Report on the Results of Operations for San Diego Gas & Electric Company and Southern California Gas Company Test Year 2024 General Rate Case

POLITICAL ACTIVITIES BOOKED TO RATEPAYER ACCOUNTS

PUBLIC

REDACTIONS MADE UNDER PROTEST

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I. INTRODUCTION AND SUMMARY OF RECOMMENDATIONS

This exhibit presents the analyses and recommendations of the Public Advocates Office (Cal Advocates) based primarily on evidence obtained from Southern California Gas Company (SCG or SoCalGas) during Cal Advocates’ accounting review of SoCalGas lobbying and other political activities (Political Activities) improperly charged to ratepayers (Accounting Review).¹

This exhibit addresses SCG’s improper pattern of booking costs of Political Activities to ratepayer accounts between 2017 and 2019, its routine dissembling in response to Cal Advocates’ data requests typified by consistently underrepresenting the extent and costs of its Political Activities, and its failure to demonstrate in this General Rate Case (GRC) that all costs for its Political Activities² have been removed from the Test Year (TY).

Cal Advocates recommends the following adjustments, which represent a roughly 1.8% disallowance from the utility’s total request:

¹ The evidence provided herein is incomplete and limited to the period 2017 to 2019 due, in part, to SoCalGas’ refusal to provide Cal Advocates access the utility’s SAP accounting system for nearly three years, notwithstanding a data request for that access (WP 186 - CalAds DR-TB-SCG-2020-03, 5-1-20.pdf), a Commission-issued subpoena ordering that access (WP 174 - Subpoena to SoCalGas for Accounting Database Access - Service Copy), and a Cal Advocates’ motion to compel access to at least the ratepayer portions of those accounts. See Public Advocates Office Motion To Compel Southern California Gas Company To Provide Remote Access To SAP Database To Audit Ratepayer Accounts, August 21, 2021 at https://www.publicadvocates.cpuc.ca.gov/-/media/cal-advocates-website/files/legacy3/1---10-21-21-caladvocates-motion-to-compel-access-to-socalgas-ratepayer-accts.pdf.

² The term “Political Activities” is defined by the Federal Energy Regulatory Commission’s Uniform System of Accounts (USOA) to 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.” See 18 CFR Section 367.4264 – Account 426.4, Expenditures for certain civic, political and related activities. All such costs must be booked to Account 426.4.
1. An 80% disallowance for the estimated total TY costs of $4.107 associated with the Regional Public Affairs organization described at SCG-04-R, Aguirre;

2. An 80% disallowance for the estimated total TY costs of $47.223 million associated with the Clean Energy Innovations organization described at SCG-12-R, Infanzon;

3. An 80% disallowance for the estimated total TY costs of $27.227 million associated with the Customer Services – Information organization described at SCG-16, Prusnek;

4. A 35% disallowance for the estimated total TY costs of $47.249 million associated with Administrative and General costs described at SCG-29-R, Mijares.

These adjustments, which total approximately $80 million, are in addition to the other adjustments and disallowances Cal Advocates has recommended for these four organizations. They are appropriate because the same or similar organizations have historically supported extensive Political Activities on behalf of SoCalGas' business interests, and the testimony supporting these organizations demonstrates that they are poised to engage in such activities going forward.

Because SoCalGas has not shown that the costs of its Political Activities have been removed from this GRC request, it is only fair to assume these costs are imbedded in historical costs and improperly reflected in the utility's GRC request as routine costs of doing utility business. Consequently, Cal Advocates proposes that these adjustments be applied first, before applying Cal Advocates' other adjustments.

II. LEGAL AND FACTUAL BACKGROUND

Three universal truths of utility regulatory law are: (1) the utility bears the burden of proof to support its rate requests;\(^3\) (2) the utility’s regulators may only authorize rate

\(^3\) See, e.g., Cal. Pub. Utils. Code Sec. 451; id. Sec. 454 (“a public utility shall change any rate... except upon a showing before the commission and a finding by the commission that the new rate is justified.”); D.00-02-046, mimeo, p. 36, 2000 Cal. PUC LEXIS 239 citing Re Pacific Bell (1987) 27 CPUC 2d 1, 21 (D.87-12-067); and D.06-05-016, mimeo, p. 7 (“As the Applicant, SCE must meet the burden of proving that it is entitled to the relief it is seeking in this proceeding. SCE has the burden of affirmatively establishing the reasonableness of all aspects of its application. Intervenors do not have the burden of proving the unreasonableness of SCE’s showing.”).
recovery for just and reasonable costs necessary for safe and reliable service,\(^4\) and

(3) costs of a regulated utility’s Political Activities must be booked to Account 426.4 and excluded from rate requests.\(^5\)

Here, SoCalGas seeks a revenue requirement of over $125 million for several organizations within the utility that nominally inform customers, the public, and state and local government officials regarding SCG’s activities.\(^6\) In fact, evidence provided by SoCalGas shows (1) that employees from these and many other business units routinely and repeatedly engaged in extensive and costly political campaigns between 2017 and 2019, the entire period covered by Cal Advocates’ Accounting Review; (2) that SoCalGas made no effort to accurately track employee time spent on those activities; (3) that consultant costs associated with these activities were routinely booked to ratepayer accounts; and (4) that the utility consistently dissembled and underreported employee time and consultant costs when asked to identify these costs for Cal Advocates. Evidence supporting each of these claims is set forth below.

\(^4\) See Cal. Pub. Utils. Code Sec. 451. See also D. 12-11-051, SCE GRC, 2012 Cal. PUC LEXIS 555 at *12-13 (“We confirm that the Commission's mandate is specific and requires a balancing of interests to authorize rate recovery only for those just and reasonable costs necessary for safe and reliable service. This requires a hard look at each proposed expense, including whether it is necessary during the coming rate cycle and is appropriately calculated. … Ratepayers are entitled to the Commission's sharp eye and consideration of other options before committing their hard-earned cash.”).

\(^5\) See FN 2 above. See also, e.g., D.82-12-055, 1982 Cal. PUC LEXIS 1209 at *118-119 (“We have reviewed the facts developed on this record which Edison feels describe the benefits to ratepayers of the dues paid to EEI. We conclude that Edison did not present evidence sufficient to cause us to reverse our stated policy on this issue. We will, therefore, adopt the staff exclusion of EEI dues from the revenue requirement.” And “Our policy has been to disallow ratepayer contributions to organizations which provide no specific benefits to ratepayers. The burden is on Edison to show that the contributions for which it seeks ratepayer support provide such benefits.”); D.12-11-051, 2012 Lexis 555, *765 (finding that membership subscriptions to organizations that advance tax reduction policies are inherently political, and funding should not be permitted under rate recovery); D.93-12-043, 1993 Lexis 728, *103 (finding that “ratepayers should not have to bear the costs of public relations efforts in this area, which according to [SCG], are designed primarily to increase load by promoting natural gas use to business and government leaders.”).

Based on this evidence, and the fact that the utility has failed to meet its burden of showing that it has removed all costs associated with its Political Activities from the TY request, Cal Advocates seeks the adjustments identified in Section 1 above and Section III below.

A. Preliminary data responses identify four significant political campaigns involving at least 40 employees from various business units between 2017 and 2019 and also show that SoCalGas paid an organization to provide speakers Commission business meetings.

Before Cal Advocates’ Accounting Review was cut short by the utility’s refusal to cooperate, Cal Advocates had identified at least four political campaigns pursued by SoCalGas involving at least 40 SoCalGas employees from various business units.

Those campaigns were focused on influencing decisions made by the Los Angeles Metropolitan Transit Authority (MTA), the Ports of Los Angeles and Long Beach (together the San Pedro Bay Ports or Ports), the Los Angeles World Airports (comprising the LAX and Van Nuys Airports), and this Commission and state and local politicians, to ensure the continued use of natural gas.

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See WP 300 - PAO-SCG-112-TBO_Attach_CONF, which is a list containing the names and title of roughly 40 SoCalGas employees who supported in some manner SoCalGas’ Political Activities. Documents demonstrating that support include, without limitation, the following Attachments: 2, 9, 67, 77, 79, 80, 83, 85, and 87. While SoCalGas claims that several of these employees’ salaries are booked below the line, most of them are not. Further, this listing is preliminary, and does not purport to identify even a meaningful fraction of SoCalGas employees who support the utility’s Political Activities.
SoCalGas confirmed that the costs for every one of those four campaigns had initially been booked to ratepayer accounts. Indeed, Cal Advocates is not aware of any Political Activities discovered during its Accounting Review that were booked to shareholder accounts at the time of the campaign’s inception.

The evidence also shows that the utility routinely deployed employees throughout the company to participate in those campaigns, but understated the number of employees involved and the time spent by the employees’ who did participate participation when responding to Cal Advocates’ data requests. As Section B (below) explains, the evidence shows that the utility cannot accurately quantify the employee costs that should be booked to shareholders because it made no effort to accurately track employee time spent on these campaigns.

Finally, the Accounting Review also revealed that SoCalGas contracted to pay a vendor to provide speakers at Commission business meetings, and that those speakers made presentations during at least two Commission business meetings in 2021 without identifying their affiliation with SoCalGas or the vendor that ensured they attended.

There is no reason to assume that these are the only campaigns that SoCalGas engaged in; these are simply the ones that Cal Advocates was able to identify. Given that SoCalGas has not identified all of its Political Activities, has not shown that all costs

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9 The Balanced Energy Work Order Authorization showed the SoCalGas booked C4BES and other related “balanced energy” costs to ratepayers because the WOA requires that all costs be booked to ratepayer account 920. See WP 183 - Balanced Energy WOA 28322.000, Internal Order 300796601, 9-12-19-CONF. SoCalGas then admitted in Attachments 29, 155, and 156 that it had booked the costs of the other three campaigns to ratepayers, but claimed it intended to remove the costs before the next GRC. See Response to Q. 5(b) in each of the three Attachments: WP 29 - SCG DR Resp. AW-SCG-2020-01, 3-31-21, LA Airport Lobbying Resp. 5-CONF; WP 155 - SCG DR Resp. SC-SCG-2019-10, 1-13-20 - Long Beach Lobbying, Supp-CONF; and WP 156 - SCG DR Resp. SC-SCG-2019-11, 1-13-20 - LA MTA Lobbying-CONF.

These campaigns were in addition to the Commission’s two Orders to Show Cause in the energy efficiency docket (R.13-11-005) regarding advocacy that SoCalGas had inappropriately charged to ratepayers. These two Orders to Show Cause resulted in decisions that found SoCalGas to have violated Commission orders. Decision 22-04-034 found SoCalGas violated Public Utilities Code Section 451 and ordered “remedies for appreciable harm to the regulatory process caused by Southern California Gas Company’s conduct…” at 2. Decision D.22-03-010 ordered refunds and fines in its finding of SoCalGas “in contempt, in violation of Rule 1.1 of the Rules of Practice and Procedure, and ordering remedies for failure to comply with Decision 18-05-041” at 2.
associated with those activities have been booked to FERC Account 426.4, has not
maintained records sufficient to accurately quantify the cost of employee labor spent on
the campaigns identified by Cal Advocates, and has failed to demonstrate that all costs
associated with those campaigns have benefitted ratepayers, Cal Advocates proposes
that 80% of the total TY estimate for Regional Public Affairs, Clean Energy Innovations,
and Customer Services-Information, and 35% of the administrative and general
expenses requested in SCG-29, Mijares, be removed from this GRC.

1. MTA Campaign

The evidence shows that between January and July of 2017, SoCalGas
expended significant efforts – involving paid consultants, a social media campaign, and
recurring lobbying meetings between MTA officials and multiple SoCalGas employees –
to overcome the MTA’s preference for electric buses. The efforts devoted to this
campaign are evidenced by the scope of work assigned to the utility’s consultant,
Marathon Communications Incorporated (Marathon), and the number of
communications and lobbying meetings that occurred between January and July, 2017.
As a result, the utility prevailed in convincing the MTA Board to vote in favor of

The evidence also shows that SoCalGas charged the costs of this campaign to
FERC Accounts 920 and 921 (both ratepayer accounts) and routinely misrepresented
and minimized the scope and cost of this campaign in response to Cal Advocates’ data
requests. For example, in a January 2020 data response, SoCalGas claimed that it
spent a total of $10 million in consultant costs, staff labor, and expenses to lobby the
MTA Board to purchase natural gas buses over electric ones.10 This estimate was
based on SoCalGas’ representation that three salaried employees attended seven
meetings of about one hour each between June 13 and July 18 (for a total labor cost of

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10 WP 156 - SCG DR Resp. SC-SCG-2019-11, 1-13-20 – LA MTA Lobbying-CONF at Q.3 (f) (Q: State the total costs that SoCalGas has incurred associated with lobbying the Los Angeles County Metropolitan Transportation Authority regarding the Metro bus fleet. A: “SoCalGas has calculated an estimate of total costs of $10 million.”).
When asked whether it used consultants for the MTA campaign, SoCalGas explained that it used the services of one paid and one unpaid consultant, and that while it had a general contract with Marathon “to assist with various consulting work” it was “unaware of any of the work being associated with lobbying the MTA.”

As an initial matter, SoCalGas’ quantification of employee time is not credible. Documents produced by the utility conclusively demonstrate that SoCalGas was significantly understating the costs incurred for the MTA campaign. Those documents show that SoCalGas began planning the MTA campaign early in 2017, and that it hired Marathon in early January of that year to spearhead an extensive and much more costly lobbying campaign than the one described in its data response.

The MTA campaign involved many more than the three employees identified by SoCalGas, used the services of three consultants, and included a weekly “MTA

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13 WP 81 - SCG DR Resp. SC-SCG-2019-06, 0001933, Marathon Proposal to SCG, 1-11-17-CONF and WP 21 - SCG DR Resp. AW-SCG-2020-01, Marathon Contract pre C4BES, 1-15-17-CONF. See also WP 88 - SCG DR Resp. SC-SCG-2019-06, 0004297, Media Plan, 03-26-17-CONF; and WP 82 - SCG DR Resp. SC-SCG-2019-06, 0001937, Empl 2 Email re PLB, 02-07-17-CONF (“Been meeting with both ports and commissioners on issue. Have grassroots group of EJ types with staff funded as a coalition to mobilize people and argue for this.”).
14 See, e.g., WP 89 - SCG DR Resp. SC-SCG-2019-06, 0004355, Empl 2 Email re MTA Strategy Call, 07-12-17-CONF, WP 86 - SCG DR Resp. SC-SCG-2019-06, 0003887, Empl 2 Email re speaking instructions, 07-22-17-CONF, including at least six other SoCalGas employees not previously identified by SoCalGas as being involved in the MTA campaign including... See, e.g., WP 87 - SCG DR Resp. SC-SCG-2019-06, 0004261, Empl 2 Email re letter to MTA, 06-02-17-CONF (noting need for “final approval” before sending the letter). At a minimum, some of these employees would have been obligated to read emails, review proposals, and authorize the Political Activities, yet SoCalGas did not include any of these employees’ time in its quantification of employee costs related to this lobbying effort.
15 See FN 13 regarding Marathon participation. See also WP 17 - SCG DR Resp. AW-SCG-2020-01, Firm 3 SOW, 4-20-17-CONF and WP 14 - SCG DR Resp. AW-SCG-2020-01, Firm 3 Invoice, 7-1-17-CONF (monthly retainer paid to a “full-service public affairs, strategic communication and government advocacy firm” to “assist Southern California Gas Co. with its work on natural gas in the Greater Los Angeles area”); WP 157 - SCG DR Resp. SC-SCG-
Call” with an agenda developed by SoCalGas staff to discuss the status of the MTA campaign. The campaign also included a significant social media component. The evidence also shows that the three SoCalGas employees the utility identified in its data response spent a significant amount of time on the campaign — including organizing and hosting the weekly MTA call — and participated in many more meetings with MTA officials than the seven disclosed in the January 2020 data response.

The utility’s emails show that SoCalGas management considered the MTA campaign a success, and that the utility intended to expand these lobbying efforts to other decision-making bodies. For example, in a May 26, 2017 email entitled “MTA Vote follow up,” a SoCalGas Public Policy Manager, referred to in this testimony as “Employee 2” explained that the effort to win the June/July 2017 MTA votes “represent[s] the beginning of a much broader campaign going forward. Let’s win this one directly AND think about what we can do in this battle to lay the groundwork for

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16 See, e.g., WP 89-SCG DR Resp. SC-SCG-2019-06, 0004355, Empl. 2 Email re MTA Strategy Call, 07-12-17-CONF; WP 104-SCG DR Resp. SC-SCG-2019-06, 0007752, Empl. 2 Email re MTA Board Vote, 06-22-17-CONF; WP 101 - SCG DR Resp. SC-SCG-2019-06, 0007701, Empl. 2 Email re MTA Meeting, 07-27-17-CONF; and WP 102 - SCG DR Resp. SC-SCG-2019-06, 0007722, Empl. 2 1st Email re Ltr to MTA Board, 07-21-17-CONF.


18 See, e.g., FN 14 above and WP 133 - SCG DR Resp. SC-SCG-2019-06, 0012458, Empl. 2 Email re MTA Strategy Call, 05-26-17-CONF; WP 104 - SCG DR Resp. SC-SCG-2019-06, 0007752, Empl. 2 Email re MTA Board Vote, 06-22-17-CONF;

19 To protect the identity of specific SoCalGas personnel with extensive roles in the utility’s advocacy, these employees will be referred to throughout this testimony as either Employee 1 or Employee 2. Employee 1’s title was “Regional Vice President, External Affairs & Environmental Strategy,” and Employee 2’s title was “Public Policy Manager.”
future efforts." In a June 14, 2017 email, Employee 2 asked Imprenta Communications Group (Imprenta), a public relations firm, to provide emails, posts, and other documentation of the MTA lobbying effort “so that I can pitch continued efforts for an ongoing campaign after the MTA thing is done, etc. [Employee 1] totally gets the momentum and he'll help get the $ to pay for it ... if we continue pushing and show the success.”

In sum, while SoCalGas minimized the consultant costs and employee time spent on the MTA campaign in its January 2020 data response to Cal Advocates, the evidence shows that the campaign was more costly and involved far more consultant money and employee time than the utility represented to Cal Advocates. Thus, while the utility now claims that it has removed all the costs of these Political Activities from the test year – it has provided no evidence in support of this claim.

Given the utility’s previous and significant understatements of those costs, and without understanding the full scope of the utility’s Political Activities and where the costs were ultimately booked, Cal Advocates has no assurance that SoCalGas properly quantified the full costs of this campaign and allocated them to shareholders, as required by law and Commission precedent.

2. Ports Campaign

Like the MTA campaign, utility invoices and emails show that SoCalGas booked the costs of its campaign to convince the San Pedro Bay Ports to modify their Clean Air

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WP 133 - SCG DR Resp. SC-SCG-2019-06, 0012458, Empl. 2 Email re MTA Strategy Call, 05-26-17-CONF (emphasis in original).

WP 133 - SCG DR Resp. Sc-SCG-2019-06, 0004666, Empl. 2 Email re MTA Strategy Call, 06-14-17-CONF.

The January 6, 2023 Appellate Court Decision precludes Cal Advocates from reviewing the utility’s below-the-line accounts, which is where all of SoCalGas’ Political Activities’ costs should have been allocated. See Court Of Appeal Of The State Of California, Second Appellate District, Division One, B310811, p. 28 (“The PAO is authorized to ensure only that advocacy costs are not booked to ratepayer accounts. This it may do by examining ratepayer, not shareholder, accounts.”)
Action Plan to include natural gas vehicles to ratepayer accounts. The evidence also shows that SoCalGas misled Cal Advocates regarding its Ports campaign when responding to Cal Advocates’ data request. For example, SoCalGas identified only one instance of lobbying, that it claims occurred on September 21, 2017, and that only one consulting firm and three SoCalGas employees worked on the campaign. SoCalGas also misrepresented the amount of its consultant’s monthly retainer, and identified minimal costs associated with its lobbying efforts.

The reality is that emails show SoCalGas began working with consultants at least seven months earlier – at least as early as February – to fund a “coalition” to advocate against the Port’s Clean Air Action Plan. That campaign ultimately included numerous SoCalGas employees, at least four consulting firms working for

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23 See WP 155 - SCG DR Resp. SC-SCG-2019-10, 1-13-20 - Long Beach Lobbying, Supp.-CONF, Q.5 (admitting costs were booked to ratepayer-funded accounts, including FERC Accounts 300, 920, and 921).


26 Compare WP 155 - SCG DR Resp. SC-SCG-2019-10, 1-13-20 - Long Beach Lobbying, Supp.-CONF, answer to Q.4(c) with the invoiced amount at WP 14 - SCG DR Resp. AW-SCG-2020-01, Firm 3 Invoice, 7-1-17-CONF.


28 WP 82 - SCG DR Resp. SC-SCG-2019-06, 0001937, Empl. 2 Email re PLB, 02-07-17-CONF and both worked for Marathon; discussions began in February 2017).

29 SoCalGas only identified , , and as engaging in lobbying activities for the Ports campaign. See WP 155 - SCG DR Resp. SC-SCG-2019-10, 1-13-20 - Long Beach Lobbying, Supp.-CONF, response to Q.3. However, many more SoCalGas employees were actively involved in lobbying on behalf of the utility. See, e.g., WP 118 - SCG DR Resp. SC-SCG-2019-06, 0011310, SCG Emails Coordinating Long Beach Press Conference, 10-17-CONF, pp. 0011310-0011315 (showing that numerous SoCalGas employees were actively involved in the campaign, including Public Affairs Managers (PAMs) . This and other emails reflect that many other SoCalGas employees were actively involved in the campaign, including

(continued on next page)
SoCalGas, outreach to many elected officials, and media strategies that included placement of op-ed's with local news outlets.

While the Ports campaign was an extensive effort joined by several other parties, SoCalGas appears to have been the key actor in this campaign. The evidence shows

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Internal emails and invoices reflect that Marathon, were paid consultants working on the Port campaign for SoCalGas, and that Imprenta worked at SoCalGas' direction, but may not have been paid. See, e.g., WP 83 - SCG DR Resp. SC-SCG-2019-06, 0002117, ACT Now Action Items, 10-20-17-CONF (and work for Imprenta); WP 93 - SCG DR Resp. SC-SCG-2019-06, 0004466, ACT Press Conference Talking Points, 10-16-17-CONF (Imprenta drafting talking points); WP 94 - SCG DR Resp. SC-SCG-2019-06, 0004509, Empl. 2 Email re Op-Ed Draft, 10-25-17-CONF and Imprenta); WP 109 - SCG DR Resp. SC-SCG-2019-06, 0010891, Empl. 2 Email re Vote on CAAP, 10-26-17-CONF, WP 108 - SCG DR Resp. SC-SCG-2019-06, 0010826, Empl. 2 Email re Media Advisory, 10-12-17-CONF; WP 95 - SCG DR Resp. SC-SCG-2019-06, 0004517, Empl. 2 Email re CNGVC Press Conference, 10-2-2017-CONF (Marathon and Imprenta); WP 94 - SCG DR Resp. SC-SCG-2019-06, 0004509, Empl. 2 Email re Op-Ed Draft, 10-25-17-CONF (Imprenta); WP 116 - SCG DR Resp. SC-SCG-2019-06, 0011284, Email Re CAAP Op-Ed, 10-27-17-CONF (Marathon and Imprenta); and WP 111 - SCG DR Resp. SC-SCG-2019-06, 0010912, Email re Invitation to Press Conference, 10-17-17-CONF.

See also invoices and contracts for at WP 17 - SCG DR Resp. AW-SCG-2020-01, Firm 3 SOW, 4-20-17-CONF; WP 14 - SCG DR Resp. AW-SCG-2020-01, Firm 3 Invoice, 7-1-17-CONF; WP 15 - SCG DR Resp. AW-SCG-2020-01, Firm 3 Invoice, 8-17-CONF; WP 16 - SCG DR Resp. AW-SCG-2020-01, Firm 3 Invoice, 9-1-17-CONF; and Marathon Invoice, 11-15-17-CONF (reflecting a monthly retainers for services).


See, e.g., WP 111 - SCG DR Resp. SC-SCG-2019-06, 0010912, Email re Invitation to Press Conference, 10-17-17-CONF; See, e.g., WP 82 - SCG DR Resp. SC-SCG-2019-06, 0001937, Empl. 2 Email re PLB, 02-07-17-CONF; and WP 114 - SCG DR Resp. SC-SCG-2019-06, 0011272, Empl. 2 Email re Segment on KNBC, 10-27-17-CONF.

SoCalGas orchestrated the creation of “Advanced Clean Trucks (ACT) Now” an organization allegedly sponsored by the “California Natural Gas Vehicle Coalition” (CNGVC). With CNGVC’s support, ACT Now urged the Ports to adopt natural gas vehicles in their Clean Air Action Plan. While CNGVC’s website as of December 18, 2017 listed SoCalGas as one of two “Charter Members,” and one of four “Executive Committee” members, including one employee as a Board member, these disclosures fail to reflect the full extent of SoCalGas’ control of CNGVC.

On October 18, 2017, CNGVC held a press conference in South Gate, California publicizing its support for natural gas over electric trucks in the Ports’ Clean Air Action Plan. SoCalGas data responses show that SoCalGas and its consultants – Imprenla and [redacted] – engineered the press conference, arranging all logistics, supporters, speakers, talking points, and media surrounding the event.

“We Can” which appears to have been another SoCalGas front group advocating for the adoption of gas-fueled trucks during the Ports campaign, was also involved in

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34 See WP 82 - SCG DR Resp. SC-SCG-2019-06, 0001937, Empl. 2 Email re PLB, 02-07-17-CONF (“Have grassroots group of EJ types with staff funded as a coalition to mobilize people and argue for this.”); WP 83 - SCG DR Resp. SC-SCG-2019-06, 0002117, ACT Now Action Items, 10-20-17-CONF; and WP 84 - SCG DR Resp. SC-SCG-2019-06, 0002124, ACT Now Marketing-CONF.

35 WP 84 - SCG DR Resp. SC-SCG-2019-06, 0002124, ACT Now Marketing-CONF. (“Advanced Clean Trucks (ACT) Now Plan aims to accelerate the San Pedro Ports’ Clean Air Action Plan (CAAP).”). See also FN 34 above.

36 See, e.g., https://cngvc.org/about-us/who-we-are/ accessed 18 Dec 2017. The website has been modified since that time, but prior versions can be accessed through an Internet Archive referred to as the “Wayback Machine.”

37 WP 118 - SCG DR Resp. SC-SCG-2019-06, 0011310, SCG Emails Coordinating Long Beach Press Conference, 10-17-CONF, pp. 0011315-0011317. (Imprenta emailed Employee 2 saying “do you have a minute this morning to connect on this?... I’m supposed to hear today whether or not Maywood wants to participate, but I’m already thinking about a Plan B regarding location." Employee 2 indicated that neither they nor [redacted][from Marathon] had heard from Imprenta replied “As a Plan B, Hollydale Park is South Gate has been floated,” Employee 2 then replies “works for me.”). See also, WP 28 - SCG DR Resp. AW-SCG-2020-01, 3-3-20, LA Airport Lobbying Resp. 1-CONF, Resp. to Q.6. (As the utility explained, [redacted] and [redacted] role was to “bring awareness to local elected officials on compressed natural gas heavy duty technologies ... to garner the support of local elected officials.” SoCalGas “assisted in securing speakers for the event. It also appears that the SoCalGas’ media team was made aware of the event at the time, and provided input into various draft media documents.”).
the press conference. As discussed in Section II.C below, SoCalGas records reflect
that its consultant costs for “We Can” were booked to ratepayer accounts. Given its
limited access to the utility’s SAP system, Cal Advocates has no evidence that the costs
were ultimately moved to FERC Account 426.4.

A campaign with this many components requires significant time, staff, and
money to orchestrate – yet SoCalGas disclosed none of these elements in its data
responses to Cal Advocates. Instead, it estimated a total cost of $540 “associated with
lobbying the Port of Long Beach regarding a transition to zero emissions equipment.” 38

Given the utility’s systemic failure to accurately track and quantify its lobbying costs, any
showing that all lobbying costs have been removed from the test year must be robust
and leave nothing to chance. Yet SoCalGas has made no showing at all, apart from
bald claims that all such costs have been removed. Cal Advocates’ attempts to verify
the removal of these prohibited costs have been unsuccessful. 39

In some cases, such
as the “We Can” example discussed in Section II.C below, the costs appear to have
been consciously left in ratepayer-funded accounts.

3. C4BES Campaign

a. SoCalGas paid Marathon to create C4BES to
advance the utility’s political agenda using
ratepayer funded accounts

At the end of 2017, in response to the Commission’s proposal to adopt a
temporary moratorium on new gas connections, 40 SoCalGas began to develop a new
organization – ultimately known as “Californians for Balanced Energy Solutions” or
“C4BES” – to advocate for pro-gas policies before government entities throughout the
State. As the SoCalGas employee tasked with this effort explained, SoCalGas asked
Marathon Communications (Marathon) to “mount[] a campaign to support the continued

39 See, e.g., discussion in Sections II C and D below.
use of natural gas and to oppose measures that would prohibit or inhibit the use of gas as an energy resource, or customers' choice of energy.\textsuperscript{41}

Marathon quickly responded with a seven-step plan to create a front group – referred to colloquially as an "astroturf" organization\textsuperscript{42} – for SoCalGas. Marathon’s plan explained that the goal was to\textsuperscript{43} As a central element of the plan, Marathon would\textsuperscript{44} The “coalition” would then engage in activities including\textsuperscript{45} It would also coordinate\textsuperscript{46} at\textsuperscript{47} The plan

\textsuperscript{41} WP 99 - SCG DR Resp. SC-SCG-2019-06, p. 0007089, Empl. 1 EMail, 12-5-17-CONF.

\textsuperscript{42} “Astroturfing” is the practice of masking the sponsors of a message or organization to make it appear as though it originates from and is supported by grassroots participants. For a comedic explanation of what astroturfing is and why it is problematic, see John Oliver, Last Week Tonight, at https://www.youtube.com/watch?v=Fmh4RdlwswE

\textsuperscript{43} WP 100 - SCG DR Resp. SC-SCG-2019-06, 0007100-7103, Marathon Proposal, 12-5-17-CONF, p. 0007100.

\textsuperscript{44} WP 100 - SCG DR Resp. SC-SCG-2019-06, pp. 0007100-7102, Marathon Proposal, 12-5-17-CONF.

\textsuperscript{45} WP 100 - SCG DR Resp. SC-SCG-2019-06, pp. 0007102-7103, Marathon Proposal, 12-5-17-CONF.

\textsuperscript{46} “RNG” refers to renewable natural gas.

\textsuperscript{47} WP 100 - SCG DR Resp. SC-SCG-2019-06, pp. 0007102-7103, Marathon Proposal, 12-5-17-CONF.
also included a focus on advancing SoCalGas' priorities and
On May 14, 2019, SoCalGas' attempt to use C4BES as a front group was exposed when C4BES sought to participate in the Commission's Building Decarbonization Rulemaking. Sierra Club moved in that proceeding to deny party status to C4BES on the basis that SoCalGas formed C4BES on its own initiative, developed C4BES' organizing principles, actively recruited its members, and compensated at least one board member for their affiliation with C4BES. Sierra Club argued that it is "fundamentally inappropriate for the interests and bottom line of a regulated entity to be given duplicative representation in a Commission proceeding by an astroturf group it created and substantially controls."

Given the potential ratepayer impacts of Sierra Club's allegations, and the compelling evidence provided in its motion, Cal Advocates, pursuant to its authority under California Public Utilities Code § 309.5(e), requested information from SoCalGas to determine if ratepayer funding had been used to create and support C4BES and, if so, the extent of that funding.

This was Cal Advocates' first inquiry into the utility's use of ratepayer monies to fund its political advocacy, and the utility initially insisted that shareholders were funding

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48 WP 100 - SCG DR Resp. SC-SCG-2019-06, p. 0007101, Marathon Proposal, 12-5-17-CONF.
49 Commission Rulemaking (R.) 19-01-011
51 Sierra Club C4BES Motion, p. 3.
52 WP 182 - PAO DR SCG051719, 5-23-19.
C4BES’ activities. However, Cal Advocates’ request for evidence supporting this claim – enforced by a motion to compel — eventually revealed that SoCalGas had booked costs to create and support C4BES to a ratepayer account, and that the utility authorized $29.1 million for these efforts between 2019 and 2023.

Ultimately, in a February 2020 data response issued months after Cal Advocates’ discovery, SoCalGas claimed that it had mistakenly booked the “Balanced Energy” campaign costs to a ratepayer account.

SoCalGas claims that it intended to book all “Balanced Energy” costs to shareholders does not add up. Among other things, the “Balanced Energy Work Order Authorization” – which initially directed that all costs be booked to a ratepayer account — was not created until March 21, 2019, with an effective date of January 1, 2019. However, the evidence shows that SoCalGas funded Marathon’s creation of C4BES for all of 2018. SoCalGas has provided no explanation for where the 2018 Marathon payments have been booked. Nor does the utility confirm that all of the 2017 Marathon payments for the other campaigns were not booked to ratepayer accounts. As

53 See WP 35 - SCG DR Resp. SCG051719, 8-13-19, 3rd Resp., Questions 1 and 2 (Q 1: “Did SoCalGas use any ratepayer funding to support the founding and launch of Californians for Balanced Energy Solutions (C4BES)?” A: “Ratepayer funds have not been used to support the founding or launch of Californians for Balanced Energy Solutions (C4BES).” Q 2: “Does SoCalGas continue to use any ratepayer funding to support C4BES?” A: “Ratepayer funds are not used to support C4BES.”).

54 Cal Advocates’ first Motion to Compel in the “not-in-a-proceeding” Accounting Review was served August 14, 2019 to compel the utility to disclose the costs associated with the Balanced Energy Work Order Authorization that it had provided in redacted form. That Motion to Compel is available at https://www.publicadvocates.cpuc.ca.gov/-/media/cal-advocates-website/files/legacy3/ldr-to-picker-re-motion-to-compel-futher-responses-to-dr-scscgdocx.pdf. SoCalGas’ redacted version of the Balanced Energy Work Order Authorization blocking out review of the costs authorized for the Balanced Energy activities is included at pdf p. 42 of the Motion to Compel.

55 See WP 183 - Balanced Energy WOA 28322.000, Internal Order 300796601, 9-12-19-CONF, for costs starting January 1, 2019

56 See WP 159 - Ex 159 - SCG DR Resp. SK-SCG-2020-01 Q4, 2-7-20, Change in BEIO-CONF (In response to Cal Advocates’ request for “documentary evidence” supporting the utility’s representations that C4BES was shareholder funded, the utility eventually admitted that while it was intended to be shareholder funded, “an incorrect settlement rule was set up for this IO to FERC 920.0 A&G Salaries.”).
described in Section II.C, Cal Advocates’ preliminary review of Marathon’s invoices in
the SAP system reflects that Marathon payments for 2017 and 2018 were booked to
ratepayer accounts.

In addition, Cal Advocates issued its first data request asking how C4BES was
funded on May 23, 2019. If SoCalGas had reviewed its accounts before responding to
Cal Advocates, it would have been immediately evident to the utility that the costs were,
in fact, being booked to ratepayer account 920. However, SoCalGas responded on
June 14, 2019 that “[r]atepayer funds have not been used to support the founding or
launch” of C4BES.

On August 2, 2019, in response to another data request, the utility finally
provided a copy of the Balanced Energy Work Order Authorization to Cal Advocates.
That document showed on its face that all costs were to be booked to FERC Account
920, a ratepayer account.57 It appears the utility eventually changed its accounting to
book the costs to FERC Account 426.4 in October 2019.58 However, the utility did not
acknowledge this accounting “error,” or its correction of that error, until February 7, 2020
– roughly eight months after Cal Advocates’ first data request regarding the funding for
C4BES – and only in response to a Cal Advocates data request for “all documentary
evidence that charges to IO 30076601 are shareholder funded.59

Given these discrepancies, and the fact that Cal Advocates only began reviewing
the utility’s SAP system on March 13, 2023, Cal Advocates will likely continue to
investigate the origins of the Balanced Energy Work Order Authorization and the costs

57 See WP 183 - Balanced Energy WOA 28322.000, Internal Order 300796601, 9-12-19-CONF, for costs starting January 1, 2019 (improperly booking Balanced Energy costs to FERC Account 920, an account for administrative and general salary expenses, instead of Account 426.4 which is the FERC account devoted to political advocacy costs.)

58 See WP 159 - Ex 159 - SCG DR Resp. SK-SCG-2020-01 Q4, 2-7-20, Change in BEIO-CONF (see screen shot at bottom of data response showing a change from FERC Account 920 to FERC Account 426.4 October 2019).

59 WP 159 - Ex 159 - SCG DR Resp. SK-SCG-2020-01 Q4, 2-7-20, Change in BEIO-CONF (In response to Cal Advocates’ request for “documentary evidence” supporting the utility’s representations that C4BES was shareholder funded, the utility eventually admitted that while it was intended to be shareholder funded, “an incorrect settlement rule was set up for this IO to FERC 920.0 A&G Salaries.”).

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settled to that Order. Consequently, Cal Advocates reserves the right to provide additional evidence on this matter, as appropriate.

b. SoCalGas sought to hide its creation and control of C4BES and to characterize C4BES’ activities as “education”

A March 1, 2018, Marathon invoice reflects that formal efforts to create C4BES and its associated pro-natural gas campaign began in earnest on January 26, 201860 – at least a year before the Balanced Energy Work Order Authorization was approved.61 As described below, the evidence shows that the utility’s goal was to create a SoCalGas-controlled advocacy group to influence public opinion and the decisions of public officials to discourage initiatives reducing reliance on natural gas, while obfuscating SoCalGas’ role in that group. The evidence also shows that notwithstanding its clear advocacy/lobbying objectives for C4BES, the utility sought to characterize C4BES as an “educational” organization that benefited ratepayers.62

A February 20, 2018 Marathon work proposal describes the plans of SoCalGas and its agents to create a separate organization that would advocate SoCalGas’ interests at all levels of government while appearing independent. 63

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62 See e.g., WP 176 - SCG DR Resp. SC-SCG-2019-06, 0014448, Empl. 2 Email re LA Times-CONF (Employee 2 stating “I am) [w]anting to make sure that this is very clearly an education effort. All documents must be ‘ok if they hit the LA Times’ ready.”).
C4BES was incorporated and officially launched to the public nearly a year later, in January 2019. Without any reference to SoCalGas and its advocacy objectives, the C4BES Articles of Incorporation stated that “this corporation is organized and operated exclusively for social welfare purposes within the meaning of IRC Section 501(c)(4)” and that C4BES was “a nonprofit public benefit corporation … not organized for the private gain of any person.”

SoCalGas continued funding C4BES activities after C4BES was incorporated by amending Marathon’s contract to support a six month “ramp-up” period of increased activity to support C4BES throughout its launch. Such ramp-up activities included the production of C4BES print amplifying SoCalGas’ pro-gas positions. For example, a draft C4BES advertisement intended for the Ventura County cities of Fillmore and Oxnard include the utility’s scripted talking points regarding electrification, describing how “Powerful organizations are working to take away our right to choose affordable natural and renewable gas. For them, it’s electricity or nothing!”

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64 WP 70 - SCG DR Resp. SC-SCG-2019-06, p. 0000596, Campaign Rollout, 2-20-18-CONF.
66 Investigation Exhibit 2 - C4BES Articles of Incorporation Filed 1-9-19 (emphases added).
c. SoCalGas Executives approved the creation and funding of C4BES and many SoCalGas employees were deployed to recruit members to the organization

SoCalGas’ support for the utility’s creation and control of C4BES is demonstrated throughout the evidence obtained by Cal Advocates. Among other things, that evidence shows that:

- SoCalGas executives authorized funding for “Balanced Energy” expenditures of $27.9 million between 2019 and 2023.69
- Roughly twenty SoCalGas employees, including at least two Regional Vice Presidents, were tasked with recruiting members to C4BES, including for the C4BES Executive Committee and Board.70

SoCalGas sought to downplay any appearance that it was managing the actions and messaging of C4BES. For example, in February 2019, in response to a Bloomberg media inquiry, a SoCalGas Vice President advised Marathon and the C4BES Executive Director that SoCalGas should not respond to the inquiry because they need to give the appearance that C4BES is an “independent” organization “with lots of constituent groups”:

…[I]t would be way, way better for you guys as media guys representing the Coalition, meaning either [the C4BES Executive Director] or someone from Marathon, not [Employee 2], to handle this call. A spokesperson from C4BES should respond to [a] media inquiry. Says that this is an independent organization with lots of constituent groups, and that yes the gas company is a board

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69 See WP 183 - Balanced Energy WOA 28322.000, Internal Order 300796601, 9-12-19-CONF (Dated March 21, 2019).
70 WP 67 - - SCG DR Resp. SC-SCG-2019-06, 0000334-335, Brd Recruitment Status-CONF (showing names of potential Board members to be recruited and SoCalGas Public Affairs Managers and other SoCalGas employees tasked with recruiting them, including Vice Presidents [REDACTED] and [REDACTED]); see also WP 153 - DR Resp. SC-SCG-2019-06, 0018771-72, C4BES Progress Update, 9-11-18-C; WP 85 - SCG DR Resp. SC-SCG-2019-06, 0003056, Email re Mbr Pitch Ltr, 1-18-19-CONF (“we’ll push this [draft letter] out through the Public Affairs Managers through their networks, we’ll have Marathon push it out through the lists they have… and we’ll work with Imprenta to push this out elsewhere.”); and WP 77 - SCG DR Resp. SC-SCG-2019-06, 0001845-46, Empl. 2 Email re Onboarding Rahn, 1-18-19-CONF, p. 0001845 (“We will solicit membership 3 ways: a. Through the Board; b. Through SoCalGas Public Affairs Managers c. Through 3rd Party (Marathon Communications) and social media.”).
member, as is its union and building trades, and large business organizations and low income and senior and faith based groups.\textsuperscript{71}

d. **SoCalGas has not demonstrated that all costs associated with C4BES have been removed from the Test Year**

As evidenced above, the C4BES campaign was far-reaching, designed to be hidden, and characterized as “educational,” with all associated costs booked to ratepayer accounts until many months after Cal Advocates initiated its Accounting Review. To this day, the utility has failed to quantify the full costs of the campaign, including the total employee cost, which is significant given the number of employees involved and the hours spent on the creation of the organization.\textsuperscript{72} Instead, the utility points to the Balanced Energy Work Order Authorization and insists that all costs were booked to FERC Account 426.4 as of October 2019 consistent with the accounting instructions in that document.\textsuperscript{73} Such a showing is insufficient because, among other things, the utility has not demonstrated how much employee time was spent on those efforts, that its quantification of that time is accurate, and that those costs have also been removed from its revenue request. In addition, because of the utility’s refusal to allow Cal Advocates to review Account 426.4, the utility is attempting to force the Commission to take the utility at its word when it claims that all consultant costs were charged to the Balanced Energy Work Order and booked to Account 426.4.\textsuperscript{74}

4. **Los Angeles World Airports Campaign**

In response to a February 14, 2020 data request, SoCalGas admitted – among other things - that it lobbied the Los Angeles World Airports (LAWA) in 2017 to influence

\textsuperscript{71} WP 75 - SCG DR Resp. SC-SCG-2019-06, 0001057-62, Emails re Bloomberg Inquiry, 2-21-19, p. 0001057-CONF.

\textsuperscript{72} See, e.g., WP 67 - SCG DR Resp. SC-SCG-2019-06, 0000334-335, Brd Recruitment Status-CONF (Names of SoCalGas Public Affairs Managers and other SoCalGas employees tasked with recruiting members to C4BES).

\textsuperscript{73} WP 29 - SCG DR Resp. AW-SCG-2020-01, 3-31-21, LA Airport Lobbying Resp. 5-CONF, Resp. 22 (b) and (c).

\textsuperscript{74} WP 29 - SCG DR Resp. AW-SCG-2020-01, 3-31-21, LA Airport Lobbying Resp. 5-CONF, Qs 22(b) and (c).
the updates to LAWA’s Alternative Fuel Vehicle Requirement Program. SoCalGas amended its response to this data request five times, with the final response provided more than a year later, on March 31, 2021.

SoCalGas initially represented that it lobbied one LAWA staff member on October 4, 2017, that Marathon did not conduct any lobbying activities, and that there were only two individuals involved in the lobbying. SoCalGas estimated total lobbying costs to be $ for one hour of employee time – 30 minutes to prepare and 30 minutes to speak to LAWA staff. SoCalGas claimed there were no invoices, materials, or contracts or other business agreements related to the LAWA lobbying, and acknowledged that the costs were booked to FERC Account 920 – a ratepayer-funded account.

Cal Advocates eventually obtained evidence that the LAWA campaign was far more extensive than the utility admitted in its first data response. On June 15, 2020, the utility amended its response to identify nine instances of Political Activities, to name five employees involved in those efforts, and to clarify that Marathon was involved in some of those efforts. The utility modified its estimate of the costs of these activities to take

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75 WP 28 - SCG DR Resp. AW-SCG-2020-01, 3-3-20, LA Airport Lobbying Resp. 1-CONF, Resp. to Q. 1.
76 See WP 29 - SCG DR Resp. AW-SCG-2020-01, 3-31-21, LA Airport Lobbying Resp. 5-CONF.
77 WP 28 - SCG DR Resp. AW-SCG-2020-01, 3-3-20, LA Airport Lobbying Resp. 1-CONF, Resp. to Q.2.
78 WP 28 - SCG DR Resp. AW-SCG-2020-01, 3-3-20, LA Airport Lobbying Resp. 1-CONF, Resp. to Q.2(f) and Q.4(a).
79 WP 28 - SCG DR Resp. AW-SCG-2020-01, 3-3-20, LA Airport Lobbying Resp. 1-CONF, Resp. to Q.3.
80 WP 28 - SCG DR Resp. AW-SCG-2020-01, 3-3-20, LA Airport Lobbying Resp. 1-CONF, Resp. to Q.5(b).
81 WP 29 - SCG DR Resp. AW-SCG-2020-01, 3-31-21, LA Airport Lobbying Resp. 5-CONF, Resp. to Q.2(d) (employees included [redacted], Regional VP for External Affairs and Environmental Strategy, a Government Affairs Manager, a Business Policy Manager, a Clean Transportation Manager, and a Project Manager Technology Development).
just over eight hours of employee time for a total cost of $[redacted], not including one hour of Marathon’s work and the work of an employee whose time spent on the matter was “unknown” because he no longer worked for the company.\(^{82}\) SoCalGas confirmed that Marathon was paid a $[redacted] monthly retainer for its services.\(^{83}\)

Again, given the scope of SoCalGas’ activities on this matter, it is not credible that even the updated costs provided by the utility on June 15, 2020, months after the February 14, 2020 data request seeking this information, accurately reflect the employee time spent on these efforts. The data response reflects that SoCalGas has quantified the bare minimum of the cost of each activity – just the time spent to engage in a lobbying phone call or to draft a letter – overlooking the time spent in internal meetings to discuss strategy and the time spent reviewing and collaborating on the final product. SoCalGas’ failure to accurately track employee time spent on these efforts necessarily results in ratepayers, rather than shareholders, absorbing these costs.

\(^{82}\) WP 29 - SCG DR Resp. AW-SCG-2020-01, 3-31-21, LA Airport Lobbying Resp. 5-CNF, June 15, 2020 Resp. to Qs. 2 and 4.

\(^{83}\) WP 29 - SCG DR Resp. AW-SCG-2020-01, 3-31-21, LA Airport Lobbying Resp. 5-CNF, Resp. to Q.2.

B. The Accounting Review shows that SCG cannot accurately quantify the employee time spent on Political Activities

Despite many Cal Advocates data requests asking SoCalGas to identify all employees working on its political campaigns, and to quantify the total cost of that labor, SoCalGas has never accurately identified the total number of employees working on the four political campaigns described in Section A, above, or the amount of time those employees spent on those campaigns. Instead, as Section A documents, the utility responded to those data requests by routinely and significantly under-reporting both the number of employees working on those campaigns, and their time spent on those campaigns.

The evidence shows that the utility has made no meaningful effort over the years to accurately track employee lobbying activities, notwithstanding the policies in place that require it to do so. Instead, it books nearly all employee costs to ratepayer accounts as a matter of course, and only later removes some of the costs to

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90 See, e.g., WP 300 – WP to PAO-SCG-112-TBO-CONF listing numerous employees who supported Political Activities but whose salaries were booked to ratepayer accounts. See also FN 91 below.
shareholder accounts when it is preparing for its GRC, or upon discovery by Commission staff.

As Cal Advocates’ Accounting Review reveals, the utility has no way to accurately identify an employee’s time spent on Political Activities because the utility does not have effective management controls to ensure staff report their time working on these activities on their timesheets. As the utility explained in response to Cal Advocates’ data requests:

Regional Public Affairs employees do not track their time by project or proceedings. Employee time is recorded through electronic bi-weekly timesheets, an example of which is provided in the screenshot below. Regional Public Affairs employees are salaried employees, and their labor costs and expenses are recorded to ratepayer funded cost centers.

The employee timesheet provided by SoCalGas showed that the Regional Public Affairs (RPA) employee simply reported 8 hours of work each day, without any description of...

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91 See WP 29 - SCG DR Resp. AW-SCG-2020-01, 3-31-21, LA Airport Lobbying-CONF, Response to Q.2 (“...not all costs recorded to the cost centers are requested for recovery from ratepayers. During the development of the GRC forecasts, it is sometimes necessary to remove incurred costs to further ensure that ratepayers are not funding activities that should be borne by shareholders.”); see also id. Responses to Qs. 4, 5, 16, 17 and 19 (making similar claims); WP 155 - SCG DR Resp. SC-SCG-2019-10, 1-13-20 - Long Beach Lobbying, Supp-CONF, Response to Q.6 (“The employees who attended the September 21, 2017 meeting are all salaried employees and their labor costs and expenses are recorded to ratepayer funded cost centers. As noted in the TY2019 General Rate Case (GRC) workpapers, not all costs recorded to the cost centers are requested for recovery from ratepayers. During the development of the GRC forecasts, it is sometimes necessary to remove incurred costs to further ensure that ratepayers are not funding activities that should be borne by shareholders.”); and WP 156 - SCG DR Resp. SC-SCG-2019-11, 1-13-20 - LA MTA Lobbying-CONF (same language as WP 155).

92 As a result of Cal Advocates’ repeated inquiries, SoCalGas claimed to remove all Employee 1 and 2 labor from May 1, 2018 to the present. See WP 35 - SCG DR Resp. SCG051719, 8-13-19, 3rd Resp, Response to Q.3 (“SoCalGas determined that, in order to prevent further distraction from the important issues in R. 19-01-011, Order Instituting Rulemaking Regarding Building Decarbonization, that all of [Employee 1 and 2’s] time from May 1, 2018 through the present would be shareholder funded (i.e., this time is booked to a distinct invoice/order (I/O) that is not ratepayer funded).”).

the work. Thus, there is no way for SoCalGas to accurately identify the time spent by RPA staff on Political Activities – even though the evidence shows that numerous RPA employees participated in the four campaigns identified here. The result is that ratepayers have been absorbing these costs in rates for years. And while Sempra Energy, SoCalGas’ parent company (Sempra), has had a clearly articulated Political Activity Policy in place since 2012 and a dedicated electronic system – its Lobbying Activity Tracking System (LATS) – to track employee time spent lobbying, the evidence shows that SoCalGas employees who were heavily involved in the Political Activities described above did not report their time or activities to that system. For example, while it is evident that two specific employees expended significant efforts over several years on Political Activities related to pro-gas advocacy, including the four campaigns identified in Section A above, their LATS reports show that they reported only 28.5 hours in lobbying activities between February 1, 2016 and April 2, 2018. As the LATS policy was over-inclusive, requiring reporting of a broad range of activities, this evidence suggests that SoCalGas management has not required employees to follow the Sempra policy requirements and accurately report their time using the internal tracking system (LATS). This is evidenced by the fact that even a cursory review of its reporting system (LATS) would have provided notice to SoCalGas management that its staff were not in compliance, given that employees known to be...

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95 WP 300 – WP to PAO-SCG-112-TBO-CONF listing numerous employees who supported Political Activities but whose salaries were booked to ratepayer accounts.
96 WP 170 - Sempra Political Activity Policy, 04-01-14 (requiring one to enter “all lobbying activity and expenses on a monthly basis into the LATS.”).
97 WP 161 - WP 161 - SCG DR Resp. TB-SCG-2020-02, 5-8-20, LATs & Training.
99 WP 170 - Sempra Political Activity Policy, 04-01-14 (Sempra’s LATS policy requires the reporting of any lobbying activity. Lobbying, as defined in the policy, is “any action intended to influence legislative or administrative action, including activities to influence government officials, political parties or ballot measures.”).
engaged in advocacy – such as Employees 1 and 2 – reported virtually nothing at all in LATS. Consequently, the only credible conclusion is that utility management had no interest in complying with the Sempra policy, which applied equally to SoCalGas.

What this means for this GRC is that there is no way to accurately quantify how much time SoCalGas employees have spent on lobbying activities in the past so that Cal Advocates can ensure the employee labor requests in the current GRC do not contain estimates inflated to pay for future Political Activities. And while SoCalGas – faced with unequivocal evidence of the two employee’s underreporting – eventually booked both employees’ time to shareholders – it has not offered a similar solution for all other employees pressed into service on behalf of SoCalGas’ numerous lobbying campaigns.

The evidence adduced in Cal Advocates’ Accounting Review shows that SoCalGas used RPA staff, including at least twelve Public Affairs Managers (PAMs) – whose salaries and benefits are funded by ratepayers – to support the four campaigns identified in Section A, including the recruitment of C4BES members. Email messages produced by SoCalGas reflect that it also relied on many other employees to support those four campaigns, including, among others: Senior Account Managers and Executives, State Agency Relations Managers, Vice Presidents, Product Development Managers, Technology Development staff, Media Relations staff, Communications advisors, Customer Service representatives, Sales Managers, and Clean Transportations Managers. Indeed, Cal Advocates identified roughly 40 SoCalGas employees supporting at least one of the four campaigns after a simple review of a handful of emails related to those campaigns.

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100 WP 67 - SCG DR Resp. SC-SCG-2019-06, 0000334-335, Brd Recruitment Status-CONF (tasking Public Affairs Managers and others with recruiting C4BES board members).

101 WP 300 – WP to PAO-SCG-112-TBO-CONF listing numerous employees who supported Political Activities but whose salaries were booked to ratepayer accounts.

102 See WP 300 - PAO-SCG-112-TBO_Attach_CONF, which is a list containing the names and title of roughly 40 SoCalGas employees who supported in some manner SoCalGas’ Political Activities. Documents demonstrating that support include, without limitation, the following Attachments: 2,9 67, 77, 79, 80, 83, 85, and 87. While SoCalGas claims that several of these
It is evident from the tenor of the emails, and the numerous employees engaged in these four campaigns, that SoCalGas had a pattern and practice of recruiting staff throughout the company to support its Political Activities – yet made no effort to track those labor costs and book them to shareholders. For example, SoCalGas complains that some of the identified employees are support staff – implying that they could not be involved in Political Activities. However, the utility willfully ignores the fact that if their labor was used to support Political Activities, then it should not be booked to ratepayers.

A PricewaterhouseCoopers (PwC) report also identified SoCalGas' failure to track and allocate the labor costs of its Political Activities to shareholders in its May 2021 review of the utility's accounting for lobbying costs. Among other things, PwC found that SoCalGas employees were responsible for self-identifying when their labor should be booked to a shareholder account, but that SoCalGas' process was ad hoc so that there was no way to ensure that employee time spent lobbying was not being charged to ratepayers. PwC also noted that there was a "high" risk associated for SoCalGas employee salaries to be misclassified as above-the-line or below-the-line.

C. Preliminary findings from two weeks of SAP review suggest that SCG continues to book Political Activity costs to ratepayer accounts

Nearly three years after the Commission's issuance of a subpoena requiring SoCalGas to make its SAP accounting system available to Cal Advocates, and an Administrative Law Judge's (ALJ) Ruling issued February 14, 2023, SoCalGas finally

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employees' salaries are booked below the line, most of them are not. Further, this listing is preliminary, and does not purport to identify even a meaningful fraction of SoCalGas employees who support the utility's Political Activities.

103 WP 189 - PwC Political Costs Assessment Report, 5-24-2021. Although the PwC Review corroborates some of Cal Advocates findings, it should not be considered to be a comprehensive review, as it was scoped and directed by SoCalGas in a narrow fashion that avoids looking at the broader issues of how lobbying costs were booked and various political activities were funded.

104 WP 189 - PwC Political Costs Assessment Report, 5-24-2021, p. 6.

105 WP 189 - PwC Political Costs Assessment Report, 5-24-2021, p. 12.

106 WP 174 - Subpoena to SoCalGas for Accounting Database Access - Service Copy.
made its SAP system available for Cal Advocates review. Notably, however, the utility initially stalled in providing full access, insisted on monitoring Cal Advocates’ access, and ultimately terminated the access after two weeks, notwithstanding Cal Advocates’ objections. Further, the access that was provided blocked Cal Advocates’ ability to see law firm costs based on attorney client and work product claims, as well as costs booked to FERC Account 426.4 based on First Amendment claims. As the Commission has observed, without access to all of the utility’s accounts, Cal Advocates has no way of confirming that all of SoCalGas’ Political Activities have been booked to Account 426.4. Regardless of these limitations, Cal Advocates used the last two weeks to identify vendors known to have supported the utility’s Political Activities within the SAP system, and to determine whether invoices paid by SoCalGas to those vendors have been booked to ratepayers or shareholders. Given that SoCalGas blocked Cal Advocates’ access to all information related to costs booked to Account 426.4, it is reasonable to assume that vendor costs Cal Advocates can view in the SAP system have been booked to ratepayers. To this end, Cal Advocates’ review of the SAP system a number of vendors known to engage in Political Activities on SoCalGas’ behalf whose charges appear to be booked to ratepayer accounts. For example, the SAP records appear to reflect that SoCalGas has paid roughly $2.7 million to six vendors between 2017 and 2022 and booked those costs to ratepayer accounts.

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107 The utility provided limited review to Cal Advocates beginning March 13, 2023. While an SAP expert was available to provide training, the utility was unable to show Cal Advocates how to search based on vendor identification numbers and other parameters, and refused to answer questions confirming that such functionality was available in SAP. The utility also initially limited Cal Advocates’ ability to review information based on FERC account number, claiming that it did not maintain its accounts in a way that would show what FERC account number costs were billed to. See Work Papers 314 and 315 (Cal Advocates’ staff declarations regarding SAP access provided by SoCalGas).

108 See discussion in Section D below and FN 118. This issue is the subject of litigation currently pending before the California Supreme Court, as described below.

109 Id.

110 Further details regarding these charges are available at WP 318 – Six Vendor Payments Found March 13-24, 2023.
Admittedly, some of these charges could have benefited ratepayers, but that is the utility’s burden to prove. Further, the evidence suggests that the vast majority of activities provided by these vendors should have been directly charged to Account 426.4, and SoCalGas has provided no evidence that this has occurred.

For example, evidence obtained by Cal Advocates suggests that was responsible for creating the “We Can” front group that participated in the Ports Campaign described in Section II.A.2 above. There is no evidence that this vendor provided any form of ratepayer benefit, and SoCalGas has provided no evidence that the over in payments made to this vendor ultimately settled to FERC Account 426.4.  

Similarly, SoCalGas has previously been unable to identify any ratepayer benefits generated by Marathon’s work for the utility in response to data requests, yet SAP shows over in payments to Marathon that appear to be booked to ratepayer accounts. The utility has also failed to provide evidence that all Marathon payments have been booked to FERC Account 426.4.

The same can be said for each of the six vendors identified in Cal Advocates' preliminary review of the SAP system.

Similarly, while SoCalGas committed to remove the salaries of Employees 1 and 2 from rates, Cal Advocates found evidence in the SAP system suggesting that at least portions of those employees’ salaries were still booked to ratepayers.

The learning curve for using SAP is high and Cal Advocates was only beginning to scratch the surface regarding SoCalGas’ use of ratepayer monies to fund its Political

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111 See id.
112 See WP 320 – SCG DR Response re Marathon RP benefits.
113 See WP 35 - SCG DR Resp. SCG051719, 8-13-19, 3rd Resp, Response to Q.3 (“SoCalGas determined that, in order to prevent further distraction from the important issues in R. 19-01-011, Order Instituting Rulemaking Regarding Building Decarbonization, that all of [Employee 1 and 2’s] time from May 1, 2018 through the present would be shareholder funded (i.e., this time is booked to a distinct invoice/order (I/O) that is not ratepayer funded).”).
114 Cal Advocates is unable to document this finding due to SoCalGas' termination of SAP access on or about March 24, 2023.
Advocacy when the utility terminated that access on or about March 24. However, even without a robust analysis of the utility’s SAP system, it is evident from the other evidence adduced herein that the utility has been booking Political Advocacy costs to ratepayers for a significant amount of time, and that the costs of this practice must be addressed in this GRC.

D. **Significant adjustments are necessary to ensure ratepayers do not fund SoCalGas’ Political Activities**

As demonstrated above, the evidence from Cal Advocates’ Accounting Review establishes that SoCalGas has engaged in a pattern and practice of booking the costs of significant political campaigns to ratepayer accounts between 2017 and 2019 and dissembled in its data responses in order to minimize the costs booked to ratepayers. The evidence also shows that it was only after Cal Advocates pursued the Accounting Review that the utility took steps to begin meaningfully tracking employee time spent on Political Activities. However, even that program is suspect given the utility’s suggestion that support staff could not be involved in Political Activities.

Significantly, in May 2020 the utility short cut the Accounting Review by refusing to provide Cal Advocates access to its accounting database so that Cal Advocates could identify for itself other Political Activities that may have been booked to ratepayers, and to confirm that costs associated with the four campaigns identified in Section III.A above had been moved to Account 426.4.

After the Commission determined that the utility was obliged to make its “100% shareholder-funded” accounts available to all Commission staff, the utility appealed that determination to the California Court of Appeals. While the Appellate Court found

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115 See, e.g. WP 172 - SoCalGas Political Activities Accounting Procedure 10-5-20.pdf
that Commission staff did not need access to the utility's shareholder accounts to ensure ratepayers do not pay for Political Activities, the Commission disagreed.

On February 15, 2023, the Commission filed a Petition for Rehearing (PFR) with the CA Supreme Court and explained:

SoCalGas asserts that it has removed all advocacy costs from the rate increases requested in its GRC, but provides no substantive evidence to demonstrate this. As to the staff time allocation, the issue is: How can Cal Advocates demonstrate in the GRC that staff time should be adjusted on the ratepayer side if they cannot quantify how much total advocacy work was done and by which SoCalGas staff? Similar to the “dinner tab” analogy discussed herein, [fn 24] Cal Advocates has no way of knowing whether the allocation ratepayers are being asked to pay is correct because they lack sufficient information about how the allocation was made by SoCalGas in the first place. The notion that SoCalGas should simply be trusted to perform a proper allocation, without any requirement to substantiate the allocation, renders the Commission’s oversight jurisdiction meaningless.118

Given Cal Advocates' inability to fully review the utility's accounts, and the utility's demonstrated failure to comply with its own policies requiring the tracking of the costs of its Political Activities, the solution to the instant problem is not readily evident.

As a matter of principle, SoCalGas' failure to remove these costs from prior GRCs means that ratepayers have been funding Political Activities with which they may

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117 See Court Of Appeal Of The State Of California, Second Appellate District, Division One, B310811, p. 28 (“The PAO is authorized to ensure only that advocacy costs are not booked to ratepayer accounts. This it may do by examining ratepayer, not shareholder, accounts.”)

118 Southern California Gas Company v California Public Utilities Commission, California Supreme Court Case No. S278642, p. 27. The Commission filed a Petition for Review (PFR) on February 15, 2023. As the Commission further explained in its PFR at p. 27, footnote 24:

For example, suppose six people go to dinner together. Later, an attendee receives a request for their share of the dinner bill. How can that person know if the amount allocated as their share is correct? How much was the total bill? How was the allocation done? Was it an equal division? Was each person charged for the specific items they ordered? Who determined the tip? How was the tip allocated to each person? The point is that just seeing your own allocated share of the dinner does not permit you to determine the appropriateness of the allocation.
not agree for several years – a violation of their First Amendment rights against compelled speech.\textsuperscript{119}

In addition, the ratepayer funds associated with SoCalGas employee lobbying are not insignificant. For the 2019 test year, SoCalGas requested $4,420,000 for Regional Public Affairs, with $3,522,000 in labor and $897,000 in non-labor costs.\textsuperscript{120} However, in 2017, 2018, and 2019, just four of the management employees implicated in the Political Activities described herein received a total of $4,426,676.77 in salary, bonus, or expense compensation, nearly the same as an entire year of the Regional Public Affairs budget during that time.\textsuperscript{121} Thus, it is evident that the costs of SoCalGas’ Political Activities extend far beyond the budget request for Regional Public Affairs, and must take into account the significant costs of the other employees engaged in the utility’s Political Activities, including not only the previously overlooked support staff, but the highly paid managers who approved the activities, and provided guidance and oversight.

III. CAL ADVOCATES’ ADJUSTMENTS

As described above, the evidence adduced in Cal Advocates’ Accounting Review shows that SoCalGas enlisted employees across numerous SoCalGas divisions to support its Political Activities\textsuperscript{122} that the costs of that time were significant, and that the utility did not accurately track the employee time spent on those Political Activities.\textsuperscript{123}

\textsuperscript{119} The U.S. Supreme Court has reiterated that “[c]ompelling a person to subsidize the speech of other private speakers raises … First Amendment concerns” similar to those present when the government directly compels individuals to engage in speech that they find objectionable. Janus v. AFSCME, 138 S. Ct. 2448, 2464 (2018). Thus, “[b]ecause the compelled subsidization of private speech seriously impinges on First Amendment rights, it cannot be casually allowed.” Id.

\textsuperscript{120} A.17-10-008, Exhibit SCG-04-WP, p. 145.

\textsuperscript{121} These compilations are based on labor costs for those employees derived from SoCalGas Annual GO 77-M filings. See WP 317 – Total Labor Costs of 4 SCG Empees 2017-19.

\textsuperscript{122} See FN 102 above.

\textsuperscript{123} See discussion in Section II.B above.
The result is that SoCalGas could not have accurately quantified and removed those costs from its current GRC request even if it had wanted to. The evidence also shows that SoCalGas routinely booked the costs of consultants supporting its Political Activities to ratepayer accounts, and SoCalGas has provided no evidence to demonstrate that all those consultant costs have been moved to FERC Account 426.4. Indeed, Cal Advocates’ preliminary review of the utility’s SAP accounting system appears to show that consultant costs identified by Cal Advocates remain booked to ratepayer accounts.\textsuperscript{124}

We also know from our years of working on the Accounting Review that SoCalGas uses the following terms (also used in employee titles) as euphemisms for activities that fall squarely within the definition of “Political Activities” that may not be charged to ratepayer accounts:

- Customer information
- Customer education
- Public relations
- Community relations
- Community affairs
- Policy and strategy
- Customer solutions
- Public information
- Product development
- Technology development
- Energy and environmental affairs
- Digital Marketing and communications
- Customer awareness
- Customer communications
- Social media
- External affairs

\textsuperscript{124} See discussion in Section II.C above.
• Public affairs strategy
• Clean transportation
• Customer outreach

For example, SoCalGas employees responsible for creating the C4BES front group worked on teams identified as “Strategy and Planning” and “External Affairs and Environmental Strategy.” They had titles such as “Public Policy Manager” and “Regulatory VP, External Affairs and Environmental Strategy.” And their salaries were booked to ratepayer accounts.

Consistent with this terminology, the evidence shows that more than forty employees participated in the four political campaigns identified in this testimony, and that they worked in a wide variety of divisions across the utility. Those employees included Public Affairs Managers, Marketing Advisors, Field Supervisors, Community Relations employees, Public Affairs Policy and Strategy Managers, Social Media Community Advisors, Public Policy and Planning Managers, Account Executives, Energy and Environmental Affairs Managers, Regional Public Affairs Managers, Senior Account Executives, and Clean Transportation Business Development Managers.

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125 Ex 300 - PAO-SCG-112-TBO - WP-45 SCG Emp Titles-CONF
126 Ex 300 - PAO-SCG-112-TBO - WP-45 SCG Emp Titles-CONF
127 While SoCalGas committed to remove their salaries from ratepayer accounts (WP 35 - SCG DR Resp. SCG051719, 8-13-19, 3rd Resp, Response to Q.3 (“SoCalGas determined that, in order to prevent further distraction from the important issues in R. 19-01-011, Order Instituting Rulemaking Regarding Building Decarbonization, that all of [Employee 1 and 2’s] time from May 1, 2018 through the present would be shareholder funded (i.e., this time is booked to a distinct invoice/order (I/O) that is not ratepayer funded).”), Cal Advocates has no way of confirming that this has occurred. Among other things, SoCalGas terminated SAP access before Cal Advocates could document evidence that some of these salaries appear to remain in ratepayer accounts.
128 See also Employee 2’s description of the activities Marathon was hired to perform at WP Ex 32 - SCG DR Resp. PubAdv-SCG-167-SCS, A.17-10-008, Marathon Requisition Summary, 1-26-18 CONF (“Marathon Communications has a unique combination of media, communications and political expertise in the energy field which will be critical in educating customers on complex policy issues over an extended period of time. Marathon will provide strategic advice for an education campaign targeting policy makers. Marathon will also develop messaging tactics to deliver the messaging to represent SoCalGas customer interests as it relates to broad policy issues.”).
Significant here is the fact that almost all these employees’ salaries and benefits were paid for by ratepayers, and SoCalGas has provided no evidence that it has adjusted its TY request to address these employees’ time spent on Political Activities that promote SoCalGas’ interests.

The fact is that Cal Advocates will never be able to identify all the organizations within SoCalGas that have and will continue to book Political Activities costs to ratepayers. To address this imbalance of information, Cal Advocates has identified organizations within SoCalGas that the evidence shows have engaged in Political Activities on behalf of SoCalGas under the guise of the euphemisms the utility uses in lieu of “Political Activities.” Cal Advocates’ then traced these organizations to at least four organizations seeking funding in this GRC. On this basis, Cal Advocates recommends the following adjustments, which represent a roughly 1.8% disallowance from the utility’s total request:

1. An 80% disallowance for the estimated total TY costs of $4.107 million associated with the Regional Public Affairs organization described at SCG-04-R, Aguirre;
2. An 80% disallowance for the estimated total TY costs of $47.223 million associated with the Clean Energy Innovations organization described at SCG-12-R, Infanzon;
3. An 80% disallowance for the estimated total TY costs of $27.227 million associated with the Customer Services – Information organization described at SCG-16, Prusnek;
4. A 35% disallowance for the estimated total TY costs of $47.249 million associated with Administrative and General costs described at SCG-29-R, Mijares.

These adjustments, which total approximately $80 million, are in addition to the other adjustments and disallowances Cal Advocates has recommended for these four organizations. They are appropriate because the same or similar organizations have historically supported extensive Political Activities on behalf of SoCalGas’ business interests, and the testimony supporting these organizations demonstrates that they are poised to engage in such activities going forward.

Because SoCalGas has not shown that the costs of its Political Activities have been removed from this GRC request, it is only fair to assume these costs are imbedded in historical costs and improperly reflected in the utility’s GRC request as
routine costs of doing utility business. Consequently, Cal Advocates proposes that
these adjustments be applied first, before applying Cal Advocates’ other adjustments.

In sum, the utility has the burden of proof. If SoCalGas cannot or will not
proactively and definitively demonstrate that all labor and non-labor costs associated
with its Political Activities have been removed from its TY request, then Cal Advocates’
proposed adjustments are more than justified.
IV. WITNESS QUALIFICATIONS

My name is Stephen Castello. My business address is 505 Van Ness Avenue, San Francisco, California. I am employed by the Public Advocates Office at the California Public Utilities Commission as a Senior Public Utilities Regulatory Analyst in the Electricity Pricing and Customer Programs Branch.

I hold a Master of Science in Economics from California State University, East Bay (2018). I also received a Bachelor of Arts in Political Science from the University of California, Berkeley (2014). I joined the Commission on May 1, 2019 in the Public Advocates Office, Electricity Pricing and Customer Programs Branch.

I have previously provided testimony in the Application of Pacific Gas and Electric Company for Approval of its Demand Response Programs, Pilots and Budgets for Program Years 2023-2027 (A.22-05-002), the Rulemaking to Ensure Reliable Electric Service in California in the Event of an Extreme Weather Event in 2021 (R.20-11-003), the Integrated Distributed Energy Resources Rulemaking (R.14-10-003) and the Rulemaking Concerning Energy Efficiency Rolling Portfolios, Policies, Programs, Evaluation, and Related Issues (R.13-11-005).

This completes my prepared testimony.