California Public Utilities Commission

Liberty Utilities (Park Water) Corp. Balancing Accounts Audit

January 1, 2023 through December 31, 2023

July 2025

SJOBERG EVASHENK
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EXECUTIVE SUMMARY

Purpose of the Audit

The California Public Utilities Commission (CPUC or Commission) Utility Audits Branch (UAB) within the Utility Audits, Risk and Compliance Division, engaged Sjoberg Evashenk Consulting, Inc., to conduct an audit of Liberty Utilities (Park Water) Corp.'s 2023 balancing accounts. The purpose of this balancing account audit was to determine if transactions and activities reported and recorded in Park Water Corp.'s (Park Water) balancing accounts were for allowable purposes, supported by appropriate documentation, and maintained in compliance with applicable laws and CPUC regulations.

Findings Summary

Park Water Used Imprecise Method To Prorate Water Usage Resulting in Over and Under Charges

In 2023, Park Water had six mid-billing cycle rate changes requiring the utility to prorate customers total water usage during the service period to allocate the appropriate portion of usage to the old rate and the remainder to the new rate. However, Park Water's method to truncate the proration was imprecise during 2023 because it simply rounded up customer usage instead of using actual water usage that occurred during each portion of the billing cycle. As a result, the allocation between the old and new rates were significantly skewed, leading to an inaccurate representation of how much usage should be billed to its customers at each rate. In a single example bill, the truncation method resulted in a customer bill reflecting $0.14 in excess charges. Because the truncation process impacts several types of charges across thousands of Park Water customers billed in 2023, the audit could not determine the precise dollar impact on Park Water's balancing accounts or other accounts.

Park Water Undercharged Customers $3,900 in Service Charges, CAP Surcharges, and CAP Discounts

On April 7, 2023 the Mesa Crest service area tariff schedules for the Mesa Crest service area was consolidated with other Park Water service areas under one tariff schedule which required the utility to prorate customers flat rate charges/credits during the service period to allocate the appropriate charge to the old rate and the remainder to the new rate. However, Park Water's method to prorate the flat rate charges/credits was imprecise during 2023 because it used 30 total billing days instead of the customer's actual total billing days during the service period. As a result, the allocation between the old and new rates were significantly skewed, leading to an inaccurate representation of the flat rate charges billed to its customers. In a single example bill, this incorrect method resulted in a customer bill reflecting $5.23 in undercharges for the service charge. This incorrect method to prorate flat rate charges/credits resulted in $3,900 in total undercharges to customers in 2023.

Recommendations

The report provides Park Water with two recommendations for improvement:

1. Review the programming in its billing system and terminate using the truncation method to prorate water usage and implement a more precise method, such as using decimals or digits as reflected on customer water meters.
2. Review programming in its billing system to confirm the customer's actual number of billing days is used when performing proration.

INTRODUCTION

Audit Authority

This audit was conducted under the general authority outlined in Public Utility (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.

Background

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, 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 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 account's preliminary statement, which also includes description of the purpose of the account, the types of costs and/or revenues that are to be tracked in the account, and specific accounting procedures that the utility must follow to record transactions for the balancing account. Additionally, unless approved otherwise, a balancing account is required to accumulate monthly interest at a rate equal to one-twelfth of the most recent month's interest rate on three-month Commercial Paper published by the Federal Reserve.

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

In 2023, Park Water was authorized 8 balancing accounts with a total combined under-collected balance of $3,545,153 as of December 31, 2023. A breakdown of the reported amounts by balancing account is provided in Appendix A.

Park Water is 100 percent owned by Liberty Utilities Company and provides service to approximately 28,000 customers in Southern California.

Objectives

The objectives of the audit were to determine whether Park Water's transactions and activities reported and recorded in its balancing accounts were for allowable purposes, supported by appropriate documentation, and complied with all applicable laws and CPUC regulations.

Scope

The audit covered January 1, 2023, through December 31, 2023.

Methodology

To meet the audit objectives, the audit team:

- Reviewed applicable CPUC directives and decisions, CPUC's UAB Standard Practice Manual; prior balancing account audit reports and audited financial statements; and internal policies and procedures.
- Interviewed key personnel to obtain an understanding of the accounting and billing processes related to balancing accounts.
- Identified and evaluated internal controls over its balancing accounts.
- Evaluated whether appropriate corrective action had been taken in addressing findings and recommendations from previous CPUC's UAB audits significant to the audit objectives, if any.
- Reconciled ending balances on monthly tracking statements to accounting records and the Annual Balancing Account and Memorandum Account report submitted to the Commission.
- Performed a risk assessment of the balancing accounts. In assessing significance, evaluated the relative importance of transactions in each balancing account, performed an assessment using qualitative and quantitative factors to identify risks, evaluated the relative importance of the identified risks, including how those risks could impact the accuracy and validity of the transactions and activities reported in the balancing accounts. Of Park Water's 8 balancing accounts, selected the following six accounts to include in revenue and expenditure testing: Water Revenue Adjustment Mechanism / Modification Cost Balancing Account (WRAM); California Alternative Rates for Water (CARW) Revenue Reallocation Balancing Account; Pension Expense Balancing Account (PEBA); One-Way Conservation Balancing Account; Incremental Cost Balancing Account (ICBA); and the Drinking Water Fees Balancing Account (DWFBA).
- For revenue testing of the WRAM/MCBA, CARW Revenue Reallocation, PEBA, and CEBA balancing accounts, compared amounts billed to customers against amounts recorded as collections/recoveries in accounting records. Also, selected a sample of hard copy bills to compare against system billing information to ensure reliability of the system

information and to determine if rates charged on customer billings complied with CPUC directives and approved tariffs.

- For expenditure testing of the Incremental Cost Balancing Account (ICBA), Pension Expense Balancing Account (PEBA) and Drinking Water Fees Balancing Account (DWFBA) the accounts had the following net expenses recorded in 2023:

Balancing Account	2023 Costs Recorded	Costs Tested	%
ICBA	$665,421	$76,878	12%
PEBA	$619,849	$153,308	25%
DWFBA	$42,324	$7,053	17%

For each transaction tested, we reviewed supporting documentation to determine whether transactions were accurate, allowable, supported by appropriate source documents, and in compliance with applicable CPUC directives, orders, rules, and regulations.

- Calculated the amount of interest in each balancing account and determined if the calculation method used complied with applicable rules, such as earning interest monthly 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.

Statement of Auditing Standards

Sjoberg Evashenk Consulting, Inc. (SEC) conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that auditors plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objectives. SEC believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT RESULTS

Finding 1

Park Water Used Imprecise Method to Prorate Water Usage Resulting in Over and Under Charges

In 2023, Park Water had mid-billing cycle rate changes associated with the following six Advice Letters (AL):

1. AL 322-W, effective date May 1, 2022—2021 WRAM/MCBA new 18-month temporary surcharge. Terminated November 1, 2023.
2. AL 331-A, effective date April 7, 2023—Implementation of 2022 escalation year rates, including water usage charges. Terminated July 1, 2023.
3. AL 332-A, effective date April 7, 2023—2022 WRAM/MCBA new 18-month temporary surcharge. Terminates October 7, 2024.
4. AL 335-W, effective date July 1, 2023—Implementation of 2023 escalation year rates, including water usage charges. Will be replaced when the next General Rate Case is implemented.
5. AL 336-W, effective date July 1, 2023—Interim Rates Memorandum Account new 24-month temporary surcharge. Terminates July 1, 2025.
6. AL 337-A, effective date September 1, 2023—Miscellaneous balancing and memorandum account surcharges/surcredits, including the Pension Expense Balancing Account new 36-month temporary surcharge. Terminates September 1, 2026.

When a rate change is implemented within a billing cycle, Park Water must prorate customers total water usage during the service period to allocate the appropriate portion of usage to the old rate and the remainder to the new rate. In one example bill Park Water issued in 2023, a customer used 35 centum cubic feet (CCF) of water during a billing period that spanned 66 days where 24 days fell under the old AL 337-A rate and the remaining 42 days fell under the new AL 337--A rate. Prorating the water usage without rounding results in the following surcharge:

- (35 total CCF usage * 24 days) / 66 total days) = 12.73 CCF of usage under the $0 old rate. This results in $0 surcharge for the portion of usage under the old rate.
- (35 total CCF usage * 42 days) / 66 total days) = 22.27 CCF of usage under the $0.190 new rate. This results in $4.23 surcharge for the portion of usage under the new rate.
- Total surcharge using precise decimals under the old and new rate should be **$4.23.**

However, Park Water's process was to use an imprecise method to prorate water usage. Specifically, Park Water's billing system truncated water usage when prorating between the old and new rates, a process that discards all numbers after the decimal and only uses whole number blocks. In the example bill described above, Park Water prorated the water usage using truncation:

- 12.73 CCF of exact usage was truncated down to 12 CCF of water usage under the $0 old rate. This results in $0 surcharge for the portion of usage under the old rate.
- 35 total CCF usage less the 12 CCF of usage under the old rate leaves a remainder of 23 CCF of usage under the $0.190 new rate. This results in $4.37 surcharge for the portion of usage under the new rate.
- Total surcharge using truncation under the old and new rate was **$4.37.**

As illustrated by this single example bill, the method Park Water's billing system used to truncate water usage **resulted in $0.14 in excess charges** to the customer, which is the difference between the $4.23 and $4.37 charge calculations between the two methods.

According to Park Water, using whole numbers for usage makes bills easier for customers to read and understand; however, in our view, customers would want their water usage to be prorated with precision to guard against potential excess charges.

In addition to the example above, in Exhibit 1, we provide several additional examples where truncation results in over-and-under charges to customers in 2023. Note that only two of the examples in the table affect a balancing account as the other two related to water usage charges or memorandum account—we provide all four examples as each impacts the amounts customers pay.

Exhibit 1. Prorating Water Usage: Truncation Versus Decimals Examples

	Charges When Usage is Prorated Using Decimals	Charges When Usage is Prorated Using Truncation	Difference	Affects a Balancing Account?
Pension Expense Balancing Account Surcharge	12.73 CCF X $0 = $0 22.27 CCF X $0.190 = $4.23 **Total: $4.23**	12 CCF X $0 = $0 23 CCF X $0.190 = $4.37 **Total: $4.37**	**$0.14 excess charges**	Yes
2021 WRAM/MCBA Surcharge	15.43 CCF X $0.03 = $0.46 20.57 CCF X $0 = $0 **Total $0.46**	16 CCF X $0.03 = $0.48 20 CCF X $0 = $0 **Total: $0.48**	**$0.02 excess charges**	Yes
AL 336 Interim Surcharge	4.77 CCF X $0 = $0 21.23 CCF X $.233 = $4.95 **Total: $4.95**	4 CCF X $0 = $0 22 CCF X $.233 = $5.13 **Total: $5.13**	**$0.18 excess charges**	No
Water Usage Charge-Residential Customer	4.90 CCF X $4.12 = $20.19 1.10 CCF X $4.273 = $4.70 **Total: $24.89**	4 CCF X $4.12 = $16.48 2 CCF X $4.273 = $8.55 **Total: $25.03**	**$0.14 under charges**	No

The four examples provided demonstrate that using truncation is an imprecise method of proration because it simply cuts off or discards portions of the data without taking the true distribution of water usage into account that occurred during each portion of the billing cycle. As a result, the allocation between the old and new rates can be significantly skewed, leading to an inaccurate representation of how much usage should be billed at each rate.

Because the truncation process impacts several types of charges across thousands of Park Water customers' bills in 2023, the audit could not determine the precise dollar impact on Park Water's balancing accounts or other accounts.

Recommendation

To improve the mid-cycle surcharge calculations and ensure customers are billed equitably and per CPUC's approved rates and requirements, Park Water should:

1. Review the programming in its billing system and terminate using the truncation method to prorate water usage and implement a more precise method, such as using decimals or digits as reflected on customer water meters.

Finding 2

Park Water Undercharged Customers $3,900 in Service Charges, CAP Surcharges, and CAP Discounts

In 2023, Park Water had a mid-billing cycle rate change for their Mesa Crest service area. Effective April 7, 2023, the Mesa Crest service area was consolidated with other Park Water service areas under one tariff schedule.

When a rate change takes place, Park Water must prorate flat rate charges/credits to allocate the appropriate charges to the old rate and the remainder to the new rate. In one example bill issued in 2023, the billing period spanned 28 days where 8 days fell under the old rate and the remaining 20 days fell under the new rate. Prorating the service charge using the total number of billing days should result in the following.

- ($48.03 service charge rate * 8 days / 28 total days) = $13.72 service charge under the $48.03 old rate.
- ($90.68 service charge rate * 20 days / 28 total days) = $64.77 service charge under the new $90.68 new rate.
- Total service charge using the correct number of billing days under the old and new rate should be $78.49.

However, Park Water used an incorrect method to prorate flat rate charges/credits. Specifically, Park Water prorated the old and new rates using

30 days instead of the actual number of billing days. In the example bill described above, Park Water prorated the service charge using 30 days.

- ($48.03 service charge rate * 8 days / 30 total days) = **$12.81** service charge under the $48.03 old rate.
- ($90.68 service charge rate * 20 days / 30 total days) = **$60.45** service charge under the $90.68 new rate.
- Total service charge using 30 total billing days under the old and new rate was **$73.26**.

As illustrated by this single example bill, the method Park Water used to prorate flat rate charges/credits can lead to differences in amounts charged to customers as the difference between the $78.49 and $73.26 resulted in a $5.23 undercharge to the customer.

In addition to the example above, in the table below we provide additional examples where this incorrect method results in undercharges to customers.

Exhibit 2. Prorating Flat Rate Charges: Total Billing Days Versus 30 Days

	Charges When Flat Rate Charges/Credits are Prorated Using Number of Billing Days	Charges When Flat Rate Charges/Credits are Prorated Using 30 Total Billing Days	Difference	Affects a Balancing Account?
CAP Surcharge	($0 X 8 days / 28 total days) = $0 ($7.23 X 20 days / 28 total days) = $5.16 **Total: $5.16**	($0 X 8 days / 30 total days) = $0 ($7.23 X 20 days / 30 total days) = $4.82 **Total: $4.82**	**$0.34 undercharge**	Yes
CAP Discount	($0 X 8 days / 28 total days = $0 (($10) X 20 days / 28 days) = ($7.14) **Total ($7.14)**	($0 X 8 days / 30 total days) = $0 (($10) X 20 days / 30 total days) = ($6.67) **Total: ($6.67)**	**$0.48 undercharge**	Yes

The two examples provided demonstrate that the allocation between the old and new rates can be significantly skewed, leading to an inaccurate representation of how flat rate charges/credits should be billed at each rate.

Exhibit 3 provides the total undercharges in 2023 according to Park Water:

Exhibit 3. Total Undercharges to Park Water Customers in 2023

Rate Type	Customers Affected	Total Amount Undercharged
Service Charge	700	$3,663
CAP Surcharge	687	$237
CAP Discount	13	($6)
Total		**$3,894**

Recommendation

To ensure that proration is performed accurately when there are scheduled rate changes, Park Water should:

2. Review programming in its billing system to confirm the customer's actual number of billing days is used when performing proration.

APPENDIX A: PARK WATER'S BALANCING ACCOUNTS

	Balancing Account Name	Purpose of the Balancing Account	Balance at 12/31/2023
1	Water Revenue Adjustment Mechanism/ Modification Cost Balancing Account	Tracks water revenues and water production related costs for future disposition.	($1,394,447)
2	Incremental Cost Balancing Account (ICBA)	Tracks the water supply related costs for the domestic (potable water) system, includes purchased power, replenishment, and chemicals.	($688,898)
3	Recycled Water—Incremental Costs	Tracks recycled water incremental costs	($26,443)
4	CARW Revenue Reallocation Balancing Accounts	Tracks recorded discounts and surcharges.	$1,620,796
5	One-Way Conservation Balancing Account	Tracks the difference between actual and authorized conservation program expenses.	$17,358
6	Pension Expense Balancing Account	Tracks the difference between actual and authorized pension expense.	($2,987,824)
7	Consolidated Expense Balancing Account (CEBA)	Consolidates the amortization of Commission approved balancing accounts and memorandum accounts where appropriate.	$10,844
8	Drinking Water Fees Balancing Account (DWFBA)	Tracks the drinking water fees charges by the State Water Resources Control Board.	($96,539)
		Total Balance	**($3,545,153)**

APPENDIX B: PARK WATER'S RESPONSE

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<u>Transmitted via e-mail</u>

July 8, 2025

Ms. Lynda McCallum, Partner
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Re: Liberty Utilities (Park Water) Corp. Response to the Draft Audit Report for Liberty Utilities (Park Water) Corp.'s Balancing Accounts for the year ended December 31, 2023

Ms. McCallum:

Liberty Utilities (Park Water) Corp. (Liberty) hereby submits its response to the Draft Report issued on June 24, 2025 by Sjoberg Evashenk Consulting, Inc. (SEC), an outside consultant hired by the California Public Utilities Commission (CPUC), regarding the balancing accounts audit for the year ended December 31, 2023 (Draft Report).

Liberty appreciates SEC's review and ongoing engagement throughout the process. Liberty provides the following response to Findings 1and 2 of the Draft Report.

Liberty's Response to Finding 1:
Liberty acknowledges the importance of achieving accurate and equitable billing practices in compliance with CPUC-approved rates and requirements. Liberty will conduct a thorough review of the programming logic in its billing system to identify and assess the current methodology used for prorating water usage during mid-cycle adjustments.

Liberty's Response to Finding 2:
Liberty acknowledges the finding regarding the undercharges in service charges, CAP surcharges, and CAP discounts resulting from the use of an incorrect proration method during a mid-billing cycle rate change in the Mesa Crest service area. While the overall financial impact is relatively minor, Liberty places a high priority on billing accuracy and is committed to correctly applying tariffed rates. Liberty will conduct a thorough review of the programing logic in its billing system to evaluate the current proration methodology used in the Mesa Crest service area for flat rate adjustments during mid-cycle rate changes.

Liberty's Response to Other Matter:

On pages 3-4 of the Draft Report, the current sentence inaccurately states that Park provides service to approximately 50,000 customers. Liberty recommends updating the figure to approximately 28,000 customers:

Park Water is 100 percent owned by Liberty Utilities Company and provides service to approximately ~~50~~28,000 customers in Southern California.

Sincerely,

LIBERTY UTILITIES (PARK WATER) CORP.

/s/ Crystal Greene

Crystal Greene
Vice President, Finance
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cc:
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