

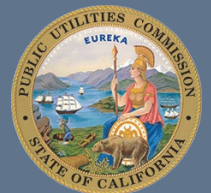


ENERGY EFFICIENCY PROGRAM PERFORMANCE AUDIT

Pacific Gas & Electric Company (PG&E)

For the Program Year Ended December 31, 2018

Utility Audits, Risk and Compliance Division
Utility Audits Branch
July 29, 2020



MEMBERS OF THE TEAM

Angie Williams, Director

Masha Vorobyova, Assistant Director

Randy Enriquez, Lead

Stanton Puck, Staff

A digital copy of this report can be found at:

<http://www.cpuc.ca.gov/utilityaudits/>

**You can contact our office at:
California Public Utilities Commission
Utility Audits, Risk and Compliance Division
400 R Street, Suite 221
Sacramento, CA 95811**

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



Transmitted via e-mail

July 29, 2020

Mr. David Poster
Director, Energy Efficiency Programs
Pacific Gas & Electric Company
245 Market Street, RM. 646
San Francisco, CA 94105

Dear Mr. Poster:

Final Report Transmittal Letter—Audit of Pacific Gas & Electric Company’s Energy Efficiency program for the period of January 1, 2018 through December 31, 2018

The Utility Audits Branch of the California Public Utilities Commission has completed its audit of Pacific Gas & Electric Company’s (PG&E) Codes & Standards and Non-Resource program expenditures reported for the Energy Efficiency program for the period of January 1, 2018 through December 31, 2018 or Program Year 2018. The final audit report is enclosed.

Our audit disclosed no findings requiring a response, and therefore we are issuing the report as final. We will post the final audit report on our website at <https://www.cpuc.ca.gov/utilityaudits/>.

We appreciate PG&E’s assistance and cooperation during the engagement. If you have any questions regarding this report, please contact Masha Vorobyova, Assistant Director, via email at Masha.Vorobyova@cpuc.ca.gov.

Sincerely,

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

Attachment: PG&E’s PY2018 Energy Efficiency Audit Report

cc: Mr. Raj Harjani, Manager of Financial Reporting & Governance, PG&E
Ms. Averie Zheng, Senior Analyst, PG&E
Ms. Alice Stebbins, Executive Director, CPUC
Ms. Jennifer Kalafut, Program Manager, Energy Division, CPUC
Ms. Paula Gruendling, Program and Project Supervisor, Energy Division, CPUC
Mr. George Tagnipes, Program and Project Supervisor, Energy Division, CPUC
Ms. Masha Vorobyova, Assistant Director, Utility Audits Branch, CPUC

Mr. David Poster
Director, Energy Efficiency Programs
Pacific Gas & Electric Company
July 29, 2020
Page 2

Mr. Randy Enriquez, Senior Management Auditor, Utility Audits Branch, CPUC
Mr. Stanton Puck, Financial Examiner III, Utility Audits Branch, CPUC

Table of Contents

EXECUTIVE SUMMARY..... 1

AUDIT REPORT 2

 BACKGROUND 2

 AUDIT AUTHORITY 3

 OBJECTIVE AND SCOPE..... 3

 METHODOLOGY 3

 CONCLUSION 5

 FOLLOW-UP ON PRIOR AUDIT FINDINGS 5

 VIEWS OF RESPONSIBLE OFFICIALS..... 5

 RESTRICTED USE..... 5

SUMMARY SCHEDULES OF AUDIT RESULTS..... 6

EXECUTIVE SUMMARY

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a performance audit of the Energy Efficiency Program Codes & Standards (C&S) and Non-Resource (NR) program expenditures, reported by Pacific Gas & Electric Company (PG&E) for the audit period of January 1, 2018 through December 31, 2018 or Program Year (PY) 2018.

Our audit objective was to determine whether PG&E's C&S and NR program expenditures were reported accurately, incurred for allowable purposes, supported by appropriate source documents, and in compliance with applicable CPUC directives, orders, rules, regulations, and PG&E's policies and procedures.

Based on the procedures performed, sample tested, and evidence gathered, we found that PG&E's C&S and NR program expenditures were in compliance with applicable CPUC directives, orders, rules, regulations, and PG&E's policies and procedures for PY 2018. PG&E reported \$18,263,858 in C&S and \$18,478,022 in NR program expenditures for the audit period. Our audit found that both amounts were reported accurately, incurred for allowable purposes, and supported by appropriate source documents. The corresponding Efficiency Savings and Performance Incentive (ESPI) management fees total \$1,868,921 for C&S and \$476,235 for NR programs resulting in a combined allowable ESPI total award amount of \$2,345,156 for PY 2018.

AUDIT REPORT

Background

Energy Efficiency Program

Energy Efficiency (EE) programs are established to help California be more energy efficient and significantly reduce California's greenhouse gas emissions. The primary purpose of the EE programs is to develop programs and measures to meet energy savings goals and transform technology markets within California. The programs span a variety of sectors encompassing residential homes and commercial buildings, large and small appliances, lighting and heating, ventilation, air conditioning, industrial manufacturers, and agriculture. The CPUC authorizes set budgets to the EE programs annually, which are funded by a small portion of electricity and gas rates included in ratepayer bills. EE programs utilize a variety of tools to meet energy savings goals, such as financial incentives and rebates, research and development for EE technologies, financing mechanisms, codes and standards development, education and public outreach, and marketing.

The EE program is principally administered and implemented by the four major Investor-Owned Utilities (IOUs) in California. The four major IOUs in California are Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E), and Southern California Gas Company (SCG).¹

Energy Savings and Performance Incentive

The CPUC adopted the ESPI mechanism to promote achievement of EE goals while protecting ratepayers through various cost containment mechanisms. In D.13-09-023, Ordering Paragraph (OP) 15 and 16, the CPUC authorized an incentive award to be paid to the IOUs as a management fee equal to 12 percent of authorized C&S program expenditures and 3 percent of authorized NR program expenditures, respectively.

Codes & Standards Programs

C&S programs facilitate the IOUs efforts in working with local, state, and federal authorities to develop and substantiate new building codes and appliance standards that, once adopted and enacted, result in more energy efficient buildings and appliances in California and the rest of the country. C&S programs also support compliance improvements through development and delivery of education, training, and tools. The C&S programs facilitate energy savings by:

- Influencing standards and code-setting bodies to strengthen energy efficiency regulations;
- Improving compliance with existing C&S;
- Assisting local governments to develop ordinances that exceed statewide minimum requirements; and
- Coordinating with the other programs and entities to support the state's ambitious policy goals.

Non-Resource Programs

NR programs do not directly procure energy resources that can be counted but rather facilitate meeting energy savings goals through marketing, outreach, education, and training. IOUs incorporate a selection of these NR programs into their portfolios, such as statewide marketing and outreach programs, information and education programs, workforce education and training, and emerging technologies

¹ San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SCG) are affiliated subsidiaries of SEMPRA Energy.

programs that support CPUC's short-term and long-term energy savings goals. NR programs consists primarily of labor and contracting-related expenditures.

Audit Authority

The UAB conducted this audit under the general authority outlined in the Public Utilities (PU) Code Sections 314.5, 314.6, 581, 582, and 584. Furthermore, pursuant to D.13-09-023, OP 17, the CPUC directed the UAB to verify the C&S and NR program expenditures for the purposes of awarding the IOUs the ESPI management awards.

Objective and Scope

Our audit objective was to determine whether PG&E's C&S and NR program expenditures were reported accurately, incurred for allowable purposes, supported by appropriate source documents, and in compliance with applicable CPUC directives, orders, rules, regulations, and PG&E's policies and procedures.

The scope of our audit covered the EE C&S and NR program expenditures reported by PG&E for the audit period of January 1, 2018 through December 31, 2018 or PY 2018.

Methodology

In planning our audit, we gained an understanding of the EE program and respective sub-programs and PG&E operations and identified relevant criteria, by reviewing the EE Policy Manual, relevant PU Code section, rules, regulations, CPUC decisions, resolutions, advice letters, and interviewing PG&E's personnel.

We conducted a risk assessment, including evaluating whether PG&E's key internal controls relevant to our audit objective were properly designed, implemented, and operating effectively. Our assessment included conducting interviews, observing processes, or performing walkthroughs, and testing transactions. Deficiencies in internal control that were identified during our audit and determined to be significant within the context of our audit objective are included in this report.

Additionally, we assessed the reliability of the data extracted from the PG&E's accounting system. Our assessment included examining extracted reports, tracing data between differing report formats to verify completeness, and tracing report data to source documents. We determined the data to be sufficiently reliable to address the audit objective.

Based on the results of our planning, we developed specific methods for gathering evidence to obtain reasonable assurance to address the audit objective. To achieve our audit objective, we:

- Reviewed PG&E's accounting system, accounting policies, processes and procedures for recording, tracking, and monitoring EE program costs.
- Assessed whether PG&E's policies, procedures, and practices comply with the EE program requirements.
- Reconciled the expenditure transactions recorded in the PG&E's accounting system to the balances reported in the EE Stats in the PG&E's 2018 EE Expenditure Claim Report for completeness.

- Assessed significance by performing analysis of expenditure data and evaluating program requirements.
- Reviewed results of prior audits and verified whether corrective actions were implemented.
- Obtained an understanding of PG&E's key internal controls relevant to the EE program, such as classifying and recording, monitoring, approving, and reporting the EE program expenditures, and assessed the design, implementation, and operating effectiveness of selected controls that are significant to the audit objective by:
 - Interviewing key personnel and completing internal control questionnaire;
 - Reviewing PG&E's policies and procedures, and assessing their implementation pertaining to accounting, recording, and reporting of EE expenditure data;
 - Performing walkthroughs of selected transactions; and
 - Tracing selected transactions to source documents.
- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing.
- Performed transaction testing by judgmentally selecting a non-statistical sample of significant transactions for the following categories:
 - Direct Implementation – We tested \$4,664,200.61 of \$32,582,265.
 - Marketing – We tested \$41,094.38 of \$501,251.
 - Administrative – We tested \$171,896.47 of \$3,658,364.

For the selected samples, errors found, if any, were not projected to the total population.

- For the selected samples, traced expenditures recorded in the PG&E's accounting records to supporting documentation and determined whether costs were accurate, relevant to the EE program, supported by appropriate source documents, and incurred in compliance with applicable CPUC directives, orders, rules, regulations, and PG&E's policies and procedures by:
 - Tracing expenditures to invoices to ensure (1) expenditure was incurred within the Program Year 2018, and (2) expenditure amount agrees to the invoice;
 - Verified expenditure is supported by appropriate source documents, such as detailed invoices, purpose of expenditure, employee timesheets, agreements/contracts, to confirm expenditure is (1) allowable and (2) categorized correctly;
 - Recomputed invoice amounts to ensure expenditures were accurately calculated; and
 - Verified payment has been completed.
- Recomputed ESPI management fee amounts for the C&S and NR programs based on audited expenditure amounts.
- Obtained an understanding of PG&E's methodology for classifying EE costs by reviewing policies, procedures, decisions, and corresponding with PG&E staff.

- Verified required quarterly reports were submitted timely by reviewing report submission dates and reconciling to the required submission dates.

We did not audit PG&E's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that PG&E reported, incurred, and supported its EE program expenditures in accordance with the applicable criteria. We considered PG&E's internal controls only to the extent necessary to plan the audit and achieve our audit objective.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Conclusion

Based on the procedures performed, sample tested, and evidence gathered, we found that PG&E's C&S and NR program expenditures were in compliance with applicable CPUC directives, orders, rules, regulations, and PG&E's policies and procedures for PY 2018. PG&E reported \$18,263,858 in C&S and \$18,478,022 in NR program expenditures for the audit period. Our audit found that both amounts were reported accurately, incurred for allowable purposes, and supported by appropriate source documents. The corresponding ESPI management fees total \$1,868,921 for C&S and \$476,235 for NR programs resulting in a combined allowable ESPI total award amount of \$2,345,156 for PY 2018.

Follow-up on Prior Audit Findings

Our prior Energy Efficiency audit report for PY 2017, covering the period of January 1, 2017 through December 31, 2017, issued on August 5, 2019, disclosed audit findings. PG&E implemented corrective actions to address the prior audit findings. Based on the work performed in the current audit, we noted PG&E has satisfactorily resolved those findings.

Views of Responsible Officials

We discussed the audit results with PG&E representatives at an exit conference on July 15, 2020. At the exit conference, we stated that the final report will include the views of responsible officials. Because there were no audit findings requiring a response, we are issuing the report as final.

Restricted Use

This audit report is intended solely for the information and use of PG&E and the CPUC; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this audit report, which is a matter of public record and is available on the CPUC website at www.cpuc.ca.gov/utilityaudits/.

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

SUMMARY SCHEDULES OF AUDIT RESULTS

Table 1 - Schedule of Energy Efficiency PY 2018 Expenditures

Cost Category	Reported	Allowable	Audit Adjustment
Codes & Standards	\$18,263,858	\$18,263,858	\$ -
Non-Resource	<u>18,478,022</u>	<u>18,478,022</u>	<u>-</u>
Total	<u>\$36,741,880</u>	<u>\$36,741,880</u>	<u>\$ -</u>

Table 2 – C&S and NR ESPI Management Fee Calculations

Program	Reported	ESPI Cap Amounts³	Allowable Amounts	Audit Adjustment
C&S ESPI Base ²	\$17,209,017	\$15,574,341	\$15,574,341	\$ -
C&S Earnings Rate	<u>12%</u>	<u>12%</u>	<u>12%</u>	<u>-</u>
Subtotal	<u>\$ 2,065,082</u>	<u>\$ 1,868,921</u>	<u>\$ 1,868,921</u>	<u>\$ -</u>
NR ESPI Base ²	\$15,874,499	\$25,763,131	\$15,874,499	\$ -
NR Earnings Rate	<u>3%</u>	<u>3%</u>	<u>3%</u>	<u>-</u>
Subtotal	<u>\$ 476,235</u>	<u>\$ 772,894</u>	<u>\$ 476,235</u>	<u>\$ -</u>
Total Award	<u>\$ 2,541,317</u>	<u>\$ 2,641,815</u>	<u>\$ 2,345,156</u>	<u>\$ -</u>

² C&S and NR ESPI Base amounts exclude Administrative Costs.

³ ESPI Award caps are per PY2018 ESPI Earning Coefficients and Caps Letter