# CALIFORNIA PUBLIC UTILITIES COMMISSION

## California Self-Generation Incentive Program

## External Financial Examination Program Years 2015 & 2016

Final Draft Report

December 23, 2017

MACIAS
CONSULTING GROUP & CPAs

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# Independent Accountant's Report

California Public Utilities Commission
San Francisco, CA

We have examined the California Self-Generation Incentive Program for 2015 and 2016 program years for compliance with the requirements set by the California Public Utilities Commission in the California Self-Generation Incentive Program Handbook, dated February 8, 2016. The four Program Administrators - Pacific Gas & Electric Company, Southern California Edison Company, Southern California Gas Company, and the Center for Sustainable Energy - are responsible for compliance with those requirements. Our responsibility is to express an opinion on their compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Program Administrators complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the Program Administrators complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on the Program Administrators' compliance with specified requirements.

In our opinion, the Program Administrators complied, in all material respects, with the aforementioned requirements during the 2015 and 2016 program years.

This report is intended solely for the information and use of the California Public Utilities Commission and the four Program Administrators, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Consulting Group, Inc.

Macias Consulting Group, Inc.
Sacramento, CA
December 23, 2017

## Introduction and Executive Summary

This examination fulfills a requirement of Decision 16-06-055 (June 23, 2016) of the California Public Utilities Commission (CPUC). This decision requires biannual fiscal audits of the Self-Generation Incentive Program (SGIP). The examination is intended to determine whether Program Administrators (PAs) are complying with the administrative requirements set forth in the CPUC's SGIP Handbook, to evaluate how Program Administrators account for SGIP funds, and to assess that safeguards are in place to ensure SGIP funds are distributed in accordance with the CPUC's SGIP Handbook Guidelines.

This examination addresses the compliance of the PAs with applicable rules during program years 2015 and 2016. Our examination did not identify any material instances of noncompliance and found the expenditures were reasonable and in accordance with the program rules specified by the CPUC.

This report presents the results of the external financial examination performed by Macias Consulting Group, Inc. (MCG) and approved by the CPUC. This examination reviewed the California Self-Generation Incentive (SGIP) program, as administered by the PAs: Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), Southern California Gas Company (SCG), and the Center for Sustainable Energy (CSE) in the San Diego Gas & Electric Company (SDG&E) territory.

## Findings

In general, MCG found that the four entities entrusted with the management of the SGIP program complied, in all material respects, as reflected in our Independent Accountant's Report on page 2. MCG's detailed findings are explained in a Summary of Results of Procedures and Recommendations on page 12 of this report and each PA's Results of Procedures and Recommendations section, starting on page 13 of this report.

## Background

California's SGIP provides financial incentives to certain distributed generation and storage technologies located on the customer side of the electricity meter. The electricity produced by the system provides on-site power to help offset a customer's electric load. Funded by California ratepayers, the SGIP is managed by Program Administrators representing California's major investor-owned utilities (IOUs). Overseen by the CPUC, the SGIP program provides financial incentives for the installation of new qualifying technologies that are installed to meet all or a portion of the electric energy needs of a facility. The purpose of the SGIP is to contribute to Greenhouse Gas (GHG) emission reductions, demand reductions and reduced customer electricity purchases, resulting in the electric system reliability through improved transmission and distribution system utilization; as well as market transformation for distributed energy resource (DER) technologies.

The SGIP is one of the longest running distributed generation incentive programs in the country. The SGIP was initially conceived as a peak-load reduction program in response to the California energy crisis of 2000-2001, during which Californians experienced electrical outages throughout the State. Through Assembly Bill 970, the legislature directed the CPUC to offer financial incentives to electric customers of the major investor-owned utilities to install on-site distributed generation (DG) technologies to offset all or a portion of their energy needs. In 2001, the SGIP was established to encourage the development and commercialization of renewable and nonrenewable DG technologies.

In 2011, California Senate Bill 412 modified the primary purpose of SGIP from peak load reduction to GHG emissions reductions and subsequently, the CPUC modified the program's incentive eligibility criteria to support technologies that achieve GHG emissions reductions. Eligible technologies include energy storage, wind turbines, pressure reduction turbines, fuel cells, waste heat capture, combined heat and power, internal combustion engines, microturbines, and gas turbines.

In 2014, California Senate Bill 861 extended administration of the SGIP through 2020. In 2016, in conjunction with this extension of the program, the CPUC implemented major program modifications, including a new program structure and incentive rates. The most significant of these changes was the allocation of 75% of the total incentive budget to energy storage technologies.

## Statewide Program Budget and Administrator Allocations

**(Annual amounts that the CPUC authorizes for each PA to collect from ratepayers for the Program Year)**

The CPUC authorized the PAs to allow the following incentive reservations and administrative collections for the Program Years 2015 and 2016. Annual allocations are collected by the IOUs to pay for incentive payments and administration expenses:

***TABLE 1 – ALLOCATION BUDGET***

| Program Administrator | 2015 | 2016 |
|---|---|---|
| Pacific Gas and Electric Company: | | |
| Incentives | $33,480,000 | $16,740,000 |
| Administration | 2,520,000 | 2,520,000 |
| Southern California Edison Company: | | |
| Incentives | 26,040,000 | 13,020,000 |
| Administration | 1,960,000 | 1,960,000 |
| Southern California Gas Company | | |
| Incentives | 7,440,000 | 7,440,000 (a) |
| Administration | 560,000 | 560,000 |
| Center for Sustainable Energy[1]: | | |
| Incentives | 10,230,000 | 5,115,000 |
| Administration | 770,000 | 770,000 |
| **Totals** | **$83,000,000** | **$48,125,000** |

(a) All PAs listed 50% of prior year allocation except for SCG. Source: SGIP Website

[1] Funds collected by SDG&E for use by CSE.

The 2016 annual budget originated with the same amounts as the 2015 budget, but the CPUC Decision D.15-12-027 directed Program Administrators to continue accepting new applications for incentives until 50% of their respective 2016 SGIP Program funds were reserved, and not beyond.

Budget allocations for 2015 and 2016 were divided into 2 categories. The annual incentive budget allocated 75% to renewable and emerging technologies, and 25% to non-renewable-fueled conventional Combined Heat and Power (CHP) technologies.

Biogas, Advanced Energy Systems (AES), and Fuel Cells were all considered emerging technologies and were funded from the renewable and emerging budget category. However, if an AES system was coupled with conventional CHP technologies using a non-renewable fuel, they could be funded from the non-renewable budget category with prior approval from the CPUC, through an advice letter, shifting funds from the renewable and emerging technology budget category into the non-renewable budget category.

## Scope

Table 2 below shows the Statewide Annual Opening Budget for each of the four PAs over the two program years under examination.

***TABLE 2 –STATEWIDE OPENING ANNUAL BUDGET[2] (Incentive Only, Administration Excluded)***

| Program Administrator | 2015 | 2016 |
|---|---|---|
| PG&E | $34,010,729 | $18,715,285 |
| SCE | 30,300,188 | 13,862,604 |
| SCG | 10,167,151 | 5,626,322 |
| CSE | 20,874,585 | 6,334,366 |
| **Totals** | **$95,352,653** | **$44,538,577** |

Source: Energy Solutions and Program Administrators

## Objectives

The purpose of performing this external examination was to determine whether the SGIP program was administered and implemented in accordance with established guidelines, parameters, and CPUC directives. More specifically, our objectives were to:

[2] The PAs self-reported program year totals for cumulative SGIP incentive budgets that include authorized SGIP collections, authorized carryovers, and reallocation balances less pending reservations for approved SGIP projects.

- Determine if the SGIP program's administrative costs and expenditures were properly charged against program funds;
- Identify factors, if any, to ensure that ratepayer funds are being prudently managed; and
- Ensure transparency to enable the CPUC to meet its due diligence goals.

The scope of our review encompassed program years 2015 and 2016, as administered within the four IOUs' service territories: PG&E, SCE, SCG and SDG&E. CSE is the PA within SDG&E's territory.

MCG discussed the results of this external examination with PG&E, SCE, SCG and CSE, having provided each entity with their portion of the draft report. Each entity's comments, and in some cases MCG's response to those comments, are included within the body of this report.

# Methodology

The central objective of the examination was to determine that incentive payments paid by the Program Administrators to applicants were paid out in accordance with established SGIP Handbook requirements for the Program Years 2015 and 2016 and to determine that administrative costs and expenditures were properly charged against program funds.

MCG judgmentally selected samples of 30 projects at PG&E, SCE, and CSE and selected a sample of 10 projects at SCG to test for Program Years 2015 and 2016. The majority of SGIP projects that PAs paid in the 2015 and 2016 Program Years were for incentives related to larger projects that had been approved during the 2011 through 2014 Program Years. There is typically an 18-month or more lag between a project's approval and initial incentive payment. This is largely due to the implementation time necessary to complete larger SGIP projects. In addition, larger projects – those that are rated greater than or equal to 30 kW - receive 50 percent of their incentive payment when the system has been installed and proven to be operating as designed; the remaining 50 percent of the incentive is paid over a 5-year period, based on the results of the system's electrical generation. While smaller (typically residential) projects receive their full incentive payment upon proof of operation, larger projects have a 5-year payment cycle that includes Performance-Based Incentive (PBI) payments.

Since the population of projects approved and paid in Program Years 2015 and 2016 were limited in number, MCG and the PAs agreed to broaden the population of projects to include testing all projects paid in Program Years 2015 and 2016. The SGIP Handbooks and requirements change annually and have changed over the years. As such, with concurrence from the PAs and the CPUC, MCG used the most current 2016 SGIP Handbook to use as the baseline for testing Program Administration requirements; we then reviewed the relevant year's SGIP Handbook to confirm the PA's compliance with the respective year's program requirements.

The sampling was designed to reflect the universe of expenditures for each location. Since incentive payments account for greater than 90 per cent of the dollar value of all expenditures, the samples also reflected this weighting. Besides incentive payments, other types of expenditures such as Measurement & Evaluation (M&E), and administrative expenses, mostly labor charges, were also reviewed.

During the examination, MCG tested 100 expenditures valued at $32,121,538 spread out over four entities as shown in Table 3 below.

*TABLE 3 – SGIP INCENTIVE CLAIMS TESTED BY LOCATION*

| Program Administrator | 2015 | 2016 |
|---|---|---|
| PG&E | $5,876,925 | $5,172,355 |
| SCE | 5,960,794 | 3,679,861 |
| SCG | 1,332,358 | 4,205,444 |
| CSE | 1,972,642 | 3,921,159 |
| **Total Examined** | **$15,142,719** | **$16,978,819** |

## The SGIP Application Process

All PAs use the Energy Solutions online application portal and database to track installations and electronically store the related SGIP-required documents.

The SGIP Program is an annual incentive program. Each Program Year is run on a calendar year basis from January 1 to December 31. Each Program Year officially begins when the Program Year's Handbook and forms are posted to the PA's website. Beginning in Program Year 2016, the SGIP Program required all applications to be submitted using the SGIP online application database at www.selfgenca.com. As of 2016, for each of the three stages of the application process, applicants must submit the required documents using the SGIP online application database.

The three application stages are: 1) the Reservation Request Form (RRF); 2) the Proof of Project Milestone (PPM); and 3) the Incentive Claim Form (ICF). Each new SGIP application requires companies or individuals to create an account and register on the online application database. Once the account has been accepted and confirmed, registered applicants may create and upload project documentation, and also edit their documents. Applications are reviewed in the order received, and only complete applications receive approved reservation confirmation letters. Although applicants are not required to submit "wet" signatures, they are required to maintain original signed documentation for a five-year period.

There are two application processes in the SGIP Program, based on the amount of electricity to be generated. The three-step process is applied for large (≥10KW) non-residential projects and the two-step process is applied for residential projects and small (≤10kW) non-residential projects. In general, the larger three-step process requires more documentation.

### *Changes in 2016*

For program years 2016 and earlier, SGIP funds were reserved on a first-come/first-served basis. Incentive rates were based on the year in which the application was submitted. Projects followed the program rules for the year in which they were submitted. Applicants submitted their SGIP reservations via regular mail or email, and subsequent document submissions at any stage (RRF, PPM, and ICF) could be delivered using either method.

As of the 2016 Program Year, all SGIP applications and document submissions are directly submitted to the SGIP online application database. Mailed, emailed, faxed, or hand delivered applications are no longer accepted.

Applications are reviewed in the order they are received, based on the database’s time stamp. As before, only completed applications received an approved reservation. Original signed documents or scanned copies of original signed documents are required for all Program forms. For applications involving multiple parties, all signatures must be submitted on a single document.

For incentive payments, MCG tested compliance with the guidelines set forth in the SGIP Handbook that included reviewing (if applicable) the following requirements:

## *Reservation Request*

To reserve a specified incentive amount, a Reservation Request Form must be submitted with certain required attachments, and the PA must receive the application fee within 15 days. The incentive amount is not reserved until the Program Administrator receives and approves the RRF documents.

**Required Reservation Request Materials:**

- Completed and Signed reservation request form
- Application Fee and Check Equal to 1% of the Requested Incentive Amount
- Equipment specifications
- Proof of Utility & Load Specifications
- Preliminary Monitoring Plan (All projects > = 30kW)
- Minimum Operating Efficiency Worksheet With Backup Documentation (Non-renewable fuel projects only)
- Proof of Adequate Fuel or Waste Energy Resource (Renewable Fuel, Waste Energy, Waste Gas Projects Only)

## *Proof of Project Milestone*

All applicants of large residential or non-residential projects greater than 10kW must complete and sign a Proof of Project Milestone form. All applicants with smaller projects less than 10kW must submit all required Proof of Milestone forms as part of the RRF Process.

**Required Proof Of Project Milestone Materials:**

- Completed and Signed Proof of Project Milestone Form
- Copy of RFP or equivalent within 90 calendar days of Conditional Reservation Letter (Public Entity Projects Only)
- Executed Contract or Agreement for System Installation (All Projects)
- Energy Efficiency Audit (All Projects)
- Proposed Monitoring Plan (All projects > = 30kW)
- Proof of Fuel Contract and Documentation (Renewable Fuel and Waste Gas Projects Only)

## *Incentive Claim Forms*

Once the project is completed, the applicant requests payment of the incentive amount by submitting a signed Incentive Claim Form and all applicable Incentive Claim documents to the Program Administrator. A project is considered complete when the system is completely installed, interconnected, permitted, and capable of producing electricity in the manner and in the amounts for which the project was designed, and the energy efficiency measure identified with a 2 year or less payback period were verified as either installed or infeasible. Program Administrators disburse the payments upon verification by a field inspector that the system meets all of the eligibility requirements of the SGIP.

**Required Incentive Claim Form Materials:**

- Completed and Signed Incentive Claim Form
- Proof of Authorization to Interconnect (Projects That Interconnect With The Grid)
- Project Cost Affidavit or Breakdown Worksheet (All Projects)
- Final Permits
- Substantiations
- Planned Maintenance Coordination Letter (All Conventional Combined Heat & Power Projects >= 200kW)
- Final Monitoring Schematic (All projects > = 30kW)
- Energy Efficiency Measure Installation Affidavit or Non-feasibility Documentation for Technology Projects)
- Performance Based Incentive Setup Sheet (All projects > = 30kW)

## *Results of Testing*

MCG completed a review of 100 individual projects. MCG found that the Program Administrators followed the guidelines and met the administrative requirements as set forth in the SGIP Handbook for the respective Program Year.

Since most of the projects tested were approved prior to the 2016 Program Year, MCG received and reviewed scanned copies of the requisite documents that applicants submitted from all of the Program Administrators except for PG&E. PG&E provided MCG with limited access to the Energy Solutions database to perform the testing of projects that were selected.

All of the Program Administrators use a project checklist to ensure that each phase of the SGIP process is followed according to SGIP Handbook. PAs use either a third party or in-house engineer as a technical reviewer to review and ensure that the proposed equipment specifications are in compliance with the SGIP Handbook's requirements.

In sum, MCG reviewed the projects and determined that the PAs:

- Completed the requirements of the review of the RRF process, and had either a third party or in-house engineers complete technical reviews of the RRF requirements
- Completed the requirements of the review of the PPM process, and had either a third party or in-house engineers complete technical reviews of the PPM requirements,
- Received the ICF package from the applicant, and

- Completed the requirements of the ICF process, and had either a third party or in-house engineer conduct a field inspection to approve project completion and satisfy the ICF requirements to pay the incentive amount.

## *SGIP Database User Access and Controls*

In 2011, the Program Administrators and Cohen Ventures, Inc., dba Energy Solutions, formed an agreement for the purposes of developing www.selfgenca.com. The website was developed as an online platform to provide certain authorized and interested parties with access to specific documents for the SGIP.

The Center for Sustainable Energy is responsible as the contract administrator for the Energy Solutions database used by all of the Program Administrators. MCG consultants received a demonstration of how the PAs use the database to comply with the SGIP Handbook requirements.

During the course of the examination, MCG requested copies of written policies related to information technology policies specific to SGIP. In addition, MCG requested a SGIP database user list from all of the PAs. The list included all current staff with authorized access to the database, and a list of employees who were terminated or transferred from the SGIP database group.

In MCG's request for documentation related to database user access and controls, MCG confirmed that 3 of the PAs did not have formal written procedures. In addition, MCG was not able to independently verify that the PA's staff who were no longer authorized (either due to a transfer out of the responsibility or termination) to have access to the online database were removed from having access.

For those PAs that did not have formal written policies, this observation will be noted in the respective PA's section. In addition, the PAs should have the ability to verify that an unauthorized employee is removed timely from having access to the database. This observation will also be noted in the respective PA's section.

## *Measurement & Evaluation and Program Administration*

For non-incentive payments, MCG reviewed:

- Supporting invoice or receipt, verifying that the expense was related to the SGIP program
- Supporting accounting documents verifying payment amount and payee

For labor charges, we reviewed the description of the worked being performed by the PA employees to determine the reasonableness of charges to the SGIP funds. In addition, for individual employees selected for testing we determined that the labor charges were based on input from timesheets and were approved by managers.

To obtain evidence of transparency and the prudent management of the SGIP funds, MCG (1) reviewed evidence that SGIP funds were not included (double counted) in General Rate Case calculations, if applicable; (2) ascertained that the PAs maintained SGIP funds in separate and distinct accounts; and (3) determined that internal controls were adequate to provide security around SGIP payments and use of internal checklists to track program compliance with incentive payment rules.

During the examination, MCG met with managers involved in operations, accounting, data management, and ratemaking to gain an understanding of their processes. We also obtained documentation that included organization charts, program information, flowcharts, and written documentation describing SGIP-related processes.

# Summary of Results
# Observations and Recommendations for all PAs

**(See respective PA sections for detailed observations and management responses)**

**1 .Expenditure Testing**

We noted no compliance issues or errors in our sample of 100 individual projects tested and other administration and Measurement & Evaluation items reviewed.

**2. Administrative and M&E Expenditures:**

We noted that SCG and CSE expended amounts over the allocated annual administrative and measurement & evaluation totals.

At the end of the Program Year 2016, the selfgenca.com website showed the following Admin/M&E balances for the respective PAs:

- PG&E - $18,787,102, or 7.5 times their current annual Admin/M&E budget
- SCE - $25,172,832, or 12.8 times their current annual Admin/M&E budget
- SCG - $5,511,329, or 9.8 times their current annual Admin/M&E budget
- CSE - $2,250,346, or 2.9 times their current annual Admin/M&E budget.

All of the PAs believe that the CPUC issued Decisions that authorized carryover of administrative and measurement and evaluation funds to 2020. Based on our reading and interpretation of the Decision 09-12-047 provided to us, we were not able to conclude that the CPUC authorized carryover of administrative and materials and evaluation funds. In addition, based on the administrative and materials & evaluations cumulative carryover balances as of the 2016 program year, the balances in the larger PAs suggest that allocations for administrative and materials & evaluation expenses can be suspended. See details of the observations and management comments from the SCG and CSE in the respective PA sections.

**3. Reporting to the CPUC:**

The PAs are not required to submit any formal financial reports to the CPUC. We believe that the PAs and the CPUC can agree on what reports should be required to improve communications and accountability.

**4. SGIP Website**

The Self-Generation Incentive Program (SGIP) website, www.selfgenca.com, is a great resource for applicants, companies in the SGIP industry, and the PAs. We believe that the website can be more user friendly and provide information to the public and the rate paying community on how the SGIP is helping and benefitting their community.

**5. SGIP Database Management and User Access**

The PAs do not have any administrative rights to add or delete staff in the SGIP database. We believe that it is important for a PA Program Manager to have the administrative rights to timely add or delete staff in the SGIP database.

# Results of Procedures and Recommendations

## *Pacific Gas & Electric Company*

The following is a summary of results and recommendations based on the examination procedures we performed at PG&E:

***TABLE 4 – TOTAL SGIP EXPENDITURES BY TYPE INCURRED: PG&E***

| Category | 2015 | 2016 |
|---|---|---|
| Administration | $1,720,843 | $1,906,701 |
| M&O | ----- | ----- |
| M&E | 801,314 | 650,793 |
| Incentives Paid | 29,708,327 | 29,352,968 |
| **Total Expenditures** | **$32,230,484** | **$31,910,462** |
| % of Administration, M&O, M&E to Total Expenditures | 7.8% | 8.0% |
| % of Incentive Payments to Total Expenditures | 92.2% | 92.0% |

Source: Pacific Gas & Electric

**General Observations**

**1. Expenditure testing:**

We noted no compliance issues or errors in our sample of 30 individual projects tested and other administration and Measurement & Evaluation items reviewed.

**2. Reporting to the CPUC:**

The PAs are not required to submit any formal reports to the CPUC. As such, MCG did not have documents to compare the results of expenditures reported to the CPUC. Although the PAs' budget allocations that the IOUs collect annually from the ratepayers are formalized, the CPUC does not receive any reports related to how detailed SGIP funds are spent by the PAs in a Program Year.

The Weekly 2001-2016 Budget Summaries, provided on the program's www.selfgenca.com website, report annual incentive and administrative expenditures, including authorized carryover from prior years and reallocated funds between years. Each PA tracks their own authorized but unspent Administrative funds, and each PA has a significant positive balance of these funds, but the year-to-year tracking of unexpended administrative budget is unclear in the public reporting

Our discussions with each PA determined that while there is no crossover between budget categories, it is unlikely that the program will need these funds for administration in future years. Each PA is responsible for their unspent administrative funds, including carryover to subsequent years. For instance, one PA plans to hold these funds toward the program's eventual sunset in 2020, where they could be used to address outstanding PBI payments. Further, the program's overall Weekly 2001-2016 Budget Summary at the end of Program Year 2016 showed a balance of $51,721,609 for Admin/M&E funds.

***Recommendation:***

The PAs and the CPUC should agree on the best method to improve communications related to budget information and detailed expenditure reporting. At a minimum, the PAs should report expenditures by Program Year to improve the accountability of SGIP funds expended.

***PG&E Management Comment:***

PG&E appreciates the feedback on this point, however to date this has not been an issue that has required CPUC and PA attention. Communications on budget information have been transparent, but PG&E welcomes any CPUC feedback on this point and are quite willing to take steps to address CPUC concerns. The current budget reports available on the Energy Solutions website capture all relevant budgetary activities per PA per CPUC guidance. Moving forward, if the CPUC has a desire for the PAs to report additional information or different information, the PAs can work to accommodate that.

**3. SGIP Website**

The Self-Generation Incentive Program (SGIP) website, www.selfgenca.com, provides a voluminous amount of information related to the SGIP. It is very useful for applicants, companies in the SGIP industry, and the PAs. When MCG consultants initially used the website, our first user experience resulted in our observations that the website did not provide information that was easily found. As we learned more about the SGIP terminology and industry, we found the website easier to navigate. At the end of the project, we observed that the website contains summary totals regarding the current balance of Renewable, Non-renewable, and Administrative and M&E funds but does not provide details of the summary totals.

In addition to the selfgenca.com website, each PA has developed its own website to provide more detailed and user-friendly data to its clients or interested parties.

***Recommendation:***

The PAs should consider consolidating their individual efforts to improve the selfgenca.com site to make it become the one website that any user can obtain all of the information necessary to obtain the necessary details regarding the SGIP.

***PG&E Management Comment:***

Each PA maintains its own SGIP website as a public service to its customers. The current selfgenca.com site, which is hosted by Energy Solutions and is the go-to site for applicants, developers and others seeking program information, is regularly updated and contains FAQs, forms and other relevant documents. It is PG&E's understanding that most customers do not access this site; instead the site is used by developers and applicants. PAs and Energy Solutions try to make the information user-friendly and are open to specific ideas to improve the site for better customer service. This can be an ongoing discussion at the quarterly PA forum.

**4. SGIP Database Management and User Access**

The PAs were requested to provide a list of all current and terminated/transferred PA staff that was employed in the SGIP department. The PA Program Managers are responsible to report to Energy Solutions when to add and remove PA staff access to the SGIP database. MCG could not independently verify when unauthorized users were removed from the online database.

***Recommendation:***

The PA Program Managers should have Administrative rights to the SGIP database to add or remove PA staff. The IOU industry is heavily regulated and it is important for PA's unauthorized users to be removed timely without having Energy Solutions make the changes.

***PG&E Management Comment:***

PAs have instituted a process with Energy Solutions to add or subtract users of the database. PG&E also has implemented internal processes to assure that only approved employees can access the database. With these controls, we are confident in the integrity of the system. If there are other controls that the CPUC or Energy Solutions would recommend that make sense, PG&E is open to instituting them.

# Results of Procedures and Recommendations

## *Southern California Edison Company*

The following is a summary of results and recommendations based on the examination procedures we performed at SCE:

***TABLE 5 – TOTAL SGIP EXPENDITURES BY TYPE INCURRED: SCE***

| Category | 2015 | 2016 |
|---|---|---|
| Administration | $916,219 | $1,014,627 |
| M&O | 9,430 | 3,421 |
| M&E | 424,466 | 618,915 |
| Incentives | 20,659,328 | 20,892,356 |
| **Total Expenditures** | **$22,009,443** | **$22,529,319** |
| % of Administration, M&O, M&E to Total Expenditures | 6.1% | 7.3% |
| % of Incentive Payments to Total Expenditures | 93.9% | 92.7% |

Source: Southern California Edison

**<u>General Observations</u>**

**1. Expenditure testing:**

We noted no compliance issues or errors in our sample of 30 individual projects tested, Administration and Measurement & Evaluation items reviewed.

**2. Reporting to the CPUC:**

The PAs are not required to submit any formal reports to the CPUC. As such, MCG did not have documents to compare the results of expenditures reported to the CPUC. Although the PAs budget allocations that the IOU's collect annually from the ratepayers are formalized, the CPUC does not receive any reports related to how detailed SGIP funds are spent by the PAs in a Program Year.

The Weekly 2001-2016 Budget Summaries, provided on the program's selfgenca.com website, report annual incentive and administrative expenditures, including authorized carryover from prior years and reallocated funds between years. Each PA tracks their own authorized but unspent Administrative funds, and each PA has a significant positive balance of these funds, but the year-to-year tracking of unexpended administrative budget is unclear in the public reporting. Our discussions with each PA determined that while there is no crossover between budget categories, it is unlikely that the program will need these funds for administration in future years. Each PA is responsible for their unspent administrative funds, including carryover to subsequent years. For instance, one PA plans to hold these funds toward the program's eventual sunset in 2020, where they could be used to address outstanding PBI payments. Further, the program's overall Weekly 2001-2016 Budget Summary as of 12/11/17 shows a current balance of $51,721,609 for Admin/M&E funds, the eventual disposition of which is unclear, as is the CPUC's ability to effectively manage such reserves without a formal budget.

***Recommendation:***

The PAs and the CPUC should agree on the best method to improve communications related to budget information and detailed expenditure reporting. At a minimum, the PAs should report expenditures by Program Year to improve the accountability of SGIP funds expended.

***SCE Management Comment:***

SCE concurs in the recommendation made by MCG. An annual report of costs submitted to the CPUC similar to what has been done on the CSI program would meet the intent of this recommendation.

**3. SGIP Website**

The Self-Generation Incentive Program (SGIP) website, www.selfgenca.com, provides a voluminous amount of information related to the SGIP. It is very useful for applicants, companies in the SGIP industry, and the PAs. When MCG consultants initially used the website, our first user experience resulted in our observations that the website did not provide information that was easily found. As we learned more about the SGIP terminology and industry, we found the website easier to navigate. At the end of the project, we observed that the website contains summary totals regarding the current balance of Renewable, Non-renewable, and Administrative and M&E funds but does not provide details of the summary totals.

In addition to the selfgenca.com website, each PA has developed its own website to provide more detailed and user-friendly data to its clients or interested parties.

***Recommendation:***

The PAs should consider consolidating their individual efforts to improve the selfgenca.com site to make it become the one website that any user can obtain all of the information necessary to obtain the necessary details regarding the SGIP.

***SCE Management Comment:***

SCE concurs that there are actions that the PAs can take to improve the selfgenca.com website. We would recommend including this topic as an agenda item in the PA Working Group meetings. Database changes that are agreed to would be implemented as a result of the PA discussions.

**4. SGIP Database Management and User Access**

The PAs were requested to provide a list of all current and terminated/transferred PA staff that was employed in the SGIP department. The PA Program Managers are responsible to report to Energy Solutions when to add and remove PA staff access to the SGIP database. MCG could not independently verify when unauthorized users were removed from the online database.

***Recommendation:***

The PA Program Managers should have Administrative rights to the SGIP database to add or remove PA staff. The IOU industry is heavily regulated and it is important for PA's unauthorized users to be removed timely without having Energy Solutions make the changes.

***SCE Management Comment:***

SCE concurs in this recommendation. We believe that the most effective way to implement this recommendation is to task Energy Solutions with setting up primary access to the PA Program Manager and a secondary representative, as a backup, to manage the access authorizations for the SGIP database. Under the direction of the Program Manager these designated PA employees would be able to add or remove access for any employee or contract employee of their respective companies. The PAs would then be charged with conducting monthly updates, which updates are tracked within the SGIP database.

# Results of Procedures and Recommendations

## *Southern California Gas Company*

The following is a summary of results and recommendations based on the examination procedures we performed at SCG:

*TABLE 6 – TOTAL SGIP EXPENDITURES BY TYPE INCURRED: SCG*

| Category | 2015 | 2016 |
|---|---|---|
| Administration | $234,394 | $292,583 |
| M&O | ----- | ----- |
| M&E | 284,754 | 536,887 |
| Incentives | 6,529,852 | 9,550,561 |
| **Total Expenditures** | **$7,049,000** | **$10,380,031** |
| % of Administration, M&O, M&E to Total Expenditures | 7.4% | 8.0% |
| % of Incentive Payments to Total Expenditures | 92.6% | 92.0% |

Source: Southern California Gas

**<u>General Observations</u>**

**1. Expenditure testing:**

We noted no compliance issues or errors in our sample of 10 individual projects tested, Administration and Measurement & Evaluation items reviewed.

**2. Administrative and M&E Expenditures:**

The SGIP Program requirements have changed over the years. MCG was requested to test Administration and M&E expenditures for Program Years 2015 and 2016 and compare these expenses to a budget. Based on comparing the expenditures paid in 2016, it was noted that SCG paid $829,470 in total for Administration and M&E expenditures while the authorized administrative budget allocation for collection from ratepayers was $560,000.

In our discussions with SCG we concluded that causes of this administrative cost overrun included SCG's responsibility for the program's contract with Itron.[3] SCG paid Itron's invoices on a monthly basis, but

[3] Itron is an Energy Consulting company that is contracted by the PAs to perform Measurement & Evaluation analysis of site and system equipment as required by the CPUC and PAs.

reimbursement for share-of-cost from other PAs was in some cases delayed for months. As the PA with the smallest budget for Admin/M&E, SCG was unable to absorb these delayed reimbursements without the appearance of a cost overrun. The overdue payments which caused SCG to exceed their 2016 budget for Administration and M&E were received in 2017. In addition, SCG maintains a balance of unspent Admin/M&E funds from prior years.

***Recommendation:***

In conjunction with the next observation, the PAs and the CPUC should agree on the best method to improve communications related to budget information and detailed expenditure reporting. At a minimum, the PAs should report expenditures by Program Year to improve the accountability of SGIP funds expended.

***SCG Management Comment:***

SoCalGas appreciates the opportunity to comment on the recommendations. Currently, the program does not have an annual administrative or incentive spending cap. Decision. 09-12-047 authorize PAs to use unspent funds from previous years as authorized carry-over. As such, an annual accounting system would or could limit proper administration of the program. Additionally, M&E costs are cyclical and are rarely settled during the same calendar year in which they were incurred.

***MCG's Response to SCG Management Comments:***

See MCG's written response listed under CSE's General Observation #2.

**3. Reporting to the CPUC:**

The PAs are not required to submit any formal reports to the CPUC. As such, MCG did not have documents to compare the results of expenditures reported to the CPUC. Although the PAs budget allocations that the IOU's collect annually from the ratepayers are formalized, the CPUC does not receive any reports related to how detailed SGIP funds are spent by the PAs in a Program Year.

The Weekly 2001-2016 Budget Summaries, provided on the program's selfgenca.com website, report annual incentive and administrative expenditures, including authorized carryover from prior years and reallocated funds between years. Each PA tracks their own authorized but unspent Administrative funds, and each PA has a significant positive balance of these funds, but the year-to-year tracking of unexpended administrative budget is unclear in the public reporting. Our discussions with each PA determined that while there is no crossover between budget categories, it is unlikely that the program will need these funds for administration in future years. Each PA is responsible for their unspent administrative funds, including carryover to subsequent years. For instance, one PA plans to hold these funds toward the program's eventual sunset in 2020, where they could be used to address outstanding PBI payments. Further, the program's overall Weekly 2001-2016 Budget Summary as of 12/11/17 shows a current balance of $51,721,609 for Admin/M&E funds, the eventual disposition of which is unclear, as is the CPUC's ability to effectively manage such reserves without a formal budget.

***Recommendation:***

The PAs and the CPUC should agree on the best method to improve communications related to budget information and detailed expenditure reporting. At a minimum, the PAs should report expenditures by Program Year to improve the accountability of SGIP funds expended.

***SCG Management Comment:***

The recommendation to report detailed expenditures on annual basis is potentially unnecessary. Per D.16-06-055, the fiscal audits aim to inform the CPUC of all detailed expenditures. SoCalGas believes this is the appropriate methodology by which to inform the CPUC about detailed expenses. Carry-over funding provides flexibility for the PAs to manage M&E and other cyclical expenditures. Similarly, the unspent administrative funding for SoCalGas has been earmarked for post 2019 administrative costs. Potentially, five (5) or more years after program sunset will require administration of Performance Based Incentive payments, M&E costs, and other project management expenditures.

**4. SGIP Website**

The Self-Generation Incentive Program (SGIP) website, www.selfgenca.com, provides a voluminous amount of information related to the SGIP. It is very useful for applicants, companies in the SGIP industry, and the PAs. When MCG consultants initially used the website, our first user experience resulted in our observations that the website did not provide information that was easily found. As we learned more about the SGIP terminology and industry, we found the website easier to navigate. At the end of the project, we observed that the website contains summary totals regarding the current balance of Renewable, Non-renewable, and Administrative and M&E funds but does not provide details of the summary totals.

In addition to the selfgenca.com website, each PA has developed its own website to provide more detailed and user-friendly data to its clients or interested parties.

***Recommendation:***

The PAs should consider consolidating their individual efforts to improve the selfgenca.com site to make it become the one website that any user can obtain all of the information necessary to obtain the necessary details regarding the SGIP.

***SCG Management Comment:***

SoCalGas agrees with this recommendation. The SGIP PAs along with Energy Division have been working to enhance the selfgenca.com website so that it provides comprehensive program statistics and information. However, due to the numerous program changes over the last few years, this enhancement has been deprioritized. Additionally, the cost for enhancements may be inappropriate due to the program expected sunset.

**5. SGIP Database Management and User Access**

The PAs were requested to provide a list of all current and terminated/transferred PA staff that was employed in the SGIP department. The PA Program Managers are responsible to report to Energy Solutions when to add and remove PA staff access to the SGIP database. MCG could not independently verify when unauthorized users were removed from the online database.

***Recommendation:***

The PA Program Managers should have Administrative rights to the SGIP database to add or remove PA staff. The IOU industry is heavily regulated and it is important for PA's unauthorized users to be removed timely without having Energy Solutions make the changes.

***SCG Management Comment:***

SoCalGas agrees with this recommendation.

# Results of Procedures and Recommendations

## *Center for Sustainable Energy*

The following is a summary of results and recommendations based on the examination procedures performed at CSE and SDG&E:

***TABLE 7 – TOTAL SGIP EXPENDITURES BY TYPE INCURRED: CSE***

| Category | 2015 | 2016 |
|---|---|---|
| Administration | $1,146,269 | $878,399 |
| M&O | 133,083 | 27,711 |
| M&E | 161,469 | 298,836 |
| Incentives | 5,314,224 | 13,984,516 |
| **Total Expenditures** | **$6,755,045** | **$15,189,462** |
| % of Administration, M&O, M&E to Total Expenditures | 21.3% | 7.9% |
| % of Incentive Payments to Total Expenditures | 78.7% | 92.1% |

Source: Center for Sustainable Energy

**General Observations**

**1. Expenditure testing:**

We noted no compliance issues or errors in our sample of 30 individual projects tested, Administration and Measurement & Evaluation items reviewed.

**2. Administrative and M&E Expenditures:**

The SGIP Program requirements have changed over the years. MCG was requested to test Administration and M&E expenditures for Program Years 2015 and 2016 and compare these expenses to a budget. Based on comparing the expenditures paid in 2015 and 2016, it was noted that CSE paid $1,440,821 and $1,204,946, respectively, in total for Administration and M&E expenditures while the authorized budget allocation for collection from ratepayers was $770,000 for both Program Years. In addition, for Program Year 2015, we noted that total Administration and M&E expenditures were 21.33% of the total expenditures which were a much higher percentage compared to the other PAs. Note that Incentive Payments for projects vary from year to year and is dependent on available budgets, rate of subscription, rated capacity of projects submitted for approval, and timeline for completing the installation..

CSE directed MCG to review D.09-12-047 for the CPUC's mandate on the utilization of carryover funds. In D.09-12-047, the CPUC stated "We will adopt the proposal from the (Administrative Law Judge, or

ALJ) ruling that the PAs may reserve and spend the Total Authorized Carryover from prior years authorized budgets until January 1, 2016." Another ALJ recommendation highlighted in this decision stated "Any funds that are collected and unallocated on January 1, 2016 shall be returned to ratepayers." One PA has suggested that this 2009 decision regarding carryover funds was extended when the SGIP's sunset date was extended from January 1, 2016, to January 1, 2021. As of this report MCG has not received documentation supporting the extension of the decision to allow administrative funds to be carried over, or reallocated, to a future year.

***Recommendation:***

Based on the reading and interpretation of D.09-12-047, it appears that the CPUC decided in this decision that carryover funds can be spent until January 1, 2016. In reviewing the SGIP online database, as of the date of this report, carryover funds were not returned to ratepayers. If the CPUC has not updated D.09-12-047 to continue authorizing the use of carryover funds, the PA and CPUC should agree how to resolve this difference and decide on to determine how much should be expended on Administration and M&E in any given Program Year.

***CSE Management Comment:***

The CPUC has updated D.09-12-047 to continue authorizing the use of carryover funds. Subsequent to D.09-12-047, carryover funds were addressed in D.11-12-030, which adopted the SGIP annual budget for 2012, 2013, and 2014: "Other than this one minor clarification regarding confirmed reservations and the collection of carryover funding, this decision does not alter any other SGIP provisions adopted in D.09-12-047 regarding SGIP accounting, collection of authorized carryover funding, reporting and return of funds collected and unallocated as of January 1, 2016. *The SGIP administrators should continue to adhere to the program guidelines set forth in D.09-12-047*." (page 5, Emphasis added)

Then in D.14-12-033: "Pursuant to Public Utilities Code Section 379.6, this decision authorizes Pacific Gas and Electric Company, Southern California Edison Company (SCE), San Diego Gas & Electric Company, and Southern California Gas Company to continue to collect amounts through rates necessary to fund the Self-Generation Incentive Program (SGIP) at an annual budget of $83 million annually for years 2015 through 2019. *SGIP will operate under the existing rules until the California Public Utilities Commission implements the directives in Senate Bill (SB) 861 (Budget Act of 2014, Stats. 2014, ch. 35) to modify SGIP*. Funding for SGIP will continue to be collected by the IOUs at the current allocations as set forth in Decision (D.) 06-12-033 and D.06-01-024. We will address the modifications to SGIP, required by SB 861, in a separate decision."

Further, D.16-06-055 revised the SGIP pursuant to SB 861 and AB 1478 and implemented other changes, including requiring that SGIP be administered on a continuous basis with incentive levels declining based on the capacity reserved in the program, similar to the California Solar Initiative. It follows that if the PAs are administering on a continuous basis, rather than annually, then carryover would have to be allowed.

***MCG's Response to CSE Management Comment:***

MCG read the referenced Decisions that CSE has listed in their comments. However, it is unclear from our reading and interpretation of the above referenced Decisions that Administration costs were clearly approved to be carried over beyond January 1, 2016. The 2016 CPUC SGIP Handbook Section 1.1 references carryovers of Incentive payments, but it does not clearly specify Administration costs to be carried over. As of the date of this report, the selfgenca.com website lists the total Administration carryover balance for all of the PAs at $51,721,609. In spite of this large carryover balance, the IOU's continue to collect annual allocations for Administration costs. The CPUC and PAs should agree on how to address the large carryover balance.

***Recommendation:***

MCG believes that it is important for the CPUC and the PAs to obtain and receive clear communications related to the SGIP. We believe that it will serve the CPUC and the PAs well to determine whether the carryover balance for Administration costs be returned in total or partially to ratepayers or to suspend collection of annual allocations for a reasonable period to minimize the large carryover balance.

**3. Reporting to the CPUC:**

The PAs are not required to submit any formal reports to the CPUC. As such, MCG did not have documents to compare the results of expenditures reported to the CPUC. Although the PAs budget allocations that the IOU's collect annually from the ratepayers are formalized, the CPUC does not receive any reports related to how detailed SGIP funds are spent by the PAs in a Program Year.

The Weekly 2001-2016 Budget Summaries, provided on the program's selfgenca.com website, report annual incentive and administrative expenditures, including authorized carryover from prior years and reallocated funds between years. Each PA tracks their own authorized but unspent Administrative funds, and each PA has a significant positive balance of these funds, but the year-to-year tracking of unexpended administrative budget is unclear in the public reporting. Our discussions with each PA determined that while there is no crossover between budget categories, it is unlikely that the program will need these funds for administration in future years. Each PA is responsible for their unspent administrative funds, including carryover to subsequent years. For instance, one PA plans to hold these funds toward the program's eventual sunset in 2020, where they could be used to address outstanding PBI payments. Further, the program's overall Weekly 2001-2016 Budget Summary as of 12/11/17 shows a current balance of $51,721,609 for Admin/M&E funds, the eventual disposition of which is unclear, as is the CPUC's ability to effectively manage such reserves without a formal budget.

***Recommendation:***

The PAs and the CPUC should agree on the best method to improve communications related to budget information and detailed expenditure reporting. At a minimum, the PAs should report expenditures by Program Year to improve the accountability of SGIP funds expended.

***CSE Management Comment:***

CSE agrees with this recommendation. CSE suggests following a protocol similar to the California Solar Initiative's model for reporting, whereby semi-annual reports are submitted to the CPUC that outline detailed expenditures by category and program year. Additionally, reports could include narrative relating to major programmatic updates, and administration efforts, accomplishments, deliverables and outcomes associated with each reporting period.

#### 4. SGIP Website

The Self-Generation Incentive Program (SGIP) website, www.selfgenca.com, provides a voluminous amount of information related to the SGIP. It is very useful for applicants, companies in the SGIP industry, and the PAs. When MCG consultants initially used the website, our first user experience resulted in our observations that the website did not provide information that was easily found. As we learned more about the SGIP terminology and industry, we found the website easier to navigate. At the end of the project, we observed that the website contains summary totals regarding the current balance of Renewable, Non-renewable, and Administrative and M&E funds but does not provide details of the summary totals.

In addition to the selfgenca.com website, each PA has developed its own website to provide more detailed and user-friendly data to its clients or interested parties.

***Recommendation:***

The PAs should consider consolidating their individual efforts to improve the selfgenca.com site to make it become the one website that any user can obtain all of the information necessary to obtain the necessary details regarding the SGIP.

***CSE Management Comment:***

CSE agrees that the SGIP website, www.selfgenca.com, can be improved to provide a better user experience. Efforts are currently underway to revise the "Resources" page for better organization and readability, and the PAs welcome additional feedback regarding website improvements.

However, CSE notes that there are benefits associated with continuing to provide SGIP information and resources on CSE's company website, www.energycenter.org/sgip. Housing SGIP information on CSE's website reaches a larger audience, allows for the creation of customizable content specifically for CSE/SDG&E participants, and allows information to be displayed and updated in timely and cost-effective manner.

#### 5. SGIP Database Management and User Access

The PAs were requested to provide a list of all current and terminated/transferred PA staff that was employed in the SGIP department. The PA Program Managers are responsible to report to Energy Solutions when to add and remove PA staff access to the SGIP database. MCG could not independently verify when unauthorized users were removed from the online database.

***Recommendation:***

The PA Program Managers should have Administrative rights to the SGIP database to add or remove PA staff. The IOU industry is heavily regulated and it is important for PA's unauthorized users to be removed timely without having Energy Solutions make the changes.

***CSE Management Comment:***

CSE agrees with this recommendation. Allowing the PA Program Managers to directly add or remove staff accounts will provide PAs with greater control and visibility over user access to confidential information within the SGIP database.