



# GAS RESEARCH AND DEVELOPMENT PROGRAM PERFORMANCE AUDIT

Southern California Gas Company

January 1, 2023, through December 31, 2023

Utility Audits, Risk and Compliance Division  
Utility Audits Branch  
November 26, 2025



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PUBLIC UTILITIES COMMISSION

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Transmitted via email

November 26, 2025

Jawaad Malik  
Senior Vice President, Strategy and Sustainability Officer  
Southern California Gas Company  
555 West 5<sup>th</sup> Street  
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Los Angeles, CA 90013

Dear Jawaad Malik:

**Final Report Transmittal Letter—Audit of Southern California Gas Company’s Gas Research and Development Program for the Period of January 1, 2023, Through December 31, 2023**

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its audit of Southern California Gas Company’s (SoCalGas) Gas Research and Development Program for the period of January 1, 2023, through December 31, 2023. The final audit report is enclosed.

We issued the draft audit report on October 30, 2025. SoCalGas’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 [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/AuditReportsbyIndustry).

A Corrective Action Plan (CAP) addressing the finding and recommendations is required. SoCalGas should submit a detailed CAP including specific steps and target dates to address the recommendations within 45 calendar days from the issuance of this final report to [UtilityAudits@cpuc.ca.gov](mailto:UtilityAudits@cpuc.ca.gov).

We appreciate SoCalGas’s assistance and cooperation during the engagement, and its willingness to seek collaboration with CPUC’s Energy Division to implement corrective actions. If you have any questions regarding this report, please contact Nancy Ta, Supervisor, at (415) 914-4841.

Sincerely,

*Angie Williams*

Angie Williams, Director  
Utility Audits, Risk and Compliance Division

cc: See next page

Jawaad Malik  
Senior Vice President, Strategy and Sustainability Officer  
Southern California Gas Company  
November 26, 2025  
Page 2

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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 Gas Research, Development, and Demonstration (Gas RD&D) program administered by the Southern California Gas Company (SoCalGas) for the audit period of January 1, 2023, through December 31, 2023.

Our audit objective was to determine whether SoCalGas's expenditures reported for the Gas RD&D program from January 1, 2023, through December 31, 2023, were for allowable purposes, supported by appropriate documentation, and in compliance with applicable Public Utilities (PU) Code sections, CPUC decisions, resolutions, guidelines, SoCalGas policies and procedures, and other relevant criteria.

Based on our audit objective, procedures performed, samples tested, and evidence gathered, we found an instance of noncompliance with the requirements. This instance is described in the Finding and Recommendations section of this audit report. The audit finding is as follows:

**Finding: Program Administration Costs Inappropriately Charged Totaling \$2,193,477**

SoCalGas inappropriately charged program administration costs related to travel and employee expenses totaling \$2,193,477 directly to projects, which resulted in an overstatement of reported project expenditures and an understatement of reported program administration costs by the same amount during the period of January 1, 2023, through December 31, 2023.

**Other Matters**

UAB identified an item of concern during the audit. Although, not considered an audit finding in relation to our audit objective, we do consider it significant for the attention of stakeholders. Therefore, we have included the information in the Other Matters section of this audit report. The other matter is as follows:

SoCalGas is currently storing a piece of equipment acquired for a Low Carbon Resources project that was subsequently cancelled. The equipment acquired with Gas RD&D funds in the amount of \$2,672,237 is exposed to the risk of obsolescence and degradation resulting from continued exposure to environmental factors. SoCalGas asserts it is exploring different pathways to utilize or evaluate the equipment for disposition.

We issued a draft report on October 30, 2025. SoCalGas responded by letter dated November 14, 2025, requesting to reclassify the finding as an observation and suggesting a few revisions to the draft audit report. SoCalGas's response is included in this final report as an attachment in Appendix A—Utility's Response to Draft Audit Report and our evaluation of the response is included in Appendix B—UAB's Evaluation of Utility's Response.



# AUDIT REPORT

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## Background

### ***Gas Research and Development Program***

CPUC established the gas research and development program in 2004, pursuant to Assembly Bill (AB) 1002. AB 1002 requires CPUC to impose a surcharge on gas consumed in California to fund gas-related public purpose programs such as low-income customer assistance, energy efficiency, and public interest research and development. The public interest research and development program is also known as the Gas R&D program and aims to improve gas energy efficiency and environmental quality, develop renewable technologies, and otherwise provide benefits to the public.

In Decision (D.) 04-08-010, CPUC designated the California Energy Commission as the program administrator. In more recent years, CPUC approved funding for SoCalGas in D.19-09-051 and Pacific Gas and Electric Company in D.23-11-069, to engage in gas research, development, and demonstration. CPUC publishes Gas RD&D related information at [Energy Research Development and Deployment](#).

SoCalGas's Gas RD&D program management team administers its Gas RD&D Program. CPUC Resolution G-3601 approved an inclusive total funding of \$16.874 million for SoCalGas's 2023 Gas RD&D Research Plan, of which 10 percent or \$1.687 million was authorized for program administration.

### ***Gas Research Funding Areas***

SoCalGas's Gas RD&D program funds five research programs listed below:

- Gas Operations
- Low Carbon Resources
- Clean Transportation
- Clean Generation
- Customer End-Use Applications

SoCalGas reported 2023 Gas RD&D program project expenditures of \$7,597,782.

### ***Program Administration***

SoCalGas was authorized to utilize 10 percent of the 2023 Gas RD&D budget for program administration. SoCalGas's Gas RD&D Program team is responsible for developing project concepts, sourcing for vendors, and working with vendors to manage project execution from inception to conclusion. SoCalGas reported 2023 Gas RD&D program administration costs of \$1,370,147.

SoCalGas's reported costs are derived from SoCalGas's accounting system's recorded costs and incorporated SoCalGas's internal adjustments, as summarized in the table below:

**Summary of Costs Recorded**

| <b>Funded Program</b>         | <b>Costs Reported</b> | <b>SoCalGas Adjustment<sup>1</sup></b> | <b>Costs Recorded</b> |
|-------------------------------|-----------------------|--|-----------------------|
| Gas Operations                | \$3,362,626           | \$0                                    | \$3,362,626           |
| Low Carbon Resources          | 2,199,420             | 0                                      | 2,199,420             |
| Clean Transportation          | 706,549               | (143,977)                              | 562,572               |
| Clean Generation              | 694,056               | 454,707                                | 1,148,763             |
| Customer End-Use Applications | 635,131               | (126,556)                              | 508,575               |
|                               | <u>7,597,782</u>      | <u>184,174</u>                         | <u>7,781,956</u>      |
| Program Administration        | <u>1,370,147</u>      | <u>(184,174)</u>                       | <u>1,185,973</u>      |
| Total                         | <u>\$8,967,929</u>    | <u>\$0</u>                             | <u>\$8,967,929</u>    |

<sup>1</sup> SoCalGas adjustments for internal labor reallocation

**Audit Authority**

UAB conducted this audit under the general authority outlined in PU Code sections 314 (a), 314.5, 314.6, 581, 582, and 584. Specifically, PU Code section 314.6.(a) authorizes the CPUC to conduct financial and performance reviews or audits of any entity or program created by any order, decision, motion, settlement, or other action of CPUC.

**Objective and Scope**

Our objective was to determine whether SoCalGas's expenditures reported for the Gas RD&D program from January 1, 2023, through December 31, 2023, were for allowable purposes, supported by appropriate documentation, and in compliance with applicable PU Code sections, CPUC decisions, resolutions, guidelines, and SoCalGas policies and procedures, and other relevant criteria.

The scope of our audit covered the audit period of January 1, 2023, through December 31, 2023, and included SoCalGas's reported costs totaling \$8,967,929.

**Methodology**

In planning our audit, we gained an understanding of the Gas RD&D program and SoCalGas's operations and identified relevant criteria by reviewing applicable PU Code sections, CPUC decisions, resolutions, orders, rulemakings, directives, SoCalGas's policies and procedures, and interviewing SoCalGas's personnel.

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



Additionally, we assessed the reliability of the data extracted from SoCalGas's accounting system and Excel Workbook used to compile project information. 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 objective.

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

- Reviewed applicable CPUC decisions, resolutions, and SoCalGas's internal policies and procedures to gain an understanding of the Gas RD&D program.
- Reconciled SoCalGas's Gas RD&D project expenditures and administrative costs reported in the 2023 Annual Report to data extracted from its accounting system for accuracy.
- Reviewed the following prior audit reports and determined that the audits were not relevant to our audit objective and, therefore, no further review was performed for:
  - UAB's Energy Efficiency examination report for the period January 1, 2017, through December 31, 2017, issued August 5, 2019.
  - UAB's Energy Efficiency program performance audit report for the period January 1, 2018, through December 31, 2018, issued August 13, 2020.
  - UAB's Balancing Accounts performance audit report for the period January 1, 2018, through December 31, 2018, issued on April 27, 2021.
  - State Controller's Office (SCO's) performance audit report on SoCalGas's compliance with Affiliate Transaction Rules (ATR) for the period of January 1, 2016, through December 31, 2017, issued on May 24, 2021.
  - UAB's Energy Efficiency program performance audit report for the period January 1, 2020, through December 31, 2020, issued September 27, 2021.
  - UAB's Energy Savings Assistance program performance audit report for the period January 1, 2019, through December 31, 2021, issued on April 5, 2023.
  - UAB's Energy Efficiency Codes & Standards program performance audit report for the period of January 1, 2014, through December 3, 2022, issued on April 2, 2024.
  - SCO's performance audit report on SoCalGas's compliance with ATR for the period of January 1, 2020, through December 31, 2021, issued on December 4, 2024.
- Reviewed SoCalGas's internal control policies and procedures related to the administration of the Gas RD&D program.
- Assessed significance by performing analysis of the project list and project expenditure data.
- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing.

- Obtained an understanding of SoCalGas's key internal controls relevant to its administration of the Gas RD&D program, such as the contract procurement process, project management, and expenditure review, and assessed the design, implementation, and operating effectiveness of selected controls that were significant to the audit objective by:
  - interviewing key personnel and administering an internal control questionnaire to gain an understanding of SoCalGas's internal controls;
  - reviewing SoCalGas's policies and procedures and assessing its implementation pertaining to contract procurement and project management;
  - performing walkthroughs and obtaining explanations for the management of selected projects to gain an understanding of SoCalGas's project management activities; and
  - tracing selected expenditure transactions to source documents, such as invoices, evidence of review and approvals, and contracts to verify implementation consistency and operating effectiveness of controls over expenditures.
- Performed testing of project expenditures by selecting a non-statistical sample of transactions from the five funded programs and program management totaling \$2,285,606 out of total recorded expenditures of \$8,967,929 or 25.49% of the total recorded expenses as illustrated in the table below:

| <b>Funded Programs</b>        | <b>Total Expenditures Tested</b> | <b>Total Expenditures Recorded</b> | <b>Percent Tested</b> |
|-------------------------------|----------------------------------|------------------------------------|-----------------------|
| Gas Operations                | \$692,682                        | \$3,362,626                        | 20.60%                |
| Low Carbon Resources          | 575,000                          | 2,199,420                          | 26.14%                |
| Clean Generation              | 322,355                          | 1,148,763                          | 28.06%                |
| Clean Transportation          | 225,000                          | 562,572                            | 39.99%                |
| Customer End-Use Applications | 375,000                          | 508,575                            | 73.74%                |
| Program management            | 95,569                           | 1,185,973                          | 8.06%                 |
| <b>Totals</b>                 | <b>\$2,285,606</b>               | <b>\$8,967,929</b>                 | <b>25.49%</b>         |

- For the selected samples, traced expenditures recorded in SoCalGas's accounting records to supporting documentation and determined whether costs were accurate, attributable to the respective projects, supported by appropriate source documents, and incurred in compliance with applicable CPUC directives, orders, rules, regulations, and SoCalGas's policies and procedures by:
  - tracing expenditures to contracts to verify whether they were incurred on projects that support Gas RD&D program and were allowable;
  - comparing expenditures to invoices to ensure expenditures were incurred, agreed to invoice amounts, were calculated accurately, and complied with contract payment terms;
  - confirming whether expenditures were supported by appropriate source documents, such as detailed invoices, agreements/contracts, project approval, etc., to confirm the expenditures were for authorized activities;

- verifying whether payments were made for the expenditures and that amounts paid agreed to the respective invoices;
  - confirming whether invoices were reviewed and approved for payments consistent with SoCalGas's expenditure approval policies and procedures; and
  - selecting 4 out of 21 completed projects and reviewing final project reports, location addresses and images for projects with physical existence, and SoCalGas's explanations for the benefits derived for each reported completed project to verify that the projects were completed as claimed, SoCalGas maintained evidence of project completion, and that the outcomes reached the intended audience.
- Performed testing of one cancelled project from 2023 recorded expenditures by:
  - obtaining SoCalGas's explanation for the cancellation;
  - obtaining and reviewing project management documentation to verify if appropriate measures were implemented to mitigate the risk of cancellation;
  - performed site visit to verify physical existence of the equipment purchased for the project; and
  - interviewed SoCalGas personnel regarding plan usage or disposition of the equipment.
- Reviewed CPUC's Resolution G-3601 to corroborate SoCalGas's explanations for five disallowed projects with 2023 recorded expenditures.
- Performed testing of SoCalGas's program administration costs by:
  - performing analytical review of SoCalGas's Line-Item Detail report to gain an understanding of employee-related costs and actual program administration costs;
  - comparing total employee-related costs to total recorded program expenditures to determine the proportion of program administration cost in relation to total expenditures;
  - obtaining SoCalGas's explanation for the observed high proportion of total employee-related costs to total 2023 program expenditures;
  - obtaining and reviewing the listing of SoCalGas's personnels who worked on the Gas RD&D program in 2023 to gain an understanding of the categories of employee costs charged to the Gas RD&D projects and the activities performed;
  - obtaining and reviewing SoCalGas's explanation for the methodology for allocating and charging employee time and costs to projects instead of the approved program administration budget;

- holding meetings with CPUC Energy Division staff to discuss and gain an understanding of allowable and unallowable employee costs chargeable to Gas RD&D projects and to verify our interpretation and understanding of the requirement for SoCalGas to adopt the administration cost framework approved for the Electric Program Investment Charge (EPIC) for the Gas RD&D program;
- conducting meetings/walkthroughs with SoCalGas to discuss SoCalGas's interpretation and understanding of the Gas RD&D administration cost and demonstration of how SoCalGas deemed and charged employee costs to projects not executed within SoCalGas operating system; and
- obtaining and reviewing the schedule of projects executed within SoCalGas's facilities to gain an understanding of the nature of activities employees performed, and to determine eligibility for charging related employee costs to those projects carried out within SoCalGas's operating system.

We did not audit SoCalGas's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that SoCalGas incurred and reported expenditures in accordance with the applicable criteria. We considered SoCalGas's internal controls only to the extent necessary to plan the audit and achieve our audit objective.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## **Conclusion**

Based on our audit objective, procedures performed, samples tested, and evidence gathered, we found an instance of noncompliance with the requirements for the audit period from January 1, 2023, through December 31, 2023. This instance is described in the Finding and Recommendations section of this audit report.

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

We have not previously conducted an audit of SoCalGas's Gas RD&D program. Furthermore, SoCalGas did not identify any prior engagements that are significant within the context of our audit objective that would require us to determine if appropriate corrective actions have been taken to address the findings and recommendations.

## **Views of Responsible Officials**

We issued a draft report on October 30, 2025. SoCalGas responded by letter dated November 14, 2025, requesting to reclassify the finding as an observation and suggesting a few revisions to the draft audit report. SoCalGas's response is included in this final report as an attachment in Appendix A—Utility's Response to Draft Audit Report and our evaluation of the response is included in Appendix B—UAB's Evaluation of Utility's Response.

## **Restricted Use**

This audit report is intended solely for the information and use of SoCalGas and CPUC; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this audit report, which is a matter of public record and will be available on CPUC website at [Audit Reports by Industry \(ca.gov\)](#).

*Angie Williams*

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Angie Williams, Director  
Utility Audits, Risk and Compliance Division

## FINDING AND RECOMMENDATIONS

### Finding: Program Administration Costs Inappropriately Charged Totaling \$2,193,477

#### Condition

SoCalGas recorded employee related expenses totaling \$2,193,477 to Gas RD&D projects rather than program administration costs, contrary to Resolution G-3586 and Advice Letter (AL) 6478-E guidelines for program administration costs. During our analytical review of employee related expenditures (employee salaries, vacation, travel, dues, etc.), we discovered conflicting interpretations of what constituted program administration versus direct costs for this program as outlined in CPUC's guidance and interpreted by SoCalGas and in how SoCalGas recorded expenditures for activities SoCalGas employees performed on Gas RD&D projects. For example, guidelines set forth in AL-6478-E et al, indicate program administration costs to include, among others, the following:

- internal coordination to define specific projects,
- socialization of proposed projects with external stakeholders,
- oversight of projects to ensure they stay on track and achieve their objectives,
- identification and management of any projects interdependence and clearance of any roadblocks during execution, and
- facilitation of formal changes to project scope, schedule, or budget.

SoCalGas recorded employee costs for overseeing and managing projects, and for activities related to other items listed above as direct project costs instead of administration costs.

Resolution G-3601 approved SoCalGas's 2023 research plan budget of \$16,874,000 and 10 percent thereof, or \$1,687,400 for program administration. Based on the guidelines for determining program administration cost specified in AL-6478-E et al, we determined that SoCalGas inappropriately recorded a total of \$2,193,477 of employee costs to Gas RD&D projects instead of program administration. As a result, SoCalGas overstated its project expenditures and understated its program administration costs by the same amount, as outlined in the table below:

| Funded Program                | Budgeted Amount | Costs Recorded | Audit Adjustment | Adjusted Total |
|-------------------------------|-----------------|----------------|------------------|----------------|
| Gas Operations                | \$3,644,784     | \$3,362,626    | \$(1,015,532)    | \$2,347,094    |
| Low Carbon Resources          | 5,619,042       | 2,199,420      | (395,836)        | 1,803,584      |
| Clean Transportation          | 2,126,124       | 562,572        | 0                | 562,572        |
| Clean Generation              | 1,670,526       | 1,148,763      | (626,409)        | 522,354        |
| Customer End-Use Applications | 2,126,124       | 508,575        | (155,700)        | 352,875        |
|                               | 15,186,600      | 7,781,956      | (2,193,477)      | 5,588,479      |
| Program Administration        | 1,687,400       | 1,185,973      | 2,193,477        | 3,379,450      |
| Total                         | \$16,874,000    | 8,967,929      | \$0              | \$8,967,929    |

We determined the audit adjustment amounts based on activity descriptions for costs recorded and identified as program administration costs.

Following our audit adjustment and reclassification of costs from direct expenditures to program administration, SoCalGas's program administration costs amount to 20 percent of the total program budgeted amount, 38 percent of total recorded expenditure amount for the audit period, and exceed the 10 percent approved threshold budgeted for program administration by 200 percent.

### Criteria

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

Resolution G-3586, issued on March 22, 2022, states, in part:

For all future Research Plans, SoCalGas should describe administration cost detail using the allowable administration cost categories as defined for the Electric Program Investment Charge (EPIC) program to be developed in the process launched by D.21-11-028.

Advice Letter 6478-E et al. filed pursuant to D.21-11-028 approved on March 14, 2022, Attachment A – EPIC Administrative Cost Framework and Example EPIC Administrative Activities Tables, includes the following:

**Table 1: EPIC Administrative Cost Framework:**

| <b>Functional Cost Category</b>                      | <b>Definition</b>   |
|--|---|
| Labor (LA)   | Salaries and wages, and associated benefits and payroll taxes for staff activities.   |
| General and Administrative Expense and Overhead (GE) | Ongoing operating expenses such as rent, utilities, IT, and other similar costs.  |
| Travel (TR)  | Transportation, lodging, and meal costs associated with staff travel.   |
| Supplies and Materials (SU)                          | Office supplies, equipment, and other materials.  |
| Contracted Services (CO)                             | Third-party provided services such as technical support for proposal evaluation, data subscriptions to supplement benefits analysis, and augmentation of internal staff for project oversight and program coordination. |

**Excerpt from Table 2. EPIC Administrative Activities (applicable to investor owned utilities):**

| <b>ID</b> | <b>Activities Category</b>  | <b>Cost Category Mapping</b> |
|-----------|---|------------------------------|
| 2.3       | Internal coordination to define specific projects   | LA, GE, SU                   |
| 2.4       | Socialization of proposed projects with external stakeholders                                   | LA, GE, SU, TR, EV           |
| 4.1       | Coordination to define project sourcing needs and strategies                                    | LA, GE, SU, CO               |
| 5.1       | Oversee projects to ensure they stay on track and are achieving their objectives                | LA, GE, SU, TR, CO           |
| 5.2       | Identify and manage any projects interdependence and help clear any roadblocks during execution | LA, GE, SU, CO               |
| 5.4       | Facilitate formal changes to project scope, schedule, or budget                                 | LA, GE, SU, TR, CO           |



**Cause**

SoCalGas did not utilize the components of the approved EPIC program administration cost framework that SoCalGas is required to adopt for the Gas RD&D program, and did not seek guidance from CPUC's Energy Division regarding program administration activities, which resulted in recording employee-related administration activities as direct costs to projects instead of in alignment with the authorized administrative cost framework.

**Effect**

Charging program administration costs directly to projects misrepresents the actual cost SoCalGas expended in administering the program, reduces funding available for other projects, and limits transparency in the use of ratepayers' funds.

**Recommendations**

SoCalGas should coordinate with CPUC's Energy Division for guidance on how to address the \$2,193,477 of program administration costs incorrectly recorded to Gas RD&D projects. In addition, SoCalGas should develop procedures to ensure compliance with program guidelines.

## OTHER MATTERS

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During the audit period, SoCalGas had one cancelled project, the Linde HydroPrime HC300. The project's objectives were to:

- Deploy the Linde HydroPrime MIN HC300 hydrogen plant capable of producing up to 300 Nm<sup>3</sup>/hr of hydrogen, and
- Support the integration of the Solar Thermal Reactor System (STARS) steam methane reformer (SMR) with the Linde plant.

Following withdrawal from the project by the primary host third-party, the project team identified and agreed with another host party, First Element Fuel (FEF), who accepted to host the project on-site in Livermore, California, to support its hydrogen refueling operations for fuel-cell electric vehicles. The procurement of the Linde HydroPrime unit was completed and shipped to the FEF site in 2022. In Quarter 4 2023, FEF unilaterally terminated and withdrew from the research collaboration agreement before it was finished.<sup>1</sup>

During the audit, we made inquiry regarding the cancellation, reviewed supporting documentation, and noted that the third-party host exercised the right of cancellation included in the agreement to withdraw from the project, citing costs as the major reason. Based on SoCalGas's records, it invested cumulative Gas RD&D funds totaling \$2,672,237 for the procurement and delivery of the equipment ordered and manufactured for the project.

On April 1, 2025, we performed a site visit to verify and observe the physical presence of the equipment. Although our physical inspection did not reveal any identifiable damage during the site visit, the equipment faces risks of obsolescence and degradation from environmental impacts. This equipment is currently in a storage location in Bakersfield, Kern County, covered with a tarpaulin in the open storage field. SoCalGas asserts it is exploring different pathways to utilize or evaluate the equipment for disposition.

We recommend that SoCalGas reach out to CPUC's Energy Division to formulate a disposition strategy for the equipment.

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<sup>1</sup> SoCalGas RD&D 2023 Annual Report

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

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Jawaad Malik  
Senior Vice President  
Strategy and Sustainability

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Los Angeles, CA 90013-1011

November 14, 2025

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

**Re: SoCalGas Comments to the Draft Report Transmittal Letter—Audit of  
Southern California Gas Company's Gas Research and Development Program for  
the Period of January 1, 2023, through December 31, 2023**

Dear Ms. Williams,

Southern California Gas Company (SoCalGas) appreciates the opportunity to review and comment on the draft of the Audit of Southern California Gas Company's Gas Research, Development, and Demonstration Program (Gas RD&D Program) for the Period of January 1, 2023, through December 31, 2023 (Draft Audit Report) prepared by the Utility Audit Branch (UAB) of the California Public Utilities Commission (Commission or CPUC). SoCalGas takes compliance with all relevant CPUC Decisions and Resolutions seriously and appreciates the UAB's diligence in conducting the audit and preparing the Draft Audit Report. SoCalGas established policies, procedures and internal controls to comply with the programmatic requirements for the Gas RD&D Program directed by the CPUC. SoCalGas has and will continue to utilize and enhance these policies, procedures, and internal controls as part of SoCalGas's continuous improvement efforts.



On July 18, 2024, SoCalGas received an Engagement Letter notifying the company that an audit of the 2023 expenditures for the Gas RD&D Program would be performed by the UAB "to determine whether the expenditures are for allowable purposes, supported by appropriate documentation, and in compliance with applicable PU Code sections, CPUC Decisions, Resolutions, guidelines, and SoCalGas policies and procedures, and other relevant criteria." As UAB conducted its thorough audit and review, SoCalGas fully participated and cooperated in the process by providing and/or directing the UAB to extensive qualitative and quantitative data from the relevant audit period, hosting a site visit, as well as holding meetings with the UAB to review and explain data request responses.

On October 30, 2025, the CPUC's UAB issued the Draft Finding and Recommendation in connection with its performance audit of the Gas RD&D Program from January 1, 2023 through December 31, 2023. As permitted by the Commission, SoCalGas provides these written comments.

SoCalGas respectfully requests that the one Finding, concerning administrative costs, be reclassified as an observation in the final report. It should be noted that the expenditures were properly allocated to the Gas RD&D Program; however, the audit highlights different interpretations regarding the appropriate recording of certain expenditures within the program. Further, SoCalGas is fully committed to coordinating and working with Energy Division for guidance on how to address the program administration cost category requirements, and address the other matter identified in the draft audit report.

**I. Discussion on Finding**

***UAB Finding: Program Administration Costs Inappropriately Charged  
Totaling \$2,193,477***

**SoCalGas Response to Finding<sup>1</sup>**

SoCalGas respectfully requests that the audit finding be reclassified as an observation when considering the discussion below.

**a. SoCalGas Compliance with Resolution G-3586**

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<sup>1</sup> SoCalGas reserves the right to further comment on the UAB Audit Report in subsequent opportunities before the Commission.



Per Resolution G-3586, issued on March 22, 2022, the Commission required the following: "For all future Research Plans, SoCalGas should describe administration cost detail using the allowable administration cost categories as defined for the Electric Program Investment Charge (EPIC) program to be developed in the process launched by D.21-11-028."<sup>2</sup>

As reflected in Advice Letter 5991-G, SoCalGas implemented the administrative cost categories in Section 6 of its 2023 Research Plan.<sup>3</sup> In Resolution G-3601, which partially approved Advice Letter 5991-G on November 30, 2023, SoCalGas was authorized \$16.874 million for its 2023 Gas RD&D Program and allotted 10% for Program Administration (\$1.6874 million):

We, therefore, approve the use of \$1.6874 million, or 10 percent of the total funding amount of \$16.874 million for program administration of the programs approved in SoCalGas's 2023 Research Plan. SoCalGas provides an administrative budget breakdown aligning with EPIC administration cost categories in the process launched by D.21-11-028 using 10 categories. This aligns with the Commission's requirement.<sup>4</sup>

SoCalGas respectfully disagrees with the statement in the Draft Audit Report that "SoCalGas did not utilize the components of the approved EPIC program administration cost framework that SoCalGas is required to adopt."<sup>5</sup> SoCalGas adopted the EPIC administration cost taxonomy for the expenditures recorded as administrative cost, as affirmed in Resolution G-3601.

SoCalGas interprets the requirement to adopt the EPIC program administration cost framework as a means to provide greater transparency and standardization of the types of costs allowable under the program administration categories. It does not change what was charged as a project cost. In other words, certain cost categories and cost elements may occur at both program and project levels and should not be confined to program administration. This interpretation aligns with that of EPIC IOU administrators, who routinely record "project administration" costs at the project level, as transparently disclosed in the public EPIC database and noted in the approved EPIC joint advice letter, which states: "The costs and activities described here relate solely to the Joint Administrators' administration budgets and do not include potential variations in costs or

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<sup>2</sup> Res. G-3586 at 8 (emphasis added).

<sup>3</sup> AL 5991-G at 45.

<sup>4</sup> G-3601 at 8.

<sup>5</sup> Draft Audit Report at 16.



activities charged to program area (RD&D) budgets.”<sup>6</sup> SoCalGas’s implementation of the program administrative cost framework is a reasonable interpretation of the language in both Resolution G-3586 and EPIC Joint Advice Letter 6478-E. As noted above, Resolution G-3601 confirmed SoCalGas’s taxonomy alignment with EPIC IOU administration categories, reinforcing SoCalGas’s interpretation.

**b. Implications of Applying Incremental EPIC Requirements Outside the Scope of the Gas RD&D Program**

In addition to the Program Administration cost category framework, the Draft Audit Report applies other elements of the EPIC program to its evaluation of the Gas RD&D Program. Specifically, a statement in a 2013 EPIC Decision<sup>7</sup>, which defined “in-house” projects, is used to limit the types of projects for which SoCalGas employee labor is allowed to be charged. The EPIC Decision states:

There may be instances where utility employees must work in collaboration with outside contractors and vendors to implement TD&D projects on the utilities’ operating systems (i.e., “in-house” work). The IOU Administrators may use EPIC funds for costs in connection with utility personnel working in-house in collaboration with an EPIC funded contractor.

Direct and necessary involvement and participation of utility technical personnel in authorized EPIC TD&D projects go beyond “program administration,” and the costs for this in-house activity should not be included in the administrative costs authorized by D.12-05-037.<sup>8</sup>

While D.13-11-025 highlights the importance of leveraging internal expertise and utility personnel to support research, it should be noted that this language is never referenced as an applicable definition to the Gas RD&D Program in any SoCalGas Resolutions and Decisions.

The EPIC Decision states that “in-house” work must be conducted on the utilities operating system. This EPIC requirement was further narrowed in the Draft Audit Report to mean physically touching gas infrastructure while utilizing a 3<sup>rd</sup> party vendor,<sup>9</sup> which

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<sup>6</sup> AL 6478-E at 2.

<sup>7</sup> D.13-11-025.

<sup>8</sup> *Id.* at 55, 126 (Conclusion of Law 41).

<sup>9</sup> SoCalGas understands this to be UAB’s interpretation based on meetings with UAB.





places restrictions that do not fully align with the Gas RD&D Program.<sup>10</sup> From an accounting perspective, UAB's definition of allowable "in-house" projects only accounts for 4% of the total 2023 project portfolio as reported in the 2023 SoCalGas RD&D Annual Report, and resulted in the auditor re-classifying the majority of employee project costs as Administrative, which contributed to SoCalGas exceeding the allowable 10% program administration cap as captured in the Auditor's report.

It is important to recognize the context of the EPIC program in interpreting the language from D.13-11-025. EPIC IOUs are currently limited to spending funds on Technology Demonstration and Deployment (TD&D) for near-commercial technologies at Technology Readiness Levels (TRLs) 7–9. In contrast, the Gas RD&D Program is authorized to invest across TRL Levels 1-9, from earlier-stage research through technology demonstration. SoCalGas's participation in early TRL research is well-documented, as it provides details for each project (including TRLs) in its Research Plans. In 2023, the Gas RD&D Program had a project portfolio of 294 projects, with 68% falling within TRL 1-6. Most low TRL projects do not directly touch SoCalGas infrastructure (e.g., lab studies), yet utility personnel participation is critical to understand applicable utility issues, provide feedback throughout the project, and assess technology viability for adoption and broad ratepayer benefits.<sup>11</sup>

The EPIC "in-house" definition also limits SoCalGas's ability to collaborate on projects at National Labs, which is explicitly allowable under Resolution G-3601, as these projects are typically focused on low TRL technologies and would not touch SoCalGas infrastructure directly. Implementing the EPIC definition of "in-house" work into the Gas RD&D Program and thereby types of projects for which employee labor may be charged, would limit SoCalGas ability to conduct projects across all TRLs. Should additional EPIC requirements be adopted beyond the administrative categories, they should be tailored to align also with the research and development focused nature of the Gas RD&D Program. SoCalGas will seek to collaborate with the Energy Division to define "in-house" projects in a manner that aligns with the full authorized scope of the Gas RD&D Program.

#### **c. Gas RD&D Program Labor Authorization in the 2024 GRC**

SoCalGas's ability to support a portfolio of 294 RD&D projects within its authorized annual funding highlights the company's disciplined and strategic approach to resource

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<sup>10</sup> Although this is not specifically mentioned in the Draft Audit Report, it is assumed this definition, which was included in data requests during the audit, is a basis for reductions in the Draft Audit Report.

<sup>11</sup> The Commission has recognized the importance and value of utility expertise in running RD&D programs. See D.13-11-025 at 55.





management. This approach effectively integrates essential internal labor at the project level without compromising efficiency or project delivery. In addition, as part of its General Rate Case, SoCalGas has consistently demonstrated transparency regarding the internal labor required to support the Gas RD&D Program. As reflected in the 2024 GRC workpapers and final Decision (D.) 24-12-074, SoCalGas was authorized \$15.915 million for 2024, with \$2.2 million forecasted for internal labor. This authorization methodology was based on recorded Gas RD&D Program costs and forecasts from 2017 through 2023. Because the labor forecast exceeds the 10% cap on program administration costs, it has been clear that internal labor is routinely charged outside the Program Administration budget for project direct cost — consistent with EPIC IOU practices. Given SoCalGas's current methodology for cost categorization is not detrimental to the Gas RD&D Program, SoCalGas respectfully requests that the Finding be reclassified to an Observation. SoCalGas remains committed to documenting our position and reviewing the Finding with the Energy Division.

## **II. Discussion on Other Matters**

***UAB Other Matters: We [UAB] recommend that SoCalGas reach out to CPUC's Energy Division to formulate a disposition strategy for the equipment***

### **SoCalGas Response to Other Matters**

During the audit, UAB selected one cancelled project to review. As part of the review, UAB performed a site visit to verify and observe the physical presence of the Linde HydroPrime equipment. After completing the review, UAB recommended that SoCalGas work with Energy Division to formulate a disposition strategy for the equipment.

SoCalGas appreciates UAB's recommendation regarding the equipment associated with the canceled Linde HydroPrime HC300 project. SoCalGas would like to provide additional context and clarity regarding the activities that have taken place related to the equipment and the potential next steps.

The Executive Summary (Other Matters) notes: "SoCalGas is currently storing a piece of equipment acquired for a Low Carbon Resources project that was subsequently cancelled, in a storage location with no plan for future use of the equipment or its return to the vendor initiated."<sup>12</sup>

The project was cancelled by First Element Fuel (FEF) in November 2023, as noted in the Draft Audit Report. In accordance with the terms of the agreement with FEF,

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<sup>12</sup> Draft Audit Report at 2.



SoCalGas took possession of the unit following cancellation and has maintained it in secure storage since that time.

Regarding the observation that SoCalGas had not initiated "its return to the vendor,"<sup>13</sup> it is important to clarify that the Equipment and Engineering Supply Agreement with the vendor does not provide SoCalGas with a contractual right or obligation to return the equipment to the vendor once title and risk of loss transferred upon delivery.

Since the cancellation, SoCalGas has actively explored two parallel paths:

i. Identifying an Alternative Use in the Gas RD&D Program

Currently, the Gas RD&D Program does not have the authority to execute new projects as the authorization period for the 2023 RD&D Research Plan ended in December 2024. SoCalGas will be able to execute a new project to use the unit upon receiving CPUC approval for the proposed 2024 and/or 2025 RD&D Research Plans.

SoCalGas anticipates the unit may be suitable for research, development, and demonstration projects within the scope of several initiatives included in those plans, such as Low Carbon Fuels Technology, Low Carbon Fuels Integration, and Energy Reliability and Resiliency initiatives.

ii. Evaluating Disposition

SoCalGas has explored disposition pathways, including potential third-party acquisition. As a regulated utility, any sale, lease, or transfer of utility-owned property must comply with California Public Utilities Code Section 851 and General Order 173. SoCalGas continues to engage with interested parties and will submit a Section 851 Advice Letter to the CPUC if a transaction is pursued if needed.

SoCalGas remains committed to working collaboratively with the CPUC's Energy Division to determine the appropriate regulatory pathway for this matter.

**III. SoCalGas Suggested Language Revisions for Final Audit Report**

SoCalGas recommends the below changes to the Draft Audit Report before it becomes a final report to address the foregoing and make certain other corrections.

1. Update Executive Summary verbiage, page 2, to align with the report finding as follows:

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<sup>13</sup> Draft Audit Report at 2.



- “...charged program administration costs related to employee expenditures ~~travel and employee expenses~~ totaling...”
2. To clarify that SoCalGas's reported costs are derived from SoCalGas's accounting system's recorded costs and SoCalGas's internal adjustments, revise Footnote 1 on page 3 as follows:
 

“1 Reversal of SoCalGas adjustments for internal labor reallocation”
  3. To account for potential CPUC's Energy Division discussions on how to address the audit finding, the language in the Executive Summary, Conclusion, and Finding and Recommendations should be updated as follows:
    - a. “...we found a potential” ~~an~~ instance of noncompliance with the requirements” (page 2).
    - b. **“Finding: Program Administration Costs May Be Inappropriately Charged”** (page 2; page 10).
    - c. “SoCalGas may have inappropriately charged” (paragraph 4, pg 2)
    - d. “...we found a potential” ~~an~~ instance of noncompliance with the requirements” (page 8)
    - e. “...we determined that SoCalGas may have inappropriately recorded” (page 10).
    - f. “...program administration costs that may be incorrectly recorded to Gas RD&D projects” (page 12).
  4. UAB calculated that SoCalGas understated program administration costs by \$2,193,477. This amount does not recognize SoCalGas adjustments included in the 2023 annual report of \$184,174. The Auditor cost adjustment should be \$2,009,303. SoCalGas requests the following updates:
    - a. Replace \$2,193,477 with \$2,009,303:
      - i. Executive Summary (page 2) and Finding & Recommendations (page 10)  
**“Charged Totaling \$2,009,303~~\$2,193,477~~”**  
**“expenses totaling \$2,009,303~~\$2,193,477~~”**
      - ii. Finding and Recommendations (page 10)  
**“...~~recorded~~ reported a total of \$2,009,303~~\$2,193,477~~ of employee costs...”**
      - iii. Recommendations (page 12)  
**“...address the \$2,009,303~~\$2,193,477~~ of program...”**
    - b. Update the summary table to include SoCalGas adjustments reported in the 2023 Annual Report:

| Funded Program | Budgeted Amount | Costs Recorded | SoCalGas Adjustment | Audit Adjustment | Adjusted Total |
|----------------|-----------------|----------------|---------------------|------------------|----------------|
|----------------|-----------------|----------------|---------------------|------------------|----------------|



|                        |            |           |                  |                                       |           |
|------------------------|------------|-----------|------------------|---------------------------------------|-----------|
| Program Total          | 15,186,600 | 7,781,956 | <u>(184,174)</u> | <del>(2,193,477)</del><br>(2,009,303) | 5,588,479 |
| Program Administration | 1,687,400  | 1,185,973 | <u>184,174</u>   | <del>2,193,477</del><br>2,009,303     | 3,379,450 |

5. Considering the Discussion on Other Matters above, the language in the Executive Summary and Other Matters sections should be updated as follows:
- "SoCalGas is currently storing a piece of equipment...with no active RD&D project to use ~~plan for future use of the equipment or its return to the vendor initiated~~"(page 2).
  - "...SoCalGas did not have an active RD&D project that could use any ~~future planned usage for the equipment and had not initiated its return to the vendor~~" (page 13)

#### IV. Conclusion

SoCalGas values the opportunity to respond to the Draft Audit Report. While SoCalGas does not concur with the classification of certain costs as program administration instead of project-related expenses, SoCalGas believes this Finding arises from differences in interpretation rather than from noncompliance. Accordingly, SoCalGas respectfully requests that the Finding be reclassified as an Observation.

Going forward, SoCalGas looks forward to working collaboratively, as it regularly has, with the Energy Division to clarify cost definitions and enhance administrative practices, resolve outstanding questions constructively and maintain a program that delivers innovation and value to California ratepayers. If you have any questions or need more information about these comments, please contact me.

Sincerely,

Jawaad Malik

Senior Vice President – Strategy and Sustainability



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

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We appreciate SoCalGas's comments submitted on November 14, 2025. We reviewed SoCalGas's response to the draft audit report. We are providing our assessment of key areas of SoCalGas's response in the same order listed in the response letter.

### **I. Discussion of Finding**

In its response letter, SoCalGas requested that the audit finding be reclassified as an observation.

- a. SoCalGas disagreed with draft report's statement that SoCalGas did not utilize the components of the approved EPIC program administration cost framework. SoCalGas further affirmed that SoCalGas provided an administrative budget breakdown aligning with the EPIC administrative cost categories.

We acknowledge that SoCalGas 2023 Research Plan provided the administration budget in 10 categories; however, we disagree that SoCalGas utilized and complied with the EPIC administrative cost framework when charging costs for administrative activities. Each EPIC framework administrative cost category includes a detailed list of administrative activities with clear associated definitions. The CPUC's intention is to understand the administrative costs necessary to support the program as stated in AL-6478. Therefore, we reasonably expect SoCalGas to adopt the EPIC program administrative cost framework by ensuring that activities identified as administrative activities get charged to the Gas RD&D program administration budget, not to Gas RD&D projects.

- b. SoCalGas provided comments regarding the implications of applying EPIC requirements outside the scope of the Gas RD&D program. SoCalGas asserted that implementing the EPIC definition of "in-house" work for Gas RD&D program would limit SoCalGas's ability to conduct projects across all Technology Readiness Levels, which SoCalGas is authorized to invest. Therefore, SoCalGas stated it will seek collaboration with CPUC Energy Division to define in-house projects in a manner that aligns with the scope of the Gas RD&D.

We acknowledge SoCalGas's concerns. We believe SoCalGas seeking collaboration with CPUC's Energy Division will ensure transparency for use of ratepayers' funds.

The finding and recommendations remain unchanged.

### **II. Discussion on Other Matters**

SoCalGas provided additional context regarding the equipment acquired for the project that has been subsequently canceled. SoCalGas asserted that the agreement with the vendor does not provide SoCalGas with a contractual right or obligation to return the equipment to the vendor. However, since the project cancellation, SoCalGas has explored alternative paths to either: (1) identify an alternative use of the equipment in the Gas RD&D program, subject to CPUC approval, or (2) evaluate the equipment for disposition by working collaboratively with CPUC's Energy Division.

We reviewed SoCalGas's agreement with its vendor again and confirmed that it does not include the right or obligation to return the equipment to the vendor. Therefore, we have revised the Other Matters paragraph in the Executive Summary on page 2, and the Other Matters section of

the report on Page 13, to remove prior statement indicating that SoCalGas did not have a plan for future use of the equipment or for initiating return to the vendor.

### **III. SoCalGas Suggested Language Revisions for Final Audit Report**

Below, we respond to each of the suggested language revisions SoCalGas proposed:

1. SoCalGas requested an update to the summary of Finding outlined in the Executive Summary, page 2, to align with the report finding.  
We determined that the proposed revision is essentially similar to the original and does not contain any new factual information; therefore, the Executive Summary remains unchanged.
2. SoCalGas requested a revision to Footnote 1 on page 4 to clarify that SoCalGas's reported costs were derived from SoCalGas's accounting system's recorded costs and SoCalGas's internal adjustments.  
We determined that the proposed revision does not contain any new factual information; therefore, footnote 1 on page 4 remain unchanged.
3. SoCalGas proposed to amend the language in the Executive Summary, Conclusion, and Finding and Recommendations sections to account for potential CPUC's Energy Division discussions and possible future resolution on how to address the audit finding. SoCalGas's proposed updates primarily focused on adding words such as "potential" and "may have" to the description of the Finding throughout the report sections.  
We determined that the suggested language amendments did not accurately reflect our finding. Therefore, the finding description captured in the Executive Summary, Conclusion, and Finding and Recommendations sections remain unchanged.
4. SoCalGas stated that UAB's methodology of calculating understated program administration costs of \$2,193,477 did not recognize SoCalGas's internal adjustments totaling \$184,174 included in its 2023 annual report. Therefore, SoCalGas proposed that the auditor cost adjustment should amount to \$2,009,303 to account for SoCalGas's adjustments.  
We disagree. We calculated the understated program administrative costs using SoCalGas's recorded expenditures in SAP. The understatement encompasses actual employee related expenses. Accordingly, we did not apply SoCalGas's internal labor reallocation because it would have resulted in inaccurate expenditures at the program level. Therefore, the amounts noted in the finding in the Executive Summary and the Finding and Recommendations sections remain unchanged.
5. SoCalGas requested an update to the language in the Executive Summary and Other Matters sections related to the discussion on Other Matters.  
We updated the Other Matters paragraph in the Executive Summary on page 2, and the Other Matters section of the report on Page 13 as outlined in our evaluation under item II. Discussion on Other Matters above.