APPENDIX D

PricewaterhouseCoopers LLP Audit Report

WORKPAPER 189

PwC Political Costs Assessment Report, 5-24-2021

Southern California Gas Company

Civic, Political and Related Costs Assessment

May 24, 2021

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Scope of the report

At the request of Southern California Gas Company (SoCalGas, the Company), PricewaterhouseCoopers LLP (PwC) has prepared this report to document our assessment of the Company’s processes and actual costs incurred for lobbying.

Through discussions with Management, we understand that SoCalGas has requested that the California Public Utilities Commission (CPUC) open a proceeding with respect to the tracking, accounting and ratemaking treatment for costs associated with education, lobbying and advocacy activities.

Our report includes:

- An assessment of the Company’s policy and governance, processes and business controls over classification of certain civic, political and related costs as defined by Federal Energy Regulatory Commission (FERC) Account 426.4 (referred to herein as “lobbying costs”). Our assessment includes observations and recommendations for process and control improvements. Our assessment covers the period January 1, 2017 through December 31, 2019.
- The results of the transaction validation procedures we performed over certain transactions in the Regional Public Affairs, Policy, and Market Development business units from the period January 1, 2017 through December 31, 2019.
- An assessment of the process undertaken by the Company to analyze their financial records for the purposes of compiling their General Rate Case (GRC) filings, and a comparison of the information included in SoCalGas’ 2019 GRC with our understanding of the CPUC’s guidance on the treatment of lobbying costs.

Our work was limited to the specific procedures and analysis described herein. Our work was performed on the basis that information provided was accurate and complete. Further, we are not providing an audit, accounting, tax or attest opinion or other form of assurance.

PricewaterhouseCoopers LLP

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Qualifications of PwC

PricewaterhouseCoopers, which was formed in 1998 from a merger between Price Waterhouse and Coopers & Lybrand, has a long history in client services that dates back to the nineteenth century. Both firms originated in London during the mid-1800s. Today, we serve 26 industries, including the Power & Utilities industry. Our industry-focused services in the fields of assurance, tax, human resources, transactions, performance improvement, and crisis management have helped resolve complex client and stakeholder issues worldwide. We also bring our knowledge and talent to help educational institutions, the federal government, non-profits, and international relief agencies to address their unique business issues.

Our US firm, comprised of over 55,000 professionals, is organized around three core lines of service:

- Assurance and Audit: Providing innovative, high quality, independent, and cost-effective services related to an organizations' financial control, regulatory reporting, shareholder value and technology needs;

- Tax: Providing a wide range of innovative specialists' resources in three main areas: tax structuring, tax compliance and human resources; and

- Advisory: Providing advice and assistance related to transactions, performance improvement, and crisis management based on long-term quality relationships with clients.

As a global network of firms, we share common standards, values, and policies, applying the same processes, systems, and approaches around the world.

PwC's Power & Utilities Practice:

Nationally and globally, we are a leading provider of services in the utility industry. Our philosophy in serving the utility industry is to employ dedicated resources who focus on utility industry clients. This integrated practice demonstrates our commitment to the convergence of the utility industry and enables us to provide worldwide access to information through a variety of local resources. Our depth of resources and range of experience is enhanced by our strong base of utility clients. In the United States, we are the public accountants or consultants for more than 400 clients in the electric, gas, water, and renewable (green) energy sectors.

Our utilities practice provides professional services to companies of many sizes, across many segments of the industry. We serve the needs of utility clients by employing more than 4,500 dedicated resources around the world. This provides our teams with an understanding of regulated and unregulated utility operations and services.

Our US practice consists of more than 1,400 professionals serving clients in the electric, gas, water, and renewable energy sectors, including a dedicated utilities team within our National Office. We are one of the few firms with a fully integrated industry resource across all three lines of service (Assurance, Tax, and Advisory), and these relationships enable us to take a broader look across the sector to identify leading practices, common issues, and other insights.

Complex Accounting and Regulatory Support Practice:

Within our Power and Utilities industry team, we have a smaller, highly specialized group, the Complex Accounting and Regulatory Support practice (CARS). Our CARS practice is dedicated to helping regulated companies in the energy and utilities industries manage their regulatory risk and solving complex accounting problems. The seasoned team of professionals in our CARS practice have years of experience working with rate regulated entities (electric utilities, gas utilities, water utilities).

Report

I. Lobbying costs – Assessment of processes and controls

Background

Southern California Gas owns and operates a natural gas distribution, transmission and storage system that supplies natural gas to a population of approximately 22 million, covering a 24,000 square mile service territory that encompasses Southern California and portions of central California. SoCalGas is an indirect, wholly owned subsidiary of Sempra Energy, and is a regulated utility, subject to regulation by the California Public Utilities Commission (CPUC).

As a regulated utility, the rates SoCalGas is allowed to charge to customers are established through ratemaking proceedings. Rates are designed to provide the Company a return of the cost of service, and to provide an opportunity to earn a return on investment to fairly compensate Shareholders' risk for capital invested. This ratemaking approach is subject to the requirement that the cost of service and capital deployed (represented by the Company's rate base) are providing benefit to the utility's customers. Regulated utilities are permitted to incur costs that do not provide benefit to their customers, but such costs would be excluded from the ratemaking formula, and as such should be borne by shareholders. The terms "above-the-line" and "below-the-line" are used to describe these expense items. Above-the-line items are recorded above the operating income line on a utility's regulatory income statement and are generally subject to sharing or recovery through rates. Below-the-line items generally appear below the operating income line on a utility's regulatory income statement and are typically not shared with or recovered from customers.

As described in Sempra's "Political Activities Policy" which is applicable to SoCalGas, the Company "tracks hundreds of proposed laws, rules, regulations and policies annually and engages in political activity to ensure that the perspectives of our company, shareholders, customers and employees are represented before lawmakers and regulators." Subject to the regulatory construct described above, those political activities performed to benefit customers should be subject to recovery through rates, but those that benefit the Company or shareholders are not costs that should be recovered from customers.

In order to track and appropriately record and classify shareholder / customer costs, the Company follows the Federal Energy Regulatory Commission ("FERC") uniform system of accounts ("USoA") and records below-the-line costs to certain FERC accounts. As a gas utility operating within one state, SoCalGas is not regulated by the FERC. However, the Company applies the FERC USoA, pursuant to section 793 of the California Public Utilities Code. The FERC USoA provides guidance for the treatment of political activities through account 426.4, a below-the-line account:

> **Account 426.4, Expenditures for certain civic, political and related activities.**
>
> **(a)** This account must include expenditures for the purpose of influencing public opinion with respect to the election or appointment of public officials, referenda, legislation, or ordinances (either with respect to the possible adoption of new referenda, legislation or ordinances or repeal or modification of existing referenda, legislation or ordinances) or approval, modification, or revocation of franchises; or for the purpose of influencing the decisions of public officials.
>
> **(b)** This account must not include expenditures that are directly related to appearances before regulatory or other governmental bodies in connection with an associate utility company's existing or proposed operations.

Summary of procedures performed

To understand the process and controls in place at the Company, during the calendar years 2017 – 2019 for the business units identified by management, Regional Public Affairs, Policy and Market Development, to appropriately identify, record and classify lobbying costs, within the definition of FERC account 426.4, as below-the-line, we performed the following procedures:

- Obtained and reviewed relevant policies and procedures:
  - SoCalGas approval and commitment policy
  - SoCalGas general ledger and journal entry approval policy
  - Sempra political activities policy (noting that this policy applies to all Sempra business units, including SoCalGas)
- Management identified key individuals who are involved in or have relevant knowledge about the process of recording and or monitoring lobbying activities within the relevant departments, or of SoCalGas' accounting and reporting process in general. We interviewed employees in the following roles:
  - VP Strategy and Engagement & Chief Environmental Officer
  - VP Controller and CFO
  - VP Customer Solutions
  - Assistant General Counsel – Regulatory
  - Senior Counsel
  - Senior Director – Business Development
  - Director – Financial & Operations Planning
  - Assistant Controller
  - Director – Regulatory Affairs
  - Director – Accounting Operations
  - Research, Development and Demonstration (RD&D) Group Manager
  - General Rate Case Program Manager
  - Business Planning Manager
  - Asset & Project Accounting Manager
  - Financial Management – RD&D
  - Public Policy Advisor

Overview of SoCalGas's process for recording and monitoring lobbying costs

Work order set-up

Annual process - During the annual budgeting process, the Company identifies activities and departments where income and expenses are expected to occur in the following year. Through this process, the Company identifies business units that are expected to include an element of below-the-line income or expense[1]. The identification of such areas can be based on either historical activity in areas that regularly have some lobbying activity or, less frequently, it can be based on known planned events that are expected to occur during the year. As a result of the budgeting process, internal orders are created with the Company's system of record, SAP, for the recording of income and expenses. Where below-the-line

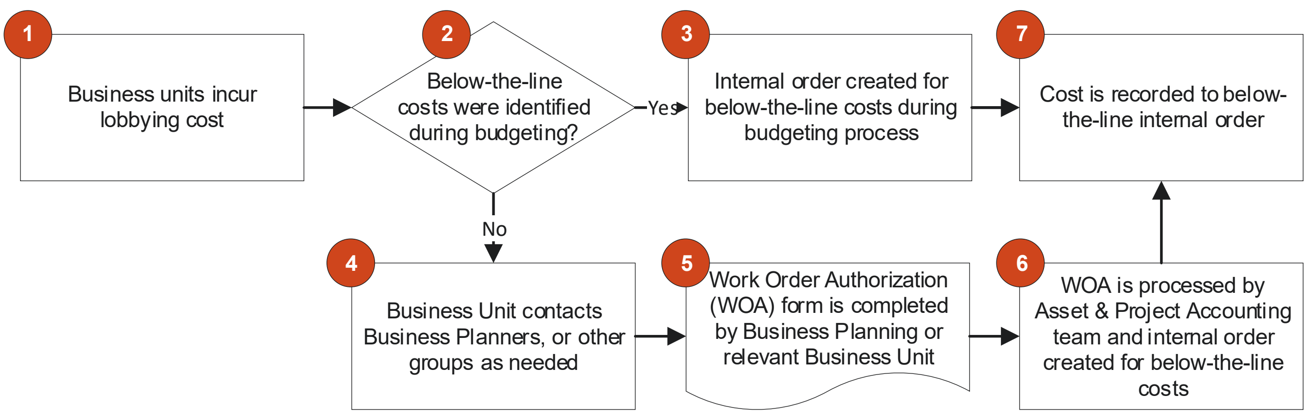
[1] Note that this engagement is focused on charges arising from certain civic, political and related activities (referred to herein as "lobbying activities"). Certain other below-the-line expenses and income items arise within the Company that are not relevant to the process described herein, because they are not related to lobbying activities.

activities have been planned, specific internal orders are created to record and track these below-the-line items.

Ad-hoc - Throughout the year, activities may arise that were not identified through the annual budgeting process. As these activities occur, the business unit responsible for the activity, and associated expense, are also responsible for appropriately identifying whether they require recording such charges below-the-line. Once a below-the-line activity is identified, the business unit will typically contact the Business Planning team to assist with the creation of an internal order, to track the expenses associated with the below-the-line activity. Either a member of the Business Planning team or the relevant business unit will complete the required Work Order Authorization (WOA) form. Amongst other items, the Company's WOA includes fields to include the reason for establishing the work order, the forecasted capital and operating expense amounts, and the required accounting coding of the order. The WOA also includes space for the name of the preparer and the approver of the request. If the internal order is being established for below-the-line expenses relating to lobbying activities, it should be requested to be coded to the relevant business unit's cost center and FERC account 426.4.

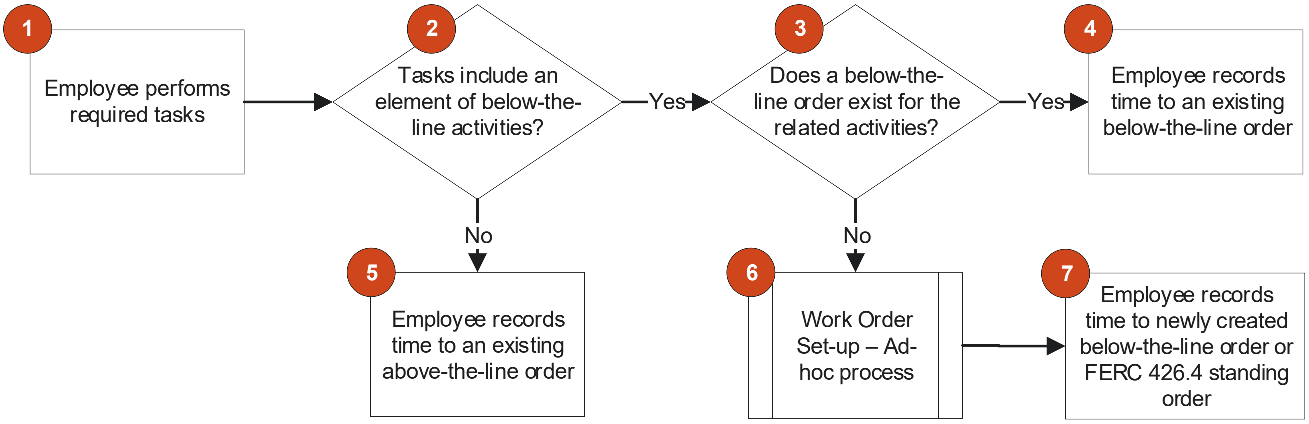
For capital orders, the Company has a requirement for WOAs to be reviewed and approved in accordance with approval and commitment limits. However, internal orders that are established for the tracking of expenses, such as for operations and maintenance and lobbying costs, do not require the same authorization. The completed WOA is provided to the Asset & Project Accounting team, who completes the process by creating an internal order based on the information provided.

Below-the-line expenses billed to the Company through third-party invoices are coded to the appropriate internal order as a part of the Company's accounts payable cycle.



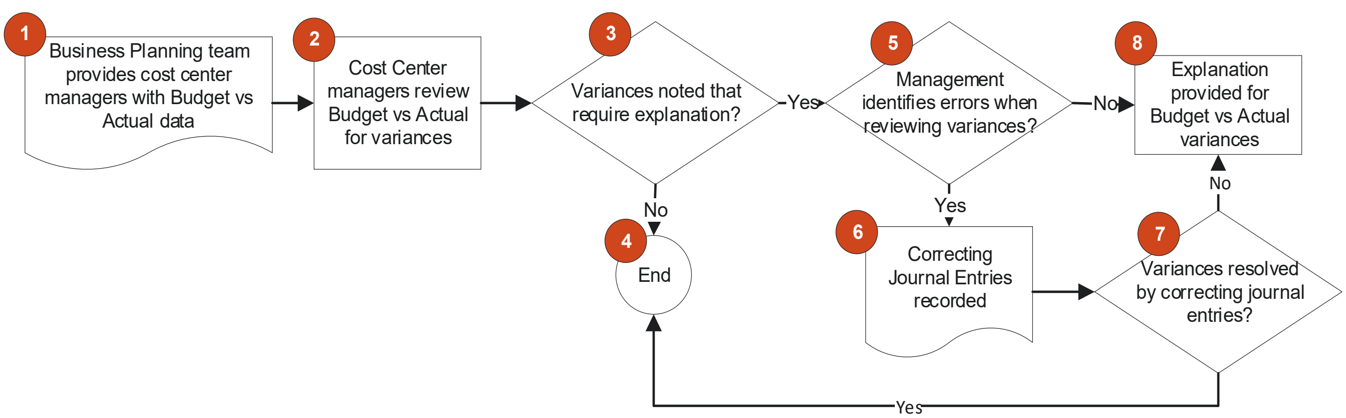
Time recording

Beyond the third-party expenses described above, the remaining costs incurred for lobbying activities are as a result of the Company's employees' labor and associated overheads. Company employees record their time within the MyTime system, which interfaces with SAP. Employees are required to record all time worked to an internal order. As Company employees spend time on below-the-line activities, they are responsible for identifying that these activities relate to below-the-line internal orders. If the employee appropriately identifies the need to record time as below-the-line, and they are aware of an existing internal order that relates to the activities performed, they would record the time to the existing below-the-line internal order. If the employee appropriately identifies the need to record time as below-the-line and a dedicated below-the-line internal order does not exist for the relevant activities, the employee is responsible for raising the need for a new below-the-line internal order through the ad-hoc process described above. A general below-the-line FERC Standing Order (FG4264002200) could also be utilized if such below-the-line activities are not project specific and do not require tracking for reporting.



Expense monitoring

The Company performs regular monitoring of its financial performance. As a part of a monthly monitoring process, cost center managers perform a comparison of actual costs incurred against budgeted costs. Cost center managers are required to provide explanation for variances against budget. Significant variances are investigated and explained (budgeted expense vs. actual expense). As such, explanations are not specifically sought at an above-the-line or below-the-line level (i.e., above-the-line budget vs. above-the-line actual, below-the-line budget vs below-the-line actual). The monitoring process allows the Company to understand large variances from plan and allows for the Company's forecasts to be updated to reflect known variances. Through this process the cost center managers may identify costs that have been recorded to certain orders that were done so in error, and through this identification costs may be transferred to correct their classification. As such, this process provides a possible opportunity for management to identify below-the-line costs that were recorded above-the-line in error. However, it is not the intent of the monthly monitoring process to identify transactions that were misclassified as above-the-line or vice-versa, and so identification of significant misclassified costs would be identified through the quarterly FERC certification and/or the GRC exercise, both of which are described below.



In addition, quarterly the cost center managers review the actual expense by cost center and FERC account to identify any potential significant misclassified costs. If errors are identified, correcting journal entries are processed. As a result of this review, a certification is provided as part of the quarter end process confirming that, to the best of management's knowledge, expenses have been recorded to the correct FERC accounts.

Observations

Based on our assessment of the process outline above, we have made the following observations and recommendations, in the categories of policy and governance, process and controls, and monitoring controls.

Policy and Governance

#	Observation	Recommendation
1	The Company does not have a formal written policy for accounting for below-the-line income and expense in their regulatory accounts for lobbying costs (i.e., within the records used for General Rate Case filings).	The Company should consider preparing and maintaining a formal written policy to address accounting for below-the-line expense items for lobbying costs. This policy should include, but not be limited to, the following: a) Definition and examples of what the Company considers below-the-line activities for lobbying costs. This definition should incorporate and build on FERC account 426.4 as the foundation. b) Procedures for recording non-labor expenses. c) Procedures for recording labor expenses. d) Procedures and controls for approving the accounting for below-the-line activities.
2	Policies for below-the-line treatment of time and expense related to lobbying costs are not communicated clearly to all impacted employees.	The Company should consider developing a training program to educate impacted employees across the organization on the formalized policy and procedure.
3	The Company has a number of employees with experience and knowledge about the distinction between above-the-line and below-the-line costs related to lobbying activities. However, the Company does not have a formally designated subject matter expert (SME) for this topic.	The Company should consider formally designating a SME for the identification of below-the-line costs related to lobbying activities. The designated SME should have sufficient relevant knowledge and can assist in key or judgmental decision making. A SME would serve as a reference for Company employees and would assist in navigating instances that are not covered by existing policies and procedures.
4	The Company's employees do not allocate labor hours related to lobbying costs to below-the-line internal orders on a consistent basis.	FERC USoA Plant Instructions 4B states: *"As far as practicable, the determination of payroll charges includible in construction overheads shall be based on time-card distributions thereof. Where this procedure is impractical, special studies shall be made periodically of the time of supervisory employees devoted to construction activities to the end that only such overhead costs as have a definite relation to construction shall be capitalized. The addition to direct construction costs of arbitrary percentages or amounts to cover assumed overhead costs is not permitted."* While the lobbying costs contemplated in this report are not subject to Plant Instruction 4B, we believe that the FERC instructions should be applied, by analogy, to other areas where direct charging of costs may be impractical, and therefore, allocation may be required. As such:

Process and Controls

#	Observation	Recommendation
		a) As far as practicable, impacted Company employees should directly charge labor hours related to lobbying activities to below-the-line internal orders in accordance with policies and training discussed above. When determining if direct-charging is practicable, the Company should consider the costs and benefits of implementing direct-charging, including giving consideration to whether direct-charging could be implemented successfully across the organization to achieve the desired level of accuracy and precision. b) If the Company determines that direct-charging is not practicable (i.e. the costs outweigh the benefits), the Company may consider the implementation of an allocation methodology, akin to how indirect administrative and general costs are allocated, for the purpose of allocating an estimated percentage of impacted employees' labor to below-the-line internal orders. c) If an allocation methodology is implemented, it should be based on a sound and reasonable methodology, should be informed by a detailed study of the Company's actual time and cost drivers and should be updated periodically. d) If an allocation methodology is implemented, the Company should implement proper monitoring controls and change management processes. This should include regular monitoring of the appropriateness of the allocation, and controls for changing allocations when determined necessary.
5	Limited documentation is maintained over how impacted employees spend time related to lobbying vs. non-lobbying activities.	a) We recommend the Company consider identifying business units and individual employees who are involved in lobbying activities; and perform an assessment of the risk of misclassification of above-the-line vs. below-the-line costs. b) For those business units and individuals identified through the risk assessment, the Company should consider requiring more detailed time records and documentation. Time records should be kept at a level of detail, and in accordance with the Company's document retention policy, to support an individual's designation of above-the-line vs. below-the-line hours.
6	Work-order set-up – the Business Units are not consistently identifying activities that may involve below-the-line lobbying costs when setting up internal orders. This can result in below-the-line transactions being recorded to above-the-line internal orders.	a) Company employees should appropriately charge non-labor costs related to lobbying activities to below-the-line internal orders, in accordance with policies and training discussed above. b) The Company should consider tailoring work order authorization documents to require all work order authorizations to include consideration of whether the costs incurred include below-the-line expenses.

#	Observation	Recommendation
7	Work-order set-up - A control exists within the Company's existing control environment for work order approval for capital projects following the Company's approval and commitment policy. This authorization currently is not required for expense internal orders, including internal orders that would capture below-the-line orders.	The Company should consider expanding existing work order authorization controls beyond the approval of capital orders, so that internal orders with below-the-line expenditures are approved in-line with the Company's approval and commitment policy.
8	Limited contemporaneous documentation is maintained to describe the Company's rationale when determining above-the-line or below-the-line classification for non-labor costs, including in those instances where the appropriate classification is not readily apparent (such that an argument could be made for either below-the-line or above-the-line treatment).	For incurred costs where the appropriate classification could be a matter of judgment, for example costs associated with vendors who provide both above-the-line and below-the-line services, the Company should consider requiring contemporaneous documentation to be maintained to support the determinations made.

Monitoring Controls

#	Observation	Recommendation
9	There are no formally documented controls for subsequently monitoring the appropriate above-the-line or below-the-line classification of costs incurred, at the transaction level.	a) Consistent with recommendation #5, we recommend the Company consider identifying business units and individual employees who are involved in lobbying activities; and perform an assessment of the risk of misclassification of above-the-line vs. below-the-line costs. b) For those business units and individuals identified through the risk assessment, and until the above observations have been addressed, the Company may consider implementing a monthly or quarterly monitoring control whereby a sampling of transactions is assessed for how transactions were recorded.
10	Existing budget-to-actual controls are performed at a cost center level and are largely focused on gross dollars in a cost center. Currently, reviews are not required to incorporate a review of above-the-line vs below-the-line expenditures.	a) Consistent with recommendation #5, we recommend the Company consider the following: identify business units and individual employees who are involved in lobbying activities; and perform an assessment of the risk of misclassification of above-the-line vs. below-the-line costs. b) For those business units and individuals identified through the risk assessment, the Company should consider incorporating a review of above-the-line vs. below-the-line budget-to-actual into existing budget monitoring controls.

II. Transaction validation – Procedures performed and results

Risk assessment and sampling methodology

Analysis of population

We performed certain testing procedures in order to validate our understanding of the process implemented at SoCalGas and to validate the appropriateness of the classification of costs incurred. These procedures included obtaining source documentation for selected transactions, testing the recorded transactions for accuracy, identifying the Company's determined treatment as either above-the-line or below-the-line, and validating this treatment by performing an assessment of whether the costs should be considered above-the-line or below-the-line as defined by FERC Account 426.4.

We obtained populations for the three business units identified – Regional Public Affairs, Policy, and Market Development, covering January 1, 2017 to December 31, 2019. The populations obtained included above-the-line and below-the line transactions. The populations obtained excluded a total of 12 transactions, which were not included in our testing. These excluded transactions were not provided to PwC as management had previously identified these transactions to be below-the-line and had classified them as such. The total dollar population provided to PwC, by business unit by year, is summarized as follows:

	Regional Public Affairs	Policy	Market Development
2017	$4,232,860	$4,108,808	$14,185,092
2018	$3,752,065	$4,657,417	$9,561,752
2019	$3,878,580	$3,468,897	$15,326,821
Total	**$11,863,505**	**$12,235,122**	**$39,073,665**

We analyzed the populations and determined that, for testing purposes, the population across the Business Units and across the calendar years 2017 – 2019 should be combined and further disaggregated based on cost type and risk of incorrect classification. Through the analysis of the population we noted two key primary cost types that account for a significant proportion of the population. Those were "consulting" and "salaries". The remaining population contained cost types that were individually less significant, but in the aggregate was significant to the total. This was included as a fourth population, called "other".

Risk assessment

Based on our understanding of the process, we assessed each of the populations for the risk of (i) inaccurate recording (which is the risk that transactions have been recorded at an amount that does not accurately reflect the underlying transaction) and (ii) misclassification as above-the-line or below-the-line (which is the risk that costs that should have been recorded above-the-line were recorded below-the-line, or vice-versa). This risk assessment was performed prior to our testing and was performed for the purpose of informing the appropriate level of sampling to perform (i.e., if a higher risk of error exists, a higher number of samples will be selected). Our risk assessment is summarized below:

	Consulting	Salaries	Other
Risk of inaccurate recording[1]	Low	Low	Low
Risk of misclassification as above-the-line or below-the-line	Moderate[2]	High[3]	Moderate[2]

1. Based on our understanding of the processes and controls for recording labor and non-labor related costs, we did not identify any factors that would lead to an increased risk of the Company recording transactions at an inaccurate amount. As such, all populations were considered low risk for inaccurate recording.
2. The population for "consulting costs" and "other" largely consisted of non-labor costs with third party vendors. Based on the understanding of the processes and controls, and as explained in Section I of this report, we noted that there were certain estimated control gaps related to the classification of non-labor costs. As a mitigating risk factor, we considered that the non-labor costs are supportable by third-party evidence and would not inherently be expected to contribute to a high risk of misclassification. Accordingly, we determined there was a moderate risk of

misclassification for “consulting” and “other” costs.

3. The population for “salaries” consists of employees’ labor costs. Based on the understanding of the processes and controls, and as explained in Section I of this report, we noted that there were certain estimated control gaps related to the classification of labor costs. Further, we noted that certain individuals within the Business Units subject to testing had not charged time to below-the-line internal orders when our expectation is that a portion of labor would be below-the-line. Accordingly, we determined that there was a high risk that certain labor costs were incorrectly classified.

Sampling approach

Through analysis of the “consulting”, “salaries” and “other” cost groups, we analyzed the population and determined that there were no appropriate characteristics for a targeted test. Targeted testing involves selecting items to be tested based on some characteristic, such as high dollar-value or a specific risk. For the populations analyzed, significant coverage could not be obtained by testing certain high-dollar transactions. Instead, to address the risk of inaccurate recording for “consulting”, “salaries” and “other” costs we applied a non-statistical testing approach to determine the number of sample selections. Non-statistical sampling is an accepted approach under AICPA auditing standards, and although this report is not prepared pursuant to AICPA auditing standards, we believed that using a commonly accepted methodology for sampling was appropriate to determine our sample size. The determined sample size is a product of the population to be tested, the desired level of evidence and certain other inputs. The following table includes the determined sample sizes for our testing of accuracy:

Cost type	Determined Sample Size
Consulting	42
Salaries	42
Other	42

To address the risk of misclassification of expenses as above-the-line we applied an accept-reject approach for sample selection. Accept-reject is an approach designed to be used when testing an attribute, such as classification, rather than a monetary value. Given that our classification test is focused on whether the expense has been appropriately recorded as above-the-line or below-the-line, an attribute-based test was considered to be the appropriate approach. Where a higher risk was identified through our risk-assessment, a higher level of evidence will be sought through a higher number of sample selections. The following table includes the determined sample sizes for our testing of classification:

Cost type	Determined Sample Size
Consulting	30
Salaries	55
Other	30

Having determined the above sample sizes we decided that, for each cost type, we would select the higher of the two determined sample sizes and test each selection for both accuracy and classification. The below table includes the total sample sizes for each cost type:

Cost type	Total Sample Size
Consulting	42
Salaries	55
Other	42

Testing plan and summary of results

In order to understand and evaluate the transaction listings provided we performed the following procedures:

- Developed an understanding of management's process for obtaining the listings
- Reconciled the detailed populations provided to management's financial records
- Selected the number of samples noted above from the detailed populations provided by management.

In order to validate the accuracy of charges we performed the following procedures:

- Obtained and reviewed supporting documentation (e.g., invoices, timesheets)
- Validated that the amounts recorded in SAP agreed to the supporting documentation

Based on the procedures performed, no exceptions were noted.

In order to validate the appropriate classification of charges we performed the following procedures:

- Obtained and reviewed supporting documentation (e.g., invoices, timesheets)
- Formed a view on the nature of the underlying expense through a combination of review of supporting documentation (e.g., descriptions on invoices, coding of timesheets), inquiry of management (e.g., nature of consulting services, inquiry of supervisors of employees with time charges) and independent research (e.g., researching consulting counterparties, reviewing organizations to which the Company contributes)
- Compared the Company's determination of above-the-line or below-the-line to the view formed by PwC.

A detailed description of these procedures is included below.

Results of testing

Summary of Results

Cost type	Population (#)	Population ($)	Sample Size (#)	Sample Size ($) (b)	Exceptions (#)	Exceptions ($) (a)	Exceptions (%) calculated as (a/b)
Consulting	7,805	$25,391,334	42	$5,339,145	1	$25,000	0.5%
Salaries	18,605	$23,105,393	55	$163,945	31	$104,222*	N/A*
Other	45,005	$14,675,566	42	$2,394,538	0	$0	0%
Total	**71,415**	**$63,172,293**	**139**	**$7,897,628**	**32**	**$187,222**	-

*We are unable to reasonably extrapolate the exceptions as a percentage of amount sampled onto the population. Refer to the "Salaries" section below for further details.

Consulting

We sorted the list of transactions provided by management by cost type and identified that there were 7,805 "consulting"' transactions, totaling $25,391,334. Of the 42 selections we identified 39 transactions that were appropriately classified to above-the-line accounts. There were some instances where we were unable to validate the appropriate treatment of the costs through review of supporting documents alone, as there was not detailed contemporaneous documentation maintained, consistent with recommendation #8 above. In those instances, we relied on inquiry with Management to validate that the expenses were related to activities that should be recorded above-the-line.

We identified two transactions that were appropriately classified at the time of assessment, having been initially misclassified and subsequently identified and corrected for by management outside of their ordinary process and controls. We identified one transaction that was inappropriately classified as above-the-line at the time of PwC's assessment (see details below). We have included an example of the detailed results for one of each of these below:

Appropriately classified

Cost Center	DocTyp	Cost Elem.	Cost element name	AuxAcctAsmnt_1	User Name	Per	Year	RefDocNo	Vend Name	Vendor	Val/COArea Crcy	Postg Date	Doc. Date
2200-2524	RS	6220600	SRV-CONSULTING-OTHER	ORD 300799391	AP_BATCH	010	2019	5811436540	BATTELLE MEMORIAL INSTITUTE	107773	500,000.00	10/01/2019	09/13/2019

To test the highlighted transaction, we obtained the invoice from Battelle Memorial Institute. We validated the accuracy of the amount recorded by ensuring that the amount was recorded in the correct period and by agreeing the amount in the listing to the respective amount in the vendor invoice.

In addition, we verified that the Company has included the costs associated with the services provided by Battelle Memorial Institute as above-the-line by confirming the FERC account to which it was charged. The expense was charged to the income statement and then settled to FERC Account 188 Research, development and demonstration expenditure. This was treated as a refundable expense under the RD&D Refundable Program, and so is subject to separate tracking and refund through rates (i.e. it is not included within Operating Expenses in the GRC).

The expense item relates to costs associated with the development of a sulfur tolerant compressed hydrogen gas (CHG) process. We assessed the nature of the expense through a combination of reviewing the supporting documents obtained and reviewing publicly available information related to the vendor (Battelle Memorial Institute) to discern the nature of the goods/services the vendor typically provides. We found that Battelle Memorial Institute, is a not-for-profit applied science and technology development company that conducts research and development, manages laboratories, designs and manufactures laboratory products. Based on the nature of the vendor and the services the vendor provided to the Company, which related to developing a more desirable compressed gas process, we determined that this expense does not meet the definition of FERC account 426.4 (*see stated definition above*) and as such, it was appropriate not to record the item below-the-line.

Appropriately classified after identification and adjustment by management

We identified two transactions that were initially classified as above-the-line that should have been below-the-line. Subsequent to initially recording the transaction, and in advance of the PwC assessment, these transactions were identified and reclassified to below-the-line by the Company.

Cost Center	DocTyp	Cost Elem.	Cost element name	AuxAcctAsmnt_1	User Name	Per	Year	RefDocNo	Vend Name	Vendor	Descr.	Purch.Doc.	Val/COArea Crcy	Postg Date	Doc. Date
2200-2441	RS	6220002	SRV-CONSULTING	ORD FG9210002200	AP_BATCH	005	2019	5811284591	MARATHON COMMUNICATIONS	115656		5660052135	33,227.03	05/16/2019	05/01/2019

The highlighted expense related to consulting services provided by Marathon Communications. This expense was initially charged to FERC Account 921 Office supplies and expenses, which is an above-the-line account. We assessed the nature of the expense through initially reviewing the supporting documents, which described certain expenses related to work with Californians for Balanced Energy Solutions ("C4BES"), provided by Marathon Communications, in association with providing strategic communications consulting and implementation regarding Californians for Balanced Energy Solutions, include outreach, media planning and message development. We reviewed publicly available information related to C4BES, to discern the nature of the goods or services the vendor typically provides. Through independent research, we noted that C4BES is a coalition of natural and renewable gas users, and the C4BES website states that "Californians for Balanced Energy Solutions is leading the fight for balanced state energy policies". Furthermore, the organizations website includes a page titled "Take Action", which includes an open letter to California Governor Gavin Newsom, along with a request to the general public to sign the open letter to "urge our leaders to protect Californians; ability to make their own energy decisions". Based on the evidence obtained relating to C4BES, we formed the view that this organization, among other things, is involved in gas advocacy, with a view to influencing the opinion of the general public and of government and public officials in the area of balanced energy policies. The definition of FERC Account 426.4 specifically provides requirements for inclusion of costs related to influencing public opinion with respect to legislation, or for the purposes or influencing the decisions of public officials. As such we believe that costs related to C4BES, including this expense, should be classified as below-the-line. Management provided evidence that the incorrect classification was identified in 2019 and corrected the misclassification by recording a manual journal entry. As such, at the time of our review, this cost was appropriately classified as a below-the-line cost by the Company.

Misclassified

We identified one transaction that was classified as above-the-line that should have been classified as below-the-line.

Cost Center	DocTyp	Cost Elem.	Cost element name	AuxAcctAsmnt_1	User Name	Per	Year	RefDocNo	Vend Name	Vendor	Val/COArea Crcy	Postg Date	Doc. Date
2200-2396	KS	6220600	SRV-CONSULTING-OTHER	ORD 300645944	AP_BATCH	008	2018	1901364511	CALIFORNIA NATURAL GAS VEHICLE	26386	25,000.00	08/02/2018	05/25/2018

This expense related to consulting services provided by the California Natural Gas Vehicle Coalition ("CNGVC") and was charged to FERC Account 908 Customer assistance expenses, an above-the-line account. We assessed the nature of the expense through a combination of reviewing the supporting documents obtained and reviewing publicly available information related to CNGVC, to discern the nature of the goods or services the vendor typically provides. CNGVC is an association of natural gas vehicle and engine manufacturers, utilities, fuel providers and fleet operators serving the state and describes it as 'the industry's premier advocacy organization' in California and 'works with state regulators and legislators throughout the year to shape and advance NGV-related policies.' As the expense was related to consulting work provided by an advocacy organization, Management reviewed for further detail relating to the above-the-line classification. Based on evidence obtained relating to CNGVC's work from within the date range of the transaction, PwC and Management noted that this expense should have been classified as below-the-line.

Salaries

We sorted the list of transactions provided by management by cost type and identified that there were approximately 18,605 "salaries"' transactions, totaling $23,105,393. We have included an example of the detailed results for one sampled item below:

Cost Center	DocTy	Cost Ele	Cost element nar	AuxAcctAsmnt_1	User Nan	Per	Year	RefDocNo	Val/COArea Crcy	Postg Dat	Doc. Date	Quant	PUM
2200-0805	SW	6110020	SAL-MGMT S/T	ORD FG9205702200	FI_BATCH	002	2018	13189366	4,284.54	02/28/2018	02/23/2018	64.000	HR

To test the highlighted transaction, we obtained the related timesheet for the respective employee as well as the employees' title/department and manager. We validated the accuracy of the amount recorded by ensuring that the amount was recorded in the correct period and by agreeing the amount in the listing to the respective re-calculated amount from the timesheet.

We validated that the Company has included the costs associated with the salary of this employee as above-the-line by confirming the FERC account to which it was charged. The expense was charged to FERC Account 920.570 – Administrative and general salaries, and this charge is mapped to an above-the-line account.

We assessed the nature of the expense by interviewing either the employee themselves, or the employee's respective manager to determine (1) the type of work the employee generally performs and (2) where possible, the type of work performed by the employee during the time period selected.

The 55 salary selections were related to employees working in one of five different business groups within the Company. We separately interviewed the managers for each business group as the manager was either one of our employee selections or they directly managed one or more of our employee selections. We interviewed the following managers:

- Two Public Affairs Managers who managed public affairs for different regions within SoCalGas territories
- One Clean Transportation Product Development Manager
- One Commercial Development Project Manager
- One New Technologies Build-Out Support Manager

Based on our interview procedures performed we compiled our understanding of the type of work performed by the employees and assessed whether a portion of the employee's time should have been charged below-the line.

Regional Public Affairs: The work performed by the Regional Public Affairs group typically fell within one of four categories:

1) Operational support: The Regional Public Affairs group works with different stakeholders in the field to resolve various operational issues so that Company projects are able to get completed. This could entail working with

different jurisdictions to follow city ordinances, monitoring and enforcing adherence with agreements by the different counterparties, working with law enforcement related to the safety of construction sites, addressing permitting issues and mandated work deadlines, protecting franchise rights and in some limited cases, re-negotiating franchise agreements.

2) Customer outreach: The Regional Public Affairs group's customer outreach efforts include developing relationships with the community through involvement with non-profit organizations that help support the community or are strategically aligned with the Company's interest, facilitating different grant and scholarship processes and sitting on various Boards and Political Action Committees.

3) Educational and Advocacy: The Regional Public Affairs group supports educational initiatives to educate the public (primarily customers and municipalities) on the current state of the energy industry, various energy initiatives and legislation that could potentially impact them. For example, there are times that an employee within the Regional Public Affairs group could be asked to speak in the community at town halls or to various levels of state government about the Company's stance on certain legislation in order to impact policy at the local level and/or garner support for advocacy. Two of the employees selected for our testing were registered lobbyists for the County of Los Angeles as rules for the City and County of Los Angeles require anyone advocating for specific legislation to be a registered lobbyist.

4) Emergency response: The Regional Public Affairs group performs a small portion of work related to emergency response to enable the operations group to respond safely to various issues that can arise in the field.

Assessment of classification: Based on our understanding of the work performed within the Regional Public Affairs group, we determined that some portion of the work does fall within the definition of "FERC Account 426.4 – Expenditures" related to certain civil, political and related activities. For example, some of the work performed under outreach and advocacy could be directly related to attempting to influence public opinion with respect to various proposed legislation or ordinances. Additionally, on occasion a small portion of the operations support work could relate to influencing public opinion with respect to approval, modification, or revocation of franchises. As these are activities that fall within the FERC 426.4 definition, we determined that a portion of the time charged by the Regional Public Affairs employees should have been charged below-the-line. However, based on the information available, we are unable to quantify the portion of the Regional Public Affairs salaries that should be recorded below-the-line. As such, we are not able to reasonably extrapolate the exceptions as a percentage of amount sampled onto the population.

Product Development – Clean Transportation: The work performed by employees within the Clean Transportation Product Development Group included the following:

- Customer training on natural gas vehicles and fueling stations
- Managing the credit card system for the 15 public access stations within the SoCal gas territories
- Management of the truck loan program – a "try before you buy" type of program in which a no-cost rental is provided for qualified fleet owners so they can determine if they would like to purchase a natural gas vehicle truck.
- Managing of the natural gas vehicle (NGV) tariff program
- Managing different dashboards for the fueling stations and developing "white papers" for various engineering teams to allow customer needs for public access stations are met.

Assessment of classification: Based on our understanding of the work performed within the Clean Transportation – Product Development group, we determined that the work does not meet the definition of FERC account 426.4 (see stated definition above) and therefore was indicative of above-the-line work.

Commercial Development: The work performed by the employees within the Commercial Development group included the following:

- Account management, which includes business evaluation and planning for commercial projects and market development work (for hydrogen, biomethane, fuel cells, etc.)
- Work related to the Company's Dairy Biomethane pilot which was launched to showcase pipeline interconnection to reduce landfilling of organic waste to comply with the California law SB 1383 signed in September of 2016
- Work related to the Alison Canyon mitigation efforts (Aliso Canyon work is charged to a specific project internal orders that are not charged to ratepayers).

Assessment of classification: Based on our understanding of the work performed within the Commercial Development group, we determined that the work does not appear to meet the definition of FERC account 426.4 (see stated definition above). Based on our inquiries of the Company, the time charged to Aliso Canyon work is separately tracked and excluded in the General Rate Case. The remaining activities performed within the Commercial Development group are all indicative of work that would be appropriately charged to above-the-line.

The New Technologies Build-Out Support: The work performed by the employees within the New Technologies Build-Out Support group primarily involved project management and construction and included the following:

- On-site project management efforts to support overall construction and implementation efforts. This can include leading individual projects, confirming the right people have the right tools to be able to get the project through to completion, identifying subcontractors and organizing and training various groups of subcontractors.
- Off-site construction which can entail working with subcontractors and vendors remotely, communicating to customers and managing project timelines.

Based on our understanding of the work performed within the New Technologies Build-Out Support group, we determined that the work does not meet the definition of FERC account 426.4 (see stated definition above) and based on the nature of the work described was indicative of work that would be appropriately recorded as an above-the-line cost by the Company.

Through the supporting documents obtained (i.e., Cost Center and Business Unit description related to the employee's time charge in SAP) and interviewing the employee's respective manager, we concluded whether or not the entirety of the employee's time or a portion of the employee's time charged should have been charged to below-the-line costs. We determined that 31 of the selections made should have had a portion charged to below-the-line based on the nature of the work typically performed by the employee. We were unable to quantify a total number of hours or a percentage of the Regional Public Affairs employee's time that should have been charged to below-the-line, as there was no detailed record which includes descriptions of the employees' time for the time period in our scope (2017-2019) (See Observation #5 above).

The selection highlighted above was charged as above-the-line by the Company. As the selection related to an employee within the Regional Public Affairs group we concluded, based on our understanding of the nature of work performed by the Regional Public Affairs group, that some portion of this time should have been charged below-the-line.

Other

We sorted the list of transactions provided by management by cost type and identified that there were approximately 45,005 "Other" transactions (i.e. all transactions not related to settlements, consulting or salaries) totaling $14,675,566. We have included an example of the detailed results below:

Cost Cent	DocTyp	Cost Elem.	Cost element name	AuxAcctAsmnt_1	User Nam	Per	Year	RefDocNo	Vend Name	Vendor	Val/COArea Cr	Postg Dat	Doc. Date
2200-2059	RS	6250001	DUES-BUSINESS/PROFES	ORD 300801848	AP_BATCH	012	2019	5811532404	UTILIZATION TECHNOLOGY DEVELOPMENT	88527	300,000.00	12/26/2019	12/06/2019

To test the highlighted transaction, we obtained the Utilization Technology Development invoice. We validated the accuracy of the amount recorded by ensuring that the amount was recorded in the correct period and by agreeing the amount in the listing to the respective amount in the vendor invoice.

We verified that the Company has included the costs associated with the services provided by Utilization Technology Development as above-the-line by confirming the FERC account to which it was charged. The expense was charged to FERC Account 188 Research, development, and demonstration expenditures. This was treated as a refundable expense under the RD&D Refundable Program, and is subject to tracking and refund through rates in the GRC.

The expense item relates to costs associated with the Utilization Technology Development membership dues. We assessed the nature of the expense through a combination of reviewing the supporting documents obtained and reviewing publicly available information related to the vendor (Utilization Technology Development) to discern the nature of the goods/services the vendor typically provides. We found that Utilization Technology Development (UTD) is a not-for-profit collaborative partnership of natural gas distribution companies founded by the Gas Technology Institute that conducts near-term applied research to develop, test and demonstrate natural gas technologies. UTD is focused on research projects and development of technologies that benefit customers, and includes work on gas equipment and appliances, industrial process and combustion systems, distributed generation, combined heat and power (CHP) systems, and natural gas vehicles (NGVs). UTD's communications are focused on communicating technical information relating to projects, and do not appear to have any role in influencing of public opinion in favor of, or advocating for, the use of gas focused technologies. For example, upon review of UTD document "Utilization Technology Development, NFP Research Project Summaries 2019-2020", we noted that UTD focused their stakeholder communication on the technical and technological impacts of research projects, including showcasing commercialized products, technological advancements before giving a detailed description of each of the research projects. We reviewed the UTD website and found that the UTD's members are natural gas distribution companies that combine their expertise and resources into various R&D projects. Based on the nature of the partnership and the membership dues paid by the Company, we determined that this expense does not meet the definition of FERC account 426.4 (*see stated definition above*) and as such, it was appropriate not to record the item below-the-line.

III. Inclusion of costs in general rate case

Background

We have gained an understanding of the process undertaken by the Company to analyze their financial records for the purposes of compiling their General Rate Case (GRC) filings for the business units subject to the assessment.

Summary of procedures performed

To understand the process for compiling the General Rate Case data we performed the following procedures:

- Obtained and inspected 2019 GRC documents
- Obtained and inspected underlying Company schedules (e.g. BW GRC report), filtered for relevant Business Units
- Interviewed employees in the following roles:
    - Assistant General Counsel - Regulatory
    - GRC Program Manager

Overview of SoCalGas's process for compiling General Rate Case information

General Rate Case timing

The Company's timeline for general rate case (GRC) proceedings with the California Public Utilities Commission (CPUC) for the last two General Rate Cases, and the next General Rate Case, is as follows:

- 2016 GRC – rates were effective from 2016 – 2018.
- 2019 GRC – Five-year historical actuals (years 2012 – 2016) used to form three years of forecast (2017 – 2019). Test year 2019 used for rates, which are effective from 2019 – 2021. The California Utilities were directed to file a petition for modification to revise their 2019 GRC to add two additional attrition years, resulting in a transitional five-year GRC period (2019-2023). The California Utilities filed the petition in April 2020 and requested authorization of their post-test year ratemaking mechanism for two additional years.
- 2024 GRC – will be based on five-year historical actuals (years 2017 – 2021) used to form three years of forecast (2022 – 2024). Rates anticipated to go into effect in 2024. Test year 2024 used for rates, which would be effective from 2024 – 2027.

As the Company's last GRC was approved effective 2019 and used forecasts based on historical actuals from 2012 through 2016, actual costs incurred from 2017 through 2019 have not yet been included in a GRC filing to form the basis of customer rates. As such the procedures we performed over the costs incurred from 2017 through 2019 were illustrative of the process for compiling GRC data but were not based on the process for an actual GRC. The Company's next GRC is not expected to be approved before December 2023 according to the Rate Case Plan, with rates going into effect January 2024, and will use forecasts based on historical actuals from 2017 – 2021.

Compilation of General Rate Case

The Company's financial records are maintained in SAP. The financial information included in SAP is used as the basis for all of the Company's financial reporting, whether for financial statements under US GAAP and FERC USoA, or regulatory reporting such as General Rate Cases.

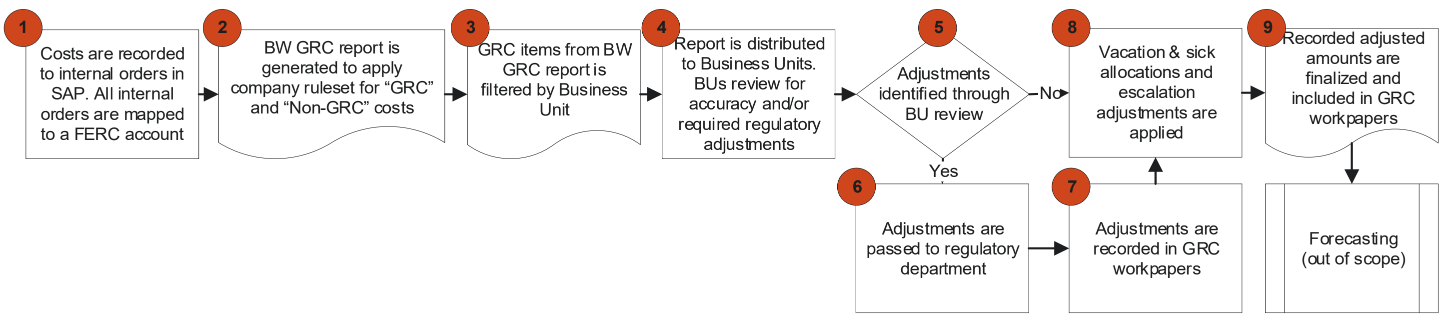
As described above in Section I of this report the Company charges all expenses to an internal order within SAP, and each internal order is established to map to either one or multiple FERC accounts. The Company has developed a custom report in the Business Warehouse (BW) tool, which enforces their regulatory ruleset. We will refer to this custom report herein as "BW GRC report". The ruleset embedded in the report has been internally established to designate each FERC account as either "GRC" or "Non-GRC". Those items designated as "GRC" are above-the-line items, that Company will seek recovery through customer rates. Items designated as "Non-GRC" may be a combination of below-the-line items and non-GRC regulatory filings that are also in customer rates. When the Company begins general rate case preparation, the

Regulatory department generates the BW GRC report. This report is filtered to remove non-GRC elements, and once all non-GRC elements are removed the remaining costs are used as the basis for the Company's general rate case testimony. Within the general rate case workpapers, the remaining costs are referred to as "Recorded" (see example below).

The Regulatory department filters the BW GRC report by business unit and distributes to the business for review. The business units are responsible for performing a detailed review of the costs included within their historical actual costs so that they are appropriately included in the general rate case workpapers. Items may be identified within the data that should be excluded, for reasons such as incorrect coding (i.e., they should be attributed to a different business unit), amounts relating to below-the-line activities, or items that are subject to separate monitoring or recovery through specific trackers. If items are identified that should be adjusted, the responsible business unit works with the Regulatory department to record an adjustment within the general rate case workpapers (see example below).

Once all adjustments have been identified and documented in the regulatory workpapers, the Company performs a number of mechanical adjustments to apply an allocation of vacation and sick pay, and to escalate all costs to base year dollars. In the example below, 2016 was the base year, so all amounts were escalated to 2016-dollar values. Once all adjustments have been made, the total actual cost is calculated. The total actual cost is used as the basis for forecasting, and the forecasted amounts are those requested for recovery through the general rate case. The forecasting process is outside of the scope of this report.

The following flowchart summarizes the Company's general rate case data preparation process:



The table below is an example from the 2019 GRC testimony[2] for the regional public affairs gas distribution area. We have included this table and added annotations to the Company's workpaper to provide reference and linkage between the steps in the process diagram and the Company's general rate case above:

[2] Extract from workpaper 2GD005.000 - Regional Public Affairs, page 146 to 155 of 168. Obtained Gina Orozco-Meija testimony workpapers from SoCalGas company website *https://www.socalgas.com/regulatory/documents/a-17-10-008/SCG-04-WP%20GOrozco-Mejia%20-%20Gas%20Distribution.pdf*

Determination of Adjusted-Recorded (Incurred Costs):

	2012 ($000)	2013 ($000)	2014 ($000)	2015 ($000)	2016 ($000)
Recorded (Nominal $)*					
Labor	2,850	2,708	2,774	2,928	2,733
Non-Labor	1,056	884	727	777	1,847
NSE	0	0	0	0	0
Total	**3,906**	**3,593**	**3,501**	**3,705**	**4,581**
FTE	28.4	26.5	26.8	27.9	25.9
Adjustments (Nominal $) **					
Labor	0	0	0	-133	-347
Non-Labor	0	0	0	-6	-1,167
NSE	0	0	0	0	0
Total	**0**	**0**	**0**	**-140**	**-1,514**
FTE	0.0	0.0	0.0	-1.2	-2.8
Recorded-Adjusted (Nominal $)					
Labor	2,850	2,708	2,774	2,794	2,386
Non-Labor	1,056	884	727	770	681
NSE	0	0	0	0	0
Total	**3,906**	**3,593**	**3,501**	**3,565**	**3,067**
FTE	28.4	26.5	26.8	26.7	23.1
Vacation & Sick (Nominal $)					
Labor	456	450	453	452	393
Non-Labor	0	0	0	0	0
NSE	0	0	0	0	0
Total	**456**	**450**	**453**	**452**	**393**
FTE	4.7	4.5	4.5	4.5	3.9
Escalation to 2016$					
Labor	325	228	157	79	0
Non-Labor	31	11	-2	2	0
NSE	0	0	0	0	0
Total	**355**	**239**	**155**	**82**	**0**
FTE	0.0	0.0	0.0	0.0	0.0
Recorded-Adjusted (Constant 2016$)					
Labor	3,631	3,387	3,383	3,326	2,779
Non-Labor	1,086	895	725	772	681
NSE	0	0	0	0	0
Total	**4,717**	**4,282**	**4,108**	**4,099**	**3,460**
FTE	33.1	31.0	31.3	31.2	27.0

Steps 1-3 - Amounts per BW GRC report, once costs designated “Non-GRC” have been removed.

Steps 4-7 - Business units review underlying data and propose adjustments to recorded amounts.

Step 8 and 9 - Company applies a standard vacation and sick allocation to business units.

Escalation factors are applied to earlier years to convert all amounts to 2016 dollars.

Total “Recorded-Adjusted (Constant 2016$)” is the total amount taken to the summary per Business Unit.

Adjusted-Recorded is the amount totaled in the workpaper above.

Summary of Results:

	In 2016$ (000) Incurred Costs							
	Adjusted-Recorded					Adjusted-Forecast		
Years	2012	2013	2014	2015	2016	2017	2018	2019
Labor	3,631	3,387	3,383	3,326	2,779	3,616	3,522	3,522
Non-Labor	1,086	895	725	772	681	859	897	897
NSE	0	0	0	0	0	0	0	0
Total	**4,717**	**4,282**	**4,108**	**4,099**	**3,460**	**4,475**	**4,419**	**4,419**
FTE	33.1	31.0	31.3	31.2	27.0	33.4	32.5	32.5

Forecasts are separately produced, based on historical actuals and known forecasted changes. The forecasting process is outside of the scope of this report.

The amount requested for recovery through rates, in 2016 dollars, is the 2019 “Total”, in this instance $4,419,000. An escalation factor is approved and applied to this to set the final amount to be recovered through rates.

Observations

Based on our assessment of the process outlined above, we have no incremental observations and recommendations in relation to the compilation of the General Rate Case for costs relating to the Regional Public Affairs, Policy and Market Development business units.

Comparison of the information included in SoCalGas' 2019 General Rate Case and our understanding of the CPUC's guidance on the treatment of Lobbying Costs

Summary of procedures performed

We performed the following procedures in the context of evaluating the procedures performed in Section I, II and III of this report above, as compared to CPUC guidance on the treatment of lobbying costs:

- Read various documents, including
  - 2019 SoCalGas GRC Application and subsequent CPUC Decision under filing A.17-10-008
  - The most recent CPUC Decisions issued to all other California Investor-Owned Utilities (IOUs)
  - CPUC Document "Utility General Rate Case – A Manual for Regulatory Analysts"
  - California Public Utilities Code
- Reviewed available information on CPUC public website

Results

Through our review of the California Public Utilities Code, we are aware that Section 793 requires the CPUC to adopt FERC's USoA. The CPUC also adopted FERC USoA for gas corporations. This means that SoCalGas is required to maintain records under the FERC USoA, and these form the basis of the GRC and other regulatory filings submitted by the Company. Notwithstanding the findings of our report listed in Section I and II above, we believe that the Company's current approach of recording known lobbying costs to FERC Account 426.4 and then excluding them from the requested revenue requirement reflects the CPUC requirements to maintain accounts under FERC USoA, and on how to approach the exclusion of lobbying costs from the GRC.

While the above addresses the overall approach to compiling GRC information in relation to lobbying costs, it does not provide further guidance or clarity on how to record costs whose treatment is open to interpretation. Certain costs require a greater level of scrutiny as to whether they relate to lobbying activities that should be below-the-line or activities that are within the ordinary course of business and should be paid for by utility customers. The judgmental nature of certain activities and their associated cost is reflected in SoCalGas' 2019 GRC decision[3] issued by the CPUC on September 26, 2019. The topic of lobbying costs was addressed in relation to a particular issue raised by parties interested in the proceedings. The Sierra Club's and the Union of Concerned Scientists' (UCS) were registered intervenors in SoCalGas' GRC and, in this role, they objected to certain costs being included within SoCalGas' forecast test year, as they believed that these costs were associated with lobbying activities that were in the interest of SoCalGas' shareholders' interests, rather than in the interest of the customers. In deciding this case, CPUC determined that they did not believe that the letters subject to objection represented lobbying activities. In their decision, CPUC stated:

> *". . .we reviewed the various comment-letters sent by SoCalGas to state and local government agencies that were identified by Sierra Club and UCS as constituting lobbying activities aimed at promoting natural gas use over electric options as a means of reducing fossil fuel reliance.*
>
> *We reviewed each letter and find that each letter, as a whole, and when read in its entirety, does not constitute a means to block measures to replace natural gas with electric options. Instead, the comment-letters in question contain or provide SoCalGas' input and opinion with regards to the topics being addressed in the comment-letters. Some of the letters include information on the benefits of natural and renewable gas options or suggest consideration of these options but we find that these are generally informational as opposed to what Sierra Club and UCS suggest. To the extent that SoCalGas utilizes ratepayer funds on expenditures that go beyond providing information about natural gas and constitute inappropriate political activity, the Commission will address such activities in the appropriate proceeding."*

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[3] https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M316/K704/316704666.PDF

Based on our understanding of this decision from the CPUC, it addresses the specific issue raised by Sierra Club and UCS, but it does not provide clear guidance for the future treatment of costs that may be considered to be lobbying costs or those that fall within a 'grey area' in the guidance established by FERC 426.4. Rather, the CPUC decision explicitly states that the Commission will address any future "inappropriate political activity" in a future proceeding, without further defining what "inappropriate political activity" would be. Further, through our review of the regulatory proceedings of the three other California IOUs subject to CPUC regulation, we did not find any specific guidance on how to treat costs for lobbying activities, or any decision making that could be used as interpretive guidance over what is considered to be a lobbying activity.

Finally, regarding the existence of CPUC guidance on the treatment of historical incurred expenses (in this case legal expenses), we noted that in one CPUC decision a ruling was made to reduce the percentage of forecasted expenses included within rates for in-house legal costs. CPUC referenced the Utility historically taking positions that they believed would not benefit customers, specifically renewing previously denied arguments without providing an explanation as to what has changed to warrant a different outcome in the present case. As such, CPUC determined that certain expenses which do not benefit ratepayers should not be borne by ratepayers. CPUC included within its decision[4] that:

> *"We emphasize in making these adjustments, adjustments are made consistent with forecast ratemaking. These are adjustments to the forecast, not a penalty or disallowance. As with other forecasts, we begin with recorded costs and make adjustments for costs that are not recoverable or no longer anticipated. Once adjustments are made, we adopt the remaining fair and reasonable costs as the forecast."*

Based on our understanding of this decision from the CPUC, and consistent with our understanding of forecast ratemaking, instances are likely to occur after rates have been established whereby a Utility's actual costs will differ from the forecasted cost used in their adopted revenue requirement. These differences may favor the Utility through a cost reduction, or they may disfavor the Utility through a cost increase. In the ratemaking process "It is a fundamental rule that utility rates are exclusively prospective in nature"[5]. To avoid retroactive ratemaking, whereby a Commission adjusts for past difference from approved rates by allowing or disallowing costs historically, a Commission uses the past events to inform future ratemaking only. The CPUC decision referenced above adheres to this, as the reduction to the percentage on in-house legal expense is applied in the forecast period but is not assessed as a penalty or disallowance on the Utility.

Based on our understanding of CPUC's treatment of historical costs and forecast ratemaking, any misclassifications in historical actual costs would require adjustments to be applied prospectively in a Utility's next GRC (i.e. when those costs are subject to future rate proceedings), rather than through penalties or disallowances.

[4] https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M293/K008/293008003.PDF

[5] Narragansett Elec. Co. v. Burke (1977) https://law.justia.com/cases/rhode-island/supreme-court/1977/381-a-2d-1358.html

IV. Curriculum Vitae

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Sean Riley is a dedicated member of PricewaterhouseCoopers' (PwC) National Power, Utility and Renewable Energy Practice. Sean currently has two roles within PwC's Utility practice. First, Sean is an Assurance Partner leading significant audit engagements in the Independent Power, Renewables and Regulated Utility sectors. In addition, Sean leads PwC's Complex Accounting and Regulatory Solutions (CARS) Team. In this role, Sean oversees a team of Utility sector specialists that advises clients on complex technical accounting and regulatory / ratemaking matters. Sean has significant experience in rate case matters and has provided expert witness testimony in a variety of proceedings. In addition, Sean and the CARS team are responsible for the development of PwC's thought leadership related to the Power & Utilities Sector.

Sean previously completed a three-year tour as the Power & Utility technical leader in the Accounting Services Group within PwC's National Office.

Range of experience
Sean started his career with Coopers & Lybrand (predecessor company to PwC) in 1992 in Portland, Maine. Since that time, Sean has specialized in serving public and privately-owned clients in the Independent Power, Renewable Energy and Regulated Electric and Gas Utility sectors. Over his 28+ year career, Sean has provided leadership and direction around a variety of financial reporting and technical accounting matters, including regulatory accounting, rate-making, and other areas applicable to regulated utilities, independent power and renewable energy companies.

Sean is a frequent speaker at PwC industry events, as well as for organizations such as the Edison Electric Institute, American Gas Association and NARUC.

Education
University of Vermont (1990, 1992) Business - Accounting

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(END OF APPENDIX D)