with any questions regarding this information.
Sincerely,

 /s/ Joseph Harris
Joseph Harris
Vice President and Treasurer

APPENDIX C—UAB’S EVALUATION OF SGVWC’S RESPONSE

We appreciate SGVWC’s comments submitted on December 20, 2021. In its response, SGVWC suggested revising the reference to Account 601-1.2 as “Metered Residential Low-Income Discount (Debit).” We updated the reference to Account 601-1.2 as Metered Residential Low-Income Discount (Debit) throughout this report to explicitly indicate that this account has a natural debit balance for clarification purposes.

SGVWC further suggested that the condition of the finding should be revised to state that its Metered Residential Low-Income Discount (Debit) account was overstated rather than understated. We disagree. Account 601-1.2—Metered Residential Low-Income Discount (Debit) is a contra revenue account, which has a natural debit balance. SGVWC’s originally filed Annual Report omitted the low-income discounts applied to customers’ bills; therefore, Account 601-1.2 was understated as stated in our draft review report.

Aside from updating the description of Account 601-1.2 from “Metered Residential Low-Income Discount” to “Metered Residential Low-Income Discount (Debit)” in this audit report, the finding and recommendations remain unchanged.