

2018-118 AUDIT SCOPE AND OBJECTIVES

California Public Utilities Commission—Ratesetting Process

The audit by the California State Auditor will provide independently developed and verified information related to the ratesetting process administered by the California Public Utilities Commission (CPUC) for investor-owned utilities that serve water consumers. The audit's scope will include, but not be limited to, the following activities:

1. Review and evaluate the laws, rules, and regulations significant to the audit objectives.
2. Identify and evaluate the CPUC's processes for ensuring the following:
 - a. The principles that commissioners and administrative law judges follow are applied uniformly when determining appropriate rates for water services.
 - b. Applicable policies are being followed in all cases during the ratesetting process.
 - c. The costs of capital factored into the ratesetting process are representative of actual and necessary costs.
3. Evaluate the advice letter rate increase process to determine the following:
 - a. For fiscal years 2015-16 through 2017-18, the number of advice letter rate increases that have been submitted and approved.
 - b. Whether the process is transparent and accessible to the public.
 - c. To the extent possible, whether the process appears to be used to avoid the more in-depth review of a general rate case.
4. Assess the rationale for the three-year term of the general rate case to determine whether it is appropriate and effective. Also determine whether other methods would be beneficial and have been considered, such as a legally established formula for setting rates.
5. Evaluate the CPUC's process for tracking and verifying data on the age, condition, industry standard life expectancy, and the repair and replacement history of investor owned utilities' system components.
6. Determine whether return-on-investment amounts are appropriate by considering state, national, and legally-required levels of return on investment.
7. Assess the appropriateness and transparency of the CPUC's communications with consumers and constituents, including the following:
 - a. The frequency and legitimacy of closed-session meetings.
 - b. The availability of archived rate case and advice letters to the public.
 - c. The sufficiency and adherence to CPUC's notification policies and procedures.
8. Review and assess any other issues that are significant to the audit.