



BALANCING ACCOUNTS PERFORMANCE AUDIT

Southern California Gas Company

January 1, 2023, through December 31, 2023

Utility Audits, Risk and Compliance Division
Utility Audits Branch
February 19, 2025



MEMBERS OF THE TEAM

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Transmitted via e-mail

February 19, 2025

Sara P. Mijares
Vice President – Chief Accounting Officer and Controller
Southern California Gas Company
555 W. 5th Street, GT21C3
Los Angeles, CA 90013

Dear Sara P. Mijares:

**Final Report Transmittal Letter—Audit of Southern California Gas Company’s
Balancing Accounts for the Period of January 1, 2023, through December 31, 2023**

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its audit of Southern California Gas Company’s (SoCalGas) balancing accounts reported for the period of January 1, 2023, through December 31, 2023. The final audit report is enclosed.

Our audit disclosed no findings requiring a response and therefore we are issuing the report as final. We will post the final audit report on our website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

We appreciate SoCalGas’s assistance and cooperation during the engagement. If you have any questions regarding this report, please contact Kevin Nakamura, Supervisor, at (916) 928-4736.

Sincerely,

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: See next page

Sara P. Mijares
Vice President – Chief Accounting Officer and Controller
Southern California Gas Company
February 19, 2025
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cc: Elvia Lima Ortiz, Director, Utility Accounting, SoCalGas (via email)
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EXECUTIVE SUMMARY

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a performance audit of the balancing accounts administered and reported by Southern California Gas Company (SoCalGas) for the audit period of January 1, 2023, through December 31, 2023.

Our audit objectives were to determine whether 1) transactions recorded in SoCalGas's balancing accounts from January 1, 2023, through December 31, 2023, were for allowable purposes and supported by appropriate documentation; and 2) the balancing accounts were established and maintained as required by applicable Public Utilities (PU) Code sections, CPUC directives, orders, rules, regulations, and SoCalGas's policies and procedures.

Based on our audit objectives, procedures performed, samples tested, and evidence gathered, we found that the transactions recorded in SoCalGas's balancing accounts from January 1, 2023, to December 31, 2023, were for allowable purposes and supported by appropriate documentation and that its balancing accounts for the audit period were established and maintained in accordance with CPUC directives, orders, rules, regulations, and SoCalGas's policies and procedures.

We discussed the audit results with SoCalGas representatives at an exit conference held on February 10, 2025. At the exit conference, we stated that the final report will include the views of responsible officials. Because there were no audit findings requiring a response, we are issuing the report as final.

AUDIT REPORT

Background

Balancing Accounts

CPUC has a responsibility to authorize the rates that regulated utilities may charge their customers. Considering that the rates are derived from projected costs and projected consumption of service, CPUC authorizes regulated utilities to establish balancing accounts to track the actual costs and the related revenues the utilities collect from ratepayers for specified activities. The primary purpose of a balancing account is to ensure that a utility recovers its CPUC-authorized revenue requirement from ratepayers for a given program or function.

Functionally, a balancing account tracks the difference between actual expenditures associated with the account, revenue authorized for recovery by CPUC (authorized revenue requirement), and the actual revenues collected within customer rates to cover those specific expenditures. Applicable rules for a given balancing account are presented in the utility's Preliminary Statement, which also includes description of the purpose of the account, the types of costs and/or revenues that are to be tracked in the account, and specific accounting procedures that the utility must follow to record transactions for the balancing account. Additionally, unless approved otherwise, a balancing account is required to accumulate monthly interest at a rate equal to one-twelfth of the most recent month's interest rate on three-month Commercial Paper published by the Federal Reserve.

Actual revenues collected by a utility in rates can be more or less than what CPUC had authorized to collect because rates are always forward-looking and based on forecasted sales. Thus, the balance in a balancing account can either be over- or under-collected. If a balancing account is over- or under-collected, the net balance is typically recovered from or refunded to ratepayers on an annual basis through an adjustment in rates.

Southern California Gas Company (SoCalGas)

SoCalGas is a regulated subsidiary of Sempra Energy (NYSE: SRE), a Fortune 500 energy services holding company based in San Diego, California. SoCalGas provides natural gas service to approximately 21 million customers in a 24,000 square mile service territory that encompasses Central and Southern California. More than 12 counties, 220 incorporated cities and hundreds of unincorporated communities are represented across SoCalGas's service territory.

In its 2023 Annual Balancing and Memorandum Accounts Report (Annual Report) filed with CPUC, SoCalGas reported a total of 44 balancing accounts with a total combined under-collected balance of \$771,576,400. A summary of the reported amounts over or under-collected in rates as of December 31, 2023, by each gas balancing account, is provided in the Summary Schedule section of this report, see Table 1.

Audit Authority

UAB conducted this audit under the general authority outlined in Public Utilities (PU) Code sections 314.5, 314.6, 451, 581, 582, 584. Furthermore, PU Code section 792.5 requires CPUC to develop a risk-based approach for reviewing or auditing balancing accounts periodically to ensure that the transactions recorded in the balancing accounts are for allowable purposes and supported by appropriate documentation.

Objective and Scope

Our audit objectives were to determine whether 1) transactions recorded in SoCalGas's balancing accounts from January 1, 2023, through December 31, 2023, were for allowable purposes and supported by appropriate documentation; and 2) the balancing accounts were established and maintained as required by applicable PU Code sections, CPUC directives, orders, rules, regulations, and SoCalGas's policies and procedures.

The scope of our audit covered the 44 gas balancing accounts administered and reported by SoCalGas for the audit period of January 1, 2023, through December 31, 2023.

Methodology

In planning our audit, we gained an understanding of each balancing account and SoCalGas's operations by researching and reviewing relevant PU Code sections, preliminary statements, rules, regulations, policies, CPUC decisions, resolutions, advice letters, SoCalGas's policies and procedures, and interviewing SoCalGas's personnel.

We conducted a risk assessment, including evaluating whether SoCalGas's key internal controls relevant to our audit objectives were properly designed, implemented, and operating effectively. Our assessment included conducting interviews, performing walkthroughs, and testing transactions. Deficiencies in internal control, if identified during our audit and determined to be significant within the context of our audit objectives, would be included in this report.

Additionally, we assessed the reliability of the data extracted from SoCalGas's accounting and customer billings systems. Our assessment included examining extracted reports, tracing data between differing report formats to verify completeness, and tracing report data to source documents. We determined the data to be sufficiently reliable to address the audit objectives.

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

- Reviewed applicable CPUC decisions, advice letters, proceedings, and preliminary statements to gain an understanding of the balancing accounts and applicable tariff rates.
- Reviewed the following audit reports and performed follow-up tests to verify whether corrective actions were properly implemented for:
 - UAB's prior audit of SoCalGas's Balancing Accounts for the period covering January 1, 2018, through December 31, 2018, that was issued on April 27, 2021.

- UAB's prior audit of SoCalGas's Energy Efficiency Codes & Standards Program for the period covering January 1, 2014, through December 31, 2022, that was issued on April 2, 2024.
- Reviewed the following audit reports and determined that the audits were not relevant to our audit objectives and, therefore, no further review was performed for:
 - UAB's prior audit of SoCalGas's Energy Savings Assistance Program for the period covering January 1, 2019, through December 31, 2021, that was issued on April 5, 2023.
 - Deloitte & Touche LLP audit on SoCalGas's internal controls over its financial reporting for the year ended December 31, 2023, issued on February 27, 2024.
 - SoCalGas's internal audit reports titled, Distribution Integrity Management Program (DIMP) Balancing Account (No.23-323), Energy Efficiency Programs (No.22-312), Customer Program – REEP and NRDI (No.22-319), Distribution Integrity Management Program (No.19-306), Core Balancing Requirements (Project 20-317), Transmission Integrity Program (No.21-301), SoCalGas Mobile Home Park Utility Upgrade Program (No.21-302).
 - U.S. Securities and Exchange Commission (SEC) Form 10-K Annual Reports for the years covering 2019 through 2022.
 - CPUC Safety and Enforcement Division (SED) General Order (G.O.) 112-F comprehensive and full review inspections of SoCalGas Operations and Maintenance procedures and Emergency Plan for the period of January 10 through 14, and January 18 through 21, 2022, that was issued on April 7, 2022.
 - CPUC SED G.O. 112-F inspection of Distribution Integrity Management Programs of SoCalGas and San Diego Gas & Electric Company (SDG&E) that was issued on August 24, 2022.
 - CPUC SED G.O. 112-F inspection of SoCalGas and SDG&E Transmission Integrity Management Programs of SoCalGas and SDG&E that was issued on November 9, 2022.
- Reviewed SoCalGas's internal control policies and procedures related to the administration and implementation of its balancing accounts.
- Reviewed SoCalGas's accounting processes and procedures for tracking, monitoring, and recording transactions to its balancing accounts.
- Reconciled year-end balancing account totals recorded in SoCalGas's accounting records to the balances reported in SoCalGas's 2023 Annual Report for accuracy and completeness.
- Reconciled the balancing accounts reported in SoCalGas's 2023 Annual Report to the Preliminary Statements for accuracy.

- Assessed significance by performing analysis of revenue and expenditure data and evaluating balancing account requirements.
- Obtained an understanding of SoCalGas’s key internal controls relevant to its balancing accounts, such as rate adjustment process, customer billing procedures, accounting and reporting process, and assessed the design, implementation, and operating effectiveness of selected controls that were significant to the audit objectives by:
 - interviewing key personnel;
 - completing an internal control questionnaire;
 - reviewing SoCalGas’s policies and procedures and assessing their implementation pertaining to accounting, recording, and reporting of balancing accounts;
 - performing walkthroughs of selected rate changes, customer billings, balancing account activities; and
 - assessing reliability of recorded and reported billing and sales data by tracing four customer billings from both residential and non-residential customer classes to ensure billed usage amounts tied to meter readings, correct rates were applied in accordance with approved tariffs, and the revenue amounts were accurately allocated and recorded in SoCalGas’s accounting system and recorded to the appropriate balancing account.
- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing.
- Performed testing of expenses by judgmentally selecting a non-statistical sample of expenditure transactions for six gas balancing accounts totaling \$222,020,630 of \$1,413,734,798, or 16% of the total recorded expenses in year 2023 as illustrated in the table below:

Balancing Account Name	Total Expense Amount Tested	Total Expense Population in 2023	Percent Tested
Core Fixed Cost Account (CFCA)	\$ 54,345,796	\$ 310,424,983	18%
Post-2011 Distribution Integrity Management Program Balancing Account (Post-2011 DIMPBA)	1,579,836	10,475,536	15%
Transmission Integrity Management Program Balancing Account (TIMPBA)	4,884,142	29,905,877	16%
Demand Side Management Balancing Account (DSMBA)	5,342,503	35,383,531	15%
Safety Enhancement Capital Cost Balancing Account (SECCBA)	3,291,455	24,143,500	14%
Residential Uncollectible Balancing Account (RUBA)	152,576,898	1,003,401,551	15%
Totals	\$222,020,630	\$1,413,734,798	16%

- For the selected samples, traced expenditures recorded in SoCalGas’s accounting records to supporting documentation and determined whether costs were accurate, attributable to its

respective balancing account, supported by appropriate source documents, and incurred in compliance with applicable CPUC directives, orders, rules, regulations, and SoCalGas's policies and procedures by:

- tracing expenditures to invoices to ensure expenditure (1) was incurred within 2023, (2) agreed to invoice amount, and (3) was calculated accurately;
 - verifying expenditures were supported by appropriate source documents, such as detailed invoices, agreements/contracts, etc., to confirm the expense was incurred for authorized activity;
 - confirming payments were made for the expenditures and the amount agreed to the invoice; and
 - corroborating that the activity was completed as claimed for a subset of samples by:
 - reviewing detailed documents related to completed gas distribution and transmission projects including Notice of Operation forms, final build blueprints, Contractor Safety Check forms, Service Order forms, and photos from project construction sites.
- Determined whether SoCalGas properly reported and recorded monthly interest in its balancing accounts and general ledger by recomputing the monthly interest amounts for June and July on 43 of 44 balancing accounts reported by SoCalGas in its 2023 Annual Report.¹

We did not audit SoCalGas's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that SoCalGas reported, incurred, and maintained its balancing accounts in accordance with the applicable criteria. We considered SoCalGas's internal controls only to the extent necessary to plan the audit and achieve our audit objectives.

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

Conclusion

Based on our audit objectives, procedures performed, samples tested, and evidence gathered, we found that the transactions recorded in SoCalGas balancing accounts from January 1, 2023, to December 31, 2023, were for allowable purposes and supported by appropriate documentation and that its balancing accounts for the audit period were established and maintained in accordance with CPUC directives, orders, rules, regulations, and SoCalGas's policies and procedures.

¹ UAB did not recompute interest for the Concurrent Application System Balancing Account (CASBA) since it reflected a zero balance throughout the year 2023.

Follow-up on Prior Audit Findings

We identified two prior UAB audits with findings relevant to our audit objectives that required follow-up:

- UAB’s prior audit of SoCalGas’s Balancing Accounts for the period covering January 1, 2018, through December 31, 2018, issued on April 27, 2021, identified a finding related to inconsistent recording and reporting of current or prior period interest adjustments due to lack of policies and procedures. During this audit, we obtained and reviewed a copy of SoCalGas’s internal policy on calculating and recording monthly interest for regulatory accounts and determined that SoCalGas satisfactorily implemented corrective actions.
- UAB’s prior audit of SoCalGas’s Energy Efficiency Codes & Standards Program for the period covering January 1, 2014, through December 31, 2022, issued on April 2, 2024, found that SoCalGas was unable to provide sufficient and appropriate documentation to show that expenditures incurred for energy efficiency codes and standards related activities resulted from allowable activities as distinguished from unallowable activities as outlined in CPUC decisions D.22-03-010 and D.22-04-034. As a result, the CPUC approved the audit results in D.24-10-012 and ordered SoCalGas to refund over \$3.9 million to its ratepayers.

During this audit, we identified all energy efficiency codes and standards related activities charged to the DSMBA during the 2023 audit period and followed up with SoCalGas on expenditure transactions pertaining to recorded advocacy costs. According to SoCalGas, these advocacy costs recorded in 2023 were for allowable purposes since they consisted of required payments to Pacific Gas and Electric Company (PG&E), the statewide lead for codes and standards program. SoCalGas provided the Co-Funding Agreement for Codes and Standards Advocacy Statewide Program between Southern California Edison Company (SCE), SDG&E, SoCalGas, and PG&E, the payment schedule, the payment tracker, and their Systems, Applications & Products in Data Processing (SAP) accounting system screenshots for the transactions. We recalculated and traced the monthly payments to PG&E to SAP screenshots, payment schedule, and payment tracker and corroborated payments made in accordance with Co-Funding Agreement. In addition, we reviewed SoCalGas’s Supplemental Corrective Action Plan (CAP) filed on December 6, 2024, pursuant to D.24-10-012 and have determined that SoCalGas is in the process of satisfactorily implementing appropriate corrective actions to address the prior audit finding.

Views of Responsible Officials

We discussed the audits results with SoCalGas representatives at an exit conference held on February 10, 2025. At the exit conference, we stated that the final report will include the views of responsible officials. Because there were no audit findings requiring a response, we are issuing the report as final.

Restricted Use

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

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

SUMMARY SCHEDULE

Table 1
Summary – SoCalGas 2023 Annual Report

#	Title of Accounts	Reported Net Under/(Over)-Collected Balance as of December 31, 2023
Gas		
1	Purchase Gas Account (PGA)	\$ (789,648)
2	Gas Cost Rewards and Penalties Account (GCRPA)	913,322
3	Core Fixed Cost Account (CFCA)	(84,846,862)
4	Noncore Fixed Cost Account (NFCA)	17,421,954
5	Backbone Transmission Balancing Account (BTBA)	(175,232,441)
6	Post-2011 Distribution Integrity Management Program Balancing Account (Post-2011 DIMPBA)	154,762,642
7	Enhanced Oil Recovery Account (EORA)	10,058,570
8	Integrated Transmission Balancing Account (ITBA)	(440,446)
9	New Environmental Regulation Balancing Account (NERBA)	19,462,257
10	Noncore Storage Balancing Account (NSBA)	(5,528,592)
11	Pension Balancing Account (PBA)	22,789,418
12	Post-Retirement Benefits Other Than Pensions Balancing Account (PBOPBA)	(857,846)
13	Storage Integrity Management Program Balancing Account (SIMPBA)	49,453,556
14	Transmission Integrity Management Program Balancing Account (TIMPBA)	391,888,968
15	California Alternate Rates for Energy Account (CAREA)	43,323,739
16	Demand Side Balancing Account (DSMBA)	(121,436,611)
17	Direct Assistance Program Balancing Account (DAPBA)	(49,308,601)
18	Research Development and Demonstration Gas Surcharge Account (RDDGSA)	(610,040)
19	Advanced Metering Infrastructure Balancing Account (AMIBA)	263,020
20	Biogas Conditioning/Upgrading Services Balancing Account (BCSBA)	(13,416)
21	Biomethane Cost Incentive Program Balancing Account (BCIPBA)	(20,558,377)
22	Compressor Station Fuel and Power Balancing Account (CFPBA)	12,491,484
23	Compression Services Balancing Account (CSBA)	41,359
24	Company Use Fuel for Load Balancing Account (CUFLBA)	13,261,326
25	Distributed Energy Resources Services Balancing Account (DERSBA)	(2,660)
26	Greenhouse Gas Balancing Account (GHGBA)	19,297,296
27	Hazardous Substance Cost Recovery Account (HSCRA)	3,821,033
28	Low Carbon Fuel Standard Balancing Account (LCFSBA)	(11,376,622)
29	Master Meter Balancing Account (MMBA)	51,562,431
30	Natural Gas Leak Abatement Program Balancing Account (NGLAPBA)	(12,781,920)

#	Title of Accounts	Reported Net Under/(Over)-Collected Balance as of December 31, 2023
31	On Bill Financing Balancing Account (OBFBA)	(9,701,400)
32	Rewards and Penalties Balancing Account (RPBA)	7,248,157
33	Safety Enhancement Capital Cost Balancing Account (SECCBA)	129,197,290
34	Safety Enhancement Expense Balancing Account (SEEBA)	4,009,879
35	San Joaquin Valley Disadvantaged Communities Balancing Account (SJVDACBA)	1,882,302
36	Safety Enhancement Capital Cost Balancing Account – Phase 2 (SECCBA-P2)	(7,126,371)
37	Safety Enhancement Expense Balancing Account – Phase 2 (SEEBA-P2)	(29,786,965)
38	Liability Insurance Premium Balancing Account (LIPBA)	23,245,654
39	Dairy Biomethane Project Balancing Account (DBPBA)	1,087,863
40	Statewide Energy Efficiency Balancing Account (SWEEBA)	(1,151,841)
41	Residential Uncollectible Balancing Account (RUBA)	325,066,933
42	Biomethane Procurement and Pilot Costs Balancing Account (BPPCBA)	112,373
43	Percentage of Income Payment Plan Balancing Account (PIPPBA)	464,233
44	Concurrent Application System Balancing Account (CASBA)	0
	Total – Net Under/(Over)-Collected Reported Amount	\$771,576,400