

**PUBLIC UTILITIES COMMISSION**

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Transmitted via e-mail

April 27, 2021

Ms. Mia DeMontigny  
Controller and Chief Financial Officer  
Southern California Gas Company  
555 W 5<sup>th</sup> Street, GT21C2  
Los Angeles, CA 90013

Dear Ms. DeMontigny:

**Final Report Transmittal Letter – Southern California Gas Company (SCG)  
Balancing Accounts Audit for the period of January 1, 2018 through  
December 31, 2018**

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its audit of SCG's Balancing Accounts reported for the period of January 1, 2018 through December 31, 2018. The final audit report is enclosed.

SCG's response to the draft report finding and our evaluation of the response are incorporated into this final report. We will post the final audit report on our website at <https://www.cpuc.ca.gov/utilityaudits/>.

Please provide a Corrective Action Plan (CAP) addressing the finding and recommendation by or before June 11, 2021. The CAP should include specific steps and target dates to remedy the finding and recommendation identified in this final report. Please submit the CAP to the UAB at [UtilityAudits@cpuc.ca.gov](mailto:UtilityAudits@cpuc.ca.gov).

We appreciate SCG's assistance and cooperation during the engagement, and its willingness to implement our recommendation. If you have any questions regarding this report, please contact Kevin Nakamura, Program and Project Supervisor, at (916) 715-8940.

Sincerely,

*Angie Williams*

Angie Williams, Director  
Utility Audits, Risk and Compliance Division

Ms. Mia DeMontigny  
Controller and Chief Financial Officer  
Southern California Gas Company  
April 27, 2021  
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**cc:** Yvonne Mejia, Regulatory Affairs, SCG  
Rachel Peterson, Executive Director, CPUC  
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Kevin Nakamura, Program and Project Supervisor, UAB, CPUC  
Cory Carpenter, Lead Auditor, UAB, CPUC  
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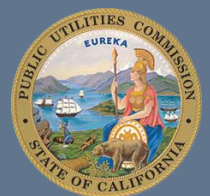


# BALANCING ACCOUNTS PERFORMANCE AUDIT

Southern California Gas Company (SCG)

January 1, 2018 through December 31, 2018

Utility Audits, Risk and Compliance Division  
Utility Audits Branch  
April 27, 2021



## **MEMBERS OF THE TEAM**

**Angie Williams, Director**

**Masha Vorobyova, Assistant Director**

**Kevin Nakamura, Supervisor**

**Cory Carpenter, Lead**

**Amy Xu, Staff**

**A digital copy of this report can be found at:**

<http://www.cpuc.ca.gov/utilityaudits/>

**You can contact our office at:  
California Public Utilities Commission  
Utility Audits, Risk and Compliance Division  
400 R Street, Suite 221  
Sacramento, CA 95811**

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## EXECUTIVE SUMMARY

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The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a performance audit of the Balancing Accounts administered and reported by Southern California Gas Company (SCG) for the audit period of January 1, 2018 through December 31, 2018.

Our audit objectives were to determine whether 1) transactions recorded in the balancing accounts from January 1, 2018 to December 31, 2018 are for allowable purposes and supported by appropriate documentation; and 2) the balancing accounts are established and maintained as required by applicable CPUC directives, orders, rules, regulations, and the Utility's policies and procedures.

Based on the procedures performed, samples tested, and evidence gathered, we found that the transactions recorded in SCG's balancing accounts from January 1, 2018 to December 31, 2018 were for allowable purposes and supported by appropriate documentation and that its balancing accounts for the audit period were established and maintained in accordance with CPUC directives, orders, rules, regulations, and SCG's policies and procedures. However, we found an internal control weakness significant to the audit objective that warrants the attention of SCG's management. This instance is described in the Finding and Recommendation section of this audit report. The audit finding is summarized as follows:

**Finding: Inconsistent recording and reporting of current or prior period interest adjustments**

SCG does not have a system in place, such as written policies and procedures, to ensure that interest adjustments are being consistently recorded and reported. Our testing found that 10 of SCG's 35 (or 28%) balancing accounts' Monthly Tracking Statements in 2018 reflected a total variance of \$19,841 due to undisclosed current or prior period adjustments. Although the total dollar amount of the variances was insignificant, the lack of a consistent and transparent process to document adjustments associated with monthly interest computations could be improved.

We issued a draft report on April 6, 2021. SCG responded on April 20, 2021 agreeing with the finding and recommendation but proposed edits to the language in the draft audit report to clarify the nature of the finding for consideration. SCG's comments are included in this final report as an attachment in Appendix A—Utility's Response to Draft Audit Report and our evaluation of the comments is included in Appendix B—UAB's Evaluation of Utility's Response.



# AUDIT REPORT

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## Background

The California Public Utilities Commission (CPUC) has a responsibility to authorize the rates that regulated utilities may charge their customers. Considering that the rates are derived from projected costs and projected consumption of service, the CPUC authorizes regulated utilities to establish balancing accounts to track the actual costs and the related revenues the utilities collect from ratepayers for specified activities. The primary purpose of a balancing account is to ensure that a utility recovers its CPUC-authorized revenue requirement from ratepayers for a given program or function, but not more or less.

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

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

In 2018, SCG was authorized a total of 35 balancing accounts to track any differences between actual expenditures associated with the account and authorized for recovery, and the revenues collected within customer rates to cover those specific expenses. In 2018, SCG reported a total combined under-collected balanced of \$115.1 million in its balancing accounts. A detailed breakdown of the amounts over or under-collected in rates as of December 31, 2018 by each balancing account is provided in the table below.

Title of Account	Net (Over)/Under- Collected Balance as of Dec. 31, 2018
Purchased Gas Account (PGA)	\$56,391,481
Gas Cost Rewards/Penalties Account (GCRPA)	126,423
Core Fixed Cost Account (CFCA)	177,496,178
Noncore Fixed Cost Account (NFCA)	1,166,955
Backbone Transmission Balancing Account (BTBA)	(30,318,904)
Post-2011 Distribution Integrity Management Program Balancing Account (Post-2011)	(5,969,458)
Enhanced Oil Recovery Account (EORA)	(7,842,324)
Integrated Transmission Balancing Account (ITBA)	13,693,816
New Environmental Regulation Balancing Account (NERBA)	5,811,858
Noncore Storage Balancing Account (NSBA)	11,739,777
Pension Balancing Account (PBA)	15,297,597
Post Retirement Benefits Other than Pension Balancing Account (PBOPBA)	(3,721,632)
Storage Integrity Management Program Balancing Account (SIMPBA)	40,046,686
Transmission Integrity Management Program Balancing Account (TIMPBA)	(22,177,633)
California Alternate Rates for Energy Account (CAREA)	(38,822,874)
Demand Side Management Balancing Account (DSMBA)	(77,088,500)
Direct Assistance Program Balancing Account (DAPBA)	(208,965,846)
Research Development & Demonstration Gas Surcharge Account (RDDGSA)	(341,617)
Advanced Metering Infrastructure Balancing Account (AMIBA)	(73,921,113)
Advanced Meter Opt-Out Program Balancing Account (AMOPBA)	(178,436)
Biogas Conditioning / Upgrading Services Balancing Account (BCSBA)	(71,387)
Biomethane Cost Incentive Program Balancing Account (BCIPBA)	3,116,608
Compressor Station Fuel & Power Balancing Account (CFPBA)	2,624,329
Compression Services Balancing Account (CSBA)	(31,354)
Company Use Fuel For Load Balancing Account (CUFLBA)	(260,096)
Distributed Energy Resources Services Balancing Account (DERSBA)	21,122
Greenhouse Gas Balancing Account (GHGBA)	(41,914,050)
Hazardous Substance Cost Recovery Account (HSCRA)	2,470,805
Low Cost Fuel Standard Balancing Account (LCFSBA)	(1,698,466)
Master Meter Balancing Account (MMBA)	20,248,425
Natural Gas Leak Abatement Program Balancing Account (NGLAPBA)	(1,453,737)
On Bill Financing Balancing Account (OBFBA)	(5,154,035)
Rewards & Penalties Balancing Account (RPBA)	(262,512)
Safety Enhancement Capital Cost Balancing Account (SECCBA)	234,608,306
Safety Enhancement Expense Balancing Account (SEEBA)	50,478,524
<b>Total Net (Over)/Under-Collected Balance</b>	<b>\$115,144,916</b>

## Audit Authority

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



## Objective and Scope

Our audit objective was to determine whether 1) transactions recorded in SCG's balancing accounts from January 1, 2018 to December 31, 2018 were for allowable purposes and supported by appropriate documentation; and 2) the balancing accounts were established and maintained as required by applicable CPUC directives, orders, rules, regulations, and the Utility's policies and procedures.

The scope of our audit covered all 35 balancing accounts administered and reported by SCG for the audit period of January 1, 2018 through December 31, 2018.

## Methodology

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

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

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

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

- Reviewed SCG's accounting system, accounting policies, processes and procedures for tracking, monitoring, and recording transactions to its balancing accounts.
- Reviewed SCG's customer billing system and policies, processes and procedures for recording and reporting revenues to its balancing accounts.
- Reviewed applicable CPUC decisions, advice letters, proceedings, and preliminary statements to ensure accounts and tariff rates were established and maintained in accordance with CPUC directives.
- Reviewed SCG's internal control policies and procedures related to the administration and implementation of its balancing accounts.
- Assessed significance by performing analysis of revenue and expenditure data and evaluating balancing account requirements.
- Reviewed results of prior audits and determined there were no findings related to our audit objective.

- Reviewed SCG’s independent CPA audit reports on the annual financial statements and internal controls to identify potential risks relevant to the audit objective.
- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing.
- Obtained an understanding of SCG’s key internal controls relevant to its balancing accounts, such as accounting and reporting process, customer billing procedures, rate adjustment process, and assessed the design, implementation, and operating effectiveness of selected controls that were significant to the audit objectives by:
  - completing an internal control questionnaire;
  - reviewing SCG’s policies and procedures and interviewing key personnel;
  - performing walkthroughs of selected customer billings and transactions;
  - verified appropriate rates were charged on selected customer billings; and
  - assessed reliability of recorded and reported revenue and expenditure data.
- Reconciled year-end balances recorded in the Balancing Account Monthly Tracking Statements to SCG’s general ledger and Annual Balancing Account and Memorandum Account Report filed with CPUC.
- Performed testing of revenues by judgmentally selecting a non-statistical sample of customer bills and transactions for the months of July, August, and September 2018 to verify that:
  - Customer billing rates complied with CPUC directives and approved tariffs;
  - Billed revenues were recorded accurately in each respective balancing account; and
  - Year-end over- or under-collected balances were properly and timely settled in rates.
- Performed testing of expenditures by judgmentally selecting a non-statistical sample of significant expenditure transactions for the following 6 of 35 balancing accounts:

Balancing Account Name	Amount Tested	Amount of Population*	% of Population Tested
Greenhouse Gas Balancing Account (GHGBA)	\$ 25,807,724	\$ 121,168,798	21%
Safety Enhancement Capital Cost Balancing Account (SECCBA)	32,482,434	125,749,084	26%
Advanced Metering Infrastructure Balancing Account (AMIBA)	2,107,325	27,746,143	8%
Safety Enhancement Expense Balancing Account (SEEBA)	2,064,995	18,464,485	11%
Storage Integrity Management Program Balancing Account (SIMPA)	2,206,872	13,621,472	16%
Transmission Integrity Management Program Balancing Account (TIMPA)	9,803,812	65,487,937	15%
<b>Total Amounts</b>	<b>\$ 74,473,162</b>	<b>\$ 372,237,919</b>	<b>20%</b>

\* Amounts derived from 3rd Quarter 2018 expenditure amounts recorded in SCG's accounting records.

- Traced sampled expenditures recorded in SCG’s customer billing system and accounting records to supporting documentation and determined whether transactions were accurate, allowable, supported by appropriate source documents, and maintained in compliance with applicable CPUC directives, orders, rules, regulations, and the SCG’s policies and procedures.
- Determined whether SCG properly reported and recorded monthly interest in each Balancing Account Monthly Tracking Statement by recomputing the monthly interest amounts reported for each month in all 35 balancing accounts.

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

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

## **Conclusion**

Based on the procedures performed, samples tested, and evidence gathered, we found that the transactions recorded in SCG’s balancing accounts from January 1, 2018 to December 31, 2018 were for allowable purposes and supported by appropriate documentation and that its balancing accounts were established and maintained in accordance with applicable CPUC directives, orders, rules, regulations, and SCG’s policies and procedures. However, we found an internal control weakness significant to the audit objective that warrants the attention of SCG’s management. This instance is described in the Finding and Recommendation section of this audit report.

## **Follow-up on Prior Audit Findings**

Our prior audit of SCG’s Public Purpose Program regulatory accounts for the period January 1, 2015 through December 31, 2016, issued on December 15, 2017, disclosed no findings that required a follow-up on corrective actions.

## **Views of Responsible Officials**

We issued a draft report on April 6, 2021. SCG responded on April 20, 2021 agreeing with the finding and recommendation but proposed edits to the language in the draft audit report to clarify the nature of the finding for consideration. SCG’s comments are included in this final report as an attachment in Appendix A—Utility’s Response to Draft Audit Report and our evaluation of the comments 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 SCG and the 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 the final audit report, which is a matter of public record and will be available on the CPUC website at [www.cpuc.ca.gov/utilityaudits/](http://www.cpuc.ca.gov/utilityaudits/).

*Angie Williams*

Angie Williams, Director  
Utility Audits, Risk and Compliance Division

## FINDING AND RECOMMENDATION

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### **Finding: Inconsistent recording and reporting of current or prior period interest adjustments**

#### **Condition:**

SCG does not have a system in place, such as written policies and procedures, to ensure consistent recording and reporting of current or prior period interest adjustments. As a result, SCG did not properly record and report current or prior period adjustments attributed to its monthly interest computations in 10 of its 35 (or 28%) balancing accounts' Monthly Tracking Statements in 2018. The lack of consistency and transparency in disclosing adjustments associated with monthly interest computations led to unexplained variances observed in monthly interest amounts re-computed during audit fieldwork. During testing of reported interest amounts, we re-computed monthly interest amounts in all 35 of SCG's balancing accounts' Monthly Tracking Statements for each month for 2018. In doing so, we discovered immaterial variances totaling \$19,841 in recorded interest amounts in 10 of the 35 balancing accounts. The immaterial variances resulted from current or prior period adjustments that were either inadvertently recorded in the incorrect month or not disclosed at all in the balancing accounts' Monthly Tracking Statements but were factored into the calculation of interest amounts without proper disclosure. Inconsistent recording and reporting of current or prior period interest adjustments can inadvertently lead to inaccurate interest amounts reported in SCG's balancing accounts.

#### **Criteria:**

SCG's General Service Information document established pursuant to Advice Letter (AL) 4472 states in part that:

.... interest will accrue monthly and the interest calculation will be based on the average of the beginning and ending balance of such accounts at the rate of 1/12 of the most recent month's interest rate on the prime 3-month Commercial Paper rate, published in the Federal Reserve Statistical Release.

Furthermore, SCG confirmed that the proper formula to calculate monthly interest for its 2018 balancing accounts in accordance with CPUC directives is:

$$(Beg. Bal. + (\mathbf{Current\ Month's\ Activity}/2)) * (Int. Rate/12)$$

#### **Cause:**

SCG lacks policies and procedures that provide guidance to ensure that reported interest amounts and associated period adjustments in its Balancing Account Monthly Tracking Statements are accurately computed, consistently recorded with associated adjustments, appropriately supported, and clearly presented.

#### **Effect:**

Failure to properly disclose current or prior period adjustments pertaining to the calculation of monthly interest reported in its Balancing Account Monthly Tracking Statements can lead to inaccurate recording and reporting of interest in its balancing accounts. Any errors in the calculation of interest in balancing accounts can diminish the benefit to ratepayers since balancing accounts accrue interest to be returned to ratepayers if the utility is over-collected or recovered as additional revenue if the utility is under-collected.

Furthermore, since any over or under-collected year-end balances, including interest, are carried over from year to year, any potential incorrect interest amounts can impact customer rates by being amortized into future rates.

**Recommendation:**

UAB recommends that SCG develop and implement policies and procedures to ensure interest amounts and associated period adjustments are recorded accurately, clearly, consistently, and with appropriate notations on any adjustments in its Balancing Account Monthly Tracking Statements to avoid any potential errors and to ensure interest is correctly calculated and reported in accordance with CPUC directives.



## APPENDIX A—UTILITY'S RESPONSE TO DRAFT AUDIT REPORT

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**Mia DeMontigny**

**Controller and Chief Financial Officer**  
555 W 5th Street, GT21C2  
Los Angeles, CA 90013

[mdemontigny@socalgas.com](mailto:mdemontigny@socalgas.com)

### **Transmitted via e-mail**

April 20, 2021

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

**Re: Southern California Gas Company Response to Draft Report Transmittal Letter for the Balancing Accounts Audit for the Period of January 1, 2018 through December 31, 2018**

Dear Director Williams:

Southern California Gas Company (SoCalGas or SCG) hereby submits its review of the Draft Report issued on April 6, 2021 by the Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) regarding the Balancing Accounts Audit for the Period of January 1, 2018 through December 31, 2018 (Draft Report).

SoCalGas appreciates the UAB's review and ongoing engagement throughout the audit process. Overall, SoCalGas agrees with the finding and recommendation put forth by the UAB and will take measures consistent with the UAB's recommendation, but requests edits to the language in the Draft Report to clarify the nature of the finding (as illustrated in redline and strikethrough below).

Additionally, SoCalGas provides its response to the UAB's finding and recommendation:

UAB Finding: Inconsistent recording and reporting of current or prior period interest adjustments

### **SoCalGas' Response**

SoCalGas submits that it accurately calculated and recorded prior period interest adjustments and provided sufficient support in the applicable regulatory account workpapers for the period of January 1, 2018 through December 31, 2018. As demonstrated in follow-up discussions with the UAB, the immaterial variances identified in the finding were not a result of an error in the interest calculation. Rather, these immaterial variances resulted from not being clearly identified as separate interest impacts associated with prior period adjustments. Accordingly, the interest recorded to the balancing accounts is accurate and adjustments are not necessary.

SoCalGas agrees with the Draft Report that SoCalGas does not have formally documented procedures specifically related to interest adjustments. Therefore, SoCalGas will enhance internal procedures to support the quantification and documentation of prior period adjustments and related interest as recommended by the UAB. This enhancement is expected to result in clearer documentation of interest amounts and associated prior period adjustments in SoCalGas' regulatory account schedules and facilitate future review. Additionally, SoCalGas will enhance its footnotes on its regulatory account schedules to describe the nature of prior period adjustments and provide a breakout of interest, when applicable.

### **SoCalGas' Requested Edits to Certain Sections of the Draft Report**

**Finding: Insufficient documentation of procedures that could result in inconsistent recording and reporting of current or prior period interest adjustments**

#### **Condition:**

**SCG's process for the recording of prior period adjustments, including interest, does not include sufficient documentation to allow for detailed monitoring and review, does not have a system in place, such as written policies and procedures, to ensure that interest adjustments are being consistently monitored and reported.** As a result, **there was a perceived error that** SCG did not properly record and report current or prior period adjustments attributed to its monthly interest computations in 10 of its 35 (or 28%) balancing accounts' Monthly Tracking Statement in 2018. The lack of consistency and transparency in **disclosing documenting prior period** adjustments associated with monthly interest computations led to unexplained variances observed in monthly interest amounts **s** re-computed during audit fieldwork. During the testing of reported interest amounts, we re-computed monthly interest amounts in all 35 of SCG's balancing accounts Monthly Tracking Statements for each month for 2018. In doing so, we **discovered calculated** immaterial variances totaling \$19,841 in recorded interest amounts in 10 of the 35 balancing accounts, **for which the underlying interest amounts were later determined to be accurate through follow-up discussions.** The apparent immaterial variances resulted from current or prior period adjustments that were either inadvertently recorded in the correct month or not disclosed at all in the balancing accounts' Monthly Tracking Statements but were factored into the calculation of interest amounts without proper **disclosure documentation.** Inconsistent recording

and reporting of current or prior period interest adjustments can inadvertently lead to inaccurate interest amounts reported in the SCG's balancing accounts.

**Cause:**

SCG lacks documented procedures that provide sufficient guidance so ensure that reported interest amounts and associated prior period adjustments in its Balancing Account Monthly Tracking Statements are accurately computed, consistently recorded appropriately supported and clearly identified presented.

**Recommendation:**

UAB recommends that SCG develop and implement ~~policies and~~ documented procedures to ensure interest amounts and associated period adjustments are recorded accurately, clearly, consistently and with appropriate notations on any adjustments in its Balancing Account Monthly Tracking Statements to avoid any potential errors and to ensure interest is correctly calculated and reported in accordance with CPUC directives.

Sincerely,

/s/ Mia DeMontigny  
Mia DeMontigny

cc: Masha Vorobyova, Assistant Director, UAB, CPUC  
Kevin Nakamura, Program and Project Supervisor, UAB, CPUC  
Cory Carpenter, Lead Auditor, UAB, CPUC  
Amy Xu, Staff Auditor, UAB, CPUC

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

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We appreciate SCG's response and the suggested edits to the language in the draft audit report that SCG proposed to clarify the nature of the finding and recommendation. We considered the proposed edits and determined that SCG's suggested edits do not provide additional factual information to support any revisions to the finding. Therefore, the finding and recommendation have remained unchanged in this final audit report.