California Public Utilities Commission

PacifiCorp Balancing Accounts Audit

January 1, 2022 through December 31, 2022

May 2024

SJOBERG EVASHENK
CONSULTING, INC

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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 PacifiCorp's 2022 balancing accounts. The purpose of this balancing account audit was to determine if transactions and activities reported and recorded in PacifiCorp's balancing accounts were for allowable purposes, supported by appropriate documentation, and maintained in compliance with applicable laws and CPUC regulations.

Findings Summary

PacifiCorp Did Not Accrue $4,000 Interest and Incorrectly Allocated $7,688 in the Demand Side Management Balancing Account

PacifiCorp failed to accrue interest in the DSM Balancing Account in 2022 despite similar finding in a prior balancing account audit. As a result of not applying interest in 2022, the balancing account's reported under-collected balance should have been lower.

Also, while PacifiCorp was able to provide support for the transactions tested in each of the balancing accounts, audit testing of the DSM balancing account activity in 2022 identified that PacifiCorp incorrectly included a $7,688 expense that was associated with a Washington state program and was not related to its California DSM program. As a result, the balancing account's reported under-collected balance should have been lower.

Collectively, the $72,243 under-collected balance reported in the DSM Balancing Account as of December 31, 2022, should have been reported as $60,555.

PacifiCorp's Preliminary Statement Does Not Specify the Approved Interest Calculation Methodology for Accruing Interest in the Greenhouse Gas Balancing Account

PacifiCorp's preliminary statement for its GHG Balancing Account does not specifically specify the approved interest calculation methodology for accruing interest. For most of its balancing accounts, PacifiCorp based its application of interest on the account's average balance, which is the typical interest accrual methodology. However, for its GHG Costs Balancing Account, PacifiCorp used the net cash flow activity of the account as the basis for the interest calculation. While PacifiCorp's explanation for using net cash flow activity of the account as the basis for the interest calculation may benefit its ratepayers, PacifiCorp should ensure the corresponding preliminary statement reflects the methodology, particularly since it is different than the standard interest accrual methodology used on balancing accounts.

PacifiCorp Omitted the Wildfire and Natural Disaster Resiliency Rebuild Balancing Account on the Annual Report Submitted to the Commission

In PacifiCorp's 2022 Annual Balancing Account and Memorandum Account Report submitted to the Commission, PacifiCorp omitted its Wildfire and Natural Disaster Resiliency Rebuild Balancing Account (WNDRRBA) from the report. According to PacifiCorp, the balancing account was newly established in 2022 and it was a simple oversight that it was not included in the report submitted to the Commission.

Recommendations

The report provides PacifiCorp with five recommendations to better ensure transactions and activities reported and recorded in its balancing accounts are for allowable purposes, supported by appropriate documentation, and comply with all applicable laws and CPUC regulations.

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

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 2022, PacifiCorp was authorized a total of 8 balancing accounts for rate making purposes 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 2022, PacifiCorp reported a total combined over-collected balance of $2,085,103 in its 8 balancing accounts. A breakdown of the reported over or under-collected amounts as of December 31, 2022 by balancing account is provided in Appendix A.

PacifiCorp, a wholly-owned subsidiary of Berkshire Hathaway Energy Company, is a regulated electric utility company headquartered in Oregon. PacifiCorp delivers electricity to customers in Utah, Wyoming and Idaho under the trade name Rocky Mountain Power and to customers in Oregon, Washington and California under the trade name Pacific Power. In California, PacifiCorp serves approximately 45,000 customers.

Objectives

The objectives were to determine whether PacifiCorp's transactions and activities reported and recorded in the utilities' 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, 2022, through December 31, 2022.

The Commission excluded PacifiCorp's Energy Cost Adjustment Clause (ECAC) Balancing Account because it was not established for rate making purposes, is under a separate tariff schedule consistent with General Rule 9.5.3 of General Order 96-B, and is not included in the preliminary statement.

Methodology

To meet the audit objectives, the audit team:

- Reviewed applicable Commission directives and decisions, CPUC's UAB Standard Practice Manual; prior PacificCorp balancing account audit reports and audited financial statements; and PacifiCorp's internal policies and procedures.
- Interviewed key personnel at PacifiCorp to obtain an understanding of the accounting and billing processes related to balancing accounts.
- Identified and evaluated PacifiCorp internal controls over its balancing accounts.
- Evaluated whether PacifiCorp had taken appropriate corrective action in addressing findings and recommendations from previous CPUC's UAB audits significant to the audit objectives.
- Reconciled ending balances on monthly tracking statements to PacifiCorp 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 PacifiCorp's 8 balancing accounts, selected three to include in expenditure testing and revenue testing:

- ✓ California Alternate Rates for Energy (CARE)
- ✓ Demand Side Management (DSM)
- ✓ Greenhouse Gas (GHG) Cost

- For revenue testing of the three 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 two of the balancing accounts, judgmentally selected a sample of expenditures recorded in PacifiCorp's accounting records and reviewed supporting documentation to determine whether transactions were accurate, allowable, supported by appropriate source documents, and maintained in compliance with applicable CPUC directives, orders, rules, regulations, and utility policies and procedures. Selected thirty-eight transactions across the two balancing accounts:

Balancing Accounts Tested	Total Expenditures	Expenditures Tested	Percentage Tested
CARE	$137,219	$79,220	58%
DSM	$955,002	$233,891	24%
Total	**$1,092,211**	**$313,110**	**29%**

For the GHG Costs balancing account, total expenditures were $15,248,612 in deferrals. We reviewed PacifiCorp's process to estimate its compliance obligations, book deferrals, and reconcile the deferral entries against actual allowance purchases.

- Based on the results of audit testing, determined impacts on the over- or under-collection amounts reported in the balancing accounts tested.
- Calculated the amount of interest earned in each balancing account and determined if the calculation method used by PacifiCorp 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 **PacifiCorp Did Not Accrue $4,000 Interest and Incorrectly Allocated $7,688 in the Demand Side Management Balancing Account**

The purpose of PacifiCorp's Demand Side Management (DSM) Balancing Account is to track activity associated with the utility providing energy efficiency programs to its California customers, which is funded through the S-191 surcharge. PacifiCorp did not accrue $4,000 in interest and incorrectly allocated a $7,688 expense in the DSM Balancing Account. As a result, the balancing account's reported under-collected balance of $72,243 as of December 31, 2022 should have been reported as $60,555.

PacifiCorp Did Not Accrue Interest in the DSM Balancing Account

PacifiCorp failed to accrue interest in the DSM Balancing Account in 2022 despite similar finding in a prior balancing account audit. PacifiCorp's general section of its preliminary statement states that interest will only apply to balancing accounts if it is specifically provided for in the tariff schedules and the DSM preliminary statement does not explicitly state that interest will be accrued. The exclusion of an interest requirement on the DSM Balancing Account appears to have been unintentional. In fact, PacifiCorp's prior balancing account audit report dated February 13, 2020, and covering calendar year 2018 noted that the omission of an interest requirement in the DSM balancing account's preliminary statement was inadvertent and PacifiCorp was not excused from its obligations to properly accrue and refund interest owed to its ratepayers. The prior audit report recommended that PacifiCorp immediately work with CPUC to add the interest requirement on the DSM Balancing Account's preliminary statements, accrue interest from balancing account's inception to date, and refund any interest owed to the ratepayers. While PacifiCorp objected to the recommendation to refund interest owed to ratepayers, PacifiCorp did not object to revising the tariff on a prospective basis to include an interest calculation for the DSM balancing account. However, PacifiCorp failed to initiate such efforts and did not accrue interest in the DSM Balancing Account in 2022.

Like the prior audit, this audit finds that PacificCorp should have applied interest to the DSM Balancing Account as accruing interest helps utilities offset expenses and maintain stable rates. The calculation of interest should be based on the average account balance using the three-month Commercial Paper rate for the previous month, as reported in the Federal Reserve Statistical Release. Using this calculation and PacifiCorp's method to apply interest in its other balancing accounts, PacifiCorp should have accrued about $4,000 in interest in the DSM

Balancing Account in 2022. While the missing interest accrual makes up a small portion of the balance, PacifiCorp failed to rectify the process as discussed in the prior audit report. As a result, the balancing account's reported under-collected balance of $72,243 as of December 31, 2022 should have been lower.

PacifiCorp Incorrectly Allocated $7,688 to its DSM Balancing Account

Three of PacifiCorp's balancing accounts were selected for audit testing: the California Alternate Rates for Energy (CARE) Balancing Account, GHG Costs Balancing Account, and DSM Balancing Account. Across the CARE and DSM Balancing Accounts, we selected 38 transactions totaling about $313,000, 29 percent of expenditures in those accounts, to determine if costs were accurate, allowable, and supported by source documents, such as invoices, receipts, contracts, billing data, etc. The transactions tested covered a wide variety of expense types, including administration, postage, home energy efficiency incentives, marketing, consulting and technical services, emission allowances, and goods/services. For the GHG Costs Balancing Account, the audit reviewed PacifiCorp's processes to estimate its compliance obligations, book deferrals, and reconcile the deferral entries against actual allowance purchases.

While PacifiCorp was able to provide support for the transactions tested in each of the balancing accounts, audit testing of the DSM Balancing Account activity in 2022 identified that PacifiCorp incorrectly included an expense that was associated with a Washington state program and was not related to its California DSM program. Specifically, PacifiCorp misapplied a total of $98,231 in Washington related expenses to its California DSM program, of which $90,543 was corrected in 2022; however, PacifiCorp did not correct the remaining $7,688 portion of the error until March 2024. While the $7,688 error remaining accounted for less than 1 percent of the DSM Balancing Account's 2022 expenditure activity, ensuring all expenses recorded are appropriate and allowable is important for effective financial management to ensure financial accuracy, compliance, accountability, and transparency. As a result of incorrectly including the Washington state expenditure in the DSM Balancing Account's activity, the account's reported under-collected balance of $72,243 as of December 31, 2022 should have been lower.

Collectively, the under-collected balance in the DSM Balancing Account reported as of December 31, 2022 should have been $60,555, as outlined below:

December 31, 2022 Reported Under-Collected Balance	$72,243
Interest Error	($4,000)[1]
Expenditure Error	($7,688)
Audited December 31, 2022 Under-Collected Balance	**$60,555**

[1] The reported balance may not include required interest accruals pre-2022, which could have additional impacts on the December 31, 2022 balance.

Recommendations

To ensure consistency in the application of interest applied to balancing accounts and demonstrate that all expenses charged to the balancing accounts are allowable, supported, and comply with requirements, PacifiCorp should:

1. Apply interest using the standard calculation based on the average account balance using the three-month Commercial Paper rate for the previous month, as reported in the Federal Reserve Statistical Release.
2. Work with CPUC to add the interest requirement on the DSM Balancing Account's preliminary statements.
3. Develop a process to provide assurance that the only expenses associated with DSM activity are recorded to the balancing account.

Finding 2

PacifiCorp's Preliminary Statement Does Not Specify the Approved Interest Calculation Methodology for Accruing Interest in the Greenhouse Gas Balancing Account

In 2022, PacifiCorp had eight balancing accounts, including the following two related to Greenhouse Gas (GHG) allowances:

- GHG Costs Balancing Account tracks and defers purchase costs of GHG allowances for subsequent recovery in electricity rates.
- GHG Revenue Balancing Account tracks and defers revenue from the sale of GHG allowances for subsequent allocation to eligible customers.

Unlike the preliminary statements for its other balancing accounts that accrued interest in 2022, PacifiCorp's preliminary statement for its GHG Costs and Revenue Balancing Accounts does not specifically specify the approved interest calculation methodology for accruing interest. For most of its balancing accounts, PacifiCorp based its application of interest on the account's average balance, which is the typical interest accrual methodology. However, for its GHG Costs Balancing Account, PacifiCorp used the net cash flow activity of the account as the basis for the interest calculation, resulting in $143,438 in interest in 2022, but the preliminary statement does not state that this different interest calculation methodology is acceptable and appropriate. According to PacifiCorp, using this alternate interest methodology is to the benefit of the ratepayer as it results in less interest costs to be recovered through rates.

While PacifiCorp's explanation for using net cash flow activity of the account as the basis for the interest calculation may benefit its ratepayers, PacifiCorp should ensure the corresponding preliminary statement reflects the methodology, particularly since it is different than the standard interest accrual methodology typically used on balancing accounts.

Recommendations

To provide clarity in how interest is applied to its balancing accounts, PacifiCorp should:

4. Work with CPUC to specify the interest calculation requirement on the GHG Costs Balancing Account's preliminary statements.

Finding 3

PacifiCorp Omitted the Wildfire and Natural Disaster Resiliency Rebuild Balancing Account on the Annual Report Submitted to the Commission

In PacifiCorp's 2022 Annual Balancing Account and Memorandum Account Report submitted to the Commission, PacifiCorp omitted Wildfire and Natural Disaster Resiliency Rebuild Balancing Account (WNDRRBA) from the report. PacificCorp should have included the balancing account's $83,417 under collected balance in the report. According to PacifiCorp, the balancing account was newly established in 2022 and it was a simple oversight that it was not included in the report submitted to the Commission. Additionally, once the error was discovered during the audit, PacifiCorp immediately notified the auditors that the account was inadvertently omitted. However, this was discovered during our audit and over a year after it had been originally submitted to the Commission. Although the prior audit of PacifiCorp's balancing accounts recommended that PacifiCorp strengthen its oversight over the recording and reporting of its balancing accounts, PacifiCorp's processes failed to ensure this balancing account was reported to the Commission. Ensuring and submitting accurate information is crucial because CPUC's decision makers depend on it to make well-informed and impactful decisions that affect ratepayers.

Recommendation

To ensure the Commission has information it requires, PacifiCorp should:

5. Strengthen its oversight over information reported to the Commission to ensure complete and accurate information is provided.

APPENDIX A: PACIFICORP'S BALANCING ACCOUNTS

	Balancing Account Name	Purpose of the Balancing Account	Balance at 12/31/2022
1	California Alternate Rates for Energy	Reflect in rates, through the application of the CARE surcharge, the revenue shortfall and administration and general costs associated with the CARE program.	($32,399)
2	Energy Savings Assistant Program	Track the public purpose program charge funds allocable to the energy savings assistance programs and the expenses associated with those programs.	($31,517)
3	Demand Side Management Program	Tracks the public purpose programs funds associated with providing energy efficiency programs to its customers.	$72,243
4	Greenhouse Gas Allowance Costs	Track and defer costs from the purchase of GHG allowances for subsequent recovery in rates.	$9,403,732
5	Greenhouse Gas Allowance Revenue	Track and defer revenue from the sale of GHG allowances for subsequent allocation to eligible customers.	($3,935,457)
6	Mobile Home Conversion	Track costs associated with implementing the voluntary conversion of master-metered mobile home parks to direct utility service.	$206,796
7	Solar on Multifamily Affordable Housing	Record Reg Lab for California's Solar on Multi-Family Affordable.	($7,851,919)
8	Wildfire and Natural Disaster Resiliency Rebuild	Track payments issued for utility participation in the Wildfire and Natural Disaster Resiliency Rebuilding ("WNDRR") program, and track recovery of these payments.	$83,417
		Total Balance	**($2,085,103)**

APPENDIX B: PACIFICORP'S RESPONSE

PACIFIC POWER.
A DIVISION OF PACIFICORP

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May 7, 2024

VIA ELECTRONIC MAIL

Lynda McCallum, Partner
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RE: PacifiCorp Balancing Account Audit Response to Draft Audit Report for Year Ending December 31, 2022

Dear Ms. McCallum,

Thank you for the opportunity to provide comments on the draft Balancing Account Audit Report (Draft Report) issued by Sjoberg Evashenk Consulting, Inc. (SEC) and the substantial effort undertaken by your team in this process.

The Draft Report with three identified findings was provided to PacifiCorp on April 10, 2024. PacifiCorp provided a response to the draft report on April 25, 2024, following which SEC provided an updated report on April 29, 2024. As a general matter, PacifiCorp largely does not object to the findings of the audit which determined that barring a few minor exceptions, the Company has complied in all material respects with the applicable laws and California Public Utilities Commission (CPUC or Commission) regulations in recording transactions in the balancing accounts covered by this audit.

PacifiCorp provides the following responses to SEC's findings and recommendations based on the April 29, 2024 Draft Report:

Finding 1: ***PacifiCorp Did Not Accrue $4,000 Interest and Incorrectly Allocated $7,688 in the Demand Side Management Balancing Account***

PacifiCorp Response: PacifiCorp does not dispute this finding and has trued up the interest amount in the Demand Side Management Balancing Account as of January 2024. As stated in the Draft Report, the Company corrected the $7,688 expense that was misallocated to this balancing account in March 2024. The Company will implement recommendations 1 through 3 as it relates to this finding.

Finding 2: ***PacifiCorp's Preliminary Statement Does Not Specify the Approved Interest Calculation Methodology for Accruing Interest in the Greenhouse Gas Balancing Account***

PacifiCorp Response: PacifiCorp will update its preliminary statement to specify and match the interest calculation methodology being used for the Company's Greenhouse Gas balancing account.

Finding 3: ***PacifiCorp Omitted the Wildfire and Natural Disaster Resiliency Rebuild (WNDRR) Balancing Account on the Annual Report Submitted to the Commission***

PacifiCorp Response: The Company does not dispute this finding. As stated in the Draft Report, upon noticing the inadvertent omission of the WNDRR Balancing Account on its Annual Report of Balancing and Memorandum Accounts to the CPUC as this audit commenced, PacifiCorp notified SEC and corrected the issue. Furthermore, the Company confirms that it had not omitted the account in its Quarterly Report on Balancing and Memorandum Accounts to the CPUC and has put in place measures to ensure all accounts are appropriately captured in future reports.

PacifiCorp will implement the recommendations of the Draft Report on PacifiCorp's Balancing Accounts for January 1, 2022 through December 31.

Sincerely,

Matthew McVee
Vice President, Regulatory Policy and Operations
PacifiCorp