



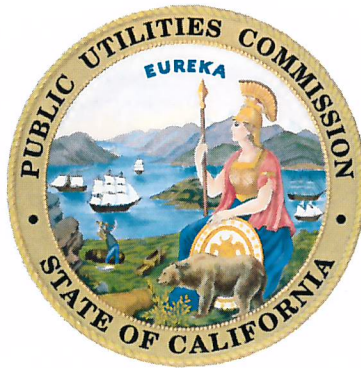
California Public Utilities Commission

Utility Audit, Finance and Compliance Branch

**Compliance Examination
of the
Public Purpose Program Regulatory Accounts
of
Southern California Gas Company**

**For the Years Ended
December 31, 2015 and 2016**

December 15, 2017



Acknowledgement

The following Commission staff contributed to the completion of this report
Kayode Kajopaiye, Raymond Yin and Mabel Wu

December 15, 2017

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December 15, 2017

Compliance Examination Report

Mr. Ron van der Leeden
Director, Regulatory Affairs
Southern California Gas Company (SCG)
555 W. Fifth Street, GT14D6
Los Angeles, CA 90013-1011

Compliance Examination Report of SCG's 2015 and 2016 Public Purpose Program Regulatory Accounts

Dear Mr. Leeden:

Pursuant to Public Utilities Code (PUC) Sections (§§) 314 (a) and 314.5, and Commission Decision (D.) 09-09-047, Ordering Paragraph (OP) 14, the Utility Audit, Finance and Compliance Branch (UAFCB) of the California Public Utilities Commission (Commission) conducted a regulatory compliance examination of the Public Purpose Program (PPP) regulatory accounts of Southern California Gas Company (SCG). The intent of PUC § 314.5 is to ensure that the utilities' books and records are periodically inspected and audited for regulatory and tax purposes.

The purpose of the examination was to determine whether SCG complied with the requirements established in the Commission directives and SCG's internal policies and procedures with regard to the PPP regulatory accounts. The results of this report are based on our review performed for the period from January 1, 2015 through December 31, 2016.

Results Summary

In general, SCG complied with the requirements established in the Commission directives and SCG's internal policies and procedures with regard to its PPP regulatory accounts. However, we identified four areas as described in the following paragraph that requires immediate attention of SCG and the Commission.

Observations needed to be addressed immediately by SCG and the Commission:

We identified the following four areas that need to be addressed immediately by SCG and the Commission. Detailed discussions of these observations are described in the Summary of Observations and Recommendations in Section II of this report.

1. Observation 2 – During the examination period, SCG did not resolve timely the billing exceptions, resulting in untimely billing to those customers.
2. Observation 7 - SCG consistently collected unneeded funding from the PPP, resulting in three PPP regulatory accounts carrying excessive balances in the past 10 years.
3. Observation 9 – SCG did not properly refund its customers the over-collected funds.

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4. Observation 10 – The year-end balance settlement requirements were not specific in the preliminary statements of three PPP regulatory accounts including DSMBA, RDDGSA, and OBFBA.¹ In addition, the DAPBA² preliminary statement was not updated to reflect the Commission’s directives.

Scope and Methodology

To determine SCG’s compliance with the requirements established in the Commission directives and SCG’s internal policies and procedures with regard to the PPP regulatory accounts, we performed the following:

1. Reviewed applicable Commission directives and SCG’s internal policies and procedures.
2. Interviewed key personnel at SCG to gain an understanding of the accounting and reporting processes related to PPP regulatory accounts.
3. Verified whether the approved PPP rates were properly billed and if the PPP revenues received were accounted for in Program Years 2015 and 2016 in compliance with Commission directives.
4. Verified whether the PPP program expenditures drawn from those regulatory accounts were properly recorded.³
5. Evaluated whether the over-collection and under-collection of program funds were properly resolved at the end of each year under examination and in accordance with Commission directives.

This report is intended solely for the information and use of management of SCG and the Commission and is not intended to be and should not be used by anyone other than the specified parties.

We appreciate the assistance and cooperation of SCG staff during the examination. If you have any questions regarding this report, please contact Mabel Wu at Mabel.Wu@cpuc.ca.gov.

/s/ Raymond Yin

Raymond Yin
Program and Project Supervisor
Utility Audit, Finance and Compliance Branch

cc: Maryam Ebke, Deputy Executive Director, CPUC

¹ DSMBA stands for Demand Side Management Balancing Account. RDDGSA stands for Research, Development and Demonstration Gas Surcharge Account. OBFBA stands for On Bill Financing Balancing Account.

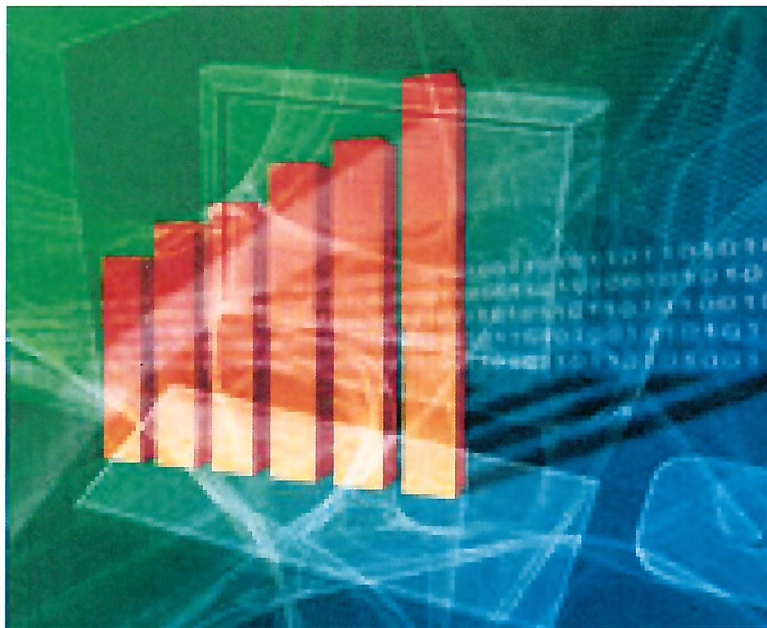
² DAPBA stands for Direct Assistance Program Balancing Account.

³ Due to scope limitation, UAFCB did not verify the reliability of the PPP program expenditures in this examination because they will be reviewed in separate examinations.

Compliance Examination of the Public Purpose Program Regulatory Accounts of Southern California Gas Company
For the Years Ended December 31, 2015 and December 31, 2016

December 15, 2017

Barbara Owens, Enterprise Risk and Compliance Officer, CPUC
Mabel Wu, UAFCB
Peter Skala, Deputy Director, Energy Division



December 15, 2017

I. EXECUTIVE SUMMARY

The Utility Audit, Finance and Compliance Branch (UAFCB) of the California Public Utilities Commission (Commission) examined the Public Purpose Program (PPP) regulatory accounts of Southern California Gas Company (SCG) for the period of January 1, 2015 through December 31, 2016, or Program Years (PYs) 2015 and 2016.

The purpose of the regulatory compliance review was to determine whether SCG properly billed, recorded and reported PPP revenues of its regulatory accounts in accordance with Public Utilities Code (PUC) Sections (§§) 381 and 399.8(b)1, and applicable Commission directives including, but not limited to, Commission Decision (D.) 15-01-023, D.15-01-002, D.14-10-046, D.04-08-010, and D.03-12-062.¹ UAFCB also reviewed if SCG properly reflected the PPP program expenditures² drawn from those regulatory accounts. Specifically, UAFCB's examination included: (1) verifying whether the approved PPP rates were properly billed and if the PPP revenues received were accounted for in PYs 2015 and 2016 in compliance with Commission directives; (2) evaluating whether SCG's internal control over its PPP billing, accounting and recording process to ensure proper safeguard of ratepayer funds; (3) verifying whether the PPP program expenditures² drawn from those regulatory accounts were properly recorded; and, (4) evaluating whether the over-collection and under-collection of program funds were properly resolved at the end of each year under examination and in accordance with Commission directives.

UAFCB examined seven (7) regulatory accounts used by SCG to track its PPP activities. A detailed description and purpose of each regulatory account are included in Appendix A of this report.

A summary of UAFCB's observations and recommendations resulting from the regulatory compliance review is included in Section II of this report. A detailed summary of UAFCB's analysis and findings is included in Section IV of this report.

On November 15, 2017, UAFCB provided a draft of its observations and recommendations to SCG for comment. On November 29, 2017, SCG provided its comments. UAFCB summarized those comments, including UAFCB's rebuttals to those comments, in Section II. Where appropriate, UAFCB modified its observations and recommendations. SCG's response in its entirety is provided in Appendix C.

¹ Among other things, D.15-01-002 authorized the 2015 EE programs and budgets; D.15-01-023 corrected errors on D.15-01-002 and updated the 2015 EE budgets; D.14-10-046 extended the 2015 EE budget level to year 2025; D.04-08-010 implemented Assembly Bill (AB) 1002 by first remitting gas PPP charges to the California Board of Equalization (BOE) before using the funds received from BOE for the PPPs; and D.03-12-062 ordered the utilities to establish one-way balancing accounts to track EE costs and revenue.

² Due to scope limitation, UAFCB did not verify the reliability of the PPP program expenditures in this examination because they will be reviewed in separate examinations.

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II. SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

Observation 1: Except for Observation 2 below, SCG's internal controls for billing, accounting and recording of its PPP regulatory accounts were adequately designed to record and report its PPP activities and were in compliance with the requirements of the Commission. SCG's internal controls over the billing and accounting of its regulatory accounts for its PPP activities during PYs 2015 and 2016 seemed adequate.

Recommendation: None.

Observation 2: During the examination period, SCG did not resolve timely its billing exceptions, resulting in untimely billings to affected customers. Our sample testing of the Bill Investigating Messages (BIM) exceptions incurred in March 3, 2015 disclosed that six of 10 BIM exceptions were not resolved within 30 days to ensure timely customer billing. The cause of the delay was due to excessive backlog of billing exceptions. SCG experienced the backlog in processing the exceptions/work items in 2016. The peak number of inventory was 250,000 in April and May 2016. Subsequent to UAFCB's disclosure of its preliminary finding to SCG, SCG provided an inventory report showing a substantial decrease of work items to 24,258 as of August 25, 2017. Section IV of this report provides additional details regarding this matter.

SCG's Comments: SCG contends that:

"SCG has taken aggressive actions to reduce the backlog of exceptions requiring manual review and processing. In 2017, SCG has implemented several system enhancements designed to reduce the number of exceptions. Our Mass Markets Billing unit has filled five Customer Billing Analysts positions and added one contract employee on a part-time basis. Additionally, all Mass Markets Billing Supervisor and Support Staff were provided two days of training in the use of our data repositories and daily inventory reports with a focus of reducing the size of the backlog through better prioritizing work items and more effective distribution of work to available resources. On the morning of 11/27/2017, the total number of exceptions pending manual review and processing stands at 12,056 of which 8% have aged beyond 30 days. The number of BIMs (Billing Investigate Messages [SIC]) stood at 2,652 of which 8% (202 BIMs) have aged beyond 30 days."

Rebuttal: UAFCB will evaluate SCG's progress in this area when it conducts next examination.

Recommendation: SCG should closely monitor its billing exceptions and resolve them timely.

Observation 3: SCG demonstrated that the PPP surcharges were properly allocated and recorded in the tracking statements of the PPP regulatory accounts and complied with the requirements specified on its Commission-approved preliminary statements. Our review of the PPP revenue allocation methodology, the recorded PPP surcharges, and the supporting documents disclosed that the recorded PPP surcharges were properly supported.

Recommendation: None.

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Observation 4: SCG demonstrated compliance with PUC §§ 381 and 399.8(b)1, and applicable Commission directives with respect to billing PPP charges using the proper PPP rates for its authorized PPP regulatory accounts. SCG properly billed PPP charges using the Commission-approved PPP rates specified in its tariffs for PYs 2015 and 2016.

Recommendation: None.

Observation 5: SCG's total PPP regulatory account balances on the tracking statements agreed with the balances recorded in its general ledger (G/L) without exception.

Recommendation: None.

Observation 6: SCG demonstrated compliance with PUC §§ 381 and 399.8(b)1, and applicable Commission directives with respect to recording PPP expenditures in its PPP regulatory accounts. UAFCB's review of SCG's recording of PPP expenditures³ drawn from its PPP regulatory accounts disclosed no material exception.

Recommendation: None.

Observation 7: SCG consistently collected unneeded funding from the PPP, resulting in three PPP regulatory accounts carrying excessive balances in the past 10 years. Appendix B presents the year-end balances of those PPP regulatory accounts from 2007, or inception of the programs, to 2016. As of December 31, 2016, the total net balance of those PPP regulatory accounts resulted in an over-collection amount of approximately \$284 million. Appendix B demonstrates a consistent pattern of material over-collection in aggregate of these PPP regulatory accounts. Technically, these accounts should be balanced or carry small balances by the end of every program year. UAFCB also observed that the PPP budgets were significantly higher than the actual PPP expenditures. In addition, UAFCB noted that SCG rolled forward the over-collections at year-end 2015 and 2016 and returned only a small portion to its ratepayers. On the 20 un-refunded transactions we tested, six (6) had no justification for retaining the fund and rolling them forward. Section IV of this report provides additional details regarding this matter.

SCG's Comments: SCG contends that:

"Pursuant to D.15-12-024 and D.16-06-018, Bridge Funding for 2016 CARE and ESA Programs, effective January 1, 2016 and December 31, 2016, respectively, the ESAPMA was established to record the difference between the revenue requirement adopted for the applicable bridge funding period and the revenue requirement requested and eventually approved in the 2015-2017 CARE and ESA Programs A.14-11-011. As of result of the authorized funding established in the Decision, the ESAPMA recorded a \$1.158 million over-collection as of December 31, 2016, (i.e., authorized 2016 funding of \$147.627 million vs. \$148.782 million incorporated in 2016 PPP rates plus memorandum account interest). As discussed above, these over-collection funds will be carried forward as necessary to fund

³ Due to scope limitation, UAFCB did not verify the reliability of the PPP program expenditures in this examination because they will be reviewed in separate examinations.

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program budgets presented in this AL and any remaining funds will be used to offset future authorized funding collected in rates. As such, SoCalGas plans to eliminate the balance in the ESAPMA and terminate the ESAPMA. In addition, in Advice No. 5053, SoCalGas had deferred the recovery of prior authorized funding of approximately \$38 million pending a decision in A.14-11-007, et al. al. and Phase 2 of Rulemaking (R.) 13-11-005. SoCalGas plans to forgo the recovery of these past authorized funding as there are sufficient underspending recorded to SoCalGas' DAPBA to date to fund the program budgets presented in this conforming AL."

Rebuttal: As shown in Appendix B, SCG consistently carried significant and excessive over-collected balances in its PPP regulatory accounts over the past ten years. The Commission should address this pattern and provide only the necessary funding for the Public Purpose Programs.

Recommendations: The Commission should address the over-collection issue by substantially reducing the budget for the PPP to lessen the burden on SCG's ratepayers while providing only necessary level of funding for those programs. The Commission should also establish clear, uniform, and stringent guidelines for determining "committed funds" to effectively minimize the usage of "committed but unspent funds" in SCG's PPP regulatory accounts. In addition, the Commission should establish clear guidelines to require all the energy utilities to return unspent funds to their ratepayers through customer bill credits, providing budget transparency.

Observation 8: SCG properly computed interest on month-end balances of the PPP regulatory accounts using criteria specified in SCG's preliminary statements. The interest rates used by SCG to calculate interest agreed with the 90-day commercial paper rates required by the preliminary statements.

Recommendation: None.

Observation 9: SCG did not properly refund its customers the over-collected funds. SCG currently returns uncommitted and unspent over-collection amounts to its ratepayers by offsetting them against authorized revenue requirements through year-end rate setting Advice Letters (ALs) or other ALs approved by the CPUC. Our review disclosed that the authorized PPP revenue requirements significantly exceeded actual PPP expenditures for the last six years based on the information UAFCB reviewed.

SCG's Comments: See SCG's comments in Observation 7.

Rebuttal: See UAFCB's rebuttal in Observation 7.

Recommendation: The Commission should consider revising its directives regarding the refunding mechanism to ratepayers for transparency. Any refund of over-collection should be a credit against service charge on customer billing statements instead of an offset with the authorized revenue requirements similar to the recommendation in Observation 7.

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Observation 10: The year-end balance settlement requirements were not specific on the preliminary statements of three PPP regulatory accounts including DSMBA, RDDGSA, and OBFBA.⁴ In addition, the DAPBA⁵ preliminary statement was not updated to reflect the Commission's directives. UAFCB reviewed the preliminary statements of all regulatory accounts to determine if they specify the requirements for year-end settlements of over-collection and under-collection. Our review disclosed that the settlement requirements were absent in the preliminary statements of DSMBA, RDDGSA, and OBFBA. We also found that the settlement requirement in the DAPBA preliminary statement was not updated to reflect the Commission's directives outlined in D.16-11-022. Preliminary statements are documents for public disclosure to ratepayers. Not having the year-end balance settlement requirements specified in the preliminary statements or not updating them timely could diminish public oversight and increase the risk of not refunding the over-collection to the ratepayers in a timely manner. Section IV of this report provides additional details regarding this matter.

SCG's Comments: SCG contends that:

"Both preliminary statements for DSMBA and RDDGSA refer to D.04-08-010 regarding the amortization of PPP account balances to be consistent with the Commission's prevailing policy on PPP accounting methods and the Commission's currently authorized program budget revenue requirements for the PPP, so the year-end balance settlement requirement is not necessary. In addition, the disposition of the RDDGSA balance, which is primarily due to interest on PPP funds held by SoCalGas prior to remittance to the State Board of Equalization (BOE), is pending direction from the CPUC (i.e., whether such funds should be refunded to ratepayers or used to fund future Public Interest RDD programs and/or CPUC/BOE administrative costs). Also, the treatment of OBFBA's balance is stated in the Disposition section, which indicates that funds would be refunded to ratepayers after repayment of all loans and termination of the OBF Program. The directive per section 5.1.6 of D.16-11-022 regarding 2009-2015 Accumulated ESA Program Carry-Over Funds is addressed in Tier 2 Advice Letters (see conforming Advice Letter 5111-A and 5111-B currently pending Energy Division's approval) as directed on page 356 and 357 of D.16-11-022. As such, it's not detailed in the preliminary statement of DAPBA."

Rebuttal: UAFCB disagrees with SCG's statement that "the year-end balance settlement requirement is not necessary." According to the General Order (GO) 96-B, the preliminary statement shall include, among other things, adjustment clauses that might affect the utility's rates. In addition, preliminary statements which include all important requirements for the regulatory accounts are documents for public disclosure to ratepayers. Not having the year-end balance settlement requirements specified in the preliminary statements or not updating them timely could diminish public oversight and increase the risk of not refunding the over-collection to the ratepayers in a timely manner.

Recommendation: The Commission should establish clear and uniformed guidelines for all utilities to mandate the inclusion of year-end settlement requirements in the preliminary

⁴ DSMBA stands for Demand Side Management Balancing Account. RDDGSA stands for Research, Development and Demonstration Gas Surcharge Account. OBFBA stands for On Bill Financing Balancing Account.

⁵ DAPBA stands for Direct Assistance Program Balancing Account.

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statements for every PPP regulatory account regarding over-collection and under-collection. SCG should update its preliminary statements timely to reflect any new directive from the Commission.

Observation 11: SCG promptly settled the over-collection of the California Alternate Rates for Energy Account (CAREA) according to the approved CAREA preliminary statement. SCG reported an over-collected ending balances of \$53,611,140 and \$48,036,751 as of December 31, 2015 and 2016, respectively, in the CAREA tracking statements. SCG timely and properly refunded the over-collection through offset to the authorized revenue requirements that were used to develop PPP surcharge rates effective January 1, 2016 and 2017, respectively.

Recommendation: None.

Observation 12: SCG promptly recouped the under-collection in Research, Development and Demonstration Gas Surcharge Account (RDDGSA) according to the approved RDDGSA preliminary statement. SCG reported an under-collected ending balances of \$2,772,363 and \$1,712,525 as of December 31, 2015 and 2016, respectively, in the RDDGSA tracking statements. SCG timely recouped the under-collection through budget offset to the authorized revenue requirements that were used to develop PPP surcharge rates effective January 1, 2016 and 2017, respectively.

Recommendation: None.

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III. OBJECTIVE, SCOPE, AUTHORITY, AND TESTING

A. Examination Objective

UAFCB's overall objective was to determine whether SCG accurately captured and accounted for the PPP revenue and program activities in its Commission-approved gas regulatory accounts for PYs 2015 and 2016. UAFCB's examination included: (1) verifying whether the approved PPP rates were properly billed and if the PPP revenues received were accounted for in Program Years 2015 and 2016 in compliance with Commission directives; (2) evaluating whether SCG's internal control over its PPP billing, accounting and recording process to ensure proper safeguard of ratepayer funds; (3) verifying whether the PPP program expenditures⁶ drawn from those regulatory accounts were properly recorded; and, (4) evaluating whether the over-collection and under-collection of program funds were properly resolved at the end of each year under examination in accordance with Commission directives.

UAFCB did not audit the reliability of the PPP expenditures recorded in the PPP regulatory accounts for PYs 2015 and 2016 because those expenditures will be reviewed in separate examinations.

B. Examination Scope

The examination scope included reviewing customer billing records, accounting records, and documentation associated with entries SCG made in its PPP regulatory accounts from January 1, 2015 through December 31, 2016.

C. Authority

Pursuant to PUC § 314(a), the Commission may, at any time, inspect the accounts, books, papers, and documents of any public utility. PUC § 314.5 requires the Commission to inspect and audit the books and records of electrical, gas, heat, telegraph, telephone, and water corporations for regulatory and tax purposes (a) at least once in every three years in the case of corporations serving over 1,000 customers, and (b) at least once in every five years in the case of corporations serving 1,000 or fewer customers. In D.09-09-047, Ordering Paragraph (OP) 14, the Commission directs that "*Commission staff shall conduct a full audit of the utilities' administrative and other costs...*" associated with the energy efficiency (EE) programs.

D. Methodology and Testing

To determine SCG's compliance with the requirements established in the Commission directives and SCG's internal policies and procedures with regard to the PPP regulatory accounts, we performed the following:

⁶ Due to scope limitation, UAFCB did not audit the reliability of the PPP program expenditures in this examination because they will be reviewed in separate examinations.

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1. Reviewed applicable Commission directives and SCG's internal policies and procedures.
2. Interviewed key personnel at SCG to gain an understanding of the accounting and reporting processes related to the PPP regulatory accounts.
3. Verified whether the approved PPP rates were properly billed and if the PPP revenues received were accounted for in PYs 2015 and 2016 in compliance with Commission directives.
4. Verified whether the PPP program expenditures drawn from those regulatory accounts were properly recorded.⁷
5. Evaluated whether the over-collection and under-collection of program funds were properly resolved at the end of each year under examination in accordance with Commission directives.

IV. SUMMARY OF EXAMINATION FINDINGS

A. Introduction

Pursuant to PUC § 381, SCG is required to identify a separate rate component to collect the revenue used to fund programs that enhance system reliability, such as cost-effective energy efficiency and conservation activities, public interest research and development, and new and emerging renewable energy resources. Pursuant to PUC § 399.8(b)1, every customer is required to pay a non-bypassable systems benefit charge to fund energy efficiency, renewable energy, and research, development and demonstration. D.05-01-055 authorized investor-owned utilities (IOUs) to administer energy efficiency funds with Commission oversight.

Before setting up a regulatory account, SCG must file and receive Commission approval of a Preliminary Statement that details the purpose of the regulatory account and the types of costs and/or revenue that are to be tracked in the account for Commission approval.⁸ Preliminary Statements also detail the specific accounting procedures that SCG must perform to record transactions in the regulatory account.

SCG recovers its PPP costs through a PPP tariff rate that is applied to each customer's billing based on the type of customer class and the number of units of gas consumed.⁹ The bundled PPP tariff rate, listed as a separate line-item in customer bills, is determined based on Commission-authorized funding amounts to recover the costs of the PPP such as the EE Program, Energy Savings Assistance Program (ESAP), California Alternative Rates for Energy (CARE) Program, Research Development & Demonstration Gas Surcharge, and any other PPP authorized by the Commission. Periodically, the Commission establishes new PPP rates for SCG to fund PPP based on projected program cost and past over- or under-collections. Once the rates and any new tariff changes are approved by the Commission, SCG reflects these rates in its tariffs.

⁷ Due to scope limitation, UAFCB did not verify the reliability of the PPP program expenditures in this examination because they will be reviewed in separate examinations.

⁸ The utility maintains, among other things, approved Preliminary Statements in its tariff books.

⁹ The utilities are authorized to consolidate the rates to recover the cost of each PPP by a bundled PPP rate that is applied to customers' bills.

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The mechanism used by SCG to monitor the collection of the PPP authorized revenue requirement (ARR or budget) and track specific types of costs charged against actual revenue collected is through the use of PPP regulatory accounts. The ending balance of a regulatory account generally represents the net impact of actual expenditures, actual billed surcharge, remittance to Board of Equitation (BOE), reimbursement from BOE, and interest. PPP regulatory accounts accumulate interest periodically at a rate equal to one-twelfth of the interest rate on three-month commercial paper rate.

PUC §§ 890-900 and D.04-08-010 require utilities to implement updated gas PPP surcharge rates each January 1 through an advice letter filed by October 31 of the preceding year. Gas Public Purpose Programs fall into three main categories: energy efficiency and low income energy efficiency; the subsidy for California Alternative Rate for Energy (CARE); and the California Energy Commission's gas public interest research and development program. Costs associated with these programs are determined in various Commission proceedings.

Effective January 1, 2001, PUC § 890, et. seq, required the PPP rate collected by the gas utilities as a surcharge to be remitted to the BOE. Among other Commission directives regarding the gas surcharges and the BOE, in D.04-08-010, the Commission determined how amounts held in the Gas Consumption Surcharge Fund (GCSF) are to be distributed to utilities and other entities and how often the distributions are to be conducted. On October 8, 2004, the Energy Division distributed a letter detailing new procedures for the gas utilities to follow in order to recover the surcharge funds remitted to the BOE. The BOE retains an amount from the surcharges remitted for its administrative costs. In addition, the BOE collects surcharges from interstate pipeline customers, which it provides to the utilities to assist in funding the PPP.

B. PPP Authorized Budgets and Expenditures

SCG filed ALs 4704 and 4884 to update its PPP revenue requirements and rates for PYs 2015 and 2016, respectively. Table 1 shows a summary of the total PPP revenue requirements for PYs 2015 and 2016. Table 2 shows a summary of SCG's reported PPP expenditures for PYs 2015 and 2016.

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Table 1
Summary of 2015 and 2016 PPP Authorized Revenue Requirements¹⁰

Public Purpose Programs	2015	2016
DSMBA (EE)	\$83,569,795	\$85,571,829
DAPBA (ESA)	132,417,191	132,417,191
CAREA (CARE)	162,785,857	150,649,900
RDDGSA (RDD)	12,165,365	12,192,500
Total Recorded PPP Authorized Revenue Requirement	\$390,938,208	\$380,831,420

Table 2
Summary of 2015 and 2016 Reported PPP Expenditures /Remittances¹¹

Public Purpose Programs	2015	2016
DSMBA(EE)	\$71,955,930	\$82,565,008
DAPBA (ESA)	73,708,295	58,775,854
CAREA (CARE)	109,296,226	113,966,721
RDDGSA (RDD)	11,254,194	13,283,773
OBFBA (OBF) ¹²	(204,736)	(72,678)
EESAPMA (ESA)	NA	43,619
Total Recorded PPP Expenditures	\$266,009,909	\$268,562,297

C. SCG's Public Purpose Program Regulatory Accounts

SCG maintained seven (7) regulatory accounts to capture its PPP activities during PYs 2015 and 2016. These PPP regulatory accounts are listed below:

REGULATORY ACCOUNTS	Acronym
1. Demand Side Management Balancing Account	DSMBA
2. Direct Assistance Program Balancing Account	DAPBA
3. California Alternate Rates for Energy Account	CAREA
4. Research Development & Demonstration Gas Surcharge Account	RDDGSA
5. On Bill Financing Balancing Account	OBFBA
6. Energy Savings Assistance Programs Memorandum Account	ESAPMA
7. Emergency Energy Savings Assistance Program Memo Account	EESAPMA

¹⁰ Authorized revenue requirements here excluded refunds, and the requirements were taken from ALs 4704 and 4884.

¹¹ Expenditures/Remittances were taken from the monthly closing statements of SCG's regulatory accounts. The monthly closing statements included payments for commitments from previous funding cycles.

¹² Negative numbers are cash inflows from OBF loan operation.

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A detailed description and the purpose of each PPP regulatory account are included in Appendix A of this report.

D. Significant Findings

Excessive Over-collection of PPP Regulatory Accounts

SCG consistently collected unneeded funding for the PPP, resulting in many PPP regulatory accounts carrying excessive balances in the past 10 years. Appendix B presents the year-end balances of those PPP regulatory accounts from 2007 or inception of the programs to 2016. As of December 31, 2016, the total net balance on those PPP regulatory accounts resulted in an over-collection of \$284 million. These over-collection balances represent monies collected from and funded by SCG's ratepayers. Many of these material over-collections and underspent-authorized budgets have been accumulated and carried forward during the past 10 years. These accounts should carry minimum balances by the end of every program year. The Commission could have provided guidelines to establish such minimum balances. Appendix B demonstrates a consistent pattern of material over-collection in aggregate of these PPP regulatory accounts. UAFCB also observed that the annual budgets were significantly higher than the actual expenditure. The over-budgeting raises serious concern that SCG collected unnecessary PPP program fund and put extra burden to its ratepayers.

Appendix B discloses that the overall trend of significant increase in over-collections of DSMBA, DAPBA, and CAREA from PY 2007 (or inception of the program) to PY 2016. The DSMBA over-collection increased from \$33 million in 2007 to \$84 million in 2016, a 155% rise. The over-collection in the DAPBA jumped from \$11 million in 2007 to \$145 million in 2016, a 1,218% hike. The increases of accumulated ending balances of over-collections were because SCG did not refund or did not refund timely to its customers the unused funds.

Any over-collection and under-collection accrue interest based on a 90-day commercial paper rate published by the U.S. Federal Reserve. After the 2008 financial crisis, the U.S. Federal Reserve has kept the interest rate artificially low. During the period from January 1, 2015 through December 31, 2016, the annual interest rates used to calculate interest on under-collection and over-collection ranged from 0.10% to 0.62%. Keeping the excess funding in SCG's bank account was similar to obtaining an ultra-low interest loan from its ratepayers. Not timely refunding the excess funding provided SCG a source of low interest loan from its ratepayers.

UAFCB also observed that the PPP authorized budgets were significantly higher than the actual PPP expenditures. Table 3 below shows a comparison of the authorized revenue requirements with the actual expenditures incurred on EE and SWME&O, and ESAP that included the majority of total PPP funding. Some payments issued in current year did not come out of current year's budget. The expenditures on Table 3 included the payments of commitment amounts from previous budgets. With the inclusion of additional payments from previous budgets, the current years' budgets are still significantly higher than the actual expenditures. These budgets were authorized to be collected from the ratepayers. The over-budgeting raises serious concerns that SCG collected unnecessary PPP funds from its ratepayers.

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Table 3
Comparison of Budget and Expenditures on EE and SWME&O, and ESA Programs

	2012	2013	2014	2015	2016
EE and SWME&O Authorized Budget ¹³	\$98,452,656	\$89,660,528	\$91,975,318	\$87,844,188	\$89,400,775
EE and SWME&O Expenditure	86,419,306	53,040,736	68,376,105	71,218,950	87,203,258
Excess (Deficit)	\$12,033,349	\$36,619,792	\$23,599,213	\$16,625,238	\$2,197,517
% Excess (Deficit)	12%	41%	26%	19%	2%
ESAP Authorized Budget	\$126,152,694	\$129,299,560	\$131,370,616	\$131,370,616	\$131,370,616
ESAP Expenditures	82,252,135	97,554,614	93,781,355	74,234,062	58,777,190
Excess (Deficit)	43,900,558	31,744,945	37,589,261	57,136,553	72,593,426
% Excess (Deficit)	35%	25%	29%	43%	55%

Note: Expenditures incurred each year included payments of commitments from previous funding cycles' budgets

Furthermore, UAFCB reviewed the Commission directives and SCG's treatment of over-collections and under-collections of the PPP regulatory accounts during the examination period. The over-collection and under-collection settlements at year-end for SCG's PPP regulatory accounts are summarized as follows:

Regulatory Accounts	Over-collection/ Under-collection Settlements Status
DSMBA	See section Unreturned DSMBA Over-collection below.
ESAPMA	The Commission instructed the IOU to use the over-collection to fund additional programs over the next four years and pay for any Aliso Canyon emergency costs.
CAREA	The forecasted ending balances as of December 31, 2015 and 2016 in the CAREA (either over-collected or under-collected) were offset with the consolidated PPP authorized revenue requirements as required by CAREA preliminary statement.
RDDGSA	RDDGSA includes two sub-accounts. The memo account (which tracks the authorized revenue to collection) ending balance was offset with authorized revenue requirement at year-end. The balancing account (interest only) was not trued up/returned to ratepayers. SCG stated that it did not receive instruction from the Commission regarding the interest accrued on the RDDGSA.
OBFBFA	See section Unreturned OBF Over-collection below.
ESAPMA	The account was set up in late 2016. SCG stated that ending balance would be settled in 2018 rate setting filing.
EESAPMA	The account is a pass-through account. Ending balance was zero.

¹³ Authorized budgets are the final Commission approved budget

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Unreturned DSMBA Over-collection

The DSMBA financial statements disclosed an over-collection of \$81,906,373 as of December 31, 2015 and \$84,050,365 as of December 31, 2016. Regarding the DSMBA year-end over-collection balance settlement, SCG stated that:

“The program year 2015 and 2016 were considered a bridge years for program cycle 2013-2017. Based on the fund shifting rules in the Energy Efficiency Policy Manual Version 5, IOU administrator is allowed to carryover/carryback funding during the program cycle and therefore, encumbrance of funds for any program year within the program cycle 2013-2017 is not required. The program year 2015 and 2016 were considered bridge years for program cycle 2013-2017. Based on the fund shifting rules in the Energy Efficiency Policy Manual Version 5, IOU administrator is allowed to carryover/carryback funding during the program cycle and therefore, encumbrance of funds for any program year within the program cycle 2013-2017 is not required.”

The entire over-collection of \$81,906,373 as of December 31, 2015 was rolled forward to 2016 without returning it to the ratepayers. SCG eventually filed AL 5023-A to request the Commission to approve a refund of \$15,403,081 unspent and uncommitted fund out of \$84,050,365 over-collection to its ratepayers. Consequently, SCG rolled forward \$68,647,285 (82%) of the total over-collection to PY 2017.

In addition, UAFCB reviewed the breakdown of the funds retained by SCG to determine if they were properly justified. We selected 12 un-returned transactions as of December 31, 2015 and eight (8) un-returned transactions as of December 31, 2016 for sample testing. Our review disclosed that six (6) of those 20 transactions totaling \$16 million were rolled forward to following years without proper supporting documents. The application of rolling forward the over-collection encourages spending. The spending capacity of SCG was inflated by the unreturned over-collection. For example, the PY 2016 maximum budget or spending capacity in the EE program was increased to \$152 million from the \$83 million revenue requirement originally authorized by the Commission. The \$152 spending capacity included the \$83 million authorized revenue requirement and the \$84 million accumulated over-collection, less the \$15 million refunded to the ratepayers.

Unreturned OBFBA Over-collection

SCG reported ending balances of \$4,600,179 and \$4,695,775 as of December 31, 2015 and 2016, respectively, on its OBFBA financial statements. Our review disclosed that SCG had not returned those over-collections to its ratepayers as of the ends of those years. The main purpose of the OBFBA is to track the operation of the ratepayers' finance loan activities. The OBFBA tracking statements disclosed net cash inflows of \$204,736 and \$72,678 for PYs 2015 and 2016, respectively. UAFCB considered the accumulated over-collection of \$4,695,775 as of December 31, 2016 excessive given the surplus of cash inflow from the loan operation. However, we also noted that the OBFBA did not receive funding from the PPP revenue during the examination period.

Inappropriate Methodology of Over-collection Refund

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SCG returned uncommitted and unspent over-collection to the ratepayers by offsetting them against the authorized revenue requirements during the year-end rate setting ALs. SCG's refunding arrangement was approved by the Commission.

The comparison of authorized PPP revenue requirements with actual expenditure from 2012 to 2016 for EE, SWME&O and ESAP in Table 3 above disclosed that the authorized revenue requirements were significantly higher than the actual expenditures. The over-collection should not be comingled with authorized revenue requirements because the authorized revenue requirement is a budget, an estimated spending for each year. Comingling of over-collection with authorized revenue requirements encourages over-budgeting. Therefore, UAFCB recommends that the refund of over-collection be made as bill credits against service charges on customers' billing statements.

Ending Balance Settlement Requirement on Preliminary Statements

UAFCB reviewed the preliminary statements of every PPP regulatory account to determine if they included year-end settlement requirements for over-collection and under-collection. Our review disclosed that the settlement requirements were absent in the preliminary statements of DSMBA, RDDGSA and OBFBA. We also found the settlement requirement on the DAPBA preliminary statement was not updated to reflect the Commission directive. Regarding the treatment of the 2009-2015 accumulated ESAP carry-over funds, the Commission directs in Section 5.1.6 of D.16-11-022 that:

"All current unspent funds shall be utilized to fund program and policy objectives adopted in this decision, and to offset the program collections that would otherwise have been required. These funds shall be used to achieve ESA program and policy objectives and are not be returned to ratepayers at this time."

Preliminary statements are documents for public disclosure to ratepayers. Not having the year-end balance settlement requirements specified in the preliminary statements or not updating them timely could diminish public oversight and increase the risk of not refunding the over-collection to the ratepayers in a timely manner.

E. PPP Billing Rates and PPP Revenue Recording Testing

PPP Billing Rates

To review the propriety of the PPP rates billed by SCG, UAFCB randomly selected two days from SCG's billing data, March 3, 2015 and October 4, 2016, for testing. Then, UAFCB judgmentally selected 27 PPP billings from 2015 data and 26 PPP billings from 2016 by each type of customer class and verified if the PPP rates used to calculate PPP charge on the billing statements agreed with those on the tariffs. The aggregate PPP charges in the two sets of sample testing were \$4,171 in 2015 and \$943 in 2016. UAFCB's review disclosed that SCG applied proper PPP rates authorized by the Commission to its billings on those samples. UAFCB recalculated the PPP charges on customer billing statements to verify if ratepayers were properly billed. Furthermore, UAFCB selected 10 billing exceptions in each year to determine if SCG properly and timely resolved the billing exceptions to ensure proper billing to ratepayers. UAFCB observed that the billing exceptions were not resolved timely due to backlogs. The majority of billings generated on the billing cycles were automatically processed. The billing

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system had built-in and pre-billed edits to provide reasonableness checks on the completeness/validity of measurement and billing data as reasonableness checks for usage in the billing process and to ensure billing accuracy. The edits produce electronic work items or exceptions that are electronically routed to the appropriate billing groups for review and remediation. Once the account has been resolved, the account will be set to resume billing within the billing system. These exceptions, resulting from the billing cycle edits, are called Bill Investigating Messages (BIM). The BIMs stop the billing from being generated until they are resolved. Another type of exception is General Investigating Message (GIM). The GIM does not stop billing and is not related to the pre-bill error or edit. The billing related exceptions are sent to the Billing Group for resolution.

PPP Revenue Recording

Our sample testing of the BIM exceptions incurred in March 3, 2015 disclosed that six of the 10 BIM exceptions were not resolved within 30 days to ensure timely customer billing. According to SCG's response, the untimely exception resolution was due to excessive backlogs of billing exceptions. SCG experienced backlogs in processing the work items in 2016. The peak number of inventory was 250,000 in April and May 2016. SCG hired temporary work force and reduced the number down. The inventory numbers of work items fluctuated with seasons. According to the information on the New Items Reports and the Billing Dashboard Reports, SCG still experienced backlogs at the beginning of 2017. As of February 13, 2017, 11% of the 71,049 work items inventory were 45 days or older. SCG provided the inventory report dated August 25, 2017, which showed a substantial decrease of pending billing exceptions to 24,258 work items from PY 2016.

The BIM exceptions stopped billings from being generated until they were resolved. Therefore, untimeliness in resolving the BIM exceptions could accumulate billings from multiple periods

UAFCB also performed a limited review of SCG's internal controls over the implementation of PPP billing rates. Our review disclosed that SCG had adequate control in place for resolving the implementation of PPP billing rates. SCG was in compliance with the requirements specified in the Commission-approved tariffs.

To review the PPP revenue recording, UAFCB evaluated the internal control over PPP revenue allocation and recording by interviewing the SCG staff and reviewing revenue allocation spreadsheets. SCG's PPP surcharge rates were designed by customer classes and loaded into its billing system based on the following attributes: CARE vs. non-CARE, Core vs. non-Core, Residential, Commercial/Industrial, Gas Air Conditioning, Gas Engine, Natural Gas Vehicle, etc. At month-ends, PPP Surcharge Revenue Allocation spreadsheets were prepared. The spreadsheets categorized PPP billed revenues generated from the billing system by customer classes and by CARE vs. non-CARE. The revenues were then allocated among the various programs using allocation factors derived from the proportion of each program's authorized revenue requirement for each customer class. The allocated PPP surcharge revenues were then recorded on the PPP regulatory accounts including DSMBA, DAPBA, CAREA, and RDDGSA. Expenditures were then charged against the allocated revenues on the PPP regulatory accounts. Our review disclosed that SCG's internal controls for revenue allocations and recording were adequate. In addition, UAFCB traced the PPP surcharges recorded in the tracking statements of

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the four regulatory accounts to the PPP allocated revenues derived from the PPP Surcharge Revenue Allocation spreadsheets for all months during the examination period. UAFCB also selected the recorded PPP surcharges for the month of July 2015, traced the total PPP revenue in the allocation spreadsheets to the revenue report generated from the billing system, traced the allocation factors in the allocation spreadsheets to the factor development model, and reviewed the formulas in these spreadsheets for reasonableness. Our testing concluded that the allocated revenues were properly supported and recorded in those tracking statements.

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Appendix A

Description of SCG's Public Purpose Program (PPP) Regulatory Accounts

UAFCB reviewed the preliminary statements of the PPP regulatory accounts maintained by SCG for Program Years (PYs) 2015 and 2016. Below are the general descriptions for each regulatory account.

Gas REGULATORY ACCOUNTS:

1. Demand Side Management Balancing Account (DSMBA)

The DSMBA is an interest bearing balancing account recorded on SCG's financial statements. The purpose of this account is to track, beginning on January 1, 2006 with the implementation of the 2006-2008 cycle approved by Decision (D.) 05-09-043, the difference between the non-low-income energy efficiency (EE) program component of the gas surcharge funds reimbursed from Board of Equalization and the corresponding actual EE program costs. It also tracks the administrative costs associated with the On-Bill Financing program.

2. Direct Assistance Program Balancing Account (DAPBA)

The DAPBA is an interest bearing balancing account recorded on SCG's financial statements. The purpose of this account is to track, beginning on January 1, 2006 with the implementation of the 2006-2007 cycle approved by Decision (D.) 05-12-026, the difference between low-income energy saving assistance program (ESAP) component of the gas surcharge funds reimbursed from the Board of Equalization and the corresponding actual ESAP costs.

3. California Alternate Rates for Energy Account (CAREEA)

The CAREEA is a balancing account for the California Alternate Rates for Energy program. It is to balance the CARE program expense/discount incurred against gas surcharge funds reimbursed from the Board of Equalization.

4. Research Development & Demonstration Gas Surcharge Account (RDDGSA)

The RDDGSA is an interest bearing balancing account recorded on SCG's tracking statement. This account is to track the gas surcharge collected from non-exempt customers effective January 1, 2005, that will be remitted to the State Board of Equalization (BOE) to fund Research Development & Demonstration programs (RDD) administered by the California Energy Commission (CEC) or other non-utility entity designated by the Commission. This account also tracks SCG's allocation of the annual BOE and the Commission administrative costs authorized by the Commission.

5. On Bill Financing Balancing Account (OBFBA)

The OBFBA is an interest bearing balancing account recorded on SCG's tracking statements. The purpose of this account is to record the difference between ratepayer funding and actual

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loans provided to customers participating in SCG's On-Bill Financing ("OBF") program authorized by Decision (D.) 09-09-047.

6. Energy Savings Assistance Programs Memorandum Account (ESAPMA)

The ESAPMA is an interest bearing memorandum account that is not recorded on SCG's financial statements. Pursuant to Decision (D.) 15-12-024 and D.16-06-018, Bridge Funding for 2016 California Alternate Rates for Energy (CARE) and Energy Savings Assistance (ESA) Programs, effective January 1, 2016 and July 1, 2016, respectively, the ESAPMA records the difference between the revenue requirement adopted for the applicable bridge funding period and the revenue requirement requested and eventually approved in the 2015-2017 CARE and ESA Programs Application (A.) 14-11-011.

7. Emergency Energy Savings Assistance Program Memo Account (EESAPMA)

The EESAPMA is a memorandum account recorded on SCG's financial statements. Pursuant to Decision (D.) 16-04-040, the purpose of this account is to track all incremental expenses associated with the emergency Energy Savings Assistance Program (ER ESAP) activities such as the Aliso Canyon. The EESAPMA is effective April 21, 2016.

Compliance Examination of the Public Purpose Program Regulatory Accounts of Southern California Gas Company
 For the Years Ended December 31, 2015 and December 31, 2016

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Appendix B
Summary of SCG's PPP Regulatory Account Balances from Program Years 2007 through 2016

Item No	Regulatory Accounts	SCG's Reported PPP Regulatory Account Balances as of									
		12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016
1	DSMBA	(\$33,203,033)	(\$59,799,495)	(\$92,772,663)	(\$110,571,111)	(\$109,276,458)	(\$113,641,092)	(\$103,002,345)	(\$79,009,238)	(\$81,906,737)	(\$84,050,365)
2	DAPBA	(10,455,206)	(14,169,227)	(10,368,471)	(12,591,498)	19,081,469	6,035,910	(38,588,828)	(42,619,721)	(83,213,164)	(145,483,214)
3	CAREA	6,334,665	4,098,521	(9,841,621)	(4,694,590)	16,460,894	(37,954,104)	(44,346,363)	(29,675,858)	(53,611,140)	(48,036,751)
4	RDDGSA ¹	(88,615)	(111,520)	(115,070)	(117,462)	(120,582)	(249,724)	(252,760)	(254,920)	(258,227)	(271,170)
5	OBPBA	0	0	0	(1,012,156)	(2,060,775)	(2,876,703)	(4,030,948)	(4,388,848)	(4,600,179)	(4,695,775)
6	ESAPMA	0	0	0	0	0	0	0	0	0	(1,157,758)
7	EESAPMA	0	0	0	0	0	0	0	0	0	0
	Total	(\$37,412,189)	(\$69,981,722)	(\$113,097,825)	(\$128,986,816)	(\$75,915,452)	(\$148,685,714)	(\$190,221,244)	(\$155,948,585)	(\$223,589,447)	(\$283,695,033)

Note: Zero denotes non-existence except EESAPMA. EESAPMA started its operation in 2016 and disclosed zero balance as of 12/31/2016. Negative amounts denote over-collection and positive amounts denote under-collection.

¹ RDDGSA included the balancing sub-account's ending balance and excluded the memo sub-account's ending balance.

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Appendix C

SCG's Comments



Ronald van der Leeden
Director
Regulatory Affairs

555 W. Fifth Street, GT14D6
Los Angeles, CA 90013-1011
Tel: 213.244.2009
Fax: 213.244.4957
RvanderLeeden@semprautilities.com

November 29, 2017

Mabel Wu
Utility Audit, Finance and Compliance Branch
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: Comments on Compliance Examination Report of Southern California Gas Company Public Purpose Program Regulatory Accounts for the Period January 1, 2015 through December 31, 2016

Dear Ms. Wu:

Below are Southern California Gas (SoCalGas') comments on the Public Purpose Program (PPP) Regulatory Account Examination draft report. Thank you for the opportunity to review and comment.

General Comments

1. Instead of Dan Rendler, please address this report to:
Ron van der Leeden
Director, Regulatory Affairs
Southern California Gas Company
555 W. Fifth Street, GT14D6
Los Angeles, CA 90013-1011
2. There are two spots in this report that uses the acronym "SCE" instead of "SCG":
 - a. p. ii in heading
 - b. p. ii under Results Summary
3. p. 15 – heading says "ELECTRIC REGULAOTY ACCOUNTS" – should be GAS.

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Comments on Observations

Observation #2: During the examination period, SCG did not resolve timely the billing exceptions, resulting in untimely billing to those customers.

Response to Observation #2:

SCG has taken aggressive actions to reduce the backlog of exceptions requiring manual review and processing. In 2017 SCG has implemented several CIS system enhancements designed to reduce the number of exceptions. Our Mass Markets Billing unit has filled five Customer Billing Analysts positions and added one contract employee on a part-time basis. Additionally, all Mass Markets Billing Supervisor and Support Staff were provided two days of training in the use of our data repositories and daily inventory reports with a focus of reducing the size of the backlog through better prioritizing work items and more effective distribution of work to available resources.

On the morning of 11/27/2017 the total number of exceptions pending manual review and processing stands at 12,056 of which 8% have aged beyond 30 days. The number of BIMs (Billing Investigate Massages) stood at 2,652 of which 8% (202 BIMs) have aged beyond 30 days.

Observation #7: SCG consistently collected unneeded funding from the PPP, resulting in three PPP regulatory accounts carrying excessive balances in the past 10 years.

Response to Observation #7:

Pursuant to D.15-12-024 and D.16-06-018, Bridge Funding for 2016 CARE and ESA Programs, effective January 1, 2016 and December 31, 2016, respectively, the ESAPMA was established to record the difference between the revenue requirement adopted for the applicable bridge funding period and the revenue requirement requested and eventually approved in the 2015-2017 CARE and ESA Programs A.14-11-011. As of result of the authorized funding established in the Decision, the ESAPMA recorded a \$1.158 million overcollection as of December 31, 2016, (i.e., authorized 2016 funding of \$147.627 million vs. \$148.782 million incorporated in 2016 PPP rates plus memorandum account interest). As discussed above, these overcollection funds will be carried forward as necessary to fund program budgets presented in this AL and any remaining funds will be used to offset future authorized funding collected in rates. As such, SoCalGas plans to eliminate the balance in the ESAPMA and terminate the ESAPMA.

In addition, in Advice No. 5053, SoCalGas had deferred the recovery of prior authorized funding of approximately \$38 million pending a decision in A.14-11-007, et al. al. and Phase 2 of Rulemaking (R.) 13-11-005. SoCalGas plans to forgo the recovery of these past authorized funding as there are sufficient underspending recorded to SoCalGas' DAPBA to date to fund the program budgets presented in this conforming AL.

Observation #9 –SCG did not properly refund its customers the over-collected funds.

Response to Observation #9:

Pursuant to D.15-12-024 and D.16-06-018, Bridge Funding for 2016 CARE and ESA Programs, effective January 1, 2016 and December 31, 2016, respectively, the ESAPMA was established to record the difference between the revenue requirement adopted for the

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applicable bridge funding period and the revenue requirement requested and eventually approved in the 2015-2017 CARE and ESA Programs A.14-11-011. As of result of the authorized funding established in the Decision, the ESAPMA recorded a \$1.158 million overcollection as of December 31, 2016, (i.e., authorized 2016 funding of \$147.627 million vs. \$148.782 million incorporated in 2016 PPP rates plus memorandum account interest). As discussed above, these overcollection funds will be carried forward as necessary to fund program budgets presented in this AL and any remaining funds will be used to offset future authorized funding collected in rates. As such, SoCalGas plans to eliminate the balance in the ESAPMA and terminate the ESAPMA.

In addition, in Advice No. 5053, SoCalGas had deferred the recovery of prior authorized funding of approximately \$38 million pending a decision in A.14-11-007, et al. al. and Phase 2 of Rulemaking (R.) 13-11-005. SoCalGas plans to forgo the recovery of these past authorized funding as there are sufficient underspending recorded to SoCalGas' DAPBA to date to fund the program budgets presented in this conforming AL.

Observation #10 –The year-end balance settlement requirements were not specific on the preliminary statements of three PPP regulatory accounts including DSMBA, RDDGSA, and OBFBA. In addition, the DAPBA preliminary statement was not updated to reflect the Commission's directives.

Response to Observation #10:

Both preliminary statements for DSMBA and RDDGSA refer to D.04-08-010 regarding the amortization of PPP account balances to be consistent with the Commission's prevailing policy on PPP accounting methods and the Commission's currently authorized program budget revenue requirements for the PPP, so the year-end balance settlement requirement is not necessary. In addition, the disposition of the RDDGSA balance, which is primarily due to interest on PPP funds held by SoCalGas prior to remittance to the State Board of Equalization (BOE), is pending direction from the CPUC (i.e., whether such funds should be refunded to ratepayers or used to fund future Public Interest RDD programs and/or CPUC/BOE administrative costs). Also, the treatment of OBFBA's balance is stated in the Disposition section, which indicates that funds would be refunded to ratepayers after repayment of all loans and termination of the OBF Program.

The directive per section 5.1.6 of D.16-11-022 regarding 2009-2015 Accumulated ESA Program Carry-Over Funds is addressed in Tier 2 Advice Letters (see conforming Advice Letter 5111-A and 5111-B currently pending Energy Division's approval) as directed on page 356 and 357 of D.16-11-022. As such, it's not detailed in the preliminary statement of DAPBA.

Compliance Examination of the Public Purpose Program Regulatory Accounts of Southern California Gas Company
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If you have any questions or require additional information regarding these comments,
please do not hesitate to contact me.

Sincerely,

/s/ Ronald van der Leeden

Ronald van der Leeden
Director, Regulatory Affairs