

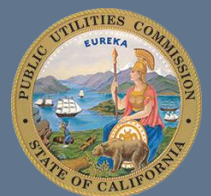


# BALANCING ACCOUNTS PERFORMANCE AUDIT

Bear Valley Electric Service, Inc.

January 1, 2021, through December 31, 2021

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



## **MEMBERS OF THE TEAM**

**Angie Williams, Director**

**Masha Vorobyova, Assistant Director**

**Kevin Nakamura, Supervisor**

**Lina Li, Lead**

**Olufemi Adekunle, Staff**

**Edwin Esternon, Staff**

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

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

**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



Transmitted via e-mail

February 15, 2024

Paul Marconi  
President, Treasurer & Secretary  
Bear Valley Electric Service, Inc.  
42020 Garstin Drive  
Big Bear Lake, CA 92315

Dear Paul Marconi:

**Final Report Transmittal Letter—Audit of Bear Valley Electric Service, Inc.’s  
Balancing Accounts for the period of January 1, 2021, through December 31, 2021**

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its audit of Bear Valley Electric Service, Inc.’s (BVES) balancing accounts reported for the period of January 1, 2021, through December 31, 2021.

We issued the draft audit report on January 18, 2024. BVES’ response to the draft report findings and our evaluation of the response are incorporated into this final report. We will post the final audit report on our website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

A Corrective Action Plan addressing the findings and recommendations is not required. BVES’ response to the draft audit report included information on corrective actions implemented for Findings 1 and 2.

We appreciate BVES’ 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, Program and Project Supervisor, at (916) 928-4736.

Sincerely,

*Angie Williams*

Angie Williams, Director  
Utility Audits, Risk and Compliance Division

cc: See next page

Paul Marconi  
President, Treasurer & Secretary  
Bear Valley Electric Service, Inc.  
February 15, 2024  
Page 2

cc: Jon Pierotti, Vice President – Regulatory Affairs, Golden State Water Company  
Jeff Linam, Manager – Regulatory Affairs, Golden State Water Company  
Stanley Lau, Corporate Controller, Golden State Water Company  
Rachel Peterson, Executive Director, CPUC  
Kristin Stauffacher, Deputy Executive Director, Office of the Commission, CPUC  
Leuwam Tesfai, Deputy Executive Director for Energy and Climate Policy, CPUC  
Pete Skala, Director of Electric Supply, Planning, and Costs, Energy Division, CPUC  
Simon Baker, Director of Distributed Energy Resources, Natural Gas & Retail Rates,  
Energy Division, CPUC  
Masha Vorobyova, Assistant Director, UAB, CPUC  
Kevin Nakamura, Program and Project Supervisor, UAB, CPUC  
Na “Lina” Li, Senior Management Auditor, UAB, CPUC  
Edwin Esternon, Senior Management Auditor, UAB, CPUC

# TABLE OF CONTENTS

---

EXECUTIVE SUMMARY.....	1
AUDIT REPORT .....	3
Background .....	3
Audit Authority.....	4
Objective and Scope .....	4
Methodology .....	4
Conclusion.....	8
Follow-up on Prior Audit Findings .....	8
Views of Responsible Officials.....	8
Restricted Use .....	8
FINDINGS AND RECOMMENDATIONS .....	9
APPENDIX A—UTILITY’S RESPONSE TO DRAFT AUDIT REPORT .....	12
APPENDIX B—UAB’S EVALUATION OF UTILITY’S RESPONSE .....	16

# 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 Bear Valley Electric Service, Inc. (BVES) for the audit period of January 1, 2021, through December 31, 2021.

Our audit objectives were to determine whether 1) transactions recorded in BVES’ balancing accounts from January 1, 2021, through December 31, 2021, 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 BVES’ policies and procedures.

Based on our audit objectives, procedures performed, samples tested, and evidence gathered, we found instances of noncompliance with the requirements. These instances are described in the Findings and Recommendations section of this audit report. The audit findings are summarized as follows:

- **Finding 1: Inaccurate Reporting of Balancing Accounts by \$447,899**

BVES did not include two authorized balancing accounts and reported an unauthorized account in its 2021 Annual Balancing and Memorandum Account Report (Annual Report) filed with the CPUC. Specifically, BVES omitted its BVES Smart Meter Opt-Out Balancing Account (BSOBA) and Wildfire and Natural Disaster Resiliency Rebuild Program Balancing Account (WNDRRBA) while including an unauthorized General Rate Case Balancing Account (GRCBA) in its 2021 Annual Report. As a result, BVES’ total year-end net under-collected balance of \$1,272,551 as reported in its 2021 Annual Report was overstated by \$447,899 and should have been reported as \$824,652.

- **Finding 2: Misstated Energy Savings Assistance Balancing Account (ESABA) and California Alternate Rates for Energy Balancing Account (CAREBA) balances by \$5,739**

BVES understated the year-end over-collected balance in its Energy Savings Assistance Balancing Account (ESABA) by a total of \$5,739 for the audit period and overstated the year-end over-collected balance in its California Alternate Rates for Energy Balancing Account (CAREBA) by the same amount. The correct year-end over-collected balance in the ESABA should be \$970,986 instead of the reported \$965,247 and the correct year-end over-collected balance in the CAREBA should be \$56,920 instead of \$62,659 as shown in the table below.

Description	(Over)- Collected Balance of ESABA	(Over)- Collected Balance of CAREBA
2021 year-end reported balance	(\$965,247)	(\$62,659)
Audited adjustment amount	(5,739)	5,739
<b>Audited 2021 year-end balance</b>	<b>(\$970,986)</b>	<b>(\$56,920)</b>

We issued a draft audit report on January 18, 2024. BVES responded by letter dated January 31, 2024, providing comments regarding the findings and outlining corrective actions for Findings 1 and 2.

BVES' response is included in this final audit report as an attachment in Appendix A–Utility's Response to 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.

### *Bear Valley Electric Service, Inc. (BVES)*

BVES is an electric utility company that provides service to appropriately 24,650<sup>1</sup> customers in a 32-square mile service territory covering the City of Big Bear Lake and surrounding areas in San Bernardino County, California. Of the 24,650 customers served, 23,153 or 94 percent are residential customers and 1,497 or 6 percent are commercial customers. Since 1938, BVES operated as a division of Golden State Water Company but was later reorganized as a stand-alone company and subsidiary of American States Water Company, effective July 1, 2020, pursuant to CPUC Decision (D.)19-12-039.

In 2021, BVES reported 13 balancing accounts with a total combined under-collected balance of \$1,272,551. A breakdown of the reported amounts over- or under-collected in rates as of December 31, 2021, by each balancing account is provided in the table below:

---

<sup>1</sup> 2023 Fact Sheet posted on BVES' website as of April 21, 2023.



Title of Accounts	Reported Net Under/(Over)-Collected Balance as of Dec. 31, 2021
Supply Costs (aka Supply Adjustment) Balancing Account	\$ 1,399,094
California Alternate Rates for Energy Balancing Account	(62,659)
General Rate Case Balancing Account <sup>2</sup>	447,899
Energy Savings Assistance Balancing Account	(965,247)
Base Revenue Requirement Balancing Account	354,571
Energy Efficiency Balancing Account	(83,908)
Solar Initiative Balancing Account	9,422
Pension Balancing Account	(245,905)
Mobile Home Park Balancing Account	1,630,816
CEC-Research, Development and Demonstration Balancing Account	(25,828)
CEC-Renewable Balancing Account	(30,149)
Transportation Electrification Pilot Program Balancing Account	106,282
Greenhouse Gas Allowance Revenue Balancing Account	(1,261,837)
<b>Total Net Under-Collected Balance</b>	<b>\$ 1,272,551</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 develop a risk-based approach for the review or audit of balancing accounts periodically to ensure that the transactions recorded in the balancing accounts are for allowable purposes and supported by appropriate documentation.

## Objective and Scope

Our audit objectives were to determine whether 1) transactions recorded in BVES' balancing accounts from January 1, 2021, through December 31, 2021, 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 BVES' policies and procedures.

The scope of our audit covered the fifteen<sup>3</sup> balancing accounts administered and implemented by BVES for the audit period of January 1, 2021, through December 31, 2021.

## Methodology

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

<sup>2</sup> This General Rate Case Balancing Account is not authorized by the CPUC as indicated in Finding 1 of this report.

<sup>3</sup> Thirteen accounts reported in the 2021 Annual Report plus the two unreported as indicated in Finding 1 of this report.

We conducted a risk assessment, including evaluating whether BVES' 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, if identified during our audit and determined to be significant within the context of our audit objectives, would be included in this report.

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

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

- Reviewed applicable CPUC decisions, advice letters, proceedings, and preliminary statements to gain an understanding of the balancing accounts and applicable tariff rates.
- Reviewed UAB's (formerly Utility Audit, Finance and Compliance Branch) prior balancing account audit of BVES for the year ended December 31, 2017, that was issued on November 30, 2018. We determined there were potential risks or follow-ups required since the prior audit findings were relevant to the audit objectives. We performed follow-ups and tests to verify whether corrective actions were appropriately addressed and implemented.
- Reviewed an external prior audit report prepared by Crowe LLP (Crowe) on BVES' wildfire mitigation plan expenditures for the period of January 1, 2017, through December 31, 2020. We determined there were potential risks or follow-ups required since the prior audit findings were relevant to the audit objectives. We performed follow-ups and tests to verify whether corrective actions were appropriately addressed and implemented.
- Reviewed an external audit report prepared by independent Certified Public Accounting (CPA) firm PricewaterhouseCoopers LLP on American States Water Company's (BVES' parent company) and its subsidiaries' financial statements and internal controls for the fiscal year ended December 31, 2021. We determined there were no potential risks or follow-ups required.
- Reviewed BVES' internal control policies and procedures related to the administration and implementation of its balancing accounts.
- Reviewed BVES' accounting processes and procedures for tracking, monitoring, and recording transactions to its balancing accounts.
- Reviewed BVES' customer billing system and processes and procedures for recording and reporting revenues to its balancing accounts.
- Reconciled balancing account totals recorded in BVES' accounting records to the balances reported in BVES' 2021 Annual Report for accuracy and completeness.

- Assessed significance by performing analysis of revenue and expense data and evaluating balancing account requirements.
- Obtained an understanding of BVES’ key internal controls relevant to its balancing accounts, such as rate adjustment process, customer billing procedures, accounting and reporting process, and assessed the design, implementation, and operating effectiveness of selected controls that were significant to the audit objectives by:
  - interviewing key personnel;
  - completing an internal control questionnaire;
  - performing walkthroughs of selected rate changes, customer billings, and balancing account activities; and
  - assessing reliability of billing and sales data by tracing meter readings to selected customer billings and approved tariff rates to verify that appropriate rates were charged and calculated correctly on customer bills.
- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing.
- Performed on-site visit of BVES’ corporate office, toured its power plant, and visited an Energy Savings Assistance Program participant’s residence and visually inspected an installed energy efficient measure to ensure the selected expense was incurred for the service rendered during the audit period.
- Performed testing of revenue activity recorded in 2021 for the Greenhouse Gas Allowance Revenue Balancing Account of 100 percent of the revenue amount 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 2021	Percent Tested
Greenhouse Gas Allowance Revenue Balancing Account	\$1,261,837	\$1,261,837	100%

- Traced revenues recorded in BVES’ accounting records to its greenhouse gas climate refund form and other supporting documentation to determine whether the revenue transaction was accurate, supported by appropriate source documents, and allowable in accordance with CPUC directives and approved Advice Letters (ALs). In addition, we reviewed a sample of customer bills and verified that the greenhouse gas climate credits were correctly issued to BVES’ residential and small business customers in the year 2022 pursuant to CPUC directives.

- Performed testing of expenses by judgmentally selecting a non-statistical sample of significant expense transactions for the following balancing accounts as illustrated in the table below:

Balancing Account Name	Total Expenses Tested	Total Expenses Recorded in 2021	Percent Tested
Supply Costs Balancing Account	\$2,269,677	\$11,239,926	20%
Energy Savings Assistance Balancing Account	51,989	66,689	78%
Pension Balancing Account	71,375	315,309	23%
<b>Totals</b>	<b>\$2,393,041</b>	<b>\$11,621,924</b>	<b>20%</b>

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

- For the selected samples, traced expenses recorded in BVES’ accounting records to supporting documentation and determined whether costs were accurate, attributable to its respective balancing account, supported by appropriate source documents, and incurred in compliance with applicable CPUC directives, orders, rules, regulations, and BVES’ policies and procedures by:
  - tracing expenses to invoices to ensure expenses 1) were incurred within 2021, 2) agreed to invoice amount, and 3) were calculated accurately;
  - verifying expenses were supported by appropriate source documents, such as detailed invoices, agreements/contracts, installation reports, etc., to confirm the expenses were for authorized activities; and
  - confirming payments were made for the expenses and the amounts agreed to invoice.
- Determined whether BVES properly utilized the correct 90-day non-financial commercial paper rate when calculating the monthly interest in its balancing accounts in 2021.

We did not audit BVES’ financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that BVES reported, incurred, and maintained its balancing accounts in accordance with the applicable criteria. We considered BVES’ internal controls only to the extent necessary to plan the audit and achieve our audit objectives.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). GAGAS 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 instances of noncompliance with the requirements for the audit period of January 1, 2021, through December 31, 2021. These instances are described in the Findings and Recommendations section of this audit report.

## Follow-up on Prior Audit Findings

Our prior Balancing Accounts audit report<sup>4</sup> for the period of January 1, 2017, through December 31, 2017, issued on November 30, 2018, disclosed 10 audit findings. BVES implemented corrective actions to address nine of the ten prior audit findings. However, one of the findings identified in the prior audit remained unresolved. Based on the work performed in this current audit, BVES continued reporting an unauthorized balancing account from 2018 to 2021, despite prior audit report's recommendations, as described in Finding 1 of this audit report.

In addition, we identified one other prior audit conducted by Crowe, on behalf of the Office of Energy Infrastructure Safety (Energy Safety), relevant to our audit objectives. Crowe's BVES Wildfire Mitigation Plan Expenditures audit report<sup>5</sup> issued on December 9, 2021, examined BVES' operating and capital costs in the execution of its Wildfire Mitigation Plan (WMP) programs and whether costs were duplicative relative to its prior General Rate Case (GRC) applications, for the period of January ,1 2017, through December 31, 2020. The audit report identified four audit findings related to wildfire mitigation costs. During the audit, BVES indicated that it plans to address Findings 1-3 in its current GRC application A.22-08-010 that is pending final approval by the CPUC. For Finding 4, we performed follow-ups and confirmed that BVES has proposed a new methodology in its GRC application A.22-08-010 to better align its cost categories to its WMPs as recommended in the prior audit report.

## Views of Responsible Officials

We issued a draft audit report on January 18, 2024. BVES responded by letter dated January 31, 2024, providing comments regarding the findings and outlining corrective actions for Findings 1 and 2. BVES' response is included in this final audit report as an attachment in Appendix A—Utility's Response to 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 BVES 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*

---

Angie Williams, Director  
Utility Audits, Risk and Compliance Division

---

<sup>4</sup> The audit report is publicly available and posted on CPUC's website.

<sup>5</sup> The audit report is publicly available and posted on Energy Safety's website.

## FINDINGS AND RECOMMENDATIONS

---

### **Finding 1: Inaccurate Reporting of Balancing Accounts by \$447,899**

#### **Condition:**

BVES did not include two authorized balancing accounts and reported an unauthorized account in its 2021 Annual Report filed with the CPUC. During our reconciliation of reported balancing accounts to BVES' Preliminary Statements, we discovered that BVES had omitted the reporting of its CPUC authorized BSOBA and WNDRRBA from its 2021 Annual Report. BVES stated it had excluded the authorized BSOBA and WNDRRBA in its 2021 Annual Report because these accounts had zero activity as of December 31, 2021, and believed these accounts were exempt from the CPUC reporting requirements due to such inactivity.

In addition, BVES continued to report an unauthorized GRCBA in its Annual Report despite being notified of such error in prior balancing account audit for year 2017 that was issued by UAB on November 30, 2018. As a result, BVES' total year-end net under-collected balance of \$1,272,551 as reported in its 2021 Annual Report was overstated by \$447,899 and should have been reported as \$824,652. Although the establishment of the GRCBA was not authorized by the CPUC, BVES was authorized to record its regulatory expenses in preparing and processing its GRC application for "internal accounting purposes" pursuant to section 10.9 of D.14-11-002. According to BVES, it included the amount of regulatory expenses in its base rates and recovered the expenses by amortizing the entire amount over the 2018-2022 GRC rate cycle. BVES stated that this was an accounting entry permitted by Federal Energy Regulatory Committee Account 928 accounting rules and approved by the CPUC due to timing of when the expenses were incurred and recovered in base rates. However, this account is not an authorized balancing account, but rather an internal tracking mechanism established by BVES to track GRC-related costs for possible future recovery.

#### **Criteria:**

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

AL 330-E established the BSOBA with an effective date of October 12, 2017.

D.21-11-002, Ordering Paragraph (OP) 2 (g) and AL 431-E/EA established the WNDRRBA with an effective date of December 9, 2021.

#### **Cause:**

BVES lacks adequate monitoring and oversight procedures to ensure the data reported in its Annual Report is complete and accurate. In addition, BVES did not address the prior audit finding, nor implemented the prior audit recommendation and has continued to include the unauthorized GRCBA in its Annual Reports from 2018 to 2021.

#### **Effect:**

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

**Recommendations:**

BVES should enhance its monitoring and oversight procedures over its Annual Reporting process to ensure that:

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

In addition, BVES should implement prior recommendations noted in UAB’s audit report on BVES dated November 30, 2018, by removing the GRCBA from its balancing accounts reports.

**Finding 2: Misstated ESABA and CAREBA balances by \$5,739**

**Condition:**

BVES understated the year-end over-collected balance in its ESABA by a total of \$5,739 for the audit period and overstated the year-end over-collected balance in its CAREBA by the same amount. During our initial testing of three ESABA expense transactions totaling \$13,997, we discovered charges related to the CARE program that were improperly allocated and charged to the ESABA. Subsequently, we expanded our testing and found that 10 out of 22 transactions, or 45 percent of amounts tested, had inaccuracies including consulting, legal, and program outreach services related to the CARE program that were improperly allocated and charged to the ESABA. A detailed summary by expense type incorrectly allocated and charged to the ESABA during year 2021 is provided in the table below:

Description	Amount
Improperly allocated consulting service expenses	\$ 500
Improperly allocated legal service expenses	3,779
Incorrectly charged CARE program outreach service costs	1,460
<b>Total</b>	<b>\$5,739</b>

Although the total amount of the inaccuracies for this audit period was immaterial, if left uncorrected, the amounts could become significant over time. As a result of these recording errors, the correct year-end over-collected balances in the ESABA and the CAREBA should be \$970,986 and \$56,920, respectively, as outlined in the table below:

Description	(Over)- Collected Balance of ESABA	(Over)- Collected Balance of CAREBA
2021 year-end reported balance	(\$965,247)	(\$62,659)
Audited adjustment amount	(5,739)	5,739
<b>Audited 2021 year-end balance</b>	<b>(\$970,986)</b>	<b>(\$56,920)</b>

**Criteria:**

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

BVES' Preliminary Statement H states that the purpose of the ESABA is to track the PPP surcharge funds allocable to the Energy Savings Assistance Program (ESA) and ESA Program costs, and expenses recorded to the ESABA shall be in compliance with the guidelines and ESA budgets authorized by the Commission.

**Cause:**

BVES lacks adequate oversight and monitoring procedures over its vendor invoice payment approval process to ensure expenses are properly allocated and accurately recorded and reported in its balancing accounts.

**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:**

BVES should enhance its oversight and monitoring procedures over its review and approval of vendor invoices to ensure expenses are accurately recorded and reported to the proper balancing account. In addition, BVES should adjust the account balances as follows:

- ESABA balance by \$5,739 for the overcharged expenses.
- CAREBA balance by \$5,739 for the undercharged expenses.



## APPENDIX A—UTILITY'S RESPONSE TO DRAFT AUDIT REPORT

---



Bear Valley Electric Service, Inc.  
P.O. Box 1547  
Big Bear Lake, CA 92315-1547  
A Subsidiary of American States Water Company

January 31, 2024

Angie Williams, Director  
Utility Audits, Risk and Compliance Division  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102-3298  
Email: [UtilityAudit@cpuc.ca.gov](mailto:UtilityAudit@cpuc.ca.gov)

**Subject: Written Comments of Bear Valley Electric Service, Inc.'s (BVES)  
Draft Audit of BVES' Balancing Accounts for the period  
January 1, 2021 through December 31, 2021**

Dear Ms. Williams,

Pursuant to the draft report transmittal letter and draft audit report addressing BVES' Balancing Accounts for the period January 1, 2021 through December 31, 2021, BVES hereby submits its' written comments to the two audit findings. It is BVES' understanding that these written comments will be incorporated into the final audit report. As requested, these comments are being provided as a scanned PDF document and submitted via email to the UAB at [UtilityAudit@cpuc.ca.gov](mailto:UtilityAudit@cpuc.ca.gov).

If you have any questions, please do not hesitate to reach out to Jeff Linam, Regulatory Affairs Manager at (909) 630-5091 or via email at [jeff.linam@gswater.com](mailto:jeff.linam@gswater.com).

Sincerely,

Paul Marconi,  
President

Digitally signed by Paul  
Marconi, President  
Date: 2024.01.31  
15:13:39 -08'00'

Paul Marconi  
President, Treasurer & Secretary

Cc: Masha Vorobyova, Assistant Director, UAB, CPUC  
Kevin Nakamura, Program and Project Supervisor, UAB, CPUC  
Na "Lina" Li, Senior Management Auditor, UAB, CPUC  
Edwin Esternon, Senior Management Auditor, UAB, CPUC  
Jon Pierotti, Vice President, Regulatory Affairs, Golden State Water Company  
Jeff Linam – Manager, Regulatory Affairs, BVES  
Stanley Lau, Corporate Controller, Golden State Water Company  
Copy to File (BVES)

P.O. Box 1547, 42020 Garstin Drive, Big Bear Lake, California, 92315  
Tel: (909) 866-4678 \* Fax (909) 866-5056

**BVES Balancing Accounts Performance Audit Draft Report – Written Comments**

Bear Valley Electric Service, Inc. (BVES) appreciates this opportunity to provide comments on the Balancing Accounts Performance Audit Draft Report dated January 18, 2024 (Draft Report). The Draft Report was prepared by the Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC).

The Draft Report presents the results of UAB’s performance audit of the balancing accounts administered and reported by BVES for the audit period of January 1, 2021 through December 31, 2021. This examination is the second such examination performed over the last 7 years. The prior audit was conducted in 2018, and a final report was issued on November 30, 2018 (Final Report). The prior audit covered the period of January 1, 2017 through December 31, 2017 and disclosed ten audit findings.

The current Draft Report shows that BVES has made significant progress in its controls and processes around balancing accounts, resulting in a reduction of the number of findings from the prior audit from ten to two. Of the ten findings from the Final Report, the Draft Report concludes that nine have been remediated.

The current Draft Report contains two Findings which will be addressed individually below.

**Finding 1**

Finding 1 states that BVES inaccurately reported its balancing accounts by \$447,899. It is important to note that this finding solely relates to BVES’s reporting of its balancing accounts and therefore does not result in any impact to customers. UAB identified two balancing accounts (the BVES Smart Meter Opt-Out Balancing Account - BSOBA and the Wildfire and Natural Disaster Resiliency Rebuild Program Balancing Account - WNDRRBA) with zero balances at the end of 2021 that were not included in BVES’s report and one balancing account (General Rate Case Balancing Account - GRCBA) that was included in BVES’s report that is not an approved balancing account. BVES will address each of these separately.

As it relates to the two balancing accounts with zero balances at the end of 2021 that were not included in BVES’s report, BVES takes exception with UAB’s conclusion that the cause of this finding was due to a lack of adequate monitoring and oversight procedures to ensure the data reported in its Annual Report is complete and accurate. BVES was not aware that balancing accounts with zero balances were required to be included in its balancing account report and therefore intentionally did not include them as there was nothing to report. On January 16, 2024, BVES received a letter from the Commission’s Utility Audit Branch (“UAB”) regarding the submission of the 2023 Annual Balancing and Memorandum Account Report. The letter is now clarifying that the Annual Balancing and Memorandum Account Report should “include all authorized balancing accounts regardless of whether it had no recorded activity during the year

or had a zero-year-end balance.”<sup>1</sup> Now that BVES is aware of the requirements, BVES has begun including all balancing accounts, regardless of balance, in its balancing account reports beginning with its 2022 report.

As it relates to the one balancing account (GRCBA) that was inappropriately included in the balancing account report, BVES acknowledges that this account was mislabeled and should not have been included in the report. This account is not a CPUC-approved balancing account but rather a regulatory asset recognized by BVES as permitted by the accounting rules. On May 1, 2017, BVES filed its last general rate case (GRC) application with the CPUC that set new rates beginning in 2018 (Test Year). This GRC was approved by the CPUC in August 2019. When approved, the new rate cycle included in base rates an amount of regulatory expenses for the processing of this GRC application. However, as it is always the case, these regulatory costs are largely incurred prior to the test year (e.g., 2018) and prior to receiving rate recovery. The majority of the costs for the preparation and processing of this GRC began in late 2015 and into 2018. As permitted under the accounting rules, costs incurred by BVES for which it is probable and it expects to receive rate recovery in the future may be recognized as regulatory assets. Accordingly, BVES recorded the GRC costs in a separate regulatory asset general ledger account, and began amortizing these assets upon approval of the GRC in August 2019 consistent with generally accepted accounting principles (GAAP). This regulatory asset was inadvertently included in the Balancing Account Report in 2021 but should not have been because it is not a CPUC-approved tracker such as a balancing account or other mechanism. This is an accounting entry made consistent with rate-regulated accounting standards, and falls outside the reporting requirements under the Balancing Account Reports submitted to the CPUC. This was corrected by BVES in the 2022 Balancing Account Report submission by omitting this regulatory asset that had been mislabeled as GRCBA at the time, and the account has since been renamed.

Based on the explanation above, BVES confirms that it recovered its regulatory expenses in base rates through the 2018 GRC as approved by the CPUC in August 2019. As described above, this is an accounting entry permitted due to timing of when the expenses are incurred and when they are recovered in base rates, which adheres to the matching principle. Therefore, there are no refunds to be made to BVES’s customers since base rates billed to customers were handled correctly and there are no impacts to BVES customer rates as a result of this finding.

### **Finding 2**

Finding 2 states that BVES understated the year-end over-collected balance in its Energy Savings Balancing Account (ESABA) by a total of \$5,739 for the audit period and overstated the year-end over-collected balance in its California Alternative Rates for Energy Balancing Account (CAREBA) by the same amount. While BVES agrees with UAB’s finding, it does not agree with UAB’s conclusion that the cause of the finding is because BVES lacks adequate oversight and monitoring procedures over its vendor invoice payment approval process. The

---

<sup>1</sup> January 16, 2024 letter from Kevin Nakamura, Program and Project Supervisor, UAB to all electric and gas utilities regarding the 2023 Annual Balancing and Memorandum Account Report Due on April 2, 2024, page 1 of 2.

invoices related to this finding were for legal services to support BVES in a rulemaking that included both the Energy Savings Assistance (ESA) and California Alternative Rates for Energy (CARE) programs. As the services being provided covered both programs, BVES used a general percentage allocation methodology to allocate the costs between the two programs when the services were included on one invoice. Upon closer review of certain invoices, UAB determined that certain charges could be directly charged separately to each program. BVES agrees that UAB's approach provides a more accurate allocation of costs between the two programs, however, BVES's more general approach provided similar results within a very immaterial difference. BVES has recorded an adjustment of \$5,739 to each account as recommended by UAB. Additionally, BVES has instructed its vendors to bifurcate charges within invoices based upon the specific program so that they can be more easily identified and directly charged to the respective memo accounts. The CARE and ESA balances are both recovered through the public purpose program surcharge.

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

---

We appreciate BVES' comments submitted on January 31, 2024. BVES provided general comments and responses regarding Findings 1 and 2. We have determined that the two audit findings will remain unchanged in this final audit report.

We also commend BVES for its efforts in the development and implementation of corrective actions noted in its response, namely including the BSOBA and WNDRRBA and removing the GRCBA in its 2022 Annual Report, recording an adjustment of \$5,739 to the ESABA and CAREBA, as well as advising its vendors to bifurcate charges for each program on invoices going forward.