California Public Utilities Commission

Southwest Gas Corporation Balancing Accounts Audit

January 1, 2022 through December 31, 2022

March 1, 2024

SJOBERG EVASHENK
CONSULTING, INC

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SJOBERG EVASHENK
CONSULTING, INC

March 1, 2024 ***via Electronic Mail***

Valerie J. Ontiveroz
Regulatory Manager/California
Southwest Gas Corporation
8360 S. Durango Drive
Las Vegas, NV 89113
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Dear Ms. Ontiveroz:

Enclosed is the final audit report, *Southwest Gas Corporation Balancing Accounts Audit - January 1, 2022 through December 31, 2022.* The report was prepared on behalf of the California Public Utilities Commission by Sjoberg Evashenk Consulting, Inc. and includes our analysis and recommendations. The draft report was discussed with Southwest Gas Corporation's management prior to completion of our audit fieldwork. Management comments received throughout the audit process were considered in drafting the report.

The Commission will post the final audit report on its website at https://www.cpuc.ca.gov/utilityaudits/.

Sjoberg Evashenk Consulting, Inc. appreciates the cooperation Southwest Gas Corporation provided throughout the engagement and its willingness to implement corrective actions.

If you have any questions regarding this report, please contact me at (916) 443-1300 or lynda@secteam.com.

Respectfully submitted,

Lynda McCallum

Lynda McCallum
Partner
Sjoberg Evashenk Consulting, Inc.

cc: See next page

Cc: Amy L. Timperley, Senior Vice President/Chief Regulatory Strategy & Planning Officer
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EXECUTIVE SUMMARY

Purpose of the Audit

The California Public Utilities Commission (CPUC) Utility Audits Branch (UAB) within the Utility Audits, Risk and Compliance Division, engaged Sjoberg Evashenk Consulting, Inc., to conduct an audit of Southwest Gas Corporation's (SWG) 2022 balancing accounts. The purpose of this balancing account audit was to determine if transactions and activities reported and recorded in SWG's balancing accounts were for allowable purposes, supported by appropriate documentation, and maintained in compliance with applicable laws and CPUC regulations.

Findings Summary

SWG Overcharged CARE Program Participants $924,546 for Monthly Basic Service Charges Over Two Years

In 2022, SWG overcharged CARE program customers $403,256 for the monthly basic service charge due to a billing system programming error. The total amount of the overcharge related to the error was $924,546 as it extended beyond the 2022 audit period, spanning April 1, 2021 to September 14, 2023. Once the matter was identified, SWG immediately began implementing system corrections and issuing credits to CARE customers.

SWG Was Unable to Fully Support Amount of Natural Gas Surcharge Remitted to the California Department of Tax and Fee Administration

SWG collects surcharges monthly from its ratepayers and remits the Natural Gas Surcharge to CDTFA quarterly. For the first quarter of 2022, SWG remitted $5,672,967 in natural gas surcharges to CDTFA—the calculation was based on 62,332,949 therms consumed. However, SWG's billing system information reflects that 64,799,342 therms were sold. Using 64,799,342 therms in the calculation, SWG would have had to remit $5,975,135 to CDTFA—$302,168 more than was remitted. While SWG asserts that the difference in therms relates to certain customer exemptions from the surcharge, SWG was unable to specifically identify the exempt customer classifications within the billing system. After issuing the draft audit report, SWG indicated that it was able to reconcile most of the therm discrepancies.

SWG Misallocated $67,600 in CARE Costs between Northern and Southern California Ratepayers

SWG misallocated some CARE costs between Northern and Southern California jurisdictions. Specifically, the costs associated with marketing research and outreach services totaling $130,000, SWG incorrectly allocated 76 percent of the costs to Northen California instead of the proper allocation of 24 percent. At the same time, SWG incorrectly allocated only 24 percent of the costs to Southern California instead of the correct allocation of 76 percent. As a result, the Northern California jurisdiction was over-allocated $67,600 of the costs and the Southern California jurisdiction was under-allocated $67,600. While SWG's CARE balancing account balance was not affected by the error, CARE surcharges established for Northern and Southern California ratepayers were likely affected due to the misallocation of program expenses between the two jurisdictions.

SWG Provided Sufficient Support for Most Expenditures Tested Except for Postage Costs

While SWG was able to provide support for a vast majority of the transactions tested in the balancing accounts, it could not support $10,913 in postage expenses in the CARE Balancing Account. Although the costs that were not supported represent a fraction, 0.03 percent, of the costs tested, maintaining proper support for expenses is important for effective financial management to ensure financial accuracy, compliance, accountability, and transparency.

Recommendations

The report provides SWG with nine recommendations to better ensure transactions and activities reported and recorded in its balancing accounts are for allowable purposes, supported by appropriate documentation, and comply with all applicable laws and CPUC regulations.

INTRODUCTION

Audit Authority

This audit was conducted under the general authority outlined in Public Utility (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.

Background

The 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 2022, Southwest Gas was authorized a total of 19 gas balancing accounts to track 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 2022, Southwest Gas reported a total combined under-collected balance of $47,897,823 in its 19 balancing accounts.

A breakdown of the reported amounts over or under-collected in rates as of December 31, 2022 by balancing account is provided in Appendix A.

Southwest Gas, a wholly-owned subsidiary of Southwest Gas Holdings, Inc., is engaged in the retail transmission, distribution, transportation, and sale of natural gas for domestic, commercial, agricultural, and industrial uses to approximately 2.2 million customers in the states of California, Arizona, and Nevada. In California, Southwest Gas serves approximately 205,000 customers in its three ratemaking jurisdictions: Southern California; Northern California; and South Lake Tahoe.

Objectives

The objectives were to determine whether SWG's transactions and activities reported and recorded in the utilities' balancing accounts were for allowable purposes, supported by appropriate documentation, and complied with all applicable laws and CPUC regulations.

Scope

The audit covered January 1, 2022, through December 31, 2022.

Methodology

To meet the audit objectives, the audit team:

- Reviewed applicable Commission directives and decisions, CPUC's UAB Standard Practice Manual; prior SWG balancing account audit reports and audited financial statements; and SWG's internal policies and procedures.
- Interviewed key personnel at SWG to obtain an understanding of the accounting and billing processes related to balancing accounts.
- Identified and evaluated SWG internal controls over its balancing accounts.
- Evaluated whether SWG had taken appropriate corrective action in addressing findings and recommendations from previous CPUC's UAB audits significant to the audit objectives.
- Reconciled ending balances on monthly tracking statements to SWG accounting records and the Annual Balancing Account and Memorandum Account report submitted to the Commission.
- Performed a risk assessment of the balancing accounts. In assessing significance, evaluated the relative importance of transactions in each balancing account, performed an assessment using qualitative and quantitative factors to identify risks, evaluated the relative importance of the identified risks, including how those risks could impact the accuracy and validity of the transactions and activities reported in the balancing accounts. Of SWG's 19 balancing accounts, selected four to include in

expenditure testing and eight to include in revenue testing.

- For revenue testing of the eight balancing accounts, compared amounts billed to customers against amounts recorded as collections/recoveries in accounting records.
- Selected a sample of hard copy bills to compare against system billing information to ensure reliability of the system information and to determine if rates charged on customer billings complied with CPUC directives and approved tariffs.
- For expenditure testing of the four balancing accounts, judgmentally selected a sample of expenditures recorded in SWG accounting records and reviewed supporting documentation to determine whether transactions were accurate, allowable, supported by appropriate source documents, and maintained in compliance with applicable CPUC directives, orders, rules, regulations, and utility policies and procedures. Testing statistics are reflected in the table below:

Balancing Accounts Tested	Absolute Value of Total Expenditures	Absolute Value of Expenditures Tested	Percentage Tested
PGA	$24,191,618	$4,235,884	18%
CARE	$27,989,631	$5,241,973	19%
GHG	$51,197,367	$22,063,212	43%
PBA	$2,171,970	$582,016	27%
Total	**$105,550,586**	**$32,123,086**	**30%**

Selected forty-eight transactions across the four balancing accounts.

- Based on the results of audit testing, determined impacts on the over- or under-collection amounts reported in the balancing accounts tested.
- Calculated the amount of interest earned in each balancing account and determined if the calculation method used by SWG complied with applicable rules, such as earning interest monthly 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.

Statement of Auditing Standards

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

AUDIT RESULTS

Finding 1 **SWG Overcharged CARE Program Participants $924,546 for Monthly Basic Service Charges Over Two Years**

The Commission's California Alternate Rates for Energy (CARE) program provides a discount on monthly gas bills to income-qualified customers at their primary residence. The CARE program requires utilities provide customers that are enrolled in the program a discount on their natural gas bill. Non-CARE customers are assessed a monthly surcharge that is deposited into SWG's CARE balancing account to fund the discounts given to CARE program participants.

In 2022, SWG overcharged 68,860 CARE program customers a total of $403,256 for the monthly basic service charge due to a programming error. The total amount of the overcharge related to this programming error was $924,546 as the error extended beyond the 2022 audit period and the full period of the programming error spanned April 1, 2021 to September 14, 2023.

SWG has two systems that impact its balancing accounts: SAP and Oracle. The SAP system is used to bill customers while Oracle is the accounting system that is used to record, track and report on financial transactions. Further, Oracle is used to track all the balancing account transactions. When there is a rate change, the billing system must be programmed properly to ensure the appropriate rates are applied to the proper customers. SWG's process for applying the approved rates changes and programming the billing system includes programming the rate changes, performing reviews of the changes, and conducting user acceptance testing prior to rolling out the changes.

However, in this case, SWG's process did not ensure that the appropriate changes were made. SWG's SAP billing system was programmed to calculate the CARE discount based on a $5.00 basic service charge for residential customers, but was not reprogrammed to update the discount calculation when the basic service charge was increased. Specifically, prior to April 2021, SWG's approved rate for the monthly basic service charge for residential customers not enrolled in the CARE program was $5.00 while the basic service charge for residential customers enrolled in the CARE program was $4.00. To provide the discount, SWG's SAP billing system was programmed to calculate 20 percent of the $5.00 non-CARE residential basic service charge to provide a $1.00 discount to CARE program customers, resulting in a $4.00 monthly service charge.

In April 2021, SWG's approved rate for the monthly basic service charge for residential customers not enrolled in the CARE program increased to $5.75 while the basic service charge for residential customers enrolled in the CARE program remained unchanged at $4.00. Unfortunately, SWG did not adjust its billing system's programming to reflect the change and the system continued to calculate the CARE discount as 20 percent of the $5.75 non-CARE residential basic service charge rather than calculating a new percentage to ensure Care program participants were only charged $4.00. As a result, CARE program participants received $1.15 discount off the $5.75 monthly basic service charge for a total CARE residential basic service charge of $4.60, which was $.60 more than the approved $4 monthly basic service charge for CARE program participants. As a result, CARE program participants received $0.60 less of a discount than was due.

According to SWG, there was an oversight when identifying the necessary SAP programming changes when the monthly service charge rate changed. SWG indicated that, to guard against this type of error occurring in the future, SWG will enhance its process to test and verify rate changes made to its billing system to ensure that all rate schedules are verified whether there are associated rate changes to avoid unintended impacts.

Once the error was identified, SWG indicated that it began implementing the necessary corrections in the SAP billing system on September 15, 2023 to ensure CARE customers receive the correct program discounts to ensure a monthly basic service charge that aligns with the tariff. Further, SWG indicated that CARE customers would have "CARE Discount Adjustment" credits reflected on their October 2023 bills to provide the additional $924,546 in CARE discounts due and the credits will be debited to the CARE balancing account. Lastly, because the discounts owed to CARE customers were not debited to the CARE balancing account until October 2023, SWG's December 31, 2022 CARE balancing account balance was underreported.

Recommendations

To ensure the accuracy of programmed billing rates, SWG should:

1. Continue to test and verify rate changes made to its billing system to ensure that the most recently approved rate schedules are being used and that any changes are programmed correctly in the billing system.
2. On a periodic basis, such as during the quarterly meetings, review all programmed billing rates for each balancing account and have the responsible parties formally certify the accuracy of the information.

Finding 2

SWG Was Unable to Fully Support Amount of Natural Gas Surcharge Remitted to the California Department of Tax and Fee Administration

The California Department of Tax and Fee Administration (CDTFA) administers the Natural Gas Surcharge Law that is used to fund rate reductions and home weatherization services for low-income electric and gas customers of public utility corporations. The surcharge is collected from ratepayers through a combination of several Public Purpose Program (PPP) surcharges imposed on the amount of natural gas consumed measured in therms:

- CARE surcharge
- Energy Savings Assistance surcharge
- Public Interest Research & Development surcharge
- Conservation and Energy Efficiency surcharge
- CDTFA PPP Administration surcharge

SWG bills its ratepayers and collects the surcharges monthly and remits the corresponding surcharge due to CDTFA quarterly. For the first quarter of 2022, SWG remitted $5,672,967 in natural gas surcharge fees to CDTFA—the calculation was based on 62,332,949 therms. However, SWG's billing information that resides in an Oracle database reflects that 64,799,342 therms were sold during this period—a difference of 2,466,393 therms. Using 64,799,342 therms in the calculation, SWG would have had to remit $5,975,135 to CDTFA—$302,168 more than SWG remitted.

There are several categories of natural gas customers that are exempt from being assessed PPP fees, including certain customers transporting gas and some government entities, among others. While SWG asserts that the difference in therms relates to such exemptions, SWG was unable to specifically identify the exempt customer classifications within the Oracle database. As a result, SWG did not fully demonstrate that the Natural Gas Surcharge it remitted to CDTFA during the first quarter of 2022 was accurate. According to SWG, staff from multiple departments have been working to reconcile the therms discrepancy but has been so far unsuccessful.

Quarterly reimbursement submissions to CDTFA based on inaccurate therms information can lead to over or under remittances and misappropriation of collected fees.

After issuing the draft audit report, SWG indicated that it was able to reconcile most of the therm discrepancies.

Recommendations

To ensure the accuracy of Natural Gas Surcharge quarterly remittances, SWG should:

3. Conduct a comprehensive review of its natural gas surcharge-exempt therm identification, calculation, and reporting processes.
4. Continue to investigate and determine the reasons for discrepancies between therms recorded in the Oracle database and amounts reported to CDTFA. If it underreported therms to CDTFA and thus, underpaid what was due, SWG should calculate the amount owed and remit the difference to CDTFA.
5. Make any needed modifications to its billing system and Oracle to ensure therms and exemptions are correctly captured so that quarterly reimbursement calculations can be quickly and easily explained and reconciled with Oracle billing information.

Finding 3 **SWG Misallocated $67,600 in CARE Costs between Northern and Southern California Ratepayers**

SWG distributes CARE program expenses to two rate jurisdictions:

- Northern California[1]—24 percent.
- Southern California—76 percent.

The allocation percentages are based on the average number of customers in the two jurisdictions and are updated annually. CARE program expenses are allocated to the two jurisdictions because the CARE surcharges assessed are different for Northern and Southern California ratepayers. In 2022, Northern California CARE surcharge was $0.01650 per therm, which was lower than the Southern California CARE surcharge of $0.12693 per therm.

Audit testing of the CARE balancing account activity in 2022 identified that SWG misallocated some CARE costs between Northern and Southern California jurisdictions. Specifically, for costs associated with marketing research and outreach services totaling $130,000, SWG incorrectly allocated 76 percent of the costs, or $98,800, to Northen California instead of the proper allocation of 24 percent, or $31,200. At the same time, SWG incorrectly allocated only 24 percent of the costs to Southern California instead of the correct allocation of 76 percent. As a result, the Northern California was over-allocated $67,600 of the costs and the Southern California jurisdiction was under-allocated $67,600.

While SWG's CARE balancing account balance was not affected by the error,

[1] Includes South Lake Tahoe.

CARE surcharges established for Northern and Southern California ratepayers were likely affected due to the misallocation of program expenses between the two jurisdictions.

Although SWG's accounting unit prepares monthly reports that provide the revenue and expense information for all balancing accounts and holds quarterly meetings to review the information, the error was undetected. The process to apply the allocation split for Northern and Southern California is performed manually by staff and recorded through journal entries which are created outside of normal processes. Journal entries are generally more risky to companies because they can generally be prepared without a secondary approval and susceptible to inaccuracies and other errors.

Recommendations

To minimize coding errors to the balancing accounts, SWG should:

6. Require staff who make journal entries to perform a reasonableness check to spot errors and inconsistencies in data prior to making the entries.
7. Enhance the second-level review process for journal entries made to the balancing account to identify coding errors and ensure appropriate checks and controls are programmed in the system so that journal entries cannot be posted until the review process is complete.

Finding 4

SWG Provided Sufficient Support for Most Expenditures Tested Except for Postage Costs

Four of SWG's balancing accounts were selected for audit testing: the CARE Balancing Account, Purchased Gas Cost Balancing Account, Pension Balancing Account, and Greenhouse Gas Costs Balancing Account. Across the four balancing accounts, we selected 48 transactions totaling about $32 million, equaling 30 percent of expenditures in those accounts, to determine whether costs were accurate, allowable, and supported by appropriate source documents, such as invoices, receipts, contracts, billing data (therms), etc. The transactions tested covered a wide variety of expense types, including gas purchases and penalties, quarterly natural gas reimbursements, quarterly pension accruals, auction bid guarantees, and goods/services.

While SWG was able to provide support for a vast majority of the transactions tested in each of the balancing accounts, it took considerable time to obtain underlying evidence to support the appropriateness for journal entries as many are made based on system-generated reports rather than actual documents that support the expenses. In fact, it could not support $10,912.50 in postage expenses in the CARE Balancing Account. According to SWG, it did not have original invoices for postal costs and while SWG obtained some transaction details from the online United States Postal Service (USPS) website, they did not adequately support these transactions posted to the balancing accounts. According to SWG, it has an USPS account to fund the utility's business reply postage function related to potential CARE program participants mailing the utility program application materials. The USPS draws from the account as needed and SWG replenishes the account before funds are depleted. However, because there are no invoices generated through this process, SWG cannot ensure or demonstrate that the draws are only used to fund postage for potentially eligible CARE customers.

Although the costs that were not supported represent a fraction, 0.03 percent, of the costs tested across the four balancing accounts, reviewing and maintaining proper support for expenses is important for effective financial management to ensure financial accuracy, compliance, accountability, and transparency. As such, SWG should develop a process to confirm and verify that the USPS business reply account funds are only used to fund postage for potentially eligible CARE customers.

Recommendations

To demonstrate that all expenses charged to the balancing accounts are allowable, supported, and comply with requirements, SWG should:

8. Develop a process to provide assurance that the USPS business reply account funds are only used to fund postage for potentially eligible CARE customers.
9. Maintain all source documentation, including, but not limited to, invoices, receipts, contracts, and purchase orders. Ensure staff only enter transactions into the system when they have ensured that sufficient source documentation is present and supports the expenditures as being allowable and in compliance, and ensure staff appropriately maintains and secures the documentation.

APPENDIX A: SWG BALANCING ACCOUNTS

	Balancing Account Name	Purpose of the Balancing Account	Balance at 12/31/2022
1	Fixed Cost Adjustment Mechanism	Balance the difference between authorized levels of the company's margin with recorded revenues intended to recover these costs.	($68,813)
2	Core Fixed Cost Adjustment Mechanism	Balance the difference between upstream storage charges and interstate reservation/firm access charges with revenue collected.	$324,467
3	Public Interest Research & Development	Balance allocated share of the State's annual research and development costs, including Commission and CDTFA administrative costs, with the PPP surcharge that recovers these costs.	$194,718
4	California Alternate Rates for Energy	Balance CARE program costs, including rate discounts, outreach, administrative, and program audit costs, with the PPP surcharge that recovers these costs.	$5,430,222
5	Energy Savings Assistance	Balance ESA program costs, including rate discounts, outreach, administrative, and program audit costs, with the PPP surcharge that recovers these costs.	$4,777,319
6	Infrastructure Replacement/Reliability Adjustment Mechanism	Balance IRRAM programs costs with the IRRAM surcharges that recovers these costs.	$2,937,683
7	Mobile home Park Conversion - To the Meter	Recording and recovering the incremental revenue requirement associated with converting sub metered residents at mobile home parks from master-metered natural gas service to direct utility service.	$1,872,410
8	Mobile home Park Conversion - Beyond the Meter		$3,847,632
9	Mobile home Park Conversion - Beyond the Meter Revenue Requirement		$1,848,635
10	Pension	Balance the difference between authorized and actual amounts associated with the portion of the pension fund allocable to California.	$13,097,578
11	Conservation and Energy Efficiency	Balance CEEBA program costs, including rate discounts, outreach, administrative, and program audit costs, with the PPP surcharge that recovers these costs.	($36,562)
12	Greenhouse Gas - Costs	Tracking and recording costs incurred to comply with the California Air Resources Board's natural gas supplier Cap and Trade Program and revenues from the consignment of GHG allowances for auction.	$2,933,878
13	Greenhouse Gas - Revenue		$347,250
14	Greenhouse Gas - BIO SNG	Bio-SNG is a subaccount for the Bio-SNG pilots funding.	($661,734)
15	New Environmental Regulatory	Balance costs associated with the implementation of best practices associated with D.17-06-015 with the NERBA surcharge that recovers these costs.	$19,157
16	Natural Gas Leak Abatement Program	Balance Natural Gas Leak Abatement Program costs with the NGLAPBA surcharge that recovers these costs.	$1,653,978
17	Customer Data Modernization Initiative	Balance Customer Data Modernization Initiative Program costs with the CDMIBA surcharge that recovers these costs.	$2,399,890
18	Purchased Gas Cost	Balance the actual cost of purchased gas incurred with the gas costs recovered through the sales rates.	$6,424,526
19	Intrastate Transportation Cost Adjustment Mechanism	Balance recorded upstream intrastate variable transportation cost recovery from both the core and noncore markets with the actual intrastate variable transportation costs incurred for the upstream transportation of gas in Southern California.	$555,590
		Total Balance	**$47,897,823**

APPENDIX B: SOUTHWEST GAS CORPORATION’S RESPONSE

SOUTHWEST GAS CORPORATION

February 29, 2024 ***via Electronic Mail***

Ms. Lynda McCallum, Partner
lynda@secteam.com
Sjoberg Evashenk Consulting, Inc.
455 Capitol Mall, Suite 700
Sacramento, CA 95814

Subject: Draft Report – California Public Utilities Commission Southwest Gas Corporation Balancing Accounts Audit January 1, 2022 through December 31, 2022

Dear Ms. McCallum:

Southwest Gas Corporation (Southwest Gas, SWG or Company) appreciates the opportunity to review and provide comments on the "Southwest Gas Corporation Balancing Accounts Audit January 1, 2022 through December 31, 2022" Draft Report (Draft Report). The Draft Report was issued on February 15, 2024 by Sjoberg Evashenk Consulting, Inc. (Sjoberg) on behalf of the Utility Audits Branch (UAB) of the California Public Utilities Commission.

Southwest Gas appreciates working with Sjoberg over the last several months during its review of the Company's regulatory balancing accounts. Sjoberg determined that, except for the four Findings and Recommendations, Southwest Gas has complied with the recording and reporting requirements for its balancing accounts during the examination period of January 1, 2022 through December 31, 2022.

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

Finding 1: SWG overcharged CARE Program Participants $924,546 for monthly Basic Service Charges over two years.

Southwest Gas Response: Southwest Gas does not dispute this finding as the Company discovered this discrepancy and disclosed it to Sjoberg, as appropriate. In response to this billing error, Southwest Gas implemented or will implement the following corrective actions:

- Southwest Gas' SAP Application Support Department implemented programming changes on September 15, 2023, to prevent further overbillings related to the basic service charge and began the process of identifying the customers who were overbilled from April 2021 through September 2023.

- Beginning October 9, 2023, Southwest Gas applied credits to impacted customer accounts. The credit appeared as a separate line item, titled "CARE Adjustment Credit."

- Cross training regarding bill design and system functionality will be provided by SAP Application Support to Regulation, who prepares rate changes. This training will help ensure future communications of rate changes are adequately robust where non-routine rate changes are required.

- Enhancements to the bill verification process will be extended to include the bill calculation or validation for all rates and rate schedules within the applicable state rate jurisdiction when non-routine rate changes occur, which would by definition include all new rates.

- SAP Application Support will utilize two existing system reports to provide validation of rates which did not change to ensure there are not unintended impacts associated with rate changes. A third report will be created to provide details of rate facts that are used for rate calculations.

Finding 2: SWG was unable to fully support amount of natural gas surcharge remitted to the California Department of Tax and Fee Administration (CDTFA).

Southwest Gas Response: Southwest Gas does not dispute this finding. Once this issue was identified, Southwest Gas conducted a comprehensive review of the natural gas surcharge exempt therm identification, calculation, and reporting processes to identify the 2,466,393 therms discrepancy between the 62,332,949 therms utilized in the Company's calculation and the 64,799,342 therms reflected in its Oracle database.

As stated in the report provided by Sjoberg, Southwest Gas did reconcile most of the discrepancy. Specifically, the Company reconciled all but 272,476 therms, which it later determined was related to customers that should not have been considered exempt from the Public Purpose Program in the original calculation.

Southwest Gas is in the process of modifying its billing system to ensure that therms and exemptions are correctly captured so that quarterly reimbursement calculations can be quickly and easily explained and reconciled with Oracle billing information. This process includes removing the exempt status from the customers related to the 272,476 therms.

Additionally, Southwest Gas has calculated the amount that should have been remitted to CDTFA and will notify the CDTFA of the related discrepancy so that an appropriate course of action may be determined. Further, Southwest Gas believes this issue would have had negligible, if any, impact on the CARE balancing account given that amounts subject to the reporting and remittance to the CDTFA are generally refunded and those refunds are also reflected in the account once received.

Finding 3: SWG misallocated $67,600 in CARE costs between Northern and Southern California ratepayers.

Southwest Gas Response: Southwest Gas does not dispute this finding. Southwest Gas has robust internal procedures, including reviews of all monthly journal entries by a Gas and Regulatory Accounting (GARA) Supervisor or above, helping to ensure that material errors do not occur. Southwest Gas agrees with the assessment that manual entry of allocation from individual transactional coding poses a higher risk for error and the Company will take steps to mitigate this risk. For one, Southwest Gas will create additional invoice templates with predefined Northern California/Southern California allocations. This would eliminate the need for manual entry of allocations. Further, Southwest Gas will investigate the implementation of check cells within the invoice templates to create alerts for potential errors.

Finding 4: SWG provided sufficient support for most expenditures test except for postage costs.

Southwest Gas Response: Southwest Gas does not dispute this finding. However, Southwest Gas believes that the charges/withdrawals to Company's USPS postal account will never match dollar for dollar to what Southwest Gas pays to fund the account. This is due to the fact that Southwest Gas will not receive a 100% return of CARE program applications/forms from targeted and potentially eligible customers using the Business Reply postage function. Southwest Gas funds the account based on what the anticipated spend for postage will be based on estimate eligible CARE customers and in turn what the Company is authorized by the Commission to recover. If Southwest Gas were to wait for all postage to run its course and all withdrawals/charges made to its account to tie to what is funded, there would potentially be a major delay in processing CARE program applications, since the USPS would hold all mail until postage has been paid. This would in turn impact Southwest Gas meeting CARE program participation goals. As such, although the documentation provided for the 2022 review period does not completely tie, it is believed to be largely due to timing.

Southwest Gas will review its process with respect to CARE program postage expenses, including ensuring appropriate documentation, such as invoices and receipts, is included and verified for postal costs when payments are processed. Southwest Gas will also review the USPS postal account process for better tracking to ensure that only CARE business reply mail expenses are withdrawn from its account.

In summary, Southwest Gas appreciates Sjoberg's overall determination that the Company has complied, in all material respects, with the recording and reporting requirements for its balancing accounts during the examination period of January 1, 2022 through December 31, 2022. Southwest Gas does not dispute the Draft Report's Findings 1 through 4 and will take corrective actions as outlined above.

Respectfully submitted,

Valerie J. Ontiveroz

Valerie J. Ontiveroz
Regulatory Manager/California

c: Southwest Gas:
Amy L. Timperley
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