



# BALANCING ACCOUNTS PERFORMANCE AUDIT

San Diego Gas & Electric Company

January 1, 2018, through December 31, 2018

Utility Audits, Risk and Compliance Division  
Utility Audits Branch  
December 20, 2021



## **MEMBERS OF THE TEAM**

**Angie Williams, Director**

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**Cory Carpenter, Lead**

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**A digital copy of this report can be found at:**

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## PUBLIC UTILITIES COMMISSION

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Transmitted via e-mail

December 20, 2021

Mr. Raj Agarwal  
Assistant Controller  
San Diego Gas & Electric Company  
8326 Century Park Court  
San Diego, CA 92123

Dear Mr. Agarwal:

**Final Report Transmittal Letter—Audit of San Diego Gas & Electric Company’s  
Balancing Accounts for the period of January 1, 2018, through December 31, 2018**

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its audit of San Diego Gas & Electric Company’s (SDG&E) Balancing Accounts reported for the period of January 1, 2018, through December 31, 2018. The final audit report is enclosed.

Our audit disclosed no findings requiring a response and we are issuing the report as final. We will post the final audit report on our website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

We appreciate SDG&E’s assistance and cooperation during the engagement. If you have any questions regarding this report, please contact Kevin Nakamura, Program and Project Supervisor, at (916) 715-8940.

Sincerely,

*Angie Williams*

Angie Williams, Director  
Utility Audits, Risk and Compliance Division

cc: Michelle Somerville, Regulatory Business Manager, SDG&E  
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# TABLE OF CONTENTS

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EXECUTIVE SUMMARY.....	1
AUDIT REPORT .....	2
Background .....	2
Audit Authority.....	4
Objective and Scope .....	5
Methodology .....	5
Conclusion.....	7
Follow-up on Prior Audit Finding(s) .....	7
Views of Responsible Officials.....	8

## EXECUTIVE SUMMARY

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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 Diego Gas & Electric Company (SDG&E) for the audit period of January 1, 2018, through December 31, 2018.

Our audit objectives were to determine whether 1) transactions recorded in SDG&E's balancing accounts from January 1, 2018, through December 31, 2018, 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 SDG&E's policies and procedures.

Based on our audit objectives, procedures performed, samples tested, and evidence gathered, we found that the transactions recorded in SDG&E's balancing accounts from January 1, 2018, through December 31, 2018, were for allowable purposes and supported by appropriate documentation and that its balancing accounts for the audit period were established and maintained in accordance with CPUC directives, orders, rules, regulations, and SDG&E's policies and procedures.

# AUDIT REPORT

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## 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 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 2018, SDG&E was authorized a total of 24 gas and 38 electric 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. In 2018, SDG&E reported a total combined under-collected balanced of \$102,732,944 in its balancing accounts. A breakdown of the reported amounts over or under-collected in rates as of December 31, 2018, by commodity type and each balancing account is provided in the table below:

Title of Balancing Accounts	Reported Net (Over)/Under- Collected Balance as of Dec. 31, 2018
<u>Gas:</u>	
Biomethane Cost Incentive Program (BCIPBA)	\$ 13,111
California Alternate Rates for Energy (CARE-G)	(3,726,520)
Core Fixed Cost Account (CFCA)	50,957,132
Distribution Integrity Management Program Balancing Account (DIMPBA)	(30,347)
Gas Energy Efficiency (GEEBA)	(9,356,097)
Greenhouse Gas Balancing Account (GHGBS-G)	12,544,421
Integrated Transmission Balancing Account (ITBA)	(2,431,070)
Low Carbon Fuel Standard Gas Balancing Account (LCFSBA-G)	(536,335)
Master Meter Balancing Account (MMBA-G)	7,517,421
New Environment Regulation Balancing Account (NERBA-G)	114,925
Non-Core Fixed Cost Account (NFCA)	(3,029,549)
Natural Gas Leak Abatement Program (NGLAPBA)	(229,643)
On Bill Financing Balancing Account (OBFBA-G)	(1,671,225)
Pension Balancing Account (PBA-G)	6,683,734
PBOP Balancing Account (PBOPBA-G)	(1,500,507)
Post 2005 Gas Energy Efficiency (PGEEBA)	(9,080,500)
Post 2005 Gas Low Income Energy Efficiency (PGLIEEBA)	(16,299,641)
Research Development & Demonstration (RD&D)	(16,037)
Rewards & Penalties Balancing Account (RPBA-G)	(517,130)
Safety Enhancement Capital Cost (SECCBA)	63,881,565
Safety Enhancement Express (SEEBA)	4,284,688
Smart Meter Optout Balancing Account (SMOBA-G)	421,813
Transmission Integrity Management Program Balancing Account (TIMPBA)	1,652,427
Transition, Stabilization, and Organization - Gas (TSOBA)	290,962
<b>Net (Over)/Under-Collected Balance - Gas</b>	<b>\$ 99,937,598</b>
<u>Electric:</u>	
Baseline Balancing Account (BBA)	\$ 83,857
Common Area Balancing Account (CABA)	3,323,461
CARE Balancing Account	46,510,724
21st Century Balancing Account (CES-21BA)	(560,985)
Cost of Financing Balancing Account (CFBA)	0
California Solar Initiative Balancing Account (CSIBA)	(11,839,947)
Clean Transportation Priority (CTPBA)	376,622
Demand Response Generation Balancing Account (DRGBA)	569,372
Distribution Resource Plan Demonstration (DRPDBA)	393,049
Electric Distribution Fixed Cost Account (EDFCA)	42,524,055

Title of Balancing Accounts (continued)	Reported Net (Over)/Under- Collected Balance as of Dec. 31, 2018
Electric Procurement Energy Efficiency (EPEEBA)	257,133
Electric Program Investment Charge BA (EPICBA)	(27,347,539)
Energy Resource Recovery Account (ERRA)	49,747,542
Food Bank Balancing Account (FBBA)	31,093
Family Electric Rate Assistance (FERABA)	477,045
Greenhouse Gas Revenue BA (GHGRBA)	3,734,063
Green Tariff Shared Renewables (GTSRBA)	125,241
Low Carbon Fuel Standard BA (LCFSBA)	(3,190,529)
Local Generating Balancing Account (LGBA)	(70,264,738)
Low Income Energy Efficiency Account (LIEE)	(20,777,770)
Master Meter Balancing Account (MMBA)	6,919,612
New Environment Regulation BA (NERBA)	255,967
Non-Fuel Generation Balancing Account (NGBA)	10,124,030
Nuclear Decommissioning Adjustment Mechanism (NDAM)	(1,637,198)
On Bill Financing Balancing Account (OBFBA)	(7,491,832)
Pension Balancing Account (PBA)	14,781,278
PBOP Balancing Account (PBOPBA)	(3,781,442)
Post-1997 Electric Energy Efficiency	(22,867,812)
Rate Design Settlement Component Account (RDSCA)	15,043,868
Rewards & Penalties Balancing Account (RPBA)	5,561,735
Solar Energy Project Balancing Account (SEPBA)	0
Solar On Multifamily Affordable Housing (SOMAHBA)	(9,911,193)
Smart Meter Optout Balancing Account (SMOBA)	724,420
SONGS O&M Balancing Account	0
Transition Cost Balancing Account (TCBA)	(8,824,207)
Transition, Stabilization, and Organizational (TSOBA)	540,358
Tree Trimming Balancing Account (TTBA)	(2,590,263)
Vehicle Grid Integration (VGIBA)	(8,223,724)
<b>Net (Over)/Under-Collected Balance - Electric</b>	<b>\$ 2,795,346</b>
<b>Total Net (over)/Under-Collected Balance - 2018</b>	<b>\$102,732,944</b>

### 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 SDG&E's balancing accounts from January 1, 2018, through December 31, 2018, 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 SDG&E's policies and procedures.

The scope of our audit covered 24 gas and 38 electric balancing accounts administered and reported by SDG&E for the audit period of January 1, 2018, through December 31, 2018.

## Methodology

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

We conducted a risk assessment, including evaluating whether SDG&E's key internal controls relevant to our audit objective were properly designed, implemented, and operating effectively. Our assessment included conducting interviews, observing processes, performing walkthroughs, and testing transactions. Deficiencies in internal control that were identified during our audit and determined to be significant within the context of our audit objective are included in this report.

Additionally, we assessed the reliability of the data extracted from SDG&E's accounting and customer billings systems. Our assessment included examining extracted reports, tracing data between differing report formats to verify completeness, and tracing report data to source documents. We determined the data to be sufficiently reliable to address the audit objectives.

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

- Reviewed applicable CPUC decisions, advice letters, proceedings, and preliminary statements to gain an understanding of the accounts and applicable tariff rates.
- Reviewed external audit reports prepared by independent Certified Public Accounting (CPA) firm on SDG&E'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 SDG&E's internal control policies and procedures related to the administration and implementation of its balancing accounts.
- Reviewed SDG&E's accounting system, accounting policies, processes and procedures for tracking, monitoring, and recording transactions to its balancing accounts.
- Obtained an understanding of SDG&E'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, implementation, and operating effectiveness of selected controls that were significant to the audit objectives by:

- completing an internal control questionnaire;
  - reviewing SDG&E's policies and procedures and interviewing key personnel;
  - performing walkthroughs of balancing account activities, customer billings, and rate changes;
  - verifying appropriate rates were charged on selected customer billings; and
  - assessing the reliability of billing and revenue data.
- Reviewed SDG&E's customer billing system and policies, processes and procedures for recording and reporting revenues to its balancing accounts.
  - Conducted a risk assessment to determine the nature, timing, and extent of substantive testing.
  - Reconciled year-end balances recorded in the Balancing Account Monthly Tracking Statements to SDG&E's Annual Report filed with the CPUC.
  - Performed testing of revenues by judgmentally selecting a non-statistical sample of customer billing records for the months of May and December 2018 to ensure that:
    - Customer billing rates complied with CPUC directives and approved tariffs; and
    - Customer bills were accurately calculated with approved rate schedule.
  - Performed testing of Operations & Maintenance (O&M) expenditures by judgmentally selecting a non-statistical sample of significant expenditure transactions for the following balancing accounts:

Balancing Account Name	Total O&M Expenditures Tested	Total O&M Expenditures Recorded in 2018
California Alternative Rates for Energy	\$ 931,857	\$ 5,927,954
Low Income Energy Efficiency Balancing Account	3,273,365	13,761,628
Energy Resource Recovery Account	181,336	334,495
Greenhouse Gas Balancing Account	11,988,815	20,807,954
Local Generation Balancing Account	458,790	625,113
Master Meter Balancing Account	30,638	431,221
<b>Totals</b>	<b>\$16,864,801</b>	<b>\$41,888,365</b>

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

- Performed testing of Capital Related costs by judgmentally selecting a non-statistical sample of significant expenditure transactions for the following balancing accounts:

Balancing Account Name	Total Capital Related Expenditures Tested	Total Capital Related Expenditures Recorded in 2018
Local Generation Balancing Account	\$1,323,256	\$16,416,250
Master Meter Balancing Account	459,896	5,374,598
Pension - Electric	98,988	261,817
Pension - Gas	32,583	126,818
Safety Enhancement Capital Cost Balancing Account	6,107,103	35,456,245
<b>Totals</b>	<b>\$8,021,826</b>	<b>\$57,635,728</b>

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

- Tested sampled O&M and Capital Related expenditures recorded in SDG&E's accounting records to determine whether transactions were accurate, allowable, supported by appropriate source documents, and maintained in compliance with applicable CPUC directives, orders, rules, regulations, and the SDG&E's policies and procedures.
- Determined whether SDG&E properly reported and recorded monthly interest in its Balancing Account Monthly Tracking Statement by judgmentally selecting eight balancing accounts and recomputing the monthly interest amounts reported for each month in 2018.

We did not audit SDG&E's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that SDG&E reported, incurred, and maintained its balancing accounts in accordance with the applicable criteria. We considered SDG&E'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. Those 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 conclusions based on our audit objectives.

## Conclusion

Based on our audit objectives, procedures performed, samples tested, and evidence gathered, we found that the transactions recorded in SDG&E's balancing accounts from January 1, 2018, through December 31, 2018, were for allowable purposes and supported by appropriate documentation and that its balancing accounts for the audit period were established and maintained in accordance with CPUC directives, orders, rules, regulations, and SDG&E's policies and procedures.

## Follow-up on Prior Audit Finding

Our prior audit of SDG&E's Public Purpose Program regulatory accounts for the period of January 1, 2015, through December 31, 2016, issued on December 15, 2017, disclosed no findings that required a follow-up on corrective actions.

## Views of Responsible Officials

We discussed the audit results with SDG&E's representatives at an exit conference on December 13, 2021. At the exit conference, we stated that the final report will include the views of responsible officials. Because there were no audit findings requiring a response, we are issuing the report as final.

## Restricted Use

This audit report is intended solely for the information and use of SDG&E and the CPUC; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this audit report, which is a matter of public record and will be available on the CPUC website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

*Angie Williams*

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Angie Williams, Director  
Utility Audits, Risk and Compliance Division