

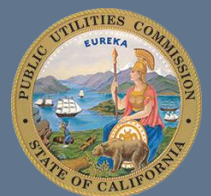


BALANCING ACCOUNTS PERFORMANCE AUDIT

San Jose Water Company

January 1, 2020, through December 31, 2020

Utility Audits, Risk and Compliance Division
Utility Audits Branch
November 17, 2022



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A digital copy of this report can be found at:

[Audit Reports by Industry \(ca.gov\)](#)

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PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
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Transmitted via e-mail

November 17, 2022

Mr. John Tang
Vice President of Regulatory Affairs and Government Relations
San Jose Water Company
110 West Taylor Street
San Jose, California 95110

Dear Mr. Tang:

Final Report Transmittal Letter—Audit of San Jose Water Company’s Balancing Accounts for the period of January 1, 2020, through December 31, 2020

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its audit of San Jose Water Company’s (San Jose) balancing accounts for the period of January 1, 2020, through December 31, 2020.

We issued the draft audit report on November 8, 2022. San Jose’s response to the draft report findings is incorporated into this final report. San Jose’s response to the draft report required minor updates to the amounts in Finding 1 due to additional information provided. As a result, we made modifications to the Executive Summary and Finding 1 in the Findings and Recommendations section of the final report. We will post the final audit report on our website at <https://www.cpuc.ca.gov/utilityaudits/>

A Corrective Action Plan addressing the findings and recommendations is required. San Jose’s response to the draft audit report included corrective actions. However, San Jose is still required to file an Advice Letter to include the Water Rate Assistance Program balancing account in its Preliminary Statement. Once San Jose files this Advice Letter, no further actions will be required.

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

Sincerely,

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: on next page

Mr. John Tang
Vice President of Regulatory Affairs and Government Relations
San Jose Water Company
November 17, 2022
Page 2

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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 San Jose Water Company (San Jose) for the audit period of January 1, 2020, through December 31, 2020.

Our audit objectives were to determine whether 1) transactions recorded in San Jose's balancing accounts from January 1, 2020, through December 31, 2020, were for allowable purposes and supported by appropriate documentation; and 2) the balancing accounts were established and maintained as required by applicable Public Utilities (PU) Code sections, CPUC directives, orders, rules, regulations, and San Jose'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 findings are summarized as follows:

- **Finding 1: Understated Balance in the Purchased Power Balancing Account**

San Jose reported an under-collected incremental balance of \$524,132 in its Purchased Power balancing account, which was misstated by a net of \$565,980 for the audit period (understated by \$595,492 and overstated by \$29,512). The corrected year-end under-collected incremental balance in the Purchased Power balancing account should be \$1,090,112.

- **Finding 2: Understated Balance in the Monterey-Style Water Rate Adjustment Mechanism Balancing Account**

San Jose understated the year-end incremental balance in its Monterey-Style Water Rate Adjustment Mechanism (M-WRAM) balancing account by a total of \$76,202 for the audit period. The corrected year-end under-collected incremental balance in the M-WRAM balancing account should be \$11,796,643.

- **Finding 3: Four Balancing Accounts Omitted from the Preliminary Statement**

San Jose did not include four of its ten balancing accounts authorized by the CPUC in its Preliminary Statement as mandated in General Order (GO) 96-B. Specifically, San Jose omitted its Purchased Power, Purchased Water, Pump Tax, and Water Rate Assistance Program (WRAP) balancing accounts and related required information from its Preliminary Statement.

We issued a draft report on November 8, 2022. San Jose responded by letter dated November 10, 2022, outlining corrective actions taken and implemented for Findings 1 through 3 and proposing an edit to Finding 1 in the draft audit report to update the year-end under-collected incremental balance in the Purchased Power balancing account. San Jose's response is included in this final report as an attachment in Appendix A-Utility's Response to the Draft Audit Report and our evaluation of the response is included in Appendix B-UAB's Evaluation of Utility's Response.

AUDIT REPORT

Background

Balancing Accounts

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

Functionally, a balancing account tracks the difference between actual expenditures associated with the account, revenue authorized for recovery by the CPUC (authorized revenue requirement), and the actual revenues collected within customer rates to cover those specific expenditures. Applicable rules for a given balancing account are presented in the utility's Preliminary Statement, which also includes 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 for the balancing account. Additionally, unless approved otherwise, a balancing account is required to accumulate monthly interest at a rate equal to one-twelfth of the most recent month's interest rate on three-month Commercial Paper published by the Federal Reserve.

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

In 2020, San Jose was authorized a total of ten balancing accounts to track differences between actual expenditures associated with the account and authorized for recovery, and the revenues collected within customer rates to cover those specific expenses. Additionally, San Jose utilized two recovery accounts to track the amortization of prior year-end over- or under-collected balances transferred from its balancing accounts. In 2020, San Jose reported a total combined under-collected balance of \$19,425,493 and in its balancing and recovery accounts. A breakdown of the reported amounts over- or under-collected in rates as of December 31, 2020, by each balancing and recovery account is provided in the table below:

Title of Balancing and Recovery Accounts	Reported Net Over/(Under- Collected) Balance as of Dec. 31, 2020
Purchased Power*	\$ (524,132)
Purchased Water**	(1,419,468)
Pump Tax	(1,859,341)
WRAP Discount	123,429
Pension Balancing Account	(1,008,150)
SRF Loan I Surcharge	(420,314)
SRF Loan II Surcharge	(360,018)
Monterey-Style WRAM	(11,720,441)
Recovery of Undercollection of Balancing Accounts 2018 GRC	(1,128,374)
Recovery of Net Undercollection Pressure Reducing Valve Modernization and Energy Recover Balancing Account	(1,108,684)
Total Net Under-Collected Balance***	\$ (19,425,493)

*In its 2020 Annual Report to CPUC, San Jose reported four balances for the Purchased Power Balancing Account. Specifically, San Jose reported \$4,427, (\$247,638), (\$246,260), and (\$34,661), totaling net balance of (\$524,132). As all balances are for purchased power expenditures, UAB combined the four balances for reporting purposes.

** In its 2020 Annual Report to CPUC, San Jose reported four balances for the Purchased Water Balancing Account. Specifically, San Jose reported (\$1,825,470) for Purchased Water, \$131,167 Non-contract, \$355,649 Recycle, and (\$80,814) Recycle Well totaling net balance of (\$1,419,468). Since all the balances are for purchased water expenditures, UAB combined the four balances for auditing and reporting purposes.

*** In its 2020 Annual Report, San Jose reported (\$3,031,226), (\$817,289), and (\$123,599) for calendar years 2017, 2018, and 2019 respectively under the general term Balancing Account. Those balances are under-collected balancing account balances for each respective calendar year. These balances fell outside of the scope of our audit and were not included in our report above.

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 review or audit all balancing accounts periodically to ensure that the transactions recorded in the balancing accounts are for allowable purposes and supported by appropriate documentation.

Objective and Scope

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

The scope of our audit covered the ten balancing accounts administered and reported by San Jose for the audit period of January 1, 2020, through December 31, 2020.

Due to the absence of the Purchased Power, Purchased Water, Pump Tax, and WRAP balancing accounts in San Jose's Preliminary Statement, we were unable to validate the specific provisions related to these accounts, including but not limited to types of costs and/or revenues allowed to be recorded, applicable accounting procedures that must be followed to record transactions, and other provisions that support tariff rules or rate schedules for these balancing accounts. Therefore, our scope relating to

these four balancing accounts was limited to testing of expenditures and incremental rates and ensuring that San Jose followed its own practices and procedures. In addition, the WRAP account was not determined to be a significant balancing account during our planning and thus no testing was performed on that balancing account.

Methodology

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

We conducted a risk assessment, including evaluating whether San Jose's key internal controls relevant to our audit objectives were properly designed, implemented, and operating effectively. Our assessment included conducting interviews, 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 San Jose's customer billings system. Our assessment included observing the billing process from beginning to end for one billing cycle. Specifically, this included the uploading of data from handheld meter read devices to computer servers, reviewing and correcting billing errors identified by the billing software, production of internal reports to record revenues to each appropriate balancing and recovery accounts, and the creation and issuance of customer billing statements for the billing cycle. We determined the data to be sufficiently reliable to address the audit objectives.

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

- Reviewed applicable CPUC decisions, ALs, General Rate Case (GRC) proceedings, and San Jose's Preliminary Statement to gain an understanding of the accounts and applicable tariff rates.
- Reviewed external audit reports prepared by independent Certified Public Accounting firms on San Jose's annual financial statements and internal controls to identify potential risks relevant to the audit objectives.
- Assessed significance by performing analysis of revenue and expenditure data and evaluating balancing account requirements.
- Reviewed San Jose's accounting processes and procedures for tracking, monitoring, and recording transactions to its balancing accounts.
- Reviewed San Jose's customer billing system and processes and procedures for recording and reporting revenues to its balancing accounts.
- Reviewed San Jose's practices and procedures related to the administration and implementation of its balancing accounts.

- Obtained an understanding of San Jose’s key internal controls relevant to its balancing accounts, such as accounting and reporting process, customer billing procedures, rate adjustment process, and assessed the design and implementation that were relevant to the audit objectives by:
 - interviewing key personnel;
 - completing an internal control questionnaire; and
 - performing walkthroughs and observations of selected customer billings and transactions.
- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing.
- Performed testing of expenditures by judgmentally selecting a non-statistical sample of significant expenditure transactions for the following balancing accounts as illustrated in the table below:

Balancing Account Name	Total Expenditures Tested	Total Expenditures Recorded in 2020	Percent Tested
Pump Tax	\$ 781,443	\$ 1,857,166	42%
Purchased Water	887,232	1,823,470	49%
Purchased Power	523,543	523,543	100%
Pension Expense Balancing Account	5,040,000	8,594,000	59%
Totals	\$7,232,218	\$12,798,179	57%

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

- Traced sampled expenditures recorded in San Jose’s accounting records to supporting documentation and determined whether transactions were accurate, allowable, supported by appropriate source documents, and maintained in compliance with applicable CPUC directives, orders, rules, regulations, and San Jose’s policies and procedures.
- Performed testing of revenue activity recorded in 2020 for the Monterey-Style Water Rate Adjustment Mechanism (M-WRAM) balancing account of 100% of the revenue amounts recorded in the balancing account during the audit period as summarized in the table below:

Balancing Account Name	Total Revenue Tested	Total Revenue Recorded in 2020	Percent Tested
Monterey-style Water Rate Adjustment Mechanism Balancing Account (MWRAM)	\$5,042,022	\$5,042,022	100%

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

- Traced sampled M-WRAM revenue amounts to billing reports to determine whether appropriate rates were applied, revenue amounts were appropriately recorded and reported in the monthly tracking statement, the beginning balance reconciled to the prior year's ending balance, and that the recorded ending balance matched the amount reported to the CPUC in San Jose's annual report.
- Determined whether San Jose properly reported and recorded monthly interest in its Balancing Account Monthly Tracking Statement by recomputing the monthly interest amounts reported for each month in five of ten of its balancing accounts.
- Reconciled year-end balances recorded in the Balancing Account Monthly Tracking Statements to San Jose's Annual report filed with the CPUC's Water Division.

We did not audit San Jose's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that San Jose reported, incurred, and maintained its balancing accounts in accordance with the applicable criteria. We considered San Jose'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), 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. GAGAS standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Conclusion

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

Follow-up on Prior Audit Findings

We have not previously conducted an audit of the San Jose' regulatory balancing accounts.

Views of Responsible Officials

We issued a draft report on November 8, 2022. San Jose responded by letter dated November 10, 2022, outlining corrective actions taken and implemented for Findings 1 through 3 and proposing an edit to Finding 1 in the draft audit report to update the year-end under-collected incremental balance in the Purchased Power balancing account. San Jose's response is included in this final report as an attachment in Appendix A-Utility's Response to the Draft Audit Report and our evaluation of the response is included in Appendix B-UAB's Evaluation of Utility's Response.

Restricted Use

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

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

FINDINGS AND RECOMMENDATIONS

Finding 1: Understated Balance in the Purchased Power Balancing Account

Condition:

San Jose reported an under-collected incremental balance of \$524,132 in its Purchased Power balancing account, which was misstated by a net of \$565,980 for the audit period (understated by \$595,492 and overstated by \$29,512). The corrected year-end under-collected incremental balance in the Purchased Power balancing account should be \$1,090,112, as outlined in the table below:

Purchased Power Balancing Account	(Under)- Collected Balance
2020 year-end reported incremental balance	\$ (524,132)
Understated amount	(595,492)
Overstated amount	29,512
Adjusted 2020 year-end incremental balance	<u><u>\$(1,090,112)</u></u>

The Purchased Power balancing account tracks the incremental difference between the CPUC adopted power rates approved in San Jose’s GRC and the actual power rates paid by the utility. During internal controls testing, we discovered that San Jose did not update its power survey to reflect three rate increases from its energy supplier which occurred in 2020. The power survey uses electrical rate and usage information to calculate an incremental rate. This rate is then applied to the monthly kilowatt hour (kWh) usage to determine the over- or -under collected amounts in the balancing account. In 2018, San Jose’s power supplier changed rates three times and a power survey was performed for two of those rate changes. In 2019, San Jose’s power supplier had a total of six rate changes. San Jose performed a power survey for each of the first four rate changes but did not perform a power survey for the last two rate changes, nor for any of the three rate increases in 2020. We expanded our testing of the rate changes to include 2018 and 2019 years to ensure the 2020 year-end reported balance reflects accurate rate changes. As a result of not updating the power survey, San Jose understated the reported Purchased Power balancing account under-collected incremental balance of \$524,132 by a total of \$595,492, according to San Jose’s recalculation.

Additionally, San Jose overstated the year-end incremental balance in its Purchased Power balancing account by a total of \$29,512 for the audit period. As discussed above, the Purchase Power balancing account tracks the incremental difference between the CPUC adopted power rates approved in San Jose’s GRC. Part of the calculation involves using actual monthly kWh usage obtained from actual invoices. During the testing of those invoices, we found that San Jose included kWh amounts for a partner water company for which it provides limited financial services and should not have been included in its calculation for the Purchase Power balancing account. As a result of this error, the reported 2020 year-end under-collected balance of \$524,132 was overstated by a total of \$29,512.

During the audit, San Jose provided an updated Purchased Power balancing account tracking statement that reflected the corrected incremental balance of \$1,090,112 as shown in the table above.

Criteria:

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

Cause:

San Jose lacks oversight and monitoring policies and procedures to detect errors and ensure the incremental amounts and kWh calculations are properly and accurately recorded and reported in its Purchased Power balancing account.

Effect:

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

Recommendations:

- San Jose should develop, document, and implement processes and procedures for the preparation and review of the incremental rate calculation to ensure the incremental amount is accurately recorded and reported.
- San Jose should also develop, document, and implement processes and procedures for the preparation and review of the kWhs calculation to detect errors and to ensure kWh amount are accurately recorded.

Finding 2: Understated Balance in the Monterey-Style Water Rate Adjustment Mechanism Balancing Account

Condition:

San Jose understated the year-end incremental balance in its M-WRAM balancing account by a total of \$76,202 for the audit period. The corrected year-end under-collected incremental balance in the M-WRAM balancing account should be \$11,796,643, as outlined in the table below:

M-WRAM Balancing Account	(Under)- Collected Balance
2020 year-end reported incremental balance	\$(11,720,441)
Understated amount	(76,202)
Adjusted 2020 year-end incremental balance	<u><u>\$(11,796,643)</u></u>

The M-WRAM balancing account tracks the differences between the amount residents are billed using CPUC approved tiered rates for the quantity of water used, to what those revenues would have been if a single rate had been used. During the testing of internal controls, we discovered inconsistencies between internal reports generated by the San Jose’s Customer Care and Billing (CCB) system. Specifically, we were unable to reconcile monthly totals from San Jose’s internal JV-1 report, which the accounting department utilizes to track revenue, to its internal Conservation Rate Report, which is used to maintain and record transactions to the M-WRAM balancing account.

The Conservation Rate Report failed to provide correct information due to the software not being properly designed. Specifically, the software did not properly account for canceled bills and only allowed reports to be created as a “point in time” rather than a selected time period. This caused reports utilized to record amounts to the M-WRAM to produce amounts based on when the report was run. San Jose updated the CCB system to address these design flaws during the audit and provided the auditors with an updated Conservation Rate Reports for all twelve months within the audit period. The \$11,720,441 year-end balance reported by San Jose contained \$5,042,022 of revenue activity for 2020 which was understated by \$76,202 because of the incorrect Conservation Rate Report. As a result, San Jose updated the under-collected incremental balance in the M-WRAM balancing account tracking statement during the audit which now reflects an adjusted under-collected balance of \$11,796,643 as shown in the table above.

Criteria:

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

Cause:

San Jose did not ensure that CCB system was properly designed to address potential reporting errors. In addition, San Jose lacks oversight and monitoring policies and procedures to detect errors and to ensure the data reported in the Conservation Rate Report is accurate and timely prior to relying on the data to prepare the M-WRAM balancing account tracking statement.

Effect:

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

Recommendations:

- San Jose should develop, document, and implement processes and procedures for the review of CCB system updates to ensure reports utilized to record monthly transactions to its M-WRAM balancing account are complete and accurate.
- San Jose should also reconcile the JV-1 accounting reports to the Conservation Rate Report monthly to ensure amounts recorded and reported in the M-WRAM balancing account are accurate.

Finding 3: Four Balancing Accounts Omitted from the Preliminary Statement

Condition:

San Jose did not include four of its ten balancing accounts authorized by the CPUC in its Preliminary Statement as mandated in GO 96-B. Specifically, San Jose omitted its Purchased Power, Purchased Water, Pump Tax, and WRAP balancing accounts and related required information in its Preliminary Statement.

Criteria:

GO 96-B, Section 9.5.3 states:

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

Cause:

During the audit, San Jose acknowledged that it did not include the Purchased Power, Purchased Water, and Pump Tax balancing accounts in its Preliminary Statement because San Jose believed incremental balancing accounts were exempt from Preliminary Statement requirements by CPUC.

In addition, San Jose inadvertently omitted an updated Preliminary Statement containing the WRAP balancing account when San Jose submitted an AL to the CPUC Water Division for the approval of the WRAP balancing account.

Effect:

It is imperative that all balancing accounts be included in the Preliminary Statement in order to provide transparency to members of the public and/or ratepayers, and other stakeholders by documenting the balancing account's purpose, the applicability of tariff rates, types of costs and/or revenues recorded in the account, accounting procedures, and other provisions that do not appear in tariff rules or rate schedules. Such information documented in the Preliminary Statement enables stakeholders to validate whether given balancing accounts function within the regulatory framework and prescribed guidelines. Including required information for all balancing accounts in the Preliminary Statement facilitates accountability and helps ensure that each balancing account follows applicable laws, rules, regulations, and directives so that ratepayers do not pay any more or less in applicable rates than necessary.

Recommendations:

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

APPENDIX A—UTILITY'S RESPONSE TO DRAFT AUDIT REPORT



November 10, 2022

Angie Williams, Director
Utility Audits, Risk and Compliance Division (UAB)
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: Comments on Draft Audit Report

Dear Ms. Williams:

Thank you for the opportunity to provide comments on the draft report of the Audit of San Jose Water Company's Balancing Accounts for the period for January 1, 2020, through December 31, 2020.

The draft report identified three findings. SJWC's responses to those findings are as follows:

- **Finding 1: Understated Balance in the Purchased Power Balancing Account**
San Jose reported an under-collected incremental balance of \$524,132 in its Purchased Power balancing account, which was misstated by a net of \$565,999 for the audit period (understated by \$595,511 and overstated by \$29,512). The corrected year-end under-collected incremental balance in the Purchased Power balancing account should be \$1,090,131.

Response:

In reviewing the details of the audit findings, there was a minor difference in the misstated net balance of the Purchased Power Balancing Account. The net misstatement should be \$565,980 resulting in a corrected year-end under-collected incremental balance in the Purchased Power balancing account of \$1,090,112.

SJWC has updated the 2020 Purchased Power Balancing Account to reflect the understatement of \$565,980. The update was provided to UAB during the audit process. For the 2021 Purchased Power Balancing Account, SJWC will perform the missing power studies and remove the KWH from our partner utility to correctly reflect the correct incremental difference between actual and adopted purchased power cost. Our most recent GRC decision provides for a Full Cost Balancing Account and thus power studies are no longer needed starting in 2022. Furthermore, we have updated our process to utilize the total recorded purchased power cost which matches accounting's recorded power cost in JV 32, and ensure that the energy costs for a partner utility, which resulted in the small overstatement, are not included.

- **Finding 2: Understated Balance in the Monterey-Style Water Rate Adjustment Mechanism Balancing Account**
San Jose understated the year-end incremental balance in its Monterey-Style Water Rate Adjustment Mechanism (M-WRAM) balancing account by a total of \$76,202 for the audit

period. The corrected year-end under-collected incremental balance in the M-WRAM balancing account should be \$11,796,643.

Response:

We have updated our process to include a control test for the new Conservation Rate Report. On a monthly basis going forward, we are reconciling the new Conservation Rate Report with that of the monthly rate stat report used in JV-1 to ensure accurate accounting of consumption.

- **Finding 3: Four Balancing Accounts Omitted from the Preliminary Statement**

San Jose did not include four of its ten balancing accounts authorized by the CPUC in its Preliminary Statement as mandated in General Order (GO) 96-B. Specifically, San Jose omitted its Purchased Power, Purchased Water, Pump Tax, and Water Rate Assistance Program (WRAP) balancing accounts and related required information from its Preliminary Statement.

Response:

The Purchased Power, Purchased Water and Pump Tax balancing accounts have been replaced with SJWC's Full Cost Balancing Account starting on January 1, 2022. SJWC has filed Advice Letter 584 with the CPUC to include the Full Cost Balancing Account in our Preliminary Statement. SJWC will file an advice letter with the CPUC to include the Water Rate Assistance Program (WRAP) balancing account in our Preliminary Statement.

We appreciate the thoroughness of the UAB's audit and your consideration of these comments in the final report.

Very truly yours,



John Tang
Vice President of Regulatory Affairs
and Government Relations

cc: Masha Vorobyova, UAB, CPUC
Kevin Nakamura, UAB, CPUC
Jared Smith, UAB, CPUC
Amy Xu, UAB, CPUC
Yosief Hailemichael, UAB, CPUC
Nanci Tran, SJWC

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

We appreciate San Jose's comments submitted on November 10, 2022. In its response, San Jose provided their corrective actions to address all three findings and recommendations but requested a minor update to the amounts reflected in Finding 1. Specifically, based on additional supporting documentation provided by San Jose, we revised the audit adjustment for the total net misstated amount in the Purchased Power balancing account from \$565,999 as stated in the draft audit report issued on November 8, 2022, to \$565,980. In doing so, we also revised the total understated amount from \$595,511 to \$595,492 while the overstated amount of \$29,512 remained unchanged. As a result of these revisions due to a minor disparity in the calculation of the incremental rates for the months of October – December 2020, the total revised adjusted 2020 year-end incremental balance of \$1,090,131 as reported in the draft audit report has been updated to \$1,090,112. The Executive Summary and Finding 1 in the Findings and Recommendations section of this final report reflect these updated figures.