

# **City of Long Beach Office of the City Auditor**

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Southern California Gas Company  
Franchise Fee Audit

**January 2010**



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## Executive Summary

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Since 1956, the City of Long Beach (City) has granted access to city-owned utility easements and/or pipelines to the Southern California Gas Company (SoCalGas) in return for a franchise fee outlined in Ordinance Agreements managed by the Long Beach Gas & Oil Department (LBGO). The City receives franchise fee payments on a quarterly basis, supported by summary calculations reflecting gross receipts and the imputed value of transport gas volumes for the period as prescribed by the Ordinance Agreement.

Our review focused on the approximate \$18.6 million in franchise fees derived from gross revenues and the transportation of gas as paid to the City during calendar years 2007 and 2008. As such, our examination of the eight quarterly franchise payments made by SoCalGas during the two-year period under review were accurate, supported by underlying corporate records, and adhered to related provisions of the Ordinance. Additionally, based on our review of

<b>Southern California Gas Company Franchise Fee Payments Calendar Years 2007-2008</b>		
	<b><u>2007</u></b>	<b><u>2008</u></b>
2% Gross Receipts Amount	\$ 405,221	\$ 469,447
2 % Imputed Value Of Transport Gas Volume Amount	<u>\$6,159,492</u>	<u>\$11,552,838</u>
<b>Totals</b>	<b>\$6,564,713</b>	<b>\$12,022,285</b>

SoCalGas' billing system records and system-generated customer invoices, it appears that customer data included in the franchise fee calculations were complete affording a reasonable assurance that receipts and imputed volume values for customers within City boundaries were properly included in the quarterly fee calculations and payments.

However, our review also revealed that LBGO is challenged to completely fulfill its role as contract manager given the level of information provided by SoCalGas on a quarterly basis. Currently, SoCalGas captures data and provides such information in a summarized form showing monthly gross receipts by customer category as well as volume and rates for the transportation of gas to utility electric generation (UEG) customers. Although such a level of documentary support could be viewed as technically compliant with Section 5 of the Ordinance, requiring SoCalGas statements to include data that the City would need to reasonably calculate the amount due, we believe that LBGO could better validate the amounts owed from SoCalGas if quarterly franchise fee statements also included actual gas sales ledgers from the company's billing system reflecting revenues by customer classification and volume of gas transported to UEG customers. Additionally, the quarterly statement support should also provide the tariff volume rate schedule as filed with the California Public Utility Commission. Therefore, the City should require additional data from SoCalGas to support amounts due under the franchise Ordinance, as allowed by Section 5(A)(4) of the franchise.

## Introduction and Background

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Operating as a regulated subsidiary of Sempra Energy, SoCalGas is the nation's largest natural gas supplier serving more than 20 million customers from Visalia south to the Mexican border. Its operations are regulated by the California Public Utilities Commission as a California investor-owned utility. Since 1993, SoCalGas has operated under the current Ordinance with the City of Long Beach enacted to distribute natural gas used in the generation of electricity to customers within the City's borders. The Ordinance granted a 25-year franchise to sell natural gas to certain commercial and residential customers as well as to transport natural gas to electric generating plants in return for payment of a franchise fee.

### Franchise Fee Ordinance Provisions

Under the terms of the Ordinance, the City granted SoCalGas the right, privilege, and franchise to lay, construct, operate, maintain, repair, replace, or remove pipelines and other facilities for transmitting, conducting, and distributing natural gas within the City. According to information provided by the Long Beach City Auditor's Office, SoCalGas paid Long Beach approximately \$9 million on average under the franchise agreement for its gas deliveries in the Long Beach area for calendar years 2007 and 2008. SoCalGas' primary customers within the contract zone are three electric generation plants operated by private operators and the Los Angeles Department of Water and Power as well as a handful of residential and other customers.

The franchise fee is paid quarterly based upon calculations made by SoCalGas resulting from applying two fee factors; a 2 percent franchise fee on customer gross receipts and a 2-percent factor assessed on a natural gas volume metric for SoCalGas customer deliveries within Long Beach. In essence, the franchise fee consists of a two-part calculation as follows:

1. Gross receipts  
Two percent of gross annual receipts arising from the use, operation, or possession of franchise but not less than two percent of gross annual receipts from the sale/transportation of gas for grantee's retail and UEG customers within the City limits.
2. In-Lieu Fee  
Equal to two percent of the "imputed value" on "non-proprietary gas" delivered to the UEG retail customers. Non-proprietary gas is gas transported, supplied, and distributed but not sold to retail customers excluding gas delivered to LBGO for resale or redelivery. Imputed value is the actual quantity of non-proprietary gas delivered during the period of calculation multiplied by SoCalGas' (grantee's) adjusted core procurement rates. This method is consistent with Section 6353(b) of the California Public Utilities Code.

## Audit Objective, Scope, and Methodology

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The Long Beach City Auditor contracted with Sjoberg Evashenk Consulting, Inc. (SEC) to conduct a contract compliance audit of the Ordinance Agreement between the City of Long Beach and SoCalGas to be conducted in accordance with Generally Accepted Government Auditing Standards promulgated by the Comptroller General of the United States. Under contract, SoCalGas pays Long Beach a franchise fee for using utility easements and/or pipelines to serve SoCalGas' customers in Long Beach.

The scope of the audit is to determine whether the quarterly SoCalGas franchise fee payments to the City are accurate and reflect the agreements outlined in its contract with the City of Long Beach. The period of our audit focused on the payments, records, billings, and transactions for calendar years 2007 and 2008.

### Audit Methodology

To understand the background context of the issues and develop audit criteria, we reviewed the language and intent of the City of Long Beach's Ordinance with SoCalGas and all amendments and/or clarifications. Additionally, we identified the contract audit access clause terms and the time period for collecting any underpayments, if specified. Further, we reviewed the Long Beach City Auditor's 2000 report on the contract and related documents.

As part of assessing the level of review and/or monitoring of the quarterly franchise fee payments, we interviewed key LBGO officials to determine their roles and responsibilities regarding the contract and what monitoring efforts are undertaken. Additionally, we sought the perspective of officials at the Long Beach Gas & Oil Departments on the SoCalGas contract and any observations regarding its compliance with contract terms and conditions.

We conducted inquiries of the SoCalGas Principal Tax Analyst and assistant Tax Analyst about business processes and steps employed in calculating the fee obligations including internal oversight and monitoring of the process to evaluate the process for calculating and preparing the quarterly franchise fee payments. Additionally, we determined how SoCalGas identifies the natural gas volume delivered to its customers within the contract zone. Moreover, we identified the key metrics, such as receipts, therms and decatherms, and adjusted core procurement rates for gas pricing, used by SoCalGas in its calculations of the total amounts due for franchise fee payments.

To determine whether eight quarterly payments and calculations from calendar years 2007 and 2008 were accurate and reflected the agreements outlined in the Ordinance, we performed the following tasks:

- Recalculated all gross receipt amounts, as well as imputed volume amounts based on UEG volume/usage as measured in therms applied against adjusted core procurement rates.

- Traced gross receipt amounts by customer classification (residential, commercial, industrial, and electric generation) as well as state regulatory fee revenue to SoCalGas' monthly system reports—namely, the *Gas Sales Ledger by Legal Jurisdiction* and *Gas Revenue Plus State Regulatory Fee by Legal Jurisdiction*.
- Verified UEG volumes reported as measured by decatherm with usage captured in SoCalGas' monthly *Gas Sales Ledger by Legal Jurisdiction* report.
- Traced the adjusted core procurement rate applied against UEG volume (decatherms) for the month delivered to monthly tariff rate sheets filed with the CPUC and subsequently approved by the CPUC.

Additionally, for a sample of four quarterly payments, we verified therm usage with computer-generated customer invoices from SoCalGas' Billing System. Also, we traced UEG gross billings reported on SoCalGas' Gas Sales ledgers to the related customer invoices generated from SoCalGas' billing system. These invoices were computer-generated copies as the actual invoices are distributed to customers—however, we did not find any significant discrepancies between the system-generated customer invoices and the gross billings reported on the SoCalGas' sales ledgers. Therefore, we did not seek independent third-party confirmation of invoiced amounts with the UEG customers.

We attempted to validate the completeness and accuracy of customer data included in the eight quarterly payments and calculations by requesting from SoCalGas' Principal Tax Analyst a listing of the customers and addresses included in the City of Long Beach sales ledgers as well as the classification of each customer as coded in the billing system. We were informed by the Principal Tax Analyst that a listing of customers and addresses for the City of Long Beach customers could not be provided, however, SoCalGas allowed us to confirm our own prepared-list of addresses to verify that customers properly coded to the City of Long Beach in the SoCalGas billing system. Toward that end, LBGO used geographical information system (GIS) data to generate a list of potential SoCalGas customer addresses that could be compared against customers coded to the City of Long Beach in SoCalGas' billing system. We also compared the number of active meters (a.k.a. customers) from sales ledgers with the GIS addresses generated by LBGO.

## Results and Recommendations

Over the last two years, SoCalGas has paid franchise fees to the City of Long Beach totaling approximately \$18.6 million in accordance with provisions of Ordinance C-7106 calculated as follows:

### Franchise Fee Calculation:

	Total Gross Receipts	Total Imputed Value	2% of Total Gross Receipts	2% of Total Imputed Value	Total Quarterly Payment
2007 - 1st Qtr	\$2,715,363	\$31,041,312	\$54,307	\$620,827	\$675,134
2007 - 2nd Qtr	\$2,647,251	\$68,892,014	\$52,945	\$1,377,840	\$1,430,785
2007 - 3rd Qtr	\$9,574,871	\$151,269,529	\$191,497	\$3,025,391	\$3,216,888
2007 - 4th Qtr	\$5,323,600	\$56,771,699	\$106,472	\$1,135,434	\$1,241,906
<b>2007 Total</b>	<b>\$20,261,085</b>	<b>\$307,974,554</b>	<b>\$405,221</b>	<b>\$6,159,492</b>	<b>\$6,564,713</b>
2008 - 1st Qtr	\$4,036,452	\$77,245,000	\$80,729	\$1,544,900	\$1,625,629
2008 - 2nd Qtr	\$4,638,780	\$183,643,135	\$92,775	\$3,672,863	\$3,765,638
2008 - 3rd Qtr	\$7,968,244	\$220,272,368	\$159,365	\$4,405,447	\$4,564,812
2008 - 4th Qtr	\$6,828,885	\$96,481,405	\$136,578	\$1,929,628	\$2,066,206
<b>2008 Total</b>	<b>\$23,472,361</b>	<b>\$577,641,908</b>	<b>\$469,447</b>	<b>\$11,552,838</b>	<b>\$12,022,285</b>
<b>Total Reviewed</b>	<b>\$43,733,446</b>	<b>\$885,616,462</b>	<b>\$874,668</b>	<b>\$17,712,330</b>	<b>\$18,586,998</b>
<b>Percent of Quarterly Payments</b>			<b>4.71%</b>	<b>95.29%</b>	

### Payments were Accurate, Supported, and Complied with the Ordinance

Generally, we found the nearly \$18.6 million in franchise payments from SoCalGas to the City of Long Beach for the two calendar years examined were accurate, supported by underlying corporate records, and complied with related provisions of the Ordinance.

### UEG Imputed Value Volume and Rates Tied to Sales Ledgers and Customer Invoices

The vast majority of the City's franchise fee payments received is generated from the imputed value on non-proprietary gas delivered to utility electric generation (UEG) customers. Non-proprietary gas is gas transported, supplied, and distributed but not sold to retail customers excluding gas delivered to LBGO for resale or redelivery. Imputed value is the actual quantities of non-proprietary gas delivered during the period multiplied by SoCalGas' adjusted core procurement rates intended to be consistent with Section 6353(b) of the California Public Utilities Code (CPUC). With resulting values for 2007 and 2008 surpassing more than \$885.6 million, the imputed value calculation comprises the major component of the total franchise fee payments, generating an average of \$9 million annually for the City.

Based on our review of sales ledgers and system-generated customer invoices, the imputed value for each of the eight periods under examination was correctly calculated and supported by underlying records for payments made for 2007 and 2008. Natural gas delivered to SoCalGas customers is measured by therms billed and applied against the applicable tariff rate (adjusted core procurement charge) filed with CPUC for that period to arrive at customer transmission charges reflected on the invoice. For each quarter of 2007 and 2008, we verified

that UEG volumes (Dth) reported to the City agreed with SoCalGas' *Gas Sales Ledger by Legal Jurisdiction (by city) Report EO8P40-1* detailing the therms delivered by month and by utility electric generation classification. We also found that adjusted core procurement rates applied against the UEG volume agreed without exception to the monthly tariff rates filed by company with the CPUC and subsequently approved by the CPUC. Additionally, for a sample of two quarters in 2007 and two quarters in 2008, we validated the delivery of therm volumes in the system records for UEG customers were supported by underlying system-generated customer invoices.

Moreover, we found that an error previously identified by the City related to customer classification initially resulting in an under payment of franchise fee amounts was corrected and the City received all relating monies due. Specifically, in 2007, the Long Beach Generation plant came back on-line as a peaker plant after a period of absence. Initially, SoCalGas coded the plant as an industrial rather than a UEG customer. While there was no effect on the gross receipts included in the franchise fee payments, the imputed value calculations did not include gas therms delivered to the Long Beach Generation plant for a period of nine-months spanning the second half of 2007 and the first quarter of 2008. Ultimately, the error was discovered during SoCalGas' internal processes and the full amount due was adjusted and paid to the City on the June 30, 2008 payment. Our audit verified that the appropriate amount of gross receipts, decatherms delivered, and core procurement rates were adjusted and the plant appropriately classified the SoCalGas system.

#### Gross Receipts by Customer Classification Agreed with Sales Ledgers and Invoices

Under provisions of the ordinance, the gross receipts portion of the franchise fee calculation should include "2-percent of the gross receipts arising from the use, operation, or possession of franchise, but not less than 2-percent of gross receipts from the sale/transportation of gas for grantee's retail and Utility Electric Generation (UEG) customers within the City limits." Combined for both 2007 and 2008, the gross receipt calculation amounted to \$874,668, or less than 5 percent of the franchise fees paid to the City as shown in the table on page 5.

For each of the quarters tested in 2007 and 2008, we verified that gross receipt amounts reported to the City agreed with SoCalGas' internal record, *Gas Sales Ledger by Legal Jurisdiction (by city) Report EO8P40-1*, that details revenue by month and customer classification including residential, commercial, industrial, and utility electric generation. According to SoCalGas' Principal Tax Analyst, the figures reported in the monthly sales ledger are gross and not adjusted for cost of goods sold or uncollectible accounts. Moreover, he asserted that the company's automated records are audited annually by an external financial auditor as well as on a regular basis by SoCalGas' internal auditors.

Additionally, for a sample of two quarters in 2007 and two quarters in 2008, we traced revenue amounts attributed to UEG customers in system records with system-generated customer invoices to determine that no changes occur between calculation amounts and billing. Without exception, we were able to verify the amounts with total transmission charges billed to the UEG customers.



Regulatory and Miscellaneous Fees were Appropriately Included in Payments

In addition to the gross receipts earned from serving residential, commercial, industrial, and electric generation customers, SoCalGas also collects monthly state regulatory fees (SRF) from its customers in accordance with Public Utilities Code (PUC) Section 401 allowed by CPUC provisions for cost recovery. These added revenues are included in SoCalGas calculation of its franchise fee payments to the City. We verified that this SRF surcharge billed to customers was appropriately included in the gross receipts from the sale and transportation of gas calculations. These fees comprise a small component of the gross receipts calculation; over the last two calendar years, these amounts totaled \$298,024, or less than one percent, of the total franchise fee payments remitted as shown below.

<b>Revenue Sources</b>	<b>2007 Amount</b>	<b>2008 Amount</b>	<b>Total Reviewed</b>	<b>Percent of Total Gross Receipts</b>
<b>Residential</b>	\$5,198	\$5,907	\$11,105	.03%
<b>Commercial</b>	\$452,272	\$452,178	\$904,450	2.07%
<b>Industrial</b>	\$460,206	\$3,516,196	\$3,976,402	9.09%
<b>Electric Generation</b>	\$19,224,847	\$19,318,618	\$38,543,465	88.13%
<b>Regulatory Fees (SRF)</b>	\$118,484	\$179,433	\$297,917	.68%
<b>Miscellaneous</b>	\$78	\$29	\$107	.00%
<b>Total Gross Receipts</b>	<b>\$20,261,085</b>	<b>\$23,472,361</b>	<b>\$43,733,446</b>	<b>100%</b>

The SRF charges differ from the other state-mandated surcharges collected by utilities from customers such as the municipal and public purpose program surcharges. For instance, a municipal surcharge is imposed on transportation customers to replace franchise fees lost by cities and counties due to the deregulation of the energy industry in accordance with PUC Section 6350. Another surcharge, the public purpose program surcharge, is imposed on sales and transportation customers to fund low-income assistance programs under PUC Section 890—although electric generation customers are exempt from this surcharge. For each of these surcharges, SoCalGas acts as the collection pass-through agent for the State. Pass-through monies collected by SoCalGas are not considered gross receipts to be included in the franchise fee calculation and appropriately were not included in the calculation of gross receipts for purposes of franchise fee payments.

Additionally, SoCalGas also operates miscellaneous revenues for establishing or reconnecting services. According to SoCalGas, some of the collections can be directly attributed to Long Beach customers and are captured in billing system reports for the City of Long Beach, while others relate to undistributed miscellaneous service receipts from SoCalGas’ general ledger report. To identify the portion applicable to the franchise fee calculations, SoCalGas first deducts the directly attributable costs from the aggregate general ledger figure, and the remaining balance is allocated to each city and county customer based on a residential meter basis. According to the Principal Tax Accountant, the vast majority of these establishment and

reconnections charges relate to residential clients as commercial, industrial, and UEG plants rarely have service disconnected or reconnected. Thus, SoCalGas “allocates” a portion of the undistributed amount to the Long Beach franchise fee payment based on the City’s percentage of residential meters to total system-wide residential meters. Because SoCalGas only has 11 residential meters attributed to the City of Long Beach, the amount generated from these miscellaneous service receipts is minimal and this allocation methodology seems reasonable.

Nonetheless, with no access or authority to proprietary SoCalGas information that relates to other pertinent city jurisdictions, we cannot confirm individual data components to validate the completeness of this miscellaneous revenue.

### **Customer Data Included in Franchise Payments Appeared Complete**

Based on our review of SoCalGas’ billing system records and research, it appears that customer data included in the franchise fee calculations was complete giving reasonable assurance that required receipts and imputed volume values were properly included in the quarterly fee payments. As previously discussed, franchise fees are based upon a 2-part calculation that considers both gross receipts and therms delivered to UEG customers within the City’s boundaries. We reviewed SoCalGas’ internal gas sales ledgers that provide summary customer information detailed into five different categories—residential, commercial, industrial, utility electric generation (UEG), and wholesale. As of December 2008, billing system ledgers indicate 36 active meters (or customers) within the City of Long Beach classified as follows:

▪ Residential	11
▪ Commercial	17
▪ Industrial	4
▪ Electric Generation	3
▪ Wholesale	1

In attempting to validate the completeness of customers included in the sales ledgers’ as well as the correctness of classifications between categories in light of the past error with reporting of the Long Beach Generation plant, we requested a listing from SoCalGas of customers and addresses included in the City of Long Beach sales ledgers as well as the classification of each customer as coded in the billing system. However, we were informed that a listing could not be provided as such information is proprietary and confidential. SoCalGas offered that we could prepare a list of addresses within the City boundaries and then go back to the SoCalGas system to verify that they were coded to the City of Long Beach in SoCalGas’ billing system.

SoCalGas asserts that very few of its customers are in the City of Long Beach as most residents and businesses in Long Beach are served by LBGO. Thus, it appears reasonable that there are only 11 residential meters listed as SoCalGas customers. Moreover, LBGO is the one and only wholesale customer of SoCalGas along with the three current UEG customers—Long Beach Generation, Los Angeles Water Power, and Bear Energy. Thus, LBGO is fairly confident that there are not other customers that should be captured. Since the volume of gas delivered to the three UEG customers drives the majority of the franchise fee

payments, we have reasonable assurance that customers and amounts are being correctly captured.

Yet, to validate the industrial and commercial clients included in SoCalGas' records for the City of Long Beach, we asked the Executive Director of LBGO to identify potential industrial and commercial customers within the confines of the City of Long Beach. Using geographical information software (GIS), LBGO provided a listing of addresses within the City which are not served by LBGO and thus potentially be customers of SoCalGas. We provided this list to SoCalGas and on return, for this list of 42 viable addresses, SoCalGas provided the customer classification based on screen shots from their billing system of this group, 21 locations were classified as non-residential and agreed with the industrial and commercial meters shown on the SoCalGas December 2008 sales ledgers.

For the remaining 21 addresses identified as non-SoCalGas customers, we conducted research using Google Earth's Satellite view to visually review dwellings located at the addresses provided and to test the completeness of SoCalGas records. At many addresses, the dwellings appeared to be a series of warehouse suites or offices within a larger complex that could have been vacant causing a "non-SoCalGas' customer" classification. In other instances, the address provided referenced a parking lot or area where no dwelling existed. Given that there did not appear to be a viable facility to receive gas services, we did not further review these locations. Overall, we have reasonable assurance that the SoCalGas records for the City of Long Beach are materially complete.

### **More Detail is Needed by LBGO to Validate Quarterly Franchise Fee Payments**

While we found all payments reviewed were accurate and supported by underlying SoCalGas records, LBGO is challenged in its role to monitor or review quarterly payments for accuracy, completeness, and compliance with the Ordinance using the current level of data provided. Currently, data is captured and provided by SoCalGas in a summarized form showing gross receipts by customer category and month as well as volume and rates for the transportation of gas to utility electric generation (UEG) customers. As the "contract manager" for the ordinance, LBGO lacks sufficient detail and documentation from SoCalGas to adequately review payments for compliance with terms of the Ordinance and reasonableness of amounts.

Although the Ordinance is silent as to the type of support to be provided by SoCalGas with its quarterly payments, Section 5 of the Ordinance does identify specific documentation requirements for an annual statement summarizing each calendar year's activity. Specifically, Section 5.A requires SoCalGas to provide an annual statement on or before the fifteenth day of March of each calendar year showing the following:

- ✓ Total Gross Revenue received by SoCalGas from operation of its business in the City during the preceding year;
- ✓ Method and support used to calculate the franchise fees payable to the City;
- ✓ Amount of all quarterly installments made by SoCalGas attributable to the preceding calendar year; and,

- ✓ Such other data or information as the City may reasonably need to calculate or determine the amounts which SoCalGas is obligated to pay, provided that the City request the data in writing.

Moreover, Section 5.B provides that the statements "...shall be in such form and detail as from time to time shall be reasonably prescribed by the [City's] Director of Finance."

Currently, SoCalGas provides total gross revenue information along with some detail behind the method used to calculate franchise fee payable to the City on a quarterly basis at the time of payment. As discussed earlier in this report, gross revenue data is provided in summary amount by month and customer classification (residential, commercial, industrial, or electric generation) as well as in categories relating to miscellaneous service receipts and state regulatory fees. Imputed values on gas volumes delivered and billed to electric generation customers are also provided by SoCalGas for each month showing a calculation of summary decatherm volume delivered multiplied by an adjusted core procurement rate to arrive at the total imputed value figure.

While this allows LBGO to verify the mathematical accuracy of SoCalGas' calculations, it needs more data to "reasonably calculate or determine the amounts which SoCalGas is obligated to pay" as provided for in the Ordinance. Rather, we believe that LBGO could better validate the amounts owed from SoCalGas if the quarterly franchise fee statements included a stronger level of support as was made available to us during our audit. This supporting data included the following four components:

1. Gas sales ledgers relating to the City of Long Beach's legal jurisdiction from the company's billing system that would allow LBGO to confirm revenues currently shown on the quarterly statement by customer classification as well as volume of gas transported to UEG customers;
2. Similar gas sales ledgers showing state regulatory fee amounts collected within the City of Long Beach boundaries by month that would allow LBGO to validate data reported with quarterly payments against system records;
3. Rate schedules filed with the California Public Utility Commission showing the Adjusted Core Procurement Charge, per therm, effective for each month as approved by the commission per adoption by resolution; and,
4. Spreadsheet delineating miscellaneous service receipts by month as well as the allocation calculations to distribute to the City.

If the City of Long Beach and the LBGO had access to this type of underlying data, a simple "desk audit" could be conducted on the quarterly payments to give ongoing assurance that payments are accurate, supported, and complete. We believe the provision of this data is consistent with the intent behind Section 5.E of the Ordinance that establishes the requirement for SoCalGas to supply "tariffs, financial data, or financial report's on Grantee's operations within the City" as the City "may, from time to time, reasonably request." Because the four components of supporting data listed above are regularly collected and used by SoCalGas' tax

analysts to complete the quarterly franchise fee statements, the additional data request should not impose an undue burden on SoCalGas.

## **Recommendations**

To allow the City to reasonably validate the amounts owed and paid by SoCalGas, the City should consider the following:

1. Assign LBGO staff to perform desk audits of franchise fee quarterly payments to verify calculations and supporting documents as well as conduct limited analytical reviews on trends and payment activity to identify any unusual items require attention or inquiries of SoCalGas staff;
2. Require SoCalGas to provide supporting documentation as required under the franchise including the following:
  - Gas sales ledgers relating to the City of Long Beach’s legal jurisdiction from the company’s billing system that would allow LBGO to confirm revenues currently shown on the quarterly statement by customer classification as well as volume of gas transported to UEG customers;
  - Similar gas sales ledgers showing state regulatory fee amounts collected within the City of Long Beach boundaries by month that would allow LBGO to validate data reported with quarterly payments against system records;
  - Rate schedules filed with the California Public Utility Commission showing the Adjusted Core Procurement Charge, per therm, effective for each month as approved by the commission per adoption by resolution; and,
  - Spreadsheet delineating miscellaneous service receipts by month as well as the allocation calculations to distribute to the City.

# Response From Southern California Gas Company



A Sempra Energy company

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January 18, 2010

Sjoberg Evashenk Consulting, Inc.  
Attn: Catherine M. Brady, Director  
455 Capitol Mall, Suite 700  
Sacramento, CA 95814

Re: City of Long Beach Audit of Southern California Gas Company Franchise Fees

Dear Ms. Brady:

Southern California Gas Company (SoCalGas) has reviewed the December 2009 draft audit report of franchise fees paid to the City of Long Beach during calendar years 2007 and 2008. As noted in the report, SoCalGas' payments were found to be accurate, supported, and complied with the franchise ordinance.

The report also stated that although "SoCalGas provides total gross revenue information along with some detail behind the method used to calculate franchise fees payable to the City on a quarterly basis at the time of payment", more detail is needed by Long Beach Gas & Oil Department to validate the quarterly franchise fee payments. The audit report provides suggested additional information that could be provided on a quarterly basis.

SoCalGas was happy to provide the additional information identified in the audit report in support of the City's audit process and agrees to provide it on an annual basis as described in Section 5.A of the franchise ordinance. If the City decides it actually wants the additional information, then pursuant to Section 5.A.4, it needs to submit a written request for the information to SoCalGas at least 60 days prior to the due date for the annual franchise reports (March 15). The annual request should be sent to:

Southern California Gas Company  
Attn: Tax Department (HQ07)  
101 Ash Street  
San Diego, CA 92101

Please contact me at the above number if you have any questions.

Sincerely,

A handwritten signature in cursive script, appearing to read "David L. Steele".