

AMENDED IN SENATE JUNE 14, 2016

AMENDED IN ASSEMBLY APRIL 28, 2016

AMENDED IN ASSEMBLY APRIL 4, 2016

AMENDED IN ASSEMBLY MARCH 17, 2016

CALIFORNIA LEGISLATURE—2015–16 REGULAR SESSION

ASSEMBLY BILL

No. 2168

Introduced by Assembly Member Williams

February 17, 2016

An act to amend Sections 314.5 and 792.5 of the Public Utilities Code, relating to the Public Utilities Commission.

LEGISLATIVE COUNSEL'S DIGEST

AB 2168, as amended, Williams. Public Utilities Commission Audit Compliance Act of 2016.

(1) Under existing law, the Public Utilities Commission has regulatory authority over public utilities, including electrical corporations, gas corporations, heat corporations, telegraph corporations, telephone corporations, and water corporations. The California Constitution authorizes the commission to establish rules, examine records, and prescribe a uniform system of accounts for all public utilities. The Public Utilities Act requires the commission to inspect and audit the books and records of electrical corporations, gas corporations, heat corporations, telegraph corporations, telephone corporations, and water corporations for regulatory and tax purposes. An inspection and audit is required to be done at least every 3 years if the utility has over 1,000 customers and at least every 5 years if the utility has 1,000 or fewer customers. The act requires that reports of

the inspections and audits and other pertinent information be furnished to the State Board of Equalization for use in the assessment of the public utilities.

This bill, which would be known as the Public Utilities Commission Audit Compliance Act of 2016, would delete the requirement that the reports of the inspections and audits and other pertinent information be furnished to the State Board of Equalization for use in the assessment of the public utilities and instead would require the commission to post reports of the inspections and audits and other pertinent information on its Internet Web site.

(2) Existing law directs the Public Utilities Commission to require a public utility to establish and maintain a reserve account whenever the commission authorizes a change in rates reflecting and passing through to customers specific changes in costs to reflect the balance between the related costs and revenues.

This bill would rename the reserve accounts “balancing accounts” and would require the commission to develop a risk-based approach for reviewing those balancing accounts periodically to ensure that the transactions recorded in the balancing accounts are for allowable purposes and are supported by appropriate documentation. The bill would require the commission to maintain an inventory of the balancing accounts and would require public utilities to record all related costs and revenues in their balancing accounts. The bill would require the commission to adopt balancing account review procedures that prioritize the review of balancing accounts with specified attributes.

Vote: majority. Appropriation: no. Fiscal committee: yes. State-mandated local program: no.

The people of the State of California do enact as follows:

- 1 SECTION 1. This act shall be known, and may be cited, as the
- 2 Public Utilities Commission Audit Compliance Act of 2016.
- 3 SEC. 2. (a) The Legislature hereby finds and declares that the
- 4 California State Auditor, at the behest of the Joint Legislative Audit
- 5 Committee, has made multiple legislative recommendations
- 6 relating to the operations of the Public Utilities Commission in
- 7 recent years. Those include, among other recommendations, both
- 8 of the following:
- 9 (1) The Legislature should amend Section 314.5 of the Public
- 10 Utilities Code to remove the requirement that the Public Utilities

1 Commission provide audit reports to the State Board of
2 Equalization (Report 2013-109, Recommendation 15).

3 (2) To ensure proper oversight of balancing accounts to protect
4 ratepayers from unfair rate increases, the Legislature should amend
5 Section 792.5 of the Public Utilities Code to require the Public
6 Utilities Commission to develop a risk-based approach for
7 reviewing all balancing accounts periodically to ensure that the
8 transactions recorded in the balancing accounts are for allowable
9 purposes and are supported by appropriate documentation, such
10 as invoices (Report 2013-109, Recommendation 1).

11 (b) It is the intent of the Legislature in enacting this act to codify
12 the California State Auditor's legislative recommendations
13 described in subdivision (a) to ensure that the Public Utilities
14 Commission continues to prioritize the protection of ratepayers
15 and remains accountable to legislative oversight.

16 SEC. 3. Section 314.5 of the Public Utilities Code is amended
17 to read:

18 314.5. The commission shall inspect and audit the books and
19 records for regulatory and tax purposes (1) at least once every
20 three years in the case of every electrical, gas, heat, telegraph,
21 telephone, and water corporation serving over 1,000 customers,
22 and (2) at least once every five years in the case of every electrical,
23 gas, heat, telegraph, telephone, and water corporation serving 1,000
24 or fewer customers. An audit conducted in connection with a rate
25 proceeding shall be deemed to fulfill the requirements of this
26 section. The commission shall post reports of the inspections and
27 audits and other pertinent information on its Internet Web site.

28 SEC. 4. Section 792.5 of the Public Utilities Code is amended
29 to read:

30 792.5. (a) Whenever the commission authorizes any change
31 in rates reflecting and passing through to customers specific
32 changes in costs, except rates set for common carriers, the
33 commission shall require as a condition of the order that the public
34 utility establish and maintain a balancing account reflecting the
35 balance, whether positive or negative, between the related costs
36 and revenues, and the commission shall take into account by
37 appropriate adjustment or other action any positive or negative
38 balance remaining in the balancing account at the time of any
39 subsequent rate adjustment.

- 1 (b) The commission shall develop a risk-based approach for
- 2 reviewing all balancing accounts periodically to ensure that the
- 3 transactions recorded in the balancing accounts are for allowable
- 4 purposes and are supported by appropriate documentation.
- 5 (c) The commission shall maintain an inventory of the balancing
- 6 accounts established pursuant to this section.
- 7 (d) The commission shall require the public utility to record all
- 8 related costs and revenues in the balancing account, unless those
- 9 costs or revenues are specifically exempted by the commission.
- 10 (e) The commission shall adopt balancing account review
- 11 procedures that prioritize the review of the following balancing
- 12 accounts:
 - 13 (1) Balancing accounts with a quarter-end balance with more
 - 14 than a ~~10 percent~~ *10-percent* differential from the balancing
 - 15 account's authorized revenue amount.
 - 16 (2) Balancing accounts with an authorized revenue amount that
 - 17 is in the top 25th percentile of all balancing accounts.
 - 18 (3) Balancing accounts that have experienced volatile
 - 19 fluctuations in their quarterly balances over time.
 - 20 (4) Balancing accounts that have not been reviewed in the
 - 21 previous three years.
- 22 (f) The commission may ~~forego~~ *forgo* the review of a balancing
- 23 account pursuant to this section if the Office of Ratepayer
- 24 Advocates or an independent auditor plans to review or audit the
- 25 balancing account. *The balancing account review procedures*
- 26 *adopted pursuant to subdivision (e) do not apply to the Office of*
- 27 *Ratepayer Advocates, and the commission shall retain sole*
- 28 *responsibility for the results of those reviews or audits conducted*
- 29 *by the Office of Ratepayer Advocates or by independent auditors.*