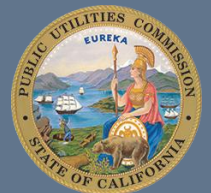




APPLICATION 22-05-015
MOBILE HOME PARK PROGRAM
PERFORMANCE AUDIT

Southern California Gas Company
January 1, 2016, through December 31, 2021

Utility Audits, Risk and Compliance Division
Utility Audits Branch
June 29, 2026



MEMBERS OF THE TEAM

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A digital copy of this report can be found at:

[Audit Reports by Industry \(ca.gov\)](#)

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

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Transmitted via e-mail

June 29, 2026

Jennifer L. Walker
Vice President, Gas Distribution
Southern California Gas Company
555 West Fifth Street, GT-21C3
Los Angeles, California 90013

Dear Jennifer Walker:

**Final Report Transmittal Letter— Audit of Southern California Gas Company’s
Mobile Home Park Utility Upgrade Program for the Billing Period of January 1, 2016,
Through December 31, 2021**

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its audit of Southern California Gas Company’s (SoCalGas) Mobile Home Park Utility Upgrade program for the billing period of January 1, 2016, through December 31, 2021. The final audit report is enclosed.

We issued the draft audit report on June 9, 2026. SoCalGas’s response to the draft report findings and our evaluation of the response are incorporated into this final report.

In addition, as outlined in General Order 66-D and the California Public Records Act (Government Code sections 6250-6276.48.), SoCalGas requested confidential treatment of material descriptions. As a result, the confidential material description information contained in the final public report is redacted. We will post the final redacted audit report on our website at [Audit Reports by Industry \(ca.gov\)](#).

A Corrective Action Plan (CAP) addressing the findings and recommendations is required. SoCalGas’s response to the draft audit report included information on corrective actions implemented and planned. SoCalGas 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 SoCalGas’s assistance and cooperation during the engagement, and its willingness to implement corrective actions. If you have any questions regarding this report, please contact Nancy Ta, Supervisor, at (415) 914-4841.

Sincerely,

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: See next page

Jennifer L. Walker
Vice President, Gas Distribution
Southern California Gas Company
June 29, 2026
Page 2

cc: Dan Skopec, Senior Vice President and Chief Regulatory Officer, San Diego Gas and Electric Company
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EXECUTIVE SUMMARY

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a performance audit of the Mobile Home Park (MHP) Utility Upgrade program expenditures, requested by Southern California Gas Company (SoCalGas) in Application (A.) 22-05-015, for MHPs that are considered financially complete¹ during January 1, 2016, through December 31, 2021 or billing years 2016 through 2021².

Our audit objectives for the SoCalGas MHP program costs included in A.22-05-015 were:

1. To document how SoCalGas determined MHP labor rates and costs.
2. To document the variance which SoCalGas MHP labor wages differ from prevailing wages.
3. To determine whether MHP costs were properly reported, sufficiently supported, directly attributable to allowable activities, and in compliance with applicable Public Utilities (PU) Code sections, CPUC Decision (D.) 14-03-021, CPUC Resolutions E-4878 and E-4958, SoCalGas policies and procedures, and other relevant criteria.

For audit objective 1, based on the procedures performed and evidence gathered, we documented how SoCalGas determined MHP labor rates and costs as described in the Summary of Labor Rates and Costs section of this audit report.

For audit objective 2, based on the procedures performed and evidence gathered, we documented the results in determining the variance in which SoCalGas MHP labor wages differ from prevailing wages, as described in the Labor Rates: Variances with Prevailing Wages section of this audit report.

For audit objective 3, based on the procedures performed, samples tested, and evidence gathered, we determined that SoCalGas's request for cost recovery for billing years 2016 through 2021 included instances of unsupported, misstated and/or misclassified costs. These instances are quantified in the Summary Schedule of Audit Results and described in the Findings and Recommendations section of this audit report.

The audit findings are summarized as follows:

- **Finding 1: Misclassified Program Management Costs by \$387,939, Resulting in a Total Overstatement of \$173,904**

Within total To-The-Meter (TTM) cost, SoCalGas misclassified gas meters, modules, and regulators (GMMR) cost of \$387,939 as Program Management Cost. Due to this misclassification and the methodology for allocating GMMR costs, SoCalGas determined that \$214,035 should be allocated to Other TTM costs and total TTM Costs are overstated by \$173,904 during the audit period.

¹ MHPs are considered financially complete when project costs are recorded and any remaining costs not recorded are estimated to fall within five percent of total project costs.

² The billing year includes all costs for MHPs that were financially complete between January 1, 2016, through December 31, 2021. SoCalGas incurred these costs between January 1, 2015, through December 31, 2021, and reported the costs in A.22-05-015.

- **Finding 2: Overstated TTM Contractor Costs–Material/Structures by \$70,526**
SoCalGas overstated its expenditures in the TTM Contractor Costs–Material/Structures cost category by \$70,526 because quantities of materials that SoCalGas charged to two MHP projects were not supported by corresponding as-built records.
- **Finding 3: Misclassified TTM and Beyond-the-Meter (BTM) Contractor Costs Totaling \$2,487,237**
Within the TTM and BTM Contractor Costs, SoCalGas misclassified expenditures totaling \$320,477 and \$2,166,760, respectively, by recording expenditures in incorrect cost categories.
- **Finding 4: Costs Charged to Incorrect MHP Projects Totaling \$365,349**
SoCalGas misclassified a total of \$365,349 by recording expenditures to the incorrect MHP projects for TTM and BTM Contractor Costs.

We issued a draft report on June 9, 2026. SoCalGas responded by letter dated June 23, 2026, agreeing with the findings and requesting revisions to the Cause element of Finding 1 and 4. SoCalGas's response is included in this final report 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

General Rate Case (GRC)

GRCs are proceedings used to address the costs of operating and maintaining the utility system and the allocation of those costs in customer rates among different customer classes. The utility companies file applications to seek authorization or relief (e.g., authorization to increase rates or budgets, interim rate relief, etc.). The utility companies periodically submit applications to CPUC requesting to collect a certain amount of revenue from its customers. CPUC approves the utility companies' revenue requirements, which is the amount that each utility company can collect from its customers. The revenue requirement is based on the cost of operating, maintaining, and financing the infrastructure used to run the utility company, and the cost of its procured fuel and power.

On May 16, 2022, SoCalGas filed its 2024 test year GRC for rates to become effective January 1, 2024 (A.22-05-015). SoCalGas presented its operations and maintenance and capital expenditures incurred in executing the ongoing MHP program in this application. CPUC's D.24-12-074, issued on December 23, 2024, granted recovery of half the requested capital expenditures amounting to \$90.2 million and the total operations and maintenance expenditures amounting to \$4.6 million. The decision indicated that SoCalGas may seek recovery of its other half of capital expenditures by filing an application for cost recovery after the completion of this audit.

Mobile Home Park Utility Upgrade Program

CPUC initiated the MHP program to address public safety and service reliability concerns by upgrading aging gas and electric distribution systems in MHPs and manufactured housing communities. In D.14-03-021, CPUC launched a three-year pilot program that allowed California's investor-owned utilities to convert 10 percent of master-metered MHP spaces within their territories to direct utility service. As a result of the program's success, it has been extended multiple times and in 2020, CPUC adopted a permanent MHP program. There are two types of infrastructures upgraded through the MHP program, as follows:

- TTM utility facilities include all infrastructure and substructures necessary to complete the distribution and service line extensions up to and including the individual meter and will be owned and operated by the certificated utility.
- BTM utility facilities include all infrastructure and substructures necessary to complete the extension of facilities from the electric meter pedestal or gas riser to the point of connection on the mobile home and will be owned and maintained by the MHP owner.

A.22-05-015 2024 Test Year GRC, MHP

On May 16, 2022, SoCalGas filed A.22-05-015, which included a request to recover \$184,971,148 of MHP program costs incurred for financially complete projects during billing years 2016 through 2021. During the course of the audit, SoCalGas revised its total request to \$196,264,488, as outlined in the table below:

MHP Program Costs for Billing Years 2016 through 2021

Cost Categories	Requested Costs in A.22-05-015³	SoCalGas Adjustments	Revised Amounts⁴ Requested
To-the-Meter Contractor Costs			
Civil / Trenching Gas System	\$ 57,890,028	\$ (444,497)	\$ 57,445,531
Labor	21,851,926	(750,904)	21,101,022
Material / Structures	6,234,579	26,010	6,260,589
Program Management Costs			
Program Management Office	7,104,667	446,431	7,551,098
Outreach	573,261	3,566,598	4,139,859
Construction Management	32,098,589	2,419,208	34,517,797
Other To-the-Meter Costs			
Labor	1,388,975	1,738,790	3,127,765
Non-Labor	6,423,420	2,791,072	9,214,492
Property Taxes	115,719	52,223	167,942
AFUDC	804,196	69,871	874,067
Subtotal To-the Meter Costs	134,485,360	9,914,802	144,400,162
Beyond-the-Meter Contractor Costs			
Gas System			
Labor	33,244,746	959,074	34,203,820
Material / Structures	12,241,185	415,984	12,657,169
Other	4,999,857	3,480	5,003,337
Subtotal Beyond-the Meter Costs	50,485,788	1,378,538	51,864,326
Total Program Costs	\$ 184,971,148	\$ 11,293,340	\$ 196,264,488

SoCalGas's Explanation of Adjustments

1. Costs for 10 parks that were financially complete were omitted.
2. Cost mapping issue caused by error in automation tool.
3. Costs were assigned to the incorrect billing years caused by error in the automation tool.

During the audit, we audited the revised program costs totaling \$196,264,488. During the 2016 through 2021 billing years, SoCalGas converted 286 MHPs to direct utility service.

³ Table MA-71 in Exhibit SCG-04-R-E in A.22-05-015

⁴ SoCalGas's Response to Audit Data Request dated August 18, 2025

Audit Authority

UAB conducted this audit under the general authority outlined in PU Code sections 314.5, 314.6, 581, 582, and 584. Furthermore, on December 23, 2024, CPUC issued D.24-12-074 requesting UAB to conduct an audit of the MHP program costs, outlined in SoCalGas's A.22-05-015.

Objectives and Scope

Our audit objectives for the SoCalGas MHP program costs included in A.22-05-015 were:

1. To document how SoCalGas determined MHP labor rates and costs.
2. To document the variance which SoCalGas MHP labor wages differ from prevailing wages.
3. To determine whether MHP costs were properly reported, sufficiently supported, directly attributable to allowable activities, and in compliance with applicable PU Code sections, CPUC D.14-03-021, CPUC Resolutions E-4878 and E-4958, SoCalGas policies and procedures, and other relevant criteria.

The scope of our audit covered MHPs considered financially completed during January 1, 2016, through December 31, 2021, or billing years 2016 through 2021⁵.

Methodology

In planning our audit, we gained an understanding of MHP program activities and SoCalGas's program operations and identified relevant criteria by reviewing applicable PU Code sections, MHP annual reports, CPUC decisions, resolutions, orders, rulemakings, directives, advice letters, 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 operated effectively. Our assessment included conducting interviews, performing walkthroughs, and testing transactions. Deficiencies in internal controls that were identified during our audit and determined to be significant within the context of our audit objectives are included in this report.

Additionally, we assessed the reliability of the data extracted from SoCalGas's accounting system. 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, resolutions, advice letters, proceedings, and testimonies to gain an understanding of the MHP program.
- Reviewed SoCalGas's accounting system, accounting policies, processes and procedures for tracking, monitoring, and recording program costs.

⁵ The billing year includes all costs for MHPs that were considered financially complete between January 1, 2016, through December 31, 2021. SoCalGas incurred these costs between January 1, 2015, through December 31, 2021, and reported the costs in A.22-05-015

- Reviewed and reconciled expenditures recorded in SoCalGas’s accounting system to the balances as reported in A.22-05-015, and as revised during the audit, for accuracy and completeness.
- Assessed significance by performing an analysis of expenditure data and evaluating program requirements.
- Reviewed SoCalGas’s internal control policies and procedures related to the administration of the MHP program.
- Reviewed Sempra Energy internal audit report titled SoCalGas Mobilehome Park Utility Upgrade Program Audit Report, No. 21-302, issued on February 23, 2022. We performed follow-up tests to verify whether corrective actions were properly implemented.
- Reviewed the following prior UAB’s audit reports and determined that the audits were not relevant to our audit objectives and, therefore, no further review was performed for:
 - Performance audit of SoCalGas’s Balancing Accounts for the period January 1, 2023, through December 31, 2023, that was issued on February 19, 2025.
 - Performance audit of SoCalGas’s Energy Efficiency Program for the period January 1, 2014, through December 31, 2022, that was issued on April 2, 2024.
 - Performance audit of SoCalGas’s Energy Savings Assistance Program for the period January 1, 2019, through December 31, 2021, that was issued on April 5, 2023.
 - Performance audit of SoCalGas’s Energy Efficiency Program for the period January 1, 2020, through December 31, 2020, that was issued on September 27, 2021.
 - Performance audit of SoCalGas’s Balancing Accounts for the period January 1, 2018, through December 31, 2018, that was issued on April 27, 2021.
 - Performance audit of SoCalGas’s Energy Efficiency Program for the period January 1, 2018, through December 31, 2018, that was issued on August 13, 2020.
 - Examination of SoCalGas’s Energy Efficiency Program for the period January 1, 2017, through December 31, 2017, that was issued on August 5, 2019.
 - Examination of SoCalGas’s Energy Efficiency Program for the period January 1, 2016, through December 31, 2016, that was issued on August 3, 2018.
 - Examination of SoCalGas’s Public Purpose Program Regulatory Accounts for the period January 1, 2015, through December 31, 2016, that was issued on December 15, 2017.
 - Examination of SoCalGas’s Energy Efficiency Program for the period January 1, 2015, through December 31, 2015, that was issued on July 31, 2017.

- Examination of SoCalGas's Energy Efficiency Program for the period January 1, 2014, through December 31, 2014, that was issued on June 30, 2016.
- Obtained an understanding of SoCalGas's key internal controls relevant to the MHP program such as classifying and recording, monitoring, approving, and reporting expenditures, and assessed the design, implementation, and operating effectiveness of selected controls that are significant to the audit objectives by:
 - interviewing key personnel and administering an internal control questionnaire;
 - reviewing SoCalGas's policies and procedures, and assessing their implementation pertaining to accounting, recording, and reporting of expenditure data, TTM contractor procurement, and MHP agreement execution and BTM contractor bid reviews;
 - performing walkthroughs of selected transactions; and
 - tracing selected transactions to source documents, such as invoices, evidence of review and approvals, and contracts to verify implementation consistency and operating effectiveness of controls over program expenditures.
- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing.

To address audit objective 1 and document how SoCalGas determined MHP labor rates and costs, we:

- Reviewed testimony from SoCalGas's personnel provided during its 2024 GRC, MHP program costs as reported in A.22-05-015, and as revised during the audit, and the Line-Item Detail Reports to identify the type of labor costs that are included in the MHP program costs for billing years 2016 through 2021.
- Obtained an understanding of how labor rates were determined by:
 - inquiring with SoCalGas's personnel regarding how salaries and wages were determined;
 - analyzing TTM contract agreements, work authorizations, and TTM contractor invoices for 32 out of 286 MHPs completed during billing years 2016 through 2021;
 - examining MHP agreements and BTM contractor bids and invoices for 54 out of 286 MHPs completed during billing years 2016 through 2021; and
 - reviewing SoCalGas's salary schedules, including collective bargaining agreements for represented and management employees whose salaries and wages are included in Program Management Costs and Other TTM Costs—Labor cost categories.
- Confirmed with SoCalGas that our assessment of the labor rates methodology documented in this report is accurate.

To address audit objective 2 and document the variance in which SoCalGas MHP labor wages differ from prevailing wages, we:

- Reviewed applicable California Labor Code sections, resources provided by California Department of Industrial Relations (DIR) and inquired with DIR's personnel to obtain an understanding of California's prevailing wage requirements.
- Evaluated whether each category of labor included in SoCalGas's MHP program costs is subject to prevailing wage requirements by assessing whether the associated job functions align with comparable prevailing wage crafts and classifications.
- Analyzed SoCalGas's contractor compensation methods by:
 - evaluating TTM contractor agreements, work authorizations, and contractor invoices for 32 out of 286 MHPs completed during billing years 2016 through 2021; and
 - reviewing MHP agreements and BTM contractor bids and invoices for 54 out of 286 MHPs completed during billing years 2016 through 2021.
- Assessed whether SoCalGas's contractor compensation methods are comparable to applicable prevailing wage rates issued by DIR.
- Confirmed with SoCalGas that our assessment of the prevailing wage comparison as it relates to objective 2 documented in this report is accurate.

To address audit objective 3 and to determine whether MHP costs were properly reported, sufficiently supported, directly attributable to allowable activities, and in compliance with applicable criteria, we:

- Performed testing of TTM expenditures by judgmentally selecting a non-statistical sample of significant transactions totaling \$21,316,737 of \$144,400,162, or 15 percent, as follows:

Cost Categories	Total Expenditures Tested	Expenditures Recorded in BY 2016-2021	Percent Tested
To-the-Meter Contractor Costs			
Civil / Trenching	\$ 11,519,815	\$ 57,445,531	20%
Gas System			
Labor	3,142,111	21,101,022	15%
Material / Structures	407,812	6,260,589	7%
Program Management Costs			
Program Management Office	600,340	7,551,098	8%
Outreach	-	4,139,859	0%
Construction Management	5,346,228	34,517,797	15%
Other To-the-Meter Costs			
Labor	-	3,127,765	0%
Non-Labor	300,431	9,214,492	3%
Property Taxes	-	167,942	0%
AFUDC	-	874,067	0%
Total TTM Costs	\$ 21,316,737	\$ 144,400,162	15%

Note: For the selected samples, errors found, if any, were not projected to the total population.

- For the selected samples, traced expenditures recorded in SoCalGas's accounting records to supporting documentation and determined whether costs were accurate, attributable to allowable activities, supported by appropriate source documents, and incurred in compliance with applicable criteria by:
 - validating selected TTM Contractor and Other TTM Costs by:
 - tracing expenditures to invoices to ensure the expenditure (1) was coded and recorded to the correct categories, (2) agreed to the invoice amount, and (3) was calculated accurately;
 - confirming expenditures were directly attributable to allowable activities and supported by appropriate source documents, such as detailed invoices, agreements/contracts, etc. to confirm the expenditure was for an authorized activity;
 - confirming payment was made for the expenditure and the amount agreed to the invoice and number of converted spaces shown on the invoice agrees with the MHP agreement; and
 - verifying the expenditures were incurred during audit period.

- verifying selected Material/Structure costs by comparing the quantities of materials charged to selected MHP projects to the projects' as-built records which show actual quantities of materials used in construction;
- validating selected Program Management Cost by:
 - comparing employee salary and wage rates to SoCalGas's approved salary schedules to confirm that expenditures were authorized and properly supported; and
 - verifying that selected employees were assigned to the MHP program.
- Verified administrative and Program Management Costs were accurately allocated to the MHP program by:
 - reviewing SoCalGas's internal decision on how to implement CPUC's request to report program cost on per space basis documented in "MHPUUP Program Decision: Administrative Cost Allocation" and interviewing SoCalGas's personnel regarding its methodology for allocating administrative and Program Management Costs to specific MHPs;
 - reconciling the Program Management Costs transferred out of holding internal orders to SoCalGas's Line-Item Detail Reports for the MHP program for completeness; and
 - assessing SoCalGas's administrative cost allocation calculations to verify whether methodology for allocating ACA costs is supported by its calculations.
- Confirmed the accuracy of the cost of GMMR allocated to MHP projects by:
 - interviewing SoCalGas's personnel to obtain an understanding of the allocation calculation methodology;
 - reconciling pooled GMMR costs to allocated costs for accuracy; and
 - reviewing SoCalGas's reconciliation of GMMR used in the allocation calculations and tracing the quantities of materials used to the total number of TTM spaces converted during the audit period.
- Verified whether non-covered services billed through sundry bills were authorized under MHP agreements, accurately recorded in SoCalGas's accounting system, and properly reimbursed by selecting a sample of 6 sundry bills, and performing the following procedures:
 - confirming that non-covered services were included in the MHP agreement; and
 - confirming that non-covered services were properly recorded in the Line-Item Detail Report as a reduction to TTM contractor costs and tracing it to SoCalGas's sundry bills report.

- Performed testing of BTM expenditures, by judgmentally selecting a non-statistical sample of 80 invoices representing significant transactions totaling \$9,616,835 of \$51,864,326, or 19 percent of the total recorded expenses for billing years 2016 through 2021, as follows:

Cost Categories	Total Expenditures Tested	Total Expenditures Recorded in BY 2016-2021	Percent Tested
BTM Contractor Costs - Gas			
Labor	\$ 3,932,870	\$ 34,203,820	11%
Materials/Structures	1,290,518	12,657,169	10%
Other	4,393,447	5,003,337	88%
Totals	\$ 9,616,835	\$ 51,864,326	19%

Note: For the selected samples, errors found, if any, were not projected to the total population.

- For the selected BTM samples, traced expenditures recorded in SoCalGas's accounting records to supporting documentation and determined whether costs were accurate, attributable to MHP allowable activities, supported by appropriate source documents, and incurred in compliance with applicable criteria by:
 - tracing expenditures to invoices to ensure the expenditure (1) was coded and recorded to the correct categories, (2) agreed to the invoice amount, and (3) was calculated accurately;
 - confirming expenditures were for allowable activities and supported by appropriate source documents, such as detailed invoices, agreements/contracts, etc. to confirm the expenditure was for an authorized activity;
 - confirming payment was made for the expenditure and the amount agreed to the invoice and number of converted spaces shown on the invoice agrees with the MHP agreement;
 - verifying the expenditures were incurred during or prior to 2021; and
 - corroborating that the activity was completed, for a subset of samples, by:
 - reviewing inspection reports from California Department of Housing and Community Development or Authority Having Jurisdiction that showed that converted spaces passed inspection for 54 MHPs; and
 - verifying completion by obtaining documentation such as retirement of legacy system or post construction completion letters for 10 MHPs.
- Recalculated SoCalGas's total MHP program cost recovery amount utilizing audited data.

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 supported its MHP costs 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

For audit objective 1, based on the procedures performed and evidence gathered, we documented how SoCalGas determined MHP labor rates and costs as described in the Summary of Labor Rates and Costs section of this audit report.

For audit objective 2, based on the procedures performed and evidence gathered, we documented the results in determining the variance in which SoCalGas MHP labor wages differ from prevailing wages, as described in the Labor Rates: Variances with Prevailing Wages section of this audit report.

For audit objective 3, based on the procedures performed, samples tested, and evidence gathered, we determined that SoCalGas's request for cost recovery for the billing years January 1, 2016, through December 31, 2021, included instances of unsupported, misstated and/or misclassified costs. These instances are quantified in the Summary Schedule of Audit Results and described in the Findings and Recommendations section of this audit report.

Follow-up On Prior Audit Findings

We identified a prior internal audit report titled SoCalGas Mobilehome Park Utility Upgrade Program Audit Report, No. 21-302, issued on February 22, 2022, by Sempra Energy Audit Services. The audit report identified that SoCalGas charged inaccurate labor hours to the MHP program and errors in completing MHP agreements. Sempra Audit Services closed out this audit following SoCalGas's satisfactory implementation of corrective actions.

Views of Responsible Officials

We issued a draft report on June 9, 2026. SoCalGas responded by letter dated June 23, 2026, agreeing with the findings and requesting revisions to the Cause element of Finding 1 and 4. SoCalGas's response is included in this final report 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 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 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 OF LABOR RATES AND COSTS

For audit objective 1, based on the procedures performed and evidence gathered, we noted that the following cost categories within the reported MHP program costs include labor costs:

- TTM Contractor Costs
- Program Management Costs
- Other TTM Costs – Labor
- BTM Contractor Costs – Labor

The table below summarizes how SoCalGas determined MHP labor rates and costs for each of the four cost categories identified above:

Labor Category	How SoCalGas Determined Labor Rates & Costs
TTM Contractor Costs	<p>TTM Contractor Costs include expenses for TTM construction activities such as trenching, paving, and installation of services and gas main performed by TTM contractors. SoCalGas’s labor rates and costs for TTM contractors are based on whether SoCalGas enters into a unit price agreement or fixed price agreement with the TTM contractor. The use of unit price or fixed price agreements depends on which electric utility or third-party communication provider is involved in completing conversions for specific MHP projects.</p> <p>Unit Pricing Agreements: Activity-based unit costs are all inclusive and cover labor and equipment required to complete each unitized task. Unit prices represent the entire cost of the work performed including, but not limited to, the cost of labor, equipment, material, taxes, freight, supervision, overhead, profit, coordinating the unit price work with adjacent work, and delays in performance represented by the unit price work.</p> <p>SoCalGas groups TTM contractor costs based on unit pricing agreements into two cost categories, as noted below:</p> <ul style="list-style-type: none"> • Civil Trenching: Activities primarily related to excavation, trenching, or paving work, inclusive of labor, are classified as Civil Trenching. • Contractor Labor: Activities that involve installation of gas mains, services, or tie-ins are classified as Contractor Labor. <p>Fixed Priced Agreements: TTM contractors’ lump sum amounts include all costs associated with completing the work. This includes, labor, equipment, taxes, freight, supervision, overhead, profit, coordinating the unit price work with adjacent work, and delays in performance represented by the unit price work.</p>

<p>TTM Contractor Costs (continued)</p>	<p>SoCalGas groups TTM costs based on fixed price agreements as Civil Trenching or Contractor Labor as summarized below:</p> <ul style="list-style-type: none"> <p>Civil Trenching/Contractor Labor: During the early stages of the MHP program, SoCalGas classified the full amount of TTM contractor costs as Civil Trenching for contractors compensated under a fixed-price method, because a standardized approach for allocating costs between Civil Trenching and Contractor Labor had not yet been established. As the MHP program progressed, SoCalGas implemented a more refined approach, allocating TTM contractor costs between Civil Trenching and Contractor Labor based on the nature of work included in the contractor’s scope or on internal assessments of cost structure.</p> <p>Joint Cost Sharing Allocations: SoCalGas provides gas only services and often coordinates with electric utilities to streamline trenching, restoration, and installation activities. This enables joint conversion of natural gas and electric systems. When partnering with electric providers, SoCalGas established unit rates and a two-way cost-sharing mechanism as summarized below:</p> <p style="text-align: center;">Program Years 2016 through end of 2018 Quarter 1</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th rowspan="2">Utility</th> <th colspan="2">Trenching</th> <th colspan="2">Paving</th> </tr> <tr> <th>Gas</th> <th>Electric</th> <th>Gas</th> <th>Electric</th> </tr> </thead> <tbody> <tr> <td>Pacific Gas & Electric</td> <td>44%</td> <td>56%</td> <td>50%</td> <td>50%</td> </tr> <tr> <td>San Diego Gas & Electric</td> <td>63%</td> <td>37%</td> <td>50%</td> <td>50%</td> </tr> <tr> <td>Southern California Edison</td> <td>45%</td> <td>55%</td> <td>48%</td> <td>52%</td> </tr> </tbody> </table> <p style="text-align: center;">Program Years 2018 Quarter 2 through end of 2021</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th rowspan="2">Utility</th> <th colspan="2">Trenching</th> <th colspan="2">Paving</th> </tr> <tr> <th>Gas</th> <th>Electric</th> <th>Gas</th> <th>Electric</th> </tr> </thead> <tbody> <tr> <td>Pacific Gas & Electric</td> <td>48%</td> <td>52%</td> <td>50%</td> <td>50%</td> </tr> <tr> <td>San Diego Gas & Electric</td> <td>63%</td> <td>37%</td> <td>50%</td> <td>50%</td> </tr> <tr> <td>Southern California Edison</td> <td>48%</td> <td>52%</td> <td>48%</td> <td>52%</td> </tr> </tbody> </table>	Utility	Trenching		Paving		Gas	Electric	Gas	Electric	Pacific Gas & Electric	44%	56%	50%	50%	San Diego Gas & Electric	63%	37%	50%	50%	Southern California Edison	45%	55%	48%	52%	Utility	Trenching		Paving		Gas	Electric	Gas	Electric	Pacific Gas & Electric	48%	52%	50%	50%	San Diego Gas & Electric	63%	37%	50%	50%	Southern California Edison	48%	52%	48%	52%
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<p>Program Management Costs</p>	<p>Program Management Costs include costs for administrating the MHP program. A significant portion of these costs consist of salaries and wages for SoCalGas’s Program Management Office, Outreach, and Construction Management teams.</p> <p>These teams consist of management employees. The salaries and wages of management staff are based on annual pay bands, referred to as Market Reference Ranges, which SoCalGas establishes and updates each year using market data from multiple compensation surveys.</p> <p>Administrative Cost Allocation: Using a per-space cost allocation method, SoCalGas distributes these administrative and Program</p>																																																

	<p>Management Costs to individual MHPs based on the MHP’s permit-to-operate space count or preliminary converted space counts.</p>
<p>Other TTM Costs– Labor</p>	<p>Other TTM Costs – Labor include salaries and wages for SoCalGas’s employees that provide support services, but are not permanently assigned to the program. Duties include, but not limited to, setting and turning on meters, master meter removals, and disconnecting the gas from main and purging residual gas. Labor cost includes salaries and wages of both Represented and Management employees.</p> <p>Represented Employees Labor costs are determined by a collective bargaining agreement for represented employees. Labor costs under this category are based on the actual time spent working on the MHP program.</p> <p>Management Employees Labor costs are based on annual salary pay bands, referred to as Market Reference Ranges, which SoCalGas establishes and updates each year using market data from multiple compensation surveys. Labor costs under this category are based on the actual time employees spend working on the MHP program.</p>
<p>BTM Contractor Costs– Labor</p>	<p>BTM contractor labor costs cover all work required to install gas line extensions from the existing mobile home gas connection point to the new gas meter location and include leak testing for each space.</p> <p>BTM contractors charged a flat labor rate per BTM space conversions. MHP owners sourced, awarded, and agreed on labor costs with BTM contractors for BTM work. SoCalGas’s role in relation to BTM contract awards was limited to ensure contractors are licensed and qualified to perform the work.</p>

LABOR RATES: VARIANCE WITH PREVAILING WAGES

For audit objective 2, based on the procedures performed and evidence gathered, we documented the results in determining the variance in which SoCalGas MHP labor wages differ from prevailing wages.

We reviewed the prevailing wage requirement established by DIR. California's prevailing wage law requires that workers on public works projects funded in whole or in part by public funds be paid at least the locally prevailing wage rates set by DIR. DIR prevailing wages schedules specify basic hourly rates, plus fringe benefits, for workers in specific construction-related crafts and classifications, based on location.

Prevailing wage as defined in the California Labor Code Section 1771, states, in part, that:

Except for public works projects of one thousand dollars (\$1,000) or less, not less than the general prevailing rate, shall be paid to all workers employed on public works.

Public works as defined in the California Labor Code Section 1720, states, in part, that:

- (a) As used in this chapter, "public works" means all of the following:
 - (1) Construction, alteration, demolition, installation, or repair work done under contract and paid for in whole or in part out of public funds, except work done directly by a public utility company pursuant to order of the Public Utilities Commission or other public authority.

CPUC issued D.14-03-021 which established the MHP program, authorizing utilities to convert mobile home park spaces within its operating territory to direct utility service. Subsequently, D.20-04-004 made the program permanent. SoCalGas converted MHP spaces pursuant to CPUC's D.14-03-021.

Based on the above definitions, we believe that the MHP program is excluded from prevailing wage requirements during the audit period because SoCalGas is a public utility company and the projects are not considered public works.

Although the MHP program is not subject to prevailing wage requirements, SoCalGas's TTM and BTM contractor crews perform majority of the construction work related to the MHP program. The nature of the work performed is comparable to crafts and classifications for which DIR establishes prevailing wage rates. Accordingly, to compare the labor wages and labor rates that SoCalGas paid these contractors with prevailing wage rates established by DIR, we reviewed:

- TTM contractor agreements, work authorizations and invoices for 32 MHPs; and
- MHP agreements and BTM contractor bids and invoices for 54 MHPs.

We found that SoCalGas compensates TTM contractors using either an all-inclusive, activity-based unit rates or all-inclusive fixed amount as detailed in the Summary of Labor Costs and Rates Section of this audit report. Similarly, we found SoCalGas compensates BTM contractors using a flat labor rate per BTM space converted. These compensation methods do not identify or itemize the actual hourly wage rates paid by the contractors to their crew for performing hands-on construction work. Therefore, we

are unable to determine a variance because the contractors' compensation methods do not disclose hourly wage rates necessary to directly compare their compensation to DIR prevailing wages.

Furthermore, based on our discussions with SoCalGas's personnel and review of SoCalGas's agreements, work orders, and invoices for TTM and BTM contractors, we noted that contractor rates vary for several reasons, including, but not limited to:

- Differences in scope of work and project complexity.
- Contractor assumptions used to estimate labor, equipment, and overhead costs.
- Variations in labor mixes (self-performed vs. subcontracted work, including specialized trades).
- Higher cost for work requiring greater coordination with electric utilities.
- Differences in how contractors allocate costs and margins between gas and electric work.

FINDINGS AND RECOMMENDATIONS

Finding 1: Misclassified Program Management Costs by \$387,939, Resulting in a Total Overstatement of \$173,904

Condition:

SoCalGas misclassified GMMR cost of \$387,939 as Program Management Cost, resulting in an overstatement of total TTM Costs by \$173,904 and understatement of Other TTM Costs by \$214,035 during the audit period.

During our review of costs recorded in SoCalGas's holding internal orders for administrative and program costs, we identified that SoCalGas recorded GMMR costs of \$387,939 as Program Management Cost in August 2019, for the following:

- \$203,703 for 3,520 meters
- \$184,236 for 4,160 modules

Further discussions with SoCalGas revealed that SoCalGas should have charged the \$387,939 of GMMR costs to the MHP program in accordance with its GMMR cost allocation process. Under this process, SoCalGas pools and allocates GMMR and its associated costs based on the number of TTM spaces converted for each MHP. Because SoCalGas recorded the \$387,939 as Program Management Costs instead of including it in the pooled GMMR allocation, SoCalGas excluded these costs from the allocation process used to distribute GMMR costs among completed MHPs during the audit period.

To correct the misclassification error, SoCalGas performed a reconciliation of its GMMR cost allocation and determined that \$214,035 out of the \$387,939 should be allocated to Other TTM Costs during the audit period, and the remaining \$173,904 will be allocated to future periods. We re-performed the reconciliation and confirmed that allocation was consistent with supporting documentation provided.

Criteria:

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

Cause:

SoCalGas lacks adequate oversight and monitoring procedures for tracking cost allocation for meters and modules to ensure the accuracy of the number of meters and modules utilized and its related costs. In addition, SoCalGas lacks a documented process for GMMR cost allocation.

Effect:

Failure to properly account for expenditures in SoCalGas's request for cost recovery leads to inaccurate representation of the costs incurred. It is critical that the costs requested for recovery are properly reviewed to ensure transparency and accuracy of the costs that are recoverable from ratepayers.

Recommendations:

SoCalGas should:

- reduce its recovery amount for the audit period by \$173,904;

- strengthen its oversight and monitoring procedures for recording and tracking meters, modules and regulators to ensure accuracy of reported amounts; and
- establish a documented process for GMMR cost allocation that includes defined checkpoints at regular intervals to ensure accuracy, consistency and proper oversight.

Finding 2: Overstated TTM Contractor Costs–Material/Structures by \$70,526

Condition:

SoCalGas overstated its expenditures in the TTM Contractor Costs–Material/Structures cost category by \$70,526. Our review of selected material expenditure charges disclosed that quantities that SoCalGas charged to two MHP projects were not supported by corresponding as-built records as summarized below:

Project	Material Description	Quantity Charged	Quantity per As-Built Records	Quantity Variance	Unit Cost	Unsupported Cost
Project 1	██████████	280	175	105	\$56.97	\$5,982
Project 1	██████████	338	182	156	22.72	3,544
Project 1	██████████████████	1,480	352	1,128	1.27	1,433
Project 1	██████████████████	1,480	352	1,128	1.80	2,030
Project 2	██████	66,315	6,315	60,000	0.76	45,600
Project 2	██████████	354	177	177	67.44	11,937
						\$70,526

SoCalGas explained that it overcharged quantities to these MHP projects due to clerical errors, including instances where personnel inadvertently duplicated material charges posted in its accounting system.

Criteria:

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

SoCalGas's MHP Contract Administrator Playbook states, in part, that Contract Administrators' responsibilities are to:

- Ensure that all work product documentation and critical design and project documents are completed accurately and in a timely manner adhering to all governing policy, procedure and best practice guidance.
- Perform audits on all critical project documents such as as-builts and service orders.
- True-up used materials.

Cause:

SoCalGas did not consistently comply with its internal policies requiring periodic audits of critical project documentation, including as-built records and reconciliation of cost of materials used in construction. SoCalGas lacks adequate review and oversight of its process for reconciling materials quantities charged to its projects with the corresponding as-built records to ensure the accuracy of materials used during construction.

Effect:

Requesting recovery of materials not consumed in construction leads to inaccurate representation of costs incurred. It is critical that the costs requested for recovery are properly reviewed to ensure transparency and accuracy of the costs that are recoverable from ratepayers.

Recommendations:

SoCalGas should:

- reduce its recovery amount for the audit period by \$70,526;
- ensure that it follows its internal policies requiring periodic audits of critical project documentation, including as-built records and reconciliation of cost of materials used in construction; and
- strengthen its review and oversight process for reconciling materials quantities charged to its projects with the corresponding as-built records.

Finding 3: Misclassified TTM and BTM Contractor Costs Totaling \$2,487,237**Condition:**

SoCalGas misclassified a total of \$2,487,237 of TTM (\$320,477) and BTM (\$2,166,760) Contractor costs by recording the expenditures in incorrect cost categories. Although the misclassifications do not impact SoCalGas's total MHP expenditures eligible for recovery, it reduces the comparability of program costs by category, limiting decision makers' ability to effectively evaluate MHP program performance across projects and utility companies.

Specifically, our review of TTM and BTM contractor invoices selected for testing disclosed the following misclassifications:

- SoCalGas misclassified TTM costs totaling \$320,477 by recording the costs in incorrect TTM Contractor Cost categories as summarized below:

Invoice	Total Misclassified Costs	TTM Cost Category Overstated/ (Understated)		
		Civil Trenching	Contractor Labor	Material/ Structures
Invoice 1	\$ 20,006	\$ 20,006	\$ (20,006)	\$ -
Invoice 2	1,265	(1,265)	1,265	-
Invoice 3	128,572	(128,572)	64,427	64,145
Invoice 4	118	-	(118)	118
Invoice 5	71,405	71,405	(57,702)	(13,703)
Invoice 6	78,068	78,068	(35,145)	(42,923)
Invoice 7	1,962	1,962	(1,962)	-
Invoice 8	19,081	19,081	(19,081)	-
Total	\$ 320,477	\$ 60,685	\$ (68,322)	\$ 7,637

- SoCalGas misclassified recorded BTM costs totaling \$2,166,760 by recording the costs in incorrect BTM Contractor Cost categories as summarized in the table below:

MHP	Total Misclassified Costs	BTM Cost Category Overstated/ (Understated)		
		Contractor Labor	Material and Structures	Other Costs
MHP 1	\$ 190,376	\$ (161,728)	\$ (28,648)	\$ 190,376
MHP 2	33,755	(33,755)	33,755	-
MHP 3	104,383	(104,383)	-	104,383
MHP 4	85,500	(53,775)	(31,725)	85,500
MHP 5	99,560	99,560	(99,560)	-
MHP 6	39,000	(31,897)	(7,103)	39,000
MHP 7	57,720	(57,630)	57,630	-
MHP 8	174,218	(133,933)	(40,285)	174,218
MHP 9	111,489	(111,489)	111,489	-
MHP 10	18,960	(18,960)	18,960	-
MHP 11	2,767	2,767	(2,767)	-
MHP 12	419,090	(314,078)	(105,012)	419,090
MHP 13	15,870	(15,870)	15,870	-
MHP 14	21,170	21,170	(16,858)	(4,312)
MHP 15	14,325	(14,325)	14,325	-
MHP 16	131,790	(82,455)	(49,335)	131,790
MHP 17	434,154	(361,884)	87,984 (72,270)	346,170
MHP 18	5,520	(5,520)	5,520	-
MHP 19	178,988	(156,659)	(22,329)	178,988
MHP 20	28,125	(28,125)	28,125	-
Total	\$ 2,166,760	\$ (1,562,969)	\$ (102,234)	\$ 1,665,203

Criteria:

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

SoCalGas's MHP Project Manager (PM) Playbook states, in part, that MHP PM's responsibilities are to:

- Review TTM and BTM contractor invoices for pre-approval before submitting the invoice to SoCalGas's Accounts Payable.
- Review, log, code and approve all TTM and BTM invoices.

SoCalGas's TTM and BTM Invoice Processing procedures provide guidelines on how to review and code invoices received by the MHP PM for TTM construction and BTM work, including but not limited to, coding inputs for cost categories such as labor, materials, civil, and permit.

Cause:

SoCalGas lacks adequate review process to ensure that it consistently complies with its internal policies requiring that TTM and BTM contractor invoices and expenditures are accurately recorded in the appropriate cost categories.

Effect:

Inaccurate recording and reporting of costs results in misclassification and inaccurate representation of costs incurred. Properly recording and reporting program expenditures is essential to ensuring transparency and supporting decision-makers in evaluating the performance of the MHP program.

Recommendation:

SoCalGas should strengthen its review process to ensure that it consistently complies with its internal policies requiring that TTM and BTM contractor invoices and expenditures are accurately recorded in the appropriate cost categories.

Finding 4: Costs Charged to Incorrect MHP Projects Totaling \$365,349

Condition:

SoCalGas misclassified a total of \$365,349 for TTM and BTM Contractor costs by recording expenditures to the incorrect MHP project. Although the misclassifications do not impact SoCalGas's total MHP expenditures eligible for recovery, it distorts the project-level cost data that decision makers rely on to assess the performance of individual projects and make well-informed decisions.

Specifically, our review of TTM and BTM project costs disclosed the following misclassifications:

- SoCalGas incorrectly charged a net underpayment to a TTM contractor responsible for 26 MHP projects, resulting in a \$175,486 understatement of TTM contractor costs for one sampled MHP project.

SoCalGas discovered that a TTM contractor was being underpaid across 26 MHPs. The sampled MHP project had a net amount due totaling \$506,600, and in aggregate SoCalGas owed the TTM contractor \$331,114. Instead of applying the amount due to and from the contractor across the 26 MHP projects, SoCalGas applied the aggregated amount to the sampled MHP, resulting in the sampled MHP's total cost to be understated by \$175,486.

- SoCalGas charged BTM contractor costs to the incorrect MHP project for one of 80 BTM contractor invoices selected for review, totaling \$189,863.

Criteria:

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

SoCalGas's MHP Project Manager Playbook states, in part, that MHP PM's responsibilities are to review, log, code and approve all TTM and BTM invoices.

SoCalGas's TTM and BTM Invoice Processing procedures provide guidelines on how to review and code invoices received by the MHP PM for TTM construction and BTM work, including but not limited to, coding inputs for Park Name and HCD ID.

Cause:

SoCalGas lacks adequate review process to ensure that it consistently complies with its internal policies ensuring that TTM and BTM contractor invoices and expenditures are accurately charged to the correct MHP projects.

Effect:

Misallocation of costs across MHP projects could result in distorted project performance metrics and could reduce ability for SoCalGas's management to make informed decisions. Accurate recording and reporting of program expenditures is essential to ensuring transparency and supporting decision-makers in evaluating the performance of each MHP project.

Recommendation:

SoCalGas should strengthen its review process to ensure that it consistently complies with its internal policies requiring that TTM and BTM contractor invoices and expenditures are accurately charged to the correct MHP projects.

SUMMARY SCHEDULE OF AUDIT RESULTS

Table 1: Summary of Request with Audit Adjustments

Cost Categories	Revised Program Costs Reported	Audit Adjustments			Finding Reference
		Mis-statements	Mis-classifications	Total	
To-the-Meter Contractor Costs					
Civil / Trenching	\$ 57,445,531	\$ -	\$ 60,685	\$ 60,685	Finding 3
Gas System					
Labor	21,101,022	-	(68,322)	(68,322)	Finding 3
Material / Structures	6,260,589	(70,526)	7,637	(62,889)	Finding 2 & 3
Program Management Costs					
Program Management Costs	7,551,098	(387,939)	-	(387,939)	Finding 1
Outreach	4,139,859	-	-	-	
Construction Management	34,517,797	-	-	-	
Other To-the-Meter Costs					
Labor	3,127,765	-	-	-	
Non-Labor	9,214,492	214,035	-	214,035	Finding 1
Property Taxes	167,942	-	-	-	
AFUDC	874,067	-	-	-	
Subtotal To-the Meter Costs	144,400,162	(244,430)	-	(244,430)	
Beyond-the-Meter Contractor Costs					
Gas System					
Labor	34,203,820	-	(1,562,969)	-	Finding 3
Material / Structures	12,657,169	-	(102,234)	-	Finding 3
Other	5,003,337	-	1,665,203	-	Finding 3
Subtotal Beyond-the Meter Costs	51,864,326	-	-	-	
Total Program Costs	\$196,264,488	\$ (244,430)	\$ -	\$ (244,430)	

APPENDIX A—UTILITY'S RESPONSE TO DRAFT AUDIT REPORT



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June 23, 2026

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

Re: SoCalGas Comments to the Draft Report of the Audit of SoCalGas's Mobile Home Park Utility Upgrade Program for the Billing Period of January 1, 2016 through December 31, 2021

Dear Ms. Williams,

Southern California Gas Company ("SoCalGas") appreciates the opportunity to review and comment on the Draft Audit Report prepared by the Utility Audits Branch ("UAB") of the California Public Utilities Commission ("CPUC" or "Commission") regarding the Mobile Home Park ("MHP") Program for the period of 2016 through 2021.

The MHP Program was first established by the Commission in D.14-03-021 as a three-year pilot program to address public safety and service reliability concerns by upgrading aging gas and electric distribution systems in mobile home parks and manufactured housing communities. Following an evaluation of the pilot program, the MHP Program was extended, including in D.20-04-004, which approved a ten-year MHP Program that will run through 2030. As of December 31, 2025, SoCalGas has converted 468 mobile home parks. This audit covered the period of 2016 through 2021, which includes the period covering the pilot program and part of the extended MHP Program, during which time SoCalGas converted approximately 287 mobile home parks.

SoCalGas appreciates the UAB's time and effort in conducting the audit and preparing the Draft Audit Report. Throughout execution of the MHP Program, including from the pilot stage through the 10-year program, SoCalGas continuously seeks to identify and implement process improvements, several of which are identified below. SoCalGas views the observations identified in this audit as an opportunity to further strengthen existing processes through a structured continuous improvement approach and appreciates the UAB's recommendations in supporting that effort, particularly with respect to accounting and financial process execution, including cost allocation, reconciliation, invoice coding, and project-level cost tracking.

The Draft Audit Report identifies opportunities for process improvements which SoCalGas has evaluated and, in some instances, already begun to implement. As a general comment across

findings 1 through 4, SoCalGas agrees that the findings highlight areas where existing processes and controls can be strengthened to improve consistency and effectiveness in execution in accounting, reporting, and financial tracking. During the audit period, SoCalGas had established processes, procedures, and internal controls in place; however, as reflected in the findings, there were instances where these controls were not operating as consistently or effectively as intended. SoCalGas appreciates the UAB's identification of these opportunities for improvement and is committed to continuing to enhance its processes and controls.

With respect to the "Cause" sections, SoCalGas respectfully suggests that revisions could clarify that the findings relate to opportunities to strengthen the application and execution of existing processes, rather than the absence of controls.

For example, under Finding 1, which relates to misclassified program management costs, the Draft Audit Report lists the cause as "SoCalGas lacks adequate oversight and monitoring procedures for tracking cost allocation for meters and modules[.]"¹ SoCalGas believes it would be more accurate to reflect that oversight and monitoring processes were in place, but that there were instances where those processes can be improved to support more consistent application. This refinement would better align with the underlying facts and appropriately characterize the nature of the findings as opportunities to enhance existing controls.

SoCalGas also notes that many of the issues identified in the findings arose during earlier phases of program implementation, specifically during the pilot phase, and have since been addressed, or are being addressed, through broader process and control enhancements.

Based on the Draft Audit Report, SoCalGas has implemented or initiated enhancements aligned with the API RP 1173 Safety Management System (SMS) framework and a Plan-Do-Check-Act (PDCA) approach to support processes that are effectively implemented, monitored, and continuously refined.

More specifically, consistent with SoCalGas's Safety Management System (SMS), SoCalGas is strengthening its processes to support consistent execution, effective oversight, and improved transparency across accounting, reporting, and financial tracking activities.

This includes:

- **Management Review:** Routine evaluation of program performance, exception trends, and corrective actions to promote effectiveness of controls and drive accountability
- **Continuous Improvement:** Systematic identification, evaluation, and implementation of improvements based on audit results, internal reviews, and operational learning
- **Documentation and Recordkeeping:** Standardization and enhancement of documentation practices to support completeness, traceability, and auditability of program activities
- **Competence, Awareness, and Training:** Targeted training and onboarding processes to reinforce understanding of requirements, roles, and expectations

¹ UAB Draft Audit Report at 19.

Through this integrated framework, SoCalGas continues to strengthen consistency in execution, reinforce oversight practices, and enhance transparency in financial tracking and reporting activities, while maintaining alignment with regulatory expectations.

Discussion

Finding 1 – Misclassified Program Management Costs by \$387,939, Resulting in a Total Overstatement of \$173,904

Within total To-The-Meter (TTM) cost, SoCalGas misclassified gas meters, modules, and regulators (GMMR) cost of \$387,939 as Program Management Cost. Due to this misclassification and the methodology for allocating GMMR costs, SoCalGas determined that \$214,035 should be allocated to Other TTM costs and total TTM Costs are overstated by \$173,904 during the audit period.

SoCalGas Response

SoCalGas acknowledges the audit observation regarding the classification and allocation of certain program management costs associated with MHP Program activities. The identified costs were incurred in support of authorized MHP Program activities.² The issue identified relates to the timing and allocation methodology used for certain pooled GMMR costs, rather than the validity of the expenditures.

During the audit period, particularly in earlier implementation phases, processes used to track and allocate certain program management costs continued to evolve. The variances identified reflect timing, allocation, and documentation inconsistencies, rather than indicating broader issues with the allowability of the underlying expenditures.

SoCalGas reviewed the applicable accounting, inventory, and allocation processes and identified opportunities to strengthen:

- Cost tracking and reconciliation practices
- Project-level allocation methodologies
- Documentation and support for allocations
- Management review controls

In alignment with the audit recommendations, SoCalGas has initiated and is continuing to formalize enhancements to strengthen these areas, including:

- Recording an adjustment to reduce the \$173,904 program cost incorrectly allocated for the 2016-2021 audit years.
- Enhancing oversight and monitoring procedures through defined validation and reconciliation checkpoints supported by periodic management review
- Initiating and formalizing documentation of the GMMR cost allocation process to support consistency, traceability, and recordkeeping
- Strengthening documentation standards to support allocation transparency and auditability
- Providing or developing onboarding materials, process documentation, and role-based guidance to reinforce awareness of GMMR cost allocation processes, roles, and expectations

² UAB Draft Audit Report (Objectives and Scope).

Since the audit period, SoCalGas has initiated and is continuing to advance enhancements in these areas to improve consistency and accuracy. These actions include refining and evaluating improvements to meter and module tracking tools, reviewing and correcting cost allocation for applicable completed projects, as appropriate and evaluating longer-term solutions to support more consistent and accurate allocation of costs to the appropriate MHPs. In addition, SoCalGas has updated or is in the process of updating inventory management practices, including incorporating batch-specific unit costing and procedures to support more consistent depletion of meter and module purchase lots before transitioning to subsequent purchases.

These enhancements are being advanced within a structured continuous improvement framework to promote consistent execution and sustained effectiveness of controls.

SoCalGas will continue advancing these enhancements through its SMS framework, supported by:

- Ongoing management review of performance and trends
- Structured continuous improvement and corrective action tracking
- Strengthened documentation and recordkeeping practices
- Reinforcement through training, awareness, and competency development

This approach supports sustained compliance, improved consistency, and continued program maturity.

Finding 2 – TTM Contractor Costs (Material/Structures)

SoCalGas overstated TTM contractor material/structure costs by \$70,526 due to discrepancies between recorded material quantities and as-built records for selected projects.

SoCalGas Response

SoCalGas acknowledges the audit observation regarding certain contractor material costs recorded during the audit period. The identified costs were associated with authorized MHP Program construction activities, and the issue relates to discrepancies between recorded quantities and supporting documentation, rather than unauthorized expenditures.

SoCalGas determined that certain variances were attributable to clerical and processing errors, including duplicate or inconsistent material entries. These observations highlight opportunities to improve consistency in materials tracking, reconciliation, and documentation practices.

SoCalGas reviewed the relevant processes and identified opportunities to enhance:

- Material tracking and reconciliation procedures
- Documentation review controls
- Contractor reporting oversight
- Quality assurance and validation processes
- Standardized process flow and role clarity across functions
- Targeted training for contractors and internal stakeholders

In alignment with the audit recommendations, SoCalGas has initiated and is continuing to formalize enhancements to strengthen these areas, including reinforcing reconciliation controls between recorded material quantities and as-built records, and implementing or planning defined validation checkpoints. These enhancements will improve accuracy in material tracking and reporting. They include the development and ongoing refinement of the material reconciliation process incorporating multiple validation checkpoints across contractors, inspectors, project managers, and logistics, to validate that quantities billed align with quantities installed before costs are finalized.

In addition, SoCalGas is continuing to provide and formalize guidance for relevant personnel and contractors to reinforce expectations for material tracking, documentation accuracy, and adherence to established procedures.

SoCalGas will continue advancing these enhancements through its SMS framework, supported by:

- Ongoing management review of performance and trends
- Structured continuous improvement and corrective action tracking
- Strengthened documentation and recordkeeping practices
- Reinforcement through training, awareness, and competency development

This approach supports sustained compliance, improved consistency, and continued program maturity.

Finding 3 – Contractor Cost Categorization (TTM/BTM)

SoCalGas misclassified approximately \$2.49 million of TTM and BTM contractor costs across cost categories, affecting cost categorization but not total program expenditures.

SoCalGas Response

SoCalGas acknowledges the audit observation regarding the categorization of certain contractor costs within TTM and BTM classifications. As noted in the Draft Audit Report, the identified costs were associated with authorized program activities, and the issue relates to cost subcategorization within established categories, rather than misclassification between program types or inclusion of unallowable costs.³ Importantly, these categorization issues did not affect overall program expenditures eligible for recovery.

The observed variances were primarily attributable to invoice coding inconsistencies and processing errors, particularly during earlier program phases when processes were continuing to mature and standardization was still being established. Issues identified early in the pilot phase related to manual subcategorization errors have since been addressed through the implementation of automation tools to support consistent and accurate invoice coding.

SoCalGas reviewed the applicable processes and identified opportunities to strengthen:

- Invoice review and coding accuracy
- Consistency in cost categorization across TTM/BTM classifications
- Supervisory oversight and validation procedures

³ UAB Draft Audit at 21.

- Documentation and processing standards

In alignment with the audit recommendation, SoCalGas has initiated and is continuing to formalize enhancements to strengthen these areas, including enhancing invoice review and validation procedures, reinforcing adherence to established coding standards, and expanding the use of system-based tools to support consistent cost categorization.

In addition, since the audit period, and building on lessons from the pilot phase, SoCalGas has initiated and is advancing enhancements centered on greater standardization and automation, including strengthened review controls, formalized processes, and developing targeted training, and system-based tools to drive consistent cost classification. These continuous improvement efforts include the use of automation tools to reduce manual subcategorization variability, and the establishment of defined coding standards to support consistent categorization across TTM and BTM classifications.

SoCalGas will continue advancing these enhancements through its SMS framework, supported by:

- Ongoing management review of performance and trends
- Structured continuous improvement and corrective action tracking
- Strengthened documentation and recordkeeping practices
- Reinforcement through training, awareness, and competency development

This approach supports sustained compliance, improved consistency, and continued program maturity.

Finding 4 – Contractor Costs Charged to Incorrect Projects

SoCalGas recorded approximately \$365,349 of contractor costs to incorrect MHP projects due to project-level coding and reconciliation errors.

SoCalGas Response

SoCalGas acknowledges the audit observation regarding the assignment of certain contractor costs to incorrect MHP Program projects. The identified costs were associated with authorized program activities, and the issue pertains to project-level assignment errors, rather than the appropriateness of the underlying expenditures. As noted in the Draft Audit Report, these issues did not affect total program expenditures eligible for recovery.⁴

The underlying costs were accurate and appropriately incurred; however, due to project timing and completion status, certain adjustments to correct coding variances were recorded at a higher-level cost categorization rather than at the individual project level. Overall program costs remained appropriate and eligible.

The variances were primarily attributable to:

- Errors in project coding during invoice processing

⁴ UAB Draft Audit at 23.

- Reconciliation inconsistencies
- Application of adjustments across multiple projects

For the BTM contractor costs, SoCalGas has taken corrective action by submitting a journal entry to reallocate the identified costs to the appropriate MHP project.

SoCalGas reviewed the relevant processes and identified opportunities to strengthen:

- Project coding verification controls
- Invoice review procedures prior to approval
- Reconciliation practices across projects
- Supervisory and quality assurance review processes

In alignment with the audit recommendation, SoCalGas initiated and is continuing to formalize enhancements to strengthen these areas, including enhancing project-level coding verification controls, reinforcing invoice validation procedures, and standardizing or further developing reconciliation practices across projects.

In addition, since the audit period, SoCalGas has initiated and is advancing enhancements to address project-level coding and reconciliation challenges and improve cost accuracy and consistency. These actions include invoice process documentation, role-based guidance for project and finance teams, deployment of the Invoice Power App to support standardized invoice processing, and enhanced review controls within the invoice validation process to strengthen project-level cost assignment. These enhancements establish defined project coding verification checkpoints, improved reconciliation controls across projects, and pre-approval validation steps to improve accuracy and consistency in cost assignments.

SoCalGas will continue advancing these enhancements through its SMS framework, supported by:

- Ongoing management review of performance and trends
- Structured continuous improvement and corrective action tracking
- Strengthened documentation and recordkeeping practices
- Reinforcement through training, awareness, and competency development

This approach supports sustained compliance, improved consistency, and continued program maturity.

Requested Revisions to "Cause" Language

Consistent with the above, SoCalGas respectfully requests that "Cause" statements in the Draft Audit Report be revised, where applicable, to reflect that:

- Processes and controls were established; and
- The identified issues reflect opportunities to enhance existing controls rather than an absence of controls

Illustrative revisions include:

- Replace statements indicating a "lack of procedures" with
"In this instance, established procedures were not applied consistently..."

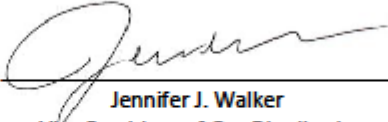
- Replace statements suggesting absence of oversight with
"Although oversight processes exist, they were not executed consistently in the sampled instances..."

These revisions more accurately reflect the nature of the findings and the underlying control environment.

Conclusion

SoCalGas remains committed to maintaining strong internal controls, supporting accurate cost reporting, and continuously improving program administration. SoCalGas appreciates the UAB's consideration of SoCalGas's comments and respectfully requests that the modifications outlined in this response be implemented in the final audit report. If you have any questions or need more information about these comments, please contact me.

Sincerely,



Jennifer J. Walker
Vice President of Gas Distribution

CC: Dan Skopec, Senior Vice President and Chief Regulatory Officer, San Diego Gas and Electric Company
Joe Mock, Director of Regulatory Affairs, SoCalGas
Shivani N Sidhar, Vice President Regulatory Affairs, Sempra Utilities
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Catlin Ha, Senior Management Auditor, UAB, CPUC
Alexandra Lee, Staff Services Management Auditor, UAB, CPUC

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

We appreciate SoCalGas's comments submitted on June 23, 2026. SoCalGas agrees with the findings, requested revisions to the Cause element of the findings, and provided general discussion for each finding.

SoCalGas requested revisions to the Cause element of the Findings to clarify that the findings related to opportunities to strengthen the application and execution of existing controls, rather than indicating an absence of controls.

- For Finding 1, SoCalGas asserts that oversight and monitoring processes were in place, but there were instances where those processes can be improved.
- For Finding 4, SoCalGas asserts that processes and controls were established and identified issues reflect opportunities to enhance existing controls.

We determined that SoCalGas's proposed revised language does not contain any new factual information; therefore, the findings and recommendations remain unchanged.

We appreciate SoCalGas's engagement throughout the audit process and its commitment to strengthening internal controls. We also acknowledge SoCalGas's efforts to evaluate and begin implementing improvements, and we encourage continued focus on enhancing consistency in the execution of established procedures.