



## Approval and Commitment Procedures

Responsible Dept.: Business Controls  
Responsible Officer: CFO  
Applicability: **All Employees of SoCalGas**

EFFECTIVE DATE: 12/29/2010  
REVISION DATE: 05/18/2020  
REVIEW DATE: 10/18/2017  
INFORMATION TYPE: **Internal**  
Questions?  
Contact: Your immediate supervisor, [SoCalGas Business Controls Group](#)

### **POLICY:**

This procedure establishes a uniform standard process for the approval and documentation of all disbursements (actual outlay of funds) and financial commitments (legal obligations) at Southern California Gas (SoCalGas) and Pacific Enterprises.

### **BASE BUSINESS and NON-BASE BUSINESS COMMITMENTS:**

#### **Required Forms:**

A Work Order Authorization (WOA) Form or an Authority for Expenditure ([AFE Form](#)) is required for all Base Business and Non-Base Business commitments that will result in the capitalization of the expenditure. An AFE Form is required for all commitments of \$300 million or more. Commitments of amounts less than \$300 million can use the WOA form.

The dollar value for approval purposes is based on SoCalGas' share of the total unlevered costs and/or the gross amount of the commitment by the utility even if a third party is obligated to reimburse the company for the expenditure made by the company. Capitalized labor costs and indirect costs (or loaders) should always be considered in total project costs.

#### **Review and Approval Requirements:**

Any commitment, disbursement of funds, or disposition of assets prior to receiving appropriate approvals from the appropriate level of management, or the Board of Directors where required, is prohibited.

- **Technical/Economic Reviews** are required for any and all Base Business and Non-Base Business commitments over \$30 million and \$15 million, respectively. Additionally, the review will be required for all Administrative approvals over \$50 million. These reviews are to be obtained prior to the review and approval by the utility's Chiefs, Senior Vice Presidents and Vice Presidents (Officers), as appropriate. When presented for approval, the WOA or AFE must show evidence of technical/economic reviews by, at a minimum, the Legal, Corporate Tax, Accounting and Planning departments. Reviews by other technical areas, such as Regulatory, Environmental, Risk Management, Human Resources or Treasury, may also be warranted, depending on the type of project. Please utilize the [Internal Review Checklist \(IRC\)](#) for the technical reviews. It is the responsibility of the WOA or AFE originator/requestor to ensure that all appropriate reviews, approvals and notifications are completed, and documentation of such is satisfactory. Capital WOAs or AFEs are kept on file with the Asset & Project Accounting group and non-capital AFEs are kept by the originating/requesting department. The IRC should remain as an attachment to a contract after review comments have been resolved and the contract signed. Please see Appendix A for a list of contacts for technical/economic reviews.
- **AFE or WOA Cost Revision Reviews**  
For any approved commitment, at the time that management believes that the actual project costs will exceed the approved WOA or AFE amount by 10%, a new WOA or AFE must be prepared. *A copy of any revised AFE of \$100 million or more for Base Business and Non-Base Business should be*

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*sent to the CFO and the Corporate and SoCalGas Planning Department, with related presentation materials.*

- If the expected cost increase is greater than 10%, the revised AFE must be re-approved. However, for capital projects \$250,000 or less, a revised approval is required when total costs are expected to exceed the approved level by 20%. The approval level required is based on the revised total project cost, not the incremental costs.
- For commitments initially reviewed by the Sempra Energy Board of Directors, cost increases, in excess of the original AFE amount, must be brought to the Sempra Energy Board's attention at its next regularly scheduled meeting.

### **Base Business and Non-Base Business COMMITMENTS (Continued):**

- **Financial Plan and Budget Reviews** – All commitments under Base Business must be included (either specifically; within a pool or will be subject to functional budget allocation and reprioritization as discussed in the definition of Base Business commitments above) in the annual budget and/or the 5-year plan, depending on the length of the commitment. If not included in either plan, the incremental commitment will fall under Non-Base Business.
  - Information Technology (IT) Project Reviews – All significant IT projects will require a review during the origination of the business concept document.
- **Business Unit Review** is required for commitments originated by the utilities' shared services (e.g., Facilities, Information Technology) that will be direct-charged to a business unit(s). When presented for approval, the AFE must indicate it has been reviewed with a senior officer or representative of the business unit(s) being charged.
- **Regulatory Filing Review and Approval - Projects requiring Federal or State Regulatory Agency Approval resulting in Base Business and Non-Base Business Commitments**

This section applies to all quantitative projects that may result in **Base Business and Non-Base Business** commitments. In order to file for regulatory agency approval, preliminary internal reviews and approvals must be completed prior to filing with the regulatory agency. Upon approval by the Regulatory Agency, all internal reviews and approvals for resulting commitments must be finalized.

The approval for Regulatory Filing is not to be considered as an approval for commitment or expenditure for the initiative. Upon receiving approval from the regulatory agency for the initiative, a WOA or AFE must be submitted for approval for the commitment of funding of the initiative reflecting the impacts of any changes mandated by the regulatory agency, if any, as a result of the Regulatory Filing process. If the regulator proposes changes in the project and those changes result the

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estimated project costs being in excess of 110% of the initial approval, the proposal must be resubmitted for approval at the appropriate revised project cost level.

- None of Pacific Enterprises' disbursements or commitments will be classified as base business.

### **ADMINISTRATIVE APPROVAL COMMITMENTS:**

The majority of all transactions will be Administrative Approval commitments. An AFE form is not required for Administrative Approval commitments, but approvals are subject to the following limitations:

Payments for Administrative Approvals related to Base Business and Non-Base Business invoices and contracts with an approved AFE or WOA may only be authorized up to 110% of the approved project level. Contract change orders must also be considered cumulatively in determining the total cost level (See the [Procurement Policy](#) for details related to approving individual contract change orders).

### **Review and Approval Requirements:**

Any commitment, disbursement of funds, or disposition of assets prior to receiving appropriate approvals from the appropriate level of management, or the Board of Directors where required, is prohibited.

- **Technical/Economic Reviews** are required for any Administrative Approval commitment over \$50 million, prior to review and approval by the Chiefs, Senior Vice Presidents and Vice Presidents (Officers), as appropriate. When presented for approval, a technical/economic review must be evidenced by, at a minimum, the Legal, Corporate Tax, Accounting and Planning departments. Reviews by other technical areas, such as Regulatory, Environmental, Risk Management, Human Resources or Treasury, may also be warranted, depending on the type of project using a completed the [IRC](#). It is the responsibility of the IRC originator/requestor to ensure that all appropriate reviews, approvals and notifications are completed, and documentation of such is satisfactory. The IRC should be kept by the originating/requesting department and remain as an attachment to a contract after review comments have been resolved, and the contract signed. Please see Appendix A for a list of contacts for technical/economic reviews.
- **Contracts – Additional Requirements**  
For most contracts of goods and services, the Supply Management Department facilitates review by the Law Department and approves contracts per the Procurement Policy (see [Procurement Policy](#) for more details). For all other contractual agreements over a million not managed by Supply Management, the Law Department must be consulted for legal review. Other technical reviews for certain contracts may also be advised from, for example, the following areas:
  - It is the contract originator's responsibility to review draft documents and assumptions with an officer or senior representative from any of the above technical areas, to ascertain risks or

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- benefits that were not considered by the project team. The business unit's technical area is appropriate if there is one; otherwise the appropriate Corporate area should be consulted.
- Any recommendations resulting from these technical reviews should be incorporated into the contract or clearly disclosed to the executive approving the contract.
  - Any contracts that are deemed to be commitments will follow Administrative Approvals under the Approval & Commitment Policy
- **If an Administrative financial commitment contract initially totals \$50 million or more**, the reviews must be evidenced by the completion of an IRC. An increase above \$50 million to a contract that initially totaled less than \$50 million **does** require an IRC review.
    - The form requires Legal, Accounting and Tax review signoffs at a minimum, and requires the contract originator or approver to confirm other technical areas that were consulted, or indicate they were not applicable to the contract.
    - The IRC should remain as an attachment to a contract after review comments have been resolved and the contract signed.
    - Administrative approvals for payments for invoices and contracts related to base business or non-base business commitments with an approved AFE/WOA may only be authorized up to 110% of the approved commitment amount, without seeking re-authorization of the initially approved AFE/WOA.

### INFORMATION RETENTION GUIDANCE:

For guidance as to the appropriate retention period for records related to this policy, please refer to the Standard Records Series on the [SoCalGas Records & Information Management](#) intranet site and the [Information Management policy](#).

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**Appendix A – Technical/Economic Review Contact List**

Departments	SoCalGas
Legal	Michelle Meghrouni - Commercial & Environmental Jill Tracy - Litigation Melissa Hovsepian - Regulatory
Tax – Corporate	Toby Jack
Accounting - Financial excluding Capital Cost related commitments	Ricardo Gonzalez
Accounting - Capital Cost related	Edward Reyes
Planning	Jesse Aragon
Financial Analysis	Jesse Aragon
Risk Management	Gregory Flores
Regulatory	Ronald Van Der Leeden
Environmental	Albert Garcia
Affiliate Compliance	Gregory Flores
Human Resources	Judy Hernandez
Communications	Trisha Muse
Treasury - Corporate	Gustavo Gonzalez
Corporate Planning	Donny Widjaja

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