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Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Submitted via email to comments@pcaobus.org

Re: PCAOB Release No. 2013-005, PCAOB Rulemaking Docket Matter No. 034
The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion; The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report; and Related Amendments to PCAOB Standards

Ladies and Gentlemen,

Sempra Energy appreciates the opportunity to respond to the request for comment by the Public Company Accounting Oversight Board (the Board) regarding *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion; The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report; and Related Amendments to PCAOB Standards* (the Proposal).

Sempra Energy is a Fortune 500 energy services holding company whose subsidiaries provide electricity, natural gas, and energy products and services. Through our subsidiaries and joint ventures, we serve more than 31 million consumers worldwide. The Sempra Energy Utilities, indirectly owned subsidiaries of Sempra Energy, include Southern California Gas Company, a regulated natural gas utility that serves 21.1 million consumers through 5.7 million natural gas meters in central and southern California, and San Diego Gas & Electric Company, a regulated utility that provides service to 3.4 million consumers through 1.4 million electric meters in San Diego and southern Orange counties, and 840,000 natural gas meters in San Diego County.

Sempra Energy supports the Board's objective to improve the auditor's reporting model by increasing its usefulness and relevance to financial statement users and enhance the auditor's responsibilities with respect to other information to protect the interests of investors and further the public interest in preparation of informative, accurate and independent audit reports. However, overall, we do not support this standard-setting Proposal to modify current auditing standards resulting in an increase in scope or a significant expansion of the independent auditor's reports. We believe the historic relationship between management, the audit committee, and the auditors should be retained. Reported financial statements are management's responsibility, not the auditors, and management should continue to provide the original source for operating and financial information.

The auditor should be responsible for providing assurance surrounding the completeness and reliability of the financial information.

Sempra Energy has several concerns about the proposed rules as discussed further below. Our comments are organized in the following sections as set forth in the rulemaking release:

1. Reporting "Critical Audit Matters" (CAMs) as part of the Auditor's Report
2. Auditor's responsibilities regarding other information in an annual report
3. Other changes to the Auditor's Report, including information about fraud and auditor tenure

Reporting "Critical Audit Matters" as Part of the Auditor's Report

The proposed standard requires the auditor to report on audit specific "critical audit matters". CAMs are defined as those that (1) involved the most difficult, subjective or complex auditor judgments; (2) posed the most difficulty to the auditor in obtaining sufficient appropriate evidence; or (3) posed the most difficulty to the auditor in forming the opinion on the financial statements.

We are most concerned about the proposed requirement to discuss CAMs in the auditor's report. CAMs may be construed as an implicit qualification of the audit, creating a perception that there may be weakness and deficiencies in management's judgment, financial statement estimates or internal control environment. Auditor judgment may not be consistent among audit firms when reporting on audit specific CAMs as the identification of CAMs is subjective. Reporting on audit specific CAMs may not be sufficiently comparable and may be a detriment to market confidence in audited financial statements. The credibility of the audit process and perceptions of audit quality and consistency should be paramount. If the perception of the audit opinion is compromised, all stakeholders will be ill-served as corporate governance, auditor independence and user investment decisions could be adversely impacted. We believe that an unqualified opinion is just that, and there should not be varying degrees of "unqualified".

We believe an audit report is not the proper place for financial statement users to identify transactions that involve significant judgments and estimates. Reporting and disclosure of significant transactions, risks and uncertainties are addressed by the SEC, U.S. GAAP and other regulations. Among the disclosures required by U.S. GAAP, ASC 275-10-50-1 addresses disclosures about risk and uncertainties, including the use of estimates and certain significant estimates.

Users of the financial statements should be expected to read and understand disclosures provided by management. These users also understand that extensive information related to the matters that may qualify as CAMs is already available in existing disclosures and filings. We believe any user frustration or confusion regarding the audit process are issues the Board should address with the SEC and other standard setters and regulators to develop a more robust, transparent and user friendly disclosure framework. Investor or other financial statement user views about the reporting and disclosure of significant transactions, risks and uncertainties should be addressed by the standard setting process of the SEC and other standard setters and regulators and not through a modification of the auditor's report.

Financial statement users may confuse the roles of the auditor, management and the audit committee. Management is responsible for its internal control environment and preparation and filing all financial reports. The audit committee oversees a reporting entity's accounting policies,

internal controls, financial reporting and audit process. The auditor plans and performs audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for their opinion. However, the auditor should never be the first source of information and provide disclosure of information that is not otherwise required to be disclosed by management or have the appearance that it is making financial reporting decisions on behalf of management. The expansion of the auditor's role to report on audit specific CAMs is inconsistent with expectation that the auditor should not be the original source of disclosure.

The reporting and disclosure of financial information is the responsibility of management, and disclosure about significant transactions, risks and uncertainties are most appropriately provided by management. CAMs may exclusively represent transactions with complex reporting issues (i.e., transactions with significant judgments and estimates, and measurement uncertainty). However, CAMs may also represent difficult audit processes that have no correlation with transaction risks and uncertainty. Such information may lead a user to believe that the auditor is expressing a "piecemeal" opinion on individual matters or accounts in the financial statements, and any audit procedures enumerated may be taken out of context or misunderstood given their necessarily abbreviated descriptions.

Further, the Proposal, by requiring the auditor to report on audit specific CAMs may bring to question the appropriateness of audit evidence and question audit quality, with potential negative impact on the relationship between the auditor, management and the audit committee.

Auditor's Responsibilities Regarding Other Information in an Annual Report

The Proposal requires the auditor to report on the auditor's responsibilities regarding other information, including a statement that the auditor's evaluation of the other information was based on relevant audit evidence obtained and conclusions reached during the audit, and a statement that the auditor did not audit the other information and does not express an opinion on the other information.

The Proposal would increase the audit scope and substantially increase the cost and effort to complete the audit, which could result in jeopardizing the timely filing of the financial statements. Because the procedures necessary to provide such assurance can be extensive, such assurance should only be required on information that is most important to investors and where auditor assurance can provide increased confidence in such disclosures (i.e., the benefit to investors is greater than the cost).

Other information is based on management's perspective, which an auditor would not be able to reasonably attest. We believe that Sarbanes-Oxley made it very clear to investors that management is responsible for the financial statements. An expectation gap that other information has been subject to audit may result with investors or other financial statement users, increasing engagement risk to the auditor. It would be necessary for the auditor to manage this risk, and the cost of the audit would increase.

Requiring auditors to expand their audit report to evaluate and comment on such information would potentially place them in potential conflict with their clients as to what must be disclosed or reported in the information outside of the financial statements. While other governance entities (SEC, national exchanges) require that management be legally responsible for their filings, this will now make it more difficult for management of a company and its board of directors to fulfill this requirement if the auditors are now placed in the role of assessing and determining what's to be

included in areas of reporting outside of the financial statements. Further, auditors' expertise is over financial and reporting matters and the requirement to comment on other information may be outside of their expertise. This may require auditors to supplement their engagement teams invariably leading to increased costs.

Other Changes to the Auditor's Report, Including Information about Fraud and Auditor Tenure

The Proposal changes the auditor's report, including the addition of the phrase "whether due to error or fraud," when describing the auditor's responsibility under PCAOB standards to obtain reasonable assurance about whether the financial statements are free of material misstatements, whether due to error or fraud. We are not certain if this approach is helpful.

An auditor's responsibility is limited to performing the audit and to obtain a reasonable assurance about whether the financial statements are free of material misstatements. Reasonable assurance is a high level of assurance, but not absolute assurance.

An investor with a lack of knowledge of auditing standards and a misunderstanding of the essential role of external auditors may already have an expectation gap over the auditors' responsibilities. The addition to the phrase "whether due to error or fraud" would only widen this gap. Defining reasonable assurance, a high level of assurance, but not absolute assurance, within the standardized language in the auditor's report may better narrow the expectation gap.

The Proposal adds a statement to the auditor's report: the year the auditor began serving consecutively as the company's auditor. The basis to include a statement in the auditor's report containing the year the auditor began serving consecutively as the company's auditor is unclear. The statement implies auditor tenure has an impact on audit quality. There is no research that implies auditor tenure has an impact on audit quality. The Board has also expressly stated that it has not reached a conclusion that such a relationship exists.

We appreciate the Board's careful consideration of our comments, and fully support the Board's effort to enhance the auditor's reporting model and increase the value of the audit. If you have any questions regarding our comments or other information included in this letter, please do not hesitate to contact me.

Thank you for your consideration.

Sincerely,



Trevor I. Mihalik
Senior Vice President, Controller
and Chief Accounting Officer
Sempra Energy