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The California State Auditor released the following report today:

California Public Utilities Commission

Improved Monitoring of Balancing Accounts Would Better Ensure That Utility Rates Are Fair and Reasonable

BACKGROUND

Responsible for regulating investor-owned electric, natural gas, and water utilities that serve millions of customers, the California Public Utilities Commission (commission) authorizes rates these utilities may charge ratepayers through a process known as the general rate case, and requires that utilities track certain costs and related revenues using balancing accounts. These balancing accounts protect ratepayers and utilities by identifying any under- or over-collection of revenue from ratepayers compared to the utilities' actual allowed costs. The utility periodically incorporates any balance in these accounts into future rates by reducing or increasing them. The Office of Ratepayer Advocates (Ratepayer Advocates) is an independent office within the commission that represents the interests of public utility customers and reviews utility costs when a utility files for a general rate case.

KEY FINDINGS

During our review of the commission's monitoring of balancing accounts, we noted the following:

- The commission's current process for reviewing balancing accounts does not adequately protect ratepayers from unreasonable rate increases.
 - The commission only reviews balancing accounts when a utility requests to incorporate the balance in that account into future rates.
 - Although the commission relies on Ratepayer Advocates to review the balancing accounts of energy utilities. Ratepayer Advocates only reviews accounts included in certain formal proceedings before the commission.
 - Only 23 percent of large energy utilities' balancing accounts active during 2009 and 2011, which represented 58 percent of the dollar value in these accounts, had been reviewed—other balancing accounts totaling \$37.6 billion were not reviewed.
- Ratepayer Advocates' review process is inadequate. We examined 18 reviews of balancing accounts performed and found that only two had sufficient documentation to demonstrate the procedures performed.
- Although required to audit the accounting records every three years for those utilities that serve more than 1,000 customers and every five years for those that serve 1,000 or fewer, the commission does not always audit the accounting records of the utilities it regulates according to this schedule.
- The commission has not provided audit reports on utilities' accounting records to the California State Board of Equalization (Equalization) as state law requires for over three decades. However, because the commission has chosen to meet the audit requirement through general rate cases, which are regulatory proceedings and do not focus on the utility's accounting records for tax purposes, the audit reports are of no use to Equalization.

KEY RECOMMENDATIONS

We made several recommendations to the commission including that it regularly update the list of balancing accounts that it authorized and verify its accuracy to aid in ensuring appropriate oversight of those accounts. Additionally, we recommended that the commission perform in-depth reviews of energy utilities' balancing accounts to protect ratepayers from unfair rate increases. Moreover, Ratepayer Advocates and the commission should develop policies to ensure that reviews of balancing accounts are appropriately documented, approved, and retained. We also recommended that the Legislature require the commission to develop a risk-based approach for reviewing balancing accounts periodically to ensure expenses are allowable and supported. Further, the Legislature should remove the requirement that the commission provide audit reports to Equalization.

Date: March 4, 2014 Report: 2013-109