



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

Subject: Financial, Management, Regulatory, and Compliance Examination Report on Southern California Gas Company's (SCG'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 Gas Company's (SCG'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.) 4, 6, 14, 17, and 33 below, SCG demonstrated compliance with Commission directives respecting the areas examined. However, UAFCB found that SCG overstated its 2015 recorded expenditures used for calculating the Management Fee Incentive awards for Codes & Standards (C&S) and Non-Resource Programs by a total of \$177,411 (\$45,360 and \$132,051, respectively) as indicated in Obs. 14 and 17. The Energy Division (ED) should not include \$177,411 in the calculation of the incentive awards for these programs in PY 2015. 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 these and other observations 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 Incentive – 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

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.14-10-046, Findings 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 may "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 authorized in D.12-11-015."

Subprograms – 2015; and (12) Follow-up on Prior UAFCB's Observations and Recommendations and SCG's Internal Audit (IA) Recommendations.

SCG'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: SCG 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 expenditures recorded and reported in PY 2015, excluding Evaluation, Measurement and Verification (EM&V) and Statewide Marketing, Education and Outreach (ME&O) costs, amounted to \$65,705,547.³ A reconciliation of this amount reported in the California Energy Efficiency Statistics (EESStats)⁴ web portal, including the Annual Report (Table 3), Quarterly reports and Monthly reports, to SCG's accounting records disclosed no material exceptions.

Recommendation: None.

Observation 2: SCG'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. SCG 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 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: Except for Observation 4 below, SCG demonstrated compliance with PU code §§ 581, 582, and 584 respecting the total reported EE Program administrative costs for the 2013-2015 program cycle. SCG's total administrative expenditures recorded and reported amounted to \$19,634,397. A reconciliation of this amount reported in EESStats, including the Annual Reports (Table 3) and Quarterly reports, to SCG's accounting records disclosed no material exceptions.

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 SCG's total EE portfolio program costs in PY 2015.

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

Recommendation: None.

Observation 4: SCG failed to demonstrate compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 administrative cost amounts sampled for verification. SCG incorrectly included \$428,771 in 2015 PY administrative expenditures (Regional Energy Network and Evaluation Measurement Verification) belonging to 2014 PY.

Recommendation: SCG should adhere to accrual basis of accounting when recording and reporting its EE Program expenditures. The costs not accrued in the proper period would not impact the incentive award calculation because they are not subject to it.

Observation 5: SCG's internal policy and procedures for the tracking and recording of EE Program IOU administrative costs were adequately designed to meet Commission directives. SCG was in compliance with its internal Customer Programs and Assistance Workbook Confirmation Procedure Manual.

Recommendation: None.

Observation 6: SCG'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. SCG reported its administrative cost cap at 5.6% because it included in the denominator of the calculation the EM&V and On-Bill Financing (OBF) Loan Pool budget amounts. UAFCB's determination of SCG's cost cap for the same period disclosed more than 10% because it excluded these budget amounts. UAFCB's calculations produced 9.3% cost cap based on SCG's total EE program budget for the program cycle and 10.5% based on SCG'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: SCG 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 \$2,793,234. A reconciliation of this amount reported in EEStats, including the Annual Report (Table 3) and Quarterly reports, to SCG's accounting records disclosed no material exceptions.

Recommendation: None.

Observation 8: SCG demonstrative compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 Non-IOU Administrative costs amounts sampled for verification. UAFCB verified \$337,755 expended as Non-IOU Administrative costs and found no material exceptions.

Recommendation: None.

Observation 9: SCG's internal policy and procedures for the tracking and recording of EE Program Non-IOU administrative costs were adequately designed to meet Commission directives. SCG was in compliance with its internal Customer Programs and Assistance Workbook Confirmation Procedure Manual.

Recommendation: None.

Observation 10: SCG 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. SCG reported an administrative cost target of 5.2%. UAFCB's calculations produced an administrative cost target of 6.4% based on SCG's combined Third Party (TP) and Local Government Partnership (LGP) Non-IOU administrative operating expenses for the same period. SCG and UAFCB differ in their calculation as explained in Appendix A.

Recommendation: None.

Amount Spent, Committed and Unspent/Uncommitted 2013 - 2015

Observation 11: SCG 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 \$185,554,304, \$13,584,372, and \$63,071,440, respectively. A reconciliation of these amounts reported in EEStats to SCG's accounting records for the 2013-2015 program cycle disclosed no material exceptions.

Recommendation: None.

Observation 12: SCG's internal policies 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. SCG had the necessary internal policies and procedures in place to account for the EE portfolio expenditure 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, SCG demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported C&S program costs in PY 2015. The \$552,494 reported in the December 2015 year-to-date Monthly EEStats report, Q4 2015 Quarterly EEStats report and in Advice Letter (AL) 5024-G reconciled to SCG's accounting records.

Recommendation: None.

Observation 14: SCG failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SCG's established accrual policy and procedures. SCG incorrectly included \$45,360, instead of \$88,443 as originally recommended, in 2015 PY expenditures belonging to 2014 PY. The amount was charged to the Direct Implementation cost category.

Recommendation: SCG has since filed AL 5024-G to claim its C&S Management Fee incentive award for PY 2015. The Commission's ED should deduct \$45,360 from the 2015 C&S expenditures when SCG's 2015 ex-post Energy Savings and Performance (ESPI) true-up Advice Letter (AL) is processed. In addition, SCG should adhere to accrual basis of accounting when recording and reporting its EE Program expenditures.

Observation 15: SCG's internal policy and procedures for implementing the C&S program were adequately designed to meet Commission directives in PY 2015. SCG was in compliance with its internal Statewide Crosscutting Codes and Standards Programs manual.

Recommendation: None.

Non-Resource (NR) Program and Subprograms - 2015

Observation 16: Except for Observations 17 below, SCG demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported NR Program costs in PY 2015. The \$14,156,844 reported in the December 2015 year-to-date Monthly EEStats report and in AL 5024-G reconciled to SCG's accounting records.

Recommendation: None.

Observation 17: SCG failed to demonstrate compliance with PU code §§ 581, 582 and 584, including SCG's established accrual policy and procedures. SCG incorrectly included \$132,051 in expenditures not belonging to 2015 PY. The amount was charged to the Direct Implementation cost category.

Recommendation: SCG has since filed AL 5024-G to claim its NR Program Management Fee incentive award for PY 2015. The Commission's ED should deduct \$132,051 from the 2015 NR expenditures when SCG's 2015 ex-post ESPI true-up AL is processed.

Observation 18: SCG's internal policies and procedures for implementing the NR Program were adequately designed to meet Commission directives in PY 2015. SCG was in compliance with its internal Program Adviser Handbook, Integrated Demand Side Management Handbook, and Workforce, Education and Training (WE&T) Manuals.

Recommendation: None.

Observation 19: The criteria used by SCG for designating EE programs as Resource and Non-Resource were in compliance with the Commission's directives. SCG 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: SCG demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported EUC Home Upgrade program costs in PY 2015. The total recorded and reported amounted to \$7,033,701. A reconciliation of this amount reported in EEStats, including

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

Recommendation: None.

Observation 21: SCG demonstrated compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 EUC Home Upgrade program cost amounts sampled for verification. UAFCB verified \$2,232,140 expended on the EUC Home Upgrade program and found no material exceptions.

Recommendation: None.

Observation 22: SCG's internal policies and procedures for implementing the EUC Home Upgrade program were adequately designed to meet Commission directives in PY 2015. SCG was in compliance with its internal Energy Upgrade California Multifamily Guidelines, Program Adviser Handbook and Customer Programs and Assistance Workbook Confirmation Procedure Manual.

Recommendation: None.

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

Observation 23: SCG demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported CDIR program costs in PY 2015. The total recorded in reported amounted to \$5,063,506. A reconciliation of this amount reported in EEStats, including the December 2015 year-to-date Monthly report and Quarterly reports, to SCG's accounting records disclosed no material exceptions.

Recommendation: None.

Observation 24: SCG demonstrated compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 CDIR program cost amounts sampled for verification. UAFCB verified \$1,487,200 expended on the CDIR program and found no material exceptions.

Recommendation: None.

Observation 25: SCG's internal policies and procedures to implement the CDIR program were adequately designed to meet the Commission's directives in PY 2015. SCG was in compliance with its internal Program Adviser Handbook and Customer Programs and Assistance Workbook Confirmation Procedure Manual.

Recommendation: None.

Industrial EE Program and Subprograms - 2015

Observation 26: SCG 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 \$7,667,056. A reconciliation of this amount reported in EEStats, including

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

Recommendation: None.

Observation 27: SCG demonstrated compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 Industrial EE Program cost amounts sampled for verification. UAFCB verified \$2,434,295 expended on the Industrial EE Program and found no material exceptions.

Recommendation: None.

Observation 28: SCG's internal policies and procedures to implement its Industrial EE Program were adequately designed to meet the Commission's directives in PY 2015. SCG was in compliance with its internal Small Industrial Facility Upgrades EE Program Manual, EE Calculated Incentives Program Participant Handbook, 2013-2015 EE Calculated Incentives Program Procedures Manual, and SCG's Industrial EE Program Implementation Plan (PIP).

Recommendation: None.

Agricultural EE Program and Subprograms - 2015

Observation 29: SCG 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 \$919,296. A reconciliation of this amount reported in EESStats, including the December 2015 year-to-date Monthly EESStats report and Quarterly reports, to SCG's accounting records disclosed no material exceptions.

Recommendation: None.

Observation 30: SCG demonstrate compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 Agricultural EE Program cost amounts sampled for verification. UAFCB verified \$304,805 expended on the Agricultural EE Program and found no material exceptions.

Recommendation: None.

Observation 31: SCG's internal policies and procedures to implement its Agricultural EE Program were adequately designed to meet the Commission's directives in PY 2015. SCG was in compliance with its internal Small Industrial Facility Upgrades EE Program Manual, EE Calculated Incentives Program Participant Handbook, 2013-2015 EE Calculated Incentives Program Procedures Manual, and SCG's Agricultural EE Program Implementation Plan (PIP).

Recommendation: None.

Local Government Partnership (LGP) Program and Subprograms - 2015

Observation 32: Except for Observation 33 below, SCG 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 \$2,956,870. A reconciliation of this amount reported in

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

Recommendation: None.

Observation 33: SCG failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SCG's established accrual policy and procedures. SCG incorrectly included \$10,090 in 2015 PY expenditures belonging to 2014 PY. The amount was charged to the Direct Implementation cost category.

Recommendation: SCG has since filed AL 5024-G to claim its Resource Programs Savings Incentives award for PY 2015. The incentives award associated with this incorrect amount is insignificant in UAFCB's judgement but the occurrence is an internal control weakness. Therefore, UAFCB proposes no audit adjustment. However, to minimize the occurrence of such errors in the future, SCG should adhere to the accrual basis of accounting in recording and reporting EE expenditures.

Observation 34: SCG's internal policies and procedures to implement its LGP Program were adequately designed to meet the Commission's directives in PY 2015. SCG was in compliance with its internal Energy Efficiency Calculated Incentives Program (EECIP) Handbook, EECIP Procedures Manual, and Institutional Partnership Calculated Incentives Procedures Manual.

Recommendation: None.

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

Observation 35: SCG 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: SCG identified internal audit report #15-226 – Energy Efficiency Calculated Incentives Program (EECIP) that related to the EE program activities for the PY 2015 examination period. In internal audit report #15-226, dated October 13, 2015, SCG's Audit Services (AS) conducted a review of the design and operating effectiveness of controls that support the EECIP for the period January 1, 2014 through June 30, 2015.

Recommendation: SCG management addressed and corrected the issues raised by AS in internal audit report #15-226 by or before December 15, 2015.

UAFCB appreciated SCG's efforts in strengthening its internal controls for its EE program and recommends that SCG 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 SCG's EE program, and the results of UAFCB's risk assessment. Pertinent information about SCG'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 SCG's compliance with the requirements of the energy efficiency programs, directives of the Commission pertaining to the programs, SCG's internal policies and procedures, and the generally accepted accounting principles and practices.

On July 7, 2017, UAFCB provided a draft of its analysis, observations and recommendations to both SCG and the Commission's Energy Division (ED) for comment. SCG and ED provided their comments to UAFCB's draft on July 21, 2017. UAFCB summarized SCG'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 SCG's and ED's comments. SCG's response in its entirety is provided in Appendix C.

C. Conclusion

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

No later than 30 days from the date of this report, SCG 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.

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Appendix A

Analysis and Findings

A.1 Introduction

The Utility Audit, Finance and Compliance Branch (UAFCB) examined Southern California Gas Company's (SCG's) financial, management, regulatory, and compliance areas of Energy Efficiency (EE) Programs for program year (PY) 2015. Except for Observations (Obs.) 4, 6, 14, 17, and 33 below, SCG 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 SCG's Internal Audit (IA) Recommendations

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

Observation 1: SCG 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 expenditures recorded and reported in PY 2015, excluding Evaluation, Measurement and Verification (EM&V) and Statewide Marketing, Education and Outreach (ME&O) costs, amounted to \$65,705,547.² 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 SCG's accounting records disclosed no material exceptions.

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

Condition: The \$65,705,547 reconciled to SCG's accounting records.

Recommendation: None.

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

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

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

Observation 2: SCG'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. SCG 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 any form of 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 its 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 this examination period, UAFCB was unable to validate the timeliness of SCG's report filings in EEStats 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 SCG fully complied with the reporting requirements as required by the Commission.

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.

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

Observation 3: Except for Observation 4 below, SCG demonstrated compliance with PU code §§ 581, 582, and 584 respecting the total reported EE Program administrative costs for the 2013-2015 program cycle. SCG's total administrative expenditures recorded and reported amounted to \$19,634,397. A reconciliation of this amount reported in EEStats,

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

including the Annual Reports (Table 3) and Quarterly reports, to SCG's accounting records disclosed no material exceptions.⁵

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

Condition: The \$19,634,397 reconciled to SCG's accounting records. The breakdown is as follows:

Program Year	Amount
PY 2013	\$ 7,182,965
PY 2014	5,988,222
PY 2015	<u>6,463,210</u>
Total	<u>\$19,634,397</u>

Recommendation: None.

Observation 4: SCG failed to demonstrate compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 administrative cost amounts sampled for verification. SCG incorrectly included \$428,771 in 2015 PY administrative expenditures (Regional Energy Network and Evaluation Measurement and Valuation) belonging to 2014 PY.

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 eight (8) transactions totaling \$428,771 of PY 2014 administrative costs in PY 2015. The breakdown of the \$428,771 incorrectly included in PY 2015 is as follows:

Vendor Description	Amount
County of Los Angeles (Sample #1)	\$40,335
County of Los Angeles (Sample #2)	66,713
County of Los Angeles (Sample #3)	42,705
County of Los Angeles (Sample #4)	89,809
County of Los Angeles (Sample #7)	90,365
Southern California Edison Company (SCE)	13,081
Southern California Edison Company (SCE)	53,659
Pacific Gas and Electric Company (PG&E)	<u>32,104</u>
Total	<u>\$428,771</u>

Cause: The vendor invoices were not submitted to SCG on a timely basis in order to process and record the expenditures in the proper period.

Effect: SCG over-reported its administrative costs by \$428,771 in PY 2015.

⁵ Refer to Appendix B, Table B-3 for a detailed breakdown of SCG's EE program IOU administrative costs for the 2013-2015 program cycle.

SCG Comments: SCG acknowledges that it incorrectly included \$428,771 in administrative expenditures that should have been charged to PY 2014. However, SCG requests that UAFCB not identify these incorrect charges in PY 2015 as IOU administrative expenses since these charges relate Regional Energy Network (REN) and EM&V administrative costs. Specifically, SCG asserts that sample items #1 through #4 and #7 relate to REN administrative costs and the two Southern California Edison Company (SCE) items totaling \$13,081 and \$53,659 relate to EM&V costs. Consequently, SCG requests that the UAFCB remove the reference to IOU administrative expenses from this observation.

ED Comments: ED requested that the language in the "Cause" section of this observation be stated more clearly by replacing "timely" with the words "on a more timely basis."

Rebuttal: UAFCB agrees with SCG's comments and has modified the language in this observation by removing the term "IOU" when referring to these administrative expenditures incorrectly charged to PY 2015.

Response: In regards to ED's comments, UAFCB agrees with ED to revise the language in the "Cause" section of this observation and has replaced "timely" with "on a timely basis."

Recommendation: SCG should adhere to accrual basis of accounting when recording and reporting its EE Program expenditures. The costs not accrued in the proper period would not impact the incentive award calculation because they are not subject to it

Observation 5: SCG'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. SCG was in compliance with its internal Customer Programs and Assistance Workbook Confirmation Procedure Manual.

Criteria: Did SCG's internal Customer Programs and Assistance Workbook Confirmation Procedure Manual provide appropriate policy and procedures for the proper recording of administrative costs in compliance with Commission directives?

Condition: SCG's Customer Programs and Assistance Workbook Confirmation Procedure Manual seemed reasonably adequate for the accounting and reporting of administrative costs in accordance with Commission directives in PY 2015.

Recommendation: None.

Observation 6: SCG'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. SCG reported its administrative cost cap at 5.6% because it included in the denominator of the calculation the EM&V and On-Bill Financing (OBF) Loan Pool budget amounts. UAFCB's

determination of SCG's cost cap for the same period disclosed more than 10% because it excluded these budget amounts. UAFCB's calculations produced 9.3% cost cap based on SCG's total EE program budget for the program cycle and 10.5% based on SCG'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, 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: SCG calculated the 10% administrative cost cap at 5.6% for the 2013-2015 program cycle. SCG used the following for its calculation:

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

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

UAFCB Budget Methodology - Under this methodology, SCG's administrative cost cap amount equates to 9.3% of the total EE program budget for the 2013-2015 program cycle. UAFCB's budget methodology formula is provided below.

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

UAFCB Cost Methodology - Under this methodology, SCG's administrative cost cap amount equates to 10.5% of the total EE program operating costs for the 2013-2015 program cycle. UAFCB's cost methodology formula is provided below.

$$10\% \text{ Admin. Cost Cap} = \frac{\text{Total IOU Admin. Costs} + \text{IOU Admin. Costs in support of LGP \& TP Programs}}{\text{Total EE Portfolio Costs} - \text{EM\&V Costs} - \text{REN Costs} - \text{ME\&O Costs}}$$

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% IOU administrative costs cap. There is not clear guidance on the types of costs to include in the numerator or denominator when determining the 10% IOU 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 SCG was in compliance with the 10% administrative cost cap for the 2013-2015.

⁶ Total EE Portfolio Budget amount excludes Statewide ME&O, EM&V and On-Bill Financing (OBF) Loan Pool.

SDG&E Comments: SCG disagrees with the UAFCB that its IOU administrative costs exceeded the 10% cost cap. SCG asserts that its calculation of the percentage of the 10% cap attributable to its administrative costs is correct based on established and approved practices adopted by the Commission through the EE Policy Manual, prior directives, and its approval of IOU administrative costs during previous review periods.

SCG asserts that the premise for the difference between the formulas' proposed by the UAFCB and that adopted by the Commission is due to the amounts included in the denominator when calculating the 10% administrative cost cap.

SCG asserts that the primary difference between UAFCB's calculation (Budget Methodology) is that: (1) UAFCB erroneously excluded EM&V and OBF Loan Pool from the denominator and (2) UAFCB erroneously failed to exclude the administrative-exempt programs approved in D.09-09-047.

SCG also declares that, assuming UAFCB's "Budget Methodology" is correct, its administrative cost cap would be 6.3% and not 9.3% since the UAFCB's calculation failed to include the correct inputs. Specifically, SCG asserts that UAFCB's "Budget Methodology" calculation improperly excludes other approved budget components (i.e., EM&V and OBF Loan Pool).

Furthermore, SCG asserts that its administrative cost cap would be 8.8% and not 10.5% if applying UAFCB's calculation based actual expenditures (Cost Methodology). Under this methodology, SCG asserts that the difference is due to UAFCB improperly excluding costs for the OBF Loan Pool, EM&V, and Statewide ME&O.

In conclusion, SCG asserts that UAFCB's recommendation to refund ratepayers the administrative expenses in excess of the 10% cap is unfounded and inappropriate. SCG strongly recommends that the Commission clarify its policies and rules regarding the cost cap calculation and provide explicit consequences for non-compliance applied on a prospective basis. SCG contends that it has been managing its administrative cost cap in good faith and to retroactively apply UAFCB's recommendation would unfairly deprive SCG of its opportunity to manage the cost cap appropriately for the 2013-2015 time period.

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 disagrees with SCG's "Budget Methodology" calculation which includes the OBF Loan Pool, 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 the OBF Loan Pool, 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.

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: SCG 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 \$2,793,234. A reconciliation of this amount reported in EEStats, including the Annual Report (Table 3) and Quarterly reports, to SCG's accounting records disclosed no material exceptions.⁷

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

Condition: The \$2,793,234 reconciled to SCG's accounting records. The breakdown is as follows:

Program Year	Amount
PY 2013	\$ 964,188
PY 2014	752,966
PY 2015	<u>1,076,080</u>
Total	<u>\$2,793,234</u>

Recommendation: None.

Observation 8: SCG demonstrative compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 Non-IOU Administrative costs amounts sampled for verification. UAFCB verified \$337,755 expended as Non-IOU Administrative costs and found no material exceptions.

Criteria: Section 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.

⁷ Refer to Appendix B, Table B-4 for a detailed breakdown of SCG's EE program Non-IOU administrative costs for the 2013-2015 program cycle.

Recommendation: None.

Observation 9: SCG'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. SCG was in compliance with its internal Customer Programs and Assistance Workbook Confirmation Procedure Manual.

Criteria: Did SCG's internal Customer Programs and Assistance Workbook Confirmation Procedure Manual provide appropriate policy and procedures for the proper recording of Non-IOU administrative costs in compliance with Commission directives?

Condition: SCG's Customer Programs and Assistance Workbook Confirmation Procedure Manual seemed reasonably adequate for the accounting and reporting of Non-IOU Administrative costs in accordance with Commission directives in PY 2015.

Recommendation: None.

Observation 10: SCG 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. SCG reported an administrative cost target of 5.2%. UAFCB's calculations produced an administrative cost target of 6.4% based on SCG's combined TP and LGP Non-IOU 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: SCG determined its compliance with the 10% administrative cost target based on the following calculation:

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

SCG's calculation came to 5.2% and UAFCB's calculation came to 6.4% 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: SCG 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 \$185,554,304, \$13,584,372, and \$63,071,440, respectively. A reconciliation of these amounts reported in EEStats to SCG's accounting records for the 2013-2015 program cycle disclosed no material exceptions.⁸

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 SCG's accounting records for the 2013-2015 program cycle and found no material exceptions.

Recommendation: None.

Observation 12: SCG's internal policies 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. SCG had the necessary internal policies and procedures in place to account for the EE portfolio expenditure amounts to ensure compliance with Commission directives.

Criteria: Did SCG did have the necessary policies 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: SCG's established internal policies and procedures seemed adequate for the accounting and reporting of EE portfolio program expenditure 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, SCG demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported C&S program costs in PY 2015. The \$552,494 reported in the December 2015 year-to-date Monthly EEStats report, Q4 2015 Quarterly EEStats report and in Advice Letter (AL) 5024-G reconciled to SCG's accounting records.⁹

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

Condition: The \$552,494 reconciled to SCG's accounting records. The breakdown is as follows:

⁸ Refer to Appendix B, Table B-1 for a detailed presentation of SCG's authorized budget, amount spent, amount committed, and amount unspent/uncommitted for the 2013-2015 program cycle.

⁹ Refer to Appendix B, Table B-5 for a detailed breakdown of SCG's C&S program expenditures in PY 2015.

Cost Category	Amount
Administrative	\$ 60,748
Marketing	8,878
Direct Implementation	<u>482,868</u>
Totals	<u>\$552,494</u>

Recommendation: None.

Observation 14: SCG failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SCG's established accrual policy and procedures. SCG incorrectly included \$45,360, instead of \$88,443 as originally recommended, 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. SCG's accrual policy requires that any expense item having a value equal to or greater than \$10,000 must be accrued in the period in which such expense incurred.

Condition: UAFCB's review and testing disclosed four (4) transactions totaling \$88,443 of PY 2014 C&S program Direct Implementation costs in PY 2015. The breakdown of the \$88,443 incorrectly included in PY 2015 is as follows:

Program Description	Amount
C&S Building Codes Advocacy Program (Sample #17)	\$29,979
C&S Building Codes Advocacy Program (Sample #20)	15,381
C&S Compliance Improvement Program (Sample #30)	22,129
C&S Compliance Improvement Program (Sample #31)	<u>20,954</u>
Total	<u>\$88,443</u>

Cause: When internal controls are not adequately enforced in combination with lack of proper training and supervision of employees, recording and reporting can occur.

Effect: SCG over-reported the C&S Program costs by \$45,360 in PY 2015.

SCG Comments: SCG acknowledges that it incorrectly included \$45,360 (sample #17 and #20) of the \$88,443 in C&S expenditures that should have been charged to PY 2014. However, SCG claims that the \$22,129 (sample #30) and \$20,954 (sample #31) in expenditures charged to the Compliance Improvement program were correctly accrued in PY 2014. With its comments on the draft report, SCG provided additional supporting documentation to support the \$22,129 and \$20,954 accrued in PY 2014 and requests that UAFCB modify its recommendation in this observation.

In addition, SCG asserted that, as a business practice, it continuously seeks to strengthen its internal processes, including enhanced procedures and training to ensure that program expenditures are valid and accurate, and are recognized and reported in the appropriate reporting period.

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.

Rebuttal: UAFCB reviewed the additional supporting documentation provided by SCG in its comments to UAFCB's draft report. Based on the additional documentation, the UAFCB concurs with SCG that the \$22,129 and \$20,954 were appropriately accrued in PY 2014 and should be removed from this observation. Consequently, instead of removing \$88,443, the Commission's ED should deduct \$45,360 from SCG's 2015 C&S expenditures when SCG's 2015 ex-post Energy Savings and Performance (ESPI) true-up Advice Letter (AL) is processed.

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

Recommendation: SCG has since filed AL 5024-G to claim its C&S Management Fee incentive award for PY 2015. The Commission's ED should deduct \$45,360 from the 2015 C&S expenditures when SCG's 2015 ex-post ESPI true-up AL is processed.

Observation 15: SCG's internal policy and procedures for implementing the C&S program were adequately designed to meet Commission directives in PY 2015. SCG was in compliance with its internal Statewide Crosscutting Codes and Standards Programs manual.

Criteria: Did SCG's internal Statewide Crosscutting Codes and Standards Programs Manual have adequate policy and procedures for implementing the C&S programs in accordance with Commission directives?

Condition: SCG's Statewide Crosscutting Codes and Standards Programs manual appeared reasonably adequate for implementing 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: Except for Observations 17 below, SCG demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported NR Program costs in PY 2015. The \$14,156,844 reported in the December 2015 year-to-date Monthly EEStats report and in AL 5024-G reconciled to SCG's accounting records.¹⁰

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

Condition: The \$14,156,844 reconciled to SCG's accounting records. The breakdown is as follows:

¹⁰ Refer to Appendix B, Table B-7 for a detailed breakdown of SCG's NR Program expenditures in PY 2015.

Cost Category	Amount
Administrative	\$ 2,914,258
Marketing	591,056
Direct Implementation	10,651,530
Totals	<u>\$14,156,844</u>

Recommendation: None.

Observation 17: SCG failed to demonstrate compliance with PU code §§ 581, 582 and 584, including SCG's established accrual policy and procedures. SCG incorrectly included \$132,051 in expenditures not belonging to 2015 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.

Condition: UAFCB's review and testing disclosed two invoices totaling \$131,551 for services provided in PY 2014 but incorrectly reported and charged to PY 2015. In addition, UAFCB found a sample transaction in which SCG paid the incorrect amount when it approved and issued payment to the vendor, resulting in an overstatement of PY 2015 NR program expenditures by \$500. The breakdown of the \$132,051 incorrectly included in PY 2015 is as follows:

Program Description	Amount
TP – CA Sustainability Alliance (Sample #16)	\$82,785
Emerging Tech. Assessment (Sample #41)	48,766
WE&T – Centergies (Sample #49)	500
Total	<u>\$132,051</u>

Cause: The vendor invoices were not submitted to SCG timely in order to process and record the expenditures in the proper period.

Effect: SCG over-reported the NR Program costs by \$132,051 in PY 2015.

SCG Comments: SCG acknowledges that it incorrectly included \$49,266 (samples #41 and #49) in NR expenditures that should have been charged to PY 2014. However, SCG asserts that the \$82,785 (sample #16) should be removed from this observation since SCG made a concerted effort to obtain the invoices from the vendor in order to properly accrue the charges in PY 2014.

In addition, SCG asserted that, as a business practice, it continuously seeks to strengthen its internal processes, including enhanced procedures and training to ensure that program expenditures are valid and accurate, and are recognized and reported in the appropriate reporting period.

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.

Rebuttal: UAFCB appreciates SCG's efforts trying to obtain the invoices from the vendor in a timely manner in order to accrue the charges in the proper period. However, the supporting documentation examined during this examination supports UAFCB's finding that these NR expenditures related to PY 2014 should not have been charged to PY 2015.

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.

Recommendation: SCG has since filed AL 5024-G to claim its NR Program Management Fee incentive award for PY 2015. The Commission's ED should deduct \$132,051 from the 2015 NR expenditures when SCG's 2015 ex-post ESPI true-up AL is processed.

Observation 18: SCG's internal policies and procedures for implementing the NR Program were adequately designed to meet Commission directives in PY 2015. SCG was in compliance with its internal Program Adviser Handbook, Integrated Demand Side Management Handbook, and Workforce, Education and Training (WE&T) Manuals.

Criteria: Did SCG's internal Program Adviser Handbook, Integrated Demand Side Management Handbook, and Workforce, Education and Training (WE&T) Manuals provide adequate policies and procedures for implementing NR Program in accordance with Commission directives?

Condition: SCG's internal policies and procedural manuals for the NR Program were reasonably adequate for implementing the programs in accordance with Commission directives in PY 2015.

Recommendation: None.

Observation 19: The criteria used by SCG for designating EE programs as Resource and Non-Resource were in compliance with the Commission's directives. SCG 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 SCG 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: SCG 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: SCG demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported EUC Home Upgrade program costs in PY 2015. The total recorded

and reported amounted to \$7,033,701. A reconciliation of this amount reported in EEStats, including the December 2015 year-to-date Monthly report and Quarterly reports, to SCG's accounting records disclosed no material exceptions.

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

Condition: The \$7,033,701 reconciled to SCG's accounting records. The breakdown is as follows:

Cost Category	Amount
Administrative	\$ 344,765
Marketing	333,984
Direct Implementation	<u>6,354,952</u>
Totals	<u>\$7,033,701</u>

Recommendation: None.

Observation 21: SCG demonstrated compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 EUC Home Upgrade program cost amounts sampled for verification. UAFCB verified \$2,232,140 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: SCG's internal policies and procedures for implementing the EUC Home Upgrade program were adequately designed to meet Commission directives in PY 2015. SCG was in compliance with its internal Energy Upgrade California Multifamily Guidelines, Program Adviser Handbook and Customer Programs and Assistance Workbook Confirmation Procedure Manual.

Criteria: Did SCG's internal Energy Upgrade California Multifamily Guidelines, Program Adviser Handbook and Customer Programs and Assistance Workbook Confirmation Manual provide adequate policies and procedures for implementing the EUC Home Upgrade program in accordance with Commission directives?

Condition: SCG's internal policies and procedural manuals for the EUC Home Upgrade program were reasonably adequate for implementing the program in accordance with Commission directives in PY 2015.

Recommendation: None.

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

Observation 23: SCG demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported CDIR program costs in PY 2015. The total recorded in reported amounted to \$5,063,506. A reconciliation of this amount reported in EEStats, including the December 2015 year-to-date Monthly report and Quarterly reports, to SCG's accounting records disclosed no material exceptions.

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

Condition: The \$5,063,506 reconciled to SCG's accounting records. The breakdown is as follows:

Cost Category	Amount
Administrative	\$ 458,915
Marketing	588,339
Direct Implementation	<u>4,016,252</u>
Totals	<u>\$5,063,506</u>

Recommendation: None.

Observation 24: SCG demonstrated compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 CDIR program cost amounts sampled for verification. UAFCB verified \$1,487,200 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: SCG's internal policies and procedures to implement the CDIR program were adequately designed to meet the Commission's directives in PY 2015. SCG was in compliance with its internal Program Adviser Handbook and Customer Programs and Assistance Workbook Confirmation Procedure Manual.

Criteria: Did SCG's internal Program Adviser Handbook and Customer Programs and Assistance Workbook Confirmation Manual provide adequate policies and procedures to implement the CDIR program in accordance with Commission directives?

Condition: SCG's internal policies and procedural manuals for the CDIR program were reasonably adequate for implementing the program in accordance with the Commission's directives in PY 2015.

Recommendation: None.

A.10 Industrial EE Program and Subprograms – 2015

Observation 26: SCG 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 \$7,667,056. A reconciliation of this amount reported in EEstats, including the December 2015 year-to-date Monthly EEStats report and Quarterly reports, to SCG's accounting records disclosed no material exceptions.¹¹

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

Condition: The \$7,667,056 reconciled to SCG's accounting records. The breakdown is as follows:

Cost Category	Amount
Administrative	\$ 694,113
Marketing	366,491
Direct Implementation	<u>6,606,452</u>
Totals	<u>\$7,667,056</u>

Recommendation: None.

Observation 27: SCG demonstrated compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 Industrial EE Program cost amounts sampled for verification. UAFCB verified \$2,434,295 expended on the Industrial EE 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 28: SCG's internal policies and procedures to implement its Industrial EE Program were adequately designed to meet the Commission's directives in PY 2015. SCG was in compliance with its internal Small Industrial Facility Upgrades EE Program Manual, EE Calculated Incentives Program Participant Handbook, 2013-2015 EE Calculated Incentives Program Procedures Manual, and SCG's Industrial EE Program Implementation Plan (PIP).

Criteria: Did SCG's internal Small Industrial Facility Upgrades EE Program Manual, EE Calculated Incentives Program Participant Handbook, 2013-2015 EE Calculated

¹¹ Refer to Appendix B, Table B-11 for a detailed breakdown of SCG Industrial EE program expenditures in PY 2015.

Incentives Program Procedures Manual, and SCG's Industrial EE PIP provide adequate policies and procedures for implementing the Industrial EE Program in accordance with Commission directives?

Condition: SCG's internal policies and procedural manuals for the Industrial EE Program were reasonably adequate for implementing the program in accordance with the Commission's directives in PY 2015.

Recommendation: None.

A.11 Agricultural EE Program and Subprograms - 2015

Observation 29: SCG 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 \$919,296. A reconciliation of this amount reported in EESStats, including the December 2015 year-to-date Monthly EESStats report and Quarterly reports, to SCG's accounting records disclosed no material exceptions.¹²

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

Condition: The \$919,296 reconciled to SCG's accounting records. The breakdown is as follows:

Cost Category	Amount
Administrative	\$109,632
Marketing	133,195
Direct Implementation	<u>676,469</u>
Totals	<u>\$919,296</u>

Recommendation: None.

Observation 30: SCG demonstrate compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 Agricultural EE Program cost amounts sampled for verification. UAFCB verified \$304,805 expended on the Agricultural EE 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.

¹² Refer to Appendix B, Table B-12 for a detailed breakdown of SCG's Agricultural EE program expenditures in PY 2015.

Observation 31: SCG's internal policies and procedures to implement its Agricultural EE Program were adequately designed to meet the Commission's directives in PY 2015. SCG was in compliance with its internal Small Industrial Facility Upgrades EE Program Manual, EE Calculated Incentives Program Participant Handbook, 2013-2015 EE Calculated Incentives Program Procedures Manual, and SCG's Agricultural EE Program Implementation Plan (PIP).

Criteria: Did SCG's internal Small Industrial Facility Upgrades EE Program Manual, EE Calculated Incentives Program Participant Handbook, 2013-2015 EE Calculated Incentives Program Procedures Manual, and SCG's Agricultural EE Agricultural PIP provide adequate policies and procedures for implementing the Agricultural EE Program in accordance with Commission directives?

Condition: SCG's internal policies and procedural manuals for the Agricultural EE Program were reasonably adequate for implementing the program in accordance with the Commission's directives in PY 2015.

Recommendation: None.

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

Observation 32: Except for Observation 33 below, SCG 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 \$2,956,870. A reconciliation of this amount reported in EEStats, including the December 2015 year-to-date Monthly report and Quarterly reports, to SCG's accounting records disclosed no material exceptions.¹³

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

Condition: The \$2,956,870 reconciled to SCG's accounting records. The breakdown is as follows:

Cost Category	Amount
Administrative	\$ 806,151
Marketing	277,388
Direct Implementation	<u>1,873,331</u>
Totals	<u>\$2,956,870</u>

Recommendation: None.

Observation 33: SCG failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SCG's established accrual policy and procedures. SCG incorrectly included \$10,090 in 2015 PY expenditures belonging to 2014 PY. The amount was charged to the Direct Implementation cost category.

¹³ Refer to Appendix B, Table B-13 for a detailed breakdown of SCG's LGP expenditures 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 that SCG recorded \$10,090 in Direct Implementation costs related to a payment to the South Bay Cities Council of Governments for services provided in PY 2014.

Cause: The invoice was not submitted to SCG on a timely basis in order to process and record the expenditure in the proper period.

Effect: SCG over-reported its LGP Program costs by \$10,090 in PY 2015.

SCG Comments: SCG acknowledges UAFCB's recommendation and asserted that as a business practice, SCG continuously seeks to strengthen its internal processes, including enhanced procedures and training to ensure that program expenditures are valid and accurate, and are recognized and reported in the appropriate reporting period.

ED Comments: ED requested that the language in the "Cause" section of this observation be stated more clearly by replacing "timely" with the words "on a more timely basis."

Response: In regards to ED's comments, UAFCB agrees with ED to revise the language in the "Cause" section of this observation and has replaced "timely" with "on a timely basis."

Recommendation: SCG has since filed AL 5024-G to claim its Resource Programs Savings Incentives award for PY 2015. The incentives award associated with this incorrect amount is insignificant in UAFCB's judgement but the occurrence is an internal control weakness. Therefore, UAFCB proposes no audit adjustment. However, to minimize the occurrence of such errors in the future, SCG should adhere to the accrual basis of accounting in recording and reporting EE expenditures.

Observation 34: SCG's internal policies and procedures to implement its LGP Program were adequately designed to meet the Commission's directives in PY 2015. SCG was in compliance with its internal Energy Efficiency Calculated Incentives Program (EECIP) Handbook, EECIP Procedures Manual, and Institutional Partnership Calculated Incentives Procedures Manual.

Criteria: Did SCG's internal EECIP Handbook, EECIP Procedures Manual, and Institutional Partnership Calculated Incentives Program Procedural Manual provide adequate policies and procedures for implementing the LGP Program in accordance with Commission directives?

Condition: SCG's internal policies and procedural manuals for the LGP Program were reasonably adequate for implementing the program in accordance with the Commission's directives in PY 2015.

Recommendation: None.

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

Observation 35: SCG 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, SCG was required, among others things to:¹⁴

- 1) Adhere to the accrual basis of accounting in recording and reporting EE expenditures.
- 2) Ensure that the provisions in signed agreements are accurately recorded.
- 3) Reduce its Resource Programs Savings incentive award by \$123,346 in its following AL true-up filing.

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

Recommendation: None.

Observation 36: SCG identified internal audit report #15-226 – Energy Efficiency Calculated Incentives Program (EECIP) that related to EE program activities for the PY 2015 examination period. In internal audit report #15-226, dated October 13, 2015, SCG's Audit Services (AS) conducted a review of the design and operating effectiveness of controls that support the EECIP for the period January 1, 2014 through June 30, 2015.

Criteria: In internal audit report #15-226, SCG's AS concluded the following:

- a) Management does not consistently document the monthly review of reports used to monitor budget to actual expenditures related to EE programs.
- b) The accrual method used for EECIP incentive payments to customers is not formalized or documented to ensure consistency and compliance with applicable Sempra Energy policies.
- c) Shared employee labor expenses allocated to the EECIP are not consistently reviewed. In addition, the process to manage and allocate shared employee cell phone costs to EECIP is not documented.

¹⁴ *Financial, Management, Regulatory, and Compliance Examination Report on Southern California Gas Company's (SCG's) Energy Efficiency (EE) Program For the Period January 1, 2014 through December 31, 2014, issued June 30, 2016.*

- d) IT management does not periodically recertify appropriateness of users with privileged access to the servers supporting the SAP CRM system.

Condition: SCG provided the UAFCB with the status update and supporting documentation on management's corrective actions in implementing the findings and recommendations in internal audit report #15-226 during the 2015 examination period.

SCG Comments: SCG acknowledges UAFCB's recommendation and continuously seeks to strengthen its internal processes to ensure that program expenditures are appropriately recorded.

Recommendation: SCG management addressed and corrected the issues raised by AS in internal audit report #15-226 by or before December 15, 2015.

UAFCB appreciated SCG's efforts in strengthening its internal controls for its EE program and recommends that SCG 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 Gas Company (SCG) a total budget of \$178.6¹ million in ratepayer funds to administer and implement its Energy Efficiency (EE) programs for the years 2013-2014. This amount represents about 9% of the total \$1.9 billion EE program budget for the four major Investor-Owned Utilities (IOUs) for the 2013 - 2014 EE budget cycle. In addition, this decision also approved programs and budgets for two regional energy networks (RENs) and one community choice aggregator (CCA). D.12-11-015 also sets energy savings goals, established cost-effectiveness requirements, and required the IOUs to allocate unspent funds from previous program cycles towards their 2013-2014 budgets.

On October 16, 2014, the Commission issued D.14-10-046 which, among other things, extended the 2013-2014 EE program cycle for an additional year to 2013-2015. The decision authorized SCG a total budget of \$83.6² million, including \$3.3 million in EM&V, in ratepayer funds to administer and implement the EE program for PY 2015. This represents about 9% of the approximate total \$962 million in EE program budget for all four IOUs for the same period.

B.2 EE Funding Components

Of the \$262.2 million total authorized portfolio budget for program cycle 2013-2015, \$251.6 million of the funds is to administer and implement SCG's EE programs and the remaining \$10.6 million is dedicated to fund the Evaluation, Measurement and Verification (EM&V) portion of the program portfolio. Excluding EM&V, SCG spent a combined \$182.3 million or \$69.3 million less than its authorized budget for the same period.

A summary detailing SCG's ratepayer funded total authorized EE portfolio budget, actual expenditures, amount unspent, and amount committed for the 2013-2015 program cycle is provided in Table B-1.

¹ Amount does not include the \$4 million budget for the Statewide Marketing, Education, and Outreach (ME&O) Program, which was approved in a separate Commission decision (D.13-12-038, OP 12, dated December 19, 2013), because the ME&O budget period does not correspond with the 2013-2015 EE program cycle.

² Amount does not include the ME&O Program budget approved in D.13-12-038, OP 12.

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

Programs	Budget	Spent	Unspent	Committed	Unspent & Uncommitted
	1	2	3 = 1 - 2	4	5 = 3 - 4
Resource (Statewide)	\$152,067,383	\$109,595,730	\$42,471,653	\$13,584,372	\$28,887,281
Other Resource (TP&LGP)	56,952,952	42,439,200	14,513,752	0	14,513,752
Non-Resource	26,859,252	25,926,665	932,586	0	932,586
Codes and Standards	<u>2,516,819</u>	<u>1,469,909</u>	<u>1,046,909</u>	<u>0</u>	<u>1,046,909</u>
Subtotal	\$238,396,406	\$179,431,504	\$58,964,900	\$13,584,372	\$45,380,528
REN	<u>13,164,161</u>	<u>2,845,644</u>	<u>10,318,517</u>	<u>0</u>	<u>10,318,517</u>
Subtotal	\$251,560,567	\$182,277,148	\$69,283,417	\$0	\$55,699,045
EM&V	<u>10,649,551</u>	<u>3,277,156</u>	<u>7,372,395</u>	<u>0</u>	<u>7,372,395</u>
Grand Total	<u>\$262,210,118</u>	<u>\$185,554,304</u>	<u>\$76,655,812</u>	<u>\$13,584,372</u>	<u>\$63,071,440</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 PG&E's Internal Audit findings related to the EE programs during the examination period.

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

SCG uses the System Application and Products (SAP) software as its accounting system of record. All financial transactions are recorded in SAP and EE related financial data is extracted from SAP for CPUC reporting purposes. Starting in 2013, SCG enhanced its accounting procedures to track EE costs associated with the three major cost categories – Administrative, Marketing/Advertising/Outreach, and Direct Implementation. In 2013, SCG began using specific internal orders (IOs) for each EE budget category, resulting in a minimum of three IOs for each program or sub-program. Costs applicable solely to a specific EE program are directly charged to that EE program. Other costs applicable to EE programs include overhead costs allocated among EE programs using the internal ordering system.

SCG reported all portfolio expenses in Table 3 of the Annual Report filed with the Commission. The Annual Report includes EE portfolio costs by three cost categories – Administrative, Marketing/Advertising/Outreach, and Direct Implementation. Table B-2 below provides a summary of SCG's EE portfolio expenditures for PY 2015.

Table B-2
EE Portfolio Expenses (Excluding EM&V and ME&O)
Program Year (PY) 2015

Program	Administrative	Marketing	Direct Implementation	Total
	1	2	3	4 = 1 to 3
Statewide Program:				
Residential	\$1,268,772	\$2,469,675	\$16,907,811	\$20,646,255
Commercial	828,355	755,114	8,023,272	9,606,741
Agricultural	109,632	133,195	676,469	919,296
Industrial	694,113	366,491	6,606,452	7,667,056
Codes & Standards	60,748	8,878	482,868	552,494
Emerging Tech	73,605	906	1,008,677	1,083,188
WE&T	215,599	131,754	2,553,921	2,901,274
IDSMS	39,700	1,453	264,173	305,326
Financing	628,891	683,402	1,704,111	3,016,404
CRM	<u>1,266,494</u>	<u>0</u>	<u>0</u>	<u>1,266,494</u>
Subtotal - Statewide	\$5,185,909	\$4,550,868	\$38,227,754	\$47,964,528
LGP Programs:				
LGP	156,905	277,388	1,873,331	2,307,624
LGP-IOU	<u>649,245</u>	<u>0</u>	<u>0</u>	<u>649,245</u>
Subtotal - LGP	\$806,150	\$ 277,388	\$ 1,873,331	\$ 2,956,869
TP Programs:				
TP	919,175	672,275	13,877,790	15,469,240
TP-IOU	<u>403,246</u>	<u>0</u>	<u>0</u>	<u>403,246</u>
Subtotal - TP	\$1,322,421	\$ 672,275	\$ 13,877,790	\$15,872,486
Non-Utility:				
SoCalREN	<u>224,811</u>	<u>176,137</u>	<u>(1,489,287)</u>	<u>(1,088,339)</u>
Subtotal - Non-Utility	\$ <u>224,811</u>	\$ <u>176,137</u>	\$ <u>(1,489,287)</u>	\$ <u>(1,088,339)</u>
Grand Total	<u>\$7,539,291</u>	<u>\$5,676,668</u>	<u>\$52,489,588</u>	<u>\$65,705,547</u>

B.4 2013-2015 EE Program Cycle IOU Administrative Costs

Administrative costs incurred by SCG for the direct implementation of the EE programs are classified as investor owned utilities (IOU) and Non-IOU Administrative costs. IOU Administrative costs include labor (management, clerical/technical and agency), employee travel, consulting services and other services provided by contractors, materials, vacation and sick leaves, payroll taxes and allocated overhead. Also included in SCG's administrative costs are charges for services cross-billed by San Diego Gas & Electric (SDG&E). These include labor, payroll taxes, leaves, pension and benefits. Non-IOU administrative costs are incurred by Third Party (TP) contractors as well as government agencies participating in Local Government Partnership (LGP) programs. These entities are the major implementers of the programs beside SCG.

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, SCG's EE program administrative costs can be grouped into two types, those administrative costs that the IOU incurred and those that the IOU incurred in support of its Third Party (TP) and Local Government Partnership (LGP) programs. Table B-3 below provides a summary of SCG's EE program IOU administrative costs for the 2013-2015 program cycle.

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

Program Description	Budget	IOU Administrative Cost			Total
		2013	2014	2015	
		1	2	3	
Statewide Programs:					
Residential	\$ 58,710,582	\$1,339,453	\$1,240,875	\$1,268,771	\$ 3,849,099
Commercial	29,013,266	775,653	862,731	828,355	2,466,739
Agricultural	8,993,140	148,237	183,286	109,632	441,155
Industrial	40,376,947	1,052,634	586,413	694,113	2,333,160
C&S	2,516,819	28,937	68,637	60,748	158,322
Emerging Tech	3,789,061	271,485	324,819	73,605	669,909
WE&T	9,283,551	323,325	219,608	215,599	758,532
IDSMS	1,231,750	53,841	3,047	39,700	96,588
Financing	17,459,324	185,927	219,987	628,891	1,034,805
CRM	<u>2,476,310</u>	<u>1,446,475</u>	<u>1,152,276</u>	<u>1,266,494</u>	<u>3,865,245</u>
Subtotal - Statewide	\$173,850,750	\$5,625,967	\$4,861,679	\$5,185,908	\$15,673,554
LG Programs	14,371,389	680,690	750,703	649,245	2,080,638
TP Programs	<u>50,174,267</u>	<u>312,788</u>	<u>327,707</u>	<u>403,246</u>	<u>1,043,741</u>
Subtotal - LGP and TP	\$ 64,545,656	\$ 993,478	\$1,078,410	\$1,052,491	\$ 3,124,379
Non-Utility:					
REN	<u>13,164,161</u>	<u>563,520</u>	<u>48,133</u>	<u>224,811</u>	<u>836,464</u>
Subtotal - Non-Utility	\$ <u>13,164,161</u>	\$ <u>563,520</u>	\$ <u>48,133</u>	\$ <u>224,811</u>	\$ <u>836,464</u>
Grand Total	<u>\$251,560,567</u>	<u>\$7,182,965</u>	<u>\$5,988,222</u>	<u>\$6,463,210</u>	<u>\$19,634,397</u>

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

A 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 SCG's Non-IOU Administrative Costs for Local Government Partnership (LGP) and Third Party (TP) programs for the 2013-15 program cycle.

**Table B-4
 EE Program Non-IOU Administrative Costs (Excluding EM&V and ME&O)
 Program Cycle 2013-2015**

Program Description	Direct Cost	Non-IOU Administrative Cost			Total
		2013	2014	2015	
	1	2	3	4	5 = 2 to 4
LGP	\$ 5,370,450	\$110,998	\$139,101	\$ 156,905	\$ 407,004
TP	<u>37,953,801</u>	<u>853,190</u>	<u>613,865</u>	<u>919,175</u>	<u>2,386,230</u>
Grand Total	<u>\$43,324,251</u>	<u>\$964,188</u>	<u>\$752,966</u>	<u>\$1,076,080</u>	<u>\$2,793,234</u>

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

Commitments are an 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, Commitment 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

The Statewide Codes and Standards (C&S) Program saves 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.³

The primary mission of the C&S program is on advocacy and compliance improvement activities that extend to virtually all buildings and potentially any appliance in California. These C&S activities mainly focus on California Title 20 and Title 24, Section 5 enhancements. The C&S program requires advocacy activities to improve building and appliance efficiency regulations. The principal audience is the California Energy Commission (CEC) which conducts periodic rulemakings, usually on a three-year cycle (for building regulations), to update building and

³ 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/>

appliance energy efficiency regulations. The C&S program also seeks to influence the United States Department of Energy (DOE) in setting national energy policy that impacts California. At SCG, the C&S program consists of five subprograms: 1) Building Codes and Compliance Advocacy, 2) Appliance Standards Advocacy, 3) Compliance Improvement, 4) Reach Codes, and 5) Planning and Coordination.

SCG spent \$552,494, or 66% of its approved C&S program budget in PY 2015. A detailed summary of the C&S program charges recorded by subprogram, cost category and the proportion to total expenses for PY 2015 is provided in the table below.

**Table B-5
C&S Program Expenditures – 2015**

Program Name	Admin.	Mktg.	DI	Total	%
Building Codes and Compliance Advocacy	\$15,663	\$8,800	\$204,689	\$229,152	41%
Appliance Standards Advocacy	16,303	0	75,764	92,067	17%
Compliance Enhancement	7,762	0	155,558	163,320	30%
Reach Codes	2,184	77	20,208	22,469	4%
Planning and Coordination	<u>18,836</u>	<u>0</u>	<u>26,650</u>	<u>45,486</u>	<u>8%</u>
Totals	<u>\$60,748</u>	<u>\$8,877</u>	<u>\$482,868</u>	<u>\$552,494</u>	<u>100%</u>

Pursuant to D.13-09-023, OP 4, SCG filed Advice Letter (AL) 5024-G on September 1, 2016 for requesting C&S programs incentive award for program year 2015 in the form of a management fee equal to 12% of approved C&S program expenditures, not to exceed authorized expenditures, and excluding administrative costs. SCG requested \$59,009. A summary detailing SCG's calculation of its C&S Management Fee is provided in the table below.

**Table B-6
C&S Management Fee Calculation - 2015**

Description	Amount
Total C&S Program Expenditures	\$552,494
Less: C&S Administrative Costs	<u>60,748</u>
Subtotal	\$491,746
Multiplied by 12%	<u>12%</u>
C&S Management Fee – PY2015	<u>\$ 59,009</u>

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

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. NR programs in themselves do not provide direct energy savings and only have costs, making them not cost-effective on their own.⁴

To date, there are no specific criteria for determining whether a particular EE program is to be classified as Resource or NR EE program for each IOU. SCG classified its EE programs as NR based on the definition contained in the Energy Efficiency Policy Manual, Version 5, dated July

⁴ D.13-19-023, Findings of Fact 10, p. 88

2013. This defines NR Program as “Energy efficiency programs that do not directly procure energy resources that can be counted, such as marketing, outreach and education, workforce education and training, and emerging technologies.”

In PY 2015, SCG identified 55 EE programs as NR with recorded charges totaling \$14,156,844. A detailed summary of NR EE program charges recorded by program and cost category for PY 2015 is provided in the table below.

Table B-7
Non-Resource Program Expenditures - 2015

Program Name	Admin.	Mktg.	DI	Total
Agricultural Continuous Improvement	\$ 1,960	\$ 531	\$ 32,112	\$ 34,603
Agricultural Energy Advisor	2,722	633	22,230	25,585
CALS Energy Advisor	6,880	4,346	123,905	135,132
Commercial Cont. Energy Improvement	19,327	15,320	375,467	410,114
Commercial Energy Advisor	31,814	693	465,705	498,213
ET – Technologies Assessment Support	28,273	581	658,329	687,183
ET – Technology Development Support	9,120	0	171,843	180,963
ET – Introduction Support	36,212	325	178,505	215,042
Industrial Cont. Energy Improvement	24,297	2,188	491,868	518,353
Industrial Energy Advisor	25,899	0	150,000	175,899
IDEEA365 - HBEEP	11,423	10,358	45,980	67,761
IDEEA365 – Comm. Sustainable Dev.	71,071	16,472	235,215	322,759
IDEEA365 - Connect	13,561	4,000	136,390	153,952
IDEEA365 – Energy Advantage	64,014	7,000	214,043	285,057
IDEEA365 – Water Loss Control	17,154	4,304	147,381	168,839
TP - CA Sustainable Alliance	38,895	24,352	726,995	790,242
TP - CLEO	32,634	18,523	229,742	280,899
TP – HERS Rater Training Advisor	48,926	20,018	491,613	560,557
TP - PACE	53,543	45,655	599,853	699,051
TP – PoF	47,417	6,335	462,926	516,677
CRM	1,266,494	0	0	1,266,494
LGP – Regional Research Placeholder	127,171	117	209,884	337,172
LGP – New Partner	(697)	0	174	(523)
LGP – City of Beaumont	7,896	4,968	18,534	31,398
LGP – City of Redlands	8,232	5,378	18,521	32,131
LGP – City of Santa Ana	14,800	7,626	35,981	58,407
LGP – City of Simi Valley	9,896	3,578	8,731	22,205
LGP – Community Energy	32,703	15,867	95,286	143,856
LGP – Desert Cities	2,641	3,209	4,795	10,645
LGP – Gateway Cities	16,242	7,036	40,306	63,584
LGP – Kern County	22,187	8,678	41,785	72,650
LGP – Los Angeles County	26,867	11,795	99,715	138,376
LGP - NOCC	8,880	4,721	47,393	60,994
LGP – Orange County	25,996	12,441	25,094	63,531
LGP – Local Government EE Pilot	1,801	125	0	1,926
LGP – Riverside County	14,760	4,253	39,186	58,199
LGP – San Bernadino County	16,115	3,191	34,606	53,912
LGP – San Gabriel Valley COG	29,122	27,851	59,080	116,053
LGP – San Joaquin Valley	22,519	13,891	53,240	89,649
LGP – San Luis Obispo	27,936	13,490	68,326	109,753
LGP - SANBAG	3	0	55	58
LGP – Santa Barbara County	25,232	18,401	39,628	83,261
LGP - SEEC	11,364	7,292	148,574	167,230
LGP – South Bay Cities	40,334	25,295	186,734	252,363

LGP – Ventura County	25,748	16,202	50,875	92,825
LGP – West Side Cities	10,503	3,288	21,548	35,340
LGP – Western Riverside Energy	28,296	6,418	91,595	126,310
LLNSTP – CA Community College	81,342	44,374	211,544	338,993
LLNSTP – CA Dept. of Corrections	42,390	2,590	53,285	98,265
LLNSTP – State of CA/IOU	24,793	2,590	52,079	79,462
LLNSTP – UC/CSU/IOU	102,253	1,552	116,774	218,846
IDSM	39,700	1,454	264,173	305,327
WE&T - Centergies	194,941	131,755	2,155,786	2,482,481
WE&T - Connections	19,679	0	387,072	406,751
WE&T – Strategic Planning	979	0	11,063	12,042
Totals	<u>\$2,914,259</u>	<u>\$591,056</u>	<u>\$10,651,529</u>	<u>\$14,156,844</u>

Pursuant to D.13-09-023, OP 4, SCG filed Advice Letter (AL) 5024-G on September 1, 2016 requesting NR programs incentive award for PY 2015 equal to 3% of approved NR program expenditures, not to exceed authorized expenditures, and excluding administrative costs. SCG requested \$337,278. A summary detailing SCG's calculation of its NR Management Fee is provided in the table below.

Table B-8
Non-Resource Management Fee Calculation - 2014

Description	Amount
Total Non-Resource Program Expenditures	\$14,156,844
Less: Non-Resource Program Administrative Costs	<u>2,914,258</u>
Subtotal	\$11,242,586
Multiplied by 3%	<u>3%</u>
Non-Resource Management Fee – PY2015	<u>\$ 337,278</u>

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

The Energy Upgrade California (EUC) Home Upgrade Program is designed to offer a one-stop approach to whole –house residential retrofits that provide customers with energy efficiency improvements, energy savings and comfort to their dwelling. The EUC Home Upgrade Program moves customers from a single-measure based approach to energy efficiency to a more comprehensive approach that views a house as a series of interdependent systems that must be considered holistically.

There are two (2) options to this program, Home Upgrade and the Advanced Home Upgrade. These options allow the customer to choose from a variety of measures that best suit their home and needs. Some examples of measures include attic insulation, air sealing, duct testing, HVAC change out, hot water heaters, pipe wrap, thermostatic control valves, along with combustion safety testing.

- The EUC Advanced Home Upgrade option offers customers with a whole-house approach to energy savings by creating a customized plan to help improve energy efficiency by up to 45%. There is no maximum incentive amount, but the customer is

required to select a minimum of three upgrades and one of the upgrades must be a base upgrade (i.e., air sealing, attic insulation, or duct sealing).

- The EUC Home Upgrade option primarily focuses on the outer shell of the home and offers a maximum incentive amount of \$3,000. A customer is required to select a minimum of three upgrades and one of the upgrades must be a base upgrade.

In D.14-10-046, the Commission authorized SCG a total budget of \$6,767,345 for the EUC Home Upgrade program in PY 2015. SCG incurred charges totaling \$7,033,701 in implementing its EUC Home Upgrade in PY 2015. According to SCG, the EUC Home Upgrade program expenditures in PY 2015 exceeded the authorized budget due to a \$1.9 million fund shift to the Plug Load and Appliance program which was in accordance with the fund shifting guidelines. A detailed summary of SCG's reported EUC Home Upgrade program costs by cost category and their related percentages for PY 2015 is presented in the table below.

Table B-9
SCG EUC Home Upgrade Program Expenditures – PY 2015

Cost Category	Amount	%
Administrative	\$ 344,765	5%
Marketing	333,984	5%
Direct Implementation	<u>6,354,952</u>	<u>90%</u>
Totals	<u>\$7,033,701</u>	<u>100%</u>

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

The Statewide Commercial EE Program offers California's commercial customers a variety of products and services to help overcome the market barriers to optimize energy management. The program targets end users that include all commercial sub-segments such as distribution warehouses, office buildings, hotels, motels, restaurants, schools, trade schools, municipalities, universities, colleges, hospitals, entertainment centers, and smaller customers that have similar buying characteristics.

The Statewide Commercial EE Program includes five (5) statewide subprograms elements, including Commercial Energy Advisor, Continuous Energy Improvement, Commercial Calculated Incentives, Commercial Deemed Incentives – Commercial Rebate, and Nonresidential HVAC.

The statewide Commercial Deemed Incentives – Commercial Rebate (CDIR) program is designed to help influence the installation of EE equipment and systems in both retrofit and added load applications by reducing the initial purchase costs of such equipment and reducing the hassle of participating in utility rebate programs by offering a simple application process. To achieve energy savings through measure implementation for this program, SCG also offers non-incentive measures such as technical consultation and application preparation assistance to ensure that lost opportunities are captured by not allowing projects to fall behind because the customer lacks the resources to shepherd through the process.

In D.14-10-046, the Commission authorized SCG a total budget of \$4,497,331 for the CDIR program in PY 2015. Due to the need of additional funding for the CDIR program, SCG shifted an additional \$500,000 from the Commercial Calculated Incentives subprogram in accordance with the fund shifting guidelines. In addition, for its CDIR program budget in PY 2015, SCG carried over an additional \$191,417 from the 2013-2014 EE program cycle, resulting in a total CDIR program operating budget of \$5,188,748 for PY 2015.

In PY 2015, SCG spent \$5,063,506 or 98% of its operating budget of \$5,188,748. A detailed summary of SCG's reported and recorded CDIR program costs by cost category and their related percentages for PY 2015 is presented in the table below.

Table B-10
CDIR Program Expenditures – PY 2015

Cost Category	Amount	%
Administrative	\$ 458,915	9%
Marketing	588,339	12%
Direct Implementation	<u>4,016,252</u>	<u>79%</u>
Totals	<u>\$5,063,506</u>	<u>100%</u>

B.11 Industrial EE Program and Subprograms – 2015

The Statewide Industrial EE Program offers the industrial segment services to improve the energy efficiency of industrial facilities in California. The primary services provided to industrial customers include:

- Energy audits covering energy efficiency and demand management opportunities;
- Technical assistance in measures specification, procurement, and project management;
- Post-installation inspection and analysis to verify performance;
- Continuous energy improvement consultation; and
- Financial incentives and project financing for installed measures

SCG's Statewide Industrial EE Program consists of four subprograms: 1) Industrial Calculated Incentives (ICI), 2) Industrial Deemed Incentives (IDI), 3) Industrial Continuous Energy Improvement (ICEI), and 4) Industrial Energy Advisor.

In D.14-10-046, the Commission authorized SCG a total budget of \$11.2 million for the Statewide Industrial EE Program in PY 2015. SCG also carried forward an additional \$13.3 million from 2013-2014 EE program cycle, resulting in a total Statewide Industrial EE Program operating budget of \$24.5 million for PY 2015.

In PY 2015, SCG spent \$7,667,056 or 31% of its total operating budget of \$24.5 million. A detailed summary of SCG's reported and recorded Industrial EE Program costs by subprogram, cost category and their related percentages for PY 2015 is presented in the table below.

Table B-11
Statewide Industrial EE Program Expenditures – PY 2015

Program Name	Admin.	Mktg.	DI	Total	%
Industrial Calculated Incentives	\$529,808	\$146,585	\$5,348,445	\$ 6,024,838	79%
Industrial Deemed Incentives	114,109	217,718	616,139	947,966	12%
Industrial Cont. Energy Improvement	24,297	2,188	491,868	518,353	7%
Industrial Energy Advisor	<u>25,899</u>	<u>0</u>	<u>150,000</u>	<u>175,899</u>	<u>2%</u>
Totals	<u>\$694,113</u>	<u>\$366,491</u>	<u>\$6,606,452</u>	<u>\$7,667,056</u>	<u>100%</u>

B.12 Agricultural EE Program and Subprograms – 2015

The Statewide Agricultural EE Program facilitates the delivery of integrated energy management solutions to California's diverse agricultural customers. The program offers a variety of products and services, including strategic energy planning support, technical support services, facility audits, pump tests, calculation/design assistance, financing options, and financial support through rebates and incentives. The program targets agricultural end-users, such as irrigated agriculture growers (crops, fruits, vegetable, and nuts), greenhouses, post-harvest processors (ginners, nut hullers, and associated refrigerated warehouses) and dairies. Traditionally, food processors have received IOU services through the Industrial program offering. However, there are those facilities that are integrated with growers and their products, as is the case with some fruit and vegetable processors (canners, dryers, and freezers), prepared food manufacturers, wineries, and water distribution customers that may be addressed by this program's offerings.

To address the potential in these markets, SCG's Statewide Agricultural EE Program consists of four subprograms: 1) Agricultural Calculated Incentives (ACI), 2) Agricultural Deemed Incentives (ADI), 3) Agricultural Continuous Energy Improvement, and 4) Agricultural Energy Advisor.

In D.14-10-046, the Commission authorized SCG a total budget of \$4.2 million for the Statewide Agricultural EE Program in PY 2015. SCG also carried forward an additional \$1.1 million from 2013-2014 EE program cycle, resulting in a total Statewide Agricultural EE Program operating budget of \$5.3 million for PY 2015.

In PY 2015, SCG spent \$919,296 or 17% of its total operating budget of \$5,295,631. A detailed summary of SCG's reported and recorded Agricultural EE Program costs by subprogram, cost category and their related percentages for PY 2015 is presented in the table below.

Table B-12
Statewide Industrial EE Program Expenditures – PY 2015

Program Name	Admin.	Mktg.	DI	Total	%
Agricultural Calculated Incentives	\$ 46,441	\$ 72,469	\$211,140	\$330,050	36%
Agricultural Deemed Incentives	58,508	59,564	410,986	529,058	58%
Agricultural Cont. Energy Imp.	1,960	531	32,112	34,603	4%
Agricultural Energy Advisor	<u>2,722</u>	<u>633</u>	<u>22,230</u>	<u>25,585</u>	<u>3%</u>
Totals – PY 2015	<u>\$109,631</u>	<u>\$133,197</u>	<u>\$676,468</u>	<u>\$919,296</u>	<u>100%</u>

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

SCG's LGP Program and subprograms serve as SCG's primary delivery channel supporting cities, counties, and other agencies seeking energy savings and greenhouse gas emission reductions on the community-scale. Promoting energy planning at a statewide and local level is a major market driver in the uptake of energy efficiency projects due to the unique advantage local governments have in understanding the distinctive circumstances of their communities. Partnerships leverage the significant role that local governments play in terms of community-wide energy usage, extending the reach and effectiveness of SCG's energy efficiency programs.

In D.14-10-046, the Commission authorized SCG a total budget of \$4.8 million for the LGP Program in PY 2015. SCG also carried forward an additional \$4.6 million from 2013-2014 EE program cycle, resulting in a total LGP Program operating budget of \$9.4 million for PY 2015.

In PY 2015, SCG incurred charges totaling \$2,956,870 in implementing its LGP Program and subprograms. A detailed summary of SCG's reported LGP program costs by subprogram, cost category and their related percentages for PY 2015 is presented in the table below.

Table B-13
LGP Expenditures – PY 2015

Program Name	Admin.	Mktg.	DI	Total	%
CA Dept. of Corrections	\$ 42,390	\$ 2,590	\$ 53,285	\$ 98,265	3%
CA Community College	83,075	44,374	211,544	338,993	11%
UC/CSU/IOU	99,346	2,726	116,774	218,846	7%
State of CA/IOU	24,793	2,590	52,079	79,462	3%
Los Angeles County	26,867	11,795	99,715	138,376	5%
Kern County	22,187	8,678	41,785	72,650	2%
Riverside County	14,760	4,253	39,186	58,199	2%
San Bernadino County	16,115	3,191	34,606	53,912	2%
Santa Barbara County	25,232	18,401	39,628	83,261	3%
South Bay Cities	40,334	25,295	186,734	252,363	9%
San Luis Obispo County	27,936	13,490	68,326	109,753	4%
San Joaquin County	22,519	13,891	53,240	89,649	3%
Orange County	25,996	12,441	25,094	63,531	2%
Statewide EE Collaborative (SEEC)	11,364	7,292	148,574	167,230	6%
Community Energy	32,703	15,867	95,286	143,856	5%
Desert Cities	2,641	3,209	4,795	10,645	0%
Ventura County	25,748	16,202	50,875	92,825	3%
Local Government EE Pilot	1,801	125	0	1,926	0%
New Partnership	(697)	0	174	(523)	0%
Regional Resource Placeholder	127,171	117	209,884	337,172	11%
Gateway Cities	16,242	7,036	40,306	63,584	2%
San Gabriel Valley COG	29,122	27,851	59,080	116,053	4%
City of Santa Ana	14,800	7,626	35,981	58,407	2%
West Side Cities	10,503	3,288	21,548	35,340	1%
City of Simi Valley	9,896	3,578	8,731	22,205	1%
City of Redlands Pilot	8,232	5,378	18,521	32,131	1%
City of Beaumont	7,896	4,968	18,534	31,398	1%
Western Riverside Energy	28,296	6,418	91,595	126,310	4%
NOCC	8,880	4,721	47,393	60,994	2%
SANBAG	3	0	5	58	0%
Totals	\$806,150	\$227,388	\$1,873,331	\$2,956,870	100%

B.14 Follow-up on Prior UAFCB's Observations and Recommendations and SCG 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 Gas Company's (SCG's) Energy Efficiency Program For the Period January 1, 2014 through December 31, 2014*, issued on June 30, 2016.

UAFCB reviewed prior observations and recommendations pending corrective actions by SCG which included the following:

- **Observation 7:** SCG failed to demonstrate compliance with PU code §§ 581, 582, and 584, including its established accrual policy and procedures. SCG incorrectly included \$35,238 in PY 2014 the NR program expenditures belonging to PY 2013. The amount was charged to

the Direct Implementation cost category (\$23,500) and Administrative cost category (\$11,738), respectively.

Recommendation: SCG has since filed AL 4826-G to claim the NR Programs Management Fee incentive award for PY 2014. The management fee associated with this incorrect amount is insignificant in UAFCB's judgment but the occurrence is an internal control weakness. Therefore, UAFCB proposes no audit adjustment. However, to minimize the occurrence of these errors in the future, SCG should adhere to the accrual basis of accounting in recording and reporting EE expenditures while also continuing to strengthen its oversight over its internal controls.

UAFCB Follow-Up Response: SCG's EE budget team has been working closely with program staff to ensure compliance with company accrual policy and procedures.

- **Observation 8:** SCG failed to demonstrate compliance with General Order (GO) 28 and the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts (USOA) respecting the NR programs. The documentation provided by SCG to substantiate recorded transactions with one of its vendors did not reconcile with the amounts contained in the signed Purchase Order (PO) agreement. The overstatement is insignificant but the occurrence is an indication of lack of sufficient oversight.

Recommendation: SCG should ensure that the provisions in signed agreements are accurately recorded in order to reduce the risk of any types of errors. SCG should strengthen its oversight over the existing contracting process.

UAFCB Follow-Up Response: SCG's EE budget team has been working closely with program staff to ensure contract amendment documentation are reviewed in order to reduce the risk of errors.

- **Observation 11:** SCG failed to demonstrate compliance PU code §§ 581, 582, and 584, including SCG's established accrual policy and procedures. SCG incorrectly recorded \$26,461 in PY 2014 that should have been recorded in PY 2013.

Recommendation: SCG should adhere to its own accrual basis of accounting by recording and reporting its EE expenditures in the appropriate PY.

UAFCB Follow-Up Response: SCG's EE budget team has been working closely with program staff to ensure compliance with company accrual policy and procedures.

- **Observation 16:** SCG failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SCG's established accrual policy and procedures. SCG incorrectly included \$110,226 in PY 2014 the CCI program expenditures belonging to PY 2013. The amount was charged to the Direct Implementation cost category of the program.

Recommendation: Energy Division should exclude \$110,226 from the reported 2014 CCI Program total expenditures before calculating SCG's PY 2014 Resource Program Savings Incentive award.

UAFCB Follow-Up Response: SCG removed \$110,226 in PY 2014 resource program expenditures from its Ex Ante Review Process Performance Award calculation in accordance with UAFCB's recommendation in AL 5024-G filed on September 1, 2016.

- **Observation 19:** SCG failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SCG's established accrual policy and procedures. SCG incorrectly included \$13,120 in PY 2014 the ICI program expenditures belonging to PY 2013. The amount was charged to the Direct Implementation cost category of the program.

Recommendation: Energy Division should exclude \$13,120 from the reported 2014 ICI Program total expenditures before calculating SCG's Resource Program Savings Incentive award.

UAFCB Follow-Up Response: SCG removed \$13,120 in PY 2014 resource program expenditures from its Ex Ante Review Process Performance Award calculation in accordance with UAFCB's recommendation in AL 5024-G filed on September 1, 2016.

SCG's Internal Audit Recommendations

SCG's internal Audit Services issued one audit report that was relevant to the PY 2015 EE examination. However, company management provided appropriate corrective responses to the Audit Services' finding and recommendations, and there were no outstanding issues. Refer to Observation 35, Appendix A for more details.

Appendix C
SCG Comments

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July 21, 2017

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Re: SoCalGas Comments on Financial, Management, and Regulatory Compliance Examination Report of Southern California Gas Company Energy Efficiency Programs For the Period January 1, 2015 through December 31, 2015

Dear Mr. Kajopaiye,

Southern California Gas Company (SoCalGas) has reviewed the Draft Financial, Management, and Regulatory Compliance Examination Report of Southern California Gas Company Energy Efficiency (EE) Programs For the Period January 1, 2015 through December 31, 2015 (Report) prepared by the Utility Audit, Finance and Compliance Branch (UAFCB). SoCalGas hereby provides the following comments.

UAFCB Observation 4

SCG failed to demonstrate compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 IOU administrative cost amounts sampled for verification. SCG incorrectly included \$428,771 in PY 2015 the IOU administrative expenditures belonging to PY 2014. This represents 7% of the total IOU administrative expenses in PY 2015.

SoCalGas Response to Observation 4

SoCalGas acknowledges that the items indicated in Observation 4 should have been accrued in 2014 as each item met SoCalGas' minimal accrual threshold of \$10,000 per transaction. However, SoCalGas would like to clarify that the finding inappropriately determines such costs as IOU administrative expenditures. Specifically, item #1 through item #4 and item #7 relate to Regional Energy Network (REN), and the two Southern California Electric Company (SCE) items totaling \$13,081 and \$53,659 relate to Evaluation, Measurement and Verification (EM&V) expenses; not SoCalGas administrative expenses. As such, UAFCB should revise its final report to remove the reference to IOU administrative expenses from this observation.

UAFCB Observation 6

SCG 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. SCG reported an IOU

administrative cost cap of 5.6% for the 2013-2015 EE program cycle. However, UAFCB's determination of SCG's IOU administrative cost cap for the 2013-2015 EE program cycle disclosed that it exceeded the 10% IOU administrative cost cap. UAFCB's calculation produced an IOU administrative cost cap amount of 9.3% based on SCG's total EE program budget for the 2013-2015 program cycle and/or 10.5% based on SCG's EE program operating expenses for the 2013-2015 program cycle.

SoCalGas Response to Observation 6

SoCalGas disagrees with UAFCB's finding that SoCalGas exceeded the administrative cost cap in 2013-2015. SoCalGas' stated methodology for calculating its portfolio budget caps and targets has been the same since 2010 and has been consistently approved by the Commission in its EE Budget and Compliance advice letters and is supported by Commission decisions as discussed and cited below. Notably, UAFCB has reviewed SoCalGas' administrative cost cap calculation in past audits and has not presented any negative findings regarding SoCalGas' methodology. For 2013 through 2015, SoCalGas provided the following tables in its budget and compliance advice letters, AL 4449 (2013-2014):¹

	Budgets					
	Admin	Marketing	Direct Implementatio	Incentives	EM&V	Total Budget
2013-2014 Authorized Budget	\$ 13,219,866	\$ 8,271,580	\$ 84,787,806	\$ 56,098,578	\$ 7,301,624	\$ 169,679,454
GRC Labor Loaders	\$ 6,003,681	\$ 186,231	\$ 1,721,643	\$ -	\$ -	\$ 7,911,556
OBF Loan Pool			\$ 2,000,000			\$ 2,000,000
Statewide ME&O	\$ -	\$ 4,004,067	\$ -	\$ -	\$ -	\$ 4,004,067
Total Budget						\$ 183,595,077
SoCalREN						\$ 9,052,161
Total Budget w/ SoCalREN						\$ 192,647,238
Parameter Type	Cap	Target	Target	Target	Budget	
Cap / Target Level	\$ 14,636,586	\$ 8,457,811	\$ 63,860,018	\$ 56,098,578	\$ 7,301,624	
Total Budget for Cap	\$ 192,647,238	\$ 183,595,077	\$ 183,595,077	\$ 183,595,077	\$ 183,595,077	
Cap / Target Percent	7.6%	4.6%	34.8%	30.6%	4.0%	
Caps/Targets	10.0%	6.0%	20.0%	60.0%	4.0%	

and AL 4725 (2015):²

	Budgets					
	Admin	Marketing	Direct	Incentives	EM&V	Total Budget
2015 EE Budget	\$ 7,648,777	\$ 4,677,863	\$ 32,409,769	\$ 31,282,164	\$ 3,347,927	\$ 79,366,499
GRC Labor Loaders	\$ 5,188,178	\$ 119,345	\$ 1,114,277			\$ 6,421,800
New Financing Pilots	\$ 637,254	\$ 682,280	\$ 1,597,076	\$ 2,217,201		\$ 5,133,811
OBF Loan Pool						\$ -
Statewide ME&O		\$ 2,002,034				\$ 2,002,034
Total EE Funding						\$ 92,924,144
SoCalREN						\$ 4,337,000

¹ <https://www.socalgas.com/regulatory/tariffs/tm2/pdf/4449.pdf>, at p. 4.

² <https://www.socalgas.com/regulatory/tariffs/tm2/pdf/4725.pdf>, at p.4.

Total EE Funding w/ SoCalREN						\$ 97,261,144
Parameter Type	Cap	Target	Target	Target	Budget	
Cap / Target Level	\$ 8,877,091	\$ 5,456,929	\$ 19,917,498	\$ 33,499,365	\$ 3,347,927	
Total Budget for Calculation	\$ 92,924,144	\$ 92,924,144	\$ 92,924,144	\$ 92,924,144	\$ 83,702,927	
Cap / Target Percent	9.6%	5.9%	21.4%	36.1%	4.0%	
Caps/Targets	10.0%	6.0%	20.0%	60.0%	4.0%	

SoCalGas used the following assumptions for determining the 2013-2015 budget targets and caps:

Assumption 1. Compliance with D. 09-09-047, OP 13, which provides:

For Pacific Gas and Electric Company, Southern California Edison Company, San Diego Gas & Electric Company, and Southern California Gas Company in 2010 to 2012, the following caps and targets are adopted:

- 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. Administrative costs shall be closely identified by and consistent across utilities. Administrative costs shall not be shifted into any other costs category. Utilities shall not reduce the non-utility portions of local government partnership and third party implementer administrative costs, as compared to levels contained in budgets approved herein, unless those levels exceeded 10% in the July 2009 utility supplemental applications in this proceeding;
- b. Marketing, Education and Outreach costs for energy efficiency are set at 6% of total adopted energy efficiency budgets, subject to the fund-shifting rules in Section II, Rule 11 of the Energy Efficiency Policy Manual;
- c. Non-resource costs (excluding non-resource direct implementation costs) are set at 20% of the total adopted energy efficiency budgets; and
- d. The utilities shall not unduly reduce Strategic Planning non-administrative costs as compared to resource program direct implementation non-incentive costs.

Specifically, the SoCalGas program administrative costs that SoCalGas did not include in the administration cap calculation, as directed in D.09-09-047 at pages 50-51, for 2013-2015 are EM&V, SW ME&O, Codes & Standards, Emerging Technologies, Energy advisor programs, Commercial and Agriculture Continuous Energy Improvement program, WE&T, local & statewide IDSM, and On-Bill Financing. In addition, third party local government costs were not included in SoCalGas' administrative costs.

Assumption 2. SoCalGas' EE authorized budget already includes costs for payroll taxes, and vacation & sick leave; as such, the budget is categorized consistent with the December 28, 2008 Assigned Commissioner and Administrative Law Judge's Ruling Modifying Schedule

and Requiring Additional Information for 2009-2011 Supplemental Filings Attachment 5-A, and as modified by D. 11-04-005, OP 2.

Assumption 3. EM&V is four percent of the EE authorized program budget (and four percent of the total portfolio budget).³

Assumption 4. In order to be comparable to the other Investor-Owned Utilities, SoCalGas includes its OBF loan funds as part of its total EE budget for purposes of determining budget caps and targets (pursuant to D.12-11-015, OP 21).

Assumption 5. SoCalGas will continue to report the status of its budget caps and targets based on actual expenditures in its quarterly reports submitted through the Commission's Energy Efficiency Statistics website (EEStats).

Using UAFCB's Budget Methodology (a), the proper denominator should be **\$262,185,865 excluding GRC labor loaders** based on the approved forecasted budget used to demonstrate SoCalGas' 2013-2015 compliance with the Commission's administrative cost cap, and not UAFCB's proposed denominator of \$201,893,525. UAFCB's calculation only considers the total program budgets and the benefit loaders, and improperly excludes all other approved budget components that SoCalGas provides in the tables above—i.e., OBF loan pool and EM&V.

Using UAFCB's Operating Cost Methodology (b) and applying the same assumptions used in SoCalGas' advice letters but replacing them with actual costs, the resulting denominator is **\$187,563,699**. SoCalGas uses this methodology to calculate its performance against the administrative cost cap. UAFCB calculates the denominator as only \$179,431,506, which is incorrect because UAFCB does not include the OBF loan pool, EM&V, and SW Marketing.

With respect to the numerator, SoCalGas agrees with the following formula for calculating the total administrative costs:

(IOU administrative costs + IOU administrative costs incurred in support of its TP program and LGP program)

However, UAFCB's formula does not account for \$2,209,572 in administrative-exempted programs, as described above in Assumption 1 for SoCalGas' EE budget and compliance advice letters.

SoCalGas submits that the primary drivers for the difference in UAFCB's and SoCalGas' calculations are (1) UAFCB erroneously excluded EM&V and OBF Loan Pool from the denominator⁴, and (2) UAFCB erroneously failed to exclude the administrative-exempted programs approved in D.09-09-047. In contrast, the draft report incorrectly points to the following reasons as the primary cause for the difference in the calculations:

³D.14-10-046, "As with past portfolios, the utilities have proposed to reserve 4% of the total budget for EM&V, consistent with the guidance in D.12-05-015. No party objects to this funding level." at p. 147.

⁴ D.12-11-015, OP 39.

The Commission's EE program decisions and the EE Policy Manual do not provide explicit and clear instructions on how to calculate the 10% IOU administrative cost cap. There is no clear guidance on the types of costs to include in the numerator or denominator when determining the 10% IOU administrative cost cap amount. Additionally, there is no specific formula to use when determining the IOU administrative cost cap amount.⁵

Furthermore, the draft report states the because of the lack of clarity regarding how to calculate the cost cap, "UAFCB is unable to determine whether SoCalGas is in compliance with the 10% administrative cost cap for the 2013-2015 program cycle."⁶ This is inconsistent with UAFCB's analysis in past annual EE audits, where UAFCB has repeatedly reviewed and found no deficiencies in SoCalGas' calculation methodology.

Consistent with past practice, SoCalGas does not exceed the administrative cost cap using either the Budget Methodology or the Operating Cost Methodology, which results in an administrative cost of 6.3% and 8.8%, respectively, both well under the Commission's administrative cost cap of 10%.

Moreover, given that UAFCB admits that it is unable to determine SoCalGas's compliance with the administrative cost cap due to the lack of clarity in Commission decisions and the Policy Manual, and that UAFCB did not object to or correct SoCalGas' calculation practices in previous audits, UAFCB's recommendation to refund to ratepayers the administrative expenses allegedly in excess of the 10% cap is unfounded and inappropriate.

UAFCB's recommendation is inconsistent with prior Commission direction. In D. 14-10-046, the Commission recognized the general shortcomings of the current accounting requirements:

"We direct Commission Staff to retain an accounting consultant (using EM&V funds to cover the costs) both to review prior-cycle reporting and to develop a proposal to rationalize accounting practices for EE going forward."⁷

D.14-10-046 concluded that any future changes to energy efficiency accounting practices would be on a going forward basis. Any such future changes/ clarifications to the current accounting practices will directly impact reporting requirements including the administrative cap calculation. Thus, UAFCB's recommendation to expose SoCalGas to potential retroactive refunds is inconsistent with current Commission direction and should be removed from UAFCB's final audit report.

SoCalGas strongly recommends that the Commission clarify its policies and rules regarding the administrative cost cap calculation. Any clarification regarding the correct methodology should be applied *prospectively*, not *retrospectively*. A retroactive application of future

⁵ Draft Report, p. A-5.

⁶ *Id.*, p.A-5.

⁷ Section 3.2.5 at 43.

changes/clarifications regarding the current administrative cap calculation would unfairly deprive SoCalGas of the ability to manage its administrative cost cap appropriately.

The table below summarizing the discussion above.

Budget Methodology:							
	UAFCB				SCG		
	Administrative Cost	Total Cost	Portfolio Cost	Admin Cap Calculation	Administrative Cost	Total Portfolio Cost	Admin Cap Calculation
IOU Admin Cost	\$ 18,797,933				\$ 18,797,933		
IOU Exempted Program Admin Cost					\$ (2,209,572)		
		\$ 201,893,525		9.3%		\$ 262,185,865	6.3%
Operating Cost Methodology:							
	UAFCB				SCG		
	Administrative Cost	Total Cost	Portfolio Cost	Admin Cap Calculation	Administrative Cost	Total Portfolio Cost	Admin Cap Calculation
IOU Admin Cost	\$ 18,797,933				\$ 18,797,933		
IOU Exempted Program Admin Cost					\$ (2,209,572)		
		\$ 179,431,506		10.5%		\$ 187,563,699	8.8%

Note:

[1] Calculation excludes GRC labor loaders

[2] UAFCB mistakenly excluded EM&V and DBF Loan pool from the denominator

[3] UAFCB mistakenly fail to exclude administrative cap-exempted programs from the numerator: Codes & Standards, Emerging Technologies, Workforce Education & Training, Integrated Demand-Side Management, CALSPREE Energy Advisor, Commercial Energy Advisor, Commercial Continuous Energy Improvement, Industrial Energy Advisor, Industrial Continuous Energy Improvement, Agriculture Energy Advisor, Agriculture Continuous Energy Improvement, and all non-resource Local, Government Partnership, and Third-Party programs.

UAFCB Observation 14

SCG failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SCG's established accrual policy and procedures. SCG incorrectly included \$88,443 in PY 2015 the C&S program expenditures belonging to PY 2014. The amount was charged to the Direct Implementation cost category of the program. This represents 16% of the total C&S program expenses in PY 2015.

SoCalGas Response to Observation 14

Of the invoices identified in Observation 14, SoCalGas acknowledged that Sample #17 and #20 should have been accrued in 2014. As a business practice SoCalGas continuously seeks to strengthen its internal processes, including enhanced procedures and training to ensure that program expenditures are valid and accurate, and are recognized and reported in the appropriate reporting period.

However, the \$22,129 in expenditures related to Codes & Standards Compliance Improvement Program (Sample #30) and the \$20,954 in expenditures related to Codes & Standards Compliance Improvement Program (Sample #31) were correctly accrued in 2014 under an estimated cost of \$36,925, as shown in Attachment A. SoCalGas requests that UAFCB modify its final report to remove Sample #30 and #31 from this observation.

UAFCB Observation 17

SCG failed to demonstrate compliance with PU code §§ 581, 582 and 584, including SCG's established accrual policy and procedures. SCG incorrectly included a total of \$132,051 in NR Program expenditures not belonging to PY 2015. The amount was charged to the Direct Implementation cost category. This represents 1% of the total NR program expenses in PY 2015.

SoCalGas Response to Observation 17

SoCalGas acknowledges that Sample #41 and #49 identified in Observation 17 should have been accrued in 2014 as it met SoCalGas' minimal accrual threshold of \$10,000 per transaction. As a business practice SoCalGas continuously seeks to strengthen its internal processes, including enhanced procedures and training to ensure that program expenditures are valid and accurate, and are recognized and reported in the appropriate reporting period.

SoCalGas requests UAFCB to modify its final report to remove Sample #16 from this observation because SoCalGas made the effort to request for accrual invoices from the vendor in order to prepare the accrual request timely. SoCalGas continuously requested this information from the vendor by phone in December 2014. The documents provided to UAFCB in response to DR-07 Supplemental 01 show that SoCalGas continuously made the effort to track the budget and pay the invoice. As such, SoCalGas demonstrated compliance with PU Code §§ 581, 582 and 584, including SoCalGas' established accrual policy and procedures

UAFCB Observation 33

SCG failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SCG's established accrual policy and procedures. SCG incorrectly included \$10,090 in PY 2015 the LGP Program expenditures belonging to PY 2014. The amount was charged to the Direct Implementation cost category of the LGP Program. This amount represents 0.3% of the total LGP Program expenses in PY 2015.

SoCalGas Response to Observation 33

SoCalGas acknowledges that the amount of \$10,090 should be accrued in 2014 as it met SoCalGas' minimal accrual threshold of \$10,000 per transaction. As a business practice SoCalGas continuously seeks to strengthen its internal processes, including enhanced procedures and training to ensure that program expenditures are valid and accurate, and are recognized and reported in the appropriate reporting period.

UAFCB Observation 36

SCG identified internal audit report #15-226 – Energy Efficiency Calculated Incentives Program (EECIP) that related to EE program activities for the PY 2015 examination period. In this internal audit report dated October 13, 2015, SCG's Audit Services (AS) conducted a review of the design and operating effectiveness of controls that support the EECIP for the period January 1, 2014 through June 30, 2015.

SoCalGas Response to Observation 36

SoCalGas acknowledges the recommendation and continuously seeks to strengthen its internal processes to ensure that program expenditures are appropriately recorded.

If you have any questions or require additional information regarding these comments, please do not hesitate to contact me.

Sincerely,

/s/ Daniel J. Rendler

Daniel J. Rendler
Director, Customer Programs and Assistance

Cc: J. Pong
C. Sierzant
E. Palermo
Central Files
B.Ayanruoh
K.Nakamura

Attachment A

Accrual Estimate

RE: Accruals - Message (1/16/14) (Read Only)

Message toolbar: Reply, Reply All, Forward, Move, Delete, Mark, Categorize, Follow Up, Translate, Related, Zoom, Report Abuse, etc.

From: Stuart Tartaglia <stuart.tartaglia@pge.com>
 To: Wilmore, Level <level@lwilmore.com>
 Subject: RE: Accruals

You forwarded this message on 12/16/2014 1:47 PM.

Invol,

There are two compliance improvement CFAs that we may try to get invoiced this year that are greater than 10%. Here they are.

Company	CFA-Title	SCE	PG&E	SDG&E	SCG
M&A and M&M	Two 1 Title 24 Stds Essentials	35%	40%	15%	10%
	Committed Amount	241,420	275,908	103,466	68,977
	Invoiced To-Date	87,934	100,576	37,716	25,144
	Estimate of 2014 Not Invoiced	129,236	147,698	55,387	36,925
	Remaining Commitment	24,249	27,634	10,353	6,908
Company	CFA-Title	SCE	PG&E	SDG&E	SCG
M&A	Standards Essentials Curriculum Plan	35%	40%	15%	10%
	Estimate of 2014 Not Invoiced	73,393	0	31,431	20,934
	Remaining Commitment	49,501	\$51,149	21,216	24,144

Stuart Tartaglia
 Pacific Gas and Electric Company
 Customer Energy Solutions, Codes & Standards
 Office: (415) 973-1508
 Mobile: (415) 314-8266
stuart.tartaglia@pge.com

From: Wilmore, Level <level@lwilmore.com>
 Sent: Thursday, December 11, 2014 3:35 PM
 To: Tartaglia, Stuart; Javier, Marisol <javier.marisol@sce.com>; Marver, Bill; Swas, Adrian
 Subject: Accruals

At SCG, I only have to be aware of charges of \$10,000 and above for the accrual process. Do any of you have outstanding invoices for SCG of \$10,000 or higher?

Thanks

Invol: B. Wilmore
 Southern California Gas Company
 Market Advisor

Examination of SCG's 2015 Energy Efficiency Programs
 July 31, 2017

Codes & Standards Accrual Template Submission

Copy of ACCRUAL-TEMPLATE(CPD)

ACCOUNT	AMOUNT	LINE DESCRIPTION	BUSINESS AREA	COST CENTER	ORDER	ASSIGNMENT	QUANTITY	UNIT OF MEASURE	FC number	PO item	Operation (CPD orders)
0220600	30025			2200-2235	300716650						
0220600	30054			2200-2235	300716650						

Estimate #	Vendor	Explanation/Calculation
Estimate 1	PG&E	Estimate is based on labor and material costs provided by contractor - \$36,926 for work performed through the end of the month. Refer to attached email sent from the contractor
Estimate 2	PG&E	Estimate is based on labor and material costs provided by contractor - \$20,964 for work performed through the end of the month. Refer to attached email sent from the contractor

Examination of SCG's 2015 Energy Efficiency Programs
 July 31, 2017

December Accrual in SAP

Order	Cost Elem.	Cost element name	AuxAcctAs1	Name	Offbal. acct name	Offplacet	Vendor Name	Vendor	Purch. Doc.	Order	Qty	RTI an	RefOrderNo	ValCOAnCu	Quantity	PLM	Doc. Date	Posting Date
300715653	0220000	SRV CONSULTING-OTHER	CTR 2200 2238		A/P-ACCRUAL	2125000					012	CO-N	11071142	36,525.00	0.000		12/18/2014	12/01/2014
300715665	6220600	SRV-CONSULTING-OTHER	CTR 2200-2238		A/P-ACCRUAL	2125000					012	CO-N	11071142	26,954.00	0.000		12/18/2014	12/01/2014