State of California

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 San Diego Gas and Electric Company's (SDG&E's) Energy Efficiency (EE) Program For the Period January 1, 2015 through December 31, 2015**

The Utility Audit, Finance and Compliance Branch (UAFCB) examined San Diego Gas and Electric Company's (SDG&E's) financial, management, regulatory, and compliance areas of the Energy Efficiency (EE) program for program year (PY) 2015. Except for matters discussed in Observations (Obs.) 6, 10, 14, 17, 21, 24, 27, and 30 below, SDG&E demonstrated compliance with Commission directives respecting the areas examined. However, UAFCB found that SDG&E overstated its 2015 recorded expenditures used for calculating the Management Fee Incentive awards for Codes & Standards (C&S) and Non-Resource (NR) Programs by a total of $423,544 ($150,047 and $273,497, respectively) as indicated in Obs. 14 and 17. In addition, SDG&E also overstated the expenditures used for calculating its 2015 Resource Programs Savings Incentives by a total of $1,247,189 ($644,906, $371,212, $176,351, and $54,720, respectively) as specified in Obs. 21, 24, 27, and 30. The Energy Division (ED) should not include $1,670,733 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 –

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[1] In D.13-09-023, on pages 78 and 82, the Commission discussed that it anticipates relying on public versions of UAFCB's examination reports when determining the amount of each utility's incentives. In Ordering Paragraph (OP) 17, the Commission ordered that "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.

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; and (12) Follow-up on Prior UAFCB's Observations and Recommendations and SDG&E's Internal Audit (IA) Recommendations.

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

A. Summary of Examination, Observations, and Recommendations

The following is a 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: SDG&E 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 $110,561,455.[3] A reconciliation of this amount reported in the California Energy Efficiency Statistics (EEStats)[4] web portal, including the Annual Report (Table 3), Quarterly reports and Monthly reports, to SDG&E's accounting records disclosed no material exceptions.

Recommendation: None.

Observation 2: SDG&E'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. SDG&E 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 email or approval by telephone.

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

Observation 3: SDG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the total reported EE Program IOU administrative costs for the 2013-2015 program cycle. SDG&E's total administrative expenditures recorded and reported amounted to

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[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 SDG&E's total EE Program portfolio costs in PY 2015.
[4] The California Energy Efficiency Statistics (EEStats) is a repository of utility-submitted reports to the Commission.

$23,867,187. A reconciliation of this amount reported in EEStats, including the Annual Report (Table 3) and Quarterly reports, to SDG&E's accounting records disclosed no material exceptions.

Recommendation: None.

Observation 4: SDG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 IOU administrative amounts sampled for verification. UAFCB verified $153,803 expended as administrative costs in PY 2015 and found no material exceptions.

Recommendation: None.

Observation 5: SDG&E's internal policy and procedures for the tracking and recording of EE Program IOU administrative costs were adequately designed to meet Commission directives. SDG&E was in compliance with its internal Customer Programs & Projects Operations Handbook, version 3.1.

Recommendation: None.

Observation 6: SDG&E'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 program cycle could not be ascertained in this examination due to unspecified inputs for the calculation by the Commission. SDG&E reported its administrative cost cap at 9.9% for the 2013-2015 EE program cycle because it included in the denominator of the calculation the EM&V, Statewide ME&O and On-Bill Financing (OBF) Loan Pool budget amounts. UAFCB's determination of SDG&E's cost cap for the same period disclosed more than 10% because it excluded these budget amounts. UAFCB's calculations produced 10.6% cost cap based on SDG&E's total EE program budget for the 2013-2015 EE program cycle and 12.4% based on SDG&E'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: SDG&E 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 $1,814,502. A reconciliation of this amount reported in EEStats, including the Annual Report (Table 3) and Quarterly reports, to SDG&E's accounting records disclosed no material exceptions.

Recommendation: None.

Observation 8: SDG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 Non-IOU administrative amounts sampled for verification.

UAFCB verified $114,655 expended as Non-IOU administrative costs and found no material exceptions.

Recommendation: None.

Observation 9: SDG&E'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. SDG&E was in compliance with its internal Customer Programs & Projects Operations Handbook, version 3.1.

Recommendation: None.

Observation 10: SDG&E demonstrated compliance with Commission D.09-09-047 and other applicable Commission directives respecting the 10% Non-IOU administrative cost target for the 2013-2015 program cycle. SDG&E reported a Non-IOU administrative cost target of 0.1%. UAFCB's calculation produced an administrative cost target of 1.9% based on SDG&E's combined TP and LGP Non-IOU administrative operating expenses for the same period. SDG&E and UAFCB differ in their calculation as explained in Appendix A.

Recommendation: The Commission should clarify which method is appropriate.

2013-2015 Amount Spent, Committed and Unspent/Uncommitted

Observation 11: SDG&E 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 $267,099,766, $20,409,576, and $34,175,121, respectively. A reconciliation of these amounts reported in EEStats to SDG&E's accounting records for the 2013-2015 program cycle disclosed no material exceptions.[5]

Recommendation: None.

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

Recommendation: None.

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

Observation 13: Except for Observation 14 below, SDG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported C&S program costs in PY 2015. The

[5] Refer to Appendix B, Table B-1 for a detailed presentation of SDG&E's authorized budget, amount spent, amount committed, and amount unspent/uncommitted for the 2013-2015 program cycle.

$892,373 reported in the December 2015 year-to-date Monthly EEStats report and in Advice Letter (AL) 2950-E/2511-G reconciled to SDG&E's accounting records.[6]

Recommendation: None.

Observation 14: SDG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SDG&E's established accrual policy and procedures. SDG&E incorrectly included $150,047 in 2015 PY expenditures belonging to 2014 PY. The amount was charged to the Direct Implementation cost category.

Recommendation: SDG&E has since filed AL 2950-E/2511-G to claim its Management Fee incentive award for PY 2015. The Commission's ED should deduct $150,047 from the 2015 C&S expenditures when SDG&E's 2015 ex-post Energy Savings and Performance Incentive (ESPI) true-up Advice Letter (AL) is processed.

Observation 15: SDG&E's internal policy and procedures for implementing the C&S Program were adequately designed to meet Commission directives in PY 2015. SDG&E was in compliance with its internal Customer Programs & Projects Operations Handbook, v.3.1.

Recommendation: None.

<u>Non-Resource (NR) Program and Subprograms - 2015</u>

Observation 16: Except for Observation 17 below, SDG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported NR Program costs in PY 2015. The $14,369,250 reported in the December 2015 year-to-date Monthly EEStats report and in AL 2950-E/2511-G reconciled to SDG&E's accounting records.[7]

Recommendation: None.

Observation 17: SDG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SDG&E's established accrual policy and procedures. SDG&E incorrectly included $273,497 in 2015 PY expenditures belonging to 2014 PY. The amount was charged to the Direct Implementation cost category.

Recommendation: SDG&E has since filed AL 2950-E/2511-G to claim the NR Programs Management Fee incentive award for PY 2015. The Commission's ED should deduct $273,497 from the 2015 NR Program expenditures when SDG&E's 2015 ex-post ESPI true-up AL is processed.

Observation 18: SDG&E's internal policy and procedures for implementing the NR Program were adequately designed to meet Commission directives in PY 2015. SDG&E was in compliance with its internal Customer Programs & Projects Operations Handbook, v.3.1.

Recommendation: None.

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[6] Refer to Appendix B, Table B-5 for a detailed breakdown of SDG&E's C&S program expenditures in PY 2015.
[7] Refer to Appendix B, Table B-6 for a detailed breakdown of SDG&E's NR Program costs in PY 2015.

Observation 19: The criteria used by SDG&E for designating EE programs as Resource and Non-Resource were in compliance with the Commission's directives. SDG&E applied the definition contained in the EE Policy Manual (R.09-11-014), Version 5, dated 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: Except for Observation 21 below, SDG&E 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 $5,802,202. A reconciliation of this amount reported in EEStats, including the 2015 year-to-date Monthly report and Quarterly reports, to SDG&E's accounting records disclosed no material exceptions.[8]

Recommendation: None.

Observation 21: SDG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SDG&E's established accrual policy and procedures. SDG&E incorrectly included a total of $644,906 in 2015 PY expenditures that should have been recorded to 2014 PY. The amount was charged to the Direct Implementation cost category.

Recommendation: SDG&E has since filed AL 2950-E/2511-G to claim its Resource Programs Savings Incentive award for PY 2015. The Commission's ED should deduct $644,906 from the 2015 EUC Home Upgrade program expenditures when SDG&E's 2015 ex-post ESPI true-up AL is processed. In addition, UAFCB recommends that SDG&E develop an incentive accrual policy and procedures manual for its EUC Home Upgrade Program.

Observation 22: Except for Observation 21 above, SDG&E's internal policy and procedures for implementing the EUC Home Upgrade Program were sufficiently designed to meet Commission directives in PY 2015. SDG&E was in compliance with its internal Customer Programs & Projects Operations Handbook, v.3.1.

Recommendation: None.

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

Observation 23: Except for Observation 24 below, SDG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported CDIR Program costs in PY 2015. The total recorded and reported amounted to $15,655,528. A reconciliation of this amount reported in EEStats, including the December 2015 year-to-date Monthly Report and Quarterly reports, to SDG&E's accounting records disclosed no material exceptions.[9]

Recommendation: None.

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[8] Refer to Appendix B, Table B-7 for a detailed breakdown of SDG&E's EUC Home Upgrade Program costs in PY 2015.
[9] Refer to Appendix B, Table B-8 for a detailed breakdown of SDG&E's CDIR program costs in PY 2015.

Observation 24: SDG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SDG&E's established accrual policy and procedures. SDG&E incorrectly included $371,212 in 2015 PY expenditures that should have been recorded to 2014 PY. The amount was charged to the Direct Implementation cost category.

Recommendation: SDG&E has since filed AL 2950-E/2511-G to claim its Resource Programs Savings Incentives award for PY 2015. The Commission's ED should deduct $371,212 from the 2015 CDIR program expenditures when SDG&E's 2015 ex-post ESPI true-up AL is processed.

Observation 25: SDG&E's internal policy and procedures for implementing the CDIR Program were sufficiently designed to meet Commission directives in PY 2015. SDG&E was in compliance with its internal 2013-2015 Statewide Customized Retrofit Offering Procedures Manual for Business, v.8.01.

Recommendation: None.

Industrial EE Program and Subprograms - 2015

Observation 26: Except for Observation 27 below, SDG&E 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 $2,227,455. A reconciliation of this amount reported in EEStats, including the December 2015 year-to-date Monthly report and Quarterly reports, to SDG&E's accounting records disclosed no material exceptions.[10]

Recommendation: None.

Observation 27: SDG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SDG&E's established accrual policy and procedures. SDG&E incorrectly included $176,351 in expenditures not belonging to 2015 PY. The amount was charged to the Direct Implementation cost category.

Recommendation: SDG&E has since filed AL 2950-E/2511-G to claim its Resource Programs Savings Incentive award for PY 2015. The Commission's ED should deduct $176,351 from the 2015 Industrial EE Program expenditures when SDG&E's 2015 ex-post ESPI true-up AL is processed. In addition, SDG&E should continue to monitor and strengthen the oversight of its accounting accrual procedures to ensure that each expense item having a value of $10,000 or more is properly accrued.

Observation 28: SDG&E's internal policy and procedures for implementing the Industrial EE Program were adequately designed to meet Commission directives in PY 2015. SDG&E was in compliance with its internal 2013-2015 Statewide Customized Retrofit Offering Procedures Manual for Business.

Recommendation: None.

[10] Refer to Appendix B, Table B-9 for a detailed breakdown of SDG&E's Industrial EE Program costs in PY 2015.

Agricultural EE Program and Subprograms - 2015

Observation 29: Except for Observation 30 below, SDG&E 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 $665,421. A reconciliation of this amount reported in EEStats, including the December 2015 year-to-date Monthly report and Quarterly reports, to SDG&E's accounting records disclosed no material exceptions.[11]

Recommendation: None.

Observation 30: SDG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SDG&E's established accrual policy and procedures. SDG&E incorrectly included $54,720 in 2015 PY expenditures that should have been recorded in 2014 PY. The amount was charged to the Direct Implementation cost category.

Recommendation: SDG&E has since filed AL 2950-E/2511-G to claim its Resource Programs Savings Incentive award for PY 2015. The Commission's ED should deduct $54,720 from the 2015 Agricultural EE Program expenditures when SDG&E's ex-post ESPI true-up AL is processed. In addition, SDG&E should continue to monitor and strengthen the oversight of its accounting accrual procedures to ensure that each expense item having a value of $10,000 or more is properly accrued.

Observation 31: SDG&E's internal policy and procedures for implementing the Agricultural EE Program were adequately designed to meet Commission directives in PY 2015. SDG&E was in compliance with its internal 2013-2015 Statewide Customized Retrofit Offering Procedures Manual for Business.

Recommendation: None.

Local Government Partnership (LGP) Program and Subprograms - 2015

Observation 32: SDG&E 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 $6,412,344. A reconciliation of this amount reported in EEStats, including the December 2015 year-to-date Monthly report and Quarterly reports, to SDG&E's accounting records disclosed no material exceptions.[12]

Recommendation: None.

Observation 33: SDG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 LGP cost amounts sampled for verification. UAFCB verified $2,962,624 expended on the LGP Program and found no material exceptions.

Recommendation: None.

[11] Refer to Appendix B, Table B-10 for a detailed breakdown of SDG&E's Agricultural EE Program costs in PY 2015.
[12] Refer to Appendix B, Table B-11 for a detailed breakdown of SDG&E's LGP Program costs in PY 2015.

Observation 34: SDG&E's internal policy and procedures for implementing the LGP Program were adequately designed to meet Commission directives in PY 2015. SDG&E was in compliance with the applicable provisions of D.14-10-046 and the Energy Efficiency Policy Manual, v.5, dated July 2013 for the LGP Program.

Recommendation: None.

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

Observation 35: SDG&E 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: SDG&E identified internal audit report #16-215 – Energy Efficiency Direct Install (DI) Program that related to EE program activities for the PY 2015 examination period. In this internal audit report dated August 29, 2016, SDG&E's Audit Services (AS) conducted a review of the adequacy and effectiveness of business controls related to the third-party managed DI Program for the period January 1, 2015 through May 31, 2016.

Recommendation: SDG&E management addressed and corrected the issues raised by AS in internal audit report #16-215 by or before February 1, 2017.

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

On June 19, 2017, UAFCB provided a draft of its analysis, observations and recommendations to both SDG&E and the Commission's Energy Division (ED) for comment. SDG&E and ED provided their comments to UAFCB's draft on July 5, 2017 and July 10, 2017, respectively. UAFCB summarized SDG&E'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 SDG&E's and ED's comments. SDG&E's response in its entirety is provided in Appendix C.

C. Conclusion

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

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

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

cc: Maryam Ebke, CPUC, Deputy Executive Director
Pete Skala, CPUC, Energy Division, Deputy Director
Robert Strauss, CPUC, Energy Division
Barbara Owens, Executive Division
Kevin Nakamura, UAFCB
Bridget Sieren-Smith, Energy division

Appendix A
Analysis and Findings

A.1 Introduction

The Utility Audit, Finance and Compliance Branch (UAFCB) examined San Diego Gas and Electric Company's (SDG&E's) financial, management, regulatory, and compliance areas of Energy Efficiency Programs for program year (PY) 2015. Except for Observations (Obs.) 6, 14, 17, 21, 24, 27, and 30 below, SDG&E 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) 2013-2015Amounts 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 SDG&E's Internal Audit Recommendations

On June 19, 2017, UAFCB provided a draft of its analysis, observations, and recommendations to both SDG&E and the Commission's Energy Division (ED) for comment. SDG&E and ED provided their comments to UAFCB's draft on July 5, 2017 and July 10, 2017, respectively. UAFCB summarized SDG&E'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 SDG&E's and ED's comments. SDG&E's response in its entirety is provided in Appendix C.

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

Observation 1: SDG&E 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 $110,561,455.[2] A reconciliation of this amount reported in the California Energy Efficiency Statistics (EEStats)[3] web portal, including the Annual Report (Table 3), Quarterly

[1] All statutory references are to the Public Utilities Code unless stated otherwise.
[2] Refer to Appendix B, Table B-2 for a detailed breakdown of SDG&E's EE portfolio program costs in PY 2015.
[3] The California Energy Efficiency Statistics (EEStats) is a repository of utility-submitted reports to the Commission.

reports and Monthly reports, to SDG&E'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 $110,561,455 reconciled to SDG&E's accounting records.
>
> **Recommendation**: None.

Observation 2: SDG&E'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. SDG&E 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 the examination period, UAFCB was unable to validate the timeliness of SDG&E'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 SDG&E 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 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.

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

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

Observation 3: SDG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the total reported EE Program IOU administrative costs for the 2013-2015 program cycle. SDG&E's total administrative expenditures recorded and reported amounted to $23,867,187. A reconciliation of this amount reported in EEStats, including the Annual Report (Table 3) and Quarterly reports, to SDG&E'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 $23,867,187 reconciled to SDG&E's accounting records. The breakdown is as follows:

Program Year	Amount
2013	$ 6,946,837
2014	7,794,592
2015	9,125,758
Total	**$23,867,187**

Recommendation: None.

Observation 4: SDG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 IOU administrative amounts sampled for verification. UAFCB verified $153,803 expended as administrative costs in PY 2015 and found no material exceptions.

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

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

Recommendation: None.

Observation 5: SDG&E's internal policy and procedures for the tracking and recording of EE Program IOU administrative costs were adequately designed to meet Commission directives. SDG&E was in compliance with its internal Customer Programs & Projects Operations Handbook, version 3.1.

Criteria: Did SDG&E's internal Customer Programs & Projects Operations Handbook, version 3.1 specify policy and procedures for the proper recording of administrative costs in compliance with Commission directives?

[5] Refer to Appendix B, Table B-3 for UAFCB's verified total EE program administrative costs for the 2013-2015 program cycle.

Condition: SDG&E's internal Customer Programs & Projects Operations Handbook, version 3.1, appeared adequate for accounting and reporting of SDG&E's administrative costs in accordance with Commission directives.

Recommendation: None.

Observation 6: SDG&E'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 program cycle could not be ascertained in this examination due to unspecified inputs for the calculation by the Commission. SDG&E reported its administrative cost cap at 9.9% for the 2013-2015 EE program cycle because it included in the denominator of the calculation the EM&V, Statewide ME&O and On-Bill Financing (OBF) Loan Pool budget amounts. UAFCB's determination of SDG&E's cost cap for the same period disclosed more than 10% because it excluded these budget amounts. UAFCB's calculations produced 10.6% cost cap based on SDG&E's total EE program budget for the 2013-2015 EE program cycle and 12.4% based on SDG&E'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: SDG&E calculated the 10% administrative cost cap at 9.9% for the 2013-2015 program cycle. SDG&E used the following for its calculation:

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

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

<u>UAFCB Budget Methodology</u> - Under this methodology, SDG&E's administrative cost cap amount equates to 10.6% of the total EE portfolio budget for the 2013-2015 program cycle. UAFCB's budget methodology is provided below.

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

[6] Total EE Portfolio Budget amount includes General Rate Case (GRC) labor loaders, Statewide ME&O, EM&V and On-Bill Financing (OBF) Loan Pool.
[7] Total EE Portfolio Budget amount excludes Statewide ME&O, EM&V and On-Bill Financing (OBF) Loan Pool.

UAFCB Cost Methodology - Under this methodology, SDG&E's administrative cost cap amount equates to 12.4% of the total EE portfolio operating costs for the 2013-2015 program cycle. UAFCB's cost methodology is provided below.

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

Cause: The Commission's EE program decisions and the EE Policy Manual do not provide explicit and clear instructions on how to calculate the 10% 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.

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

SDG&E Comments: SDG&E agrees with UAFCB's recommendation that the Commission clarify how the administrative cost cap should be calculated and reported. However, SDG&E disagrees with the UAFCB that its IOU administrative costs exceeded the 10% cost cap. SDG&E asserts that is 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.

SDG&E 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.

SDG&E 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.

SDG&E also declares that, assuming UAFCB's "Budget Methodology" is correct, its administrative cost cap would be 6.6% and not 10.6% since the UAFCB's calculation failed to include the correct inputs. Specifically, SDG&E asserts that UAFCB's "Budget Methodology" calculation used the incorrect approved forecasted budget amounts and improperly excluded other approved budget components (i.e., EM&V and OBF Loan Pool).

Furthermore, SDG&E asserts that its administrative cost cap would be 8.4% and not 12.4% if applying UAFCB's calculation based actual expenditures (Cost Methodology). Under this methodology, SDG&E asserts that the difference is due to UAFCB improperly excluding costs for the OBF Loan Pool, EM&V, Statewide ME&O, and Marketing and Direct Implementation Benefit Burdens.

In conclusion, SDG&E asserts that UAFCB's recommendation to refund ratepayers the administrative expenses in excess of the 10% cap is unfounded and inappropriate. SDG&E 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. SDG&E contends that it has been managing its administrative cost cap in good faith and to retroactively apply UAFCB's recommendation would unfairly deprive SDG&E 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 agrees with SDG&E that the Commission clarify how the administrative cost cap should be calculated and reported. However, UAFCB disagrees with SDG&E'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: SDG&E 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 $1,814,502. A reconciliation of this amount reported in EEStats, including the Annual Report (Table 3) and Quarterly reports, to SDG&E's accounting records disclosed no material exceptions.[8]

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

[8] Refer to Appendix B, Table B-4 for a detailed breakdown of SDG&E's Non-IOU administrative costs for the 2013-2015 program cycle.

Condition: The $1,814,502 reconciled to SDG&E's accounting records. The breakdown is as follows:

Year	Amount
2013	$ 804,538
2014	160,940
2015	849,024
Total	**$1,814,502**

Recommendation: None.

Observation 8: SDG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 Non-IOU administrative amounts sampled for verification. UAFCB verified $114,655 expended as Non-IOU administrative costs 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 9: SDG&E's internal policy and procedures for the tracking and recording of EE Program Non-IOU administrative costs were adequately designed to meet Commission directives. SDG&E was in compliance with its internal Customer Programs & Projects Operations Handbook, version 3.1.

Criteria: Did SDG&E's internal Customer Programs & Projects Operations Handbook, version 3.1 specify policy and procedures for the proper recording of Non-IOU administrative costs in compliance with Commission directives?

Condition: SDG&E's internal Customer Programs & Projects Operations Handbook, version 3.1, appeared adequate for accounting and reporting of Non-IOU administrative costs in accordance with Commission directives.

Recommendation: None.

Observation 10: SDG&E demonstrated compliance with Commission D.09-09-047 and other applicable Commission directives respecting the 10% Non-IOU administrative cost target for the 2013-2015 program cycle. SDG&E reported an administrative cost target of 0.1%. UAFCB's calculation produced an administrative cost target of 1.9% based on SDG&E'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: SDG&E determined its compliance with the 10% administrative cost target based on the following calculation:

$$10\%\ Non-IOU\ Cost\ Target = \frac{\text{TP \&}\ LGP\ Administrative\ Expenditures\ \text{(excluding IOU + target exempt)}}{\text{2013} - \text{2015 TP \&}\ LGP\ Budgets}$$

PG&E's calculation came to 0.1% and UAFCB's calculation came to 1.9% because the UAFCB included actual LGP and TP program costs in the denominator of its calculation and the method is provided below:

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

Recommendation: The Commission should clarify which method is appropriate.

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

Observation 11: SDG&E 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 in the 2013-2015 program cycle amounted to $267,099,766, $20,409,576, and $34,175,121, respectively. A reconciliation of these amounts reported in EEStats to SDG&E's accounting records for the 2013-2015 program cycle disclosed no material exceptions.[9]

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

Recommendation: None.

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

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

[9] Refer to Appendix B, Table B-1 for a detailed presentation of SDG&E's authorized budget, amount spent, amount committed, and amount unspent/uncommitted for the 2013-2015 program cycle.

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

Recommendation: None.

A.6 Codes and Standards Program and Subprograms - 2015

Observation 13: Except for Observation 14 below, SDG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported C&S program costs in PY 2015. The $892,373 reported in the December 2015 year-to-date Monthly EEStats report and in Advice Letter (AL) 2950-E/2511-G reconciled to SDG&E's accounting records.[10]

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

Condition: The $892,373 reconciled to SDG&E's accounting records. The breakdown is as follows:

Cost Category	Amount
Administrative	$ 80,577
Marketing	0
Direct Implementation	811,796
Total	**$892,373**

Recommendation: None.

Observation 14: SDG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SDG&E's established accrual policy and procedures. SDG&E incorrectly included $150,047 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. SDG&E's Customer Programs & Projects Operations Handbook, version 3.1, section 8, entitled "Vendor Payment Accrual Processing," requires that an expense item having a value of $10,000 or greater is to be accrued in the quarter or calendar year that the expense incurred.

Condition: UAFCB's review and testing disclosed two invoices totaling $150,047 ($10,001 related to SDGE3249 and $140,046 related to SDGE3251 for its share to a co-funding agreement between SDG&E and Pacific Gas and Electric Company (PG&E)) for services provided in PY 2014 but incorrectly reported and charged to PY 2015.

[10] Refer to Appendix B, Table B-5 for a detailed breakdown of SDG&E's C&S program expenditures in PY 2015.

Cause: These vendor invoices from the lead administrator of the co-funding agreements were not submitted to SDG&E timely in order to process and record the expenditures in the proper period.

Effect: SDG&E over-reported the C&S Program costs by $150,047 in PY 2015.

SDG&E Comments: SDG&E concurs with UAFCB's recommendation to reduce its C&S Management Fee incentive award. In addition, SDG&E asserted that it will continue to strengthen its oversight over its EE accrual and review processes and has already provided additional training on this matter.

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

Response: In regards to ED's comments, UAFCB agrees with ED to revise the language in its recommendation since it does not change the C&S expenditure amount that SDG&E incorrectly included in 2015 PY.

Recommendation: SDG&E has since filed AL 2950-E/2511-G to claim its Management Fee incentive award for PY 2015. The Commission's ED should deduct $150,047 from the 2015 C&S expenditures when SDG&E's 2015 ex-post Energy Savings and Performance Incentive (ESPI) true-up Advice Letter (AL) is processed. In addition, SDG&E should adhere to accrual basis of accounting when recording and reporting its EE Program expenditures.

Observation 15: SDG&E's internal policy and procedures for implementing the C&S Program were adequately designed to meet Commission directives in PY 2015. SDG&E was in compliance with its internal Customer Programs & Projects Operations Handbook, v.3.1.

Criteria: Did SDG&E's internal Customer Programs & Projects Operations Handbook, v.3.1 specify adequate policy and procedures for implementing the C&S programs in accordance with Commission directives?

Condition: SDG&E's Customer Programs and Projects Operations Handbook, v.3.1 was reasonably adequate for implementing the C&S programs in accordance with Commission directives.

Recommendation: None.

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

Observation 16: Except for Observation 17 below, SDG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported NR Program costs in PY 2015. The $14,369,250 reported in the December 2015 year-to-date Monthly EEStats report and in AL 2950-E/2511-G reconciled to SDG&E's accounting records. [11]

[11] Refer to Appendix B, Table B-6 for a detailed breakdown of SDG&E's NR Program costs in PY 2015.

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

Condition: The $14,369,250 reconciled to SDG&E's accounting records. The breakdown is as follows:

Cost Category	Amount
Administrative Cost	$ 3,854,220
Marketing	1,165,911
Direct Implementation	9,349,119
Total	**$14,369,250**

Recommendation: None

Observation 17: SDG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SDG&E's established accrual policy and procedures. SDG&E incorrectly included $273,497 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. SDG&E's Customer Programs & Projects Operations Handbook, version 3.1, section 8, entitled "Vendor Payment Accrual Processing," requires that an expense item having a value of $10,000 or greater is to be accrued in the quarter or calendar year that the expense incurred.

Condition: UAFCB's review and testing disclosed that SDG&E incorrectly recorded $105,363 ($68,562 related to SDGE3247 and $36,801 related to SDGE3255) for services that should have been charged to PY 2014 Direct Implementation costs but were incorrectly reported and charged to PY 2015 Direct Implementation costs.

In addition, SDG&E incorrectly recorded a total of $168,134 in Direct Implementation costs related to program SDGE3254 that should have been charged to PY 2016. The $168,134 included $97,636 in recurring charges (e.g., rent) and $70,498 in non-recurring charges (e.g., perishable foodstuffs, such as catering expense). According to SDG&E, the 2016 NR program Direct Implementation costs were recorded in PY2015 because of a new Internal Orders [IOs[12]] that was issued for PY 2016 but the coding for some of the recurring charges were set to automatically charge the IOs from 2013-2015 budget cycle. SDG&E did not provide a reason for the improper recording of catering expenses.

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

Effect: SDG&E over-reported its NR program costs by $273,497 in PY 2015.

[12] The company assigns Internal Orders (IOs) to each EE program cycle. For example, the Internal Orders assigned to the budget cycle 2013-2015 would be different from that assigned to the budget cycle 2010-2012.

SDG&E Comments: SDG&E concurs with UAFCB's recommendation to reduce its NR Management Fee incentive award. In addition, SDG&E asserted that it will continue to strengthen its oversight over its EE accrual and review processes and has already provided additional training on this matter.

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

Response: In regards to ED's comments, UAFCB agrees with ED to revise the language in its recommendation since it does not change the C&S expenditure amount that SDG&E incorrectly included in 2015 PY.

Recommendation: SDG&E has since filed AL 2950-E/2511-G to claim the NR Programs Management Fee incentive award for PY 2015. The Commission's ED should deduct $273,497 from the 2015 NR expenditures when SDG&E's 2015 ex-post ESPI true-up AL is processed. In addition, SDG&E should continue to monitor and strengthen the oversight of its accounting accrual procedures to ensure that each expense item having a value of $10,000 or more is properly accrued.

Observation 18: SDG&E's internal policy and procedures for implementing the NR Program were adequately designed to meet Commission directives in PY 2015. SDG&E was in compliance with its internal Customer Programs & Projects Operations Handbook, v.3.1.

Criteria: Did SDG&E's internal Customer Programs & Projects Operations Handbook, v.3.1 specify adequate policy and procedures for implementing the NR programs in accordance with Commission directives?

Condition: SDG&E's Customer Programs and Projects Operations Handbook, v.3.1 was reasonably adequate for implementing the NR programs in accordance with Commission directives.

Recommendation: None.

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

Criteria: Did SDG&E 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: SDG&E 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: Except for Observation 21 below, SDG&E 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 $5,802,202. A reconciliation of this amount reported in EEStats, including the 2015 year-to-date Monthly report and Quarterly reports, to SDG&E'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 $5,802,202 reconciled to SDG&E's accounting records. The breakdown is as follows:

Cost Category	Amount
Administration	$ 362,396
Marketing	447,591
Direct Implementation	4,992,215
Total	**$5,802,202**

Recommendation: None.

Observation 21: SDG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SDG&E's established accrual policy and procedures. SDG&E incorrectly included $644,906 in 2015 PY expenditures that should have been recorded in 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. SDG&E's Customer Programs & Projects Operations Handbook, version 3.1, section 8, entitled "Vendor Payment Accrual Processing," requires that an expense item having a value of $10,000 or greater is to be accrued in the quarter or calendar year that the expense incurred.

Condition: UAFCB's review and testing disclosed that SDG&E incorrectly recorded a total of $620,706 in Direct Implementation non-labor costs related to customer incentive payments that should have been charged to PY 2014. The $620,706 was improperly charged to PY 2015 due to SDG&E's lack of appropriate incentive accrual policy and procedures related to the EUC Home Upgrade Program.

In SDG&E's incentive accrual accounting policy and procedures section of the Customer Programs and Projects Operations Handbook, v.3.1, there were no specific instructions for incentive accrual estimates when a project is completed in one year and a post-installation inspection is performed in another year. SDG&E's Incentive Accrual

[13] Refer to Appendix B, Table B-7 for a detailed breakdown of SDG&E's EUC Home Upgrade Program costs in PY 2015.

Requirement in the Handbook states that a completed inspection report is required to accrue an incentive.[14]

For the proper accounting of EE program costs, estimated costs associated with work on projects should be recorded in the year in which the work is completed – independent of a post-installation inspection report, which may occur in a subsequent program year. On this basis, estimated energy savings as determined by a required pre-inspection assessment would serve as a basis for the accrual estimate and the results from a post-installation inspection would serve as a basis for adjusting, if applicable, the previously recorded costs to reflect a final payment in the period in which a post-installation inspection is complete.

In addition, SDG&E improperly recorded $24,200 in Direct Implementation costs in PY 2015. The $24,200 was not a valid EE program expenditure since it represented an overpayment of an incentive to the EUC Multi-Family program.

Cause: SDG&E's incentive accrual policy and procedures lacked appropriate instructions for recording incentive accrual estimates when a project is completed in one year and a post-inspection is performed in a subsequent year.

Effect: SDG&E over-reported its EUC Home Upgrade Program costs by 644,906 in PY 2015.

SDG&E Comments: SDG&E partially concurs with UAFCB's recommendation to reduce its Resource Programs Savings Incentive award. SDG&E agrees with UAFCB's recommendation that $551,050 be removed from EUC Home Upgrade expenditures for PY 2015. However, SDG&E asserts that two projects amounting to $98,856 were appropriately recorded in PY 2015 following a lengthy review and retrofit inspections process that required corrective action before each project was considered fully installed and completed.

Consequently, SDG&E requests that ED review this finding and revise it to conclude that EUC Home Upgrade program expenses totaling $98,856 should be considered in the true-up calculation of SDG&E's 2015 incentive award. In addition, SDG&E contends that UAFCB does not dispute the validity of the payments and is only concerned with the timing of the recording of costs.

Rebuttal: UAFCB stands by its recommendation on this matter.

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

Response: In regards to ED's comments, UAFCB agrees with ED to revise the language in its recommendation since it does not change the C&S expenditure amount that SDG&E incorrectly included in 2015 PY.

[14] SDG&E's Customer Programs & Projects Operations Handbook, "Vendor Payment and Accrual Processing" states, in part, "A completed inspection report will be required by the project manager to accrue an incentive"

Recommendation: SDG&E has since filed AL 2950-E/2511-G to claim its Resource Programs Savings Incentive award for PY 2015. The Commission's ED should deduct $644,906 from the 2015 EUC Home Upgrade expenditures when SDG&E's 2015 ex-post ESPI true-up AL is processed. In addition, SDG&E should revise its existing incentive accrual policy and procedures to ensure that EUC Home Upgrade costs are recorded in the year in which the work is completed.

UAFCB recommends that SDG&E develop an incentive accrual policy and procedures manual for its EUC Home Upgrade Program.

Observation 22: Except for Observation 21 above, SDG&E's internal policy and procedures for implementing the EUC Home Upgrade Program were sufficiently designed to meet Commission directives in PY 2015. SDG&E was in compliance with its internal Customer Programs & Projects Operations Handbook, v.3.1.

Criteria: Did SDG&E's internal Customer Programs & Projects Operations Handbook, v.3.1 specify adequate policy and procedures for implementing the EUC Home Upgrade program in accordance with Commission directives?

Condition: SDG&E's Customer Programs and Projects Operations Handbook, v.3.1 was reasonably adequate for implementing the EUC Home Upgrade program in accordance with Commission directives.

Recommendation: None.

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

Observation 23: Except for Observation 24 below, SDG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported CDIR Program costs in PY 2015. The total recorded and reported amounted to $15,655,528. A reconciliation of this amount reported in EEStats, including the December 2015 year-to-date Monthly Report and Quarterly reports, to SDG&E's accounting records disclosed no material exceptions.[15]

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

Condition: The $15,655,528 reconciled to SDG&E's accounting records. The breakdown is as follows:

[15] Refer to Appendix B, Table B-8 for UAFCB's verified CDIR Program costs in PY 2015.

Cost Category	Amount
Administration	$ 1,008,810
Marketing	20,363
Direct Implementation	14,626,355
Total	**$15,655,528**

Recommendation: None.

Observation 24: SDG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SDG&E's established accrual policy and procedures. SDG&E incorrectly included $371,212 in 2015 PY that should have been recorded in 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. SDG&E's Customer Programs & Projects Operations Handbook, version 3.1, section 8, entitled "Vendor Payment Accrual Processing," requires that an expense item having a value of $10,000 or greater is to be accrued in the quarter or calendar year that the expense incurred.

Condition: UAFCB's review and testing disclosed that SDG&E recorded $18,733 in Direct Implementation costs (SDGE3223) related to engineering services that should have been recorded in PY2014 when the work was performed. In addition, SDG&E incorrectly recorded $352,479 in Direct Implementation costs (SDGE3217) due to PY 2014 costs being incorrectly reclassified to PY 2015.

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

Effect: SDG&E over-reported its CDIR program costs by $371,212 in PY 2015.

SDG&E Comments: SDG&E concurs with UAFCB's recommendation to reduce its Resource Savings Incentive award (EAR Process Performance). In addition, SDG&E asserted that it will continue to strengthen its oversight over its EE accrual and review processes and has already provided additional training on this matter.

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

Response: In regards to ED's comments, UAFCB agrees with ED to revise the language in its recommendation since it does not change the C&S expenditure amount that SDG&E incorrectly included in 2015 PY.

Recommendation: SDG&E has since filed AL 2950-E/2511-G to claim its Resource Programs Savings Incentives award for PY 2015. The Commission's ED should deduct $371,212 from the 2015 CDIR program expenditures when SDG&E's ex-post ESPI true-up AL is processed. In addition, SDG&E should continue to monitor and strengthen the oversight of its accounting accrual procedures to ensure that each expense item having a value of $10,000 or more is properly accrued.

Observation 25: SDG&E's internal policy and procedures for implementing the CDIR Program were sufficiently designed to meet Commission directives in PY 2015. SDG&E was in compliance with its internal 2013-2015 Statewide Customized Retrofit Offering Procedures Manual for Business, v.8.01.

Criteria: Did SDG&E's internal 2013-2015 Statewide Customized Retrofit Offering Procedures Manual for Business, v.8.01 specify adequate policy and procedures for implementing the CDIR program in accordance with Commission directives?

Condition: SDG&E's 2013-2015 Statewide Customized Retrofit Offering Procedures Manual for Business, v.8.01 was reasonably adequate for implementing the CDIR program in accordance with Commission directives.

Recommendation: None.

A.10 Industrial EE Program and Subprograms – 2015

Observation 26: Except for Observation 27 below, SDG&E 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 $2,227,455. A reconciliation of this amount reported in EEStats, including the December 2015 year-to-date Monthly report and Quarterly reports, to SDG&E's accounting records disclosed no material exceptions.[16]

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

Condition: The $2,227,455 reconciled to SDG&E's accounting records. The breakdown is as follows:

Cost Category	Amount
Administration	$ 248,925
Marketing	14,529
Direct Implementation	1,964,001
Total	**$2,227,455**

Recommendation: None.

Observation 27: SDG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SDG&E's established accrual policy and procedures. SDG&E incorrectly included $176,351 in expenditures not belonging to 2015 PY. The amount was charged to the Direct Implementation cost category.

[16] Refer to Appendix B, Table B-9 for a detailed breakdown of SDG&E's Industrial EE Program costs in PY 2015.

Criteria: Sections 581, 582, and 584 require that the utility provide complete and accurate data to the Commission. SDG&E's Customer Programs & Projects Operations Handbook, version 3.1, section 8, entitled "Vendor Payment Accrual Processing," requires that an expense item having a value of $10,000 or greater is to be accrued in the quarter or calendar year that the expense incurred.

Condition: UAFCB's review and testing disclosed the following:

1. SDG&E recorded $10,214 in Direct Implementation costs (SDGE3233) related to customer incentive payments that should have been recorded in PY 2014 when the work was completed and installed.

2. SDG&E incorrectly recorded $150,477 in Direct Implementation costs (SDGE3229) due to PY 2014 Demand Response program costs being incorrectly reclassified to PY 2015.

3. SDG&E improperly recorded a total of $15,660 ($5,100 related to SDGE3229 and $10,560 related to SDGE3233) in Direct Implementation costs in PY2015. The $5,100 should have been charged to the Demand Response program and the incentive payment amount of $10,560 was not adequately documented and thus removed from PY 2015 Industrial EE Program costs.

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

Effect: SDG&E over-reported its Industrial EE Program costs by $176,351 in PY 2015.

SDG&E Comments: SDG&E concurs with UAFCB's recommendation to reduce its Resource Savings Incentive award (EAR Process Performance). In addition, SDG&E asserted that it will continue to strengthen its oversight over its EE accrual and review processes and has already provided additional training on this matter.

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

Response: In regards to ED's comments, UAFCB agrees with ED to revise the language in its recommendation since it does not change the Industrial EE Program expenditure amount that SDG&E incorrectly included in 2015 PY.

Recommendation: SDG&E has since filed AL 2950-E/2511-G to claim its Resource Programs Savings Incentive award for PY 2015. The Commission's ED should deduct $176,351 from the 2015 Industrial EE Program expenditures when SDG&E's 2015 ex-post ESPI true-up AL is processed. In addition, SDG&E should continue to monitor and strengthen the oversight of its accounting accrual procedures to ensure that each expense item having a value of $10,000 or more is properly accrued.

Observation 28: SDG&E's internal policy and procedures for implementing the Industrial EE Program were adequately designed to meet Commission directives. SDG&E was in compliance with its internal 2013-2015 Statewide Customized Retrofit Offering Procedures Manual for Business.

Criteria: Did SDG&E's internal 2013-2015 Statewide Customized Retrofit Offering Procedures Manual for Business specify adequate policy and procedures for implementing the Industrial EE Program in accordance with Commission directives?

Condition: SDG&E's 2013-15 Statewide Customized Retrofit Offering Procedures Manual for Business was reasonably adequate for implementing the Industrial EE Program in accordance with Commission directives.

Recommendation: None.

A.11 Agricultural EE Program and Subprograms - 2015

Observation 29: Except for Observation 30 below, SDG&E 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 $665,421. A reconciliation of this amount reported in EEStats, including the December 2015 year-to-date Monthly report and Quarterly reports, to SDG&E's accounting records disclosed no material exceptions.[17]

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

Condition: The $665,421 reconciled to SDG&E's accounting records. The breakdown is as follows:

Cost Category	Amount
Administration	$ 78,592
Marketing	3,864
Direct Implementation	582,965
Total	**$665,421**

Recommendation: None

Observation 30: SDG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SDG&E's established accrual policy and procedures. SDG&E incorrectly included $54,720 in 2015 PY that should have been recorded in 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. SDG&E's Customer Programs & Projects Operations

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

Handbook, version 3.1, section 8, entitled "Vendor Payment Accrual Processing," requires that an expense item having a value of $10,000 or greater is to be accrued in the quarter or calendar year that the expense incurred.

Condition: UAFCB's review and testing disclosed that SDG&E recorded $54,720 in Direct Implementation costs related to a customer incentive payment that should have been recorded in PY 2014 when the work was completed and installed.

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

Effect: SDG&E over-reported its Agricultural EE Program costs by $54,720 in PY 2015.

SDG&E Comments: SDG&E concurs with UAFCB's recommendation to reduce its Resource Savings Incentive award (EAR Process Performance). In addition, SDG&E asserted that it will continue to strengthen its oversight over its EE accrual and review processes and has already provided additional training on this matter.

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

Response: In regards to ED's comments, UAFCB agrees with ED to revise the language in its recommendation since it does not change the Agricultural EE Program expenditure amount that SDG&E incorrectly included in 2015 PY.

Recommendation: SDG&E has since filed AL 2950-E/2511-G to claim its Resource Programs Savings Incentive award for PY 2015. The Commission's ED should deduct $54,720 from the 2015 Agricultural EE Program expenditures when SDG&E's 2015 ex-post ESPI true-up AL is processed. In addition, SDG&E should continue to monitor and strengthen the oversight of its accounting accrual procedures to ensure that each expense item having a value of $10,000 or more is properly accrued.

Observation 31: SDG&E's internal policy and procedures for implementing the Agricultural EE Program were adequately designed to meet Commission directives. SDG&E was in compliance with its internal 2013-2015 Statewide Customized Retrofit Offering Procedures Manual for Business.

Criteria: Did SDG&E's internal 2013-2015 Statewide Customized Retrofit Offering Procedures Manual for Business specify adequate policy and procedures for implementing the Agricultural EE Program in accordance with Commission directives?

Condition: SDG&E's 2013-15 Statewide Customized Retrofit Offering Procedures Manual for Business was reasonably adequate for implementing the Agricultural EE Program in accordance with Commission directives.

Recommendation: None

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

Observation 32: SDG&E 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 $6,412,344. A reconciliation of this amount reported in EEStats, including the December 2015 year-to-date Monthly report and Quarterly reports, to SDG&E's accounting records disclosed no material exceptions.[18]

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

Condition: The $6,412,344 reconciled to SDG&E's accounting records. The breakdown is as follows:

Cost Category	Amount
Administration	$1,050,085
Marketing	267,775
Direct Implementation	5,094,484
Total	**$6,412,344**

Recommendation: None.

Observation 33: SDG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 LGP Program cost amounts sampled for verification. UAFCB verified $2,962,624 expended on the LGP Program and found no material exceptions.

Criteria: Sections 581, 582, and 584 require that the utility provide complete and accurate data to the Commission. SDG&E's Customer Programs & Projects Operations Handbook, version 3.1, section 8, entitled "Vendor Payment Accrual Processing," requires that an expense item having a value of $10,000 or greater is to be accrued in the quarter or calendar year that the expense incurred.

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

Recommendation: None.

Observation 34: SDG&E's internal policy and procedures for implementing the LGP Program were adequately designed to meet Commission directives in PY 2015. SDG&E was in compliance with the applicable provisions of D.14-10-046 and the Energy Efficiency Policy Manual, v.5, dated July 2013 for the LGP Program.

[18] Refer to Appendix B, Table B-11 for a detailed breakdown of SDG&E's LGP Program costs in PY 2015.

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

Condition: SDG&E's internal policy and procedures appear reasonably adequate for the accounting and reporting of LGP Program costs in accordance with Commission directives.

Recommendation: None.

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

Observation 35: SDG&E 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, SDG&E was required, among other things, to:[19]

1) Reduce its C&S Management Fee incentive award for PY 2014 by $51,379 in its following AL true-up filing.

2) Reduce its Statewide Marketing, Education and Outreach (ME&O) administrative costs by $204,060 for PY 2014.

3) Reduce its NR Management Fee incentive award for PY 2014 by $66,725 in its following AL true-up filing.

4) Strengthen its oversight over the recording and classifying of EE program expenses to ensure accurate reporting.

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

Recommendation: None.

Observation 36: SDG&E identified internal audit report #16-215 – Energy Efficiency Direct Install (DI) Program that related to EE program activities for the PY 2015 examination period. In this internal audit report dated August 29, 2016, SDG&E's Audit Services (AS) conducted a review of the adequacy and effectiveness of business controls related to the third-party managed DI Program for the period January 1, 2015 through May 31, 2016.

Criteria: In internal audit report #16-215, SDG&E's AS concluded the following:

[19] *Financial, Management, Regulatory, and Compliance Examination Report on San Diego Gas and Electric Company's (SDG&E's) Energy Efficiency (EE) Program For the Period January 1, 2014 through December 31, 2014*, issued June 30, 2016.

a) DI Program third-party contractor oversight needs strengthening around performance monitoring and clarification of information requirements.

b) Costs from DI Program third-party contractors are not accrued in compliance with Sempra Energy Invoice Accruals Policy.

c) Contract management responsibilities, data breach notification requirements, and frequency of obtaining data security assurances have not been defined for DI Program third-party contractors.

d) Confidential information for business customers is stored in unencrypted archives by the Electronic Data Interexchange (EDX) file transfer mechanism.

e) The Energy Efficiency Collaboration Platform (EECP) application process access provisioning and review process are not fully developed and defined.

f) Data encryption is not included in the scope of the Independent Service Organization Control (SOC) report for DirectApps.

Condition: SDG&E provided the UAFCB with a status update and supporting documentation on management's corrective actions in implementing the findings and recommendations in internal audit report #16-215 during the 2015 examination period.

Recommendation: SDG&E management addressed and corrected the issues raised by AS in internal audit report #16-215 by or before February 1, 2017.

UAFCB appreciates SDG&E's efforts in strengthening its internal controls for its EE program and recommends that SDG&E 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 San Diego Gas and Electric Company (SDG&E) a total budget of $205.2[1] million in ratepayer funds to administer and implement the Energy Efficiency (EE) programs for Program Years (PYs) 2013 and 2014. This amount, including $8.5 million in the Evaluation Measurement and Verification (EM&V) budget, represents approximately 10.8% of the total $1.9 billion EE program budget for the four major energy Investor-Owned Utilities (IOUs) for the same period. The decision set energy savings goals, established cost-effectiveness requirements, and required the IOUs to offset their unspent and uncommitted EE program funding from pre-2013 program years against 2013-2014 EE budget cycle revenue requirements.[2] I

On October 16, 2014, the Commission issued D.14-10-046 which, among other things, extended the 2013-2014 EE program cycle for an additional year to 2013-2015. The decision authorized SDG&E a total budget of $116.5 million, including $4.7 million in EM&V budget, in ratepayer funds to administer and implement the EE programs for PY 2015. This represents about 12.1% of the approximate total $963 million in EE program budget for all four IOUs for the same period.

B.2 EE Funding Components

Of the $321.7 million authorized portfolio budget for program cycle 2013-2015, $308.5 million is to administer and implement SDG&E's EE programs and the remaining $13.2 million is dedicated to fund the Evaluation Measurement and Validation (EM&V) program. SDG&E spent $266.9 million or 83% of the total authorized budget for program years 2013-2015. Table B-1 provides a summary of, among other data elements, the authorized EE portfolio funding and actual spending for 2013-2015 EE programs.[3]

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[1] Amount does not include the $5.9 million budget for the Statewide ME&O Program, which was approved in a separate Commission decision (D.13-12-038 dated December 19, 2013), because the ME&O budget period does not correspond with the 2013-2015 EE program cycle. For SDG&E, the totals also do not include funding for revolving loan funds for financing programs.

[2] D.12-11-015, Ordering Paragraphs (OPs) 38 and 40, at page (p.) 140, SDG&E's unspent and uncommitted EE program funding was $50.9 million as identified on Table 9, p.94 of D.12-11-015.

[3] Amount Spent for 2013-2015 EE programs is net of UAFCB's recommended examination adjustments of: ($25,025) in SW-Resource for PY2013; ($17,995) in SW-Resource for PY2014; and ($168,134) in SW-Workforce Education & Training for PY2015.

Table B-1
Authorized Budget and Other Components (Excluding ME&O)
Budget Cycle: 2013-2015

Programs Area	Adjusted Budget[4]	Spent	Unspent	Committed	Unspent & Uncommitted
	1	2	3	4	5 = 3-4
SW-Resource	$157,080,422	$128,957,170	$28,123,252	$10,916,573	$17,206,679
Resource (LGP&TP)	121,297,229	103,375,403	17,921,826	1,302,214	16,619,611
SW-Non-Resource	30,121,816	29,511,066	610,750	52,236	558,515
Total before EM&V	$308,499,467	$261,843,639	$46,655,828	$12,271,023	$34,384,806
EM&V	13,184,997	5,044,975	8,140,022	8,138,553	1,469
Grand Total	**$321,684,464**	**$266,888,614**	**$54,795,850**	**$20,409,576**	**$34,386,275**

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

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

SDG&E identifies and captures its EE program expenditures in its Systems Application and Products (SAP) Enterprise Resource Planning (ERP) Solutions software application to manage its database and uses a unique internal ordering system to allocate and capture energy efficiency (EE) program expenditures for specific EE programs. The internal ordering system identifies EE costs by program type, by cost category (e.g., Administrative Marketing and Direct Implementation), and by cost type (e.g., Salaries – Management, Advertisement, Travel, etc.) for each transaction in order to record costs to each of its delivery channels (IOU, TP and LGP). A summary of SDG&E's PY 2015 expenditures, excluding EM&V, by delivery channel and program type is presented in Table B-2 below.[5]

[4] Below is a schedule of adjusted authorized budgets for 2013-2015:

Adjusted Authorized Budgets – 2013-2015

Programs	As Authorized	Funds Shifted	As Adjusted
SW-Resource	$167,682,269	$(10,601,847)	$157,080,422
Other Resource (LGP&TP)	110,835,382	10,461,847	121,297,229
SW-Non-Resource	29,981,816	140,000)	30,121,816
Subtotal	$308,499,467	$ 0	$308,499,467
EM&V	13,184,997	00	13,184,997
Grand Total	**$321,684,464**	**$ 0**	**$321,684,464**

[5] Amounts are net of the UAFCB's examination adjustments of the following: $644,906 to the Resident Home Upgrade program; $371,212 to the Commercial program; $176,351 to the Industrial program; $54,720 to the Agricultural program; $150,047 to the Codes & Standards program; $68,562 to the Emerging Technologies program; $204,935 to the Workforce Education & Training program; and $347,427 to the Local Government and Partnership program.

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

Programs	Administrative	Marketing	DI	Total
	1	2	3	4 = 1 to 3
Statewide Programs:				
Residential	$1,437,774	$ 822,194	$13,435,260	$ 15,695,228
Commercial	1,752,390	71,970	23,079,164	24,903,524
Agricultural	78,592	3,864	528,245	610,701
Industrial	248,925	14,529	1,787,651	2,051,104
Lighting	590,184	145,908	9,891,651	10,627,743
Codes & Standards	80,577	00	661,749	742,326
Emerging Technologies	134,148	00	2,048,654	2,182,802
WE&T	878,428	342,732	3,891,280	5,112,440
IDSM	753,328	521,305	1,899,903	3,174,535
Financing	603,307	292,764	1,302,753	2,198,824
CRM	1,668,836	00	5,101	1,673,937
LEE	10,494	1,200	188,630	200,323
Subtotal	$8,236,983	$2,216,466	$58,720,039	$ 69,173,487
LGP Programs:				
LGP	392,636	267,775	4,747,057	5,407,468
LGP – IOU	657,449	00	00	657,449
Subtotal	$1,050,085	$ 267,775	$ 4,747,057	$ 6,064,917
TP Programs:				
TP	456,387	695,148	29,222,402	30,373,938
TP – IOU	231,326	00	00	231,326
Subtotal	$ 687,713	$ 695,148	$29,222,402	$ 30,605,264
Grand Total	**$9,974,781**	**$3,179,389**	**$92,689,498**	**$105,843,668**

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

SDG&E classifies costs as administrative according to its established list of Allowable Costs, which provides a detailed listing of all allowable administrative costs applicable to the EE program. Only types of costs listed on the schedule are claimable and reportable for ratepayer funded EE program activities, and any changes to the schedule need approval from the Commission's Energy Division. Generally, SDG&E's administrative costs consist of management and clerical labor costs, payroll costs such as payroll tax, and employee travel expenses.

SDG&E's EE program administrative costs are segregated by administrative costs that pertain to its CORE program[6] activities and those that are in support of its Third Party (TP) and Local Government Partnership (LGP) programs.

[6] SDG&E also incurred additional administrative costs that are not part of the EE program budgets and recovered through the general rate case (GRC). These components, referred to as 'Additional Loaders,' include incentive compensation, worker's compensation, PLPD, and Pension and Benefits. Per data response to DR-014, dated December 8, 2016 and during post-audit exit conference period on May 9, 2017, the additional loaders applicable for IOU (CORE) were $3,492,419 for PY2013, $3,426,711 for PY2014, and $3,829,523 for PY2015. Also during said period, SDG&E provided the amount of the authorized GRC administrative loaders of $13,147,282 for same budget cycle. Similar to the company's methodology in this respect, UAFCB has accounted the additional loaders

Pursuant to D.09-09-047, "Administrative costs for utility energy efficiency program (excluding third party and/or local government partnership budgets) are limited to 10% of total energy efficiency budgets…" And according to D.09-09-047, page 63, TP and LGP administrative cost target is set at 10% of the total TP/LGP's direct costs. A summary of SDG&E's 2013-2015 administrative expenditures, excluding EM&V, by delivery channel and program type is presented Table B-3 below.

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

Programs	Budget	Administrative Costs			Total
		2013	2014	2015	
	1	2	3	4	5 = 2 to 4
Statewide Programs:					
Residential	$ 44,647,993	$ 91,314	$ 857,327	$1,437,775	$ 3,186,416
Commercial	68,746,568	1,346,727	1,624,146	1,752,390	4,723,263
Agricultural	3,294,621	55,243	80,105	78,592	213,941
Industrial	7,596,495	208,195	213,516	248,925	670,636
Lighting	18,151,499	257,881	188,995	590,184	1,037,060
Codes & Standards	3,149,596	43,643	71,451	80,577	195,671
Emerging Technologies	4,056,446	95,300	146,901	134,148	376,350
WE&T	15,711,038	602,383	491,754	878,428	1,972,565
IDSM	7,042,213	591,875	808,482	753,328	2,153,684
Financing	15,284,110	98,013	89,608	603,307	790,928
Others (e.g. CRM, etc.)	3,172,619	1,613,270	,907,089	1,679,330	5,199,689
Subtotal	$190,853,199	$5,803,845	$6,479,375	$8,236,983	$20,520,203
LGP Programs:					
LGP	00	149,130	(23,455)	392,636	518,311
LGP-IOU	00	911,613	1,096,391	657,449	2,665,453
Subtotal	$ 26,302,664	$1,060,743	$1,072,936	$1,050,085	$ 3,183,764
Third Party Programs:					
TP	00	655,408	184,395	456,387	1,296,190
TP-IOU	00	231,378	218,826	231,326	681,530
Subtotal	$ 91,343,605	$ 886,786	$ 403,221	$ 687,713	$ 1,977,720
Grand Total	**$308,499,467**	**$7,751,374**	**$7,955,532**	**$9,974,781**	**$25,681,687**

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

SDG&E classifies costs as administrative according to its established list of Allowable Costs, which provides a detailed listing of all allowable administrative costs applicable to the EE program. Only types of costs listed on the schedule are claimable and reportable for ratepayer funded EE program activities, and any changes to the schedule need approval from the Commission's Energy Division. Generally, SDG&E's administrative costs consist of management and clerical labor costs, payroll costs such as payroll tax, and employee travel expenses.

as part of the IOU (CORE) EE program administrative costs in calculating the administrative cost 10% Cap for the program cycle 2013-15.

Pursuant to D.09-09-047, "Administrative costs for utility energy efficiency program (excluding third party and/or local government partnership budgets) are limited to 10% of total energy efficiency budgets..." And according to D.09-09-047, page 63, TP and LGP administrative cost target is set at 10% of the total TP/LGP's direct costs. A summary of SDG&E's EE program Non-IOU administrative costs for the 2013-2015 program cycle is provided in Table B-4.

Table B-4
EE Program Non-IOU Administrative Costs
Budget Cycle 2013-2015

Programs	Direct Costs	Non-IOU Administrative Costs			Total
		2013	2014	2015	
	1	2	3	4	5 = 2 to 4
LGP	$17,694,874	$149,130	$(23,455)	$392,636	$ 518,311
Third Party	80,519,045	655,408	184,395	456,387	1,296,191
Grand Total	**$98,213,919**	**$804,538**	**$160,940**	**$849,023**	**$1,814,501**

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

SDG&E uses commitments to identify, track, and set aside potential future spending on its various EE programs. Commitments are unpaid and not accrued obligations to SDG&E 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, when new commitments are added, invoices/payments are being made against previous commitments, etc.

For informational purposes, commitments are 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 component in order to accurately determine the Unspent and Uncommitted Amount. For detailed data disclosure, refer to Table B-1 of this Appendix.

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

Statewide C&S Program saves energy by: (1) Influencing standards and code-setting bodies (such as the California Energy Commission) to strengthen EE 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.[7]

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

[7] 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/

C&S activities mainly focus on California Title 20 and Title 24, Part 6 enhancements. The C&S Program requires advocacy activities to improve building and appliance efficiency regulations. The principal audience is the California Energy Commission (CEC) which conducts periodic rulemakings, usually on a three-year cycle (for building regulations), to update building and appliance EE regulations. The C&S Program also seeks to influence the United States Department of Energy (USDOE) in setting national energy policy that impacts California.

SDG&E's C&S Program consists of five subprograms: 1) Building Codes & Compliance Advocacy, 2) Appliance Standards Advocacy, 3) Compliance Enhancement, 4) Reach Codes, and 5) Planning and Coordination. A detailed summary of SDG&E's C&S program charges by subprogram, cost category, and proportion of total expenses for PY 2015 is provided in the table below.[8]

Table B-5
C&S Program Expenses – 2015

Program	Administrative	Marketing & DI	Total	%
Bldg. Codes & Compliance Advocacy	$21,186	$161,655	$182,841	25%
Appliance Standards Advocacy	26,365	199,649	226,014	30%
Compliance Enhancement	21,363	258,620	279,983	38%
Reach Codes	2,660	10,250	12,910	2%
Planning Coordination	9,003	31,575	40,578	5%
Total C&S Expenses	**$80,577**	**$661,749**	**$742,326**	**100%**

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

The Non-Resource (NR) program represents energy efficiency (EE) activities that do not focus on displacement of supply-side resources at the time they are implemented, but may lead to displacement over a longer-term, or may enhance program participation overall. The NR programs in themselves do not provide direct energy savings and only have costs, making them not cost-effective on their own. Therefore, to motivate utility management focus on achieving NR program goals while removing disincentives to shift funds and resources away from the NR programs,[9] a performance reward for implementing the NR program is paid in a form of a management fee equal to 3% of NR program expenditures, not to exceed the program authorized expenditures, and excluding administrative costs.[10]

Currently, there are no specific criteria for determining whether a particular EE program is to be classified as Resource or NR. For SDG&E, it classified its EE program as NR based on the definition contained in the EE Policy Manual,[11] which 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."

[8] The amounts presented in Table B-5 are net of UAFCB's examination adjustments of $10,001 in the Building Codes & Compliancy Advocacy program and $140,046 in the Compliance Enhancement program.
[9] D.13-19-023, Findings of Fact 10, p. 88
[10] D.13-19-023, OP 3(D), p. 95
[11] EE Policy Manual, p.57.

A summary of SDG&E's NR program charges by subprogram, cost category, and proportion of total expenses for PY 2015 is provided in the table below.[12]

Table B-6
NR Program Expenses – 2015

Program	Administrative	Marketing & DI	Total	%
Tech Intro Support	$ 64,806	$ 1,077,320	$ 1,142,126	8%
Tech Assess Support	61,932	897,739	959,671	7%
Tech Deployment Support	7,411	73,594	81,005	1%
Integrated Demand Side Mgmt. (IDSM)	126,445	158,603	285,048	2%
IDSM – Mktg, Educ & Outreach (ME&O)	323,146	565,285	888,431	6%
IDSM – ME&O – Behavioral	303,736	1,697,320	2,001,056	14%
Workforce Ed & Trng (WE&T) – Centergies	785,249	3,532,829	4,318,078	31%
WE&T – Connections	93,180	701,183	794,363	6%
Financing Programs	359,269	1,117,798	1,477,067	11%
Locational Energy Efficiency	10,494	189,830	200,324	2%
CRM[13]	1,668,836	5,101	1,673,937	12%
Total NR Expenses	**$3,804,504**	**$10,016,601**	**$13,821,105**	**100%**

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

The Energy Upgrade California (EUC) Home Upgrade program – a subprogram under the Statewide Residential EE program – provides incentives for comprehensive home upgrades to single family and multifamily residential customers. The program guides customers to perform energy savings retrofits using a whole house approach that allows customers to achieve deeper and more comprehensive energy savings in keeping with the energy efficiency loading order. This approach views the building as a set of interdependent systems that must be considered holistically. The EUC Home Upgrade program is designed to offer a one-stop approach to whole-house energy efficiency improvements. A detailed summary of SDG&E's EUC Home Upgrade program costs by cost category and their related percentages for PY 2015 is presented in the table below.[14]

Table B-7
EUC Home Upgrade Program Expenses – 2015

Cost Category	Amount	%
Administrative	$ 362,396	7%
Marketing and DI	4,794,900	93%
Totals	**$5,157,296**	**100%**

[12] The amounts presented in Table B-6 are net of UAFCB's examination adjustments of $68,562 in the Technology Assessment Support program, $168,134 in the WE&T – Centergies program, $36,801in the WE&T – Connections program, $53,097 related to the WE&T K-12 program, and $221,551 related to the Middle Income Direct Install program.
[13] CRM is not an EE program but is a system to support several of SDG&E's EE administration functions. CRM Non-admin costs are not included in the NR management incentive calculation even though they are grouped as part of NR program costs.
[14] The amounts presented in Table B-7 are net of UAFCB's examination adjustment of $644,906 charged to the Marketing and Direct Implementation cost categories of the program.

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

The Statewide Commercial Deemed Incentives – Commercial Rebates (CDIR) program – a subprogram under the Statewide Commercial EE Program – provides rebates for the installation of new energy efficient equipment. This subprogram offers utility representatives, equipment vendors, and customers an easy-to-use mechanism to cost-effectively subsidize and encourage the adoption of mass market efficiency measures through fixed incentive amounts per unit/measure. A detailed summary of SDG&E's CDIR program costs by cost category and their related percentages for PY 2015 is presented in the table below.[15]

Table B-8
CDIR Program Expenses – 2015

Cost Category	Amount	%
Administrative	$ 1,008,810	6.5%
Marketing and DI	14,627,985	93.5%
Totals	**$15,636,795**	**100%**

B.11 Industrial EE Program and Subprograms – 2015

The Statewide Industrial EE Program provides strategic energy planning, audits, rebates, and incentives to customers in order to accelerate the adoption of energy efficiency measures. The Calculated Incentives and Deemed Incentives subprograms are the major subprograms. The Calculated Incentives subprogram provides customized incentives for non-residential energy efficiency retrofit projects involving the installation of high-efficiency equipment or systems. Incentives are paid on the energy savings and permanent peak demand reduction above baseline energy performance. The Deemed Incentives subprogram provides rebates for the installation of new energy efficient equipment. Deemed retrofit measures have prescribed energy savings and incentive amounts, and are generally intended for projects that have well-defined energy and demand savings estimates. A detailed summary of SDG&E's Industrial EE Program expenditures by cost category and their related percentages for PY 2015 is presented in the table below.[16]

[15] The amounts presented in Table B-8 are net of UAFCB's examination adjustments of $18,733 charged to the Marketing and Direct Implementation cost categories of the program.
[16] The amounts presented in Table B-9 are net of UAFCB's examination adjustments of $155,577 in the Customer Services – Audits Non-Residential program and $20,774 in the Deemed Incentives program charged to the Marketing and Direct Implementation cost categories.

Table B-9
Industrial EE Program Expenses – 2015

Program	Administrative	Marketing & DI	Total	%
Continuous Energy Improvement	$ 12,748	$ 63,736	$ 76,484	4%
Cust Services – Audits NonRes[17]	54,874	75,839	130,713	6%
Calculated Incentives	109,660	892,971	1,002,631	49%
Deemed Incentives	71,643	769,633	841,276	41%
Total Industrial Expenses	**$248,925**	**$1,802,179**	**$2,051,104**	**100%**

B.12 Agricultural EE Program and Subprograms – 2015

The Statewide Agricultural EE Program provides strategic energy planning, audits, rebates, and incentives to customers in order to accelerate the adoption of energy efficiency measures. Similar to the Industrial EE Program, the calculated and deemed incentives subprograms are the major subprograms. A detailed summary of SDG&E's Agricultural EE Program expenditures by cost category and their related percentages for PY 2015 is presented in the table below.[18]

Table B-10
Agricultural Program Expenses – 2015

Program	Administrative	Marketing & DI	Total	%
Cust Services – Audits NonRes[19]	$ 2,380	$ 15,784	$ 18,164	3%
Calculated Incentives	30,830	143,020	173,850	29%
Deemed Incentives	45,382	366,584	411,966	68%
Total Agricultural Expenses	**$78,592**	**$525,388**	**$603,980**	**100%**

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

SDG&E's LGP Program and subprograms include three broad objectives: 1) Retrofit local government facilities; 2) Promote and in some cases directly implement energy efficiency programs in the community; and 3) Support the Energy Efficiency Strategic Plan. SDG&E classifies its LGP programs into two categories: 1) those with local governments or their regional or implementing organizations, and 2) those with State agencies or "Institutional" partners. A detailed summary of SDG&E's LGP program expenditures by cost category and their related percentages for PY 2015 is presented in the table below.[20]

[17] A small balance under the Customer Services – Benchmarking subprogram has been combined with this subprogram.
[18] The amounts presented in Table B-10 are net of UAFCB's examination adjustment of $61,441 in the Deemed Incentives program which was charged to the Marketing and Direct Implementation cost category of the program.
[19] A small balance in the Customer Services – Benchmarking has been combined under this subprogram.
[20] Verified expenses are net of the UAFCB's proposed examination adjustments related to Marketing and Direct Implementation Costs of ($49,499) in the San Diego County Water Authority Partnership program, ($284,840) in the City of San Diego Partnership, and ($13,088) in the Port of San Diego Partnership program.

Table B-11
LGP Program Expenses – 2015

Program	Administrative[21]	Marketing & DI	Total	%
Calif Dept of Corrections Partnership	$ 2,368	$ 74,570	$ 76,938	1%
Calif Community College Partnership	54,463	(9,748)	44,715	1%
UC/CSU/IOU Partnership	10,820	222,811	233,631	4%
State of California/IOU Partnership	00	59,354	59,354	1%
University of San Diego Partnership	29,415	260,157	289,572	5%
San Diego Co Water Auth Partnership	11,715	424,632	436,347	8%
City of Chula Vista Partnership	17,688	750,632	768,320	14%
City of San Diego Partnership	62,132	778,569	840,701	16%
County of San Diego Partnership	38,752	871,432	910,184	17%
Port of San Diego Partnership	121,596	615,022	736,618	14%
SANDAG Partnership	46,126	610,547	656,673	12%
SEEC Partnership	(2,438)	(19,610)	(22,048)	0%
Emerging Cities Partnership	00	376,463	376,463	7%
Total LGP Expenses	**$392,637**	**$5,014,831**	**$5,407,468**	**100%**

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

UAFCB performed a follow-up examination on each observation and recommendation contained in its prior report entitled, *Financial, Management, Regulatory, and Compliance Examination Report on San Diego Gas and Electric Company's (SDG&E's) Energy Efficiency Program For the Period January 1, 2014 through December 31, 2014,* issued on June 30, 2016. There were no outstanding recommendations that SDG&E did not implement. For further details, refer to Appendix A, Observation 35.

SDG&E's Internal Audit Recommendation

In addition, the UAFCB requested that SDG&E provide a copy of any internal audit reports that were issued affecting the utilities EE program activities for the 2015 audit period and related management responses.

In response, SDG&E identified internal audit report #16-215 – Energy Efficiency Direct Install (DI) Program that related to EE program activities for the PY 2015 examination period. In this internal audit report dated August 29, 2016, SDG&E's Audit Services (AS) conducted a review of the adequacy and effectiveness of business controls related to the third-party managed DI Program for the period January 1, 2015 through May 31, 2016. For further details, refer to Appendix A, Observation 36.

[21] The Administrative cost amount presented in Table B-11 includes only the Non-IOU Administrative costs related to the LGP Program.

Appendix C
SDG&E Comments

SDGE
A Sempra Energy utility

Michelle Somerville
Regulatory Business Manager
San Diego Gas & Electric Company
msomerville@semprautilities.com
(858) 654-6356

July 5, 2017

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

Re: San Diego Gas & Electric Company's (SDG&E's) Comments on Financial, Management, Regulatory, and Compliance Examination Draft Report of SDG&E's Energy Efficiency (EE) Program for the Period January 1, 2015 through December 31, 2015

Dear Mr. Kajopaiye:

San Diego Gas & Electric Company (SDG&E) has reviewed the draft report, dated June 19, 2017, prepared by the Utility, Audit Finance and Compliance Branch (UAFCB). SDG&E focuses its responses on Observations 6, 14, 17, 21, 24, 27, and 30, for which UAFCB provided recommendations directed at SDG&E.

SDG&E's Responses to Specific Observations:

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

Observation 6 (pages 3 and A-4 to A-5):

> SDG&E 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 program cycle. SDG&E reported an IOU administrative cost cap of 9.95% for the 2013-2015 program cycle. However, UAFCB's determination of SDG&E's IOU administrative cost cap for the 2013-2015 disclosed an IOU administrative cost cap that exceeded the 10% IOU administrative cost cap. UAFCB's calculation produced an IOU administrative cost cap amount of 10.6% based on SDG&E's total EE program budget for the 2013-2015 program cycle and/or 12.4% based on SDG&E's EE program operating expenses for the 2013-2015 program cycle.

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.

Response:

This recommendation combines two issues that SDG&E will address separately.

Issue 1: What is the Appropriate Administrative Cost Cap Calculation Methodology?

UAFCB presents two different approaches for calculating the administrative cost cap: (a) Budget Methodology: the denominator is SDG&E's total EE program budget for the 2013-2015 program cycle; and (b) Operating Cost Methodology: the denominator is SDG&E's EE program operating expenses for the 2013-2015 program cycle.

SDG&E agrees with UAFCB that the EE Policy Manual does not have specific, clear instructions as to how the administrative cost cap should be calculated. This supports the need for clarification from the Commission. However, any clarification regarding the correct methodology should be applied *prospectively*, not retrospectively. A retroactive application of the newly defined methodology would unfairly deprive SDG&E of the ability to manage its administrative cost cap appropriately.

Issue 2: Did SDG&E exceed the 10% Administrative Cost Cap?

SDG&E disagrees with UAFCB's finding that SDG&E exceeded the administrative cost cap in 2013-2015. SDG&E's 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 SDG&E's administrative cost cap calculation in past audits and has not presented any negative findings regarding SDG&E's methodology. For 2013 through 2015, SDG&E provided the following tables in its budget and compliance advice letters, AL 2448-E/2167-G (2013-2014):[1]

	Budgets					
	Admin	ME&O	Direct Implementation	Incentives	EM&V	Total EE Budget
2013-2014 Compliance	$10,838,536	$8,853,065	$ 82,150,634	$ 94,859,229	$ 8,527,000	$ 205,228,463
	GRC Admin Loaders	GRC ME&O Loaders	GRC DI Loaders	Total (EE + GRC)	OBF Loan Pool	Total Funds
	$ 9,242,206	$ 206,204	$ 2,081,889	$216,758,763	$ 17,700,000	$ 234,458,763
	%Admin	%MEO	%DI	%Incentives	EM&V %	
2013-2014 Compliance	8.6%	3.9%	35.9%	48.0%	3.6%	
Caps/Targets	10.0%	6.0%	20.0%	60.0%	4.0%	

and AL 2682-E/2344-G (2015):[2]

	Admin	ME&O	Direct Implementation	Incentives	EM&V	Total EE Budget
2015	$ 4,040,122	$ 4,618,469	$ 42,671,647	$ 60,469,234	$ 4,656,529	$ 116,456,000
	GRC Admin Loaders	GRC ME&O Loaders	GRC DI Loaders	Total (EE + GRC)	OBF Loan Pool	Total Funds
	$ 3,905,076	$ 92,645	$ 868,044	$ 121,321,764	$35,002,565	$ 156,324,329
	%Admin	%MEO	%DI	%Incentives	EM&V %	
2015	5.1%	3.0%	27.9%	61.1%	4.0%	
Caps/Targets	10.0%	6.0%	20.0%	60.0%	4.0%	

SDG&E used the following assumptions for determining the 2013-2015 budget targets and caps:

[1] http://regarchive.sdge.com/tm2/pdf/2448-E.pdf, p. 3.
[2] http://regarchive.sdge.com/tm2/pdf/2682-E.pdf, p. 5.

Assumption 1. Compliance with D.09-09-047, OP13, 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 SDG&E program administrative costs that SDG&E 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, Emerging Technologies, WE&T, Lighting Market Transformation, local & statewide IDSM, and On-Bill Financing. In addition, third party local government costs were not included in SDG&E's administrative costs.

Assumption 2. SDG&E's EE authorized budget already includes costs for facilities, 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. General Rate Case loaders associated with the EE program labor, as directed by D.12-11-015, OP 39. On January 11, 2012, Energy Division conveyed ALJ Fitch's direction that the GRC costs are to be included in calculating portfolio budget administration cap.

Assumption 4. EM&V is four percent of the EE authorized program budget (and four percent of the total portfolio budget).[3]

Assumption 5. In order to be comparable to PG&E and SCE, SDG&E 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).

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[3]D.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," p. 147.

> Assumption 6. SDG&E 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 **$390,783,092 ($234,458,763 + $156,324,329)** based on the approved forecasted budget used to demonstrate SDG&E's 2013-2015 compliance with the Commission's administrative cost cap, and not UAFCB's proposed denominator of $318,395,236. UAFCB's calculation only considers the total program budgets and the benefit loaders, and improperly excludes all other approved budget components that SDG&E 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 SDG&E's advice letters but replacing them with actual costs, the resulting denominator is **$304,616,087**. SDG&E uses this methodology to calculate its performance against the administrative cost cap.[4] UAFCB calculates the denominator as only $271,949,094, which is incorrect because UAFCB does not include the OBF loan pool, EM&V, SW Marketing, and Marketing and DI Benefit Burden.

With respect to the numerator, SDG&E 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 + IOU's administrative benefit burdens)

However, UAFCB's formula does not account for $8,893,759 in administrative-exempted programs, as described above in Assumption 1 for SDG&E's EE budget and compliance advice letters. Additionally, SDG&E identified an error in its original response to DR-014 and corrected the amount in its response to UAFCB's Post-Exit comments. The correct total labor burden should be $10,748,653. This results in the correct total administrative costs total of $25,722,081, instead of UAFCB's purported total administrative costs calculation of $33,761,488.

SDG&E submits that the primary drivers for the difference in UAFCB's and SDG&E's calculations are (1) UAFCB erroneously excluded EM&V and OBF Loan Pool from the denominator[5], 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:

> 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.[6]

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 SDG&E is in compliance with the 10% administrative

[4] Refer to SDG&E's 2015 Fourth Quarter Report 2015—***SDGE FundShifting 2015Q4.2.xlxs***, available at http://eestats.cpuc.ca.gov/Views/Documents.aspx.

[5] D.12-11-015, Ordering Paragraph 39.

[6] Draft Report, p. A-4.

cost cap for the 2013-2015 program cycle."[7] This is inconsistent with UAFCB's analysis in past annual EE audits, where UAFCB has repeatedly reviewed and found no deficiencies in SDG&E's calculation methodology.

Consistent with past practice, SDG&E does not exceed the administrative cost cap using either the Budget Methodology or the Operating Cost Methodology, which results in an administrative cost of 6.58% and 8.44%, respectively, both well under the Commission's administrative cost cap of 10%.

Moreover, given that UAFCB admits that it is unable to determine SDG&E'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 SDG&E's 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.

SDG&E strongly recommends that the Commission clarify its policies and rules regarding the administrative cost cap calculation and provide explicit consequences for non-compliance to be applied prospectively. SDG&E has been managing its administrative cost cap in good faith; to retroactively apply this clarification would unfairly deprive SDG&E of its opportunity to manage the cost cap appropriately for the 2013-2015 time period.

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[7] *Id.*, p.A-5.

The following table summarizes the discussion above:

Budget Methodology:						
	UAFCB			SDG&E		
	Administrative Cost	Total Portfolio Cost	Admin Cap Calculation	Administrative Cost	Total Portfolio Cost	Admin Cap Calculation
IOU Admin Cost	$23,867,187			$23,867,187		
IOU Exempted Program Admin Cost	$0			-$8,893,759		
Benefit Burden	$9,894,301			$10,748,653		
	$33,761,488	**$318,395,236**	10.60%	$25,722,081	**$390,783,092**	6.58%
Operating Cost Methodology:						
	UAFCB			SDG&E		
	Administrative Cost	Total Portfolio Cost	Admin Cap Calculation	Administrative Cost	Total Portfolio Cost	Admin Cap Calculation
IOU Admin Cost	$23,867,187			$23,867,187		
IOU Exempted Program Admin Cost	$0			-$8,893,759		
Benefit Burden	$9,894,301			$10,748,653		
	$33,761,488	**$271,949,094**	12.41%	$25,722,081	**$304,616,087**	8.44%

UAFCB erroneously excludes from the denominator: EM&V and OBF Loan Pool[8]
UAFCB erroneously fails to exclude from the numerator: IOU admin-exempted programs, as approved in D.09-09-047 at pages 50-51, including Codes & Standards, Emerging Technologies, Workforce Education & Training (Business Portfolio),, Integrated Demand Side Management, Commercial-Continuous Energy Improvement, Commercial-Non-Residential Audit, Industrial-Continuous Energy Improvement, Industrial-Energy Audit, Agriculture-Continuous Energy Improvement, Agriculture-Energy Audit, Agriculture-Pump Test Services, and relevant local and partner programs.

[8] See Footnote 3.

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

***Observation 14* (pages 5 and A-8)**

> SDG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SDG&E's established accrual policy and procedures. SDG&E incorrectly included $150,047 in PY 2015 the C&S program expenditures belonging to PY 2014. The amount was charged to the Administrative cost category of the program. This represents 17% of the total C&S program expenses in PY 2015.
>
> Recommendation: SDG&E has since filed AL 2950-E/2511-G to claim its Management Fee incentive award for PY 2015. The Commission's ED should reduce the C&S Management Fee incentive award by $18,006 ($150,047 * 12%) when SDG&E's true-up AL is processed. In addition, SDG&E should adhere to accrual basis of accounting when recording and reporting its EE Program expenditures.

Response:

SDG&E concurs with this observation and will remove the expense of $18,006 from the calculation of the 2015 Codes & Standards incentive award. SDG&E clarifies that UAFCB does not dispute the validity of the payments and only has concern regarding the timing of SDG&E's recording to the program.

SDG&E will continue to strengthen its oversight over its Energy Efficiency accrual and review processes and has already provided additional training on this matter.

Non-Resource (NR) Program and Subprograms – 2015

Observation 17 (pages 5and A-9):

> SDG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SDG&E's established accrual policy and procedures. SDG&E incorrectly included $273,497 in PY 2015 the NR program expenditures belonging to PY 2014. The amount was charged to the Direct Implementation cost category. This amount represents 2% of the total NR program expenses in PY 2015.
>
> Recommendation: SDG&E has since filed AL 2950-E/2511-G to claim the NR Programs Management Fee incentive award for PY 2015. The Commission's ED should reduce the NR Management Fee incentive award by $8,205 ($273,497 * 3%) when SDG&E's true-up AL is processed. In addition, SDG&E should continue to monitor and strengthen the oversight of its accounting accrual procedures to ensure that each expense item having a value of $10,000 or more is properly accrued.

Response:

SDG&E concurs with this observation and will remove the expense of $273,497 from the calculation of the 2015 incentive award. SDG&E clarifies that UAFCB does not dispute the validity of the payments and only has concern regarding the timing of SDG&E's recording to the program.

SDG&E will continue to strengthen its oversight over its Energy Efficiency accrual and review processes and has already provided additional training on this matter.

Energy Upgrade California (EUC) Home Upgrade Program – 2015

Observation 21 (pages 21 and A-11 toA-12):

SDG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SDG&E's established accrual policy and procedures. SDG&E incorrectly included a total of $644,906 in PY 2015 that should have been recorded in PY 2014. The amount was charged to the Direct Implementation cost category of the EUC Home Upgrade Program. This amount represents 11% of the total EUC Home Upgrade Program expenses in PY 2015.

Recommendation: SDG&E has since filed AL 2950-E/2511-G to claim its Resource Programs Savings Incentive award for PY 2015. The Commission's ED should reduce the Resource Programs Savings Incentive awards by $644,906 when SDG&E's true-up AL is processed. In addition, SDG&E should revise its existing incentive accrual policy and procedures to ensure that EUC Home Upgrade costs are recorded in the year in which the work is completed.

UAFCB recommends that SDG&E develop an incentive accrual policy and procedures manual for its EUC Home Upgrade Program and provide the UAFCB the results of its corrective action once completed in order to facilitate UAFCB's examination of PY 2016.

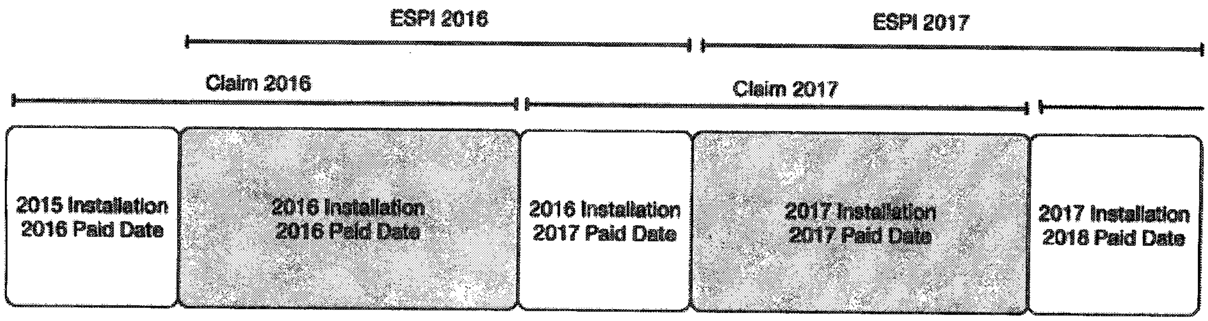
Response:

SDG&E disagrees with this recommendation and would remove $551,050 from UAFCB's proposed total adjustment of $644,906.

Customer C, Bldgs: (A - H, K, -M, P, R - U, W, X): SDG&E disagrees with the finding. SDG&E provided the payment history for Customer C in DR-018.1 Q1B. In the period between the installation completion date and the completion inspection report being received by SDG&E, the program facilitator (Richard Heath & Associates (RHA)) continued the project review and post retrofit inspection process outlined in DR-018, Q1 (A). Because of the lengthy review and retrofit inspection process, RHA maintained the ability to request corrections to this project. SDG&E did not consider the project fully installed and completed in 2014. Therefore, these projects were not accrued in 2014, but were properly recorded to 2015 once the corrective actions were appropriately installed and permits provided.

Customer M, Bldgs: (12, 13, 15, 16, 34), (1 - 11, 14, 18 - 33, 38, 39, 41 – 47), (17, 35 - 37, 40, 48): SDG&E disagrees with the finding. SDG&E provided the payment history for Customer M in DR-018.1 Q1A. In the period between the installation completion date and the completion inspection report being received by SDG&E, RHA continued the project review and post retrofit inspection process outlined in DR-018, Q1(A). Because of the lengthy review and retrofit inspection process, RHA maintained the ability to request corrections to this project. SDG&E did not consider the project fully installed and completed in 2014. Therefore, these projects were not accrued in 2014, but were properly recorded to 2015 once the corrective actions were appropriately installed and permits provided.

The following diagram reflects SDG&E's understanding of the appropriate accrual methodology for the EUC Home Upgrade Program:



SDG&E recommends the Energy Division review this finding and revise it to conclude that an expense reduction of $93,856 should be considered in the true-up of the calculation of the 2015 incentive award. SDG&E clarifies that UAFCB does not dispute the validity of the payments and only has concern regarding the timing of SDG&E's recording to the program.

Commercial Deemed Incentives – Commercial Rebate Program – 2015

Observation 24 (pages 7 and A-13 to A-14):

> SDG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SDG&E's established accrual policy and procedures. SDG&E incorrectly included $371,212 in PY 2015 that should have been recorded in PY 2014. The amount was charged to the Direct Implementation cost category. This amount represents 2% of the total CDIR program expenses in PY 2015.
>
> Recommendation: SDG&E has since filed AL 2950-E/2511-G to claim its Resource Programs Savings Incentives award for PY 2015. The Commission's ED should reduce the Resource Programs Savings Incentives awards by $371,212 when SDG&E's true-up AL is processed. In addition, SDG&E should continue to monitor and strengthen the oversight of its accounting accrual procedures to ensure that each expense item having a value of $10,000 or more is properly accrued.

Response:

SDG&E concurs with this observation and will remove the expense of $371,212 from the calculation of the 2015 incentive award true-up AL. SDG&E clarifies that UAFCB does not dispute the validity of the payments and only has concern regarding the timing of SDG&E's recording to the program.

SDG&E will continue to strengthen its oversight over its Energy Efficiency accrual and review processes and has already provided additional training on this matter.

Industrial EE Program and Subprograms – 2015

Observation 27 (pages 7 and A-15):

> SDG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SDG&E's established accrual policy and procedures. SDG&E incorrectly included $176,351 in PY 2015 the Industrial EE Program expenditures not belonging to PY 2015. The amount was charged to the Direct Implementation cost category of the Industrial EE Program. This amount represents 8% of the total Industrial EE Program expenses in PY 2015.

Recommendation: SDG&E has since filed AL 2950-E/2511-G to claim its Resource Programs Savings Incentive award for PY 2015. The Commission's ED should reduce the Resource Programs Savings Incentive awards by $176,351 when SDG&E's true-up AL is processed. In addition, SDG&E should continue to monitor and strengthen the oversight of its accounting accrual procedures to ensure that each expense item having a value of $10,000 or more is properly accrued.

Response:

SDG&E concurs with this observation and will remove the expense of $176,351 from the calculation of the 2015 incentive award true-up AL. SDG&E clarifies that UAFCB does not dispute the validity of the payments and only has concern regarding the timing of SDG&E's recording to the program.

SDG&E will continue to strengthen its oversight over its Energy Efficiency accrual and review processes and has already provided additional training on this matter.

Agricultural EE Program and Subprograms – 2015

Observation 30 (pages 8 and A-16 to A-17):

SDG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including SDG&E's established accrual policy and procedures. SDG&E incorrectly included $54,720 in PY 2015 that should have been recorded in PY 2014. The amount was charged to the Direct Implementation cost category of the Agricultural EE Program. This amount represents 8% of the total Agricultural EE Program expenses in PY 2015.

Recommendation: SDG&E has since filed AL 2950-E/2511-G to claim its Resource Programs Savings Incentive award for PY 2015. The Commission's ED should reduce the Resource Programs Savings Incentive awards by $54,720 when SDG&E's true-up AL is processed. In addition, SDG&E should continue to monitor and strengthen the oversight of its accounting accrual procedures to ensure that each expense item having a value of $10,000 or more is properly accrued.

Response:

SDG&E concurs with this observation and will remove the expense of $54,720 from the calculation of the 2015 incentive award true-up AL. SDG&E clarifies that UAFCB does not dispute the validity of the payments and only has concern regarding the timing of SDG&E's recording to the program.

SDG&E will continue to strengthen its oversight over its Energy Efficiency accrual and review processes and has already provided additional training on this matter.

Sincerely,

Michelle Somerville

Michelle Somerville

Regulatory Business Manager

cc: K. Nakamura - UAFCB
F. Ly – UAFCB
L. Davidson – SDG&E
E. Adler – SDG&E
A. Besa – SDG&E
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