State of California

Memorandum

Date: June 30 , 2016

To: Timothy J. Sullivan
Executive Director

From: **Public Utilities Commission—San Francisco**
Kayode Kajopaiye, Branch Chief
Division of Water and Audits

Subject: **Financial, Management, Regulatory, and Compliance Examination Report on San Diego Gas and Electric Company's (SDG&E) Energy Efficiency (EE) Program For the period January 1, 2014 through December 31, 2014**

The Utility Audit, Finance and Compliance Branch (UAFCB) examined San Diego Gas and Electric Company's (SDG&E) financial, management, regulatory, and compliance areas of the Energy Efficiency (EE) Program for program year (PY) 2014. Except for matters discussed in Observations (Obs.) 4, 5, 8, 9, and 17 below, SDG&E demonstrated compliance with Commission directives respecting the areas examined. However, UAFCB found that SDG&E overstated its expenditures for the Codes and Standards (C&S) and Non Resource Programs by $118,104 ($51,379 and $66,725, respectively), as indicated in Obs. 4, 5, and 9. The Energy Division (ED) should not include $118,104 ($51,379 in C&S program and $66,725 in NR program) in non-administrative costs in the calculation of the incentive awards for these programs. The details of these and other observations are provided in the memo and Appendix A.

UAFCB conducted this examination pursuant to Ordering Paragraph (OP) 17 of Decision (D.) 13-09-023.[1] The examination was limited to: (1) Reconciliation of Total EE Program Portfolio Costs to Reported Amounts; (2) Codes and Standards (C&S) Program; (3) Non-Resource (NR) Program; (4) EE Program Administrative Costs (IOU and Non-IOU); (5) EE Balancing Accounts; (6) Statewide Commercial Calculated Incentives Program; (7) Statewide Industrial Calculated Incentives Program; (8) Fund Shifting; and (9) Follow-up on Prior UAFCB's Examination Observations and Recommendations and SDG&E's Internal Audit Recommendations.

SDG&E's management is responsible for ensuring accurate reporting of EE program data and information to the Commission in compliance with applicable laws and administrative requirements.

A. Summary of Examination, Observations, and Recommendations

The following is a summary of UAFCB's observations and recommendations resulting from the examination. A detailed description of UAFCB's analysis and observations is included in Appendix A.

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[1] D.13-09-023, OP No. 17, p. 98, provides "In order to verify Codes and Standards and Non-Resource program expenditures for the purposes of awarding these management fees, we will rely upon public versions of the Commission's Utility Audit, Finance and Compliance Branch reports. Upon completion, the Commission's Utility, Audit, Finance and Compliance Branch shall serve on the service list in this proceeding (or its successor) a notice of availability of the public copy of its audit report detailing its review of annual expenditures for 2013 and 2014 Energy Efficiency programmatic activity."

Reconciliation of Total EE Portfolio Costs to Reported Amounts

Observation 1: SDG&E demonstrated compliance with Public Utility (PU) Code §§ 581, 582 and 584[2] respecting the total EE program portfolio costs. A reconciliation of the total EE program portfolio expenditures reported in the Monthly, Quarterly, and Annual reports to SDG&E's accounting records disclosed no material exceptions. The reported total EE portfolio program expenditures of $83,841,466, excluding the Evaluation, Measurement, and Verification costs reconciled to SDG&E's accounting records.[3]

Of the amount indicated above, SDG&E reported total resource program costs of $70,504,027 for PY 2014, which included $4,381,011 in administrative costs.

Recommendation: None

Observation 2: SDG&E demonstrated compliance with PU Code §§ 581, 582 and 584 respecting required report filings. SDG&E filed its Monthly, Quarterly, and Annual reports timely as required by the Commission. However, the Energy Division (ED) reporting templates in EEStats[4] do not provide for annual figures of EE expenditures.

Recommendation: ED should modify the Monthly, Quarterly, and Annual Report templates to facilitate annual reconciliation of EE program costs. The UAFCB has made the same recommendation in its prior examination reports of EE Program.

Codes and Standards (C&S) Program:

Observation 3: SDG&E demonstrated compliance with PU Code §§ 581, 582 and 584 respecting reported C&S program costs. The $905,298 reported C&S program costs reconciled to SDG&E's accounting records.[5]

Recommendation: None

Observation 4: SDG&E failed to demonstrate compliance with PU Code §§ 581, 582 and 584 because it incorrectly recorded $33,384, or 4% of the total C&S program non-administrative costs in 2014, that should have been recorded and reported in PY 2013.

Observation 5: SDG&E overpaid its co-funding share of cost to Pacific Gas and Electric Company (PG&E) by $17,995or 2% of the total 2014 C&S program non-administrative costs. On June 16, 2016, SDG&E provided additional documentation which substantiated PG&E's refunding of the overpayment to SDG&E.

Recommendation: ED should reduce the C&S program non-administrative costs by $51,379 ($33,384 + $17,995) before calculating the 2014 management incentive award.

Observation 6: SDG&E demonstrated compliance with applicable provisions of D.12-11-015 and the Energy Efficiency Policy Manual, Version 5, dated July 2013. SDG&E did have the necessary policy and procedures in place to implement its C&S Program to ensure compliance with Commission directives.

[2] All statutory references are to the PU Code unless stated otherwise.
[3] For audited total EE program portfolio costs, refer to Appendix B, Table B-1 or Table B-2.
[4] The California Energy Efficiency Statistics (EEStats) - a repository of utility-submitted reports to CPUC
[5] For audited total C&S program costs, refer to Appendix B, Table B-3.

Recommendation: None

Non-Resources (NR) Program:

Observation 7: SDG&E demonstrated compliance with PU Code §§ 581, 582 and 584 respecting reported NR program costs. The $11,380,643[6] reported NR program costs reconciled to SDG&E's accounting records.

Recommendation: None

Observation 8: SDG&E failed to demonstrate compliance with PU Code §§ 581, 582, and 584 and its established accrual policy and procedures. SDG&E incorrectly grouped and recorded $204,060 in 2014 the statewide marketing, education & outreach (SW-ME&O) marketing non-labor costs as SW-ME&O administrative non-labor costs. It corrected the error in PY 2015. However the costs belonged to PY 2013.

Recommendation: SDG&E should reduce the PY 2014 SW-ME&O administrative costs by $204,060 by any appropriate means possible to reflect the UAFCB's recommendation.

SDG&E should strengthen the oversight over its existing practices and procedures on accounting accrual to ensure each expense item having a value of $10,000 or more is properly accrued and on EE program cost grouping to ensure programs' costs are properly classified and reported.

Observation 9: SDG&E failed to demonstrate compliance with PU Code §§ 581, 582, and 584 and its established accrual policies and procedures. SDG&E incorrectly recorded $66,725 in 2014 costs for consulting services (non-administrative services) that should have been recorded and reported in PY 2013.

Recommendation: ED should reduce the NR program non-administrative costs by $66,725 before calculating the 2014 management incentive award. In addition, SDG&E should strengthen its oversight over its existing accrual practices and procedures to ensure each expense item having a value of $10,000 or more is properly accrued.

Observation 10: SDG&E demonstrated compliance with applicable provisions of D.13-09-023 and the Energy Efficiency Policy Manual, Version 5, dated July 2013. SDG&E did have the necessary policy and procedures in place to implement its NR Program to ensure compliance with Commission directives.

Recommendation: None

EE Program Administrative Costs (SDG&E and Non-SDG&E)

Observation 11: SDG&E demonstrated compliance with PU Code §§ 581, 582 and 584 respecting PY 2013 and 2014 reported EE program administrative costs.[7] [8] SDG&E incurred $14,741,429 administrative costs for both 2013 and 2014 PYs while the non-SDG&E administrative costs amounted to $945,429 for the same periods. The two amounts reconciled to SDG&E's accounting records.

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[6] For audited total NR program costs, refer to Appendix B, Table B-5.
[7] For total EE program administrative costs, refer to Appendix B, Table B-7.
[8] UAFCB will make a determination as to whether the company complied with the administrative cost Cap set forth in D.09-09-047, OP 13(a) for program 2013-2015 cycle when auditing PY 2015 EE programs.

Recommendation: None

Observation 12: SDG&E demonstrated compliance with applicable provisions of D.12-11-015 and the Energy Efficiency Policy Manual, Version 5, dated July 2013. SDG&E did have the necessary policy and procedures in place to account for and report its EE program administrative costs to ensure compliance with Commission directives.

Recommendation: None

EE Balancing Accounts:

Observation 13: SDG&E demonstrated compliance with PU code §§ 381, 399.8 (b) 1 and applicable Commission directives respecting its accounting of EE balancing accounts. UAFCB's review and recalculations of relevant EE balancing accounts' entries disclosed no exceptions.[9]

Recommendation: None

Observation 14: **SDG&E's internal policy for the billing and collecting of Public Purpose Program (PPP) revenues were adequate to meet the Commission's approved tariff requirements.** UAFCB conducted a substantive review of a few samples of individual recorded PPP gas and electric revenue transactions and found no material exceptions.

Recommendation: None

Commercial Calculated Incentives (CCI) Program:

Observation 15: SDG&E demonstrated compliance with applicable provisions of D.13-09-023. The $5,251,376 reported CCI program costs reconciled to SDG&E's accounting records.[10]

Recommendation: None

Observation 16: SDG&E demonstrated compliance with applicable provisions of D.13-09-023 and the "2013-14 Statewide Customized Retrofit Offering Procedures Manual for Business," Version 6. SDG&E did have the necessary policy and procedures in place to implement its CCI Program to ensure compliance with Commission directives.

Recommendation: None.

Observation 17: SDG&E failed to demonstrate compliance with PU Code §§ 581, 582, and 584 and applicable Commission's directives. SDG&E misclassified $1,031,781 as direct implementation non-labor expenses in 2013, instead of as direct implementation incentive payments. It corrected the error in PY 2014. The two accounts are in the same cost category therefore; there is no impact.

Recommendation: SDG&E should strengthen its oversight over the recording and classifying of EE program expenses to ensure accurate reporting.

[9] For a summary of balances of applicable EE balancing accounts, refer to Appendix B, Table B-8.
[10] For a summary of total CCI program costs, refer to Appendix B, Table B-9.

Industrial Calculated Incentives (ICI) Program:

Observation 18: SDG&E demonstrated compliance with applicable provisions of D.13-09-023. The $1,340,171 reported ICI program costs reconciled to SDG&E's accounting records.[11]

Recommendation: None

Observation 19: SDG&E demonstrated compliance with applicable provisions of D.13-09-023 and the "2013-14 Statewide Customized Retrofit Offering Procedures Manual for Business," Version 6. SDG&E did have the necessary policy and procedures in place to implement its ICI program to ensure compliance with Commission directives.

Recommendation: None

Fund Shifting:

Observation 20: UAFCB now believes that SDG&E did not violate any fund shifting rules. UAFCB previously observed that SDG&E conducted a total of 18 fund shifts during PY 2014 but failed to file Advice Letter by the end of the second quarter of 2014 when the total funds shifted in the SW Commercial EE Programs and Third Party Programs had each accumulated to -25% and 27% of their respective authorized funding levels.

Recommendation: None

Observation 21: SDG&E demonstrated compliance with Attachment C of the Adopted Fund Shifting Rules, Rulemaking (R.) 09-11-014 and EE Policy Manual, Version 5. SDG&E's established policy and procedures to implement fund shifting activities were adequately designed to ensure compliance with Commission directives.

Recommendation: None

Follow-up on Prior UAFCB's Examination Observations and Recommendations and SDG&E's Internal Audit Recommendations:

Observation 22: SDG&E demonstrated compliance with prior year's (2013) UAFCB audit recommendation. In Observation 2 of the examination report for PY 2013, UAFCB noted that SDG&E had overstated program expenditures for PY 2013. In its comments on the examination report, SDG&E stated that the apparent cost overstatement was actually not due to a cost overstatement, but rather it was due to certain fund shifts that the company made and that the company failed to timely submit a revised reporting to account for the referenced fund shifts. However, subsequent to the issuance of PY 2013 EE examination report, SDG&E had strengthened its internal controls and oversight procedures to ensure its regulatory filings are accurate and timely for period effective beginning July 2015.

Recommendation: None

Observation 23: SDG&E's Internal Audit did not conduct any audits related to the 2014 EE programs.

Recommendation: None

[11] For a summary of total Industrial Calculated Incentives program costs, refer to Appendix B, Table B-10.

B. Examination Process

UAFCB focused its examination on the areas mentioned above based on consultation with the Energy Division, its prior experience in examining SDG&E's programs, and the results of UAFCB's risk assessment. Pertinent information about SDG&E's specific EE Program is provided in Appendix B.

UAFCB conducted its examinations in accordance with the attestation standards established by the American Institute of certified Public Accountants (AICPA), and accordingly, included examining on a test basis, evidence concerning SDG&E's compliance with the requirements of the energy efficiency programs, directives of the Commission pertaining to the programs, SDG&E's internal policies and procedures, and the generally accepted accounting principles and practices.

On May 27, 2016, UAFCB provided a draft of its analysis, observations and recommendations to SDG&E for comment. On June 10, 2016, SDG&E provided its comments and provided supplemental comments on June 16, 2016, and UAFCB summarized those comments, including UAFCB's rebuttal to those comments, in Appendix A. Where appropriate, UAFCB has modified its observations and recommendations. SDG&E's relevant response is provided in Appendices C and D.

C. Conclusion

Except for the items the UAFCB took exceptions to above, SDG&E demonstrated compliance with Commission directives respecting its EE Program.

If you have any questions on UAFCB's examination, please contact Kayode Kajopaiye.

cc: Rami Khalon, Division of Water and Audits Director
Maryam Ebke, Deputy Executive Director
Barbara Owens, Executive Division
Bernard Ayanruoh, Division of Water and Audits
Frederick Ly, Division of Water and Audits
Bridget Sieren-Smith, Division of Water and Audits
Pete Skala, Energy Division

Appendix A
Analysis and Findings

A.1 Introduction

The Utility Audit, Finance and Compliance Branch (UAFCB) examined San Diego Gas and Electric Company's (SDG&E) financial, management, regulatory, and compliance areas of Energy Efficiency (EE) programs for program year (PY) 2014. Except for the matters discussed in Observations 4, 5, 8, 9 and 17, below, SDG&E demonstrated compliance with Commission directives of the company's Energy Efficiency (EE) programs.

In consultation with the Energy Division, UAFCB limited the scope of its examination to the following specific areas of EE programs:

(1) Reconciliation of EE Program Portfolio Costs
(2) Codes and Standards (C&S) Program
(3) Non-Resource (NR) Program
(4) EE Program Administrative Costs (IOU and Non-IOU)
(5) EE Balancing Accounts
(6) Statewide Commercial Calculated Incentives Program
(7) Statewide Industrial Calculated Incentives Program
(8) Fund Shifting
(9) Follow-up on Prior UAFCB's Examination and SDG&E's Internal Audit Report Recommendations

On May 27, 2016 UAFCB provided a draft of its analysis, observations and recommendations to SDG&E for comment. On June 10, 2016 SDG&E provided its comments and provided supplemental comments on June 16, 2016. UAFCB summarized those comments, including UAFCB's rebuttal to those comments, in Appendix A. Where appropriate, UAFCB has modified its observations and recommendations. SDG&E's relevant response is provided in Appendices C and D.

A.2 Reconciliation of EE Program Portfolio Costs

Observation 1: SDG&E demonstrated compliance with Public Utility (PU) Code §§ 581, 582 and 584[1] respecting the total EE program portfolio costs. A reconciliation of the total EE program portfolio expenditures reported in the Monthly, Quarterly, and Annual reports to SDG&E's accounting records disclosed no material exceptions. The reported total EE portfolio program expenditures of $83,841,466, excluding the Evaluation, Measurement, and Verification costs reconciled to SDG&E's accounting records.[2]

Of the amount indicated above, SDG&E reported total resource program costs of $70,504,027 for PY 2014, which included $4,381,011 in administrative costs.

[1] All statutory references are to the PU Code unless stated otherwise.
[2] For audited total EE program portfolio costs, refer to Appendix B, Table B-1 or Table B-2.

Criteria: Sections 581, 582 and 584 require utilities to provide timely, complete and accurate data to the Commission.

Condition: The $83,841,466 total EE program portfolio costs reported in the Monthly, Quarterly, and Annual reports reconciled to SDG&E's accounting records with no exceptions.

Recommendation: None

Observation 2: SDG&E demonstrated compliance with PU Code §§ 581, 582 and 584 respecting required report filings. SDG&E filed its monthly, quarterly, and annual reports timely as required by the Commission. However, the Energy Division (ED) reporting templates in EEStats[3] do not provide for annual figures of EE expenditures.

Criteria: The EE Policy Manual (R.09-11-014), Version 5, July 2013, Appendix D (1) (b) provides, in part, that the due date for monthly reports is the first day of the month 30 days following the month of the report, and the due date for quarterly reports is the first day of the month 60 days following the quarter of the report.[4] On April 27, 2015, ED issued another Memorandum extending the Annual Report filing deadline from May 1, 2015 to June 1, 2015. ED also developed reporting templates for the use of utilities filing of Monthly, Quarterly, and Annual reports.

Condition: SDG&E filed the required reports timely with the Commission. However, SDG&E and other utilities continued to report cumulative expenses by the budget cycle instead of annual expenses, in addition to the year to date numbers.

Recommendation: ED should modify the Monthly, Quarterly, and Annual Report templates to facilitate annual reconciliation of EE program costs. The UAFCB has made the same recommendation in its prior examination reports on EE Program.

A.3 Codes and Standards (C&S) Program

Observation 3: SDG&E demonstrated compliance with PU Code §§ 581, 582 and 584 respecting reported C&S program costs. The $905,298 reported C&S program costs reconciled to SDG&E's accounting records.[5]

Criteria: Sections 581, 582 and 584 require utilities to provide timely, complete and accurate data to the Commission.

Condition: UAFCB reconciled the reported C&S program expenditures in the annual report to SDG&E's accounting records with no exceptions.

Recommendation: None

[3] The California Energy Efficiency Statistics (EEStats) - a repository of utility-submitted reports to CPUC
[4] On July 29, 2013, Energy Division issued a Memorandum to IOUs in regards to the "2013-2014 Energy Efficiency Program Reporting Timeline and Guidance – Version 2." In essence, the Memo sets forth the report filing requirements for program years 2013-2014.
[5] For audited total C&S program costs, refer to Appendix B, Table B-3.

Observation 4: SDG&E failed to demonstrate compliance with PU Code §§ 581, 582 and 584 because it incorrectly recorded $33,384, or 4% of the total C&S program non-administrative costs in 2014, that should have been recorded and reported in PY 2013.

Observation 5: SDG&E overpaid its co-funding share of cost to Pacific Gas and Electric Company (PG&E) by $17,995 or 2% of the total 2014 C&S program non-administrative costs. On June 16, 2016, SDG&E provided additional documentation which substantiated PG&E's refunding of the overpayment to SDG&E.

Criteria: Sections 581, 582 and 584 require utilities to provide timely, complete and accurate data in prescribed formats to the Commission. SDG&E's accounting accrual policy requires that an expense item having a value of $10,000 or greater is to be accrued for the quarter or calendar year in which the expense is incurred.[6]

Condition: SDG&E recorded $33,384 of 2013 C&S program non-administrative costs in PY 2014. The total amount consisted of $9,090[7] and $24,294 ($7,270, $5,087, $3,028, $6,717, and $2,192)[8], respectively. This total represents about 4% of the total C&S program non-administrative costs. Further, SDG&E paid for its co-funding agreement share of cost to PG&E at a rate of 47%, which was higher than the 38% effective rate for period of January 1st through July 31st of 2014. This resulted in a total overpayment of $17,995, or 2% of the total 2014 C&S program non-administrative costs.

Cause: (A) Vendor invoices in question were not submitted by Southern California Edison (SCE), in time for SDG&E's 2013 year-end accrual process, and that the dollar value of the individual test items (1, 3, 4, 5, 7 and 8) was each less than the $10,000 accrual threshold set forth in the SDG&E's accrual policy. However, UAFCB considered the combined total significant. (B) In reference to the overpayment made to PG&E, SDG&E stated that that was an oversight on its part.

Effect: Improper accounting accrual and the expense overpayment would directly impact the 2014 management incentive award and lead to an overall misstatement of total EE program costs.

SDG&E's Comments: SDG&E stated that the subject invoices, totaling $33,384, were not submitted by the vendor in time for the company's 2013 year-end accrual, that the amount of each individual invoices was less than the company's accrual threshold amount, that the company will remove the said expense from its PY 2014 C&S program incentive award calculation, and that UAFCB did not dispute that these were valid payments and only focused on proper program year to which the expenses should have been reported.

[6] SDG&E's Customer Programs & Projects Operations Handbook, "Vendor Payment and Accrual Processing" states, in part, "... Accruals need to be recorded at quarter end and calendar year ... A transaction has to be $10,000 or greater to be accrued".
[7] Program SDGE3251, Data Request 006, Question 2, Test Transaction 1
[8] Program SDGE3251, Data Request 006, Question 2, Test Transactions 3, 4, 5, 7 and 8. These invoices pertained to the SDG&E's share of costs of its co-funding agreement with Southern California Edison.

On June 16, 2016, SDG&E provided supplemental comments stating, in part, "SDG&E concurs with this observation that it overpaid PG&E by $17,995" and that "SDG&E's C&S program staff, upon notification of the overpayment, worked with PG&E to recover the overpaid amount. Both parties [SDG&E and PG&E] agreed that the overpayment of $17,995 would be shown as a credit against the next available [PG&E's] invoice, the March 24, 2016 invoice."

Rebuttal: UAFCB's review of additional supporting documentation disclosed that PG&E had refunded the overpayment to SDG&E by means of a credit against PG&E's billing, dated March 24, 2016.

Recommendation: ED should reduce C&S program non-administrative costs by $51,379 ($33,384 + $17,995) before calculating the 2014 management incentive award.

Observation 6: SDG&E demonstrated compliance with applicable provisions of D.12-11-015 and the Energy Efficiency Policy Manual, Version 5, dated July 2013. SDG&E did have the necessary policy and procedures in place to implement its C&S Program to ensure compliance with Commission directives.

Criteria: Sections 581, 582 and 584 require utilities to provide timely, complete and accurate data in prescribed formats to the Commission.

Condition: SDG&E's established policy and procedures seemed adequate for the implementation of the C&S program in accordance with Commission directives. SDG&E's Customer Programs & Projects Operations Handbook (The Program Advisor's Handbook or Handbook), version 3.1 outlines standard procedures and best practices for program advisors (employees) to ensure employees: understand and utilize best practices in their program administration; adhere to the company and CPUC guidelines in systematic program administration; and create well-run and compliant programs. The Handbook encompasses four major parts: Program Development; Program Implementation; Program Close Out; and Integrated Demand Side Management. Also, the Handbook contains detailed instructions on cost accounting aspects of the program which range, among other things, from the processes of invoice approval and payment to accruing program expenditures.

Recommendation: None

A.4 Non-Resource (NR) Program

Observation 7: SDG&E demonstrated compliance with PU Code §§ 581, 582 and 584 respecting reported NR program costs. The $11,380,643[9] reported NR program costs reconciled to SDG&E's accounting records.

Criteria: Sections 581, 582 and 584 require utilities to provide timely, complete and accurate data to the Commission.

[9] For audited total NR program costs, refer to Appendix B, Table B-5.

Condition: UAFCB reconciled the reported NR program expenditures to SDG&E's accounting records with no exceptions.

Recommendation: None

Observation 8: SDG&E failed to demonstrate compliance with PU Code §§ 581, 582, and 584 and its established accrual policy and procedures. SDG&E incorrectly grouped and recorded $204,060 in 2014 the statewide marketing, education & outreach (SW-ME&O) marketing non-labor costs as SW-ME&O administrative non-labor costs. It corrected the error in PY 2015. However the costs belonged to PY 2013.

Criteria: Sections 581, 582 and 584 require utilities to provide timely, complete and accurate data to the Commission. SDG&E's accounting accrual policy requires that an expense item having a value of $10,000 or greater is to be accrued for the quarter or calendar year in which the expense is incurred.

Condition: SDG&E recorded $280,130 in marketing non-labor costs related to its co-funding agreement share of costs from PG&E[10], the administrative lead on non-resource program activities on behalf of the other Investor Owned Utilities (IOUs). However, $204,060 of the recorded total amount belonged to 2013. This exception represents 3% of the NR program total non-administrative expenditures.

Cause: SDG&E said that it was an oversight on its part for not following the company's accounting accrual review processes and that the issue of the untimely invoicing from a co-funding agreement lead administrator (PG&E in this case) continues to persist.

Effect: Improper cost classification and reporting may lead to an overall misstatement of EE program costs.

SDG&E's Comments: SDG&E stated that the subject invoices associated with the Statewide Marketing, Education and Outreach (SW ME&O) program were not submitted by the vendor in time for the company's 2013 year-end accrual, that this program was not part of the 2014 EE incentive basis, that UAFCB did not dispute that these expenses were valid payments and only focuses on proper program year to which these expenses should have been reported, that the company will continue to strengthen its oversight over its EE accrual process, and that its program staff has already been provided additional training on this matter.

Rebuttal: There are two issues associated in this case. First, there was a grouping error of the SW-ME&O Marketing Non-Labor costs of $280,130 as SW-ME&O Administrative Non-Labor costs, which according to SDG&E was corrected in November 2015.[11] Second, the recording of PY 2013 costs of $204,060 ($280,130 in total SDG&E's co-funding costs - $76,070 applicable to PY 2014) in PY 2014.

[10] Per data response to DR-008.1, Q1
[11] Data response to DR-008.1, Q1, dated December 10, 2015

Regarding the first, the error was corrected in November 2015, and should be the subject of UAFCB's review when it conducts PY 2015 EE Program examination. Regarding the second, the balance of $204,060 in SW-ME&O Administrative Non-Labor costs that belonged to PY 2013 should be removed from PY 2014.

Recommendation: SDG&E should reduce the PY 2014 SW-ME&O administrative costs by $204,060 by any appropriate means possible to reflect the UAFCB's recommendation.

SDG&E should strengthen the oversights on its existing practices and procedures on accounting accrual to ensure each expense item having a value of $10,000 or more is properly accrued and on EE program cost grouping to ensure programs' costs are properly classified and reported.

Observation 9: SDG&E failed to demonstrate compliance with PU Code §§ 581, 582, and 584 and its established accrual policies and procedures. SDG&E incorrectly recorded $66,725 in 2014 costs for consulting services (non-administrative) that should have been recorded and reported in PY 2013.

Criteria: Sections 581, 582 and 584 require utilities to provide timely, complete and accurate data to the Commission. SDG&E's accounting accrual policy requires that an expense item having a value of $10,000 or greater is to be accrued for the quarter or calendar year in which the expense is incurred.

Condition: SDG&E included in PY 2014 $66,725 in training costs provided in 2013 by a vendor. This exception represents 1% of the total NR program non-administrative costs.

Cause: SDG&E said that it was an oversight on its part for not following the company's accounting accrual review processes.

Effect: Improper accounting accrual would directly impact the 2014 management incentive award, leading to an overall misstatement of the total EE program costs.

SDG&E's Comments: SDG &E stated that the subject invoices associated with the Workforce Education and Training (WE&T) program were not submitted by the vendor in time for the company's 2013 year-end accrual, that the company will remove $66,725 from the calculation of its 2014 incentive award, that UAFCB does not dispute that these expenses were valid payments and focuses only on proper program year to which these expenses should have been reported, that the company will continue to strengthen its oversight over its EE accrual process, and that its program staff has already been provided additional training on this matter.

Rebuttal: None

Recommendation: ED should reduce the NR program costs by $66,725 before calculating the 2014 management incentive award' In addition. SDG&E should strengthen its oversight over its existing accrual practices and procedures to ensure each expense item having a value of $10,000 or more is properly accrued.

Observation 10: SDG&E demonstrated compliance with applicable provisions of D.13-09-023 and the Energy Efficiency Policy Manual, Version 5, dated July 2013. SDG&E did have the necessary policy and procedures in place to implement its NR Program to ensure compliance with Commission directives.

Criteria: Sections 581, 582 and 584 require utilities to provide timely, complete and accurate data to the Commission.

Condition: UAFCB found that SDG&E's policy and procedures regarding its NR program reasonable. The company's basis of determining the NR program is the EE policy manual definition and the Efficiency Saving and Performance Incentive (ESPI) is calculated based on the provision of D.13-09-023, OP 3(D).

Recommendation: None

A.5 EE Program Administrative Costs (SDG&E and Non-SDG&E)

Observation 11: SDG&E demonstrated compliance with PU Code §§ 581, 582 and 584 respecting PY 2013 and 2014 reported EE program administrative costs.[12] [13] SDG&E incurred $14,741,429 administrative costs for both 2013 and 2014 PYs while the non-SDG&E administrative costs amounted to $945,429 for the same periods. The two amounts reconciled to SDG&E's accounting records.

Criteria: Sections 581, 582 and 584 require utilities to provide timely, complete and accurate data to the Commission.

Condition: UAFCB reconciled the reported total EE program administrative costs to SDG&E's accounting records with no exceptions.

Recommendation: None

Observation 12: SDG&E demonstrated compliance with applicable provisions of D.12-11-015 and the Energy Efficiency Policy Manual, Version 5, dated July 2013. SDG&E did have the necessary policy and procedures in place to account for and report its EE programs administrative costs to ensure compliance with Commission directives.

Criteria: Sections 581, 582 and 584 require utilities to provide timely, complete and accurate data to the Commission.

Condition: SDG&E's established policy and procedures seemed adequate for accounting and reporting its program administrative costs and consistent with its

[12] For total EE program administrative costs, refer to Appendix B, Table B-7.
[13] UAFCB will make a determination as to whether the company complied with the administrative cost Cap set forth in D.09-09-047, OP 13(a) for program 2013-2015 cycle when auditing PY 2015 EE programs.

established schedule of 'allowable costs' that lists all types of EE program costs that were classified under the three cost categories (Administrative, Marketing and Direct Implementation). Only types of costs listed on the schedule are claimable and reportable for ratepayer funded EE program activities, and any changes to the schedule need approval from the Commission's Energy Division.

Recommendation: None

A.6 EE Balancing Accounts

Observation 13: SDG&E demonstrated compliance with PU code §§ 381.1(a) and (b) (1), 399.8 and applicable Commission directives respecting its accounting of EE balancing accounts. UAFCB's review and recalculations of relevant EE balancing accounts' entries disclosed no material exceptions.[14]

Criteria: Sections 581, 582 and 584 require utilities to provide timely, complete and accurate data as prescribed by the Commission.[15] Sections 381 (a) and (b) require, among others things, that the funding, including any interest earned therefrom, for relevant programs are not commingled with the funding of other programs.

Condition: SDG&E maintained balancing accounts related to EE programs for electric and gas operations. UAFCB reviewed and recalculated a sample of the EE balancing accounts' entries, such as the monthly interest amounts accrued on the outstanding account balances and the allocated Public Purpose Program (PPP) billed revenues. UAFCB also reviewed SDG&E's PPP surcharge/revenue billing processes and how the total disaggregated or pre-allocated PPP billed revenues were allocated and distributed to applicable balancing accounts. The review disclosed no material exceptions.

Recommendation: None

Observation 14: **SDG&E's internal policy for the billing and collecting of Public Purpose Program (PPP) revenues were adequate to meet the Commission's approved tariff requirements.** UAFCB conducted a substantive review of a few samples of individual recorded PPP gas and electric revenue transactions and found no material exceptions.

Criteria: Sections 581, 582 and 584 require utilities to provide timely, complete and accurate data to the Commission.

Condition: UAFCB's conducted a detailed review of samples of individual recorded transactions to ensure that they could be supported by actual customer utility bills and related billing records. The value of each individual recorded transaction was small, but with hundreds, thousands or even hundreds of thousands of such transactions added together, the combined value became significant. Thus, the objective of the UAFCB's review was to determine the accuracy of the recorded utility PPP billed revenue, and not

[14] For summary balances of applicable EE balancing accounts, refer to Appendix B, Table B-8.
[15] Includes Preliminary Statements associated with Advice Letter Nos. 2319-E and 2200-E for the EE Balancing Accounts – Electric and 2101-G and 1980-G for the EE Balancing Accounts - Gas.

so much on the materiality of the individual tested transaction value. UAFCB's review did not find any material audit exceptions.

Recommendation: None

A.7 Statewide Commercial Calculated Incentives (CCI) Program

Observation 15: SDG&E demonstrated compliance with applicable provisions of D.13-09-023. The $5,251,376 reported CCI program costs reconciled to SDG&E's accounting records.[16]

Criteria: Sections 581, 582 and 584 require utilities to provide timely, complete and accurate data to the Commission.

Condition: UAFCB reconciled reported CCI program costs, to SDG&E's accounting records with no exceptions.

Recommendation: None

Observation 16: SDG&E demonstrated compliance with applicable provisions of D.13-09-023 and the "2013-14 Statewide Customized Retrofit Offering Procedures Manual for Business," Version 6. SDG&E did have the necessary policy and procedures in place to implement its CCI program to ensure compliance with Commission directives.

Criteria: Applicable provisions in the "2013-14 Statewide Customized Retrofit Offering Procedures Manual for Business," Version 6 set forth detailed steps and procedures for the implementation of the Statewide Commercial Calculated Incentives program.

Condition: SDG&E's established policy and procedures for the implementation of its Commercial Calculated Incentives program are in accordance with the 2013-14 Statewide Customized Retrofit Offering Procedures Manual because the policy and procedures provided sufficient detailed instructions and sequential steps for each project: It begins with Customer Enrollment and Pre-installation Inspection; ascertains the Application Review and Approval; reviews Project Agreement (contract) Formation; examines Post-installation Site Inspection, conducted at the discretion of the utility administrator; and ends with Incentive Payment Approval.

Recommendation: None

Observation 17: SDG&E failed to demonstrate compliance with PU Code §§ 581, 582, and 584 and applicable Commission's directives. SDG&E misclassified $1,031,781 as direct implementation non-labor expenses in 2013, instead of as direct implementation incentive payments. It corrected the error in PY 2014. The two accounts are in the same cost category; therefore, there is no impact.

[16] For a summary of total CCI program costs, refer to Appendix B, Table B-9.

Criteria: Sections 581, 582 and 584 require utilities to provide timely, complete and accurate data to the Commission.
Condition: UAFCB's review and analysis of 12-monthly recorded program expenses disclosed a material negative balance in Direct Implementation – Non-labor in February 2014 in the amount of $1,019, 931.

Cause: SDG&E misclassified $1,031,781 of the Incentive Payments expense as Non-labor expense in 2013. SDG&E discovered the error and made a correction in February 2014. As a result of the correction, the Direct Implementation - Non-labor account showed a significant negative balance of $1,019,931 in February 2014.[17]

Effect: There was no financial impact to ratepayer funds because both the Incentive Payments costs and the Non-labor costs are under the same Direct Implementation cost category.

SDG&E's Comments: SDG&E stated that the company will continue to strengthen its oversight over its EE cost grouping process and that its program staff has already been provided additional training on this matter.

Rebuttal: None

Recommendation: SDG&E should strengthen its oversight on recording and classifying EE program expenses to ensure proper program cost determination and reporting.

A.8 Industrial Calculated Incentives (ICI) Program

Observation 18: SDG&E demonstrated compliance with applicable provisions of D.13-09-023. The $1,340,171 reported ICI program costs reconciled to SDG&E's accounting records.[18]

Criteria: Sections 581, 582 and 584 require utilities to provide timely, complete and accurate data to the Commission.

Condition: UAFCB reconciled the reported costs to SDG&E's accounting records with no exceptions.

Recommendation: None

Observation 19: SDG&E demonstrated compliance with applicable provisions of D.13-09-023 and the "2013-14 Statewide Customized Retrofit Offering Procedures Manual for Business," Version 6. SDG&E did have the necessary policy and procedures in place to implement its ICI program to ensure compliance with Commission directives.

[17] Data response to DR-013, Q1(A), dated October 26, 2015
[18] For a summary of total Industrial Calculated Incentives program costs, refer to Appendix B, Table B-10.

Criteria: Applicable provisions of the "2013-14 Statewide Customized Retrofit Offering Procedures Manual for Business," Version 6 set forth detailed steps and procedures for the implementation of the Statewide ICI program.

Condition: SDG&E's established policy and procedures for the implementation of its ICI program are in accordance with the 2013-14 Statewide Customized Retrofit Offering Procedures Manual because the policy and procedures provided sufficient detailed instructions and sequential steps for each project: It begins with Customer Enrollment and Pre-installation Inspection; ascertains the Application Review and Approval; reviews Project Agreement (contract) Formation; examines the Post-installation Site Inspection, conducted at the discretion of the utility administrator; and ends with Incentive Payment Approval.

Recommendation: None.

A.9 Fund Shifting

Observation 20: UAFCB now believes that SDG&E did not violate any fund shifting rules. UAFCB previously observed that SDG&E conducted a total of 18 fund shifts during PY 2014but failed to file Advice Letter by the end of the second quarter (Q2) of 2014 when the total funds shifted in the SW Commercial EE Programs and Third Party Programs had each accumulated to -25% and 27% of their respective authorized funding levels.

SDG&E's supplemental comments, dated June 10, 2016, in response to the UAFCB's draft examination report, dated May 27, 2016, UAFCB became aware that the funds shift in Q2 occurred within a fund shifting program category, not among fund shifting categories. Therefore, SDG&E's accounting for and reporting of the funds shifting would be proper.

Criteria: Decision (D.) 09-09-047, OP 43(b)[19]provides, in part, that the IOUs shall file an Advice Letter for fund shifts that are greater than 15% per annum within and between any of the twelve statewide EE programs, third-party program, or governmental programs for the entire portfolio cycle. Appendix C, Energy Efficiency Policy Manual, Version 5, dated July 2013, clarifies the "15%" to mean 15% of each category funding level.[20]

Condition: SDG&E made a total of 18 fund shifts during 2014: three shifts in the first quarter (Q1); seven shifts in Q2; six shifts in Q3; and two shifts in Q4. By the end of Q2 the total fund shifted affecting the SW Commercial EE Programs and Third Party Programs had each accumulated to -25% and 27% of their respective authorized funding levels. Yet, SDG&E failed to file an Advice Letter.

Cause: UAFCB initially observed that SDG&E has a different interpretation on the fund shifting provisions. It claims that SDG&E determines fund shift needs on a quarterly basis, rather than on an annually cumulative basis. It also said that SDG&E determines its fund shifting threshold by multiplying 15% with its operating budget that is

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[19] D.07-07-049, OP 43(b), pp 388

[20] Energy Efficiency Policy Manual, Version 5, July 2013, Applicable to post-2012 Energy Efficiency Programs, Appendix C: Adopted Fund Shifting Rules, pp 64-66.

continually subject to changes based on any fund shifting activities incurred in the immediate preceding quarter. Once the operating budget is revised to account for any prior fund shifts, a currently contemplated fund shift is to be accounted for independently of any prior shifts.[21] UAFCB illustrates its points as follows:

Assume SDG&E has an EE Statewide ABC program with an authorized funding level of $5,000,000 and performed two fund shifts: (1) $500,000 (10% of the program authorized funding level) in Q1 and (2) $750,000 (15% of the program authorized funding level) in Q2 during the assumed program year:

1. Based on the above scenario SDG&E would account for the fund shifts as follow:
   A. Files a regular quarterly fund shifting report to disclose Q1 fund shift of $500,000
   B. Determines a revised operating budget by adding the Q1 fund shift of $500,000 to the program authorized funding level of $5,000,000, resulting in a revised operating budget of $5,500,000
   C. Calculates future fund shifting threshold by multiplying 15% with the revised operating budget of $5,500,000 ($5,000,000 of authorized funding level + $500,000 of Q1 fund shift), resulting in a revised fund shifting threshold from $750,000 ($5,000,000 x 15%) to a new level of $825,000 ($5,500,000 x 15%)
   D. Files a regular quarterly fund shifting report to disclose Q2 fund shift of $750,000.

2. However, taking into accounts the cumulative effects of the fund shifting concept to be consistent with Decision (D.) 09-09-047, OP 43(b) which provides, in part, that "the IOUs shall file an Advice Letter for fund shifts that are greater than 15% <u>per annum</u>...", SDG&E should account for the above-referenced fund shifts as follow:
   A) Files a regular quarterly report to disclose Q1 fund shift of $500,000
   B) Files an Advice Letter to account for Q1 and Q2 fund shifts as the cumulative balance of the combined shifts represents 25% of the program authorized funding level [($500,000 of Q1 shift + $750,000 of Q2 shift) / $5,000,000 authorized funding level].

Effect: UAFCB formerly claims that a different interpretation of the relevant fund shifting provisions allows SDG&E to account for its fund shift in a manner circumventing a required filing of an Advice Letter or fund shifting rules.

SDG&E's Comments: SDG&E disagreed with UAFCB's interpretation of the fund shifting rules in requiring SDG&E to file an advice letter by the end of Q2 2014 in order to account for and report the combined shifted funds of Q1 and Q2 for the statewide-commercial EE programs and the third party programs. SDG&E stated that the "Fund Shifting rules do not require an advice letter for fund shifts within program categories and that SDG&E had informed UAFCB that the Commission eliminated the fund shifting

[21] During an audit exit conference held in San Diego, California on May 4, 2016, UAFCB made reference to the cumulative nature contained in D.09-09-047, OP 43(b) and the relevant ruling. Although SDG&E acknowledged the inherent cumulative nature of said provisions, SDG&E has continued to account for and to report its fund shifting activities on a non-cumulative, quarterly basis for practical reason, and indicated a willingness to wait and see for any new directives from ED.

advice letter requirements starting PY 2016[22] and therefore it would be a waste of both Commission, utility and intervenor resources to file a Tie 3 advice letter to address this erroneous observation.

Rebuttal: UAFCB now agrees with SDG&E.

Recommendation: None

Observation 21: SDG&E demonstrated compliance with Attachment C of the Adopted Fund Shifting Rules, Rulemaking (R.) 09-11-014 and EE Policy Manual, Version 5. SDG&E's established policy and procedures to implement fund shifting activities were adequately designed to ensure compliance with Commission directives.

Criteria: SDG&E's established "Fund-Shifting Procedures," and the Energy Efficiency Policy Manual, Version 5, July 2013, Applicable to post-2012 EE Program, Appendix C: Adopted Fund Shifting Rules of Rulemaking (R.) 09-11-014.

Condition: SDG&E's established policy and procedures were adequately designed to implement and monitor fund shifting activities to ensure compliance with Commission directives. The established policy and procedures entail specific instructions for each fund shifting activity that sequentially: begins with identification of funding needs by Program Advisor; Policy Advisor review and management review and approval; preparation of program implementation plan (PIP) addendum; and ends with preparation of an internal budget change. When a shifting activity involves a third party, SDG&E notifies relevant third party and supply management, and prepare appropriate contract amendment.

Recommendation: None

A.10 Follow-up on Prior UAFCB's Examination Observations and Recommendations and SDG&E's Internal Audit Recommendations

Observation 22: SDG&E demonstrated compliance with prior year's (2013) UAFCB audit recommendation. In Observation 2 of the 2013 program year examination report, UAFCB noted that SDG&E had overstated the expenditures for PY 2013. In its comments to the examination report, SDG&E stated that the apparent cost overstatement was actually not due to a cost overstatement, but rather it was due to certain fund shifts that the company made and that the company failed to timely submit a revised reporting to account for the referenced fund shifts. However, subsequent to the issuance of the PY 2013 EE examination report, SDG&E had strengthened its internal controls and oversight procedures to ensure its regulatory filings are accurate and timely for the period beginning July 2015.

[22] On October 28, 2015, the Commission by D.15-10-028 at OP 18 stated that "We eliminate requirements that energy efficiency program administrators (PAs) file advice letters for authorization to shift funds among authorized programs. If Commission Staff or stakeholders identify fund-shifting activities that substantially depart from Commission policy direction or, in the opinion of Commission Staff or stakeholders, are not in the best interest of ratepayers and/or the efficiency portfolios they may raise their concerns in a protest to thePA concerns next budget advice letter."

Recommendation: None

Observation 23: SDG&E's Internal Audit did not conduct any audits related to 2014 EE programs.

Recommendation: None

Appendix B
Program Compendium

B.1 Introduction

On November 8, 2012, the California Public Utilities Commission (Commission) issued Decision (D.) 12-11-015 which, among other things, authorized San Diego Gas and Electric Company (SDG&E) a total budget of $205.2 million in ratepayer funds to administer and implement its Energy Efficiency (EE) programs for budget cycle 2013-2014. This amount represents about 11% of the total $1.9 billion EE program budget for the three major Investor-Owned Utilities (IOUs) for the same period. The total authorized budget includes budgets and programs for two regional energy networks (RENs)[1] and one community choice aggregator (CCA).[2] D.12-11-015 also sets energy savings goals, establishes cost-effectiveness requirements, and requires the IOUs to offset the unspent and uncommitted EE program funding from 2010-2012 budget cycle against program year 2014 revenue requirements.[3]

On October 16, 2014, the Commission issued D.14-10-046 which, among other things, extended the 2013-2014 EE program cycle for an additional year to 2013-2015. The decision authorized SDG&E a total budget of $116.3 million, including $4.5 million in EM&V, in ratepayer funds to administer and implement the EE program for PY 2015. This represents about 12% of the approximate total $962 million in EE program budget for all four IOUs for the same period.

B.2 EE Funding Components

Of the $205.2 million authorized portfolio budget for program years 2013-2014, $196.7 million is to administer and implement SDG&E's EE programs and the remaining $8.5 million is dedicated to fund the Evaluation Measurement and Validation (EM&V) program. SDG&E spent $155.7 million, including $1.6 million in EM&V, or 75.8 percent of the total 2013-2014 authorized budget. Table B-1 provides a summary of the authorized EE portfolio funding and actual spending for 2013-2014 EE programs, net of UAFCB's recommended examination adjustments for program year 2014 of ($51,379) in Code & Standards program's expenses and of ($270,785) in Non-Resource program's expenses.

[1] The Southern California Regional Energy Network and the San Francisco Bay Area Regional Energy Network
[2] The Marin Energy Authority
[3] D.12-11-015, OP 38, p. 140

Table B-1
Authorized Budget vs. Actual Expenses

Line	Programs	Authorized Budget[4]	Actual Expenditures 2013	2014	2013-14	%
1	Resource (Statewide)	$115,150,269	$31,433,148	$36,184,676	$67,617,824	
2	Other Resource (LGP&3P)	61,987,382	31,247,517	34,319,351	65,565,868	
3	Non-Resource	19,563,816	10,112,623	13,015,284	23,127,907	
4	Subtotal	196,701,467	72,792,288	83,519,311	156,311,599	
5	ME&O	00	(1,441,643)	(795,093)	2,236,736)[5]	
6	Subtotal	196,701,467	71,350,645	82,724,218	154,074,863	78.3%
7	EM&V	8,526,997	467,670	1,172,584	1,640,254	
	Grand Total	**$205,228,464**	**$71,818,315**	**$83,896,802**	**$155,715,117**	**75.8%**

UAFCB describes the background information of the areas it examined from B.3 to B.10. B.11 contains prior examination report follow-up responses, including SDG&E internal audit findings related to the EE program during the examination period.

B.3 Reconciliation of Total EE Portfolio Costs

SDG&E identifies and captures its EE program expenditures in its Enterprise Resource Planning application using internal order system to identify program types (e.g., SDGE3259 or SW-ME&O), cost center system to identify cost category (e.g., Administrative Marketing and Direct Implementation), and cost element system to identify types of transaction (e.g., Salaries – Management, Advertisement, Travel, etc.).

SDG&E reported EE portfolio expenditures on Table 3, Annual Report of EE programs. In addition to providing expense data of EM&V, Table 3 also shows EE expenditures from the three delivery channels, which are IOU (CORE) program, Third Party (TP) program, and Local Government Partnership (LGP) program. In its current form, Table 3 readily identifies the expenses of TP and LGP delivery channels. However, additional calculation is needed in order to arrive at the cost of Core programs.[6] Table B-2 provides a summary of EE portfolio expenditures for program years 2013-2014, net of UAFCB's recommended examination adjustments for program year 2014 of ($51,379) in Code & Standards program's expenses and of ($270,785) in Non-Resource program's expenses.

[4] Authorized budget does not, and should not include funding for statewide Marketing Education & Outreach (ME&O), which is addressed separately at D.13-12-038, OP 10.
[5] Total expenditures include $2,236,736 in ME&O's expense, which needs to be removed to arrive at total expenditures net of ME&O to be consistent with the authorized budget's data presentation.
[6] It is UAFCB's opinion that in order for the expense data of the three delivery channels appear readily identifiable a separate expense data for the IOU (Core) delivery channel should be added to the existing Table 3.

Table B-2
Verified EE Portfolio Expenses - Excluding EM&V

Expense Types	As Verified 2013[7]	As Verified 2014	Total[8]	%
IOU/(Core):				
Administrative	$5,806,791	$6,587,009	$12,393,800	7.9%
Marketing & Outreach	2,564,063	3,794,791	6,358,854	4.1%
Rebates/Incen./Implem.	32,959,100	38,242,052	71,201,152	45.6%
Sub-Total	41,329,954	48,623,852	89,953,806	57.6%
TP:				
Administrative:	886,786	403,221	1,290,007	.8%
TP	655,408	184,395	839,803	
TP-IOU	231,378	218,826	450,204	
Marketing & Outreach	505,243	320,717	825,960	.5%
Rebates/Incen./Implem.	24,409,169	25,366,365	49,775,534	31.8%
Sub-Total	25,801,198	26,090,303	51,891,501	33.1%
LGP:				
Administrative:	1,060,743	1,072,936	2,133,679	1.4%
LGP	136,329	(23,455)	112,874	
LGP-IOU	924,414	1,096,391	2,020,805	
Marketing & Outreach	324,263	326,517	650,780	0.4%
Rebates/Incen./Implem.	4,276,132	7,405,703	11,681,835	7.5%
Sub-Total	5,661,138	8,805,156	14,466,275	9.3%
Total	**$72,792,290**	**$83,519,311**	**156 ,311,582**	**100.0%**

B.4 Codes and Standards Programs

The Statewide Codes and Standards (C&S) Programs save energy by: 1) Influencing standards and code-setting bodies (such as the California Energy Commission) to strengthen energy efficiency regulations; 2) Improving compliance with existing codes and standards; 3) Assisting local governments to develop ordinances that exceed statewide minimum requirements; and 4) coordinating with other programs and entities to support the state's ambitious policy goals.[9]

The primary mission of SDG&E's C&S program is on advocacy and compliance improvement activities that extend to virtually all buildings and potentially any appliance in California. These C&S activities mainly focus on California Title 20 and Title 24, Section 6 enhancements. The C&S program requires advocacy activities to improve building and appliance efficiency regulations. The principal audience is the California Energy Commission (CEC) which conducts periodic rulemakings, usually on a three-year cycle (for building regulations), to update building

[7] Total 2013 EE portfolio expenses, excluding EM&V, of 2013 Examination Report, dated and issued on June 30, 2015, agree with the Company's general ledger records, although there are variances in certain cost grouping. For comparative data presentation, the 2013 expense data has been grouped to be consistent with 2014's cost grouping methodology, which is based on SDG&E's general ledger/Workbook records.

[8] Total includes $2,236,736 in ME&O's expense, which should reconcile to the subtotal on line 4 of Table B-1 with an immaterial rounding difference of $17.

[9] Fact Sheet, "Statewide Codes and Standards Program (2013-2014)," March 2013, p. 1, Codes and Standards Support at http://www.cpuc.ca.gov/PUC/energy/Energy+Efficiency/

and appliance energy efficiency regulations. The C&S program also seeks to influence the United States Department of Energy (DOE) in setting national energy policies that impacts California.

In some cases, the C&S activities seek to influence the state legislature and other state agencies like the California Air Resources Board (CARB) to influence policy regarding buildings and appliances. SDG&E may explore ways to influence the US Congress outside the traditional means of negotiating through the Federal partners such as the American Council for an Energy Efficient Economy (ACEEE) or Appliance Standards Awareness Project (ASAP). The Codes and Standards Enhancement (CASE) studies, focused on energy efficiency improvements, are developed for promising designs practices and technologies and presented to standards- and code-setting bodies. The advocacy also includes affirmative expert testimony at public workshops and hearings, participation in stakeholder meetings, ongoing communications with industry, and a variety of other support activities.

At SDG&E, the C&S program consists of five subprograms: 1) Building Codes & Compliance Advocacy; 2) Appliance Standards Advocacy; 3) Compliance Enhancement; 4) Reach Codes; and (5) Planning Coordination.

The C&S program is an incentive based program which the Commission approved in D.13-09-023, OP 3, in the form of a management fee equal to 12% of the approved C&S program costs, excluding administrative costs and not to exceed the authorized budget. Table B-3 provides a summary of the C&S program expenditures audited for program year 2014.

Table B-3
Summary of C&S Verified Program Expenses – 2014

Program Description	Administrative	Others[10]	Total	%
Building Codes & Compliance Advocacy	$ 14,255	$ 159,842	$ 174,097	20%
Appliance Standards Advocacy	22,733	321,414	344,147	40%
Compliance Enhancement	22,490	274,612	297,102	35%
Reach Codes	4,247	11,307	15,554	2%
Planning Coordination	7,726	15,294	23,020	3%
Total C&S Expenditures	**$ 71,451**	**$782,469**	**$ 853,920**	**100%**

Pursuant to D.13-09-023, OP 4, SDG&E filed Advice Letter 2764-E/2396-G on June 30, 2015 for requesting its C&S Program Management Fee incentive award for PY 2014 equal to 12% of approved C&S program expenditures, not to exceed authorized expenditures, and excluding administrative costs. For PY 2014, SDG&E has requested $97,059 as its C&S program incentive award. Table B-3 provides a summary detailing SDG&E's calculation.

[10] Total Others' expense is net of the UAFCB's recommended examination adjustment of ($51,379) in direct implementation costs.

Table B-4
C&S Program Management Fee Calculation - 2014

Description	Amount
Total C&S Non-Administrative Costs[11]	$808,826
Multiplied by 12%	12%
Total C&S Management Fee – PY 2014	**$ 97,059**

B.5 Non-Resource (NR) Programs

The Non-Resource (NR) programs represent energy efficiency (EE) activities that do not focus on displacement of supply-side resources at the time they are implemented, but may lead to displacement over a longer-term, or may enhance program participation overall. The NR programs in themselves do not provide direct energy savings and only have costs, making them not cost-effective on their own. Therefore, to motivate utility management focus on achieving NR program goals while removing disincentives to shift funds and resources away from the NR programs, [12] performance reward for implementing the NR programs is paid in a form of a management fee equal to 3% of NR program expenditures, not to exceed the program authorized expenditures, and excluding administrative costs.[13]

Currently, other than the above general description of what NR programs represent, there are no definitive criteria by which a particular EE program should or should not be classified as a NR program for purposes of calculating the management incentives under the Efficiency Savings and Performance Incentive (ESPI) mechanism. SDG&E categorized the following fourteen programs as non-resource for purposes of determining the management incentive award:

1) SW-ET-Technology Introduction Support
2) SW-ET-Technology Assessment Support
3) SW-ET-Technology Development Support
4) Local-IDSM-ME&O-Local Marketing (EE)
5) Local0IDSM-ME&O-RES LCL MKG EE Residential
6) Local-IDSM-ME&O-Behavioral Programs (EE);
7) SW-IDSM-IDSM
8) SW-IDSM-IDSM
9) SW-ME&O
10) SW-WE&T-Centergies
11) SW-WE&T-Connections
12) SW-WE&T-Strategic Planning
13) CRM; and
14) SW-WE&T-Connections K-12

Table B-5 provides a summary of the audited NR program expenditures for program year 2014.

[11] Per the UAFCB's Examination Report on SDG&E's EE Program for the Period January 1 through December 31, 2013, Observation 4, SDG&E had incorrectly recorded 2012 C&S program costs of $25,025 in 2013. Therefore, in calculating its 2014 incentive award, SDG&E reduced its non-administrative costs by $25,025.
[12] D.13-19-023, Findings of Fact 10, p. 88
[13] D.13-19-023, OP 3(D), p. 95

Table B-5
Verified NR Program Expenses – 2014

Program Description	Administrative	Others	Total[14]	%
SW Tech Intro Support	$ 44,710	$ 557,757	$ 602,467	5.4%
SW Tech Assess Support	67,910	854,246	922,156	8.3%
SW Tech Development Support	34,282	181,788	216,070	1.9%
Local-IDSM-ME&O-Local Mketing-EE	479,593	526,697	1,006,290	9.1%
Local-IDSM-ME&O-RES LCL MKG-EE	125,968	93,169	219,137	2.0%
Local-IDSM-ME&O-Behavioral Prog-EE	166,033	793,980	960,013	8.6%
SW-IDSM-IDSM	36,888	42,621	79,509	0.7%
SW-ME&O	109,105	685,988	795,093	7.2%
SW-WE&T-Centergies	444,793	3,029,241	3,474,034	31.3%
SW-WE&T-Connections	43,777	248,297	292,074	2.6%
SW-WE&T-Strategic Planning	3,184	55,175	58,359	0.5%
CRM	1,907,089	1,459	1,908,548	17.2%
SW-WE&T-Connections K-12	59,236	516,872	576,108	5.2%
Total Non-Resource Expenditures	**$3,522,568**	**$7,587,290**	**$11,109,858**	**100%**

Pursuant to D.13-09-023, OP 4, SDG&E filed Advice Letter 2764-E/2396-G on June 30, 2015 for requesting its NR Program Management Fee incentive award for PY 2014 equal to 3% of approved NR program expenditures, not to exceed authorized expenditures, and excluding administrative costs. For PY 2014, SDG&E has requested $229,620 as its NR program incentive award. Table B-6 provides a summary detailing SDG&E's calculation.

Table B-6
NR Program Management Fee Calculation - 2014

Description	Amount
Total NR Non-Administrative Costs	$7,654,016
Multiplied by 3%	3%
Total NR Management Fee – PY 2014	**$ 229,620**

B.6 EE Administrative Costs

According to Decision (D.) 09-09-047, OP 13(a), "Administrative costs for utility energy efficiency programs (excluding third party and/or local government partnership budgets) are limited to 10% of total energy efficiency budgets…" Also, per D.09-09-047, page 63, "... we [the Commission] direct the utilities to seek to achieve a 10% administrative cost target for third party and local government partnership direct costs (i.e., separate from utility costs to administer these programs)..."

SDG&E classified costs as administrative according to its established list of Allowable Costs, which provides, among other types of costs, a detailed listing of all allowable administrative costs applicable to the EE program. Only types of costs listed on the schedule are claimable and reportable for ratepayer funded EE program activities, and any changes to the schedule need

[14] Total expense is net of UAFCB's recommended examination adjustment of ($204,060) in administrative costs and of ($66,725) in non-administrative costs.

approval from the Commission's Energy Division. Generally, administrative costs consist of labor costs of management and clerical, costs of Human Resource Supports and Development, such as labor benefits payroll tax and pension, and employee travel expenses.

Similar to other IOUs, SDG&E's EE program administrative costs can be grouped into two types, those administrative costs that the IOU incurred for its CORE program activities and those that the IOU incurred in support its Third Party (TP) and Local Government Partnership (LGP) programs. SDG&E incurred additional administrative cost components[15] that are not part of the EE portfolio program expenses presented in Table B-7 (below). Those are recovered through the general rate case (GRC). Table B-7 provides a summary of audited EE program costs with further breakdowns of Administrative Cost components for program years 2013-14.

Table B-7
EE Portfolio Program Expenses (Excluding EM&V)
For 2013-2014

EE Programs	EE Budget 2013-2014	Administrative Costs IOU	Administrative Costs Non-IOU	Total Admin Costs
IOU	130,315,176	12,393,979		12,393,979[16]
LGP	17,577,478	2,008,005	125,675	2,133,680
TP	48,808,806	450,205	839,804	1,290,009
Subtotal	196,701,460	14,852,189	965,479	15,817,668
ME&O	00	(110,760)	00	(110,760)
Grand Total	**$196,701,460**	**$14,741,429**	**$ 965,479**	**$15,706,908**

B.7 Energy Efficiency Balancing Accounts

As of December 31, 2014, the company had six Energy Efficiency (EE) balancing accounts (3 Electric and 3 Gas). Below is a list of SDG&E's EE balancing accounts:

Electric:
1) Electric Procurement Energy Efficiency Balancing Account or EPEEBA:
The purpose of the EPEEBA is to record the costs of procurement energy efficiency program funding authorized in Decision (D.) 03-12-062. In addition, the EPEEBA will record revenues from a non-by-passable surcharge that will fund the procurement energy efficiency program costs as ordered by D.03-12-062.

2) Post-1997 Electric Energy Efficiency Balancing Account or PEEEBA:
Pursuant to D.97-12-103 and Resolution E-3792 of December 17, 2002, the purpose of the PEEEBA is to record the revenues and expenses associated with the electric Energy Efficiency Public Purpose Program (PPP), transference of PPP funds to a new administrator(s), and certain other adjustments in funding levels as authorized by the Commission Decision(s). Pursuant to

[15] These components include incentive compensation, worker's compensation, PLPD, and Pension and Benefits, and are referred to as "Additional Loaders". Per data response to DR-019, dated March 2, 2016, the additional loaders applicable for IOU (CORE) were $3,492,429 for 2013 and $3,426,711 for 2014. UAFCB will account the additional loaders as part of the IOU (CORE) EE program administrative costs when calculating the administrative cost cap for program cycle 2013-15 in auditing the program year 2015 EE programs.

[16] With an immaterial rounding variance of $179 when compared to the total IOU Administrative Cost in Table B-2

Commission D.03-04-027, the Low Income Energy Efficiency (LIEE) portion of the PEEEBA shall be transferred to the Low-Income Energy Efficiency Balancing Account effective May 1, 2003. Pursuant to D.09-09-047, the PEEEBA tracks the corresponding activity in the 2009 bridge funding period and the 2010-2012 energy efficiency program cycle. The PEEEBA also records the costs associated with the On-Bill Financing (OBF) Program adopted in D.05-09-043 and extended by D.09-09-047.

3) DSM Bidding Balancing Account or EPEEBA – Sub-account:
The DSM balancing account, originally established by the Commission D.92-12-019, records costs and revenues associated with certain SDG&E pre-1998 demand-side management (DSM) activities.

<u>Gas</u>
1) Gas Energy Efficiency Balancing Account or GEEBA:
The purpose of the GEEBA is to balance gas energy efficiency program expenses against revenue from January 1, 1998 forward. The GEEBA also facilitates the transfer of gas funds to a new administrator(s), and certain other adjustments to funding levels as authorized by the Commission Decision(s).

Commission Resolution G-3303, dated December 21, 2000, adopted gas PPP surcharge rates effective January 1, 2001 as directed by Assembly Bill (AB) 1002. Resolution G-3303 also: 1) exempts some customers from the PPP surcharge who were not exempt to charges in rates prior to January 1, 2001 and 2) requires utility to make quarterly payments to the California Board of Equalization (BOE).

Commission D.04-08-010 authorized utilities to modify their regulatory accounts to facilitate the unbundling of PPP costs from their rates. D.04-08-010 also notes that while the surcharge collections are in the possession of the State, the applicable interest that applies is the actual amount of interest that accrued while the remittances were on deposit in the State's Gas Consumption Surcharge Fund (Fund).

For energy efficiency and low income energy efficiency program cycles beginning January 1, 2006, program costs and related surcharge funds are recorded to the Post-2005 Gas Low Income Energy Efficiency Balancing Account respectively.

2) DSM Bidding Balancing Account or GEEBA Sub-account:
The DSMBBA, was originally established by the Commission (D.) 92-12-019, and tracked costs and revenues associated with certain SDG&E pre-1998 demand-side management (DSM) activities.

3) Post-2005 Gas Energy Efficiency Balancing Account or PGEEBA:
The purpose of PGEEBA is to balance Post 2005 gas energy efficiency (PGEE) program expenses against revenues for the program cycle beginning January 1, 2006, approved by (D.)05-09-043. Pursuant to the D.09-09-047, the PGEEBA will track the corresponding activity in the 2009 bridge funding period and the 2010-2012 energy efficiency program cycle. The PGEEBA also tracks the costs associated with the On-Bill Financing (OBF) Program adopted in D.05-09-043 and extended by D.09-09-047.

The primary source of revenue recorded in the EE balancing Accounts – Electric and Gas – is from the Public Purpose Program (PPP) billed revenues[17]. The company has 21 monthly billing cycles, regardless of class of customers, and the reporting for the billed revenue follows the revenue billing cycle dates. Hence, a billing cycle that begins in one month and ends in a subsequent month is accounted for and reported in the month that the billing cycle ends. All PPP billed revenues are grouped by customer class. The dis-aggregated total billed revenues are distributed monthly based on pre-determined and -approved allocation percentages to applicable electric balancing accounts – such as the Electric Program Investment Charge Balancing Account (EPIC), the California Alternate Rates for Energy Balancing Account (CAREBA), the Energy Saving Assistance Program (ESAP) or Low-Income Energy Efficiency Balancing Account (LIEEBA), and the Electric Procurement Energy Efficiency Balancing Account (EPEEBA) – and gas balancing accounts – such as the CAREBA, the Post-2005 Gas Energy Efficiency Balancing Account (PGEEBA), and the Post-2005 Gas Low Income Energy Efficiency Balancing Account (PGLIEEBA). Table B-8 provides a summary of net balances of SDG&E's audited EE balancing accounts as of December 31, 2014.

Table B-8
EE Balancing Accounts (EEBA) Balances – As of December 31, 2014

Name	Electric	Gas	Total
PEEEBA- Post-1997 Electric EEBA[18]	$ (20,455,789)	00	$ (20,455,789)
PEEEBA-DSM-Bidding BA	(5,321,739)	00	(5,321,739)
PGEEBA-Post-2006 Gas EEBA	00	$ (18,035,348)	(18,035,348)
PGEEBA- Post-2005 Gas EEBA	(3,357,450)	(5,663,960)	(9,021,410)
GEEBA-DSM Bidding BA	00	(300,707)	300,707
Total Net Over Collection	**$ (29,134,978)**	**$ (24,000,015)**	**$ (53,134,993)**

The over-collections provide a good source of money to SDG&E and reduce the amount it must borrow on a short term to run its business.

B.8 Commercial Calculated Incentives Program

The Commercial Calculated Incentives program, a sub-program of the Statewide – Commercial Program, provides customized incentives for non-residential energy efficiency retrofit projects involving the installation of high-efficiency equipment or systems. Incentives are paid on the energy savings and permanent peak demand reduction above and beyond baseline energy performance, which include state- and federal-mandated codes, industry-accepted performance standards, or other baseline energy performance standards. New offerings within the program in 2013 provide a framework to encourage emerging technologies and more comprehensive retrofits.[19] Table B-9 provides a summary of verified or audited Commercial Calculated Incentives program expenditures for program year 2014.

[17] Other major credit entries, such as cumulative over-collections, on these balancing accounts pertain to credit balances carried forward from prior periods.
[18] Includes EPEEBA net balance of ($88,828,438)
[19] The information can be found at the CPUC website's Fact Sheet and the Company's Energy Efficiency Annual Report for 2014.

Table B-9
Commercial Calculated Incentives Program Expenses – 2014

Program Name	Administrative	Others	Total
Commercial Calculated Incentives	$ 335,256	$ 4,916,120	$ 5,251,376
Total	**$ 335,256**	**$ 4,916,120**	**$ 5,251,376**

B.9 Industrial Calculated Incentives Program

The Industrial Calculated Incentives program, a sub-program of the Statewide – Industrial Program, provides customized incentives for non-residential energy efficiency retrofit and new construction projects involving the installation of high-efficiency equipment or systems. Incentives are paid on the energy savings and permanent peak demand reduction above and beyond baseline energy performance, which include state- and federal-mandated codes, industry-accepted performance standards, or other baseline energy performance standards. New offerings within the program in 2013 provide a framework to encourage emerging technologies and deeper, more comprehensive energy savings.[20] Table B-10 provides a summary of verified or audited Industrial Calculated Incentives program expenditures for program year 2014.

Table B-10
Industrial Calculated Incentives Program Expenses – 2014

Program Name	Administrative	Others	Total
Industrial Calculated Incentives	$ 120,056	$ 1,220,115	$ 1,340,171
Total	**$ 120,056**	**$ 1,220,115**	**$ 1,340,171**

B.10 Fund Shifting

According to (D.) 12-11-015, Opinion Paragraph (OP) 10, the existing fund shifting rules[21] should be applied to the following categories of programs of the IOUs:[22]

a. Statewide residential
b. Statewide commercial
c. Statewide agricultural
d. Statewide industrial
e. Statewide lighting
f. Statewide codes and standards
g. Statewide emerging technologies
h. Statewide workforce, education, and training
i. Statewide marketing, education, and outreach
j. Statewide integrated demand-side management
k. Statewide financing
l. Third party programs (competitively bid)
m. Local government partnerships

[20] The information can be found on the CPUC website's Fact Sheet and the Company's Energy Efficiency Annual Report for 2014.
[21] This is in reference to fund shifting rules in D.09-09-047, OP 43(b) and Ruling (R.) 09-11-014, "Assigned Commissioner's Ruling Clarifying Fund Shifting Rules and Reporting Requirements," dated December 22, 2011.
[22] D.12-11-015, OP 20, pp. 135-136

n. Other

The above enumerated program categories (a-n) are re-characterized into program categories 1 through 14 at R.09-11-014, "Energy Efficiency Policy Manual," Version 5, July 2013, Applicable to post-2012 Energy Efficiency Programs. Generally, fund shifts among the fourteen program categories exceeding 15% require a filing of an Advice Letter. However, there are a few exceptions where a filing of an advice letter is required when fund shifts would reduce the following statewide programs[23] by more than 1% of their respective budget levels: Codes & Standards (C&S) program; Emerging Technology (ET) program; and Marketing Education & Outreach (ME&O) program. For program year 2014, SDG&E conducted eighteen (18) fund shifts and they are:

1) Three shifts in Q1
2) Seven shifts in Q2
3) Six shifts in Q3 accompanied by an Advice Letter; and
4) Two shifts in Q4

B.11 Follow-up on Prior UAFCB's Observations and Recommendations and SDG&E's Internal Audit Report Recommendations

UAFCB performed a follow-up examination on observations and recommendations contained in its prior year examination report addressed to the Deputy Director for Administration and Budget, dated June 30, 2015. There were no outstanding recommendations that SDG&E did not implement. SDG&E also did not conduct an audit covering the period audited by UAFCB.

[23] In this context, C&S program, Emerging Technology program, and Marketing Education & Outreach program are individually treated as subprograms under this exception.

Appendix C
SDG&E's Comments

SDGE
A Sempra Energy utility®

Lisa Davidson
Senior Director, Customer Services

8335 Century Park Court, CP12F
San Diego, CA 92123

Tel: 858-654-8653
Cell: 619-708-6740
LDavidson@semprautilities.com

June 10, 2016

Kayode Kajopaiye
Utility, Audit, Finance and Compliance Branch, Room 3105
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: SDG&E Comments on Draft Financial, Management, Regulatory, and Compliance Examination Report on San Diego Gas & Electric Company's (SDG&E) Energy Efficiency (Energy Efficiency) Programs for the Period January 1, 2014 through December 31, 2014

Dear Mr. Kajopaiye:

San Diego Gas & Electric Company (SDG&E) has reviewed the draft report, dated May 27, 2016, prepared by the Utility, Audit Finance and Compliance Branch (UAFCB). SDG&E focuses its responses on Observations 4, 5, 8, 9, 17 and 20 as these were the only items for which UAFCB provided recommendations. In addition, SDG&E provides comments on the program expenditure totals as discussed in Appendix B.

Responses to Observations

Observation 4:

UAFCB states in Observation 4 (at pages 2 and A-2):

> SDG&E failed to demonstrate compliance with PU Code §§ 581, 582 and 584 when it incorrectly recorded in 2014 $33,384, or 4% of total C&S program non-administrative costs that should have been reported and recorded to PY2013.
>
> Recommendation: Energy Division should reduce the C&S program non-administrative costs by $33,384 before calculating the 2014 management incentive award.

Response:

The invoices in question or estimated invoices were not submitted by the vendor in time for 2013 year-end accrual. The total amount of $33,384 consists of individual invoices below $10,000 (i.e., the invoices were $9,090; $7,270; $5,087; $3,028; $6,717; and $2,192). SDG&E's accrual policy has a threshold for "significant costs" incurred for accrual purposes. These amounts were below the $10,000 threshold for accruals and SDG&E had no basis to record the expenditure in 2013. At the time of receipt of the invoices, SDG&E reviewed, approved and recorded the invoices in 2014 consistent with its payment policies. These were then recorded in 2014. SDG&E was compliant with its accrual policies since the amounts were below the threshold for "significant costs" incurred for accrual purposes

SDG&E will remove the expense of $33,384 from the calculation of the 2014 incentive award resulting from the Codes and Standards (C&S) program. SDG&E, however, clarifies that UAFCB does not dispute that these are valid payments and that UAFCB only focuses on the appropriate program year to report these expenses.

SDG&E will continue to strengthen its oversight over its Energy Efficiency accrual process. Program staff has already been provided additional training on this matter.

Observation 5:

UAFCB states in Observation 5 (at pages 5 and A-3):

> SDG&E failed to demonstrate compliance with PU Code §§ 581, 582 and 584 when it incorrectly overpaid its co-funding share of cost to Pacific Gas and Electric Company (PG&E) by $17,995, or 2% of the total 2014 C&S program non-administrative costs.
>
> Recommendation: Energy Division should reduce C&S program non-administrative costs by another $17,995 before calculating the 2014 management incentive award. Also, SDG&E should replenish ratepayer funds of $17,995 and provide relevant documents to UAFCB 30 days after this report is published to show the return of the amount by SDG&E.

Response:

SDG&E concurs with this observation that it overpaid PG&E by $17,995. SDG&E is in the process of billing PG&E for the amount of $17,995 which will credit the EE balancing account accordingly. SDG&E will provide UAFCB with the relevant documentation regarding this transaction 30 days from the publication of the final UAFCB report.

SDG&E will remove the expense of $17,995 from the calculation of the 2014 incentive award resulting from the Codes and Standards (C&S) program.

Observation 8:

UAFCB states in Observation 8 (at pages 3 and A-4 and A-5):

> SDG&E failed to demonstrate compliance with PU Code §§ 581, 582, and 584 and its established accrual policy and procedures. SDG&E incorrectly recorded in 2014 marketing non-labor costs of $204,060, or 3% of the total 2014 NR program non-administrative costs that should have been recorded in PY 2013.
>
> Recommendation: Energy Division should reduce NR program non-administrative costs by $204,060 before calculating the 2014 management incentive award and SDG&E should strengthen its oversight on its existing accrual practices and procedures to ensure that each expense item having a value of $10,000 or more is properly accrued.

Response:

The invoices in question or estimated invoices associated with the Statewide Marketing, Education and Outreach (SW ME&O) program were not submitted by the vendor in time for 2013 year-end accrual. SDG&E had no basis to record the expenditure in 2013 since it did not receive an estimate of the invoices. At the time of receipt of the invoices, SDG&E reviewed, approved and recorded the invoices in 2014 consistent with its payment policies. These were then recorded in 2014.

UAFCB recommends that SDG&E remove the expense of $204,060 from the calculation of the 2014 incentive award resulting from the SW ME&O program. SDG&E, however, clarifies this program is not part of the 2014 EE incentive basis; therefore this recommendation does not apply.

Furthermore, SDG&E clarifies that UAFCB does not dispute that these are valid payments and that UAFCB only focuses on the appropriate program year to report these expenses.

SDG&E will continue to strengthen its oversight over its Energy Efficiency accrual process. Program staff has already been provided additional training on this matter.

Observation 9: (Page 9 and A-5)

UAFCB states in Observation 9 (at pages 9 and A-5):

> SDG&E failed to demonstrate compliance with PU Code §§ 581, 582, and 584 and its established accrual policies and procedures. SDG&E incorrectly recorded in 2014 costs for consulting services of $66,725, or 1% of the total 2014 NR program non-administrative costs that should have been recorded in PY 2013.
>
> Recommendation: Energy Division should reduce NR program non-administrative costs by another $66,725 before calculating 2014 management incentive award and SDG&E should strengthen its oversight on existing accrual practices and procedures to ensure each expense item having a value of $10,000 or more is properly accrued.

Response:

The invoices in question or estimated invoices associated with the Workforce Education and Training (WE&T) program were not submitted by the vendor in time for 2013 year-end accrual. SDG&E had no basis to record the expenditure in 2013 since it did not receive an estimate of the invoices. At the time of receipt of the invoices, SDG&E reviewed, approved and recorded the invoices in 2014 consistent with its payment policies. These were then recorded in 2014.

SDG&E will remove the expense of $66,725 from the calculation of the 2014 incentive award resulting from the WE&T program. SDG&E, however, clarifies that UAFCB does not dispute that these are valid payments and that UAFCB only focuses on the appropriate program year to report these expenses.

SDG&E will continue to strengthen its oversight over its Energy Efficiency accrual process. Program staff has already been provided additional training on this matter.

Observation 17 (Page 4 and A-8 and A-9):

UAFCB states in Observation 17 (at pages 4,A-5 and A-9):

> SDG&E failed to demonstrate compliance with PU Code §§ 581, 582, and 584 and applicable Commission's directives. SDG&E misclassified expenses related to direct

> implementation incentive payments of $1,031,781 as direct implementation non-labor in 2013, and corrected the said error in 2014. This cost misclassification and the subsequent correction did not impact ratepayer funds because the related costs were under the same cost category (Direct Implementation) and under the same sub-program (Commercial Calculated Incentives).
>
> Recommendation: SDG&E should strengthen its oversight on recording and classifying EE program expenses to ensure proper program cost determination and reporting.

Response:

SDG&E has corrected this misclassification of costs through its journal entry procedure. Please see attached journal entry documentation. (The attachment contains confidential and proprietary information and is being submitted pursuant to G. O. 66-C and PU Code 583.)

SDG&E will continue to strengthen its oversight over its Energy Efficiency cost categorization process. Program staff has already been provided additional training on this matter.

Observation 20: (Page 5 and A-10 and A-11)

UAFCB states in Observation 20 (at pages 5,A-10 and A-11):

> SDG&E failed to demonstrate compliance with PU Code §§ 581, 582, and 584 and the applicable Commission directives when it made a total of 18 fund shifts during 2014, but failed to file an Advice Letter by the end of the second quarter of 2014. By the end of Q2, the total funds shifted to the SW Commercial EE Programs and Third Party Programs had each accumulated to -25% and 27% of their respective authorized funding levels. Yet, SDG&E failed to file an Advice Letter.
>
> Recommendation: SDG&E shall file a Tier 3 advice letter with the Energy Division seeking approval of SDG&E's interpretation of the fund shifting rules.

Response:

SDG&E disagrees with UACFB's interpretation of the fund shifting rules and that its fund shifts during 2014 would have required advice letters. The data requests and responses were focused on the how the threshold for fund shifts are calculated. SDG&E disagrees with UAFCB's interpretation of "per annum" as it pertains to setting the threshold for a fund shifting advice letter.

A more detailed discussion of SDG&E's fund shifts in the draft report's Appendix A focuses on the details of the fund shift of the first and second quarter. The 2014 Q1 fund shifts referred to were all within each of the impacted program categories (Commercial, Industrial and Third Party programs).[1] The Fund Shifting rules do not require an advice letter for fund shifts within program categories.[2]

In Q2 2014, SDG&E added two new programs that were ordered by the Commission without an increase to the program portfolio budget, SW-CALS - Res Upstream HVAC Equipment Incentive and SW-CALS - Res HVAC Code Compliance Incentive with their specific program design approval obtained through advice letters AL 2498-E/2210-G and AL 2516-E/2225-G, respectively. AL 2498-E/2210-G was approved February 21, 2014 and AL 2516-E/2225-G was approved January 14, 2014.[3] These programs were not officially launched until the second quarter of 2014. In order to fund these programs, SDG&E had to fund shift from other programs in order to create a budget for these programs. Essentially, these advice letters and their approval were the mechanism by which these funds shifts were enacted in the second quarter. All other funds shifts were within the program category and therefore did not require additional advice letters to approve these fund shifts.

SDG&E is not clear as to why UAFCB determined that it is necessary for SDG&E to file an advice letter, let alone a Tier 3 advice letter, regarding its fund shifts based on the information provided in the draft UAFCB report. SDG&E, therefore, strongly disagrees with the recommendation to file any advice letter for its Q1 and Q2 fund shifts.

---

[1] SDG&E Fundshifting 2014 Q1 Report available at http://eestats.cpuc.ca.gov/Views/Documents.aspx.
[2] Energy Efficiency Policy Manual Appendix C: Adopter Fund Shifting Rules, Version 5 July 2013, page 64.
[3] SDG&E Fundshifting 2014 Q1 Report available at http://eestats.cpuc.ca.gov/Views/Documents.aspx.

SDG&E also notes that at the exit interview held on May 4, 2016, UAFCB discussed their draft finding on this matter and at that time informed SDG&E that its recommendation on the matter would be directed at Energy Division staff to provide clarity on "...the meaning of 'per annum' as to whether the term contains an inherent <u>annual</u> cumulative effects and if so, how should the existing fund shifting provisions be applied in accounting and reporting fund shifts in terms of the quarterly reporting and Advice Letter filing."[4]

In addition, SDG&E informed UAFCB that D.15-10-028 Ordering Paragraph 18 eliminates the fund shifting letter requirements moving forward.

> 18. We eliminate requirements that energy efficiency program administrators (PAs) file advice letters for authorization to shift funds among authorized programs. If Commission Staff or stakeholders identify fund-shifting activities that substantially depart from Commission policy direction or, in the opinion of Commission Staff or stakeholders, are not in the best interest of ratepayers and/or the efficiency portfolios they may raise their concerns in a protest to the PA concerns next budget advice letter.

Therefore it would be a waste of both Commission, utility and intervenor resources to file a Tier 3 advice letter to address this erroneous observation.

<u>*Comments on Appendix B*</u>

SDG&E notes that no workpapers to review the Appendix B tables were provided so SDG&E cannot verify and therefore cannot confirm the financial summaries provided in Appendix B. The following comments address inconsistencies within the report.

1. Inconsistencies between Tables B-1 and B-2

At page B-1, "SDG&E spent <u>$155.7 million</u> or 75.8 percent of the total 2013-2014 authorized budget. Table B-1 provides a summary of the authorized EE portfolio funding and actual spending for 2013-2014 EE programs, net of UAFCB's recommended examination adjustments for program year 2014 of ($51,379) in Code & Standards program's expenses and of ($270,785) in Non-Resource program's expenses."

[4] SDG&E Audit Summary, May 4, 2016 provided to SDG&E by UAFCB, page 4 of 4.

Comments:

SDG&E assumes that the $155.7 million total expenditure cited the statement at page B-1 above is the reported SDG&E total and not the UAFCB verified total. If the assumption is correct, then the SDG&E reported total expenditure should include the recommended exceptions cited in Observations 4, 5, 8 and 9 which total $322,164.[5] The correct reported total would then be $156.04 million or $156,037,281.

Based on the statement at page B-1 above, SDG&E assumes that the values provided in Table B-1 have been adjusted by the amounts that UAFCB has recommended be excluded as part of their observations.

a. SDG&E notes there is a discrepancy of $596,465 between the B-1 2013-2014 Grand Total of **$155,715,117million**; and the Total for 2013-2014 **in** Table B-2 of **$156,311,582.** This discrepancy is not explained in the draft report.

b. The total 2013-2014 EE Expenditures should only exclude the $17,995 since this was an overpayment to PG&E. The $33,384 from Observation 4, and $66,725 from Observation 9 should be included in the total 2013-2014 EE Expenditures (excluding SW ME&O) since they are valid expenses and UAFCB only recommends that they be included as part of the 2013 expenditures instead of 2014.

c. Table B-1 Total 2014 Expenditures -- $83,896,802 is inconsistent with Table B-2 Total 2014 Expenditures --$83,592,966.

2. Inconsistencies in the Administrative Costs between Table B-2 and Table B-5
Comment:

a. Table B-2 shows SDG&E's 2013-2014 IOU/(Core) Administrative Costs as $12,597,860. However, the SDG&E 2014 Q4 Quarterly Report shows the total to be $10,393,363.[6] SDG&E has programs that it exempts from the administration cost category as noted in Note 5 of its quarterly report based on exempted programs and activities discussed in D. 09-09-047. The draft report should acknowledge and account for SDG&E's exemptions.

[5] SDGEFUNDSHIFTING2014Q4.XLS available at http://eestats.cpuc.ca.gov/Views/Documents.aspx.
[6] SDGEFUNDSHIFTING2014Q4.XLS available at http://eestats.cpuc.ca.gov/Views/Documents.aspx.

b. There is a discrepancy of $314,641 between in Table B-2 Total IOU/(Core) Administrative of $12,597,860 and Table B-5 Total 2013-2014 IOU Administrative Costs of $12,283,219.

3. Correction to Footnote 14
Comment:

The footnote states "$3,492,429 for 2013", it should be corrected to "$3,492,419.

Sincerely,

Lisa Davidson
Senior Director – Customer Services
San Diego Gas and Electric

cc: B. Ayanruoh – UAFCB
F. Ly- UAFCB
B. Sieren-Smith - UAFCB
S. Patrick- SDG&E
A. Besa - SDG&E
J. Yamagata- SDG&E
Central Files

Appendix D
SDG&E's Supplemental Comments

SDGE
A Sempra Energy utility®

Lisa Davidson
Senior Director, Customer Services

8335 Century Park Court, CP12F
San Diego, CA 92123

Tel: 858-654-8653
Cell: 619-708-6740
LDavidson@semprautilities.com

June 16, 2016

Kayode Kajopaiye
Utility, Audit, Finance and Compliance Branch, Room 3105
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: Updated SDG&E Comments on Draft Financial, Management, Regulatory, and Compliance Examination Report on San Diego Gas & Electric Company's (SDG&E) Energy Efficiency (EE) Programs for the Period January 1, 2014 through December 31, 2014

Dear Mr. Kajopaiye:

SDG&E submitted its comments in response to the May 27, 2016 Utility Audit Finance and Compliance Branch (UAFCB) SDG&E Draft Financial, Management, Regulatory and Compliance Examination Report on June 10, 2016. The purpose of this follow-up letter is to provide an update to its response to Observation 5. In its efforts to comply with the recommendation, SDG&E has reviewed its documents related to Observation 5 and determined that it had already worked with PG&E and received the recommended refund.

<u>Updated Response to Observation 5</u>

Observation 5:

UAFCB states in Observation 5 (at pages 5 and A-3):

> SDG&E failed to demonstrate compliance with PU Code §§ 581, 582 and 584 when it incorrectly overpaid its co-funding share of cost to Pacific Gas and Electric Company (PG&E) by $17,995, or 2% of the total 2014 C&S program non-administrative costs.
>
> Recommendation: Energy Division should reduce C&S program non-administrative costs by another $17,995 before calculating the 2014 management incentive award. Also, SDG&E should replenish ratepayer funds of $17,995 and provide relevant documents to UAFCB 30 days after this report is published to show the return of the amount by SDG&E.

Updated Response:

SDG&E concurs with this observation that it overpaid PG&E by $17,995. ~~SDG&E is in the process of billing PG&E for the amount of $17,995 which will credit the EE balancing account accordingly. SDG&E will provide UAFCB with the relevant documentation regarding this transaction 30 days from the publication of the final UAFCB report.~~

SDG&E's C&S program staff, upon notification of the overpayment, worked with PG&E to recover the overpaid amount. Both parties agreed that the overpayment of $17,995 would be shown as a credit against the next available invoice, the March 24, 2016 invoice (please refer to **DEC2015_FEB2016 PGE INV.7522075_FEDSTADSCFA.PDF**). The invoice explicitly accounts for the overpayment of $17,995 (see page 2 of the invoice):

> This initial invoice also includes a reimbursement for an overcharge that was caused by applying the wrong percentage in January through May of 2014 under the previous cofounding agreement for Federal Standards Tech Support and Advocacy.
>
> The overcharge amount credited on this invoice $17,994.73.

SDG&E has completed the journal entry to credit back the 2013-2014 C&S program. Please refer to attachment **PGE BILLING CORRECTION.PDF.**

SDG&E will remove the expense of $17,995 from the calculation of the 2014 incentive award resulting from the Codes and Standards (C&S) program.

Sincerely,

Lisa Davidson
Senior Director – Customer Services
San Diego Gas and Electric

cc: B. Ayanruoh – UAFCB
F. Ly- UAFCB
B. Sieren-Smith - UAFCB
S. Patrick- SDG&E
A. Besa - SDG&E
J. Yamagata- SDG&E
Central Files