BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Petition of Black Economic Council, National Asian American Coalition, and Latino Business Chamber of Greater Los Angeles to Adopt, Amend, or Repeal a Regulation Pursuant to Public Utilities Code § 1708.5	)	Petition 12-02-016

REPLY OF SAN DIEGO GAS & ELECTRIC COMPANY AND SOUTHERN CALIFORNIA GAS COMPANY TO RESPONSES TO JOINT PARTIES' PETITION FOR RULEMAKING

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Pursuant to Rule 6.3(d) of the Commission's Rules of Practice and Procedure, San Diego Gas & Electric Company ("SDG&E") and Southern California Gas Company ("SoCalGas) herein provide their Reply to the Responses to the February 23, 2012 Petition of the "Joint Parties"[1] seeking to Adopt, Amend, or Repeal a Regulation Pursuant to Pub. Util. Code Section 1708.5 (hereafter, "Petition").

The Petition seeks to have the Commission open a new Rulemaking on the subject of external auditing firms. Responses were filed by Pacific Gas and Electric ("PG&E"), Southern California Edison (SCE), SDG&E and SoCalGas (jointly), and The Utility Reform Network ("TURN"). With the sole exception of TURN, the Responses note that the request of the Joint Parties is unnecessary, costly and wasteful of resources, and duplicates a rulemaking currently underway by Public Company Accounting Oversight Board ("PCAOB"). For these reasons and as set forth below, SDG&E and SoCalGas continue to oppose the Joint Parties request.

The Joint Parties' request is substantively lacking and nothing in TURN's response changes that fact. There is no need to initiate a rulemaking at this time. The Joint Party proposal lacks merit while increasing cost and consuming substantial resources.[2] TURN's response fails to give due

[1] Black Economic Council, Latino Business Chamber of Greater Los Angeles, and National Asian American Coalition.

[2] Rotating auditors involves substantial costs, and a rulemaking consumes substantial resources, both of the Commission itself and of the regulated entities who must participate.

credit to the proceedings and expertise of the PCAOB. As noted in SDG&E/SoCalGas' Response:

1) the PCAOB's mission is "…to oversee the audits of public companies in order to protect the public interest by promoting informative, accurate, and independent audit reports".
2) The PCAOB, whose board members are appointed by the Securities and Exchange Commission, has the responsibility of conducting inspections of registered public accounting firms in accordance with the SOX and rules of the PCAOB and its Board.
3) The PCAOB is currently examining the issue of mandatory rotation of auditors, including considering independence and "professional skepticism" in its own Rulemaking Docket Matter #37.[3] The PCAOB held public meetings in March, 2012 to obtain further input on ways to enhance auditor independence, objectivity, and professional skepticism, including through mandatory rotation, or term limits, for audit firms.
4) The Sarbanes-Oxley Act already includes provisions designed to increase auditor independence.[4]
5) External auditors may not provide management consulting services as suggested by the joint parties. Section 10A (g) of the Securities Exchange Act of 1934 ("Audit Requirements") sets forth these restrictions.

Given these facts, there is no useful purpose served by the California Public Utilities' Commission (" CPUC") also opening a rulemaking into this subject matter. The CPUC should let the PCAOB do their work, as it is their responsibility to protect the public interest and they are in the best position to draw conclusions with regard to such matters.

TURN supports the Joint Parties' request for a rulemaking and suggests that the CPUC include within its scope any other issues the CPUC deems pertinent to assessing the impact of unreliable utility financial audits on the CPUC's exercise of its regulatory authority, as well as to

[3] In 2011, the PCAOB began soliciting public comment on ways that auditor independence, objectivity and professional skepticism could be enhanced, including mandatory audit firm rotation as one possible approach. See, e.g. Docket listing at: http://pcaobus.org/Rules/Rulemaking/Pages/Docket037.aspx and list of comments received at: http://pcaobus.org/Rules/Rulemaking/Pages/Docket037Comments.aspx

[4] These include, but are not limited to: (1) auditors are prohibited from providing certain non-audit services, (2) audit firms are required to rotate the lead client service and concurring partners, and (3) Audit Committees are responsible for hiring the auditor, overseeing the engagement and approving all services provided by external auditors. In the case of SDG&E and SoCalGas, their respective Boards of Directors approve all services provided by external auditors.

preventing harm to ratepayers stemming from utility financial audits which are of compromised integrity. TURN appears to assume the worst, i.e., that there have been "utility financial audits of compromised integrity." There is no evidence offered by TURN in support of this assumption. The Commission should not open rulemakings based on unsupported assumptions.

TURN claims that, to the extent the costs of the audits and other services provided by the outside auditors are included in revenue requirement forecasts that serve as the basis for utility rates, the utilities' practices with regard to selecting and compensating their auditors have a direct bearing on rates. However, outside audits typically don't impact rates paid by ratepayers (other than audit fees necessarily incurred).[5] And, although GRC data is not typically audited by outside auditors, the converse is true; outside auditor expenses are reviewed during General Rate Case ("GRC") proceedings. Their impact on rates is minimal.

TURN next speculates that the work of the auditing firms could have an indirect impact on authorized revenue requirements in so far as the CPUC permits rate recovery of performance incentive payments. TURN's assertion is not only vague but baseless; the accounting firms selected as the companies' independent auditors do not audit energy efficiency incentives, natural gas procurement incentives, unbundled gas storage, hub services incentives, or operational incentives. TURN offers no evidence in support of this allegation and "indirect impacts on revenue requirements" are not adequate justification for a rulemaking.

Finally, TURN argues that the independent auditing firms may play a role in the authorized revenue requirements for utilities with more active holding companies and unregulated affiliates. TURN argues that the Sempra Utilities are the clearest current example; auditors prepare separate financial statements for SDG&E & SCG and the unregulated affiliates. In the course of that work, they adopt some allocation of shared costs among the entities and, TURN would presume, deem that allocation reasonable for auditing purposes. TURN alleges that the utilities' authorized revenue requirements may be impacted by this aspect of the auditor's work, at least to the extent to which this allocation informs or directs the shared services cost allocation reflected

[5] TURN claims that, if the utility occasionally put its auditing needs out to bid, it might obtain similar services at lower prices than those charged by the firm that has been providing services on a continuous basis for years and, in some cases, decades. However, even TURN admits that there is cause to be dubious about the price-dampening effect that such a bidding approach might achieve. TURN Response, p. 4.

in the utilities' GRC and any other CPUC proceeding in which shared services costs effect the authorized revenue requirement.

TURN's thinking regarding holding company cost allocations to the utilities and the impact of the independent auditor on those computations does not hold water. TURN's arguments incorporate the following flaws:

1) Sempra, SDG&E and SoCalGas are responsible for preparation of their respective financial statements. The accounting firms selected as the companies' independent auditors never perform this function.
2) Sempra applies the shared service cost allocation directives established in the Affiliate Transaction Conditions agreed to under Decision 98-03-073. SDG&E and SoCalGas also bill Sempra for services performed by the utilities on its behalf. SDG&E and SoCalGas submit their Affiliate Compliance Plans to the CPUC annually and the companies' compliance with such plans are subject to audit as directed by the Division of Ratepayers' Advocates ("DRA").
3) SDG&E and SoCalGas are subject to DRA and intervenor review of cost allocations independent of any other audits of these costs.
4) External auditors opine on whether or not the financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Sempra, SDG&E and SoCalGas do not engage external auditors to examine shared services billings.
5) External auditors do not determine utility rates or ratemaking treatment.

In conclusion, SDG&E and SoCalGas continue to urge the Commission to reject the request of the Joint Parties, which is unnecessary and may result in conflicting rulemaking and requirements from the two regulatory agencies. Neither the Joint Parties nor TURN have

demonstrated any need for the CPUC to engage in a rulemaking process regarding external auditors. The PCAOB already is engaged in this task and a duplicative regulatory proceeding in California makes no sense. The CPUC should rely on the agency tasked by Congress to oversee audits of public companies, the PCAOB.

Respectfully submitted,

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