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Caroline Thomas Jacobs, Director

December 27, 2021

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Mr. Bird,

On June 29, 2020, the California Public Utilities Commission's (CPUC) Wildfire Safety Division (WSD) engaged Crowe LLP (Crowe) to conduct an independent audit of wildfire mitigation expenditures by the six investor-owned utilities (IOUs), who submitted 2019 and 2020 Wildfire Mitigation Plans (WMPs). WSD, along with all its functions, transitioned to the Office of Energy Infrastructure Safety (Energy Safety), a new department under the California Natural Resources Agency on July 1, 2021. Crowe recently completed its audit and Energy Safety is publicly releasing Crowe's final audit reports.

The purpose of Crowe's audit was to examine IOUs' spending in the execution of its WMP programs and initiatives relative to its prior General Rate Cases (GRCs). Crowe assessed the relationship between expenses and/or investments identified in the 2019 and 2020 WMPs and operating and capital expenditures approved in previous GRCs.

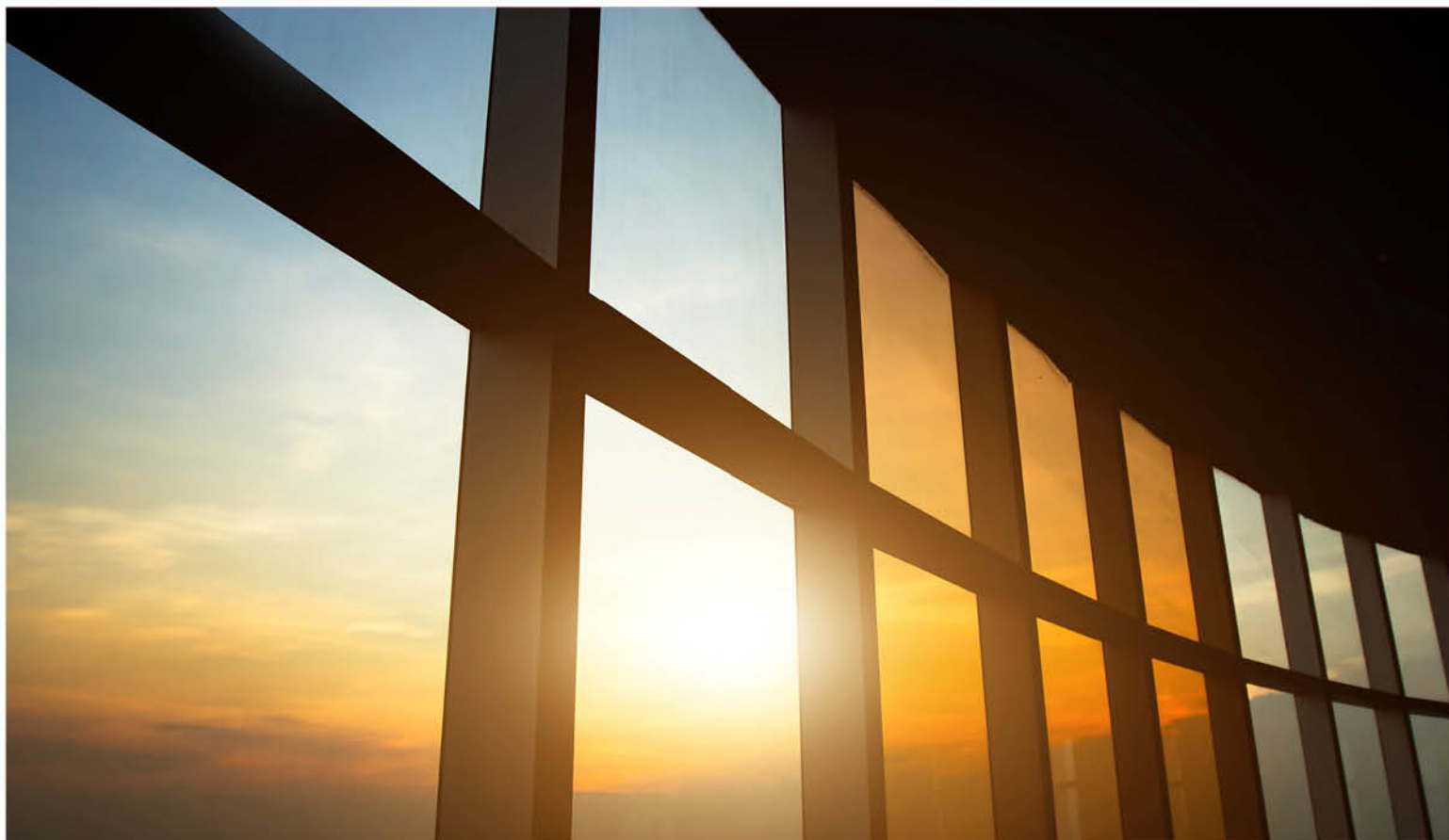
Enclosed is Crowe's Performance Audit of PacifiCorp Wildfire Mitigation Plan Expenditures Final Report. The report identifies one finding and offers Crowe's recommendations on potential considerations for further action. Energy Safety may consider the final audit report in completing its annual report on compliance for the 2020 WMP. Energy Safety also provides this report to the CPUC for their review and consideration as the CPUC deems appropriate.

Sincerely,

Caroline Thomas Jacobs  
Director  
Office of Energy Infrastructure Safety

# Performance Audit of PacifiCorp Wildfire Mitigation Plan Expenditures

December 23, 2021



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## Independent Auditor's Report

Crowe has conducted a performance audit of PacifiCorp (PacifiCorp) for the period from January 1, 2019, through December 31, 2020, to determine whether PacifiCorp complied with General Rate Case (GRC) rules and regulations and to determine whether any expenses and/or investments identified in the 2019 and 2020 WMPs are duplicative of operating and capital expenditures approved in previous GRCs.

We have conducted our performance audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for the findings and conclusions based on our audit objectives.

Our audit was limited to the following three objectives:

1. Determine whether actual expenditures to date, and documented future planned expenditures, comply with approved General Rate Case (GRC) funding, related to wildfire mitigation activities, in accordance with GRC rules and regulations.
2. Determine whether operating or capital expenditures identified in PacifiCorp's 2019 and 2020 Wildfire Mitigation Plans (WMPs) are duplicative of operating or capital expenditures approved in the 2019 GRC.
3. Determine whether PacifiCorp's actual expenditures to date, and documented future planned expenditures, comply with the 2019 and 2020 WMPs for activities that PacifiCorp received approval and funding from GRCs or similar applications submitted to California Public Utilities Commission (CPUC) between 2017 and 2020.

Solely to assist us in planning and performing our performance audit, we obtained an understanding of the internal controls of PacifiCorp to determine the audit procedures that are appropriate for the purpose of providing a conclusion on PacifiCorp adherence to GRC rules and regulations and wildfire related accounting practices, as specified, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express any assurance on the internal control.

The results of our tests indicated that, PacifiCorp met the objectives of the audit in all significant respects. We identified one (1) finding that was not significant to the audit objectives which we described in Finding 1.

PacifiCorp's written responses included to the Findings and Recommendations Section of this report were not subjected to the performance auditing procedures, accordingly, we express no conclusion on them.



Crowe LLP

## Executive Summary

Crowe LLP (Crowe) conducted a performance audit of PacifiCorp (PacifiCorp) in accordance with Generally Accepted Government Auditing Standards (GAGAS). In this section we provide background on the performance audit, an overview of the project background and scope, and a summary of Crowe's findings and recommendations related to this examination.

*A. Project Background and Scope*

*B. Crowe Findings and Recommendations*

*C. Report Organization*

### A. Project Background and Scope

The California Public Utilities Commission (CPUC) and its Wildfire Safety Division (WSD) (which is now the Office of Energy Infrastructure Safety (Energy Safety) with the California Natural Resources Agency<sup>1</sup>) engaged Crowe to conduct an independent performance audit, in accordance with Generally Accepted Government Auditing Standards (GAGAS), of PacifiCorp, and submitted 2019 and 2020 Wildfire Mitigation Plans (WMPs). The CPUC and the WSD wanted to determine whether actual PacifiCorp expenditures to date, and documented future planned expenditures, comply with approved General Rate Case (GRC) funding, related to wildfire mitigation activities, in accordance with GRC rules and regulations. They were also interested to determine whether any expenses and/or investments identified in the 2019 and 2020 WMPs are duplicative of operating and capital expenditures approved in previous GRCs.

The audit period covers electric line of business expenditures from January 1, 2019, through December 31, 2020, and includes PacifiCorp's final and approved 2019 and 2020 WMPs and the most recent GRC application filed by PacifiCorp that is final and approved, any applications or advice letter requests that the IOU has filed with the CPUC as necessary to meet the scope of work.

Wildfire Mitigation Plan	Cost Data Presented in WMP		Applicable GRCs Used in Crowe Analysis
	2019	2020	
2019 Plan	Actual	N/A	2019 GRC
2020 Plan	Actual	Projected	2019 GRC

### B. Crowe Findings and Recommendations

This performance audit resulted in one (1) finding, which we summarize in **Exhibit ES-1**. We also provide recommendations to address this finding.

<sup>1</sup> During the course of this engagement, the CPUC's Wildfire Safety Division transitioned into the Office of Energy Infrastructure Safety, a new department under the California Natural Resources Agency.

**Exhibit ES-1****Performance Audit Findings and Recommendations Summary**

Description of Finding	Questioned Costs	Recommendation(s)
1. Wildfire Mitigation Cost Categories Provided in WMPs Do Not Align with How Wildfire Mitigation Costs are Categorized and Adopted as Part of GRCs, Making it Difficult to Monitor Incremental Wildfire Mitigation Costs	N/A	<ul style="list-style-type: none"> <li>As part of the WMP process, PacifiCorp should provide wildfire mitigation costs separately for capital and for operating expenditures at a program level that is equivalent to, or can be easily reconciled to, the program level it uses for cost presentation in its GRC and RSARs.</li> </ul>

## C. Report Organization

The main body of this report includes the following components.

- Section 1**

In this section, immediately following the Executive Summary, we provide general information on the scope and objectives of this performance audit and contextual information about PacifiCorp.

- Section 2**

In this section, we outline our approach, including procedures and sampling methods applied.

- Section 3**

In this section, we provide our performance audit results, including our findings and recommendations.

## Introduction

In this introduction section, we provide background on the performance audit of PacifiCorp (PacifiCorp). We describe the PacifiCorp wildfire mitigation program, recently applicable general rate case proceedings, and memorandum accounts. This introductory section also provides the scope of the audit and sampling methodology employed. The remainder of this section is organized as follows:

- A. *Project Background*
- B. *PacifiCorp Wildfire Mitigation Program Profile*
- C. *PacifiCorp General Rate Cases*
- D. *PacifiCorp Memorandum Accounts*
- E. *Performance Audit Scope.*

### A. Project Background

The CPUC and its WSD (now Energy Safety) engaged Crowe to conduct an independent performance audit, in accordance with Generally Accepted Government Auditing Standards (GAGAS), of PacifiCorp, who is regulated by the CPUC and submitted 2019 and 2020 Wildfire Mitigation Plans (WMPs). The CPUC and WSD wanted to determine whether actual PacifiCorp expenditures to date, and documented future planned expenditures, comply with approved General Rate Case (GRC) funding, related to wildfire mitigation activities, in accordance with GRC rules and regulations. They also were interested to determine whether any expenses and/or investments identified in the 2019 and 2020 WMPs are duplicative of operating and capital expenditures approved in previous GRCs.

The audit period covers electric line of business expenditures from January 1, 2019, through December 31, 2020, and includes PacifiCorp's final and approved 2019 and 2020 WMPs and the most recent GRC application filed by PacifiCorp that is final and approved, any applications or advice letter requests that

the IOU has filed with the CPUC as necessary to meet the scope of work.

## B. PacifiCorp Wildfire Program Profile

Senate Bill (SB) 901 required all California electric utilities to prepare plans on constructing, maintaining, and operating their electrical lines and equipment to minimize the risk of catastrophic wildfire. In its *Order Instituting Rulemaking to Implement Electric Utility Wildfire Mitigation Plans Pursuant to Senate Bill 901 (2018)*, Rulemaking (R.) 18-10-007 (Wildfire OIR), the CPUC outlined wildfire mitigation plan requirements.

### 1. 2019 PacifiCorp Wildfire Mitigation Plan

On February 6, 2019, PacifiCorp submitted its 2019 Wildfire Mitigation Plan (referred to as the 2019 WMP). The 2019 WMP provides details on PacifiCorp's strategies and programs to prevent wildfires. Programs included in PacifiCorp's 2019 WMP included:

- *Design & construction*, including system, equipment and structure design and technical upgrades intended to improve system hardening and prevent contact between infrastructure and fuel sources (e.g., vegetation).
- *Inspection & maintenance*, including assessment and diagnostic activities to ensure infrastructure in working condition and vegetation adheres to minimum distance specifications.
- *Operational practices*, including proactive day to day actions taken to mitigate wildfire risk (e.g., prepare for de-energization).
- *Situational & conditional awareness*, including methods to improve system visualization and awareness of environmental conditions (e.g., camera installations).
- *Response & recovery*, including procedures to react to de-energization, wildfire or related emergency conditions.

Table 7-1 of the 2019 WMP included PacifiCorp's Fire Mitigation Plans and Programs and is displayed as **Exhibit 1**.

#### Exhibit 1

#### PacifiCorp Estimated Total Costs Required to Support Wildfire Mitigation Programs (Source: 2019 Wildfire Mitigation Plans)

Proposed Mitigation (\$)	Introduced In	Capital or Expense	Estimated Cost
Weather Stations	2018	Capital	\$200,000
Risk Analysis modeling software	2018	Capital	\$1,500,000
Computer modeling of Fault Scenarios	WMP	Capital	\$175,000
Lightning Detection Monitoring Service	WMP	Expense	\$30,000
Additional Staffing: Fire specialist and operations response	WMP	Expense	\$1,100,000
Additional Staffing: Fault event analysts	WMP	Expense	\$350,000
Replace Substation Relays	2018	Capital	\$3,250,000
Automatic Reclosers	2018	Capital	\$1,000,000
Remote Reconfiguration of network	2018	Capital	\$1,500,000
Distribution Insulated Wire	WMP	Capital	\$39,954,000
Transmission Insulated Wire	WMP	Capital	\$17,400,000

Replace targeted wooden structures	WMP	Capital	\$24,000,000
Fusing Mitigation: Additional efforts	WMP	Expense	\$250,000
System Hardening: Replace #6 CU conductor	WMP	Capital	\$3,940,000
Wildlife Resiliency	WMP	Capital	\$347,500
Vegetation Clearance	2018	Expense	\$1,600,000
Enhanced transmission line inspections	WMP	Expense	\$120,000
Enhanced distribution line inspections	WMP	Expense	\$130,000
Expanded vegetation management	WMP	Expense	\$2,033,421
Equipment	WMP	Capital	\$300,000

## 2. 2020 Wildfire Mitigation Plan

On February 7, 2020, PacifiCorp submitted its 2020 WMP. The 2020 WMP incorporated lessons learned from the 2019 wildfire season and outlined the additional programs planned from 2020 to 2022 to prevent catastrophic wildfires.

**Exhibit 2** provides PacifiCorp's 2020 WMP mitigation measures identified in the 2020 WMP which PacifiCorp identified as either GRC funded or memorandum account funded.

### Exhibit 2

#### PacifiCorp

#### Estimated 2020 and Actual 2020 Capital and Operating Costs Combined Required to Support Wildfire Mitigation Programs (Source: 2021 Wildfire Mitigation Plan)

Program	2020 WMP Planned	2020 Actual
Risk Assessment and Mapping	\$25,000	\$186,000
Situational Awareness and Forecasting	278,000	1,209,000
Grid Design and System Hardening	15,403,000	8,788,000
Asset Management and Inspections	1,219,000	803,000
Vegetation Management and Inspections	5,783,000	6,999,000
Grid Operations and Protocols	2,000,000	-
Data Governance	25,000	186,000
Resource Allocation Methodology	278,000	1,209,000
Emergency Planning	-	36,000
Stakeholder Cooperation and Community Engagement	-	-
<b>Total</b>	<b>\$25,011,000</b>	<b>\$19,416,000</b>

## C. PacifiCorp General Rate Cases

Our scope of work required that we review whether PacifiCorp expenditures to date, and documented future planned expenditures, comply with approved General Rate Case (GRC) funding, related to wildfire mitigation activities, in accordance with GRC rules and regulations. Below we provide an overview of



CPUC GRC rules and regulations and background of the 2019 GRC.

## 1. General Rate Case Rules and Regulations

As specified on the CPUC website:

*General rate cases (GRCs) are proceedings used to address the costs of operating and maintaining the utility system and the allocation of those costs among customer classes. For California's three large investor-owned utilities (IOUs), the GRCs are parsed into two phases. Phase I of a GRC determines the total amount the utility is authorized to collect, while Phase II determines the share of the cost each customer class is responsible and the rate schedules for each class. Each large electric utility files a GRC application every three years. For smaller utilities, authorized costs and allocation of costs are done in just one phase.*

*The CPUC reviews detailed cost data for various areas of utility operations and approves a budget for the first year – called a test year – of the GRC cycle. For years 2 and 3 – called post-test years – the GRC decision prescribes how to adjust the test year budget for inflation and other factors that may affect costs, such as additional capital projects between test years. The Commission has put in place regulatory mechanisms to adjust the costs approved in GRCs for unforeseen circumstances. For example, the Catastrophic Event Memorandum Account allows utilities to record costs for state emergencies declared by the governor.*

Primary rules related to the GRC related to PacifiCorp rates/spending associated with the GRC are summarized in the GRC “Utility General Rate Case – A Manual for Regulatory Analysts,” (Rate Manual) developed by the CPUC’s Policy & Planning Division on November 13, 2017:

- GRCs establish revenue from customers to provide safe and reliable service at just and reasonable rates (costs).
- PUC Codes 454 and 728 hold the Commission responsible for ensuring that rates are just and reasonable.
- Major investor-owned utilities operating in California are required to file a GRC application with the Commission every 36 months (3 years).
- IOUs are required to submit a Risk Spending Accountability Report, in which the utility compares its GRC projected spending for approved risk mitigation projects with the actual spending on those projects, and explains any discrepancies.
- Cost of service regulation sometimes is referred to as rate of return regulation because in cost of service ratemaking utilities have an opportunity to earn authorized rate of return on prudently incurred capital investments. However, utilities are not guaranteed to earn their authorized return. Rates are set prospectively and an element of the authorized revenues is planned to repay investors for the use of their money. However, if the utility fails to manage its business efficiently and overspends, then it will likely fail to earn its authorized rate of return. This uncertainty is symmetrical, and if the utility spends less than authorized revenues it will earn greater than its authorized return.

Other notable aspects of the GRC process are identified below:

- The year in which the rate is set is referred to the “test year”.
- The years between test years are referred to as “attrition years”.
- Budgets within the GRC generally are based on a unit cost multiplied by a number of units.
- Budgets in the GRC are not reconciled later with actual results.
- At the time the GRC is approved, the unit costs in the GRC are not tied out to PacifiCorp’s costs of doing business (e.g., labor or overheads) as there are other sources of funding which PacifiCorp uses to cover its full revenue requirements.

- Where unit costs evolve over time for a specific cost area, these unit costs are then adjusted through the ongoing GRC process during each test year.

## 2. 2019 PacifiCorp General Rate Case

On April 12, 2018, PacifiCorp filed its GRC for rates to become effective January 1, 2019 (A.18-04-002, 2019 GRC). In the 2019 GRC, PacifiCorp requested an increase of 0.9 percent or \$1.06 million. On February 6, 2020, CPUC issued a Decision which approved a test year revenue requirement of \$71,951,494 for PacifiCorp pursuant to its 2019 General Rate Case Application, 18-04-002. The adopted amount was \$6,640,203 lower than PacifiCorp's request. PacifiCorp's final updated 2019 revenue requirement request is \$78,591,697, representing a \$0.8 million increase relative to present rates.

The decision also authorized a post-test year adjustment mechanism (PTAM), which was previously approved and did not change from the previously adopted mechanism. The PTAM was authorized for use in 2021 and calculated as the greater of: (i) the September Global Insight U.S. Economic Outlook forecast of Consumer Price Index for the following calendar year with an offsetting productivity factor of 0.5 percent; or (ii) zero.

## D. PacifiCorp Memorandum Accounts

Utilities in California recover a large portion of their revenue requirement through balancing and memorandum accounts.<sup>2</sup> The Rate Manual indicates:

*A balancing account is an account established to record certain authorized amounts for recovery through rates and to ensure that the revenue collected matches the authorized amounts. Balancing accounts usually accrue interest – to be additionally returned to ratepayers if the utility is over-collected, or to recover additional revenue if the utility is under-collected.*

*Memorandum accounts are similar to balancing accounts except that they do not usually establish an authorized revenue requirement and are subject to further scrutiny by the CPUC. Upon Commission review expenses accrued in Memorandum accounts may or may not be recoverable through rates.*

Below are specific characteristics of a memorandum account:

- Requires approval from CPUC
- Approval is through an advice letter (AL)
- Captures costs with specific program needs (often unforeseen) and that are in excess of costs included in rates set through the GRC process
- Costs accounted for separately from GRC costs
- Typically, memorandum account costs incurred are subsequently "trued up" or recovered in the next GRC.

PacifiCorp memorandum accounts applicable for this audit are shown in **Exhibit 3**.

### Incrementality

- The basic idea of incrementality is that in order to recover any costs recorded in a memorandum account, those costs must be incremental, and not recovered in another way, such as in a GRC. For example, if PacifiCorp had forecast certain wildfire-related costs in a GRC, resulting in those costs

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<sup>2</sup> Source: GRC Manual, page 7.

being included in rates, they would not be incremental, and PacifiCorp could not record those same costs in a memorandum account and subsequently seek rate recovery. Incremental costs are costs that were not forecasted in the GRCs.

- Commission ratemaking is done on a prospective basis. The Commission's practice is not to authorize increased utility rates to account for *previously* incurred expenses, unless, before the utility incurs those expenses, the Commission has authorized the utility to book those expenses into a memorandum account or balancing account for possible future recovery in rates.

### Exhibit 3 PacifiCorp Memorandum Accounts

PacifiCorp Memorandum Account	Abbrev.	Date Established	Reference	Purpose
Catastrophic Event Memorandum Account	CEMA	1991	CPUC Resolution E-3238	Establishes three categories of costs that are eligible for inclusion in the CEMA: (1) restoring utility services to customers; (2) repairing, replacing, or restoring damaged facilities; (3) complying with governmental agency orders in connection with events declared disasters by competent state or federal authorities.
Fire Hazard Prevention Memorandum Account	FHPMA	9/10/2010	AL-244-E	Record costs related to the implementation of fire hazard prevention measures as adopted in D.09-08-029.
Fire Risk Mitigation Memorandum Account	FRMMA	3/12/2019	AL 352-E	Record incremental costs of fire risk mitigation work that are not otherwise recovered in the adopted revenue requirement; track costs before WMP finalized; remain open to track wildfire mitigation costs not included in an approved WMP.
Wildfire Mitigation Plan Implementation Memorandum Account	WMPIMA	6/6/2019	AL 364-E	The purpose of the WMPIMA is to track the implementation costs incurred for the Commission-approved fire risk mitigation plan that are not otherwise in PacifiCorp's revenue requirement. These costs shall include, but are not limited to, expenses and capital expenditures for increased inspections and patrols; system hardening and infrastructure modernizing, such as fuse upgrades, replacement of line with covered conductors; expanded monitoring automation and system protection such as Supervisory and Data Acquisition (SCADA); improved situational awareness and wildfire detection such as installation of weather stations; enhanced capacity to respond to events and incidents, including animal incidents; and vegetation management activities

## E. PacifiCorp Accounting

PacifiCorp uses SAP as its accounting system. SAP is one of the world's largest suppliers of accounting software. To separate, classify and track incremental wildfire mitigation plan (WMP) non-vegetation related expense activity, specific work orders are created within SAP, the Company's enterprise application program. All expenses incurred for each activity are charged to these respective orders. For vegetation related WMP activity, specific codes within PacifiCorp Vegetation Management (PVM, the

system of record for vegetation work) are established to segregate program activity from WMP activity. Vegetation contractors are instructed to bifurcate their invoicing into the appropriate codes utilizing predefined scopes of work. Data extracts from PVM provide the classification of costs as either program related or WMP related. At the end of each month, SAP charges are collected from these WMP orders, are combined with vegetation amounts, determined via PVM extract, and then moved to the appropriate memorandum accounts.

## F. Other Reports and Applications

In conducting our performance audit procedures, we relied on additional PacifiCorp reports and applications which are described below.

### 1. Risk Spending Accountability Reports

PacifiCorp is required to submit Risk Spending Accountability Reports (RSAR) on an annual basis. PacifiCorp submits RSARs in order to comply with the Phase Two Decision Adopting Risk Spending Accountability Report Requirements and Safety Performance Metrics for Investor-Owned Utilities and Adopting a Safety Model Approach for Small and Multi-Jurisdictional Utilities (Decision (D.) 19-04-020). RSARs provide a comparison of budgeted to actual for safety, reliability, and maintenance spending. PacifiCorp includes explanations for budget to actual cost variances when they exceed a certain threshold.<sup>3</sup> Specific RSARs and related documents we used for this project included:

- PacifiCorp (U 901-E) Advice Letter No. 651-E-A, Submitted July 9, 2021 (PacifiCorp's 2020 Risk Spending Accountability Report)
- PacifiCorp (U 901-E) Advice Letter No. 622-E, Submitted June 30, 2020 (PacifiCorp's 2019 Risk Spending Accountability Report).

## Performance Audit Approach

The CPUC and its WSD (now Energy Safety) engaged Crowe to conduct this independent Performance Audit, in accordance with the Generally Accepted Government Auditing Standards (GAGAS). In accordance with GAGAS, Crowe followed 2018 Government Audit Standards (GAO-18-568G) which require us to establish an overall approach to apply in planning and performing this audit to obtain sufficient, appropriate evidence that provides a reasonable basis for findings and conclusions based on audit objectives.<sup>4</sup>

Crowe developed our audit plan and procedures to meet specific CPUC objectives identified in the Request for Proposal for this project. In developing this audit plan, among other factors, we primarily considered the following:

- Understanding the CPUC GRC process and wildfire mitigation program, including other existing forms of PacifiCorp oversight (e.g., GRC review processes).
- Addressing audit objectives specified by the CPUC.
- Reducing audit risk to acceptable levels.
- Designing a methodology to obtain sufficient audit evidence to provide a reasonable basis for findings and conclusions.
- Developing suitable criteria to use to evaluate performance as it related to audit objectives.

<sup>3</sup> The threshold variance for expenses is at least \$10 million, or a percentage variance of at least 20 percent subject to a minimum variance of \$5 million; for capital the threshold variance is at least \$20 million, or a percentage variance of at least 20 percent subject to a minimum variance of \$10 million; for units the threshold variance is at least 20 percent.

<sup>4</sup> Section 8.01 of GAO-18-568G.

- Determining the significance or relative importance of the matter.
- Communicating results to those in charge with governance or management.

## A. Performance Audit Procedures Applied

Our performance audit objectives and procedures are detailed in **Appendix A**. Crowe also reviewed the documents identified in **Appendix B**. The CPUC had three (3) objectives for this performance audit:

1. Determine whether actual expenditures to date, and documented future planned expenditures, comply with approved General Rate Case (GRC) funding, related to wildfire mitigation activities, in accordance with GRC rules and regulations.
2. Determine whether operating or capital expenditures identified in PacifiCorp's 2019 and 2020 Wildfire Mitigation Plans (WMPs) are duplicative of operating or capital expenditures approved in the 2019 GRC.
3. Determine whether PacifiCorp's actual expenditures to date, and documented future planned expenditures, comply with the 2019 and 2020 WMPs for activities that PacifiCorp received approval and funding from GRCs or similar applications submitted to the CPUC between 2017 and 2020.

We submitted several data requests to the company which were progressively more focused throughout the engagement as we obtained more detailed data and information on the company's wildfire mitigation accounting practices. We interviewed management to understand PacifiCorp accounting systems and use of supporting information systems. We conducted an internal controls assessment, in particular to obtain an understanding of PacifiCorp internal controls as it related to differentiating GRC-funded expenses from memorandum account funded expenses.<sup>5</sup> Finally, we also developed workpapers to document results of the performance audit.

As a basis for conducting our procedures, for the population we obtained and relied upon a database of capital and operating expenditures for 2019 through 2020. To test the veracity of PacifiCorp's cost database, we reconciled the cost data in this database to cost data used by PacifiCorp in several published documents in the record, including the GRC applications, WMPs, and RSARs.

Below, we identify several additional clarifications related to this performance audit:

1. Our scope of work did not serve to validate the process and outcomes associated with the CPUC's GRC proceedings. Our scope was targeted to determining how PacifiCorp spent funds approved in GRC's which provided funding for WMP programs.
2. The timeframe for our audit spanned actual PacifiCorp wildfire expenditures incurred between January 1, 2019, to December 31, 2020.
3. The audit did not cover PacifiCorp's 2021 Wildfire Mitigation Plan. Wildfire mitigation plan requirements and priorities have evolved significantly over the 2019 to 2021 planning period with guidance from Energy Safety, actual program results, and lessons learned.

## B. Sampling Methodology

Our sampling methodology used targeted approach based on isolated risk factors we determined to be significant to the audit objectives. We targeted third party contractor transactions as a key risk area and for internal repetitive costs (i.e., labor and overhead) we tested the underlying methodology and not specific transactions. Our approach covered nearly \$1.5 million in transactions of total wildfire memorandum account spend.

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<sup>5</sup> Where internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved (GAO-18-568, Fieldwork Standards for Performance Audits, Section 8.38c, page 164).

Crowe requested invoices, timesheets, business cases and other relevant documentation to test whether expenditures were allowable wildfire related costs and to conduct detail testing to determine whether:

- Costs were supported by appropriate documentation, such as approved purchase orders, receiving reports, vendor invoices, canceled checks, timesheets, overhead tables and records, and correctly charged to account, amount, and period.
- Transactions were for an allowable activity under PacifiCorp's wildfire mitigation plan and memorandum account.
- Services were provided in the location or event identified by PacifiCorp.
- Transactions were consistent with policies and procedures (internal procedures, contract agreement, etc.).

## Performance Audit Results

The results of our tests indicated that, PacifiCorp met the objectives of the audit in all significant respects. We identified one (1) finding that was not significant to the audit objectives which we describe in the remainder of this section. We have identified observations of controls and processes related to PacifiCorp wildfire mitigation related expenditures. Each finding includes a recommendation to correct the issue, and is organized into the following six (6) components:

- *Condition* – includes the error observed based on facts revealed from the examination.
- *Criteria* – the basis for our evaluation; in this case a specific policy, procedure, or leading practice.
- *Cause* – the underlying reason for why the non-compliance or error occurred.
- *Effect* – the impact on the organization and/or the ratepayer from the error.
- *Recommendation* – a suggested action to correct the deficiency; or what can be done to address both the cause and condition.
- *Management Response* – an opportunity for the company to provide its response to the finding and/or recommendation.

Findings and recommendations from this performance audit are provided beginning on the next page. In **Exhibit 7** below we summarize the one (1) finding.

Our consideration of internal control was for the limited purpose of designing procedures that were appropriate in the circumstances for the purpose of making a conclusion as to whether PacifiCorp met the performance audit objectives but not for the purpose of expressing an opinion on the effectiveness of PacifiCorp's internal control. Accordingly, we do not express an opinion on the effectiveness of PacifiCorp's internal control. Our consideration of internal control was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified one (1) deficiency in internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements in a timely manner. A material weakness in internal control is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that misstatements will not be prevented or detected and corrected in a timely manner. We did not identify any material weaknesses.

A significant deficiency in internal control is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any significant deficiencies.

**Exhibit 7**  
**Summary of Findings and Questioned Costs**

Description of Finding	Questioned Costs	Failure to Meet Which of the 3 Audit Objectives
1. Wildfire Mitigation Cost Categories Provided in WMPs Do Not Align with How Wildfire Mitigation Costs are Categorized and Adopted as Part of GRCs, Making it Difficult to Monitor Incremental Wildfire Mitigation Costs	N/A	2, 3 <sup>6</sup>

<sup>6</sup> This finding was not considered significant to objectives 2 and 3.



**Finding 1 - Wildfire Mitigation Cost Categories Provided in WMPs Do Not Align with How Wildfire Mitigation Costs are Categorized and Adopted as Part of GRCs, Making it Difficult to Monitor Incremental Wildfire Mitigation Costs**

*Deficiency*

Condition:

In the past, PacifiCorp Wildfire Mitigation Plans (WMPs) have included cost information at the following levels:

2019 Plan

- By program strategy, including operational practices, plans for inspection, vegetation management, system hardening, and situational awareness (as estimated annual costs). These costs were presented separately for capital and operating expenditures.

2020 Plan

- Wildlife mitigation activity (2019 planned, 2019 actual spend, 2020 spend target), organized into situational awareness and forecasting, grid design and system hardening, asset management and inspections, and vegetation management and inspection. These costs were presented as separately for capital and operating expenditures.

We find that approved PacifiCorp WMP capital and operating costs provided at these levels alone are inadequate for purposes of reconciling these costs to those adopted as part of the GRC process. During the course of the GRC process, and in its RSARs, PacifiCorp provides costs at a program level separately for capital and operating expenditures. However, while the 2019 and 2020 WMPs costs are also provided at a general program area level, these program categories are different from those used in the GRC. This creates challenges for reconciling GRC funded costs to WMP authorized costs.

Criteria:

WMP requirements are delineated in the following documents:

- 2019 WMP – D1905036 Guidance Decision on 2019 Wildfire Mitigation Plans
- 2020 WMP – RES WSD-002 Final Guidance Resolution, and Guidance Appendices
- 2021 WMP – 2021 WMP Guidelines Template.

Cause:

The CPUC has not required capital and operating expenditures delineated to a level that aligns with GRC cost categories as part of WMP content requirements. Additionally, WMP content requirements are evolving as Energy Safety gains more experience and knowledge of program needs.

Effect:

Energy Safety will have difficulty reconciling future PacifiCorp wildfire mitigation related capital and operating expenditures approved as part of the WMPs to those funded through the GRC process.

Recommendation

As part of the WMP process, PacifiCorp should provide wildfire mitigation costs separately for capital and for operating expenditures at a program level that is equivalent to, or can be easily reconciled to, the program level it uses for cost presentation in its GRC and RSARs.

Management Response

PacifiCorp's entire management response is provided in Appendix D. PacifiCorp provided the following response directly to Finding 1:

The Company agrees that greater alignment with how WMP cost categories are reported in the annual WMP filings and utility General Rate Cases (GRC) would be beneficial. However, to provide proper context for this 2019-2020 audit report, PacifiCorp requests the draft audit report is updated to clarify that



the company's GRC filed with the California Public Utilities Commission (Commission) in April 2018 did not include or request for recovery of any WMP costs.

Additionally, the Company has followed cost category reporting following the guidance and templates provided by the Commission and now the Office of Energy Safety, which we understand is a continually evolving process which is still being refined.

#### Crowe Rebuttal

Crowe continues to support Finding 1 as presented. We agree with PacifiCorp that the timing of the 2019 GRC, filed with CPUC in April 2018, and the implementation of the WMP did not allow for alignment between the two documents. Crowe agrees that PacifiCorp complied with the reporting requirements of the GRC, RSAR and WMP and that alignment will not be possible until the requirements of the WMP are updated and / or the next GRC cycle. Crowe included this finding to emphasize the need for alignment between reporting to CPUC and to OEIS as the WMP process evolves.

## Appendix A – Procedures Performed

The CPUC and its WSD (now Energy Safety) specified three (3) objectives for this performance audit of PacifiCorp. In **Exhibit A-1**, we list these three (3) objectives. **Exhibit A-2** provides a list of nineteen (19) tests we performed to meet the three (3) objectives.

### Exhibit A-1 Performance Audit Objectives

Number	Objective
1	Determine whether actual expenditures to date, and documented future planned expenditures, comply with approved General Rate Case (GRC) funding, related to wildfire mitigation activities, in accordance with GRC rules and regulations.
2	Determine whether operating or capital expenditures identified in PacifiCorp's 2019 and 2020 Wildfire Mitigation Plans (WMPs) are duplicative of operating or capital expenditures approved in the 2019 GRC.
3	Determine whether PacifiCorp's actual expenditures to date, and documented future planned expenditures, comply with the 2019 and 2020 WMPs for activities that PacifiCorp received approval and funding from GRCs or similar applications submitted to the CPUC between 2017 and 2020.

### Exhibit A-2 Performance Audit Procedures

Objective	Procedures
1 - Determine whether actual expenditures to date, and documented future planned expenditures, comply with approved General Rate Case (GRC) funding, related to wildfire mitigation activities, in accordance with GRC rules and regulations.	<ol style="list-style-type: none"> <li>1. Obtain and review GRC guidelines available in resolutions, decisions, and GRC proceedings (for the 2019 and 2020 rate cases) applicable to spending GRC funds for wildfire mitigation.</li> <li>2. Interview PacifiCorp regulatory and finance management to assess how the IOU is complying with applicable GRC resolutions, decisions, and proceedings related to wildfire mitigation spending.</li> <li>3. Compare actual PacifiCorp wildfire mitigation activity spending practices with GRC rules and regulations and assess compliance.</li> <li>4. Document non-compliance with GRC rules and regulations related to wildfire mitigation activity spending.</li> </ol>
2 - Determine whether operating or capital expenditures identified in PacifiCorp's 2019 and 2020 Wildfire Mitigation Plans (WMPs) are duplicative of operating or capital expenditures approved in the 2019	<ol style="list-style-type: none"> <li>1. Request and obtain a database of actual PacifiCorp capital and operating expenditures covering the period from January 1, 2019 through the present, including expenses for electric operations (transmission and distribution).</li> <li>2. Reconcile expenditure amounts included in the database with amounts reported in PacifiCorp's audited financial statements.</li> <li>3. Reconcile GRC-funded expenditure amounts included in the database to amounts approved by the CPUC in the GRCs. To perform this test, obtain and review workpapers and exhibits associated with GRC rate case proceedings.</li> </ol>

Objective	Procedures
GRC.	<ol style="list-style-type: none"> <li data-bbox="492 310 1427 380">4. Reconcile capital and operating expenditure amounts included in the database to amounts approved in the 2019 and 2020 WMPs.</li> <li data-bbox="492 394 1427 499">5. Perform analytical procedures to determine whether expenditures reported as GRC funded in the database are also captured as incremental in a memorandum account.</li> <li data-bbox="492 514 1427 709">6. Perform risk assessment of transaction types to inform risk-based sample selection in cost categories with potential duplication between GRC and memorandum accounts. Develop a sample of transactions to test to determine that wildfire mitigation activity expenditures are recorded properly as either GRC funded or incremental in a memorandum account or similar account.</li> <li data-bbox="492 724 1427 842">7. Interview PacifiCorp and document procedures used by PacifiCorp to establish approved GRC expenditures by cost category and to track actual expenditures up to approved amounts. This includes potential imputing of approved GRC costs into subordinate cost categories.</li> <li data-bbox="492 856 1427 926">8. Document and quantify instances of duplication between GRC-funded expenditures and incremental (memorandum account) expenditures.</li> </ol>
<p><b>3 - Determine whether PacifiCorp's actual expenditures to date, and documented future planned expenditures, comply with the 2019 and 2020 WMPs for activities that PacifiCorp received approval and funding from GRCs or similar applications submitted to the CPUC between 2017 and 2020.</b></p>	<ol style="list-style-type: none"> <li data-bbox="492 951 1427 1045">1. Using prior GRCs or similar applications, and supporting workpapers and exhibits, create a data set of approved wildfire mitigation related expenditures by cost category.</li> <li data-bbox="492 1060 1427 1155">2. Using data provided in approved 2019 and 2020 WMPs, create a data set of actual and planned capital and operating wildfire mitigation expenditures by planned funding source.</li> <li data-bbox="492 1169 1427 1264">3. Link the data sets in item from 1 and 2 above to identify funding for 2019 and 2020 WMP activities where PacifiCorp has received approval for in prior GRCs or similar applications.</li> <li data-bbox="492 1278 1427 1373">4. Link the database in Item 6a to compare approved WMP capital and operating expenditures with actual WMP capital and operating expenditures.</li> <li data-bbox="492 1388 1427 1457">5. Assess whether PacifiCorp is spending or plans to spend funds approved for in past GRCs or similar applications.</li> <li data-bbox="492 1472 1427 1640">6. Perform risk assessment of transaction types to inform risk-based sample selection in cost categories with ambiguity between approved amounts and actual spend amounts. Develop a sample of transactions to test to assess whether actual recorded wildfire mitigation activity expenditures are aligned with approved expenditures.</li> <li data-bbox="492 1654 1427 1749">7. Assess whether actual PacifiCorp wildfire mitigation spending is in accordance with the 2019 and 2020 WMPs and consistent with funding provided in past GRCs or similar applications. Document exceptions.</li> </ol>

Additionally, using the data obtained/developed in the above procedures, and interviews of PacifiCorp accounting and wildfire mitigation program management, we developed an expense tracking tool (in Microsoft Excel, provided under separate cover to the CPUC's WMD) that identifies and tracks the following data:

1. How current spending on WMP activities relate to current requests in GRCs for future spending and whether PacifiCorp is currently performing work and recording expenditures in a memorandum account in addition to requesting additional funds in a pending GRC for the same work currently being performed.
2. How GRC approved capital expenditures relate to wildfire activity spending in WMP memo accounts and other fire risk mitigation accounts, and if services and corresponding expenditures are additional activities beyond what was previously authorized. For approved capital expense projects, include start and end date.
3. How GRC approved operating expenditures relate to wildfire activity spending in WMP memo accounts and other fire risk mitigation accounts, and if services and corresponding expenditures are additional activities beyond what was previously authorized. For approved operating expense projects, include start and end date.
4. Proposed capital expenditures for wildfire mitigation. Identify capital projects that are: i) continuations of projects identified in the first GRC where the continuation is due to the initial approved amounts being spent as authorized and the need continues, ii) continuations of projects in the first GRC where the continuation is needed due to the project being unable to be carried out, iii) the same project identified in the first GRC (where no distinction is clear from the accounting records to prevent double recovery of funds for the same expenditures).
5. Proposed operating expenditures for wildfire mitigation. Identify operating expense projects that are: i) continuations of projects identified in the first GRC where the continuation is due to the initial approved amounts being spent as authorized and the need continues, ii) continuations of projects in the first GRC where the continuation is needed due to the project being unable to be carried out, iii) the same project identified in the first GRC (where no distinction is clear from the accounting records to prevent double recovery of funds for the same expenditures).
6. Any other capital or operating expenditure that could also be attributable to wildfire mitigation plan expenses.

## Appendix B – List of Records Examined

1. 2019 Wildfire Mitigation Plan, dated February 6, 2019
2. 2020 Wildfire Mitigation Plan, dated February 7, 2020
3. Risk Spending Accountability Report (RSAR)
  - a. 2019 RSAR, submitted June 30, 2020
  - b. 2020 RSAR, submitted July 9, 2021
4. 2019 General Rate Case Application 18-04-002
5. 2019 General Rate Case Decision 20-02-025 and Appendix A, dated February 18, 2020
6. Audited Financial Statements for calendar years 2019 and 2020
7. FERC Filings for calendar years 2019 and 2020
8. Internal policies and procedures related to SAP and PVM accounting systems.
9. Capital and operating expenditures for calendar years 2019 and 2020

## Appendix C – Comparison of 2019 GRC Authorized Costs to Actual Costs (2019 to 2020)

In this appendix we compare costs authorized as part of the 2019 General Rate Case for 2019 and 2020 with actual costs incurred by PacifiCorp. This appendix includes the following two (2) exhibits:

- Exhibit C-1 - Comparison of Authorized to Actual Costs (2019)
- Exhibit C-2 - Comparison of Authorized to Actual Costs (2020).

**Exhibit C-1**  
**PacifiCorp**  
**2019 Risk Spending Accountability Report**  
**Comparison of Authorized to Actual Expenses for 2019**  
**By Program**

*PacifiCorp*

*2019 Interim Risk Spending Accountability Report<sup>1</sup>*

*California Allocated*

<b>CAPITAL</b>				
Function	2019 "Authorized" (A) <sup>2</sup>	2019 "Actual" (B)	Difference (B-A)	Percentage Change (B-A)/A
Transmission	91,652,375	113,009,017	21,356,642	23.30%
Tier 2 Compliance				
Hydraulic and Obsolete Relay Replacements				
Transmission Fault Locating Relays				
Installation of RTACs/Communications Devices				
Distribution	223,218,925	276,802,157	53,583,233	24.00%
Tier 2 Compliance				
Hydraulic and Obsolete Relay Replacements				
Installation of RTACs/Communications Devices				
<b>TOTAL</b>	<b>314,871,300</b>	<b>389,811,175</b>	<b>74,939,875</b>	<b>23.80%</b>
<b>EXPENSE</b>				
Function	2019 "Authorized" (A) <sup>3</sup>	2019 "Actual" (B)	Difference (B-A)	Percentage Change (B-A)/A
Transmission	1,037,837	1,234,284	196,447	18.93%
LiDAR Inspections				
Enhanced Inspections				
Increased Facility Inspection Cycles				
Pre-Fire Season Vegetation Patrols				
Emergency Operations Planning				
Increased Vegetation Clearances				
Distribution	12,091,256	14,839,250	2,747,994	22.73%
Enhanced Inspections				
Increased Inspection Cycles				
Pre-Fire Season Vegetation Patrols				
Emergency Operations Planning				
Increased Vegetation Clearances				
<b>TOTAL</b>	<b>13,129,093</b>	<b>16,073,534</b>	<b>2,944,441</b>	<b>22.43%</b>

**Notes:**

<sup>1</sup>Per previous conversations with Michael Zelazo at the CPUC Energy Division, risk spending includes any FERC account which includes spending on safety, reliability and/or maintenance activities. The company has made good faith effort to include only accounts which meet this description. The amounts shown are inclusive of these activities that also map back to risk reducing programs as indicated, but also include other operating activities.

<sup>2</sup>Authorized capital was determined by starting with the capital in-service gross plant balances for each function authorized in the company's last General Rate Case, A.09-11-015, plus any major transmission or distribution capital addition projects approved for recovery in California rates in the company's approved PTAM Major Capital Additions filings subsequent to that rate case to determine 2019 "authorized" in rates amounts.

<sup>3</sup>Authorized costs were determined by starting with the costs included in the company's last General Rate Case, A.09-11-015, for the FERC accounts identified in Note #1 above and increasing annually for the company's approved PTAM Attrition filings to determine 2019 "authorized" in rates amounts

**Exhibit C-2**  
**PacifiCorp**  
**2020 Risk Spending Accountability Report**  
**Comparison of Authorized to Actual Expenses for 2020**  
**By Program**

*PacifiCorp*

*2020 Risk Spending Accountability Report<sup>1</sup>*

*California Allocated*

CAPITAL	2020	2020	Difference	Percentage Change
Function	Authorized (A) <sup>2</sup>	Actual (B)	(B-A)	(B-A)/A
Transmission	112,777,063	106,004,736	(6,772,327)	-6.01%
Tier 2 Compliance				
Hydraulic and Obsolete Relay Replacements				
Transmission Fault Locating Relays				
Installation of RTACs/Communications Devices				
Distribution	282,349,459	282,694,520	345,061	0.12%
Tier 2 Compliance				
Hydraulic and Obsolete Relay Replacements				
Installation of RTACs/Communications Devices				
<b>TOTAL</b>	<b>395,126,521</b>	<b>388,699,255</b>	<b>(6,427,266)</b>	<b>-1.63%</b>
EXPENSE	2020	2020	Difference	Percentage Change
Function	Authorized (A) <sup>3</sup>	Actual (B)	(B-A)	(B-A)/A
Transmission	1,147,180	1,066,574	(80,606)	-7.03%
LiDAR Inspections				
Enhanced Inspections				
Increased Facility Inspection Cycles				
Pre-Fire Season Vegetation Patrols				
Emergency Operations Planning				
Increased Vegetation Clearances				
Distribution	14,477,082	10,273,509	(4,203,573)	-29.04%
Enhanced Inspections				
Increased Inspection Cycles				
Pre-Fire Season Vegetation Patrols				
Emergency Operations Planning				
Increased Vegetation Clearances				
<b>TOTAL</b>	<b>15,624,262</b>	<b>11,340,082</b>	<b>(4,284,179)</b>	<b>-27.42%</b>

Notes:

<sup>1</sup>Per previous conversations with Michael Zelazo at the CPUC Energy Division, risk spending includes any FERC account which includes spending on safety, reliability and/or maintenance activities. The company has made good faith effort to include only accounts which meet this description. The amounts shown are inclusive of these activities that also map back to risk reducing programs as indicated, but also include other operating activities.

<sup>2</sup>Authorized capital was determined by starting with the capital in-service gross plant balances for each function authorized in the company's last General Rate Case, A.18-04-002, plus any major transmission or distribution capital addition projects approved for recovery in California rates in the company's approved PTAM Major Capital Additions filings subsequent to that rate case to determine 2020 authorized in rates amounts.

<sup>3</sup>Authorized costs reflect the costs included in the company's last General Rate Case, A.18-04-002, for the FERC accounts identified in Note #1 above. The Final Decision 20-02-025 for this case was issued in February 2020.



## Appendix D – Management Response



825 NE Multnomah, Suite 2000  
Portland, Oregon 97232

December 21, 2021

*VIA ELECTRONIC MAIL*

[REDACTED]  
Crowe LLP  
575 Market Street, Suite 3300  
San Francisco, California, 94105-5829  
[REDACTED]

**RE: PacifiCorp's Response to Draft Report of Crowe LLP's (Crowe) Audit of  
PacifiCorp's 2019 and 2020 Wildfire Mitigation Plan Expenditures**

Dear [REDACTED]:

PacifiCorp d/b/a Pacific Power (PacifiCorp or the Company) appreciates the opportunity to provide a response to the December 13, 2021 draft report of Crowe's audit of the Company's 2019 and 2020 Wildfire Mitigation Plan (WMP) expenditures.

This letter addresses the one Finding in the audit report, which states (page 5, Crowe's draft audit report):

*"Wildfire Mitigation Cost Categories Provided in WMPs Do Not Align with How Wildfire Mitigation Costs are Categorized and Adopted as Part of GRCs, Making it Difficult to Monitor Incremental Wildfire Mitigation Costs."*

The Company agrees that greater alignment with how WMP cost categories are reported in the annual WMP filings and utility General Rate Cases (GRC) would be beneficial. However, to provide proper context for this 2019-2020 audit report, PacifiCorp requests the draft audit report is updated to clarify that the company's GRC filed with the California Public Utilities Commission (Commission) in April 2018 did not include or request for recovery of any WMP costs.

Additionally, the Company has followed cost category reporting following the guidance and templates provided by the Commission and now the Office of Energy Safety, which we understand is a continually evolving process which is still being refined.

California Public Utilities Commission  
December 21, 2021  
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If you have any questions, please contact Pooja Kishore, Regulatory Affairs Manager at (503) 813-7314.

Sincerely,



Shelley McCoy  
Director, Regulation

cc:

  
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