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ENERGY EFFICIENCY CODES & STANDARDS PROGRAM PERFORMANCE AUDIT

Southern California Gas Company

January 1, 2014, through December 31, 2022

Utility Audits, Risk and Compliance Division
Utility Audits Branch
April 2, 2024

STATE OF CALIFORNIA GAVIN NEWSOM, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

Transmitted via e-mail

April 2, 2024

Mia DeMontigny
Senior Vice President and Chief Financial Officer
Southern California Gas Company
555 W. 5th Street, GT21C2
Los Angeles, CA, 90013

Dear Mia DeMontigny:

Final Report Transmittal Letter—Audit of Southern California Gas Company, Energy Efficiency Program for the period of January 1, 2014, through December 31, 2022

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its audit as directed by the CPUC's Orders to Show Cause relating to Southern California Gas Company's (SoCalGas) Energy Efficiency Codes & Standards program expenditures reported for the period of January 1, 2014, through December 31, 2022, or Program Years 2014-2022. The final audit report is enclosed.

We issued a draft audit report on March 6, 2024. SoCalGas responded to the draft report on March 20, 2024, and provided various comments. SoCalGas' response to the draft report required further analysis and resulted in minor modifications to the final report. SoCalGas' response to the draft report and our analysis of the comments including the edits are incorporated into this final report. We will post the final audit report on our website at Audit Reports by Industry (ca.gov).

Please provide a Corrective Action Plan (CAP) addressing the finding and recommendations within 45 days from the issuance of this final audit report. The CAP should include specific steps and target dates to correct the finding identified. Please submit the CAP to: UtilityAudits@cpuc.ca.gov.

We appreciate SoCalGas' assistance and cooperation during the engagement. If you have any questions regarding this report, please contact Nichelle Jackson, Supervisor, by telephone at (916) 503-6096.

Sincerely,

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: See next page

cc: Shivani Sidhar, Director, Regulatory Affairs, Sempra Utilities
Jawaad Malik, Chief Strategy and Sustainability Officer, SoCalGas
Sara Mijares, Vice President and Controller, SoCalGas
Don Widjaja, Vice President, Customer Solutions, SoCalGas
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A digital copy of this report can be found at:
Audit Reports by Industry (ca.gov)

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EXECUTIVE SUMMARY

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a performance audit as directed by the CPUC's Orders to Show Cause (OSC) relating to Southern California Gas Company's (SoCalGas) Energy Efficiency (EE) Codes & Standards (C&S) program expenditures reported for the period of January 1, 2014, through December 31, 2022, or Program Years (PY) 2014 through 2022.

Our audit objectives were to determine:

1. The amount of expenditures[1] SoCalGas incurred within EE C&S program related to unallowable advocacy activities,

2. The amount of Efficiency Savings and Performance Incentive (ESPI) management fee payments SoCalGas received that resulted from unallowable advocacy and other ineligible activities,

3. Any other financial benefits to SoCalGas related to unallowable advocacy activities, and

4. Whether SoCalGas has implemented time tracking mechanisms to track employee time spent on EE C&S programs,

as outlined in CPUC Decisions (D.)22-03-010 and D.22-04-034, applicable Public Utilities (PU) Code sections, SoCalGas' policies and procedures, and other relevant criteria.

For Objectives 1 and 2, based on the procedures performed and evidence gathered, we determined that certain expenditures SoCalGas incurred within the EE C&S program for PY 2014 through PY 2022 could not be reasonably dissociated from the unallowable advocacy activities outlined in decisions D.22-03-010 and D.22-04-034. Further, we determined that ESPI management fee payments awarded to SoCalGas for PYs 2014, 2015, and 2016 were related to questioned costs. These instances are quantified in the Summary Schedule of Audits Results and described in the Finding and Recommendations section of this audit report.

The audit finding is summarized below:

Finding: Questioned Cost Totaling $4,046,733

SoCalGas did not provide sufficient and appropriate evidence to show that expenditures incurred and recorded for the EE C&S program for PY 2014 through PY 2022, with the exception of allowable transfers and co-funding agreements, resulted from allowable activities, or the unallowable advocacy activities outlined in D.22-03-010 and D.22-04-034. As a result, $4,046,733 are questioned costs, which include:

- $3,582,856 out of $7,853,613 recorded by SoCalGas for all EE C&S related activities for PY 2014 through PY 2022.

[1] Expenditure(s) as used in this report means cost(s) or expense(s) incurred and charged to EE C&S during the period.

- $215,802 in related ESPI management fee payments to SoCalGas for PYs 2014, 2015, and 2016, and
- $248,075 in related associated interest.

The following table summarizes the amount of questioned costs SoCalGas incurred for EE C&S activities for PY 2014 through PY 2022 by category and each of the CPUC decisions:

Summary of Questioned Costs

Category	D.22-04-034	D.22-03-010	Total
Total Claimed C&S Costs	$ 3,475,814	$ 4,377,799	$ 7,853,613
Less: Transfers & Co-Funding	872,225	3,398,532	4,270,757
Subtotal Questioned Costs	**$ 2,603,589**	**$ 979,267**	**$3,582,856**
Related ESPI Awards	217,497	(1,695)	**215,802**
Associated Interest	48,957	199,118	**248,075**
Grand Total Questioned Costs	**$ 2,870,043**	**$ 1,176,690**	**$4,046,733**

For Objective 3, based on the procedures performed and evidence gathered, we discovered no evidence to support any other financial benefits to SoCalGas related to unallowable advocacy activities.

For Objective 4, based on the procedures performed and evidence gathered, we confirmed that SoCalGas has developed an employee time tracking mechanism to track employee time spent on EE C&S programs. However, this time tracking mechanism was not implemented until May 2022, toward the end of the nine-year audit period, thus not allowing clear segregation of reported expenditures attributable to specific activities.

We issued a draft report on March 6, 2024. SoCalGas responded to the draft report on March 20, 2024, and provided various comments regarding the draft report. SoCalGas's response is included in this final report as an attachment in Appendix A—Utility's Response to Draft Audit Report. Our evaluation of the response is included in Appendix B—UAB's Evaluation of Utility's Response.

AUDIT REPORT

Background

Energy Efficiency (EE) Codes and Standards (C&S) Program

The primary purpose of the EE programs is to develop programs and measures to meet energy savings goals and transform technology markets within California. The programs span a variety of sectors encompassing residential homes and commercial buildings, large and small appliances, lighting and heating, ventilation, air conditioning, industrial manufacturers, and agriculture. The CPUC authorizes set budgets to the EE programs annually, which are funded by a small portion of electricity and gas rates included in ratepayer bills.

The EE C&S program is aimed at saving energy usage through advocacy for the adoption of more stringent codes and standards for all buildings and appliances sold in California by influencing and advocating for continuous improvements in energy efficiency regulations and compliance with existing EE C&S requirements, as well as advocacy for the development and implementation of reach codes that exceed minimum requirements.

The five subprograms of the EE C&S program include:

1. Building Energy Codes Advocacy: Targets improvements to California Building Energy Efficiency Standards through advocacy activities including, but not limited to the development of code enhancement proposals and participation in public rulemaking processes.

2. Appliance Standards Advocacy: Focuses on advocacy activities that improve and enhance appliance efficiency regulations and specification at the federal and state levels. As part of the Appliance Advocacy subprogram, Federal Codes Advocacy targets federal standards and methods for improvements to Title 20 Appliance Efficiency Regulations by the United States Department of Energy.

3. Compliance Improvement: Aims at increasing compliance with adopted Building Energy Efficiency Standards and Appliance Standards through the provision of education, outreach, technical support, and other resources.

4. Reach Codes: Focuses on developing and supporting local development and adoption of reach codes that exceed statewide minimum requirements to test new codes, and the ability to increase the stringency of existing codes at a local level before statewide application.

5. Planning and Coordination: Promotes proactive coordination of participation and program activities to develop and implement a strategic vision that advance cost-effective technologies, establish key measures and technologies in support of Zero Net Energy and other policy goals, and to work with other programs to improve code compliance.

The table below outlines the expenditure amounts SoCalGas recorded totaling $7,853,613 within the EE C&S program for the audit period by year and each EE C&S subprogram:

Total EE C&S Expenditures by Subprogram for PY 2014 through PY 2022

Program Year	Building Advocacy	Appliance Advocacy	Compliance Improvement	Reach Codes	Planning & Coordination	Federal Codes Advocacy	Grand Totals[1]
2014	$ 236,706	$ 47,151	$ 314,791	$ 14,220	$ 38,359	$ -	$ 651,227
2015	221,557	88,680	158,867	21,720	43,960	-	534,784
2016	457,776	227,620	248,880	28,760	151,239	-	1,114,275
2017	191,187	266,203	297,704	52,937	125,725	-	933,756
2018	40,969	123,812	183,978	34,544	66,944	-	450,247
2019	-	-	161,522	30,947	26,978	-	219,447
2020	501,468	287,769	338,249	49,653	127,718	310,524	1,615,381
2021	470,226	331,024	82,007	13,509	39,463	298,509	1,234,738
2022	501,468	152,772	-	-	-	445,518	1,099,758
Total	**$ 2,621,357**	**$ 1,525,031**	**$ 1,785,998**	**$ 246,290**	**$ 620,386**	**$ 1,054,551**	**$ 7,853,613**

[1] The amounts above were obtained from C&S expenditure reports provided by SoCalGas and include transfers to the statewide C&S lead, PG&E, and to SCE based on co-funding agreements.

Efficiency Savings and Performance Incentive (ESPI)

ESPI was established in 2013 and was subsequently modified through CPUC's D.15-10-028 and D.16-18-019 to promote achievement of energy efficiency goals. The ESPI mechanism replaced the Risk/Reward Incentive Mechanism, reinforced the CPUC commitment to EE as the highest energy source priority to meet California's energy demand, and was designed to motivate utilities to prioritize EE goals while protecting ratepayers through cost containment mechanisms.

The ESPI mechanism authorized the IOUs to earn incentive awards for meeting or exceeding specified EE goals. The ESPI mechanism was based on the premise that the incentive offered must be effective in spurring the utilities to a commitment to capture cost-effective energy savings as the first priority in the loading order, value longer-lasting and deeper savings, rely on accurate, transparent, and timely evaluation measurement and verification, and prudently use customer funds to ensure that customers are better off when utilities invest in efficiency instead of supply-side alternatives.

Order To Show Cause (OSC)

CPUC strives to ensure utility companies' compliance with statutes, rules, and different regulatory requirements, and to provide a meaningful deterrent to violations through its enforcement actions. An OSC is an order that requires a regulated entity facing potential enforcement action or penalty to show cause why a specified CPUC action should not be taken. In deciding whether to issue an OSC, CPUC considers whether:

- The regulated entity failed to comply with a CPUC order, general order, ruling, rule, data request, or statute; and
- The failure to comply is a Rule 1.1 violation, a violation of PU Code section 2107, or if entity's actions meet the criteria for a finding of contempt.

In 2018 in response to evidence and concerns raised by CPUC's Public Advocates Office (Cal Advocates), alleging SoCalGas used ratepayer funds to advocate against the adoption of more stringent codes and standards, CPUC issued D.18-05-041, which among other things prohibited SoCalGas from participating in statewide EE C&S advocacy activities, other than to transfer ratepayer funds to the statewide lead. The decision declined to consider penalties at that time and specified that Cal Advocates could renew its request for sanctions in a future proceeding.

On November 26, 2018, Cal Advocates renewed its request, and recommended that CPUC deny SoCalGas' 2017 ESPI award, and true-up to zero its 2016 ESPI award. On July 15, 2019, Cal Advocates filed a motion requesting CPUC initiate an OSC related to SoCalGas' EE C&S advocacy, alleging that SoCalGas continued to engage in activities prohibited by D.18-05-041. In 2019, the CPUC issued an OSC ruling granting Cal Advocates' motion and directed SoCalGas to show cause why it should not be sanctioned for violations.

On March 21, 2022, CPUC issued D.22-03-010, finding SoCalGas in contempt and in violation of Rule 1.1 of the CPUC Rules of Practice and Procedure, and ordering remedies for failure to comply with CPUC D.18-05-041 for unallowable program activities from 2018 till 2022. The decision, among other things, directed UAB to complete an audit to determine the amount of ratepayer funded expenditures associated with 32 specific unallowable activities outlined in the decision and prohibited SoCalGas from participating in EE C&S programs until further notice.

On April 18, 2022, CPUC issued D.22-04-034, directing SoCalGas to show cause and prove its claim for the ESPI management fee payments SoCalGas received for C&S activities from 2014 to 2017. The decision also directed UAB to complete an audit to determine the amount of ratepayer funded expenditures associated with 25 specific unallowable activities outlined in the decision, identify the amount of ESPI management fee payments associated with those activities that SoCalGas must refund, and determine the amount of expenditures that are ineligible for ESPI payment.

Audit Authority

UAB conducted this audit under the general authority outlined in PU Code sections 314 (a), 314.5, 314.6, 581, 582, and 584, and as further directed in CPUC's D.22-03-010 and D.22-04-034, issued March 21, 2022, and April 18, 2022, respectively.

Objectives and Scope

Our audit objectives were to determine:

1. The amount of expenditures SoCalGas incurred within EE C&S program related to unallowable advocacy activities,

2. The amount of ESPI management fee payments SoCalGas received that resulted from unallowable advocacy and other ineligible activities,

3. Any other financial benefit to SoCalGas related to unallowable advocacy activities, and

4. Whether SoCalGas has implemented time tracking mechanisms to track employee time spent on EE C&S programs,

as outlined in CPUC's D.22-03-010 and D.22-04-034, applicable PU Code sections, SoCalGas' policies and procedures, and other relevant criteria.

The scope of our audit covered the EE C&S program expenditures and related ESPI management fee payments related to unallowable advocacy activities identified in CPUC's D.22-03-010 and D.22-04-034 for the period of January 1, 2014, through December 31, 2022.

Methodology

In planning our audit, we gained an understanding of the EE C&S program, associated sub-programs, the ESPI management fee payment program, SoCalGas' operations related to the EE C&S program, and identified relevant criteria by reviewing applicable PU Code sections, the CPUC EE Policy Manual, CPUC decisions, advice letters, SoCalGas' EE Program Annual Reports, and interviewing SoCalGas' personnel.

We conducted a risk assessment, including evaluating SoCalGas' key internal controls relevant to our audit objectives. Our assessment included conducting interviews, reviewing responses, and numerous discussions with SoCalGas personnel. We did not test the implementation and operational effectiveness of SoCalGas' internal controls related to expenditures as our audit involved testing 100 percent of the unallowable advocacy activities identified in CPUC's D.22-03-010 and D.22-04-034. Deficiencies that were identified during our audit and determined to be significant within the context of our audit objectives are included in this report.

Additionally, we assessed the reliability of the data extracted from SoCalGas' accounting system for the EE C&S program. Our assessment included examining reports extracted from the accounting system and performing a reconciliation of EE C&S expenditures to the balancing accounts from which they were extracted. We did not observe any occurrences to suggest that the data provided was not sufficiently reliable to address the audit objectives; however, as the EE C&S program is only a part of the overall EE program, we did not perform a data reliability assessment of the overall EE program and make no determination as to whether the EE program data taken as a whole, was sufficiently reliable.

In complying with the decisions, we have combined the orders in D.22-03-010 and D.22-04-034 into one audit, but we separately addressed the activities outlined in each of the decisions. Where evidence is common to activities in both decisions, we examined the information provided in relation to the circumstances of each decision and applied the outcome therewith. We planned and conducted the audit to address all the unallowable activities outlined in each decision.

Based on the results of our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objectives. To achieve our audit objectives, we:

- Reviewed CPUC decisions, the EE Policy Manual, resolutions, orders, rulemakings, directives, and advice letters to gain an understanding of the EE program, EE C&S and its subprograms, and the scope of the audit ordered in the decisions.

- Reviewed SoCalGas' EE Programs Annual Report and interviewed personnel to gain an understanding of SoCalGas' operational structure with respect to the implementation of the EE C&S program.

- Reviewed, within the context of the audit objectives, SoCalGas' accounting system, accounting policies, processes and procedures for recording, tracking, monitoring, and ensuring EE C&S program data accurately interfaced with other applications.

- Assessed whether SoCalGas' description of the EE C&S program reflects a common understanding of the program requirements.

- Reviewed and reconciled SoCalGas' internal order numbers related to EE C&S expenditures to the balancing accounts used for recording EE C&S expenditures, for accuracy and completeness.

- Assessed significance by performing an analysis of expenditure data and evaluating the unallowable activities identified in D.22-03-010 and D.22-04-034, and the prohibition contained in D.18-05-041.

- Reviewed the results of prior audits to determine whether any prior audit issues were relevant to the audit objectives and determined whether any follow-up was required to evaluate SoCalGas' implementation of prior audit recommendations.

- Obtained an understanding of SoCalGas' key internal controls over the EE C&S program, including SoCalGas' understanding of program requirements, expenditure approval, classification, recording, and monitoring, and employee time tracking mechanisms, that we considered significant to the audit objectives by interviewing key personnel and reviewing responses provided to inquiries.

  We did not assess the design, implementation, or operational effectiveness of SoCalGas' internal controls because the CPUC decisions directing the audit required UAB to test all of the identified unallowable activities in the decisions, thus rendering internal control assessments unnecessary.

- Reviewed the unallowable advocacy activities outlined in D.22-03-010 and D.22-04-034 and supporting documentation provided by SoCalGas, and worked with SoCalGas staff to determine whether the activities outlined in each decision could be associated with related expenditures recorded in SoCalGas' EE C&S program.

- Obtained and reviewed consultant contracts booked to EE C&S program.

- Obtained and reviewed employee travel expense claims and timesheets charged to EE C&S program.

- Participated in walkthroughs with SoCalGas staff to evaluate how SoCalGas determined and recorded expenditures in its accounting software (SAP) related to the unallowable activities identified in D.22-03-010 and D.22-04-034.

- Obtained and reviewed documentation supporting amounts of ESPI management fee payments SoCalGas received for PYs 2014, 2015, and 2016.

- Participated in walkthroughs with SoCalGas' staff for the Below the Line (BTL) and Above the Line (ATL) time tracking systems to understand how SoCalGas intends to use the BTL and ATL time tracker deployed in response to D.22-03-010 and D.22-04-034. We did not perform any procedures to verify the sufficiency or operational effectiveness of the ATL time tracking mechanism. We also did not review or assess the usage of the BTL time tracking mechanism because the BTL is used to track investor-funded expenditures, which are not subject to this audit.

- Examined expenditure reports, including the Demand Side Management Balancing Account (DSMBA) extract. We performed a reconciliation of expenditure data to the annual reports and reviewed transactions associated with internal orders and program identifiers.

- Reviewed SoCalGas' Annual Incentive Compensation Plan Summary for PYs 2014 through 2022 and inquired whether EE C&S was one of the benefit scoring factors used to determine bonus payments. We also queried expenditure reports for any transactions related to benefits payments by program identifiers to determine any bonuses and/or benefits related to EE C&S program.

- Performed a limited review of SoCalGas' ATL time tracking system to confirm whether SoCalGas implemented a time tracking mechanism to track employee time spent on EE C&S activities as required in D.22-04-034. We reviewed responses and documents SoCalGas provided, interviewed SoCalGas' key personnel, participated in walkthroughs, and reviewed email correspondence from staff and screenshots from the ATL SharePoint site.

- Computed interest amounts attributable to questioned costs by completing the following:
    - determining the monthly average expenditure balances after adjusting for amounts paid to PG&E, the statewide lead, and to SCE through co-funding agreements,
    - determining the cumulative principal amounts by carrying forward the prior period ending balances to roll into the subsequent period, and
    - applying 1/12 of the most recent month's interest rate on Commercial Paper (prime, 3-month) published in the Federal Reserve Statistical Release (H.15) to the average monthly principal amounts.

We did not audit SoCalGas' implementation of EE programs or any of its subprograms outside of the EE C&S program. We limited our audit scope to planning and performing audit procedures necessary to obtain, verify, and determine total expenditures related to the unallowable activities identified in D.22-03-010 and D.22-04-034, the associated ESPI management fee payments received, and any benefits to SoCalGas or its employees thereof, as well as to determine whether SoCalGas implemented a time tracking mechanism as ordered in D.22-03-010 and D.22-04-034. Further, we considered SoCalGas' internal controls only to the extent necessary to plan the audit, and to achieve our audit objectives.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). GAGAS standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Conclusion

For Objectives 1 and 2, based on the procedures performed and the evidence gathered, we determined that SoCalGas did not demonstrate with sufficient and appropriate evidence that expenditures incurred and recorded for the EE C&S program for PY 2014 through PY 2022, with the exception of allowable transfers and co-funding agreements, resulted from allowable activities, or the unallowable advocacy activities outlined in D.22-03-010 and D.22-04-034.

As a result, costs totaling $4,046,733 are being questioned, which include:

- $3,582,856 out of $7,853,613 recorded by SoCalGas for all EE C&S related activities for PY 2014 through PY 2022
- $215,802 in related ESPI management fee payments to SoCalGas for PYs 2014, 2015, and 2016, and
- $248,075 in related associated interest.

The following table summarizes the amount of questioned costs SoCalGas incurred for EE C&S activities for PY 2014 through PY 2022 by category and each of the CPUC decisions:

Summary of Questioned Costs

Category	D.22-04-034	D.22-03-010	Total
Total Claimed C&S Costs	$ 3,475,814	$ 4,377,799	$ 7,853,613
Less: Transfers & Co-Funding	872,225	3,398,532	4,270,757
Subtotal Questioned Costs	**$ 2,603,589**	**$ 979,267**	**$3,582,856**
Related ESPI Awards	217,497	(1,695)	**215,802**
Associated Interest	48,957	199,118	**248,075**
Grand Total Questioned Costs	**$ 2,870,043**	**$ 1,176,690**	**$4,046,733**

These instances are described in the Finding and Recommendations section and quantified in the Summary Schedule of Audit Results of this audit report.

For Objective 3, based on the procedures performed and the evidence gathered, we discovered no evidence to support any specific or quantifiable financial benefits to SoCalGas or its employees that resulted from the unallowable activities outlined in D.22-03-010 and D.22-04-034. Due to the absence of one-to-one relationships between the unallowable activities outlined in the CPUC's decisions and the total expenditures recorded for the EE C&S program, we were unable to determine if there were any direct links between employee bonuses and/or benefits and the expenditures.

For Objective 4, based on the procedures performed, the evidence gathered through responses, discussions, and walkthrough observations, we verified that SoCalGas has developed two distinct standalone time tracking mechanisms to track employee time and the activities performed for EE C&S programs, referred to as the BTL and ATL time tracking systems. SoCalGas implemented the ATL time tracking mechanism in May 2022, at the end of the nine-year audit period; thus, not allowing clear segregation of reported expenditures attributable to specific activities for PY 2014 through PY 2022. We did not audit the sufficiency and operational effectiveness of the ATL time tracking mechanism. The actual audit of the ATL time tracking mechanism will occur in future audits as specified in the decisions. We also did not review or assess the usage of the BTL time tracking mechanism because the BTL is used to track investors funded expenditures, which are not subject to this audit.

Follow-up on Prior Audit Findings

The Energy Savings Assistance program audit report, covering the period of January 1, 2019, through December 31, 2021, issued on April 5, 2023, disclosed no findings. The EE program audit of the unspent and uncommitted funds reported for the period of January 1, 2020, through December 31, 2020, issued on September 27, 2021, disclosed no findings. However, the EE program audit of C&S and Non-Resource expenditures, covering the period of January 1, 2018, through December 31, 2018, issued on August 13, 2020, found unallowable advocacy costs totaling $21,673 that relate to the Finding outlined in this audit report.

Views of Responsible Officials

We issued a draft report on March 6, 2024. SoCalGas responded to the draft report on March 20, 2024, and provided various comments to the draft report. SoCalGas's response is included in this final report as an attachment in Appendix A—Utility's Response to Draft Audit Report. Our evaluation of the response is included in Appendix B—UAB's Evaluation of Utility's Response.

Restricted Use

This audit report is intended solely for the information and use of SoCalGas and the CPUC; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this audit report, which is a matter of public record and will be available on the CPUC website at [Audit Reports by Industry (ca.gov)](https://www.cpuc.ca.gov).

Angie Williams

Angie Williams, Director

FINDING AND RECOMMENDATIONS

Finding: Questioned Costs Totaling $4,046,733

Condition:
SoCalGas did not provide sufficient and appropriate evidence to show that expenditures recorded in the EE C&S program for PY 2014 through PY 2022 resulted from allowable activities, or the unallowable advocacy activities identified in CPUC's D.22-03-010 and D.22-04-034. CPUC specified 32 unallowable activities in Section 5.4 of D.22-03-010 and 25 unallowable activities in Sections 4.1 and 4.2 of D.22-04-034 that SoCalGas engaged in during the audit period. SoCalGas was unable to demonstrate with sufficient and appropriate evidence that the expenditures booked to the DSMBA for EE C&S program activities, with the exception of allowable transfers and co-funding agreements, for PY 2014 through PY 2022, were incurred for allowable, or unallowable activities.

SoCalGas provided various supporting documents during the audit, performed walkthroughs of systems and transactions, and they presented estimates of costs associated with unallowable activities. However, SoCalGas was not able to provide documentation supporting the amounts SoCalGas estimated to be attributed to unallowable activities. SoCalGas did not utilize sufficient time tracking mechanisms during the audit period to track employee time spent on EE C&S activities nor maintained documentation to support amounts incurred for each activity separately. The employee timesheets did not separately track time by specific activities nor programs. The timesheet samples SoCalGas provided showed general submittal and approval history without specific details. SoCalGas did not implement its ATL time tracking mechanism until May 2022, at the end of the nine-year audit period; thus, not allowing clear segregation of reported expenditures attributable to specific activities for PY 2014 through PY 2022.

Therefore, the amounts SoCalGas estimated to be related to unallowable activities could not be independently verified or corroborated. As a result, $4,046,733 are questioned costs, including:

- $3,582,856 out of $7,853,613 recorded by SoCalGas for all EE C&S related activities for PY 2014 through PY 2022
- $215,802 in related ESPI management fee payments to SoCalGas for PYs 2014, 2015, and 2016, and
- $248,075 in related interest associated with questioned amounts.

The following table summarizes the amount of questioned costs SoCalGas incurred for EE C&S activities for PY 2014 through PY 2022 by category and each of the CPUC decisions:

Summary of Questioned Costs

Category	D.22-04-034	D.22-03-010	Total
Total Claimed C&S Costs	$ 3,475,814	$ 4,377,799	$ 7,853,613
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Related ESPI Awards	217,497	(1,695)	**215,802**
Associated Interest	48,957	199,118	**248,075**
Grand Total Questioned Costs	**$ 2,870,043**	**$ 1,176,690**	**$4,046,733**

Out of the total amount of $7,853,613 for EE C&S expenditures charged to the DSMBA for PY 2014 through PY 2022, SoCalGas transferred a total of $4,270,757 to PG&E, the statewide lead for the EE C&S program, and SCE based on co-funding agreements. The remaining amount totaling $3,582,856 are questioned costs because SoCalGas was unable to demonstrate whether these costs were incurred for allowable, or unallowable activities.

In addition, SoCalGas received ESPI management fee payments totaling $215,802 that were related to questioned costs during PYs 2014, 2015, and 2016. Lastly, we determined the related interest amount totaling $248,075 as it is associated with questioned costs.

Criteria:

CPUC's D.22-03-010, Section 5.4, outlines 32 unallowable activities SoCalGas engaged in during the audit period.

CPUC's D.22-04-034, Sections 4.1 and 4.2, outline 25 unallowable activities SoCalGas engaged in during the audit period.

PU Code sections 581, 582, and 584 also require that the utility company provide timely, complete, and accurate data to the CPUC.

Cause:

SoCalGas did not have an established control structure in place to properly support claimed expenses by activity or estimates provided. This resulted in:

- lack of proper accounting and recording mechanisms to track expenditures for the EE C&S program by each activity,
- non-compliance with CPUC's decisions and guidelines, and
- the use of ratepayer funds for unallowable and ineligible activities.

Effect:

It is imperative for each utility to maintain proper support for expenses and have documentation readily available for review to support claimed costs are allowable and to ensure financial accuracy, completeness, transparency, and compliance with applicable laws, rules, and regulations, and to ensure ratepayers do not pay any more or less in rates than necessary. An overstatement of costs can inflate forecasted amounts in general rate cases, as the prior years' costs often influence future rates.

Recommendations:

Consistent with the intent of the CPUC decisions, SoCalGas should:

- Refund the amount of $3,582,856 in questioned cost for PY 2014 through PY 2022.
- Refund ESPI management fee payments totaling $215,802 that were awarded based on expenditures from questioned costs in PYs 2014, 2015, and 2016.
- Remit $248,075 in associated interest, based on the questioned costs, for PY 2014 through PY 2022.
- Develop and implement staff training to provide a thorough understanding of EE C&S program requirements and policies.
- Develop and implement monitoring procedures that check program expenditure compliance against established program guidelines and requirements.
- Continue implementing its newly established ATL time tracking mechanism to demonstrate what specific activities SoCalGas engaged in to support specific costs incurred.

SUMMARY SCHEDULE OF AUDIT RESULTS

Table 1: EE C&S Expenditures by Program Year

Year	Claimed Costs	Less Allowable Co-Finding	Unallowable Costs: Program Costs	Unallowable Costs: Related ESPI	Unallowable Costs: Associated Interest	Unallowable Total
2014	$ 651,227	$ (299,366)	$ 351,861	$ 73,418	$ 111	$ 425,390
2015	534,784	(178,604)	356,180	59,009	888	416,077
2016	1,114,275	(208,435)	905,840	85,413	5,816	997,069
2017	933,756	(176,546)	757,210	(343)	22,890	779,757
2018	450,247	(9,373)	440,874	-	55,671	496,545
2019	219,447	-	219,447	(1,695)	65,280	283,032
2020	1,615,381	(1,191,704)	423,677	-	18,244	441,921
2021	1,234,738	(1,106,971)	127,767	-	2,696	130,463
2022	1,099,758	(1,099,758)	-	-	76,479	76,479
Total	**$ 7,853,613**	**$ (4,270,757)**	**$ 3,582,856**	**$215,802**	**$ 248,075**	**$ 4,046,733**

APPENDIX A—UTILITY'S RESPONSE TO DRAFT AUDIT REPORT

SoCalGas

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March 20, 2024

Angie Williams
Director, Utility Audits Branch
California Public Utilities Commission
Utility Audits, Risk and Compliance Division
400 R Street, Suite 221
Sacramento, CA 95811

Re: SoCalGas Comments to the Draft Report of the Audit of Southern California Gas Company, Energy Efficiency Codes & Standards Program for the Period of January 1, 2014, through December 31, 2022

Dear Ms. Williams,

Southern California Gas Company (SoCalGas) appreciates the opportunity to review and comment on the draft report of the Audit of Southern California Gas Company, Energy Efficiency Codes & Standards Program for the Period of January 1, 2014, through December 31, 2022 (Draft Audit Report) prepared by the Utility Audit Branch (UAB) of the California Public Utilities Commission (Commission or CPUC). SoCalGas takes compliance with Decision (D.) 22-03-010 and D.22-04-034 seriously and appreciates the UAB's time and effort in conducting the audit and preparing the Draft Audit Report. SoCalGas has enacted policies and internal controls for compliance with D.22-03-010 and D.22-04-034. SoCalGas has and will continue to utilize and enhance these policies and internal controls, which include tools to track employee time and will continue to communicate with and train its employees regarding engagement on proposed energy efficiency (EE) codes and standards and proposed reach codes.

The Commission in D.22-03-010 and D.22-04-034 ordered an audit performed by the UAB "to determine the amount of ratepayer-funded expenditures associated with the activities identified" in each decision as unallowable.[1] SoCalGas fully participated and cooperated in the months-long audit, providing or directing the UAB to voluminous amounts of data spanning several years and holding several walk throughs with the UAB.

Because of the nearly 10-year historical period under audit, and the documentation requirements in effect during that period, which were different from what is required for SoCalGas since the issuance of D.22-03-010 and D.22-04-034, it is unusually complex to determine the amount of expenditures associated with the activities deemed unallowable

[1] D.22-03-010, Ordering Paragraph (OP) 5; D.22-04-034, OP 4.

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under the decisions. During most of the audit period, SoCalGas's EE Codes and Standards (C&S) program expenditures were tracked at the program level by established cost categories, consistent with Commission requirements, and were not required to be tracked at the activity level.[2] Thus, contemporaneous data to inform which specific expenditures were associated with which specific activities does not exist. Where such information is lacking, however, D.22-03-010 and D.22-04-034 authorize the use of estimates.[3] As a result, SoCalGas made its best effort, using reasonable methodologies, to estimate the amount associated with unallowable activities, as authorized by the decisions. Although the UAB was authorized to use the estimates prepared by SoCalGas or to develop its own estimates in determining the expenditures for the unallowable activities, it declined to do so and instead, recommends that 100% of the EE C&S program expenditures for the audit period (less transfer and co-funding amounts to other utilities) be refunded, which SoCalGas believes is overstated.

SoCalGas expended additional time and effort with the UAB auditors to help them obtain and understand information they needed to support their work. SoCalGas provided or directed UAB to voluminous supporting information and documentation concerning the unallowable activities, which were informed, in part, by estimates. The difficulty in conducting the audit was not based on a failure by SoCalGas to provide historical information, but rather on the fact that historical information does not exist in a way that allows expenditures associated with unallowable activities to be disassociated from allowable expenditures without the use of assumptions or estimates, specifically for labor costs. The Draft Audit Report should address the unique and complex nature of the audit and the level of cooperation by SoCalGas, and should be revised to remove statements that SoCalGas did not provide "sufficient and appropriate evidence." SoCalGas has also identified other necessary corrections to the Draft Audit report, described later in this letter.

Determination of unallowable costs

The UAB's audit was primarily focused on the expenditures associated with SoCalGas's advocacy activities deemed unallowable in D.22-03-010 and D.22-04-034, with a covered audit period of 2014 through 2022.[4] Regarding this objective, the UAB questions $3,582,856 or 100% of the costs recorded by SoCalGas for its EE C&S program expenditures for program years (PY) 2014 to 2022, net of transfer and co-funding payments.[5]

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[2] Energy Efficiency Policy Manual (Version 6), Appendix C (C&S program related expenditure recording), *available at* https://www.cpuc.ca.gov/-/media/cpuc-website/files/legacyfiles/e/6442465683-eepolicymanualrevised-march-20-2020-b.pdf. For EE programs prior to 2018, Version 5 of the CPUC's EE Policy Manual was in effect.
[3] D.22-04-034 at 28-29; D.22-03-010 at 50-51.
[4] The unallowable activities identified in D.22-03-010 and D.22-04-034 included activities undertaken as part of SoCalGas's EE portfolio, as well as activities undertaken outside of SoCalGas's EE portfolio. Both sets of activities were in scope for this audit and SoCalGas has provided information to UAB on both sets of activities.
[5] To arrive at this number, UAB took the total EE C&S program expenditures of $7,853,613 and subtracted the amounts associated with transfer payments to the statewide lead Pacific Gas and Electric Company (PG&E) and co-fundings with Southern California Edison (SCE).

As described above, SoCalGas made a good faith effort to calculate an estimate of the amount of unallowable expenditures for the historical period. Should the UAB maintain a recommendation based on 100% of the EE C&S program expenditures, the Draft Audit Report further overstates such amounts by including all EE C&S programs (less transfer and co-funding payments). Specifically, it broadens the scope to include three non-advocacy EE C&S subprograms which should be out of scope of the audit ordered in D. 22-03-010 and D.22-04-034 because it pulls in amounts for programs/activities beyond the specific unallowable activities identified (refer to Table 1 below). For example, the Compliance Improvement subprogram provided education, outreach, and technical support and resources to improve compliance with both building and appliance energy standards. As detailed in SoCalGas's 2017 EE annual report,[6] subprogram activities included conducting a Residential Standards Essentials course for Plans Examiners and Building Inspectors, among other educational and training activities. Importantly, the broadening of the scope of potential amounts subject to refund to non-advocacy EE C&S subprograms does not take into account that the Commission has already rejected a proposal by intervenors to require SoCalGas to refund all EE C&S program expenditures for 2014 through 2017.[7]

As such, the UAB, at a minimum, should limit its questioned costs to the expenditures associated with the two in-scope EE C&S advocacy subprograms (C&S-SW-Building Codes & Compliance Advocacy and C&S-SW-Appliance Standards Advocacy) that are in scope and the related ESPI, which are $1.3 million and $89K respectively:

Table 1: EE C&S Advocacy Subprogram Costs in Scope

Category	In Scope: EE C&S Advocacy Subprogram Costs
Costs for Unallowable EE C&S Activities	$1,301,222
Associated ESPI	$89,027
Total	**$1,390,249**

Should the UAB maintain that all EE C&S programs be included in its recommendations, SoCalGas notes that the amount questioned for SoCalGas's ESPI payments should be adjusted to take into account the transfer payments to PG&E and SCE that were identified in the Draft Audit Report, which aligns with UAB's method, resulting in a reduction of $57,356 as noted in Table 2. The calculation of the proposed adjustment for ESPI in Table 2 can be found in Attachment B.

[6] *See* SoCalGas's Energy Efficiency Programs 2017 Annual Report (May 1, 2018) at 31-33, *available at* https://www.socalgas.com/regulatory/efficiency.
[7] D.22-04-034 at 26.

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Table 2: ESPI Adjustment

	UAB Audit Report			UAB Audit Report *(ADJUSTED)*	
Category	**Subtotal**	**Less Transfers to PG&E and SCE**	**Questioned Costs by UAB**	*Adjustment Proposed*	**Revised Questioned Costs by UAB**
Costs for Unallowable EE C&S Activities	$7,853,613	$(4,270,757)	$3,582,856	-	$3,582,856
Associated ESPI	$215,802	-	$215,802	*$(57,356)*	*$158,446*
Total	**$8,069,415**	**$(4,270,757)**	**$3,798,658**	***$(57,356)***	**$3,741,302**

SoCalGas notes the following additional matters in the Draft Audit Report that should be corrected:

- consistent with D.22-03-010 and D.22-04-034, the associated interest should be computed based on the interest rate applied to SoCalGas's Demand Side Management Balancing Account (DSMBA); and
- the questioned costs assigned to D.22-03-010 and D.22-04-034 in the "Summary of Questioned Costs" tables of the Draft Audit Report should be switched to match the scope of unallowable activities identified in each Decision.

Training and time tracking

The Draft Audit Report should reflect that SoCalGas has already implemented training to impacted employees in compliance with D.22-03-010 and D.22-04-034, including training on the two distinct time tracking mechanisms established by SoCalGas. As part of a broader effort, SoCalGas has enhanced governance and designed and implemented policies, practices, procedures, and internal controls that directly address the requirements of D.22-03-010 and D.22-04-034. SoCalGas has engaged in an extensive training campaign for impacted employees about accounting for civic and political activities, including the requirements of D.22-03-010 and D.22-04-034.

Further details regarding these requested revisions are discussed below. In addition, SoCalGas has included as Attachment A to these comments a redlined version of the Draft Audit Report with requested revisions.

__Discussion__

UAB Finding 1: Objectives 1 and 2

Questioned Costs Totaling $4,027,474

SoCalGas did not provide sufficient and appropriate evidence to show that expenditures incurred and recorded for the C&S program for PY 2014 through PY 2022, with the exception *of allowable transfers and co-funding agreements, resulted from allowable activities, or the unallowable advocacy activities outlined in D.22-03-010 and D.22-04-034. As a result, $4,027,474 are questioned costs, which include:*

- *$3,582,856 out of $7,853,613 recorded by SoCalGas for all C&S related activities for PY 2014 through PY 2022.*
- *$215,802 in related ESPI management fee payments to SoCalGas for PYs 2014, 2015, and 2016, and*
- *$228,816 in related interest associated with questioned amounts.*[8]

SoCalGas Response to Finding[9]

1. **The Draft Audit Report Should Reflect the Limitations Inherent in Determining the Amount of Expenditures Associated with Historical Activities That Were Not Subject to Time Tracking Requirements by Activity**

SoCalGas understands the difficulty in auditing past expenditures that, at times, go back nearly 10 years. SoCalGas also appreciates that it is not possible to definitively determine the exact expenditures associated with the unallowable activities. Prior to the issuance of D.22-03-010 and D.22-04-034, SoCalGas was not required to track specific expenditures by specific activity. Instead, within SoCalGas's EE C&S program, expenditures were tracked at the program level by established cost categories, consistent with Commission requirements at the time. The Draft Audit Report should be revised to reflect this limitation in the historical data.

As discussed further below, despite this limitation, SoCalGas believes there are available and reasonable methods for determining the amount of expenditures for the unallowable activities. SoCalGas made a good faith effort, using actual amounts and estimates to quantify the costs associated with the unallowable activities identified in the decisions.

The Draft Audit Report states that:

> ***Cause:***
> *SoCalGas did not have an established control structure in place to properly support claimed expenses by activity. This resulted in:*
> - *lack of proper accounting and recording mechanisms to track expenditures for the C&S program by each activity;*
> - *non-compliance with CPUC's decisions and guidelines; and*
> - *the use of ratepayer funds for unallowable and ineligible activities.*
>
> ***Effect:***
> *It is imperative for each utility to maintain proper support for expenses and have documentation readily available for review to*

[8] Draft Audit Report at 1.
[9] SoCalGas reserves the right to further comment on the UAB Audit Report in subsequent opportunities before the Commission.

> *support claimed costs are allowable and to ensure financial accuracy, completeness, transparency, and compliance with applicable laws, rules, and regulations, and to ensure ratepayers do not pay any more or less in rates than necessary. An overstatement of costs can inflate forecasted amounts in general rate cases, as the prior years' costs often influence future rates.*[10]

The above statement is inaccurate and should be stricken in its entirety from the Draft Audit Report. The statement does not take into account that prior to the issuance of D.22-03-010 and D.22-04-034 in 2022, there existed no requirement, from the Commission or otherwise, for SoCalGas to track by specific activity time spent on EE C&S activities. Rather, within SoCalGas's EE program, expenditures were tracked by internal order numbers at the established program cost categories (Administrative, Marketing, and Direct Implementation) identified in the Energy Efficiency Policy Manual for each of the EE programs.[11]

SoCalGas has historically been subject to yearly audits of its EE program, and is not aware of findings during the audit period that it lacked proper accounting and recording mechanisms, which is consistent with the "Follow-up on Prior Audit Findings" section of the Draft Audit Report.[12] These audits were performed to "ensure that SoCalGas was in compliance with EE program rules and regulations and to determine whether its reported EE expenditures and commitments were accurate, allowable and verifiable."[13] As an example, SoCalGas's 2017 audit report states that SoCalGas "has complied, in all material respects, with the recording and reporting requirements of the EE costs for the audit period of January 1, 2017 to December 31, 2017."[14] The 2014 audit report observed that "SoCalGas's internal policy and procedures for implementing the C&S program were adequately designed to meet Commission directives in [Program Year] 2014."[15] This same observation was included in the 2015 audit, that SoCalGas's policies and procedures were adequately designed to meet Commission directives in Program Year 2015, and that "[SoCalGas] was in compliance with its internal Statewide Crosscutting Codes and Standards Programs manual."[16]

The lack of an "established control structure in place to properly support claimed expenses by activity" was not a requirement during the time when the unallowable activities took place

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[10] Draft Audit Report at 12. SoCalGas notes that its EE program is not funded through its general rate case.
[11] *See* MDR-001, responses to questions 10, 11, 13, and 14; *see also* Energy Efficiency Policy Manual (Version 6), Appendix C (C&S program related expenditure recording), *available at* https://www.cpuc.ca.gov/-/media/cpuc-website/files/legacyfiles/e/6442465683-eepolicymanualrevised-march-20-2020-b.pdf.
[12] As captured in the Draft Audit Report (*see* at 10), the EE program audit of C&S and Non-Resource expenditures (issued on August 13, 2020), covering the period of January 1, 2018, through December 31, 2018, found unallowable advocacy costs totaling $21,673.
[13] UAFCB Energy Efficiency Audit, Southern California Gas Company Program Year 2016, at 1, *available at* www.cpuc.ca.gov/utilityaudits.
[14] UAFCB Energy Efficiency Audit, Southern California Gas Company Program Year 2017, at 7, *available at* www.cpuc.ca.gov/utilityaudits.
[15] UAFCB Energy Efficiency Audit, Southern California Gas Company Program Year 2014, at 2, *available at* www.cpuc.ca.gov/utilityaudits.
[16] UAFCB Energy Efficiency Audit, Southern California Gas Company Program Year 2015, at 5, *available at* www.cpuc.ca.gov/utilityaudits.

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and is unrelated to any findings in either D.22-03-010 or D.22-04-034 addressing compliance with CPUC decisions or the use of ratepayer funds for unallowable activities. As such, SoCalGas strongly disagrees with any statement or suggestion that there are any compliance issues related to SoCalGas's tracking of expenditures associated with historical activities. SoCalGas, like all other EE Program Administrators, followed the Commission issued EE Policy Manual in tracking and recording EE program costs. To hold SoCalGas to a standard that did not exist at the time is ex post facto rulemaking. Consistent with due process, SoCalGas must have notice of what standards it is being held to prior to those standards taking effect.

2. The Amount of Expenditures Associated with the Unallowable Activities Should Not Include the Three Out of Scope EE C&S Subprograms

The Commission in D.22-03-010 and D.22-04-034 directed UAB to determine the amount of ratepayer-funded expenditures associated with specific identified unallowable activities.[17] Further, D.22-04-034 explicitly rejected a proposal by intervenors to require SoCalGas to refund all EE C&S program expenditures for 2014 through 2017.[18] As described above, historical information does not exist in a way that allows the specific expenditures associated with unallowable activities to be determinatively disassociated from allowable expenditures. However, where such information is lacking, D.22-03-010 and D.22-04-034 authorize the use of estimates.[19] Should the UAB maintain a recommendation based on 100% of expenditures as the determination in lieu of using estimates, given the complexities described above, then, at a minimum, it should limit its determination to the expenditures associated with the two EE C&S statewide advocacy subprograms that are in scope.

As recognized in the Draft Audit Report, for most of the audit period,[20] SoCalGas's EE C&S program was divided into five subprograms, two of which were statewide and focused on C&S advocacy. The unallowable activities identified in D.22-03-010 and D.22-04-034 that were undertaken as part of SoCalGas's EE portfolio were part of the two statewide C&S advocacy subprograms. There were no allegations during the Order to Show Cause (OSC) proceedings of any wrongdoing in connection with activities undertaken as part of the three non-advocacy focused subprograms, nor were there any findings in either D.22-03-010 or D.22-04-034 regarding activities undertaken as part of those subprograms.

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[17] D.22-03-010, OP 5; D.22-04-034, OP 4.
[18] D.22-04-034 at 26.
[19] D.22-04-034 at 28-29; D.22-03-010 at 50-51.
[20] With the issuance of D.18-05-041 in 2018, SoCalGas's role as a participating program administrator of the Statewide C&S advocacy subprograms is limited to the transfer of funds to the statewide C&S lead for implementation of the statewide programs. After this decision, the C&S-SW-Building Codes & Compliance Advocacy and C&S-SW-Appliance Standards Advocacy programs stopped and were formerly closed as approved in SoCalGas advice letter 5684-A. In 2020, new subprograms were created to track the payments made to PG&E who is the lead for the SW programs. See MDR-001, response to question 4.

SoCalGas provided to the UAB the EE C&S program expenditures broken out by the two in-scope advocacy subprograms and the three out-of-scope non-advocacy subprograms.[21] The five subprograms[22] are delineated further below:

C&S Subprogram	Total Expenditures PY 2014 – PY 2022[23]	Expenditures Net of Transfers	Purpose	Scope
C&S-SW-Building Codes & Compliance Advocacy	$1,148,195	$697,321	Primarily targets improvements to Title 24 Building Efficiency Regulations that are periodically updated by the CEC.	**In Scope:** The unallowable activities identified in D.22-04-034 or D.22-03-010 that were undertaken as part of SoCalGas's EE portfolio were undertaken as part of the two statewide ("SW") C&S advocacy subprograms.
C&S-SW-Appliance Standards Advocacy	$753,466	$603,901	Targets both state and federal standards and test methods.	
C&S-Compliance Enhancement	$1,785,998	$1,446,057	Primary purpose is to increase the number of customers complying with code; targets market actors throughout the entire compliance chain, providing education (such as Energy Code Ace™ (ECA)), outreach, and technical support and resources to improve compliance with both building and appliance energy standards.	**Out of Scope:** No findings in either D.22-04-034 or D.22-03-010 of any unallowable activities that were undertaken as part of these three subprograms.
C&S-Reach Codes[24]	$246,290	$242,903	Support the development of reach codes, or locally adopted ordinances, that exceed statewide minimum requirements.	
C&S-Planning Coordination	$620,386	$592,669	Works with the CEC, CPUC, Emerging Technologies, WE&T, rebate and other voluntary programs, to conduct strategic planning in support of the Strategic Plan policy goals.	

[21] *See* SoCalGas's Supplemental Response to MDR-002 for activities 1-12 and 16-27, and SoCalGas's Response to MDR-003 for activities listed under section 4.1. The subsequent walk through documents submitted by SoCalGas on September 7, 2023 provided further analysis as to where SoCalGas booked its charges in the DSMBA.

[22] The C&S-Compliance Enhancement, C&S-Reach Codes, and C&S-Planning Coordination programs were closed for PY 2022 onward, as approved in SoCalGas advice letter 5898-A. *See* MDR-001, response to question 4.

[23] Excludes expenditures from the statewide Building Codes Advocacy, Appliance Standards Advocacy, and Federal Codes Advocacy subprograms opened in 2020 where SoCalGas's role was solely to transfer program fundings to the statewide program lead, PG&E. The excluded expenditures total $3,299,278.

[24] The EE C&S Reach Code program is not associated with the reach code engagement that was found to be unallowable in D.22-004-034 or D.22-03-010.

The UAB should revise the Draft Audit Report to only include expenditures associated with the two EE C&S advocacy subprograms (less payments made to PG&E and SCE) and the related ESPI, which are $1.3 million and $89K respectively, as those subject to refund.

3. The $215,802 in Related Unallowable ESPI Costs Should be Reduced by $57,356 to Reflect the Transfer Payments Made to PG&E and SCE

The Draft Audit Report identifies expenditures totaling $3,582,856 in unallowable program costs by reducing SoCalGas's total amount of $7,853,613 in EE C&S expenditures charged to the DSMBA (for PY 2014 through PY 2022) by a total of $4,270,757 for transfers made to PG&E, the statewide lead for the C&S program, and to SCE based on co-funding agreements.[25] Based on this method, $215,802 is not the correct total of unallowable ESPI payments because it takes the full amount of C&S Program Management Fees awarded to SoCalGas during the audit period and does not account for the transfer payments made to PG&E and SCE that remain eligible for the C&S Program Management Fee. Taking into account these transfer payments would reduce the unallowable ESPI total determined by the UAB by $57,356 to $158,446. Details regarding the calculation of this adjustment are included in Attachment B to these comments.

4. Associated Interest Should be Computed Based on the Interest Rate Applied to SoCalGas's DSMBA

The Draft Audit Report identifies $228,816 in related interest associated with the questioned amounts. Associated Interest should be computed based on the interest rate that is applied to SoCalGas's DSMBA consistent with D.22-04-034 and D.22-03-010. The Commission in both D.22-04-034 and D.22-03-010 provides that the amount subject to refund "must include interest, consistent with the operation of the Demand Side Management Balancing Account[.]"[26]

The Draft Audit Report states that as part of the methodology to compute interest amounts attributable to questioned costs, the 30-Day AA Nonfinancial Commercial Paper Interest Rate series published by the Federal Reserve is applied to the average monthly principal amounts. This differs from the computation of interest in SoCalGas's DSMBA, where the interest rate is based at 1/12 of the most recent month's interest rate on Commercial Paper (prime, 3-month) published in the Federal Reserve Statistical Release (H.15).[27] The computation of associated interest attributable to questioned costs should be updated to utilize the interest rate that is applied to SoCalGas's DSMBA.

In addition, computed interest amounts should be updated to reflect any revisions made to UAB's determination of expenditures or ESPI findings.

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[25] Draft Audit Report at 12.
[26] D.22-04-010, OP 5; D.22-04-034, OP 6.
[27] *See* https://tariff.socalgas.com/regulatory/tariffs/tm2/pdf/tariffs/GAS_G-PRELIM_PS-I.pdf.

UAB Finding 2: Objective 3

[B]ased on the procedures performed and the evidence gathered, we discovered no evidence to support any other financial benefits to SoCalGas related to unallowable advocacy activities.[28]

SoCalGas Response to Finding

SoCalGas agrees with UAB's Finding on Objective 3. However, the Draft Audit Report also states, "Due to the absence of one-to-one relationships between unallowable activities outlined in the CPUC's decisions and the total expenditures recorded for the C&S program, we were unable to determine if there were any direct links between employee bonuses and/or benefits and the expenditures."[29] This sentence should be struck from the Draft Audit Report.

The scope of the audit included, "any other financial benefit to SoCalGas related to unallowable advocacy activities[.]"[30] As noted in the Draft Audit Report, UAB reviewed SoCalGas's Annual Incentive Compensation Plan Summary for PYs 2014 through 2022. Neither EE C&S or reach codes were one of the benefit scoring factors used to determine bonus payments. In addition, as noted in the Draft Audit Report, UAB "queried expenditure reports for any transactions related to benefits payments by program identifiers to determine any bonuses and/or benefits related to C&S programs."[31] No such bonuses or benefits were identified.

Whether there were any other financial benefits to SoCalGas related to the unallowable activities was in scope for this audit. UAB had the opportunity to, and did, query SoCalGas on this issue and reviewed the materials and data request responses provided by SoCalGas. Thus, it is confusing and inaccurate for UAB to state that it was "unable to determine if there were any direct links between employee bonuses and/or benefits and the expenditures."

UAB Finding 3: Objective 4

[B]ased on the procedures performed and evidence gathered, we confirmed SoCalGas has developed an employee time tracking mechanism to track employee time spent on C&S programs. However, this time tracking mechanism was not implemented until May 2022, toward the end of the nine-year audit period, thus not allowing clear segregation of reported expenditures attributable to specific activities.

SoCalGas Response to Finding

The Draft Audit Report should be clarified to reflect that SoCalGas has implemented and trained impacted employees on two time tracking mechanisms, one to capture Below-the-Line (BTL) time in compliance with D.22-03-010 and D.22-04-034 and one to capture Above-

[28] Draft Audit Report at 2 and 9.
[29] *Id.* at 9.
[30] *Id.* at 5.
[31] *Id.* at 8.

the-Line (ATL) time in compliance with the Administrative Law Judge's Ruling Addressing Motion for SoCalGas for Clarification of Presiding Officer's Decision, issued on April 19, 2022. In addition, the Draft Audit Report should be corrected to remove any suggestion that the time tracking requirements in D.22-03-010 and D.22-04-034 applied retroactively to employee time going back to 2014.

D.22-03-010 and D.22-04-034 contain an expanded prohibition on SoCalGas using ratepayer funds[32] for proposed EE C&S and proposed reach code activities. After receiving the proposed decision in one of the OSCs, on April 21, 2021, SoCalGas implemented BTL time tracking processes and guidance in anticipation of the final decision, and provided training to impacted employees in the months thereafter. Specifically, SoCalGas created internal orders (IOs) designed to record labor and non-labor costs/activities associated with proposed EE C&S and proposed reach code activities covered by the prohibition on ratepayer funding. All costs recorded to these IOs settle to a BTL FERC account and are excluded from SoCalGas's General Rate Case and EE portfolio.

In addition, and separately, in response to the ALJ Ruling Addressing Motion of SoCalGas for Clarification of D.22-03-010 (April 19, 2022) in R.13-11-005 (Ruling), SoCalGas created and implemented an ATL Time Tracker. That Ruling "confirms that the specific activities identified in [SoCalGas's] motion . . . are not within the scope of D.22-03-010's prohibition on SoCalGas's use of ratepayer funds."[33] Thus, under the Ruling, the activities discussed in SoCalGas's Motion and in the Ruling do not need to be booked to the BTL IOs.[34] The Ruling, nevertheless, requires that SoCalGas employees track their time spent on these activities. The ATL Time Tracker is an internally created tool to track employee time associated with certain proposed C&S activities and/or proposed reach code activities that are not otherwise covered by the prohibition on the use of ratepayer funds in D.22-03-010 and D.22-04-034.

Impacted employees have been trained on the time tracking requirements from D.22-03-010, D.22-04-034, and the Ruling. In addition, training is required annually for impacted employees.[35] SoCalGas's time tracking mechanisms were the subject of UAB data requests during the audit. In addition, SoCalGas held two walk through meetings with UAB dedicated to its time tracking mechanisms. The Draft Audit Report should be clarified to reflect that SoCalGas has implemented two distinct time tracking mechanisms, one to capture BTL time

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[32] *See* D.18-05-041 at 150-151; D.22-04-034, Conclusions of Law (COL) 17; D.22-03-010, OP 6.
[33] Ruling at 2.
[34] SoCalGas would also assess whether, even if not subject to D.22-03-010 and D.22-04-034's prohibition on ratepayer funding, the activity is subject to BTL treatment under applicable FERC accounting rules or other applicable authorities.
[35] *See* SoCalGas's Response to MDR-001, question 14; Time Tracking Walkthrough_Updated_11.09.2023.pdf submitted to UAB on November 9, 2023. For more information on SoCalGas's policies and practices, including trainings, enacted to enhance compliance with D.22-03-010 and D.22-04-034, please refer to Opening Comments of SoCalGas on ALJ's Ruling on Policies, Practices, and Procedures to Ensure Adherence to Commission Intent for Codes and Standards and Advocacy and Supporting Local Government's Adoption of Reach Codes (June 1, 2022), *available at* https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M482/K019/482019911.PDF.

in compliance with D.22-03-010 and D.22-04-034 and one to capture ATL time in compliance with the Ruling. In addition, the Draft Audit Report's recommendations should be corrected to reflect that SoCalGas has already developed and implemented staff training and monitoring procedures related to the requirements of D.22-03-010, D.22-04-034, and the Ruling.

Further, the Draft Audit Report states that: "However, this time tracking mechanism was not implemented until May 2022, toward the end of the nine-year audit period, thus not allowing clear segregation of reported expenditures attributable to specific activities."[36] This sentence should be removed from the Draft Audit Report. As described above, prior to the issuance of D.22-03-010 and D.22-04-034 in 2022, there existed no requirement, from the Commission or otherwise, for SoCalGas to track EE C&S expenditures by specific activity. Further, the time tracking requirements ordered in D.22-03-010 and D.22-04-034 do not apply retroactively. Statements in the Draft Audit Report suggesting that SoCalGas employees were required to track their time on proposed EE C&S or proposed reach code activities prior to the issuance of D.22-03-010 and D.22-04-034 or that the time tracking requirements from D.22-03-010 and D.22-04-034 applied retroactively should be stricken from the Draft Audit Report.

UAB Recommendations

Consistent with the intent of the CPUC decisions, SoCalGas should:
- *Refund the amount of $3,582,856 in questioned cost for PY 2014 through PY 2022.*
- *Refund ESPI management fee payments totaling $215,802 that were awarded based on expenditures from questioned costs in PYs 2014, 2015, and 2016.*
- *Remit $228,816 in associated interest, based on the questioned costs, for PY 2014 through PY 2022.*
- *Develop and implement staff training to provide a thorough understanding of C&S program requirements and policies.*
- *Develop and implement monitoring procedures that check program expenditure compliance against established program guidelines and requirements.*
- *Continue implementing its newly established ATL time tracking mechanism to demonstrate what specific activities SoCalGas engaged in to support specific costs incurred.*

SoCalGas Response to Recommendations

UAB's recommendations are addressed in the discussion above. Specifically:
- At a minimum, the amount of questioned costs should not exceed 100% of the two in-scope EE C&S advocacy subprograms
- The associated ESPI refund should be capped to the portion associated with the two in-scope EE C&S advocacy subprograms, but at a minimum should be corrected for the error of including the portions related to the transfer payments to PG&E and SCE
- The associated interest should use the interest rate applicable to SoCalGas's DSMBA

[36] Draft Audit Report at 2.

- The Draft Audit Report should reflect that staff training, monitoring procedures, and time tracking mechanisms established by the decisions have already been implemented and/or strike the recommendations

SoCalGas appreciates the UAB's consideration of SoCalGas's comments and respectfully requests that the modifications outlined in this response be implemented in the final audit report If you have any questions or need more information about these comments, please contact me

Sincerely,

Andrew Steinberg
Director of Customer Programs & Assistance

CC: Masha Vorobyova, Assistant Director, UAB, CPUC
Nichelle Jackson, Supervisor, UAB, CPUC
Moses Ofurio, Senior Management Auditor, UAB, CPUC
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Mia DeMontigny, Senior Vice President and Chief Financial Officer, SoCalGas
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Don Widjaja, Vice President, Customer Services Field & Solutions, SoCalGas
Andy Carrasco, Vice President, Communications, Local Government and Community Affairs, SoCalGas
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Frank Lopez, Regional Public Affairs Director, SoCalGas
Kevin Barker, Energy Policy Senior Manager, SoCalGas
Paul Deang, Regulatory Business Manager, SoCalGas

Attachment B – ESPI Adjustment Calculation for Allowable PG&E and SCE Transfers and Co-Fundings

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Attachment B – ESPI Adjustment Calculation for Allowable PG&E and SCE Transfers and Co-Fundings

D.13-09-023 established the ESPI, to promote the Investor Owned Utilities (IOU) achievement of EE goals through programs. The ESPI Mechanism applied to EE program activities effective starting January 1, 2013 for the 2013 to 2014 program cycle, through the 2020 claims filing as D.20-11-013 imposed a moratorium on awards payable under the ESPI mechanism beginning with the 2021 claims filing onward.[1] For the time period examined in this audit, SoCalGas received the C&S Program Management Fee of the ESPI mechanism for program years 2014, 2015 and 2016.[2] The C&S Program Management Fee was calculated as an award equal to 12 percent of the C&S program expenditures as reported through SoCalGas's respective EE annual reports, but not to exceed authorized expenditures, and exclusive of administrative costs incurred.[3] Based on the ESPI awards and true-up payments approved in Resolutions G-3510, E-4807, E-4897, E-5007, and G-3591, the net total C&S Program Management Fees that SoCalGas received was $215,802.[4]

Because the total expenditures for unallowable C&S activities, as found by the UAB, excludes transfers and co-fundings made to PG&E and SCE, these payments should also be removed from the calculation of unallowable ESPI payments, reducing the UAB's total in the Draft Audit Report.[5] This can be done by reducing the C&S expenditures in the C&S Management Fee calculation by the allowable co-funding values of Table 1 in the Draft Audit Report as shown below:

<u>2014</u>
($611,820 – $299,366) * 12% = $37,494

<u>2015</u>
($491,746 – $178,604) * 12% = $37,577

This results in reductions to the unallowable ESPI payments for PY 2014 and PY 2015 of $35,924 and $21,432, respectively. For PY 2016, the C&S Management Fee remains above the established award cap of $91,293 when accounting for the transfers and co-fundings to PG&E and SCE,[6] therefore no reduction to the unallowable PY 2016 ESPI payment is necessary. By factoring in these adjustments, the UAB's unallowable ESPI costs total should be reduced from $215,802 to $158,446.[7] With this revision, the total questioned

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[1] D.21-11-013 at 45-46, OP 1.
[2] Resolutions E-5007 and G-3591 excluded C&S management fee award payments to SoCalGas for PY 2017, 2018, and 2019.
[3] D.13-09-023 at 95, OP 3.
[4] Information regarding SoCalGas's calculations totaling its ESPI award for each program year within the audit period was provided in SoCalGas's response to question 9c of MDR-001.
[5] Draft Audit Report at 19, Table 1.
[6] *See* SoCalGas AL 5160 which established the 2016 EE incentive award earning rates and award caps, available at https://tariff.socalgas.com/regulatory/tariffs/tm2/pdf/submittals/GAS_5160__et_al_.pdf.
[7] If expenditures subject to refund are limited to SoCalGas's two Statewide EE C&S advocacy subprograms, as discussed above, the related unallowable ESPI costs should also be recalculated by UAB. SoCalGas has determined this total to be $89,027.

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costs should be reduced by $57,356, plus any computed interest associated with the identified reduction. A breakdown of the adjustments to the associated ESPI by year is provided in the table below.

Year	Associated ESPI	Adjustment for Co-Fundings	Related ESPI Less Adjustment
2014	$73,418	$(35,924)	$37,494
2015	59,009	(21,432)	37,577
2016	85,413	-	85,413
2017	(343)	-	(343)
2018	-	-	-
2019	(1,695)	-	(1,695)
2020	-	-	-
2021	-	-	-
2022	-	-	-
Total	**$215,802**	**$(57,356)**	**$158,446**

APPENDIX B—UAB'S EVALUATION OF UTILITY'S RESPONSE

We appreciate SoCalGas' comments and additional details provided in its response to the draft report. We concur with SoCalGas' statement that the audit was complex, covering multiple program years, and presented challenges in determining costs assigned to specific activities over a long period of time. Nevertheless, we completed the audit as directed by CPUC's D.22-03-010 and D.22-04-034, which outlined very specific objectives.

We have reviewed the response to the draft audit report, and we provide our assessment of SoCalGas' response to each of the items in the same order noted in SoCalGas' response letter.

Objectives 1 and 2, Questions Costs Totaling $4,027,474

1. **Audit Complexity and Inherent Limitations in Determining Expenditure Amounts for Historical Activities**

SoCalGas asserts that the draft audit report should reflect the limitations inherent in determining the amount of expenditures associated with historical activities that were not subject to time tracking requirements by activity in prior years.

We acknowledge the difficulty in providing documentation for expenditures that, in some cases, went back nearly 10 years. However, we disagree that there were no requirements to maintain adequate records to track expenditure by activity. The absence of specific guidelines from the CPUC to track expenditures by activity does not negate the presumptive mandatory requirement to maintain adequate supporting evidence for all expenditures to support that they are accurate and allowable. Maintaining detailed documentation for expenditures is a standard practice in accounting and ensures accountability and fosters transparency. Adequate recordkeeping is primary to any well-designed accounting system with built-in internal controls to ensure its effective operation.

We appreciate that SoCalGas exhibited good faith effort in assisting our audit staff and providing various documents throughout the audit. However, good faith estimates cannot substitute actual records to demonstrate how costs were attributed to the unallowable activities, especially when estimates are not corroborated by source documents.

During the audit, we requested information through data requests DR-002 and DR-003, to support the expenditures associated with the activities in Table 1 for D.22-03-010 and D.22-04-034, respectively. SoCalGas provided responses and supplemental responses that included narratives and multiple files with email correspondences, meeting invites, testimonies, etc. to support its estimates that the audit team reviewed. The audit team also participated in walkthroughs where SoCalGas demonstrated how it arrived at the proposed estimates. SoCalGas noted that the estimates were derived based on SoCalGas' employees providing their best guess of the time spent on activities related to EE C&S programs over the years.

An estimate could be acceptable if it were based on historical data points that can be corroborated and support the estimated information. However, using staff's recollection to guess time attributed to activities spanning back nearly 10 years without having any historical data points to support these guesses, makes such estimates unreliable. Because amounts proposed by SoCalGas were based on guesses and lacked corroborating historical data, we could not independently verify, validate, or corroborate the amount SoCalGas has estimated. Further, due to the inadequate supporting evidence, the audit team could not independently verify the amount of expenditures related to the unallowable activities outlined in the decisions nor confirm whether any expenditures booked to EE C&S account do not relate to those activities.

Our audit report reflects the findings and conclusions based on the evidence obtained, and it remains unchanged.

2. EE C&S Subprograms

SoCalGas asserts that the total amount of expenditure associated with the unallowable activities should exclude the three EE C&S subprograms that SoCalGas considers "out of scope" and not related to advocacy activities.

We disagree. As SoCalGas acknowledged, historical information does not exist in a way that allows the specific expenditures associated with unallowable activities to be determinatively disassociated from allowable expenditures. SoCalGas' lack of historical records containing adequate detail necessary to demonstrate which subprograms the activities were charged to inhibited our ability to conclusively disassociate the expenditures booked to DSMBA from the unallowable activities identified in the CPUC's decisions. Further, D.22-03-010 and D.22-04-034 do not exclusively exclude expenditures incurred for C&S Compliance Enhancement, C&S Reach Codes, and C&S-Planning Coordination. As noted above, good faith estimates cannot substitute actual source documents and records to demonstrate how costs were attributed to the unallowable activities, or the individual EE C&S subprograms. Our finding remains unchanged.

3. ESPI Adjustment

SoCalGas requests that the $215,802 in related unallowable ESPI adjustment be reduced by $57,356 to reflect the transfer payments made to PG&E and SCE.

We disagree. The ESPI program allows IOUs to earn incentive awards for meeting or exceeding specified EE goals. The EE C&S Advocacy program pays a management fee of 12 percent based on approved EE C&S program expenditures, not to exceed authorized program expenditures and excluding administrative costs, to reward savings from Building C&S. We believe the incentives are awarded based on the actual performance of activities that enhance and advance the purposes of the EE C&S program, not for transferring funds to the statewide lead. Because there was no actual performance of activities that promote the EE C&S program, but a simple transfer of funds to the statewide lead or to fund an agreement, our finding remains unchanged.

4. Associated Interest

SoCalGas points out that associated interest, previously computed totaling $228,816, should be computed based on the interest rate applied to SoCalGas' DSMBA rather than the 30 – Day AA Non-Financial Interest Rates utilized during the audit. We concur that 1/12 of the most recent month's interest rate on Commercial Paper (prime, 3-month) published in the Federal Reserve Statistical Release (H.15) is the appropriate interest rate to be used. We re-computed interest utilizing the updated interest rate and determined the updated associated interest amount of $248,075 instead of the previously computed $228,816, which resulted in the net increase of $19,259 in associated interest. The final audit report reflects the updated interest amount on pages 2, 9, 11, 12, and 13. This $19,259 increase in associated interest also affects total questioned costs previously stated as $4,027,474. The updated questioned costs, including the $19,259 update to associated interest, total $4,046,733, as reflected on pages 1, 2, 9, 11, and 12 of this final report.

Objective 3

SoCalGas agrees with our conclusion on Objective 3 but requests to remove a sentence that UAB was "unable to determine if there were any direct links between employee bonuses and/or benefits and the expenditures." As we have previously communicated to SoCalGas, we did not discover evidence to support any other financial benefits to SoCalGas related to unallowable advocacy activities. We noted, however, that the non-discovery of evidence to support financial benefits was not a certification that none exist, especially given the challenges posed by the absence of actual activity-level documentation. Therefore, we make no such certification, and the statements made in the draft audit report remain unchanged.

Objective 4

SoCalGas requests clarification about its implementation of the ATL and the BTL time tracking mechanisms. SoCalGas believes it is now in compliance with CPUC's D.22-03-010 and D.22-04-034 following BTL and ATL implementation. As stated in the draft audit report, we confirmed that SoCalGas developed the ATL time tracking mechanism to track employee time spent on EE C&S program activities beginning May 2022, as required by the decision. When the time tracking mechanism was launched, SoCalGas was prohibited from participating in EE C&S activities and has not yet recorded any expenditures utilizing this new system. Further, as noted in the draft report, we did not audit the sufficiency and operational effectiveness of the ATL time tracking mechanism. That evaluation will be performed in future audits. Therefore, other than confirming its existence, we make no certification that the ATL complies, in all material respects, with the CPUC decisions, or whether sufficient training has been provided to staff regarding the use of the ATL. In addition, as clarified in the methodology section of the final report on page 8, we did not review or assess the usage of the BTL time tracking mechanism because the BTL is used to track investor funded expenditures, which are not subject to this audit.

Attachment A – Redlined Version of the Draft Audit Report

UAB acknowledges the proposed redline changes to the draft audit report SoCalGas suggested in its response letter. We are not including Attachment A in this final report due to its length. However, we are providing comments in response to SoCalGas's proposed edits.

We would like to point out that the content of the draft audit report cumulatively reflects various indivisible elements required by auditing standards and our reflection of evidence obtained during the audit. SoCalGas requests to remove Cause and Effect paragraphs from the Finding section of the audit report, which are GAGAS-required components presenting context to the Finding that is consistent with the evidence obtained during the audit.

However, where appropriate, UAB has made minor edits throughout the report for clarity and consistency. In addition, aside from updating associated interest amounts and total questioned cost amounts, as stated above, UAB also made minor edits related to the order of the decisions listed in the tables on pages 2, 9, and 12 of the report.

(END ATTACHMENT A)