

Memorandum



Date: July 31, 2017

To: Timothy J. Sullivan
Executive Director

From: Public Utilities Commission—
San Francisco

Kayode Kajopaiye, Chief
Utility Audit, Finance and Compliance
Branch

A handwritten signature in black ink, appearing to be "Kajopaiye", written over the typed name.

Subject: Financial, Management, Regulatory, and Compliance Examination Report on Southern California Edison Company's (SCE's) Energy Efficiency (EE) Program For the period January 1, 2015 through December 31, 2015

The Utility Audit, Finance and Compliance Branch (UAFCB) examined Southern California Edison Company's (SCE's) financial, management, regulatory, and compliance areas of the Energy Efficiency (EE) program for program year (PY) 2015. Except for matters discussed in Observations (Obs.) 6, 8, 10, 14, 27, 30, and 33 below, SCE demonstrated compliance with Commission directives respecting the areas examined. However, UAFCB found that SCE overstated its 2015 recorded expenditures used for calculating the Management Fee Incentive awards for the Codes & Standards (C&S) Program by a total of \$87,434 as indicated in Obs. 14. In addition, SCE also overstated the EE expenditures used for calculating its 2015 Resource Programs Savings Incentives by a total of \$244,349 (\$64,381, \$22,017, and \$157,951, respectively) as reflected in Obs. 8, 30, and 33. The Energy Division (ED) should not include \$331,783 in the calculation of the incentive awards for these programs. UAFCB is concerned that there is no clear guidance from the Commission for the calculation of the administrative cost cap requirement based on the EE program portfolio budget. There are different interpretations and applications of its decision in practice by the utilities. The details of UAFCB's observations and recommendations are provided in Appendix A.

UAFCB conducted this examination pursuant to Ordering Paragraph (OP) 17 of Decision (D.) 13-09-023.¹ The scope of the EE examination includes : (1) Total EE Program Year (PY) 2015 Cost Reconciliation; (2) 2013-2015 EE Program Cycle Investor Owned Utility (IOU) Administrative Costs; (3) 2013-2015 EE Program Cycle Non-IOU Administrative Costs; (4) 2013-2015 Amounts Spent, Committed, Unspent and Uncommitted ; (5) Codes and Standards (C&S) Program and Subprograms – 2015; (6) Non-Resource (NR) Program and Subprograms - 2015; (7) Energy Upgrade California (EUC) – Home Upgrade Program – 2015; (8) Commercial Deemed Incentives – Commercial Rebate (CDIR) Program – 2015; (9) Industrial EE Program and Subprograms – 2015; (10) Agricultural EE

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." D.14-10-46, Finding of Fact No. 29, p.152, provides that "The Budgets" we approve here reflect each PA's authorized expenditures for 2015 programs (including funds PAs "commit" in 2015, to be paid out in subsequent years). Since we are generally treating 2015 as a third year 2013-2015 cycle, it is as if 2015 amounts were added to the budgets we authorize in D.12-11-015."

Program and Subprograms – 2015; (11) Local Government Partnership (LGP) Program and Subprograms – 2015; and (12) Follow-up on Prior UAFCB's Observations and Recommendations and SCE's Internal Audit (IA) Recommendations.

SCE'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 brief summary of UAFCB's observations and recommendations resulting from its examination. A detailed description of UAFCB's analysis and observations is included in Appendix A.

Total EE Program Year (PY) 2015 Cost Reconciliation

Observation 1: SCE demonstrated compliance with Public Utility (PU) code §§ 581, 582, and 584 respecting the total reported EE portfolio program costs in PY 2015.² The total recorded and reported in PY 2015, excluding Evaluation, Measurement and Verification (EM&V) and Statewide Marketing, Education and Outreach (ME&O) costs, amounted to \$304,339,920.³ A reconciliation of this amount reported in the California Energy Efficiency Statistics (EEStats)⁴ web portal, including the Annual Report (Table 3), Quarterly reports, and Monthly reports, to SCE's accounting records disclosed no material exceptions.

Recommendation: None.

Observation 2: SCE's compliance with PU code §§ 581, 582 and 584 respecting the timely filing of required EE program reports could not be ascertained in this examination. SCE filed its Monthly, Quarterly, Annual reports as required by the Commission. However, UAFCB was unable to validate the timeliness of these filings due to Energy Division's (ED's) practice of informally granting extension requests to file or re-file reports (Monthly Report, Quarterly Report, and/or Annual Report) without maintaining any form of documentation and/or records.

Recommendation: ED should approve extension requests by a letter to the utility so that the reporting requirements can be verified by the UAFCB when it conducts its examination. A standard approval letter can be the solution instead of approval by email or telephone.

2013-2015 EE Program Cycle IOU Administrative Costs

Observation 3: SCE demonstrated compliance with PU code §§ 581, 582, and 584 respecting the total reported EE Program IOU administrative costs for the 2013-2015 program cycle. SCE's total administrative expenditures recorded and reported amounted to \$24,657,544. A reconciliation of this amount reported in EEStats, including the Annual Report (Table 3) and Quarterly reports, to SCE's accounting records disclosed no material exceptions.

Recommendation: None.

² All statutory references are to the Public Utilities Code unless stated otherwise.

³ Refer to Appendix B, Table B-2, for a detailed breakdown of SCE's verified total EE portfolio program costs in PY2015.

⁴ The California Energy Efficiency Statistics (EEStats) is a repository of utility-submitted reports to the Commission.

Observation 4: SCE demonstrated compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 IOU administrative amounts sampled for verification. UAFCB verified \$60,033 expended as administrative costs in PY 2015 and found no material exceptions.

Recommendation: None.

Observation 5: SCE's internal policy and procedures for the tracking and recording of EE Program IOU administrative costs were adequately designed to meet Commission directives in PY 2015. SCE was in compliance with its internal Energy Efficiency Programs Administrative Costs Policy, CPS-PL-DIV-0005, V1.0, dated April 3, 2015.

Recommendation: None.

Observation 6: SCE's compliance with Commission Decision (D.) 09-09-047, Ordering Paragraph (OP) 13 and other applicable Commission directives respecting the 10% IOU administrative cost cap for the 2013-2015 EE program cycle could not be ascertained in this examination due to unspecified inputs for the calculation by the Commission. SCE reported its administrative cost cap at 4.3% because it included in the denominator of the calculation the EM&V and ME&O budget amounts. UAFCB's determination of SCE's cost cap for the same period disclosed more than 10% because it excluded these amounts. UAFCB's calculations produced 10.7% cost cap based on SCE's total EE program budget for the 2013-2015 program cycle and 12.9% based on SCE's EE program operating expenses for the same period.

Recommendation: UAFCB recommends that the Commission clarify the 10% administrative cost cap requirement and provide specific instructions to avoid ambiguity. If the Commission agrees with the UAFCB's method, UAFCB recommends that administrative expense amount in excess of the 10% cap be refunded to ratepayers.

2013-2015 EE Program Cycle Non-IOU Administrative Costs

Observation 7: Except for Observation 8 below, SCE demonstrated compliance with PU code §§ 581, 582, and 584 respecting the total reported EE Program Non-IOU administrative costs for the 2013-2015 program cycle. The total recorded and reported amounted to \$6,181,838. A reconciliation of this amount reported in EEStats, including the Annual Report (Table 3) and Quarterly reports, to SCE's accounting records disclosed no material exceptions.

Recommendation: None.

Observation 8: SCE failed to demonstrate compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 Non-IOU administrative amounts sampled for verification. SCE incorrectly included \$64,381 in 2015 PY expenditures belonging to 2014 PY. The amount was charged to Third Party (TP) program administrative costs.

Recommendation: SCE should adhere to its own accrual basis of accounting in recording and reporting EE expenditures and ensure that EE Non-IOU administrative costs are properly booked to allow for an accurate cost target calculation at the end of each program cycle.

Observation 9: SCE's internal policy and procedures for the tracking and recording of EE Program Non-IOU administrative costs were adequately designed to meet Commission directives in PY 2015. SCE was in compliance with its internal Energy Efficiency Programs Administrative Costs Policy, CPS-PL-DIV-0005, V1.0, dated April 3, 2015.

Recommendation: None.

Observation 10: SCE demonstrated compliance with Commission D.09-09-047 and other applicable Commission directives respecting the 10% administrative cost target for the 2013-2015 program cycle. SCE reported an administrative cost target of 2.8%. UAFCB's calculations produced an administrative cost target of 4.3% based on SCE's combined TP and LGP Non-IOU administrative operating expenses for the same period.

Recommendation: The Commission should clarify which method is appropriate.

Amount Spent, Committed and Unspent/Uncommitted 2013 - 2015

Observation 11: SCE demonstrated compliance with PU code §§ 581, 582, and 584 respecting the total EE portfolio amounts reported as spent, committed, and unspent/uncommitted for the 2013-2015 program cycle. The total recorded and reported as spent, committed, and unspent/uncommitted amounted to \$820,702,544, \$197,434,913, and \$206,826,798, respectively. A reconciliation of these amounts reported in EEStats to SCE's accounting records for the 2013-2015 program cycle disclosed no material exceptions.

Recommendation: None.

Observation 12: SCE's internal policy and procedures for the tracking and recording of EE portfolio expenditure amounts spent, committed, and unspent/uncommitted were adequately designed to meet Commission directives during the 2013-2015 program cycle. SCE had the necessary policy and procedures in place to account for the EE portfolio amounts to ensure compliance with Commission directives.

Recommendation: None.

Codes and Standards (C&S) Program and Subprograms – 2015

Observation 13: Except for Observation 14 below, SCE demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported C&S program costs in PY 2015. The \$6,607,962 reported in the December 2015 year-to-date Monthly EEStats report and in Advice Letter (AL) 3464-E reconciled to SCE's accounting records.

Recommendation: None.

Observation 14: SCE failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SCE's established accrual policy and procedures. SCE incorrectly included \$87,434 in 2015 PY expenditures belonging to 2014 PY. The amount was charged to the Direct Implementation cost category.

Recommendation: SCE has since filed AL 3464-E to claim its Management Fee incentive award for PY 2015. The Commission's ED should deduct \$87,434 from the 2015 C&S expenditures when SCE's 2015 ex-post Energy Savings and Performance Incentive (ESPI) true-up AL is processed.

Observation 15: SCE's internal policies and procedures for implementing the C&S program were adequately designed to meet Commission directives in PY 2015. With exception to Observation 14 above, SCE was in compliance with its internal CP&S Accrual Procedure Manual, CP&S Journal Entry Correction Procedure Manual, Monthly Financial Review Policy Manual, and Year-End Accrual Procedure Manual.

Recommendation: None.

Non-Resource (NR) Program and Subprograms - 2015

Observation 16: SCE demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported Non-Resource (NR) Program costs in PY 2015. The \$22,197,349 reported in the December 2015 year-to-date Monthly EEStats report and in AL 3464-E reconciled to SCE's accounting records.

Recommendation: None.

Observation 17: SCE demonstrated compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 NR program cost amounts sampled for verification. UAFCB verified \$3,866,454 expended on the NR Program and found no material exceptions.

Recommendation: None.

Observation 18: SCE's internal policy and procedures for implementing the NR programs were adequately designed to meet Commission directives in PY 2015. SCE was in compliance with the applicable provisions of D.12-11-015, D.13-09-023, D.14-10-046 and the Energy Efficiency Policy Manual, v.5, dated July 2013 for the NR Program.

Recommendation: None.

Observation 19: The criteria used by SCE for designating EE programs as Resource and Non-Resource were in compliance with the Commission's directives. SCE applied the definition contained in the EE Policy Manual (R.09-11-014), Version 5, July 2013, when determining whether an EE program is classified as Resource or Non-Resource.

Recommendation: None.

Energy Upgrade California (EUC) – Home Upgrade Program - 2015

Observation 20: SCE demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported Statewide EUC – Home Upgrade program costs in PY 2015. The total recorded and reported amounted to \$7,540,228. A reconciliation of this amount reported in EEStats, including the December 2015 year-to-date Monthly report and Quarterly reports, to SCE's accounting records disclosed no material exceptions.

Recommendation: None.

Observation 21: SCE demonstrated compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 EUC – Home Upgrade program cost amounts sampled for verification. UAFCB verified \$3,674,443 expended on the EUC – Home Upgrade program and found no material exceptions.

Recommendation: None.

Observation 22: SCE's internal policies and procedures for implementing the EUC – Home Upgrade program were adequately designed to meet Commission directives in PY 2015. SCE was in compliance with its internal 2013-2015 Statewide Customized Retrofit Offering Procedures Manual and Energy Upgrade Program P&P Manual v.1.1.

Recommendation: None.

Commercial Deemed Incentives – Commercial Rebate (CDIR) Program – 2015

Observation 23: SCE demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported CDIR program costs in PY 2015. The total recorded and reported in PY 2015 amounted to \$26,873,707. A reconciliation of this amount reported in EEStats, including the December 2015 year-to-date Monthly report and Quarterly reports, to SCE's accounting records disclosed no material exceptions.

Recommendation: None.

Observation 24: SCE demonstrated compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 CDIR program cost amounts sampled for verification. UAFCB verified \$7,375,133 expended on the CDIR program and found no material exceptions.

Recommendation: None.

Observation 25: SCE's internal policy and procedures for implementing the CDIR program were adequately designed to meet Commission directives in PY 2015. SCE was in compliance with its internal Express Solutions Program Manual, v.7.

Recommendation: None.

Industrial EE Program and Subprograms - 2015

Observation 26: Except for Observation 27 below, SCE demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported Industrial EE Program costs in PY 2015. The total recorded and reported amounted to \$6,997,807. A reconciliation of this amount reported in EEStats, including the December 2015 year-to-date Monthly report and Quarterly reports, to SCE's accounting records disclosed no material exceptions.

Recommendation: None.

Observation 27: SCE failed to demonstrate compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 Industrial EE Program cost amounts sampled for verification. UAFCB verified \$1,009,356 expended on the Industrial EE Program and found three (3) transactions that were misclassified. However, these transactions did not have an overall impact on the program costs.

Recommendation: SCE should closely monitor its third-party reviewers to ensure that they properly code or categorize all relevant EE program invoices in order to alleviate any potential recording errors.

Observation 28: SCE's internal policy and procedures for implementing the Industrial EE Program were adequately designed to meet Commission directives in PY 2015. SCE was in compliance with its internal Customized Solutions Offering P&P Manual, v.1.4.

Recommendation: None.

Agricultural EE Program and Subprograms - 2015

Observation 29: Except for Observation 30 below, SCE demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported Agricultural EE Program costs in PY 2015. The total recorded and reported amounted to \$7,410,021. A reconciliation of this amount reported in EEStats, including the December 2015 year-to-date Monthly report and Quarterly reports, to SCE's accounting records disclosed no material exceptions.

Recommendation: None.

Observation 30: SCE failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SCE's established accrual policy and procedures. SCE incorrectly included \$22,017 in 2015 PY expenditures belonging to 2014 PY. This amount was charged to the Direct Implementation cost category.

Recommendation: SCE has since filed AL 3464-E to claim its Resource Programs Savings Incentives award for PY 2015. The Commission's ED should deduct \$22,017 from the 2015 Agricultural EE Program expenditures when SCE's 2015 ex-post ESPI true-up AL is processed. In addition, SCE should closely monitor its third-party reviewers to ensure that they properly code or categorize all relevant EE program invoices in order to alleviate any potential recording errors.

Observation 31: SCE's internal policy and procedures for implementing the Agricultural EE Program were adequately designed to meet Commission directives in PY 2015. SCE was in compliance with its internal Pump Test Services Offering P&P Manual, v.1.

Recommendation: None.

Local Government Partnership (LGP) Program and Subprograms - 2015

Observation 32: Except for Observation 33 below, SCE demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported LGP Program costs in PY 2015. The total recorded and reported amounted to \$19,288,693. A reconciliation of this amount s reported in

EEStats, including the December 2015 year-to-date Monthly report and Quarterly reports, to SCE's accounting records disclosed no material exceptions.

Recommendation: None.

Observation 33: SCE failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SCE's established accrual policy and procedures. SCE incorrectly included \$138,737 in 2015 PY the expenditures belonging to 2014 PY. In addition, SCE improperly recorded \$19,214 in 2015 PY that was properly accrued and charged to 2014 PY. These amounts were charged to the Direct Implementation cost category.

Recommendation: SCE has since filed AL 3464-E to claim its Resource Programs Savings Incentives award for PY 2015. The Commission's ED should deduct \$157,951 from the 2015 LGP Program expenditures when SCE's 2015 ex-post ESPI true-up AL is processed.

Observation 34: SCE's internal policies and procedures for implementing the LGP Programs were adequately designed to meet Commission directives in PY 2015. SCE was in compliance with its internal Customer Programs & Services (CP&S) Journal Entry Correction Procedure Manual, Monthly Financial Review Policy Manual, and Year-End Accrual Procedure Manual.

Recommendation: None.

Follow-up on Prior UAFCB's Observations and Recommendations and Utility Internal Auditor (IA) Reports

Observation 35: SCE addressed and implemented all of UAFCB's audit recommendations specified in UAFCB's Audit Memo Report for the 2014 EE Program examination.

Recommendation: None.

Observation 36: SCE demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reporting of EE labor costs in PY 2015. UAFCB's review of SCE's standard labor costing (SLC) system embedded in its accounting system is reasonable for the accounting and reporting of EE program labor costs.

Recommendation: None.

Observation 37: SCE identified internal audit reports #Y15-51003 – Energy Efficiency - Fund Shifting and #Y15-51004 – Energy Efficiency - Balancing Account Expenditures Process that related to EE Program activities for the PY 2015 examination period. In internal audit report #Y15-51003, dated July 27, 2015, SCE's Audit Services (AS) conducted a review of the EE fund shifting process. In internal audit report #Y15-51004, dated June 10, 2015, AS conducted a review of the 2014 expenditure process for the Procurement Energy Efficiency Balancing Account (PEEBA) #2432425. A few deficiencies were noted in the reports requiring corrective actions.

Recommendation: SCE management addressed and corrected the issues raised by AS in internal audit reports Y15-51003 and Y15-51004 by or before August 3, 2015.

UAFCB appreciates SCE's efforts in strengthening its internal controls for its EE program and recommends that SCE continue to monitor and improve them in order to prevent any future deficiencies.

B. Examination Process

UAFCB developed the scope of its examination based on consultation with the Energy Division, UAFCB's prior experience in examining SCE's EE program, and the results of UAFCB's risk assessment. Pertinent information about SCE's EE programs can be found in Appendix B.

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

On June 8, 2017, UAFCB provided a draft of its analysis, observations and recommendations to both SCE and the Commission's Energy Division (ED) for comment. SCE and ED provided their comments to UAFCB's draft on June 20, 2017 and July 3, 2017, respectively. UAFCB summarized SCE's and ED's comments, including UAFCB's rebuttal to those comments, in Appendix A. Where appropriate, UAFCB modified its observations and recommendations based on SCE's and ED's comments. SCE's response in its entirety is provided in Appendix C.

C. Conclusion

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

No later than 30 days from the date of this report, SCE should provide to the management of the UAFCB its corrective action plan on the matters discussed above where applicable.

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

cc: Maryam Ebke, CPUC, Deputy Executive Director
Pete Skala, CPUC, Energy Division, Deputy Director
Robert Strauss, CPUC, Energy Division
Barbara Owens, Executive Division
Kevin Nakamura, UAFCB
Jeffrey Walter, UAFCB

Appendix A Analysis and Findings

A.1 Introduction

The Utility Audit, Finance and Compliance Branch (UAFCB) examined Southern California Edison Company's (SCE's) financial, management, regulatory, and compliance areas of Energy Efficiency (EE) programs for program year (PY) 2015. Except for Observations (Obs.) 6, 8, 14, 27, 30, and 33 below, SCE demonstrated compliance with Commission directives respecting the areas of its EE programs that the UAFCB examined for PY 2015.

This examination memo report addresses the financial, management, regulatory, and compliance aspects of EE Program for PY 2015. UAFCB's examination covered the following areas:

- (1) Total EE Program Year (PY) 2015 Cost Reconciliation
- (2) 2013-2015 EE Program Cycle Investor Owned Utility (IOU) Administrative Costs
- (3) 2013-2015 EE Program Cycle Non-IOU Administrative Costs
- (4) 2013-2015 Amounts Spent, Committed, and Unspent/Uncommitted
- (5) Codes and Standards Program and Subprograms – 2015
- (6) Non-Resource (NR) Program and Subprograms – 2015
- (7) Energy Upgrade California (EUC) – Home Upgrade Program – 2015
- (8) Commercial Deemed Incentives – Commercial Rebate (CDIR) Program – 2015
- (9) Industrial EE Program and Subprograms – 2015
- (10) Agricultural EE Program and Subprograms – 2015
- (11) Local Government Partnership (LGP) Program and Subprograms – 2015
- (12) Follow-up on Prior UAFCB's Observations and Recommendations and SCE's Internal Audit (IA) Recommendations

On June 8, 2017, UAFCB provided a draft of its analysis, observations and recommendations to both SCE and the Commission's Energy Division (ED) for comment. SCE and ED provided their comments to UAFCB's draft on June 20, 2017 and July 3, 2017, respectively. UAFCB summarized SCE's and ED's comments, including UAFCB's rebuttal to those comments, in Appendix A. Where appropriate, UAFCB modified its observations and recommendations based on SCE's and ED's comments. SCE's response in its entirety is provided in Appendix C.

A.2 Total EE Program Year (PY) 2015 Cost Reconciliation

Observation 1: SCE demonstrated compliance with Public Utility (PU) code §§ 581, 582, and 584 respecting the total reported EE portfolio program costs in PY 2015.¹ The total recorded and reported in PY 2015, excluding Evaluation, Measurement and Verification (EM&V) and Statewide Marketing, Education and Outreach (ME&O) costs, amounted to \$304,339,920.² A reconciliation of this amount reported in the California Energy Efficiency Statistics (EEStats)³ web portal, including the Annual Report (Table 3), Quarterly reports, and Monthly reports, to SCE's accounting records disclosed no material exceptions.

¹ All statutory references are to the Public Utilities Code unless stated otherwise.

² Refer to Appendix B, Table B-2 for a detailed summary of SCE's total EE portfolio program costs for PY2015.

³ The California Energy Efficiency Statistics (EEStats) is a repository of utility-submitted reports to the Commission.

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

Condition: The \$304,339,920 reconciled to SCE's accounting records.

Recommendation: None.

Observation 2: SCE's compliance with PU code §§ 581, 582 and 584 respecting the timely filing of required EE program reports could not be ascertained in this examination. SCE filed its Monthly, Quarterly, and Annual reports as required by the Commission. However, UAFCB was unable to validate the timeliness of these filings due to Energy Division's (ED's) practice of informally granting extension requests to file or re-file reports (Monthly Report, Quarterly Report, and/or Annual Report) without maintaining adequate supporting documentation and/or records.

Criteria: Sections 581, 582, and 584 require that the utility provide complete and accurate data to the Commission. 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 the quarterly reports is the first day of the month 60 days following the quarter of the report. The due date for the filing of the annual report is May 1st of the year following the reporting year.⁴

Condition: During this examination, UAFCB found that ED had a practice of informally granting the utilities' extension requests to file or re-file their reports (Monthly Report, Quarterly Report, or Annual Report) without maintaining any supporting documentation and/or records. However, despite not having a formal report filing tracking system in place during this examination, ED asserted to the UAFCB that "no reports were filed late without [its] knowledge." Because there was no formal report filing tracking system in place during the examination period, UAFCB was unable to validate the timeliness of SCE's report filings in EESStats for PY 2015.

Cause: ED granted the utilities extension requests to file or re-file reports (Monthly Report, Quarterly Report, or Annual Report) informally, either through a telephone or electronic email correspondence, without maintaining adequate supporting evidence.

Effect: UAFCB was unable to ascertain whether or not SCE fully complied with the reporting requirements as required by the Commission.

SCE Comments: SCE clarifies that it did file all reports on a timely basis in accordance with Commission directives and requirements. Nonetheless, SCE is supportive of UAFCB's request for the ED to review its procedures related to report filing and extension approvals.

⁴ Energy Division Memorandum to all Investor Owned Utilities, Regional Networks, and Community Choice Aggregators, dated July 29, 2013.

Rebuttal: None.

Recommendation: ED should approve extension requests by a letter to the utility so that reporting requirements can be verified by the UAFCB when it conducts its examination. A standard approval letter can be the solution instead of approval by email or telephone.

A.3 2013-2015 EE Program Cycle Investor Owned Utility (IOU) Administrative Costs

Observation 3: SCE demonstrated compliance with PU code §§ 581, 582, and 584 respecting the total reported EE Program IOU administrative costs for the 2013-2015 program cycle. SCE's total administrative expenditures recorded and reported amounted to \$52,327,570. A reconciliation of this amount reported in EEStats, including the Annual Report (Table 3) and Quarterly reports, to SCE's accounting records disclosed no exceptions.⁵

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

Condition: The \$52,327,570 reconciled to SCE's accounting records. The breakdown is as follows:

Program Year	Amount
2013	\$15,442,331
2014	17,798,233
2015	<u>19,087,006</u>
Total	<u>\$52,327,570</u>

Recommendation: None.

Observation 4: SCE demonstrated compliance with PU code §§ 581, 582 and 584 respecting certain PY 2015 IOU administrative amounts sampled for verification. UAFCB verified \$60,033 expended as administrative costs in PY 2015 and found no material exceptions.

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

Condition: UAFCB's review and testing disclosed no exceptions.

Recommendation: None.

Observation 5: SCE's internal policy and procedures for the tracking and recording of EE Program IOU administrative costs were adequately designed to meet Commission directives in PY 2015. SCE was in compliance with its internal Energy Efficiency Programs Administrative Costs Policy, CPS-PL-DIV-0005, V1.0, dated April 3, 2015.

⁵ Refer to Appendix B, Table B-3 for a detailed summary of UAFCB's total EE program IOU administrative costs for SCE in PY 2015.

Criteria: Did SCE's internal Energy Efficiency Programs Administrative Costs Policy, CPS-PL-DIV-0005, V1.0, dated April 3, 2015, specify policies and procedures for the proper recording of administrative costs in compliance with Commission directives?

Condition: SCE's Energy Efficiency Programs Administrative Costs Policy, CPS-PL-DIV-0005, V1.0, dated April 3, 2015 appeared adequate for accounting and reporting of SCE's administrative costs in accordance with Commission directives.

Recommendation: None.

Observation 6: SCE's compliance with Commission Decision (D.) 09-09-047, Ordering Paragraph (OP) 13 and other applicable Commission directives respecting the 10% IOU administrative cost cap for the 2013-2015 EE program cycle could not be ascertained in this examination due to unspecified inputs for the calculation by the Commission. SCE reported its administrative cost cap at 4.3% for the 2013-2015 EE program cycle because it included in the denominator of the calculation the EM&V and ME&O budget amounts. UAFCB's determination of SCE's cost cap for the same period disclosed more than 10% because it excluded these budget amounts. UAFCB's calculations produced 10.7% cost cap based on SCE's total EE program budget for the 2013-2015 EE program cycle and 12.9% based on SCE's EE program operating expenses for the same period.

Criteria: D.09-09-047 imposed a 10% administrative cost cap in order to ensure that IOU administrative costs are reasonable and limited to those overhead and labor costs that are truly required to implement quality EE programs and to ensure that ratepayer funds are used to the greatest degree possible for the programs themselves. Specifically, in D.09-09-047, Ordering Paragraph (OP) 13(a), the Commission ordered that "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..."

Condition: SCE calculated the 10% administrative cost cap at 4.3% for the 2013-2015 program cycle. SCE used the following for its calculation:

$$10\% \text{ Admin. Cost Cap} = \frac{\text{Actual Recorded Administrative Expenditures for PY 2013 - 2015}}{\text{Total PY 2013 - 2015 EE Program Budget}}$$

UAFCB re-calculated SCE's administrative cost cap amount for the same period under two methodologies: budget methodology and cost methodology.

UAFCB Budget Methodology - Under this methodology, SCE's administrative cost cap amount equates to 10.7% of the total EE program budget for the 2013-2015 program cycle. UAFCB's budget methodology is provided below.

$$10\% \text{ Admin. Cost Cap} = \frac{\text{IOU Admin. Costs} + \text{IOU Admin. Costs in support of TP \& LGP} + \text{Benefit Burdens}}{\text{Total EE Portfolio Budget}^6 + \text{Benefit Burdens}^7}$$

UAFCB Cost Methodology - Under this methodology, SCE's administrative cost cap amount equates to 12.9% of the total EE program operating costs for the 2013-2015 program cycle. UAFCB's cost methodology is provided below.

$$10\% \text{ Admin. Cost Cap} = \frac{\text{IOU Admin. Costs} + \text{IOU Admin. Costs in support of TP \& LGP} + \text{Benefit Burdens}}{\text{Total EE Portfolio Costs} + \text{Benefit Burdens}}$$

Cause: The Commission's EE program decisions and the EE Policy Manual do not provide explicit and clear instructions on how to calculate the 10% administrative costs cap. There is no clear guidance on the types of costs to include in the numerator or denominator when determining the 10% administrative cost cap amount. Additionally, there is no specific formula to use when calculating the IOU administrative cost cap amount.

Effect: UAFCB was unable to determine whether SCE was in compliance with the 10% administrative cost cap for the 2013-2015 program cycle.

SCE's Comments: SCE agrees with UAFCB's recommendation that the Commission clarify how the administrative cost cap should be calculated and reported. However, SCE disagrees with the UAFCB calculation that SCE's administrative expenditures exceeded the cost cap of 10.7% based on SCE's total EE program budget for the 2013-2015 program cycle ("Budget Methodology") and 12.9% based on SCE's EE program operating expenses for the 2013-2015 program cycle ("Expenditure Methodology").

SCE asserts that the administrative cost cap should be calculated using administrative expenditures divided by the "total energy efficiency budget" (Budget Methodology) and not the "Expenditure Methodology" since the "Budget Methodology" is derived from the Energy Efficiency Policy Manual, version 5, section XIII-2(a), page 9, which states that "Administrative costs for utility energy efficiency programs (excluding non-IOU third party and/or government partnerships budgets) are limited to 10% of total energy efficiency budgets."

SCE also declares that, assuming UAFCB's "Budget Methodology" is correct, its administrative cost cap would be 10% and not 10.7% since the UAFCB's calculation failed to include the correct inputs. Specifically, SCE asserts that UAFCB's "Budget Methodology" calculation excludes from the "Total Energy Efficiency Budget" amount in the denominator the following: 1) the EM&V budgets for 2013-2015 approved in D.12-11-015 and D.15-01-012; and 2) the Statewide ME&O budget of \$10,800,000 authorized in AL 3070-E and later modified in D.13-12-038. In addition, SCE asserts that UAFCB's calculation also incorrectly includes "benefit burden" expenditures associated with EM&V labor that should not be included in "Total Energy Efficiency Budget" denominator amount since the "Allowable Costs Attachment," Attachment 5-A

⁶ Total EE portfolio amount excludes EM&V, Statewide ME&O, and REN budget amounts for the 2013-2015 program cycle.

⁷ Benefit Burdens including the following: Authorized Pensions Loading, Authorized PBOPs Loading, Authorized Disability Programs and Group Life Ins. Loading Authorized 401(k) Loading Authorized Payroll, Taxes Loading Authorized Workers Comp. Loading Authorized Medical, Dental, Vision Loading Authorized, and Executive Benefits Loading Authorized Miscellaneous Benefits Loading Authorized Results Sharing Loading.

to the December 2008 ACR in A.08-07-021 et.al defines "benefits" related to EM&V labor to be EM&V costs and not costs related to the EE portfolio.

ED Comments: ED recommends that the UAFCB recalculate its administrative cost cap amount as prescribed in the Energy Efficiency Policy Manual, version 5, pages 87-93 and modify the recommendation, if necessary. The Energy Efficiency Policy Manual, pages 87-93, provides that administrative costs include overhead, labor, human resource support and travel and conference fees but specifically excludes, among other things, administrative costs for third party programs and government partnerships.

Rebuttal: UAFCB agrees with SCE that the Commission clarify how the administrative cost cap should be calculated and reported. However, UAFCB disagrees with SCE's "Budget Methodology" calculation which includes both the EM&V budgets for 2013-2015 and the Statewide ME&O budget amounts in the "Total Energy Efficiency Budget" denominator amount. UAFCB's "Budget Methodology" calculation excludes both the EM&V and ME&O budget amounts from the "Total Energy Efficiency Budget" denominator amount since D.09-09-047, OP 13 is silent on whether to include such budget amounts. In addition, in determining SCE's 10.7% (Budget Methodology) administrative cost cap amount, the UAFCB used the adjusted benefit burden figures provided by SCE in its reply to UAFCB's preliminary audit findings.

Response: UAFCB acknowledged ED's recommendation and reviewed the EE policy manual and found that its calculation of the 10% cost cap appears to be correctly interpreted based on the language in the EE Policy Manual.

Recommendation: UAFCB recommends that the Commission clarify the 10% administrative cost cap requirement and provide specific instructions to avoid ambiguity. If the Commission agrees with the UAFCB's method, UAFCB recommends that administrative expense amount in excess of the 10% cap be refunded to ratepayers.

A.4 2013-2015 EE Program Cycle Non-IOU Administrative Costs

Observation 7: Except for Observation 8 below, SCE demonstrated compliance with PU code §§ 581, 582, and 584 respecting the total reported EE Program Non-IOU administrative costs for the 2013-2015 program cycle. The total recorded and reported amounted to \$6,181,838. A reconciliation of this amount reported in EEStats, including the Annual Report (Table 3) and Quarterly reports, to SCE's accounting records disclosed no exceptions.⁸

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

Condition: The \$6,181,838 reconciled to SCE's accounting records. The breakdown is as follows:

⁸ Refer to Appendix B, Table B-4 for a detailed breakdown of SCE's total EE program Non-IOU administrative costs in PY 2015.

Year	Amount
2013	\$ 1,569,486
2014	2,921,420
2015	<u>1,690,932</u>
Total	<u>\$ 6,181,838</u>

Recommendation: None.

Observation 8: SCE failed to demonstrate compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 Non-IOU administrative amounts sampled for verification. SCE incorrectly included \$64,381 in 2015 PY expenditures belonging to 2014 PY. The amount was charged to Third Party (TP) program administrative costs.

Criteria: Sections 581, 582, and 584 require that the utility provide complete and accurate data to the Commission. SCE's accounting accrual policy requires that any expense item where services have been rendered or goods received must be accrued for the calendar year in which the expense is incurred.⁹

Condition: UAFCB's review and analysis disclosed that SCE incorrectly recorded \$64,381 of PY 2014 TP administrative costs in PY 2015 (\$51,342 related to the Oil Production program and \$13,029 related to the Lodging EE Program).

Cause: The vendor invoices in question were not submitted to SCE in time for the PY 2014 year-end accrual process. SCE asserted that the expenses were originally accrued in PY2014 but were subsequently reversed in PY 2015. Because the underlying transactions incurred in PY 2014, the charges should have been recorded in PY 2014 when the services were rendered or materials received.

Effect: SCE over-reported its Non-IOU administrative costs by \$64,381 in PY 2015.

Recommendation: SCE should adhere to its own accrual basis of accounting in recording and reporting EE expenditures and ensure that EE Non-IOU administrative costs are properly booked to allow for an accurate cost target calculation at the end of each program cycle.

Observation 9: SCE's internal policy and procedures for the tracking and recording of EE Program Non-IOU administrative costs were adequately designed to meet Commission directives in PY 2015. SCE was in compliance with its internal Energy Efficiency Programs Administrative Costs Policy, CPS-PL-DIV-0005, V1.0, dated April 3, 2015.

⁹ SCE's Customer Programs & Services Accrual Procedure, "Automatic PO Invoice Accruals" states, in part, "... Managers and Program Managers are responsible for ensuring that any invoice for services rendered in the current year and a Service Entry Sheet (SES) are received by Accounts Payable by the last working day of the year. This is necessary in order for the expense to be recorded ... A manual accrual is required if services are rendered or goods are received (or) Rebate applications or incentive projects are completed in the current year and the payment will not be issued until the following year."

Criteria: Did SCE's internal Energy Efficiency Programs Administrative Costs Policy, CPS-PL-DIV-0005, V1.0, dated April 3, 2015, specify appropriate policy and procedures for the proper recording of administrative costs in compliance with Commission directives?

Condition: SCE's Energy Efficiency Programs Administrative Costs Policy, CPS-PL-DIV-0005, V1.0, dated April 3, 2015 appeared adequate for accounting and reporting of SCE's administrative costs in accordance with Commission directives.

Recommendation: None.

Observation 10: SCE demonstrated compliance with Commission D.09-09-047 and other applicable Commission directives respecting the 10% administrative cost target for the 2013-2015 program cycle. SCE reported an administrative cost target of 2.8%. UAFCB's calculation produced an administrative cost target of 4.3% based on SCE's combined TP and LGP administrative operating expenses for the same period.

Criteria: Per D.09-09-047, page 63, "... we [the Commission] direct the utilities [IOUs] 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)..."

Condition: SCE determined its compliance with the 10% administrative cost target based on the following calculation:

$$10\% \text{ Non - IOU Cost Target} = \frac{\text{TP \& LGP Non - IOU Administrative Costs}}{\text{Total Allocated 2013 - 2015 TP \& LGP Budgets}}$$

SCE's calculation came to 2.8% and UAFCB's calculation came to 4.3% because the UAFCB included actual LGP and TP program costs in the denominator of its calculation and the method is provided below:

$$10\% \text{ Non - IOU Cost Target} = \frac{\text{TP \& LGP Non - IOU Administrative Costs}}{\text{Total TP and LGP Program Costs}}$$

Recommendation: The Commission should clarify which method is appropriate.

A.5 2013-2015 Amounts Spent, Committed, and Unspent/Uncommitted

Observation 11: SCE demonstrated compliance with PU code §§ 581, 582, and 584 respecting the total EE portfolio amounts reported as spent, committed and unspent/uncommitted for the 2013-2015 program cycle. The total recorded and reported as spent, committed, and unspent/uncommitted amounted to \$820,702,544, \$197,434,913, and \$206,826,798, respectively. A reconciliation of these amounts reported in EESStats to SCE's accounting records for the 2013-2015 program cycle disclosed no material exceptions.¹⁰

¹⁰ Refer to Appendix B, Table B-1 for a detailed presentation of SCE's authorized budget, amount spent, amount committed, and amount unspent/uncommitted for the 2013-2015 program cycle.

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

Condition: UAFCB reconciled the reported EE program portfolio amounts spent, committed, and unspent/uncommitted to SCE's accounting records for the 2013-2015 program cycle and found no material exceptions.

Recommendation: None.

Observation 12: SCE's internal policy and procedures for the tracking and recording of EE portfolio expenditure amounts spent, committed, and unspent/uncommitted were adequately designed to meet Commission directives during the 2013-2015 program cycle. SCE had the necessary policy and procedures in place to account for the EE portfolio amounts to ensure compliance with Commission directives.

Criteria: Did SCE have the necessary policy and procedures in place to control and monitor its accounting practices including the recording and reporting of EE portfolio expenditure amounts spent, committed, and unspent/uncommitted in compliance with Commission directives?

Condition: SCE's established internal policy and procedures seemed adequate for the accounting and reporting of EE portfolio program amounts as spent, committed, and unspent/uncommitted.

Recommendation: None.

A.6 Codes and Standards (C&S) Program and Subprograms - 2015

Observation 13: Except for Observation 14 below, SCE demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported C&S program costs in PY 2015. The \$6,607,965 reported in the December 2015 year-to-date Monthly EEStats report and in Advice Letter (AL) 3464-E reconciled to SCE's accounting records.¹¹

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

Condition: The \$6,607,965 reconciled to SCE's accounting records. The breakdown is as follows:

¹¹ Refer to Appendix B, Table B-5 for SCE's C&S expenditures net of UAFCB's recommended examination adjustments of (\$82,772) in Appliance Standards Advocacy program costs and (\$4,661) in Compliance Enhancement program costs charged to the Marketing and Direct Implementation cost category.

Cost Category	Amount
Administrative	\$ 514,973
Marketing	276
Direct Implementation	<u>6,092,716</u>
Totals	<u>\$6,607,965</u>

Recommendation: None.

Observation 14: SCE failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SCE's established accrual policy and procedures. SCE incorrectly included \$87,434 in 2015 PY expenditures belonging to 2014 PY. The amount was charged to the Direct Implementation cost category.

Criteria: Sections 581, 582, and 584 require that the utility provide complete and accurate data to the Commission. SCE's CP&S Accrual Procedure Manual requires that any expense item where services have been rendered or goods received must be accrued for the calendar year in which the expense is incurred.¹²

Condition: UAFCB's review and analysis disclosed that SCE recorded \$87,433 of PY 2014 C&S program Direct Implementation costs in PY 2015. The breakdown of the \$87,434 is as follows:

Program Description	Amount
Appliance Standards Advocacy (Sample #7)	\$10,997
Appliance Standards Advocacy (Sample #8)	11,819
Appliance Standards Advocacy (Sample #10)	59,957
Compliance Enhancement (Sample #20)	<u>4,661</u>
Total	<u>\$87,434</u>

Cause: The invoices from the lead administrator of the co-funding agreements were not submitted to SCE timely in order to process and record the expenditures in the proper period.

Effect: SCE over-reported the C&S Program costs by \$87,434 in PY 2015.

ED Comments: ED requested that the language in the UAFCB's recommendation be changed so that ED can calculate the actual earnings reduction in the resolution.

Response: UAFCB agrees with ED to revise the language in its recommendation since it does not change the C&S expenditure amount that SCE incorrectly included in PY 2015.

¹² SCE's Customer Programs & Services Accrual Procedure, "Automatic PO Invoice Accruals" states, in part, "... Managers and Program Managers are responsible for ensuring that any invoice for services rendered in the current year and a Service Entry Sheet (SES) are received by Accounts Payable by the last working day of the year. This is necessary in order for the expense to be recorded ... A manual accrual is required if services are rendered or goods are received (or) Rebate applications or incentive projects are completed in the current year and the payment will not be issued until the following year."

Recommendation: SCE has since filed AL 3464-E to claim its Management Fee incentive award for PY 2015. The Commission's ED should deduct \$87,433 from the 2015 C&S expenditures when SCE's 2015 ex-post ESPI true-up AL is processed.

Observation 15: SCE's internal policies and procedures for implementing the C&S program were adequately designed to meet Commission directives in PY 2015. With exception to Observation 14 above, SCE was in compliance with its internal CP&S Accrual Procedure Manual, CP&S Journal Entry Correction Procedure Manual, Monthly Financial Review Policy Manual, and Year-End Accrual Procedure Manual.

Criteria: Did SCE's internal CP&S Journal Entry Correction Procedure Manual, Monthly Financial Review Policy Manual, and Year-End Accrual Procedure Manual provide adequate policy and procedures for implementing the C&S programs in accordance with Commission directives?

Condition: SCE's established internal policies and procedures seemed adequate for the implementation of the C&S programs in accordance with Commission directives in PY 2015.

Recommendation: None.

A.7 Non-Resource (NR) Program and Subprograms - 2015

Observation 16: SCE demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported Non-Resource (NR) Program costs in PY 2015. The \$22,197,349 reported in the December 2015 year-to-date Monthly EEStats report and in AL 3464-E reconciled to SCE's accounting records.¹³

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

Condition: The \$22,197,349 reconciled to SCE's accounting records. The breakdown is as follows

Cost Category	Amount
Administrative	\$ 2,008,677
Marketing	189,336
Direct Implementation	<u>19,999,336</u>
Total	<u>\$22,197,349</u>

Recommendation: None.

Observation 17: SCE demonstrated compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 NR Program cost amounts sampled for verification. UAFCB verified \$3,866,454 expended on the NR Program and found no material exceptions.

¹³ Refer to Appendix B, Table B-6 for a detailed breakdown of SCE's NR program costs in PY 2015.

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

Condition: UAFCB's review and testing disclosed no material exceptions.

Recommendation: None.

Observation 18: SCE's internal policy and procedures for implementing the NR programs were adequately designed to meet Commission directives in PY 2015. SCE was in compliance with the applicable provisions of D.12-11-015, D.13-09-023, D.14-10-046 and the Energy Efficiency Policy Manual, v.5, dated July 2013 for the NR Program.

Criteria: Did SCE have the necessary policy and procedures in place to control and monitor its accounting practices including the recording and reporting of its NR Program costs in accordance with Commission directives?

Condition: SCE's overall policy and procedures appeared reasonably adequate for implementing the NR Program in accordance with Commission directives in PY 2015.

Recommendation: None.

Observation 19: The criteria used by SCE for designating EE programs as Resource and Non-Resource were in compliance with the Commission's directives. SCE applied the definition contained in the EE Policy Manual (R.09-11-014), Version 5, July 2013, when determining whether an EE program is classified as Resource or Non-Resource.

Criteria: Did SCE refer to the EE Policy Manual in determining whether an EE program is a Resource or Non-Resource Program in accordance with Commission directives?

Condition: SCE classified its EE programs as Non-Resource per the definition in the Commission's EE Policy Manual.

Recommendation: None.

A.8 Energy Upgrade California (EUC) – Home Upgrade Program - 2015

Observation 20: SCE demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported Statewide EUC – Home Upgrade costs in PY 2015. The total recorded and reported amounted to \$7,540,228. A reconciliation of this amount reported in EEStats, including the December 2015 year-to-date Monthly report and Quarterly reports, to SCE's accounting records disclosed no material exceptions.¹⁴

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

¹⁴ Refer to Appendix B, Table B-7 for a detailed breakdown of SCE's EUC – Home Upgrade program costs in PY 2015.

Condition: The \$7,540,228 reconciled to SCE's accounting records. The breakdown is as follows:

Cost Category	Amount
Administrative	\$ 273,467
Marketing	218,916
Direct Implementation	<u>7,047,845</u>
Total	<u>\$7,540,228</u>

Recommendation: None.

Observation 21: SCE demonstrated compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 EUC – Home Upgrade program cost amounts sampled for verification. UAFCB verified \$3,674,433 expended on the EUC – Home Upgrade program and found no material exceptions.

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

Condition: UAFCB's review and testing disclosed no material exceptions.

Recommendation: None.

Observation 22: SCE's internal policies and procedures for implementing the EUC – Home Upgrade program were adequately designed to meet Commission directives in PY 2015. SCE was in compliance with its internal 2013-2015 Statewide Customized Retrofit Offering Procedures Manual and Energy Upgrade Program P&P Manual v.1.1.

Criteria: Did SCE's internal Energy Upgrade Program P&P Manual v.1.1 and 2013-2015 Statewide Customized Retrofit Offering Procedures Manual appear adequate for implementing the EUC – Home Upgrade program in accordance with Commission directives?

Condition: SCE's Energy Upgrade Program P&P Manual v.1.1 and 2013-2015 Statewide Customized Retrofit Offering Procedures Manual was reasonably adequate for implementing the EUC – Home Upgrade program in accordance with Commission directives in PY 2015.

Recommendation: None.

A.9 Commercial Deemed Incentives – Commercial Rebate (CDIR) Program - 2015

Observation 23: SCE demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported CDIR program costs in PY 2015. The total recorded and reported amounted to \$26,873,707. A reconciliation of this amount reported in EEStats, including the

December 2015 year-to-date Monthly report and Quarterly reports, to SCE's accounting records disclosed no material exceptions.¹⁵

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

Condition: The \$26,873,707 reconciled to SCE's accounting records. The breakdown is as follows:

Cost Category	Amount
Administrative	\$ 43,227
Marketing	163,156
Direct Implementation	<u>26,667,324</u>
Total	<u>\$26,873,707</u>

Recommendation: None.

Observation 24: SCE demonstrated compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 CDIR program cost amounts sampled for verification. UAFCB verified \$7,375,133 expended on the CDIR program and found no material exceptions.

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

Condition: UAFCB's review and testing disclosed no material exceptions.

Recommendation: None.

Observation 25: SCE's internal policy and procedures for implementing the CDIR program were adequately designed to meet Commission directives in PY 2015. SCE was in compliance with its internal Express Solutions Program Manual, v.7.

Criteria: Did SCE's internal Express Solutions Program Manual, v.7 sets forth adequate provisions for implementing the CDIR program in accordance with Commission directives?

Condition: SCE's Express Solutions Program Manual, v.7 appeared reasonably adequate for implementing the CDIR program in accordance with Commission directives in PY 2015.

Recommendation: None.

A.10 Industrial EE Program and Subprograms - 2015

¹⁵ Refer to Appendix B, Table B-8 for a detailed breakdown of SCE's Statewide Commercial Deemed Incentives – Commercial Rebate (CDIR) program costs in PY 2015.

Observation 26: Except for Observation 27 below, SCE demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported Industrial EE program costs in PY 2015. The total recorded and reported amounted to \$6,997,807. A reconciliation of this amount reported in EEStats, including the December 2015 year-to-date Monthly report and Quarterly reports, to SCE's accounting records disclosed no material exceptions.¹⁶

Criteria: Sections 581, 582, and 584 requires that the utility provide complete and accurate data to the Commission.

Condition: The \$6,997,807 reconciled to SCE's accounting records. The breakdown is as follows:

Cost Category	Amount
Administrative	\$ 265,916
Marketing	128,100
Direct Implementation	<u>6,603,789</u>
Total	<u>\$6,997,807</u>

Recommendation: None.

Observation 27: SCE failed to demonstrate compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 Industrial EE Program cost amounts sampled for verification. UAFCB verified \$1,009,356 expended on the Industrial EE Program and found three (3) transactions that were misclassified. However, these transactions did not have an overall impact on the program costs.

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

Condition: UAFCB's review and analysis disclosed that SCE's third-party reviewers had erroneously misclassified three Industrial EE Program transactions - two transactions (sample items #28 and #40) to the Commercial program category and one transaction (sample item #48) to the Cool Schools (CSCH) program. However, the above-referenced misclassifications did not have any overall impact on the program costs.

Cause: SCE asserted that the third-party reviewers for these invoices had incorrectly coded these transactions, but SCE appropriately charged these incentive payments to the correct Industrial EE programs when it recorded the actual incentives payments in its accounting system. UAFCB confirmed SCE's assertion through the review of detailed supporting documentation.

Effect: Although there was no effect on the recorded Industrial EE Program costs, the misclassification or mis-categorization of these charges could be perceived as a weakness in internal controls.

¹⁶ Refer to Appendix B, Table B-9 for a detailed breakdown of SCE's Industrial EE program costs in PY 2015.

SCE's Comments: SCE agrees that proper classification of costs is important and will continue to closely monitor how expenditures are classified. In addition, SCE corroborates UAFCB's assertion that these misclassified costs were correctly recorded to the proper Industrial EE programs in its accounting system.

Rebuttal: None.

Recommendation: SCE should closely monitor its third-party reviewers to ensure that they properly code or categorize all relevant EE program invoices in order to alleviate any potential recording errors.

Observation 28: SCE's internal policy and procedures for implementing the Industrial EE Program were adequately designed to meet Commission directives in PY 2015. SCE was in compliance with its internal Customized Solutions Offering P&P Manual, v.1.4.

Criteria: Did SCE's internal Customized Solutions Offering P&P Manual, v.1.4 set forth adequate provisions for implementing the Industrial EE Program in accordance with Commission directives?

Condition: SCE's Customized Solutions Offering P&P Manual, v.1.4 was reasonably adequate for implementing the Industrial EE Program in accordance with Commission directives in PY 2015.

Recommendation: None.

A.11 Agricultural EE Program and Subprograms - 2015

Observation 29: Except for Observation 30 below, SCE demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported Agricultural EE Program costs in PY 2015. The total recorded and reported amounted to \$7,410,021. A reconciliation of this amount reported in EEStats, including the December 2015 year-to-date Monthly report and Quarterly reports, to SCE's accounting records disclosed no material exceptions.¹⁷

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

Condition: The \$7,410,021 reconciled to SCE's accounting records. The breakdown is as follows:

Cost Category	Amount
Administrative	\$ 214,049
Marketing	16,868
Direct Implementation	<u>7,179,104</u>
Total	<u>\$7,410,021</u>

¹⁷ Refer to Appendix B, Table B-10 for a detailed breakdown of SCE's Agricultural EE Program costs in PY 2015.

Recommendation: None.

Observation 30: SCE failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SCE's established accrual policy and procedures. SCE incorrectly included \$22,017 in 2015 PY expenditures belonging to 2014 PY. This amount was charged to the Direct Implementation cost category.

Criteria: Sections 581, 582, and 584 require that the utility provide complete and accurate data to the Commission. SCE's accounting accrual policy requires that any expense item where services have been rendered or goods received must be accrued for the calendar year in which the expense is incurred.

Condition: UAFCB's review and analysis disclosed that SCE recorded \$22,017 in Direct Implementation non-labor costs related to customer incentive payments that should have been recorded in PY2014 when the material was provided or work performed. In addition, SCE's third-party reviewer incorrectly coded one transaction (sample item #38) to the Commercial program category instead of to the Agricultural program category. However, SCE appropriately charged the incentive payments to the correct Agricultural EE program when it recorded the actual incentive payment in its accounting system.

Cause: For the \$22,017, SCE claims that the post-installation inspections for these projects were not completed until PY 2015; therefore, the associated costs were not recorded in PY2014. For the identified program misclassification or mis-categorization (between Commercial program and Agricultural program), there was no effect on the program costs.

Effect: SCE over-reported its Agricultural EE Program costs by \$22,017 in PY 2015.

ED Comments: ED requested that the language in the UAFCB's recommendation be changed so that ED can calculate the actual earnings reduction in the resolution.

Response: UAFCB agrees with ED to revise the language in its recommendation since it does not change the Agricultural EE Program expenditure amount that SCE incorrectly included in PY 2015.

Recommendation: SCE has since filed AL 3464-E to claim its Management Fee incentive award for PY 2015. The Commission's ED should deduct \$22,017 from the 2015 Agricultural EE Program expenditures when SCE's 2015 ex-post ESPI true-up is processed. In addition, SCE should closely monitor its third-party reviewers to ensure that they properly code or categorize all relevant EE program invoices in order to alleviate any potential recording errors.

Observation 31: SCE's internal policy and procedures for implementing the Agricultural EE Program were adequately designed to meet Commission directives in PY 2015. SCE was in compliance with its internal Pump Test Services Offering P&P Manual, v.1.

Criteria: Did SCE's internal Pump Test Services Offering P&P Manual, v.1 sets forth adequate provisions for implementing the Agricultural EE Program in accordance with Commission directives?

Condition: SCE's Pump Test Services Offering P&P Manual, v.1 was reasonably adequate for implementing the Agricultural EE programs in accordance with Commission directives in PY 2015.

Recommendation: None.

A.12 Local Government Partnership (LGP) Program and Subprograms – 2015

Observation 32: Except for Observation 33 below, SCE demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported Local Government Partnership (LGP) Program costs in PY 2015. The total recorded and reported amounted to \$19,288,693. A reconciliation of this amount reported in EEStats, including the December 2015 year-to-date Monthly report and Quarterly reports, to SCE's accounting records disclosed no material exceptions.¹⁸

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

Condition: The \$19,288,693 reconciled to SCE's accounting records. The breakdown is as follows:

Cost Category	Amount
Administrative	\$ 2,914,570
Marketing	418,490
Direct Implementation	<u>15,955,633</u>
Total	<u>\$19,288,693</u>

Recommendation: None.

Observation 33: SCE failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SCE's established accrual policy and procedures. SCE incorrectly included \$138,737 in 2015 PY expenditures belonging to 2014 PY. In addition, SCE improperly recorded \$19,214 of the LGP Program costs in 2015 PY that was properly accrued and charged to 2014 PY. These amounts were charged to the Direct Implementation cost category.

Criteria: Sections 581, 582, and 584 require that utility provide complete and accurate data to the Commission. SCE's accounting accrual policy requires that any expense item where services have been rendered or goods received must be accrued for the calendar year in which the expense is incurred.

¹⁸ Refer to Appendix B, Table B-11 for SCE's 2015 LGP program expenditures net of UAFCB's recommended examination adjustments totaling \$157,951.

Condition: UAFCB's review and analysis disclosed five (5) invoices amounting to \$138,737 for services that should have been charged to PY 2014 but were incorrectly reported and charged to PY 2015. In addition, UAFCB found one invoice that amounted to \$19,214 for services that was properly accrued and recorded to the Community Energy Leadership Partnership program in PY 2014 but mistakenly recorded again in PY 2015. The breakdown of the total \$157,951 is as follows:

Program Description	Amount
Community Energy Leader Partnership (Sample #1)	\$ 19,459
Community Energy Leader Partnership (Sample #3)	19,214
Orange County Cities Energy Leader Partnership (Sample #20)	1,400
UC/CSU EE Partnership (Sample #41)	19,018
UC/CSU EE Partnership (Sample #44)	9,867
UC/CSU EE Partnership (Sample #49)	<u>88,993</u>
Total	<u>\$157,951</u>

Cause: For the \$138,737, SCE claims that as the post-installation for these projects were not completed until PY 2015, the associated costs were not recorded in PY 2014. For the \$19,214, SCE mistakenly recorded the transaction twice, once in PY 2014 and again in PY 2015.

Effect: SCE over-reported its LGP Program costs by \$157,951 in PY 2015.

Recommendation: SCE has since filed AL 3464-E to claim its Resource Programs Savings Incentives award for PY 2015. The Commission's ED should deduct \$157,951 from 2015 LGP expenditures when SCE's 2015 ex-post ESPI true-up AL processed.

Observation 34: SCE's internal policies and procedures for implementing the LGP Programs were adequately designed to meet Commission directives in PY 2015. SCE was in compliance with its internal Customer Programs & Services (CP&S) Journal Entry Correction Procedure Manual, Monthly Financial Review Policy Manual, and Year-End Accrual Procedure Manual.

Criteria: Did SCE's internal Customer Programs & Services (CP&S) Journal Entry Correction Procedure Manual, Monthly Financial Review Policy Manual, and Year-End Accrual Procedure Manual set forth adequate provisions for the implementing the LGP programs in accordance with Commission directives?

Condition: SCE's Customer Programs & Services (CP&S) Journal Entry Correction Procedure Manual, Monthly Financial Review Policy Manual, and Year-End Accrual Procedure Manual were reasonably adequate for the implementing the LGP programs in accordance with Commission directives in PY 2015.

Recommendation: None.

A.13 Follow-up on Prior UAFCB's Observations and Recommendations and SCE Internal Audit (IA) Recommendations

Observation 35: SCE addressed and implemented all of UAFCB's audit recommendations specified in UAFCB's Audit Memo Report for the 2014 EE Program examination.

Criteria: Pursuant to UAFCB's examination report, SCE was required, among others things to:¹⁹

- 1) Reduce its C&S Management Fee incentive award for PY 2014 by \$24,164 in its following Advice Letter (AL) true-up filing.
- 2) Reduce its NR Management Fee incentive award for PY 2014 by \$427,776 in its following AL true-up filing.
- 3) Strengthen its existing accrual policy and procedures to ensure compliance with Commission directives.
- 4) Reduce its Resource Programs Savings Incentives award by \$148,410 in its following AL true-up filing.

Condition: SCE addressed and complied with all of UAFCB's recommendations identified in its prior examination report on PY 2014.

Recommendation: None.

Observation 36: SCE demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reporting of EE labor costs in PY 2015. UAFCB's review of SCE's standard labor costing (SLC) system embedded in its accounting system is reasonable for the accounting and reporting of EE program labor costs.

Criteria: In the draft *Financial, Management, Regulatory, and Compliance Examination Report on Southern California Edison Company's (SCE's) Energy Efficiency (EE) Program For the Period January 1, 2011 through December 31, 2012*, issued on June 9, 2014, UAFCB recommended that SCE improve its labor cost process for recording labor charges to EE programs or implement other accounting methods that would allow the UAFCB to effectively verify each amount listed as a labor costs.

On July 7, 2017, UAFCB followed up with SCE regarding its process for recording EE labor charges and SCE asserted, in essence, that its existing standard labor costing (SLC) procedures provide: 1) timely information and ensures that labor costs are recorded to the appropriate Cost Object (program/activity) as soon as timesheets are approved; 2) limits the visibility of confidential employee information; and 3) effectively provides SCE the ability to plan and assign work activities to employees without

¹⁹ *Financial, Management, Regulatory, and Compliance Examination Report on Southern California Edison Company's (SCE's) Energy Efficiency (EE) Program For the Period January 1, 2014 through December 31, 2014*, issued June 30, 2016.

reference to specific individuals. Furthermore, the SCE stated, in substance, that its SLC system embedded in its accounting system appropriately records and accurately accounts for labor charges based on actual payroll data despite the use of estimates as an interim step in labor recording process. Thus, its method for recording labor cost should not be discontinued, nor should its reported labor costs be arbitrarily discounted by 10%.

Condition: UAFCB's follow-up review of SCE's standard labor costing (SLC) system and process, by studying and understanding the SLC flow chart and data simulation through various scenarios, found that the overall SLC system is sound and reasonably adequate for the accounting and reporting of EE program labor costs. UAFCB found that SCE's SLC system embedded in its SAP accounting system produces differences (residual value) between standard labor costs and actual payroll costs in a Home Cost Center (HCC), but is eventually zeroed out at the end of each month when the SAP system automatically processes and records actual payroll. This process of zeroing out any residual value (+/-) is referred to by SCE as the month-end 'Recalculation Process.' This process essentially distributes or allocates any monthly residual value in an HCC to all relevant Cost Objects (or Program) based on individual Cost Objects' total hours worked and hourly residual value, not on the level of individual employees. Hence, because the process of distributing/allocating any residual value is performed on the level of individual Cost Objects, and not on the level of individual employees who work in the relevant Cost Objects, the distributive share of the residual value cannot be directly identified to an individual employee.

Recommendation: None.

Observation 37: SCE identified internal audit reports #Y15-51003 – Energy Efficiency - Fund Shifting and #Y15-51004 – Energy Efficiency - Balancing Account Expenditures Process that related to EE Program activities for the PY 2015 examination period. In internal audit report #Y15-51003, dated July 27, 2015, SCE's Audit Services (AS) conducted a review of the EE fund shifting process. In internal audit report #Y15-51004, dated June 10, 2015, AS conducted a review of the 2014 expenditure process for the Procurement Energy Efficiency Balancing Account (PEEBA) #2432425. A few deficiencies were noted requiring corrective actions.

Criteria: In internal audit report #Y15-51003, SCE's AS concluding the following:

- Operational Finance did not currently have a formal review process to ensure SAP postings agree to the master tracking log.
- Documented procedures did not exist for how fund shift reversals were communicated and authorized.

In internal audit report #Y15-51004, SCE's AS concluded the following:

- Balancing account expenditures generally complied with CPUC program guidelines and SCE program policies and procedures.

- An expenditure charged to the PEEBA related to penalties paid in a settlement claim was not classified as an allowable cost.

Condition: SCE provided the UAFCB with a status update and supporting documentation on management's corrective in implementing the findings and recommendations in internal audit reports #Y15-51003 and #Y15-51004 during the 2015 examination period.

Recommendation: SCE management addressed and corrected the issues raised by Audit Services in internal audit reports Y15-51003 and Y15-51004 by or before August 3, 2015.

UAFCB appreciates SCE's efforts in strengthening its internal controls for its EE program and recommends that SCE continue to monitor and improve them in order to prevent any future deficiencies.

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 Southern California Edison Company (SCE) a total budget of \$694.2 million in ratepayer funds to administer and implement its Energy Efficiency programs for the 2013-2014 budget cycle. On October 16, 2014, the Commission issued D.14-10-046¹ which, among other things, extending the budget cycle from 2013-2014 to 2013-2015 and authorized SCE a budget of \$332.8 million for program year 2015. These Commission decisions authorized SCE a total budget of \$1,027.5 million in ratepayer funds for the 2013-2015 program cycle. This amount represents about 36% of the total \$2,864.8 million in EE program budget for all four major Investor-Owned Utilities (IOUs) for the 2013-2015 program cycle. In addition, these decisions also approved programs and budgets for two regional energy networks (RENs)² and one community choice aggregator (CCA).³ D. 12-11-015 also set energy savings goals, established cost-effectiveness requirements, and required the IOUs to offset the unspent and uncommitted EE program funding, including interest, from years prior to 2010 against program year (PY) 2013 revenue requirements and actual unspent and uncommitted funds, plus interest, from 2010-2012 budget cycle against PY2014 revenue requirements.⁴

B.2 EE Funding Components

Of the \$1,027.5 million authorized portfolio budget for budget cycle 2013-2015, \$985.5 million of the funds is to administer and implement SCE's EE programs and the remaining \$42 million is dedicated to fund the Evaluation Measurement and Validation (EM&V) program. SCE spent \$820.5 million or 80% of its total authorized budget for 2013-2015 program cycle. Table B-1 provides a summary of, among other data elements, the authorized total EE portfolio funding and actual spending for 2013-2015 EE programs.⁵

¹ Further, on January 7, 2015, the Commission issued D.15-01-002, Order Correcting Errors, to correct the authorized budget for, among other things, Evaluation, Measurement & Validation (EM&V) of SCE from \$12,799,000 (D.14-10-046) to \$13,333,000 (D.15-01-002).

² Southern California Regional Energy Network and San Francisco Bay Area Regional Energy Network

³ Marin Energy Authority

⁴ D.12-11-015, OP 38, p. 140

⁵ Amount Spent for 2013-2015 EE programs is net of UAFCB's recommended examination adjustments of: (\$20,197) in PY2013 and (\$132,225) in PY2015. Any recommended examination adjustments related to accounting accrual issues arising between program years within budget 2013-2015 cycle are not being considered.

Table B-1
Authorized Budget and Other Components
Budget Cycle: 2013-2015

Programs	Adjusted Budget ⁶	Spent	Unspent	Committed	Unspent & Uncommitted
	1	2	3	4	5 = 3 - 4
SW-Resource	\$ 681,748,115	\$575,016,367	\$106,731,749	\$ 97,150,125	\$9,581,624
Resource (LGP&TP)	190,079,253	143,417,303	46,661,950	47,261,993	(600,043) ⁷
SW-Non-Resource	<u>60,642,431</u>	<u>48,475,072</u>	<u>12,167,359</u>	<u>11,717,717</u>	<u>449,642</u>
Subtotal	\$ 932,469,799	\$766,908,742	\$165,561,058	\$156,129,835	\$9,431,223
REN	<u>53,062,167</u>	<u>37,027,890</u>	<u>16,034,277</u>	<u>16,034,277</u>	<u>00</u>
Total before EM&V	\$ 985,531,966	\$803,936,632	\$181,595,335	\$172,164,112	\$9,431,223
EM&V	<u>41,997,375</u>	<u>16,726,574</u>	<u>25,270,801</u>	<u>25,270,801</u>	<u>00</u>
Grand Total	<u>\$1,027,529,341</u>	<u>\$820,663,206</u>	<u>\$206,866,136</u>	<u>\$197,434,913</u>	<u>\$9,431,223</u>

UAFCB describes below the background information of the areas it examined from B.3 to B.13. Section B.14 contains prior examination report follow-up responses, including SCE Internal Audit Services' findings related to the EE program during the examination period.

B.3 Total EE Program Year (PY) 2015 Cost Reconciliation

SCE identifies and captures its EE program expenditures in its Systems Application and Products (SAP) Enterprise Resource Planning (ERP) Solutions software to manage its database and uses a unique internal ordering system to allocate and capture energy efficiency (EE) program expenditures for specific EE programs. Costs applicable solely to a specific EE program are directly charged to that EE program. Other costs applicable to EE programs including overhead costs are allocated among EE programs using the internal ordering system. SCE's unique internal ordering system identifies EE program costs by program type (e.g., SCE-13-SW-001A for Statewide Residential Energy Advisor Program), by cost category (e.g., Administrative Marketing and Direct Implementation), and by cost type (e.g., Salaries – Management, Advertisement, Travel, etc.) for each transaction in order to record costs to each of its three

⁶ Below is a schedule of SCE's adjusted authorized budget for the 2013-2015 program cycle:

Adjusted Authorized Budgets – 2013-2015			
Programs	As Authorized	Funds Shifted	As Adjusted
SW-Resource	\$ 650,951,556	\$ 30,796,559	\$ 681,748,115
Other Resource (LGP&TP)	219,812,812	(29,733,559)	190,079,253
SW-Non-Resource	<u>61,705,431</u>	<u>(1,063,000)</u>	<u>60,642,431</u>
Subtotal	932,469,799	00	932,469,799
REN	<u>53,062,167</u>	<u>00</u>	<u>53,062,167</u>
Total before EM&V	985,531,966	00	985,531,966
EM&V	<u>41,997,375</u>	<u>00</u>	<u>41,997,375</u>
Grand Total	<u>\$1,027,529,341</u>	<u>\$ 0</u>	<u>\$1,027,529,341</u>

⁷ A negative Unspent/Uncommitted balance means the amount as committed at December 31, 2015, was greater than the Unspent amount. The negative balance was attributable to timing differences due to the following: 1) the Committed balances were accounted for as of December 31, 2015; and 2) the Adjusted Authorized Budget includes not only those fund shifts which had been approved through December 31, 2015 (the date of the Committed Balance accounting), but also includes all fund shifts that were completed as of June 2016 and all fund shifts that were pending as of December 28, 2016

delivery channels (IOU/CORE, TP, and LGP). A summary of SCE's PY 2015 expenditures, excluding EM&V and ME&O, by delivery channel and program type is presented in Table B-2.⁸

Table B-2
EE Program Portfolio Costs (Excluding EM&V & ME&O)
PY2015

Programs	Administrative	Marketing	DI	Total
	1	2	3	4 = 1 to 3
Statewide Programs:				
Residential	\$ 1,877,260	\$ 2,914,130	\$ 48,204,456	\$ 52,995,846
Commercial	2,521,929	862,091	94,045,410	97,429,430
Agricultural	214,049	16,868	7,157,088	7,388,005
Industrial	265,916	128,100	6,578,169	6,972,185
Lighting	362,319	44,306	32,320,458	32,727,083
Codes & Standards	514,973	276	6,005,279	6,520,528
Emerging Technologies	699,412	8,319	7,381,753	8,089,528
WE&T	611,390	344,777	8,516,772	9,772,939
IDSMS	79,240	00	248,082	327,322
Financing	<u>941,941</u>	<u>236,059</u>	<u>8,014,510</u>	<u>9,192,510</u>
Subtotal	\$ 8,388,429	\$ 4,554,926	\$218,471,977	\$231,415,332
LGP Programs:				
LGP	552,038	426,850	15,797,672	16,776,560
LGP – IOU	<u>2,824,015</u>	<u>00</u>	<u>00</u>	<u>2,824,015</u>
Subtotal	\$ 3,376,053	\$ 426,850	\$ 15,797,672	\$ 19,600,575
TP Programs:				
TP	1,074,513	1,696,096	30,391,752	33,162,361
TP – IOU	<u>4,265,473</u>	<u>00</u>	<u>00</u>	<u>4,265,473</u>
Subtotal	\$ 5,339,986	\$ 1,696,096	\$ 30,391,752	\$ 37,427,834
Non-Utility:				
SoCalREN	<u>3,609,089</u>	<u>2,899,117</u>	<u>9,038,908</u>	<u>15,547,114</u>
Grand Total	<u>\$20,713,557</u>	<u>\$ 9,564,734</u>	<u>\$273,417,861</u>	<u>\$303,990,855</u>

B.4 2013-2015 EE Program Cycle IOU 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..." Similar to other IOUs, SCE's EE program administrative costs can be grouped into two types, those administrative costs that the IOU incurred for its CORE program⁹ activities and those that the IOU incurred in support of its Third

⁸ Figures in table are net of UAFCB's proposed examination adjustments of the following: (\$64,381) in TP program Administrative Cost; (\$157,951) in LGP Program DI costs; (\$22,018) in SW Agricultural program DI costs; and (\$87,434) in C&S program DI costs.

⁹ Benefits associated with the Procurement Energy Efficiency Balancing Account (PEEBA) labor expenses (e.g. see listing below) are included in the general rate case (GRC) via a Public Goods Charge (PGC) addback that forecasts the labor amount associated with the PEEBA and other programs not included in the GRC forecast. According to the data response to DR-065-2, the components included as part of the benefit burdens are as follow:

- Authorized Pensions Loading
- Authorized PBOPs Loading
- Authorized Disability Programs and Group Life Ins. Loading Authorized 401(k) Loading Authorized Payroll
- Taxes Loading Authorized Workers Comp. Loading Authorized Medical, Dental, Vision Loading Authorized
- Executive Benefits Loading Authorized Miscellaneous Benefits Loading Authorized Results Sharing Loading

Party (TP) and Local Government Partnership (LGP) programs.¹⁰ Table B-3 provides a summary of UAFCB's verified EE program Administrative Costs for the budget cycle 2013-15.¹¹

Table B-3
EE Program Administrative Costs (Excluding EM&V and ME&O)
Budget Cycle 2013-2015

Programs	Authorized	IOU Administrative Costs			
	Budget ¹²	2013	2014	2015	Total
	1	2	3	4	5 = 2 to 4
Statewide Programs:					
Residential	\$139,627,898	\$ 2,068,902	\$ 1,916,803	\$ 1,877,260	\$ 5,862,965
Commercial	266,556,656	2,123,706	2,405,017	2,521,929	7,050,652
Agricultural	41,249,085	215,829	235,312	265,916	717,057
Industrial	15,942,620	183,192	197,004	214,049	594,245
Lighting	72,315,318	366,363	356,958	362,319	1,085,640
Codes & Standards	17,739,328	493,086	438,137	514,973	1,446,196
Emerging Technologies	31,953,609	642,420	734,173	699,412	2,076,005
WE&T	27,154,656	1,001,770	890,465	911,390	2,803,625
IDSMS	2,597,260	143,505	85,981	79,240	308,726
Financing	97,519,770	877,590	892,902	941,941	2,712,433
Others (e.g. CRM, etc.)	0	0	0	0	0
Subtotal	\$712,656,200	\$ 8,116,363	\$ 8,152,752	\$ 8,388,429	\$24,657,544
LG Programs	73,925,981	2,740,832	3,249,767	2,824,015	8,814,615
TP Programs	145,887,619	4,439,086	4,566,982	4,265,473	13,271,540
Subtotal	\$219,813,600	\$ 7,179,918	\$ 7,816,749	\$ 7,089,488	\$22,086,155
Total All Programs	932,469,800	\$15,296,281	\$15,969,501	\$15,477,917	\$46,743,699
Non-Utility:					
SoCalREN	53,062,167	146,050	1,828,732	3,609,089	5,583,871
Grand Total	\$985,531,967	\$15,442,331	\$17,798,233	\$19,087,006	\$52,327,570

B.5 2013-2015 EE Program Cycle Non-IOU Administrative Costs

Per D.09-09-047, page 63, "... we [the Commission] direct the utilities [IOUs] 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)..." None-IOU Administrative Costs are costs that were directly incurred by LGP and TP program implementers and contractors. Table B-4 provides a summary of UAFCB's verified EE program Non-IOU Administrative Costs for Local Government Partnership (LGP) and Third Party (TP) programs for the budget cycle 2013-15.

For PY2013, PY2014 and PY2015, the EE program related benefit burdens were \$20,811,000, \$21,366,000 and \$19,487,000, respectively. UAFCB accounts for these benefits as part of IOU (CORE) EE program administrative costs in calculating the administrative cost 10% Cap for program budget cycle 2013-2015.

¹⁰ For description of how SCE identifies and captures EE program costs, refer to Section B.3.

¹¹ Verified administrative cost is net of the UAFCB's recommended examination adjustment of (\$20,197) in the PY2013 C&S program cost.

¹² EE program portfolio cycle 2013-2015

Table B-4
EE Program Non-IOU Administrative Costs (Excluding EM&V)
Budget Cycle 2013-2015

Programs	Direct Costs	Non-IOU Administrative Costs			Total
		2013	2014	2015	
	1	2	3	4	5 = 2 to 4
LGP	\$ 43,023,952	\$ 327,465	\$ 610,982	\$ 552,038	\$ 1,490,485
Third Party	<u>76,293,850</u>	<u>1,242,021</u>	<u>2,310,438</u>	<u>1,138,894</u>	<u>4,691,838</u>
Grand Total	<u>\$119,317,802</u>	<u>\$1,569,486</u>	<u>\$2,921,420</u>	<u>\$1,690,932</u>	<u>\$ 6,181,838</u>

B.6 Amounts Spent, Committed, and Unspent/Uncommitted 2013-2015

Commitments are accounting and budgeting mechanism that the company utilizes to identify, track, and set aside potential future spending of its various EE programs that are unpaid and not accrued obligations to its customers, contractors, and other third parties. Commitments are predictable future spending and include (1) records of signed agreements or applications and (2) advance reservations for program services. Payment on commitments is always conditional on fund availability and future events, such as the performance of agreed-upon work. Commitments are tracked periodically (e.g., monthly) by program management staff and are subject to changes due to changes in operational conditions, which may include changes in scope of work, cancellation, new commitments added, invoices/payments made against previous commitments, etc.

For informational disclosure purposes, Commitments is one of the two data elements within the Unspent component, with the other being the Unspent and Uncommitted. Commitments, as well as the Adjusted Authorized Budget and Amount Spent, is an important data component in order to accurately determine the Unspent and Uncommitted Amount. For detailed data disclosure, refer to Table B-1 of this Appendix.

B.7 Codes and Standards (CS) Program and Subprograms - 2015

Statewide Codes and Standards (C&S) Program 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.¹³ The C&S program is an incentive based program¹⁴ 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.

The primary mission of SCE's C&S program is 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

¹³ 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/>

¹⁴ D.13-09-023, OP3

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 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. Table B-5 provides a summary of UAFCB's verified C&S program expenditures for PY2015.¹⁵

Table B-5
C&S Program Expenses – 2015

Program Description	Administrative	Marketing & DI	Total	%
Building Codes & Compliance Adv.	\$125,056	\$1,554,176	\$1,679,232	26%
Appliance Standards Advocacy	132,078	1,729,110	1,861,188	29%
Compliance Enhancement	80,568	2,043,914	2,124,482	32%
Reach Codes	65,774	249,473	315,247	5%
Planning Coordination	<u>111,497</u>	<u>428,883</u>	<u>540,380</u>	<u>8%</u>
Total C&S Expenses	<u>\$514,973</u>	<u>\$6,005,555</u>	<u>\$6,520,528</u>	<u>100%</u>

B.8 Non-Resource (NR) Program and Subprograms - 2015

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,¹⁶ a 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.¹⁷

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. Table B-6 provides a summary of UAFCB's verified NR program expenditures for PY2015.

¹⁵ Verified expenses are net of the UAFCB's recommended examination adjustments of (\$82,772) in Appliance Standards Advocacy program and (\$4,661) in Compliance Enhancement program for Marketing and Direct Implementation.

¹⁶ D.13-19-023, Findings of Fact 10, p. 88

¹⁷ D.13-19-023, OP 3(D), p. 95

**Table B-6
NR Program Expenses – 2015**

Program Description	Admin.	Marketing & DI	Total	%
Commercial Energy Advisor	\$ 225,615	\$ 3,295,950	\$ 3,521,565	15.8%
Comm. Continuous Energy Improve.	67,584	514,232	581,816	2.6%
Industrial Energy Advisor Program	67,474	791,422	858,896	3.9%
Ind. Continuous Energy Improve.	52,553	311,718	364,271	1.6%
Agric. Continuous Energy Improve.	85	134,216	134,301	0.6%
Lighting Market Transformation	31,088	159,315	190,403	0.9%
IDSMS	63,010	248,082	311,092	1.4%
Emerging Technologies	714,581	7,390,072	8,104,653	36.5%
WE&T Centergies	400,542	5,951,484	6,352,026	28.6%
WE&T Planning	5,531	29,146	34,677	0.2%
IDSMS Pilot for Food Processing	16,230	00	16,230	0.1%
Energy Leader Partner. Strategic	143,021	368,821	511,842	2.3%
Cool Planet	75,523	193,619	269,142	1.2%
Sustainable Communities	145,840	800,595	946,435	4.3%
Total Non-Resource Expenses	<u>\$2,008,677</u>	<u>\$20,188,672</u>	<u>\$22,197,349</u>	<u>100.0%</u>

B.9 Energy Upgrade California (EUC) Home Upgrade Program – 2015

The Energy Upgrade California (EUC) program – a subprogram under the Statewide Residential EE program – is intended to transform the residential energy improvement market by educating customers on the house-as-a-system (or whole house) concept, educating contractors on the benefits of learning how to properly sell and install whole house measures, offering incentives that influence customers and contractors to undertake residential retrofits and promoting coordination with relevant external funding, financing and workforce education and training efforts at the county, state, and federal levels. EUC program helps the customer offset the cost of installing a comprehensive set of measures to reduce energy use, conserve resources, and create a more comfortable and efficient home. Table B-7 provides a summary of UAFCB's verified EUC program expenditures for PY2015.

**Table B-7
EUC Home Upgrade Program Expense – 2015**

Cost Category	Amount	%
Administrative	\$273,467	3.6%
Marketing & DI	<u>\$7,266,761</u>	<u>96.4%</u>
Total EUC Expense	<u>\$7,540,228</u>	<u>100%</u>

B.10 Commercial Deemed Incentives – Commercial Rebate (CDIR) Program – 2015

The Statewide Commercial Deemed Incentive Rebate Program (advertised as Energy Efficiency Express Solutions by SCE) – a subprogram under the Statewide Commercial EE program – offers eligible business customers incentives that encourage common, standardized EE

equipment retrofits. Deemed retrofit measures have fixed incentive amounts per unit/measure and are intended for projects that have well-defined energy and demand savings. The measure categories include lighting, air conditioning equipment, food service equipment, refrigeration, high-efficiency water heating, and plug load. Projects are typically identified through utility EE audits, customer communications with local SCE representatives, SCE contractors, and/or partnerships with equipment vendors and trade allies. Commercial Deemed Incentives pays rebates to non-residential customers for the purchase and installation of qualified equipment that improves the energy efficiency of their businesses or non-profit organizations. Table B-8 provides a summary of the verified EUC program expenditures for PY2015.

Table B-8
CDIR Program Expense – 2015

Cost Category	Amount	%
Administrative	\$ 43,227	0.1%
Marketing & DI	26,830,480	99.9%
Total CDIR Expense	<u>\$26,873,707</u>	<u>100%</u>

B.11 Industrial EE Program and Subprograms – 2015

The Statewide Industrial programs provide strategic energy planning, audits, rebates, and incentives to customers in order to accelerate the adoption of energy efficiency measures. It works with industry stakeholders to promote integrated energy management solutions to industrial end-use customers, such as printing plants, petroleum refineries, chemical industries, and waste and wastewater treatment plants. SCE offers financial incentives to non-residential customers that install high-efficiency equipment or systems, receive energy services from SCE, and pay into the Public Purpose Program. Table B-9 provides a summary of the verified Industrial program expenditures for PY2015.

Table B-9
Industrial EE Program Expenses – 2015

Program Description	Administrative	Marketing & DI	Total	%
Industrial Energy Advisor	\$ 67,474	\$ 791,422	\$ 858,897	12.2%
Industrial Calculated EE	98,476	3,916,155	4,014,632	57.4%
Industrial Deemed EE	47,413	1,712,594	1,760,007	25.2%
Industrial CEI	<u>52,553</u>	<u>311,718</u>	<u>364,271</u>	<u>5.2%</u>
Total Industrial Expenses	<u>\$265,916</u>	<u>\$6,731,889</u>	<u>\$6,997,807</u>	<u>100.0%</u>

B.12 Agricultural EE Program and Subprograms – 2015

The statewide Agriculture Energy Efficiency Program provides strategic energy planning, audits, rebates, and incentives to customers in order to accelerate the adoption of energy efficiency measures. It also provides energy analysis services leading to improved energy efficiency of agricultural facilities. Targeted segments from the agriculture sector include agricultural growers, greenhouses, post-harvest processors, water and irrigation districts and food processing.

Table B-10 provides a summary of the verified Agricultural program expenditures for PY2015.¹⁸

Table B-10
Agricultural EE Program Expenses – 2015

Program Description	Administrative	Marketing & DI	Total	%
Agriculture Energy Advisor	\$101,877	\$1,526,356	\$1,628,233	22.0%
Agriculture Calculated EE	80,390	3,162,903	3,243,293	43.8%
Agriculture Deemed EE	31,697	2,372,499	2,404,196	32.4%
Agriculture CEI	85	134,216	134,301	1.8%
Total Agricultural Expenses	<u>\$214,049</u>	<u>\$7,195,974</u>	<u>\$7,410,023</u>	<u>100.0%</u>

B.13 Local Government Partnership (LGP) Program and Subprograms – 2015

There are three broad objectives to Local Government Partnerships: 1) Retrofit local government facilities; 2) Promote and in some cases directly implement energy efficiency programs in the community; and 3) Support the Energy Efficiency Strategic Plan. At SCE, the LGP programs fall into two categories: 1) Those with local governments, their regional, or implementing organizations, and 2) those with State agencies or institutional partners. Table B-11 provides a summary of the verified LGP program expenditures for PY2015.¹⁹

¹⁸ Verified expenses are net of the UAFCB's recommended examination adjustments of (\$22,018) in Agriculture Calculated EE Program for Marketing and Direct Implementation.

¹⁹ Verified expenses are net of the UAFCB's recommended examination adjustments of (\$79,523) in Community Energy Leader (ELP) program, (\$175,718) in Orange County ELP, (\$54,765) in San Joaquin Valley, (\$25,396) in South Bay, (\$7,375) in Ventura County and (\$117,879) in UC/CSU for Marketing and Direct Implementation.

Table B-11
SCE LGP Program Expenses – 2015

Program Description	IOU Admin	Non-IOU Admin	Marketing & DI	Total	%
Energy Leader Partnership	\$ (59,859)	\$ 00	\$ 24,457	\$ (35,402)	-0.2%
City of Beaumont ELP	5,943	00	41,824	47,767	0.2%
City of Long Beach ELP	29,714	00	121,595	151,309	0.8%
City of Redlands ELP	23,066	00	57,474	80,540	0.4%
City of Santa Ana ELP	33,849	4,064	233,461	271,374	1.4%
City of Simi Valley ELP	5,519	00	64,896	70,415	0.4%
Gateway Cities ELP	58,519	8,674	193,142	260,335	1.3%
Community ELP	86,039	48,390	1,048,359	1,182,788	6.3%
Eastern Sierra ELP	19,226	6,469	131,035	156,730	0.8%
ELP Strategic Support	121,616	21,405	368,821	511,842	2.7%
Desert Cities ELP	45,564	11,434	544,198	601,196	3.1%
Kern County ELP	24,971	(484)	49,564	74,051	0.4%
Orange County ELP	86,355	22,718	378,456	487,529	2.5%
San Gabriel Valley ELP	64,181	11,004	443,181	518,366	2.7%
San Joaquin Valley ELP	89,815	45,115	412,466	547,396	2.8%
South Bay ELP	78,404	71,312	782,624	932,340	4.8%
South Santa Barbara County ELP	44,643	12,622	189,506	246,771	1.3%
Ventura County ELP	81,570	14,192	527,980	623,742	3.2%
Western Riverside ELP	44,465	10,437	201,619	256,521	1.3%
City of Adelanto ELP	15,793	7,330	164,471	187,594	1.0%
West Side ELP	38,505	10,261	95,123	143,889	0.7%
LG Strategic Planning Pilot	918,576	172,042	1,792,618	2,883,236	14.9%
County of Los Angeles ELP	53,189	3,780	997,123	1,054,092	5.5%
County of Riverside ELP	53,181	0	114,683	167,864	0.9%
County of San Bernardino	52,440	3,051	361,062	416,553	2.2%
North Orange County Cities	0	4,370	44,166	48,536	0.3%
San Bernardino Regional ELP	0	1,359	9,610	10,969	0.1%
CA Comm. Colleges EEP	87,094	0	3,274,748	3,361,842	17.4%
CA Dept. of Corr. & Rehab. EEP	53,313	0	562,115	615,428	3.2%
State of California EEP	57,962	0	590,202	648,164	3.4%
UC/CSU EEP	148,740	62,493	2,395,582	2,606,815	14.1%
Federals EEP	135	0	0	135	0.0%
Total LGP Expenses	\$2,362,528	\$552,038	\$16,216,162	\$19,130,728	100.0%

B.14 Follow-up on Prior UAFCB's Observations and Recommendations and SCE Internal Audit Services Reports

UAFCB performed a follow-up examination on each observation and recommendation included in its prior report entitled, *Financial, Management, Regulatory, and Compliance Examination Report on Southern California Edison Company's (SCE's) Energy Efficiency Program For the Period January 1, 2014 through December 31, 2014*, issued on June 30, 2016.

UAFCB's reviewed prior observations and recommendations pending corrective actions by SCE which included the following:

- **Observation 4: SCE failed to demonstrate compliance with PU code §§ 581, 582 and 584, including SCE's established accrual policy and procedures.** SCE incorrectly included \$201,368 in PY 2014 the Codes and Standards (C&S) program expenditures belonging to PY 2013. The amount was charged to the Direct Implementation cost category of the program. This amount represents 5.6% of the total C&S Program expenses in PY 2014.

Recommendation: SCE has since filed Advice Letter (AL) 3240-E to claim its Management Fee incentive award for PY 2014. The Commission's Energy Division should reduce the C&S Management Fee incentive award by \$24,164 ($\$201,368 * 12\%$) when SCE's true-up AL is processed.

UAFCB Follow-up Response: SCE reduced its PY 2014 C&S incentive award amount by \$24,164 in accordance with UAFCB's recommendation in AL 3464-E filed on September 1, 2016.

- **Observation 7: SCE failed to demonstrate compliance with PU code §§ 581, 582 and 584, including SCE's established accrual policy and procedures.** SCE incorrectly included \$56,888 in PY 2014 the NR program expenditures belonging to PY 2013. The amount was charged to the Direct Implementation cost category of the program. SCE included the \$56,888 in the calculation of the incentive award for PY 2014.

Recommendation: SCE has since filed AL 3240-E to claim the NR Programs Management Fee incentive award for PY 2014. The Commission's Energy Division should reduce the incentive award by \$1,707 ($\$56,888 * 3\%$) when SCE's true-up AL is processed.

UAFCB Follow-up Response: SCE reduced its PY 2014 NR Program Management Fee incentive award amount by \$1,707 in accordance with UAFCB's recommendation in AL 3464-E filed on September 1, 2016.

- **Observation 8: SCE failed to demonstrate compliance with Commission decision D.13-09-023, Ordering Paragraph (OP) 16 respecting the NR Management Fee incentive award for PY 2014.** SCE incorrectly included \$14,202,298 related to the On-Bill Financing (OBF) revolving loan pool activities for PY 2014. By including this amount in the calculation of the incentive award for the NR Management Fee in PY 2014, SCE overstated its award amount by \$426,069.

Recommendation: SCE has since filed AL 3240-E to claim the NR Programs Management Fee incentive award for PY 2014. The Commission's Energy Division should reduce the NR Management Fee incentive award by \$426,069 ($\$14,202,298 * 3\%$) when SCE's true-up AL is processed.

If SCE continues to disagree with the UAFCB on this matter, it should file a "Motion for Clarification" in D.13-09-023 for consideration by the Commission. ED should correct the inadvertent error it made by granting SCE an incentive award on the OBF loan pool as indicated above.

UAFCB Follow-up Response: SCE reduced its PY 2014 NR Program Management Fee incentive award amount by \$426,069 in accordance with UAFCB's recommendation in AL 3464-E filed on September 1, 2016.

- **Observation 12:** SCE failed to demonstrate compliance with PU code §§ 581, 582 and 584, including SCE's established accrual policy and procedures, respecting its reported Third Party (TP) Non-SCE EE Administrative costs. SCE incorrectly recorded \$81,762 in PY 2014 that should have been recorded in PY 2013.

Recommendation: SCE should adhere to its own accrual basis of accounting by timely recording and reporting EE expenditures and ensuring that EE administrative costs are properly booked to allow for an accurate cost cap determination at the end of the budget cycle or 2015.

UAFCB Follow-up Response: SCE revised its year-end accrual procedures and provided relevant training at the end of 2014, and is currently adhering to its improved accounting accrual process.

- **Observation 16:** SCE failed to demonstrate compliance with PU code §§ 581, 582 and 584, including SCE's established accrual policy and procedures. SCE incorrectly included \$148,410 in PY 2014 the CC program expenditures belonging to PY 2013. The amount was charged to the Direct Implementation cost category of the program.

Recommendation: Energy Division should exclude \$148,410 from the reported total 2014 CC Program expenditures before calculating SCE's PY 2014 Resource Program Savings Incentive award.

UAFCB Follow-up Response: SCE inadvertently failed to apply UAFCB's recommendation when preparing its ESPI earnings request in AL 3464-E filed on September 1, 2016. SCE plans to contract ED to discuss steps to resolve this error.

SCE's Internal Audit Recommendations

SCE's Internal Audit Services issued two audit reports that contained subjects that were relevant to PY2015 EE program. However, company management provided appropriate corrective responses to the Audit Services' findings and recommendations, and there were no outstanding issues. Refer to Observation 37, Appendix A for more details.

Appendix C SCE Comments



Marc L. Ulrich, Ph.D.
Vice President
Customer Programs and Services

June 16 2017

Kayode Kajopaiye
Utility Audit, Finance and Compliance Branch
California Public Utilities Commission
505 Van Ness Avenue 3rd Floor Room 3105
San Francisco, CA 94102

Dear Mr. Kajopaiye

Southern California Edison Company (SCE) appreciates the opportunity to review and provide clarifying comments on the draft *Financial Management Regulatory and Compliance Examination Report on Southern California Edison Company's (SCE's) Energy Efficiency (EE) Program For the Period January 1 2015 through December 31, 2015* (Draft Report) issued on June 8 2017 by the California Public Utilities Commission's (Commission) Utility Audit Finance and Compliance Branch (UAFCB).

SCE has limited comments on the Draft Report that are intended to provide additional clarification and information related to the observations in the Draft Report. SCE's specific comments are set forth in attachment to this letter. SCE appreciates UAFCB's proposed recommendations, as SCE is committed to continuous improvement and uses the feedback received from these audits to implement those improvements.

If you have any questions about SCE's comments, or would like to set up a meeting to discuss the information provided, please contact Elizabeth Leano at 626-302-3662.

Thank you,

A handwritten signature in black ink, appearing to read "Marc L. Ulrich", is written over a horizontal line.

Marc L. Ulrich, Ph.D.
Vice President, Customer Programs and Services

Attachment

cc: Maryam Ebke, CPUC, Deputy Executive Director
Pete Skala, CPUC, Energy Division, Deputy Director
Robert Strauss, CPUC, Energy Division
Barbara Owens, Executive Division
Kevin Nakamura, UAFCB
Jeffrey Walter, UAFCB
Frederick Ly, UAFCB

1515 Walnut Grove Avenue
Rosemead, CA 91770

SCE's Comments to the Draft Report in UAFCB's Audit of SCE's Energy Efficiency Programs for the Year Ended December 31, 2015

The following are SCE's comments on the Draft Report prepared by the UAFCB in its audit of SCE's 2015 Energy Efficiency (EE) Programs. With the exception of the few items noted below, SCE believes that the Draft Report accurately reflects the information that SCE provided to the auditors during the audit. Thus, these comments only address those observations and recommendations where SCE disagrees with an observation and/or has updated information to provide.

1. Total EE Program Year (PY) 2015 Cost Reconciliation: Draft Observation 2

Draft Observation 2: *SCE's compliance with PU code §§ 581, 582 and 584 respecting the timely filing of required EE program reports could not be ascertained in this examination. SCE filed its Monthly, Quarterly, Annual reports as required by the Commission. However, UAFCB was unable to validate the timeliness of these filings due to Energy Division's (ED's) practice of informally granting extension requests to file or re-file reports (Monthly Report, Quarterly Report, and/or Annual Report) without maintaining any form of documentation and/or records.*

Draft Recommendation 2: *ED should strengthen its procedures for the filing of reports by documenting utility approved extension requests to ensure compliance with Commission approved EE reporting requirements.*

SCE Comments to Draft Observation 2

SCE clarifies that it did file all Monthly, Quarterly, and Annual reports on a timely basis in accordance with Commission directives and requirements. Nonetheless, SCE is supportive of the UAFCB's request for the ED to review its procedures related to report filings and extension approvals, and will support such review as the ED may deem necessary.

2. 2013-2015 EE Program Cycle IOU Administrative Costs: Draft Observation 6

Draft Observation 6: *SCE failed to demonstrate compliance with Commission Decision (D.) 09-09-047, Ordering Paragraph (OP) 13 and other applicable Commission directives respecting the 10% IOU administrative cost cap for the 2013-2015 EE program cycle. SCE reported an IOU administrative cost cap of 4.3% for the 2013-2015 EE program cycle. However, UAFCB's determination of SCE's IOU administrative cost cap for the 2013-2015 EE program cycle disclosed that it exceeded the 10% IOU administrative cost cap. UAFCB's calculations produced an IOU administrative cost cap amount of 10.7% based on SCE's total EE program budget for the 2013-2015 program cycle and/or 12.9% based on SCE's EE program operating expenses for the 2013-2015 program cycle.*

Draft Recommendation 6: *UAFCB recommends that the Commission clarify the 10% administrative cost cap requirement and provide specific instructions to avoid ambiguity. If the Commission agrees with the UAFCB's method, UAFCB recommends that administrative expense amount in excess of the 10% cap be refunded to ratepayers.*

SCE Comments on Draft Observation 6

SCE agrees with the UAFCB Recommendation that the Commission should clarify how the administrative cost caps and targets should be calculated and reported. However, SCE disagrees with the UAFCB calculation that SCE's administrative expenditures exceeded the cost cap and totaled 10.7% based on SCE's total EE program budget for the 2013-2015 program cycle ("Budget Methodology") and 12.9% based on SCE's EE program operating expenses for the 2013-2015 program cycle ("Expenditure Methodology"). As explained herein, SCE administrative costs are 10% of the "Total Energy Efficiency Budget".

SCE believes that the 10% administrative cost cap should be calculated using administrative expenditures divided by the "total energy efficiency budget," ("Budget Methodology") and not the "Expenditure Methodology" which utilizes total SCE expenditures rather than the "total energy efficiency budget". SCE's support for using the "Budget Methodology" is derived from the Energy Efficiency Policy Manual, version 5 (Policy Manual). Section XIII-2(a) of the Policy Manual, page 9, states "Administrative costs for utility energy efficiency programs (excluding non-IOU third party and/or government partnership budgets) are limited to 10% of total energy efficiency budgets" (emphasis added).

Assuming the use of the "Budget Methodology" is correct, SCE avers that the correct percentage of administrative costs is 10.0%, not 10.7%. SCE believes that the UAFCB's calculation using the "Budget Methodology" did not include the correct inputs. Specifically, SCE believes the UAFCB incorrectly excluded from the "Total Energy Efficiency Budget": 1) the EM&V budgets for 2013-2015 approved in D.12-11-015 and D.15-01-012; and 2) \$10,800,000, which is the authorized budget for Statewide Marketing & Outreach related to the Energy Efficiency programs authorized in AL-3070-E, which modified D.13-12-038. The UAFCB also included as the "benefits burden" expenditures all expenditures related to the energy efficiency portfolio. This amount incorrectly includes "benefits" related to labor associated with EM&V. The "Allowable Costs Attachment," Attachment 5-A to December 2008 ACR in A.08-07-021 et al. defines "benefits" related to EM&V labor to be EM&V costs, not expenditures related to the EE portfolio. Thus, these costs should not be included in the calculation of the "Total Energy Efficiency Budget". See also, Policy Manual, p.93.

SCE shows the Budget Methodology calculation adjusting for these factors in the exhibit below.

Calculation of Actual Benefits Burden

Line	2013	2014	2015	Total
1 Actual Labor Charged to PEEBA	\$ 37,335,033	\$ 43,069,398	\$ 43,792,914	\$ 124,197,345
2 Benefits Burden Factor (MDR1-Q65-2)	44.93%	45.15%	40.09%	
3 "Benefits Burden" (Line 1 * Line 2)	<u>\$ 16,774,630</u>	<u>\$ 19,445,833</u>	<u>\$ 17,556,579</u>	<u>\$ 53,777,043</u>
4 Less (Labor for EM&V) ¹	\$ 1,351,351	\$ 1,377,085	\$ 1,301,756	\$ 4,030,192
5 Benefits Burden Factor (MDR1-Q65-2)	44.93%	45.15%	40.09%	
6 EM&V "Benefits Burden" (Line 4 * Line 5)	<u>\$ 607,162</u>	<u>\$ 621,754</u>	<u>\$ 521,874</u>	<u>\$ 1,750,790</u>

¹ Benefits Burden related to labor for EM&V activity is considered EM&V costs - EE Policy Manual

² Applicable Labor = Labor related to Administrative, Marketing & Outreach & Direct Implementation

Calculation of Percentage of Administrative Costs

1 IOU Administrative Costs - per UAFCB Table B-3	\$52,925,537
2 Total PEEBA Benefits Burden	\$ 53,777,043
3 Less EM&V Labor Burden (See Table Above - Line 5) ¹	<u>\$ (1,750,790)</u>
4 Total Administrative Costs (Sum Lines 1-3)	<u>\$104,951,790</u>
5 Program Authorized Budgets ²	\$1,027,529,342
6 Less Regional Energy Network Budget	(\$53,062,167)
7 Benefits Burden ³	\$ 61,665,175
8 Statewide ME&O Budget ⁴	<u>\$10,800,000</u>
9 Total Energy Efficiency Authorized Budget (Sum Lines 5-8)	<u>\$1,046,932,350</u>
10 Administrative Cost Percentage (Line 4 / Line 9)	10.0%

¹ Benefits Burden associated with EM&V Labor are considered EM&V costs and not Administrative Costs per Allowable Costs Attachment, Attachment 5-A to December 2008 ACR in A.08-07-021 et al. Also referenced in Attachment A to PG&E AL 3065-G/3562-E

² Authorized in D.12-11-015 & D.15-01-012 (Excluding \$53,062,167 budget for Regional Energy Network)

³ SCE's Response to MDR 1 - Q65-2

⁴ Authorized in through AL 3070-E

3. Industrial EE Program and Subprograms - 2015: Draft Observation 27

Draft Observation 27: *SCE failed to demonstrate compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 Industrial EE Program cost amounts sampled for verification. UAFCB verified \$1,009,356 or 14% of \$6,997,807 expended on the Industrial EE Program in PY 2015 and found three (3) expenditure transactions that were misclassified. However, the three misclassifications did not have an overall impact on Industrial EE Program costs.*

Draft Recommendation 27: *SCE should closely monitor its third-party reviewers to ensure that they properly code or categorize all relevant EE program invoices in order to alleviate any potential recording errors.*

SCE Comments to Draft Observation 27

SCE agrees that proper classification is important, and SCE will continue to closely monitor how expenditure transactions are classified. As the UAFCB confirmed¹, SCE did detect these third-party misclassification errors, and SCE properly recorded in its accounting system these incentive payments to the correct Industrial EE Program.

¹ Appendix A of Draft Report, Observation 27, page A-14.