



**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

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Petition of Black Economic Council, National Asian American Coalition, and Latino Business Chamber of Greater Los Angeles to Adopt, Amend, or Repeal a Regulation Pursuant to Public Utilities Code § 1708.5

Petition 12-02-016
(Filed February 23, 2012)

JOINT PARTIES' OPENING COMMENTS ON PROPOSED DECISION

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I. Introduction.

In accordance with Rule 14.3 of the California Public Utilities Commission's (CPUC or "the Commission") Rules of Practice and Procedure, the Black Economic Council, the Latino Business Chamber of Greater Los Angeles and the National Asian American Coalition (hereinafter referred to as the Joint Parties) hereby submits these comments on the Proposed Decision (PD) Denying, Without Prejudice, the Petition of the Black Economic Council, National Asian American Coalition, and Latino Business Chamber of Greater Los Angeles for a Rulemaking to Propose Rules Regarding the Annual Financial Audits of Investor-Owned Utilities.

The Joint Parties greatly appreciate ALJ MacDonald's PD. The petition requests that the Commission initiate a rulemaking to improve the integrity and quality of annual financial audits of large investor-owned utilities (IOUs) in order to minimize rate increases and to encourage far more quality competition among auditors of utilities.

II. This Commission Should Address These Issues in Appropriate Proceedings, Such As GRCs, Until the PCAOB Completes Its Proceedings.

The summary by ALJ MacDonald of the Joint Parties' position is accurate and well stated. Similarly, the ALJ has properly and accurately summarized TURN's support for the Joint Parties' petition.

The Joint Parties accept with much hesitation and concern the PD's denial without prejudice in order to await conclusions from the Public Company Accounting Oversight Board (PCAOB). The Joint Parties fear that this delay, which could extend for two or more years, will prejudice ratepayers as it relates to the Sempra and Edison proposed rate increases of \$7.0 billion and PG&E's proposed \$5.25 billion GRC.

In order to alleviate concerns regarding the accuracy of independent audits, the Commission should therefore take interim action on a case-by-case basis to ensure the integrity of the audits of San Diego Gas & Electric, Southern California Gas Company

(collectively hereinafter referred to as “Sempra”), Southern California Edison (SCE) and Pacific Gas & Electric Company (PG&E), and other large IOUs.

The Joint Parties point to the example of D.12-04-010, a decision made in the pending OIR regarding the safety of gas pipelines. In response to concerns about PG&E’s management structure and finances, the ALJ ordered management and financial audits of gas corporations. Additionally, the ALJ ordered financial audits that included, but were not limited to, “comparing the authorized gas safety expenditures and capital investments to actual recorded amounts, and the rationale for any deviations.”¹

It is this laudable example of the CPUC actively engaging in financial audits that should be used as a model for this Commission until the PCAOB proceeding concludes. Specifically, this should apply to the pending GRCs currently before this Commission.

A. Sempra GRC

Sempra’s pending \$2.4 billion rate increase squarely raises the issues of lack of integrity, lack of independence and questionable accounting principles used to support Sempra’s application. The Joint Parties propose that at a minimum, the Commission request that Sempra provide a plan to ensure the integrity of its audits and that this rulemaking provision be applied in the pending Sempra GRC. This is necessary since Deloitte & Touche, Sempra’s auditor for more 50 years, has been heavily chastised by the PCAOB on repeated occasions for its lack of independence and failure to follow generally accepted accounting principles.

Therefore, the Joint Parties reiterate the need for this Commission to take action on auditing issues specifically before this Commission through the GRCs as proposed in the Joint Parties’ Opening Brief in the Sempra GRC. See, for example, the proposed language:²

- *“Given the size of the proposed Sempra rate increase particularly during a period of high unemployment, economic distress and cutbacks in vital government services, this Commission will hold Sempra subject to a special scrutiny relating to its burden of proof to*

¹ D.12-04-010, pg. 2.

² These recommendations were originally given in the Joint Parties’ Opening Brief in the Sempra 2012 General Rate Case, A.10-12-005/006 at 50.

justify any rate increases in the context of unresolved questions as to the independency and accuracy of its audit.”

- *“It is undisputed that Sempra’s auditor, Deloitte & Touche, has been its auditor for more than fifty consecutive years; this Commission therefore urges that in the future, all utilities, unless they formally request and are granted an exemption, be required to rotate their primary auditor on a regular basis and to engage in no paid management services with its primary outside auditor.”*

B. SCE GRC

In the SCE general rate case involving a proposed rate increase of \$4.6 billion, similar concerns have been raised by the Joint Parties relating to Edison’s auditor, PricewaterhouseCoopers. The Joint Parties would suggest similar action be taken in the SCE GRC case as proposed in the Sempra GRC.

C. PG&E Pending GRC

PG&E is proposing in its notice of intent to file its GRC an almost \$5.25 billion rate increase. PG&E also has other pending rate increases that combined with its GRC amount to \$8 billion in rate increases. PG&E has the same auditor as Sempra, Deloitte & Touche, which has been its auditor for more than a dozen years.

As in the Sempra case, Deloitte & Touche has been heavily criticized by the PCAOB.

In the SCE and Sempra GRCs, the ALJs heavily restricted the testimony and evidence relating to the independence of auditors. Therefore, the Joint Parties urge that while this Commission temporarily defers to the PCAOB that it also makes clear that this is a crucial issue and must be a part of future general rate proceedings, such as in the pending PG&E case. For example, the Joint Parties and other interested parties should be permitted to examine the principal auditor for PG&E and the chair of PG&E’s audit committee, as well as allow the PCAOB to testify or otherwise participate.

III. Lack of Competition and Diversity Contributes to the Issue.

The PD accurately comments on the concerns of the Joint Parties relating to lack of competition (two of the Big Four firms, Deloitte & Touche and PricewaterhouseCoopers, audit approximately 80% of the assets of the ten largest utilities). This lack of competition exists despite the IOUs each spending as much as \$7 million or more per annum with Deloitte & Touche and/or PricewaterhouseCoopers.³

The PD should therefore comment on the need for greater competition since billions of dollars in rate increases annually by IOUs are affected by the quality of the audits.⁴ The PD, for example, could urge that the IOUs work with Commission staff and other interested parties on efforts to encourage greater competition.

Similarly, this Commission, the national leader in promoting diversity among professionals, such as lawyers and CPAs, should take the opportunity in this proceeding to comment on the benefits of competition as it impacts diversity. The information presented by the Joint Parties in this OIR, for example, demonstrates the virtual absence of diversity among any of the Big Four CPA firms and the potential for greater diversity. The PD could, for example, welcome the comments of the IOUs and other interested parties during the scheduled October *en banc* on diversity. The Commission could also request, in preparation for the 2012 diversity *en banc* and future *en banc* hearings, that the Commission staff itself gather the data on diversity among the Big Four and, perhaps among the Top 25 CPA firms in California, all of whom do some audits of publicly held companies.

³ This information was provided to the Joint Parties through a data response to the Joint Parties that is currently on file in the Sempra general rate case (A.10-12-005 and A.10-12-006) as Exhibit 282.

⁴ The Joint Parties testified before the PCAOB on March 22nd in Washington, DC and on June 28th in San Francisco. The Joint Parties, as well as Gilbert Vasquez of Vasquez & Company LLP, a board member of the Latino Business Chamber of Greater Los Angeles, provided written and oral testimonies. The Joint Parties will be filing additional comments before the PCAOB, since the PCAOB has extended the comment period until July 28th. These comments will be provided to this Commission via a motion before ALJ MacDonald.

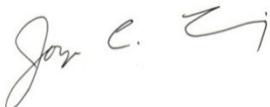
It should be noted that among the more than 1,000 comments filed before the PCAOB, the Joint Parties were the only minority community and business groups that filed comments and were the only minority community and business groups that testified.

IV. Conclusion

In conclusion, the Joint Parties thank the ALJ for her attention to this important issue. They also urge the Commission to ensure that auditors maintain their independence and strictly adhere to generally accepted accounting principles in the pending SCE, Sempra, and PG&E GRCs. This is especially important since the three IOUs are seeking a combined rate increase of over \$12 billion.

Date: July 13, 2012

Respectfully submitted,



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APPENDIX

Strikeout/Underline of Findings of Fact, Conclusions of Law and Ordering Paragraphs to
Reflect Joint Parties' Comments

Findings of Fact

8. San Diego Gas & Electric, Southern California Gas Company, Southern California Edison, and Pacific Gas & Electric should be aware of any potential issues with their auditors and lack of independence.

Conclusions of Law

3. The discovery of any issues relating to the independence and accuracy of audits should be reported to this Commission.

4. This Commission will order Commission-administered financial audits in any cases in which they are deemed necessary.

~~3.~~ 5. The Joint Parties' and other potential participants' resources will be diluted if the Commission opened a rulemaking at this time.

~~4.~~ 6. This petition should be denied without prejudice.

Ordering Paragraph

[No Changes]