



BALANCING ACCOUNTS PERFORMANCE AUDIT

Southwest Gas Corporation

January 1, 2024, through December 31, 2024

Utility Audits, Risk and Compliance Division
Utility Audits Branch
February 12, 2026



MEMBERS OF THE TEAM

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**You can contact our office at:
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PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
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Transmitted via e-mail

February 12, 2026

Valerie Ontiveroz
Senior Manager of Regulatory Affairs and Compliance
Southwest Gas Corporation
8360 South Durango Drive
Las Vegas, NV 89113

Dear Valerie Ontiveroz:

Final Report Transmittal Letter—Audit of Southwest Gas Corporation’s Balancing Accounts for the Period of January 1, 2024, through December 31, 2024

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its audit of Southwest Gas Corporation’s (SWG) balancing accounts reported for the period of January 1, 2024, through December 31, 2024. The final audit report is enclosed.

We issued the draft report on January 21, 2026. SWG’s response to the draft report findings and our evaluation of the response are incorporated into this final report. We will post the final audit report on our website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/AuditReportsbyIndustry).

A Corrective Action Plan (CAP) addressing the findings and recommendations is required. SWG should submit further detailed CAP information including specific steps and target dates to address the recommendations within 45 calendar days from the issuance of this final audit report to: UtilityAudits@cpuc.ca.gov.

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

Sincerely,

Masha Vorobyeva for Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: See next page

Valerie Ontiveroz
Senior Manager of Regulatory Affairs and Compliance
Southwest Gas Corporation
February 12, 2026
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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 Southwest Gas Corporation (SWG) for the audit period of January 1, 2024, through December 31, 2024.

Our audit objectives were to determine whether 1) transactions recorded in SWG's balancing accounts from January 1, 2024, through December 31, 2024, 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 SWG's policies and procedures.

Based on our audit objectives, procedures performed, samples tested, and evidence gathered, we found instances of noncompliance with the requirements. These instances are described in the Findings and Recommendations section of this audit report. The audit findings are as follows:

- **Finding 1: Understated Balance in MHPCBA – BTM Totaling \$2,901,951**

SWG understated the balance in SWG's Annual Balancing and Memorandum Account Report (Annual Report) for its Mobile Home Park Conversion Balancing Account – Beyond the Meter (MHPCBA – BTM) by \$2,901,951 due to various errors. The correct year-end under-collected balance in the MHPCBA – BTM should be \$6,939,223 instead of the reported amount of \$4,037,272.

- **Finding 2: Interest Omitted in Two Balancing Accounts Totaling \$11,544**

SWG did not record and report interest in its Public Interest Research and Development Balancing Account (R&DBA) and Biomethane Procurement and Administrative Cost Balancing Account (BPACBA) pursuant to CPUC directives, totaling \$11,544 for the audit period.

We issued a draft report on January 21, 2026. SWG responded by letter dated February 4, 2026, not disputing the findings but disagreeing with one of the UAB's recommendations for Finding 2. SWG's response is included in this final report as an attachment in Appendix A—Utility's Response to Draft Audit Report, and our evaluation of the response is included in Appendix B—UAB's Evaluation of Utility's Response.

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.

Southwest Gas Corporation (SWG)

SWG was founded in 1931 and is a subsidiary of Southwest Gas Holdings, Inc.¹ SWG is principally engaged in the business of purchasing, distributing and transporting natural gas to approximately 2.2 million residential, commercial and industrial customers in the states of California, Arizona, and Nevada². In California, SWG serves approximately 206,000 customers in its three rate jurisdictions: (1) Southern California, (2) Northern California, and (3) South Lake Tahoe³.

In its 2024 Annual Report filed with CPUC, SWG reported a total of 21 balancing accounts with a total combined under-collected balance of \$59,859,980. A breakdown of the reported amounts over or under-collected in rates as of December 31, 2024, by each gas balancing account, is provided in the table below:

¹ SWG's public website.

² SWG's Preliminary Statement, Sheet No. 10 and Application (A.) 24-09-001, Page 1.

³ SWG's A.24-09-001, Page 1.

Item No.	Title of Accounts	Reported Net Under/(Over)-Collected Balance as of December 31, 2024
1	Fixed Cost Adjustment Mechanism (2009) (FCAM) Balancing Account	\$ (4,397,073)
2	Public Interest Research and Development Balancing Account (R&DBA)	174,552
3	California Alternate Rates for Energy Balancing Account (CAREBA)	8,738,282
4	Energy Savings Assistance Balancing Account (ESABA)	(2,303,960)
5	Infrastructure Reliability and Replacement Balancing Account (IRRBA)	12,348,597
6	Mobile Home Park Conversion Balancing Account (MHPCBA) - To the Meter	2,142,230
7	Mobile Home Park Conversion Balancing Account (MHPCBA) - Beyond the Meter	4,037,273
8	Pension Balancing Account (PBA)	16,150,524
9	Conservation and Energy Efficiency Balancing Account (CEEBA)	214,113
10	Greenhouse Gas Balancing Account (GHGBA) - Cost	1,022,171
11	Greenhouse Gas Balancing Account (GHGBA) - Revenue	1,492,596
12	New Environmental Regulatory Balancing Account (NERBA)	12,832
13	Natural Gas Leak Abatement Program Balancing Account (NGLAPBA)	741,603
14	Customer Data Modernization Initiative Balancing Account (CDMIBA)	1,487,373
15	Biomethane Injection Incentive Program Balancing Account (BIIPBA)	677,226
16	Biomethane Procurement and Administrative Cost Balancing Account (BPACBA)	75,000
17	Greenhouse Gas Balancing Account (GHGBA BIO-SNG)	(732,872)
18	Residential Uncollectibles Balancing Account (RUBA)	4,042,029
19	Purchased Gas Cost Balancing Account (PGA)	7,351,968
20	Fixed Cost Adjustment Mechanism (FCAM) Balancing Account	3,370,883
21	Intrastate Transportation Cost Adjustment Mechanism (ITCAM) Balancing Account	3,214,633
Total - Net Under/(Over)-Collected Reported Amount		\$ 59,859,980

Audit Authority

UAB conducted this audit under the general authority outlined in PU Code sections 314 (a), 314.5, 314.6, 451, 581, 582, and 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 SWG's balancing accounts from January 1, 2024, through December 31, 2024, 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 SWG's policies and procedures.

The scope of our audit covered the 21 balancing accounts administered and reported by SWG for the audit period of January 1, 2024, through December 31, 2024.

Methodology

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

We conducted a risk assessment, including evaluating whether SWG'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, are included in this report.

Additionally, we assessed the reliability of the data extracted from SWG's accounting and customer billing 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 prior audit reports and performed follow-up tests to verify whether corrective actions were properly implemented for:
 - Sjoberg Evashenk Consulting, Inc.'s (SEC) audit of SWG's Balancing Accounts for the period covering January 1, 2022, through December 31, 2022, that was issued on March 1, 2024; and
 - SWG's internal audit report titled, 2024 Sarbanes-Oxley Act of 2002 (SOX) Report, that was issued on March 20, 2025.
- Reviewed the following prior audit reports and determined that the audits were not relevant to our audit objectives and therefore, no further review was performed for:
 - PricewaterhouseCoopers LLP's (PwC) independent audit on SWG's Financial Statements for the years ended December 31, 2020 and 2019, that was issued on February 25, 2021;
 - PwC's independent audit on SWG's Financial Statements for the years ended December 31, 2021 and 2020, that was issued on March 1, 2022;
 - PwC's independent audit on SWG's Financial Statements for the years ended December 31, 2022 and 2021, that was issued on February 28, 2023;
 - PwC's independent audit on SWG's Financial Statements for the years ended December 31, 2023 and 2022, that was issued on February 28, 2024;

- PwC's independent audit on SWG's Financial Statements for the years ended December 31, 2024 and 2023, that was issued on February 26, 2025; and
 - SWG's internal audit reports titled, 2019 SOX Report, 2020 SOX Report, 2021 SOX Report, 2022 SOX Report, and 2023 SOX Report.
- Reviewed SWG's internal control policies and procedures related to the administration and implementation of its balancing accounts.
- Reviewed SWG's accounting system, accounting policies, processes and procedures for tracking, monitoring, and recording transactions to its balancing accounts.
- Reconciled year-end balancing account totals recorded in SWG's accounting records to the balances reported in SWG's 2024 Annual Report for accuracy and completeness.
- Reconciled the balancing accounts reported in SWG's 2024 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 SWG's key internal controls relevant to its balancing accounts, such as accounting and reporting process, customer billing procedures, rate adjustment process, invoice processing and expense recording 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 SWG's policies and procedures and assessing their implementation pertaining to accounting, recording, and reporting of balancing accounts;
 - performing walkthroughs of four rate changes and customer billings, and three balancing account activities;
 - assessing reliability of recorded and reported billing and sales data by tracing four customer billings from residential, commercial, and nonprofit group living facility customer classes for SWG's three service territories to ensure correct rates were applied in accordance with approved tariffs; and
 - assessing reliability of recorded and reported expense data by tracing three transactions for two balancing accounts from general ledger to vendor invoices and payment records to ensure expenses were supported by invoices, payments were properly reviewed and approved, and the expense amounts were accurately recorded in SWG's accounting system and to the appropriate balancing accounts.
- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing.

- Performed testing of the Public Purpose Program natural gas surcharge remittances by judgmentally selecting one large remittance to the California Department of Tax and Fee Administration (CDTFA) for the first quarter of 2024 by:
 - tracing and agreeing SWG's first quarter of 2024 remittance amount of \$5,603,787 to its accompanying supporting schedules;
 - tracing and agreeing the total therm amount of 58,886,431 used in SWG's remittance calculations to the total therm reflected in SWG's billing system; and
 - recalculating the remittance amount based on the billing system therm data and authorized surcharge rates.
- Performed testing of expenses by judgmentally selecting a non-statistical sample of significant expenditure transactions for two balancing accounts totaling \$3,497,928 of \$42,284,336, or 8 percent of the total recorded expenses as illustrated in the table below:

Balancing Account Name	Total Expenditures Tested	Total Expenditures Recorded in 2024	Percent Tested
California Alternate Rates for Energy Balancing Account	\$1,188,800	\$12,445,485	10%
Purchased Gas Cost Balancing Account	2,309,128	29,838,851	8%
Totals	\$3,497,928	\$42,284,336	8%

- For the selected samples, traced expenditures recorded in SWG'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 SWG's policies and procedures by:
 - tracing expenditures to invoices to ensure expenditures (1) were incurred within 2024, (2) agreed to invoice amounts, and (3) were calculated accurately;
 - verifying expenditures were supported by appropriate source documents, such as detailed invoices, agreements/contracts, etc., to confirm the expenditures were for authorized activities; and
 - confirming payments were made for the expenditures and the amounts agreed to the invoices.
- Determined whether SWG properly reported and recorded monthly interest in its balancing accounts and general ledger by recomputing the monthly interest amounts for three balancing accounts and all twelve months in 2024.

We did not audit SWG's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that SWG reported, incurred, and

maintained its balancing accounts in accordance with the applicable criteria. We considered SWG'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 instances of noncompliance with the requirements for the audit period from January 1, 2024, through December 31, 2024. These instances are described in the Findings and Recommendations section of this audit report.

Follow-up on Prior Audit Findings

We identified the following SWG prior audits relevant to our audit objectives that required follow-up:

- SEC's prior balancing accounts audit report covering January 1, 2022, through December 31, 2022, issued on March 1, 2024, identified four audit findings which included the following:
 - Overcharged CARE program participates for monthly basic service charges;
 - Unsupported amount of natural gas surcharge remittances to CDTFA;
 - Misallocated CARE costs between Northern and Southern California ratepayers; and
 - Insufficient support for postage costs in the CAREBA.

During this audit, we performed follow-up tests and determined SWG has satisfactorily resolved these findings.

- SWG's internal audit report titled, 2024 SOX Report, issued on March 20, 2025, identified a deficiency in the review of gas and regulatory accounting journal entries and support. SWG Internal Audit closed out this audit following SWG's satisfactory implementing corrective actions.

Views of Responsible Officials

We issued a draft report on January 21, 2026. SWG responded by letter dated February 4, 2026, not disputing the findings but disagreeing with one of the UAB's recommendations for Finding 2. SWG's response is included in this final report as an attachment in Appendix A—Utility's Response to Draft Audit Report, and our evaluation of the response is included in Appendix B—UAB's Evaluation of Utility's Response.

Restricted Use

This audit report is intended solely for the information and use of SWG 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 audit report, which is a matter of public record and will be available on CPUC website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/AuditReportsbyIndustry).

Alasha Vorobyeva for Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

FINDINGS AND RECOMMENDATIONS

Finding 1: Understated Balance in MHPCBA – BTM Totaling \$2,901,951

Condition:

SWG understated the balance in SWG's Annual Report for its Mobile Home Park Conversion Balancing Account – Beyond the Meter (MHPCBA – BTM) by \$2,901,951. During testing of key internal controls, we first discovered that SWG omitted interest entries in the general ledger and monthly tracking statements for SWG's MHPCBA – BTM. Upon further inquiry and review of additional documentation, we noted other reporting discrepancies for the MHPCBA – BTM including the following:

- SWG recorded interest of \$90,848 to MHPCBA – BTM revenue requirement account but excluded the amount from year-end balance reported in SWG's Annual Report filed with CPUC;
- SWG recorded amortization and depreciation of \$128,232 and \$667,821, respectively, to the MHPCBA – BTM revenue requirement account but excluded the amounts from the year-end balance reported in the Annual Report filed with CPUC;
- SWG utilized incorrect interest rates from the prior months or prior years in calculating its MHPCBA – BTM accounts' interest; and
- SWG applied incorrect interest formula as stipulated in SWG's approved Preliminary Statement section 12B.

During the audit, SWG acknowledged the errors and subsequently recalculated accrued interest for the MHPCBA – BTM and made corrections to the revenue requirement account activity amounts. The table below summarizes the discrepancies and reflects SWG's corrections made during the audit.

Description	Unreported Amount
Adjusted Beginning Balance as of Jan. 1, 2024	\$2,271,514
Amortization	(128,232)
Depreciation	667,821
Interest	90,848
Ending Balance as of Dec. 31, 2024	\$2,901,951

As a result of these errors, the 2024 year-end under-collected balance for the MHPCBA – BTM was understated by \$2,901,951 and should have been reported as \$6,939,223, as outlined in the table below.

Description	Under-Collected Balance of MHPCBA – BTM
2024 Year-end Reported Balance	\$4,037,272
Audited Adjustment Amount	2,901,951
Audited 2024 Year-end Balance	\$6,939,223

Criteria:

PU Code sections 581, 582, and 584 require the utilities to provide timely, complete, and accurate data to CPUC.

CPUC's Decision (D.) 14-03-021, Ordering Paragraphs (OP) 8 and 9 and Advice Letter (AL) 947-G established the MHPCBA with an effective date of August 10, 2024.

SWG Preliminary Statement, section 12B (Interest on Balancing Accounts), states that:

Interest will accrue monthly to the Balancing Accounts as set forth in this Preliminary Statement. The calculation will be based on the average of the beginning and ending balance in such accounts at the rate of 1/12 of the most recent month's interest rate on Commercial Paper (prime, 3-month), published in the Federal Reserve Statistical Release, H.15. Should publication of the interest rate on Commercial Paper (prime, 3-month) be discontinued, interest will so accrue at the rate of 1/12 of the most recent month's interest rate on Commercial Paper, which most closely approximates the discounted rate, and which is published in the Federal Reserve Statistical Release, H.15, or its successor publication.

SWG Preliminary Statement, section 22E (MHPCBA), states, in part, that:

An entry to record interest on the balance calculated as set forth in Section 12B of this Preliminary Statement.

Cause:

SWG erroneously removed the revenue requirement account totals when reporting the MHPCBA – BTM balance in its 2024 Annual Report. In addition, SWG lacks adequate monitoring and oversight policies and procedures to ensure it:

- properly computes, records and reports balancing account interest;
- accurately records and reports amortization and depreciation; and
- detects potential reporting errors and accurately reports the authorized balancing account year-end balance in its Annual Reports.

Effect:

Inaccurate information reported in SWG's Annual Reports, which may be used by decision-makers during General Rate Case (GRC) application review process, could potentially impact the rates for SWG's ratepayers. It is imperative for each utility to ensure that its Annual Reports contain complete and accurate information on its authorized balancing accounts to ensure decision-makers have complete and accurate information when making decisions that can affect the ratepayers.

Recommendations:

SWG should enhance its monitoring and oversight policies and procedures to ensure it:

- properly computes, records and reports balancing account interest;
- accurately records and reports amortization, depreciation, and other account activities; and

- detects potential errors and accurately reports all authorized balancing account year-end balances to CPUC.

Finding 2: Interest Omitted in Two Balancing Accounts Totaling \$11,544

Condition:

SWG did not record and report interest in its Public Interest Research and Development Balancing Account (R&DBA) and Biomethane Procurement and Administrative Cost Balancing Account (BPACBA) pursuant to CPUC directives, totaling \$11,544 for the audit period. During testing of key internal controls, we discovered interest was omitted in the general ledger and monthly tracking statements of the R&DBA and BPACBA. Upon further inquiry, SWG acknowledged that interest is applicable to the R&DBA and BPACBA but SWG has not been previously calculating and recording interest for these two balancing accounts since their establishment in September 2004 and May 2022, respectively. Subsequently, since interest was omitted for years outside the scope of our audit, we are unable to accurately determine the correct year-end balance for these two accounts as of December 31, 2024. However, based on current data, SWG calculated the interest amounts for the two balancing accounts and determined that interest for its R&DBA and BPACBA is \$9,909 and \$1,635, respectively, totaling \$11,544 for the audit period as summarized in the table below.

Balancing Account Name	2024 Interest Amount
R&DBA	\$ 9,909
BPACBA	1,635
Total Omitted Interest	<u>\$11,544</u>

Criteria:

PU Code sections 581, 582, and 584 require the utilities to provide timely, complete, and accurate data to CPUC.

D.04-08-010, OP 13 and AL 718-G established the R&DBA with an effective date of September 21, 2004.

D.22-02-025, OP 54 and AL 1210-G established the BPACBA with an effective date of May 11, 2022.

SWG Preliminary Statement, section 12B (Interest on Balancing Accounts), states that:

Interest will accrue monthly to the Balancing Accounts as set forth in this Preliminary Statement. The calculation will be based on the average of the beginning and ending balance in such accounts at the rate of 1/12 of the most recent month's interest rate on Commercial Paper (prime, 3-month), published in the Federal Reserve Statistical Release, H.15. Should publication of the interest rate on Commercial Paper (prime, 3-month) be discontinued, interest will so accrue at the rate of 1/12 of the most recent month's interest rate on Commercial Paper, which most closely approximates the discounted rate, and which is published in the Federal Reserve Statistical Release, H.15, or its successor publication.

SWG Preliminary Statement, section 16F (R&DBA), states, in part, that:

A monthly entry to record interest on the account calculated as set forth in Section No. 12B of this Preliminary Statement.

SWG Preliminary Statement, sections 36C and 36D (BPACBA), state, in part, that:

An entry to record interest on the account calculated as set forth in Section No. 12B of this Preliminary Statement.

Cause:

SWG did not consistently follow its established internal controls to ensure interest is properly accrued and recorded in its R&DBA and BPACBA in accordance with its CPUC approved Preliminary Statement.

Effect:

Failure to timely and properly accrue interest as required on a monthly basis can lead to inaccurate recording and reporting of interest in its balancing accounts. Any errors in the accrual of interest in the balancing accounts can diminish the benefits to ratepayers since balancing accounts accrue interest to be returned to ratepayers if the utility is over-collected or recovered as additional revenue if the utility is under-collected. Furthermore, since any over- or under-collected year-end balances, including interest, are carried over from year to year, any potential incorrect interest amount could impact customer rates by being amortized into future rates.

Inaccurate information reported in SWG's Annual Reports resulting from omitted interest calculations, which may be used by decision-makers during GRC application review process, could potentially impact the rates for SWG's ratepayers. It is imperative for each utility to ensure that its Annual Reports contain complete and accurate information on its authorized balancing accounts to ensure decision-makers have complete and accurate information when making decisions that can affect the ratepayers.

Recommendations:

SWG should:

- calculate the accrued interest for the years since the inception of RD&BA and BPACBA, provide the total accrued interest amounts in its Corrective Action Plan, and reflect the updated RD&BA and BPACBA balances in SWG's 2025 Annual Report to be filed with CPUC; and
- consistently follow its established internal controls to ensure interest is timely and properly recorded and reported.

APPENDIX A—UTILITY'S RESPONSE TO DRAFT AUDIT REPORT



SOUTHWEST GAS CORPORATION

February 4, 2026

via Electronic Mail

Kevin Nakamura, Program and Project Supervisor

kevin.nakamura@cpuc.ca.gov

Utilities Audit Branch

California Public Utilities Commission

455 Capitol Mall, Suite 700

Sacramento, CA 95814

Subject: Draft Report – California Public Utilities Commission
Southwest Gas Corporation Balancing Accounts Audit
January 1, 2024 through December 31, 2024

Dear Mr. Nakamura:

Southwest Gas Corporation (Southwest Gas or Company) appreciates the opportunity to review and provide comments on the "Southwest Gas Corporation Balancing Accounts Performance Audit, Southwest Gas Corporation, January 1, 2024 through December 31, 2024" Draft Report (Draft Report) issued on January 21, 2026 by the Utility Audits Branch (UAB) in the Utility Audits, Risk and Compliance Division (UARCD) Division, of the California Public Utilities Commission (CPUC).

Southwest Gas appreciates working with the UAB over the last several months during its review of the Company's balancing accounts. The UAB determined that, except for the two Findings and Recommendations, Southwest Gas has complied with the recording and reporting requirements for its balancing accounts during the examination period of January 1, 2024 through December 31, 2024.

Southwest Gas provides the following responses to the UAB's findings.

Finding 1: Understated Balance in the Mobilehome Park Conversion Balancing Account (MHPCBA) – Beyond the Meter (BTM) Totaling \$2,901,951

Southwest Gas Response: Southwest Gas does not dispute this finding. As mentioned in the Findings and Recommendations section of the Draft Report, Southwest Gas made the corrections to the MHPCBA – BTM account interest calculations and formulas identified during the audit. The corrections were recorded to the MHPCBA - BTM account in September 2025 and January 2026.

Additionally, Southwest Gas acknowledges that it inadvertently underreported the balance in the MHPCBA in its calendar year (CY) 2024 Annual Report to the CPUC by approximately \$2.9 million. As stated in the Draft Report, this occurred as a result of

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Southwest Gas removing the MHPCBA – TTM revenue requirement subaccount from the CY 2024 Annual Report given that the revenue requirement subaccount is not an account that is specifically listed in the Company's California Gas Tariff (Tariff). When this subaccount was removed from the report the balance should have then been included in the MHPCBA-TTM balance. Southwest Gas will take steps to restart the review of its draft Annual Report should any revisions take place at any point during the final review process before formal submission of its Annual Report.

Finding 2: Interest Omitted in Two Balancing Accounts Totaling \$11,544

Southwest Gas Response: Southwest Gas does not dispute this finding, however, the Company disagrees with UAB regarding its recommendation to calculate and record interest since the inception of its Public Interest Research and Development Balancing Account (R&DBA).

As indicated in either a written response or verbally by Southwest Gas, the Company calculated and made adjusting entries for the omitted balancing account interest applicable to the Biomethane Procurement and Administrative Cost Balancing Account (BPACBA)¹ and R&DBA² in August 2025 and September 2025, respectively. Southwest Gas notes that although the finding concerns applicable interest related to the CY 2024 audit period, the Company's original adjusting entries included periods beyond the audit period. For the BPACBA, the Company's August 2025 adjustment included interest applicable since inception of the balancing account. The adjustment related to the R&DBA included interest for calendar years 2023 through the current period.

Southwest Gas disagrees with UAB's recommendation to calculate and make adjusting entries to accrue interest since the inception of the Company's R&DBA in 2004. Although Southwest Gas agrees that interest should have been calculated since 2004, it does not seek to impact its customers with respect to this error and will forego recovery of the additional interest prior to 2023. For the BPACBA, the interest adjustment that was booked in August 2025 contemplated the balances since the inception of the mechanism in 2022, therefore, no additional adjustment is required.

Finally, in response to this finding, Southwest Gas has modified its internal controls to ensure appropriate interest is calculated and applied to all interest-bearing mechanisms, including the BPACBA and the R&DBA, as described in the Preliminary Statement of the Company's Tariff.

¹ Written response entitled "UAB CY2024 Balancing Accounting Audit Southwest Gas Corporation Onsite Follow Up – Remaining Items," dated September 8, 2025.

² On October 1, 2025, Southwest Gas and UAB met to discuss the R&DBA balance and interest. Southwest Gas confirmed to UAB that a 'catch-up entry would be booked to the R&DBA account for September 2025 month-end reflecting interest for 2023, 2024 and year to date 2025.



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In summary, Southwest Gas appreciates working with the UAB as it conducted its review of its CY 2024 balancing accounts. Southwest Gas does not dispute Findings 1 and 2 in the Draft Report and will take corrective actions as outlined above.

Respectfully submitted,

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

We appreciate SWG's comments submitted on February 4, 2026. SWG provided general comments and did not dispute the findings but disagreed with one of the UAB's recommendations for Finding 2.

In its response relating to Finding 2, SWG acknowledged that interest should have been calculated and accrued in its R&DBA since its inception in 2004 but indicated that it does not wish to impact its customers with respect to this error and is proposing to forego recovery of additional interest prior to calendar year 2023.

We respectfully disagree with SWG's proposal to forego the recovery of additional interest in the R&DBA since its inception in 2004. Balancing accounts accrue interest for the benefit of ratepayers since interest is returned to ratepayers if the balance in the account is over-collected or recovered as additional revenue if the balance is under-collected. Additionally, any omitted or incorrect interest amount in an account can impact customer rates since any over- or under-collected year-end balance is carried forward from year to year and amortized into future rates. Lastly, SWG Preliminary Statement outlines requirements for monthly accrual and recording of the interest in its R&DBA, which SWG did not follow. During the exit conference on December 30, 2025, SWG verbally indicated that it was going to review and determine when the first activity occurred for the R&DBA in order to accurately calculate interest totals due to differing dates of account establishment and starting activity.

Therefore, Finding 2 and related recommendations remain unchanged.

We appreciate SWG's efforts and willingness in implementing corrective action noted in its response, namely by taking steps to restart the review of its draft Annual Report before formal submission to CPUC, and modifying its internal controls to ensure appropriate interest is calculated and applied to all interest-bearing mechanisms, including the BPACBA and the R&DBA, as described in SWG's Preliminary Statement.