California Public Utilities Commission

Utility Audit, Finance and Compliance Branch

Compliance Examination of the Public Purpose Program Regulatory Accounts of Southern California Edison Company

For the Years Ended December 31, 2015 and 2016

December 15, 2017

Acknowledgement

The following Commission staff contributed to the completion of this report
Kayode Kajopaiye, Raymond Yin and Mabel Wu

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December 15, 2017

Compliance Examination Report

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Southern California Edison Company (SCE)
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Compliance Examination Report of SCE's 2015 and 2016 Public Purpose Program Regulatory Accounts

Dear Mr. Lisbin:

Pursuant to Public Utilities Code (PUC) Sections (§§) 314 (a) and 314.5, and Commission Decision (D.) 09-09-047, Ordering Paragraph (OP) 14, the Utility Audit, Finance and Compliance Branch (UAFCB) of the California Public Utilities Commission (Commission) conducted a regulatory compliance examination of the Public Purpose Program (PPP) regulatory accounts of Southern California Edison Company (SCE). The intent of PUC § 314.5 is to ensure that the utilities' books and records are periodically inspected and audited for regulatory and tax purposes.

The purpose of the examination was to determine whether SCE complied with the requirements established in the Commission directives and SCE's internal policies and procedures with regard to the PPP regulatory accounts. The results of this report are based on our review performed for the period from January 1, 2015 through December 31, 2016.

Results Summary

In general, SCE complied with the requirements established in the Commission directives and SCE's internal policies and procedures with regard to its PPP regulatory accounts. However, UAFCB identified four areas as described in the following paragraph that require immediate attention of the Commission and SCE.

Observations needed to be addressed immediately by SCE and the Commission:

UAFCB identified the following four areas that need to be addressed immediately by the Commission and SCE. Detailed discussions of these observations are described in the Summary of Observations and Recommendations in Section II of this report.

1. Observation 6 – SCE consistently collected unneeded funding from the PPP, resulting in six PPP regulatory accounts carrying excessive balances in the past 10 years. As of December 31, 2016, the total net balance of over-collection on those PPP regulatory accounts is approximately $448 million.
2. Observation 8 – SCE should use a better mechanism to refund over-collected funds to its ratepayers directly. Observation 9 – SCE's preliminary statements of EPICBA-SCE,

EPICBA-CEC, and ESAPAM were not updated timely to incorporate the Commission's directives regarding the treatment of over-collections and under-collections at year-ends.
3. Observation 10 – The PPP financial information in year-end consolidated revenue requirement and rate filing was not accurate.

Scope and Methodology

To determine SCE's compliance with the requirements established in the Commission directives and SCE's internal policies and procedures with regard to the PPP regulatory accounts, we performed the following:

1. Reviewed applicable Commission directives and SCE's internal policies and procedures.
2. Interviewed key personnel at SCE to gain an understanding of the accounting and reporting processes related to PPP regulatory accounts.
3. Verified whether the approved PPP rates were properly billed and the PPP revenues received were accounted for in Program Years 2015 and 2016 in compliance with Commission directives.
4. Verified whether the PPP program expenditures drawn from those regulatory accounts were properly recorded.[1]
5. Evaluated whether the over-collection and under-collection of program funds were properly resolved at the end of each year under examination in accordance with Commission directives.

This report is intended solely for the information and use of management of SCE and the Commission and is not intended to be and should not be used by anyone other than the specified parties.

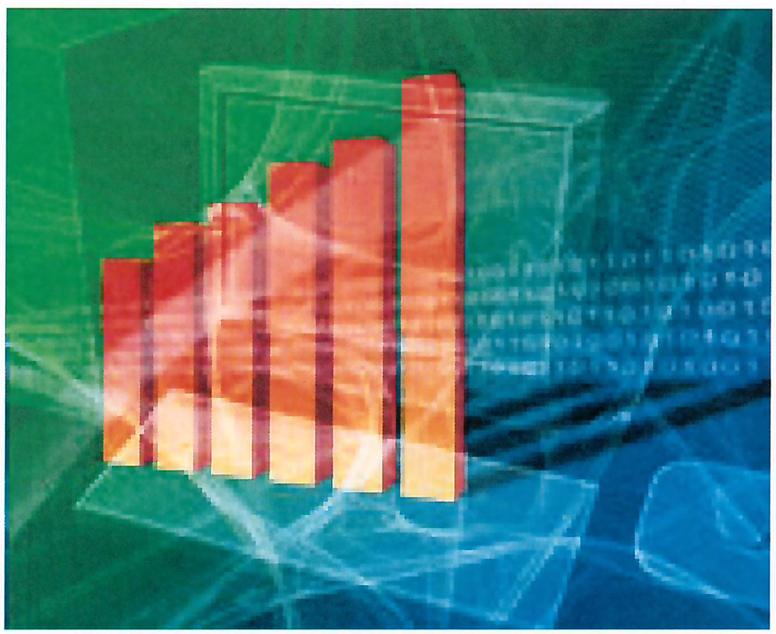
We appreciate the assistance and cooperation of SCE staff during the examination. If you have any questions regarding this report, please contact Mabel Wu at Mabel.Wu@cpuc.ca.gov.

/s/ Raymond Yin

Raymond Yin
Program and Project Supervisor
Utility Audit, Finance and Compliance Branch

cc: Maryam Ebke, Deputy Executive Director, CPUC
Barbara Owens, Enterprise Risk and Compliance Officer, CPUC
Mabel Wu, UAFCB
Peter Skala, Deputy Director, Energy Division

[1] Due to scope limitation, UAFCB did not verify the reliability of the PPP program expenditures in this examination because they will be reviewed in separate examinations.



I. EXECUTIVE SUMMARY

The Utility Audit, Finance and Compliance Branch (UAFCB) of the California Public Utilities Commission (Commission) examined the Public Purpose Program (PPP) regulatory accounts of Southern California Edison Company (SCE) for the period of January 1, 2015 through December 31, 2016, or Program Years (PYs) 2015 and 2016.

The purpose of the regulatory compliance review was to determine whether SCE properly billed, recorded and reported PPP revenues of its regulatory accounts in accordance with Public Utilities Code (PUC) Sections (§§) 381 and 399.8(b)1, and applicable Commission directives including, but not limited to, Commission Decision (D.) 15-01-023, D.15-01-002, D.14-10-046, D.04-08-010, and D.03-12-062.[1] UAFCB also reviewed if SCE properly reflected the PPP program expenditures[2] drawn from those regulatory accounts. Specifically, UAFCB's examination included: (1) verifying whether the approved PPP rates were properly billed and if the PPP revenues received were accounted for in PYs 2015 and 2016 in compliance with Commission directives, (2) evaluating whether SCE's internal control over its PPP billing, accounting and recording process to ensure proper safeguard of ratepayer funds, (3) verifying whether the PPP program expenditures[2] drawn from those regulatory accounts were properly recorded, and (4) evaluating whether the over-collection and under-collection of program funds were properly resolved at the end of each year under examination in accordance with Commission directives.

UAFCB examined ten (10) regulatory accounts used by SCE to track its PPP activities. A detailed description and purpose of each regulatory account are included in Appendix A of this report.

A summary of UAFCB's observations and recommendations resulting from the regulatory compliance review is included in Section II of this report. A detailed summary of UAFCB's analysis and findings is included in Section IV of this report.

On November 15, 2017, UAFCB provided a draft of its observations and recommendations to SCE for comment. On December 1, 2017, SCE provided its comments. UAFCB summarized those comments, including UAFCB's rebuttals to those comments, in Section II. Where appropriate, UAFCB modified its observations and recommendations. SCE's response in its entirety is provided in Appendix C.

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[1] Among other things, D.15-01-002 authorized the 2015 EE programs and budgets; D.15-01-023 corrected errors on D.15-01-002 and updated the 2015 EE budgets; D.14-10-046 extended the 2015 EE budget level to year 2025; D.03-12-062 ordered the utilities to establish one-way balancing accounts to track EE cost
s and revenue.

[2] Due to scope limitation, UAFCB did not verify the reliability of the PPP program expenditures in this examination because they will be reviewed in separate examinations.

II. SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

Observation 1: SCE's internal controls for billing, accounting and recording of its PPP regulatory accounts were adequately designed to record and report its PPP activities in compliance with the requirements of the Commission. SCE's internal controls over the billing and accounting of its regulatory accounts for the PPP activities during PYs 2015 and 2016 seemed adequate.

Recommendation: None.

Observation 2: SCE's PPP revenue recorded in the PPP regulatory accounts were properly accounted for. The PPP revenues were properly allocated and recorded in the PPP regulatory accounts' monthly closing statements and met the requirements specified in SCE's preliminary statements.

Recommendation: None.

Observation 3: SCE demonstrated compliance with PUC §§ 381 and 399.8(b)1, and applicable Commission directives with respect to billing PPP charges using proper PPP rates for its authorized PPP regulatory accounts. SCE properly billed its PPP charges to its customers using the Commission-approved PPP rates specified in its tariffs for PYs 2015 and 2016.

Recommendation: None.

Observation 4: SCE's total PPP regulatory account balances in the annual audited financial statements reconciled with the sum of the PPP regulatory account balances reported in the regulatory accounts' monthly closing statements. In addition, the year-end balances in the PPP regulatory accounts' monthly closing statements agreed with the balances in the general ledger without exception.

Recommendation: None.

Observation 5: SCE demonstrated compliance with PUC §§ 381 and 399.8(b)1, and applicable Commission directives with respect to recording PPP expenditures in its PPP regulatory accounts. UAFCB's review of SCE's recording of PPP expenditures[3] drawn from its PPP regulatory accounts disclosed no material exception.

Recommendation: None.

Observation 6: SCE consistently collected unneeded funding from the PPP, resulting in six PPP regulatory accounts carrying excessive over-collection balances in the past 10 years.

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[3] Due to scope limitation, UAFCB did not verify the reliability of the PPP program expenditures in this examination because they will be reviewed in separate examinations.

Appendix B of this report presents the year-end balances of those PPP regulatory accounts from 2007, or inception of the programs, to 2016. As of December 31, 2016, the total net balance of those PPP regulatory accounts resulted in an over-collection amount of approximately $448 million. Appendix B demonstrates a consistent pattern of material over-collection in aggregate of these PPP regulatory accounts. Technically, these accounts should be balanced or carry small balances by the end of every program year. UAFCB also observed that SCE kept high commitment amount to fund incentive rebates, services, and other deliverables so that it did not have to return the over-collection. In addition, UAFCB noted that the PPP budgets were significantly higher than the actual PPP expenditures. Section IV of this report provides additional details regarding this matter.

SCE's Comments: SCE contends that:

"The over-collected amounts are associated with regulatory accounts related to three distinct program areas, Energy Efficiency Programs, Low Income Programs (i.e., Energy Savings Assistance Program) and the Electric Program Investment Charge (EPIC) program, each with distinct reasons for the existing over-collections.

Energy Efficiency Programs

Energy Efficiency program funds are collected in two of the balancing accounts within PPP regulatory accounts, PEEBA and EEFPBA. These funds have been authorized in various decisions throughout the past 10 years. SCE manages the programs in accordance with the Energy Efficiency Policy Manual. The nature of some energy efficiency programs requires funds to be committed to customers to begin long-term energy efficiency projects. The projects can sometimes take up to 3-5 years to complete. SCE only commits funds where we have Commission authorization to do so. SCE retains these funds until the projects are completed and incentives are paid out.

SCE believes the current mechanism of reducing the annual revenue requirement via the Annual Budget Advice Letter is an effective way to return funds to customers. Previously, any funds at the end of program cycles that were not committed or spent were returned to customers by reducing the revenue collection in a future cycle. SCE has returned funds multiple times previously, including $75 million in 2015 for prior program years. SCE, however, was not required by the Commission to file a compliance filing for the 2016 program year, but rather the 2015 authorized budgets and revenue were carried forward at the same levels. SCE did file a 2017 Budget Advice Letter which included $21 million of unspent funds to be returned. That was the amount of funds available at the end of 2015 that were uncommitted or unspent. SCE is required to file on September 1st of each year for the subsequent year. This timing does not allow for unspent/uncommitted funds for that year to be included or returned. SCE filed its 2018 Budget Advice Letter on September 1, 2017, but will be required to file a true-up advice letter upon a Final Decision on SCE's Energy Efficiency Business Plan Application (A.17-01-013). At that time, SCE will return unspent/uncommitted funds through 2016 for the PEEBA and EEFPBA regulatory accounts.

Income Qualified Programs

As discussed in the report, SCE has been instructed by the Commission to utilize the over-collection in the ESAPAM and CAREBA to fund new activities within the Income Qualified Program area. SCE has filed to utilize a substantial portion of those funds for new program activity and will continue to pursue appropriate avenues to serve income qualified customers.

EPIC
The Commission issued decision (D.)12-05-037, establishing the EPIC. This Commission decision determined there would be four EPIC Administrators: Pacific Gas and Electric (PG&E), SCE, San Diego Gas and Electric (SDG&E) and the California Energy Commission (CEC). Furthermore, this Commission decision requires SCE to collect funding on behalf of the CEC. The Commission's decision establishing the EPIC came nearly two years prior to approval of the EPIC I Investment Plan Applications.' Given that collections occurred almost two years before funding could be expended, contributed to the EPIC balancing account's overcollection. Furthermore, the CEC approves EPIC funds at their monthly business meetings. These approved funding amounts vary depending on the number of CEC Project Opportunity Notices (PONs) available. SCE does not control these CEC EPIC funds. Per the Commission's requirements for EPIC, SCE collects and holds CEC funds in the EPIC balancing account, then remits to the CEC when funding is approved."

Rebuttal: As shown in Appendix B, SCE consistently carried significant and excessive over-collected balances in its PPP regulatory accounts over the past ten years. The Commission should address this pattern and provide only the necessary funding for the Public Purpose Programs. As described in detail in Section IV, SCE loosely committed funds for rebates, incentives, services or other deliverables that SCE would pay by consenting via written documents. This practice encourages spending and incentivizes SCE keeping the over-collection. SCE's spending capacity is inflated by the un-refunded portion of the over-collection. For example, the 2016 maximum budget or spending capacity in the EE program was increased to $522 million from the $322 million revenue requirement authorized by Commission for PY 2016. The extra $200 million represents $221 million over-collection accumulated balance carried over from prior year, less $21 million refunded to SCE's ratepayers. The extra $200 million resulted from prior years' over-collection was not part of CPUC's 2016 budget review. UAFCB is concerned with the cost accounting and budgeting practice related to the exclusion of commitments in the budget.

In addition, the EEFPBA closing statements disclosed over-collections of $82,749,007 and $72,790,818 as of December 31, 2015 and 2016, respectively. The statements also disclosed a net cash outflow associated with loan activities of only $1 million and $3 million in 2015 and 2016, respectively. Therefore, SCE had collected significantly more funds than needed.

Recommendations: The Commission should address the over-collection issue by substantially reducing the PPP budget to lessen the burden on SCE's ratepayers while providing only necessary level of funding for those programs. The Commission should also establish clear, uniform, and stringent guidelines for determining "committed funds" to effectively minimize the usage of "committed but unspent funds" in SCE's PPP regulatory accounts. In addition, the

Commission should establish clear guidelines to require all the energy utilities to return unspent funds to their ratepayers through customer bill credits, providing budget transparency.

Observation 7: SCE properly computed interest on month-end balances of the PPP regulatory accounts using criteria specified in SCE's preliminary statements. The interest rates used by SCE to calculate interest agreed with the 90-day commercial paper rates required by the preliminary statements.

Recommendation: None.

Observation 8: SCE should use a better mechanism to refund over-collected funds to its ratepayers directly. SCE currently returns uncommitted and unspent over-collection amounts to its ratepayers by offsetting them against authorized revenue requirements through year-end rate setting Advice Letters (ALs) or other ALs approved by the CPUC. Our review disclosed that the authorized PPP revenue requirements significantly exceeded actual PPP expenditures for the last eight years based on the information UAFCB reviewed. Section IV of this report provides additional details regarding this matter.

SCE's Comments: SCE opposes UAFCB's proposed recommendation to include a separate line item on customer billing statements for the following four reasons: 1) The implementation of the proposal would be costly for its customers because adding a line item credit on the customer billing statement is costly to implement. It requires IT analysis and the development of end-to-end system testing prior to implementation of a solution with SCE's billing systems. 2) The recommendation is extremely complex for IT to implement as it has an impact on many of SCE's current systems. 3) The recommendation is counter to SCE's efforts to simplify customer billing statements. 4) The impact of the PPP refund on the customer billing statement would be small. SCE will not implement the recommendation unless it is directed by the Commission.

Rebuttal: UAFCB disagrees with SCE's comments. The current refund practice of budget offset does not provide transparency to ratepayers because they would not be able to understand their fair shares of the total PPP refund amounts in SCE's advice letters filed with the Commission. Showing the actual refund amounts on customer billing statements will enable ratepayers to know their exact refund amounts. This refunding mechanism would be effective, transparent, and simple because ratepayers would receive refunds in the same manner they pay for the programs.

In addition, the current practice of offsetting the PPP over-collected amounts against authorized revenue requirements encourages over-budgeting practice. Table 4 in Section IV of this report demonstrates that the authorized revenue requirements have been historically higher than actual program expenditures. SCE should refund over-collected funds to its ratepayers directly.

Recommendation: The Commission should consider revising its directives regarding the refunding mechanism to ratepayers for transparency. Any refund of over-collection should be a credit against service charge on customer billing statements instead of an offset with the authorized revenue requirements similar to the recommendation in Observation 6.

Observation 9: SCE's preliminary statements for EPICBA-SCE, EPICBA-CEC, and ESAPAM were not updated timely to incorporate the Commission's directives[4] regarding the treatment of over-collections and under-collections at year-ends. SCE's preliminary statements for those PPP regulatory accounts were not updated to reflect the intent of the Commission. Not updating these preliminary statements in a timely manner increases the risk that the over-collection balances at year-ends are not refunded to ratepayers timely. Section IV of this report provides additional details regarding this matter.

SCE's Comments: In its year-end consolidated revenue requirement and rate change advice letter to set January 1, 2018 rate levels and effective tariffs, SCE will include updates to the EPICBA-SCE, EPICBA-CEC, and ESAPAM preliminary statements to incorporate the language shown in italics on page 14 of the UAFCB draft report.

Rebuttal: UAFCB will evaluate SCE's progress in this area when it conducts its next examination.

Recommendation: SCE should timely update its preliminary statements for EPICBA-SCE, EPICBA-CEC, and ESAPAM to reflect the Commission's directives on the treatment of over-collections at year-ends.

Observation 10: The PPP financial information in the annual consolidated revenue request and rate change filing was not accurate. Our review of the PPP financial information in the annual consolidated revenue request and rate change filing (AL 3515-E-A) disclosed that SCE's PPPAM schedule in the filing included an error of $6,570,276 in the ending balance of November 2016. The error was carried forward to the December 2016 balance. Since the PPPAM ending balance in December 2016 was a component of the 2017 consolidated authorized revenue requirement, which was used to develop the 2017 PPP rate, the inaccuracy of the PPP financial information could affect the 2017 PPP rate. Section IV of this report provides additional details regarding this matter.

SCE's Comments: SCE will implement internal controls to prevent this problem from recurring in the future.

Rebuttal: UAFCB will evaluate SCE's progress in this area when it conducts next examination.

Recommendation: SCE should ensure the accuracy of the financial information included in its annual consolidated revenue request in the rate change AL filing with the Commission.

Observation 11: SCE timely recouped the under-collections in its PPPAM according to the approved PPPAM preliminary statement. SCE reported under-collected ending balances of $314,251,147 and $109,267,905 as of December 31, 2015 and 2016, respectively, in the PPPAM monthly closing statements. The forecasted ending balances for those years were offset against the authorized revenue requirements in the consolidated revenue and rate setting filings for rates

[4] Ordering Paragraph 39 of D.13-11-025 at Page 142 and Section 5.1-6 of D.16-11-022 at Page 361.

effective January 1, 2016 and 2017, respectively. SCE timely recouped the under-collections through budget offset.

Recommendation: None.

Observation 12: SCE timely applied the over-collections of the CAREBA according to the approved CAREBA preliminary statement. SCE reported over-collected ending balances of $20,518,859.55 and $17,491,292 as of December 31, 2015 and 2016, respectively, in the CAREBA monthly closing statements. The forecasted ending balances for those years were offset against the authorized revenue requirements in the consolidated revenue and rate setting filings for rates effective January 1, 2016 and 2017, respectively.

Recommendation: None.

III. OBJECTIVE, SCOPE, AUTHORITY, AND TESTING

A. Examination Objective

UAFCB's overall objective was to determine whether SCE properly captured and accounted for the PPP revenue and program activities in its Commission-approved electric regulatory accounts for PYs 2015 and 2016. UAFCB's examination included: (1) verifying whether the approved PPP rates were properly billed and if the PPP revenues received were accounted for in Program Years 2015 and 2016 in compliance with Commission directives; (2) evaluating whether SCE's internal control over its PPP billing, accounting and recording process to ensure proper safeguard of ratepayer funds; (3) verifying whether the PPP program expenditures[5] drawn from those regulatory accounts were properly recorded; and, (4) evaluating whether the over-collection and under-collection of program funds were properly resolved at the end of each year under examination and in accordance with Commission directives.

UAFCB did not verify the reliability of the PPP expenditures recorded in the PPP regulatory accounts for PYs 2015 and 2016 because those expenditures will be reviewed in separate examinations.

B. Examination Scope

The examination scope included reviewing customer billing records, accounting records, and documentation associated with entries SCE made in its PPP regulatory accounts from January 1, 2015 through December 31, 2016.

C. Authority

[5] Due to scope limitation, UAFCB did not verify the reliability of the PPP program expenditures in this examination because they will be reviewed in separate examinations.

Pursuant to PUC § 314(a), the Commission may, at any time, inspect the accounts, books, papers, and documents of any public utility. PUC § 314.5 requires the Commission to inspect and audit the books and records of electrical, gas, heat, telegraph, telephone, and water corporations for regulatory and tax purposes (a) at least once in every three years in the case of corporations serving over 1,000 customers, and (b) at least once in every five years in the case of corporations serving 1,000 or fewer customers. In D.09-09-047, Ordering Paragraph (OP) 14, the Commission directs that *"Commission staff shall conduct a full audit of the utilities' administrative and other costs..."* associated with the energy efficiency (EE) programs.

D. Methodology and Testing

To determine SCE's compliance with the requirements established in the Commission directives and SCE's internal policies and procedures with regard to the PPP regulatory accounts, we performed the following:

1. Reviewed applicable Commission directives and SCE's internal policies and procedures.
2. Interviewed key personnel at SCE to gain an understanding of its accounting and reporting processes related to the PPP regulatory accounts.
3. Verified that the approved PPP rates were properly billed and the PPP revenues received were accounted for in PYs 2015 and 2016 in compliance with Commission directives.
4. Verified whether the PPP expenditures drawn from those regulatory accounts were properly recorded.[6]
5. Evaluated whether the over-collection and under-collection of program funds were properly resolved at the end of each year under examination in accordance with Commission directives.

[6] Due to scope limitation, UAFCB did not verify the reliability of the PPP program expenditures in this examination because they will be reviewed in separate examinations.

IV. SUMMARY OF EXAMINATION FINDINGS

A. Introduction

Pursuant to PUC § 381, SCE is required to identify a separate rate component to collect the revenue used to fund programs that enhance system reliability, such as cost-effective energy efficiency and conservation activities, public interest research and development, and new and emerging renewable energy resources. Pursuant to PUC § 399.8(b)1, every customer is required to pay a non-bypassable systems benefit charge to fund energy efficiency, renewable energy, and research, development and demonstration. D.05-01-055 authorized investor-owned utilities (IOUs) to administer energy efficiency funds with Commission oversight.

Before setting up a regulatory account, SCE must file and receive Commission approval of a Preliminary Statement that details the purpose of the regulatory account and the types of costs and/or revenue that are to be tracked in the account for Commission approval.[1] Preliminary Statements also detail the specific accounting procedures that SCE must perform to record transactions in the regulatory accounts.

SCE recovers its Commission-authorized PPP funding requirement through a PPP tariff rate that is applied to each customer's billing based on the type of customer class and the number of units of electricity consumed.[2] The bundled PPP tariff rate, listed as a separate line-item in customer bills, is determined based on Commission-authorized funding amounts to recover the cost of the PPP such as the EE Program, Energy Savings Assistance Program (ESAP), California Alternative Rates for Energy (CARE) Program, Electric Program Investment Charge (EPIC), and any other PPP authorized by the Commission. Periodically, the Commission establishes new PPP rates for SCE to fund PPP based on projected program cost and past over- or under-collections. Once the rates and any new tariff changes are approved by the Commission, SCE reflects the rates in the Preliminary Statements and tariffs.

The mechanism used by SCE to monitor the collection of the PPP authorized revenue requirement (ARR or budget) and track specific types of costs charged against such revenue requirements or actual revenue collected is through the use of PPP regulatory accounts, which may be authorized as either one-way or two-way. A one-way regulatory account matches actual expenditures against a spending target (or ARR). Often, one-way regulatory accounts limit recovery[3] to the lower of actual expenditures or the amount authorized; shareholders are at risk for amounts spent over authorized amounts. A two-way regulatory account often compares revenue and expenses or actual revenue to authorized revenue and allows over-collections to be refunded and under-collections to be recoverable through rates. A two-way regulatory account does not provide for a limit or cap on expenditures.[4] In general, the balance in a two-way regulatory account can either be over- or under-collected depending on the difference between

[1] A utility maintains, among other things, approved Preliminary Statements in its tariff books.
[2] Utilities are authorized to consolidate the rates to recover the cost of each PPP by a bundled PPP rate that is applied to customers' bills.
[3] See Resource, an Encyclopedia of Energy Utility Terms, by PG&E, Second Addition, p. 39.
[4] See Resource, an Encyclopedia of Energy Utility Terms, by PG&E, Second Edition, pp. 38-39.

the different types of amounts being tracked in the balancing account. Unless approved otherwise, PPP regulatory accounts accumulate interest periodically at a rate equal to one-twelfth of the interest rate on three-month commercial paper rate.[5]

SCE updates its PPP rate levels to reflect the most current Commission-adopted revenue requirements in its annual year-end revenue requirement and rate consolidation AL. The authorized revenue requirements for the PPP include funding established by Commission decisions for EE, EE Finance Programs (includes On-bill Financing), ESAP, CARE Administration, Electric Program Investment Charge (EPIC), Statewide Marketing, Education and Outreach (SWME&O), and New Solar Home Partnership (NSHP) Programs.

SCE collects PPP rate revenue from its ratepayers on a volumetric basis (i.e., based on kilowatt-hours or kWh for electricity) and by customer class such as residential, commercial, industrial, agricultural and street lighting, etc. SCE allocates the total PPP revenue collected to the revenue regulatory accounts PPPAM and CAREBA. SCE does not distribute the PPP revenue collected to the individual program level.

The ending balance in a revenue-tracking PPP regulatory account is the accumulated difference between the PPP authorized revenue requirement and the actual revenue collected from current PPP rates. The ending balance on an expenditure-tracking PPP regulatory account is the accumulated difference between the PPP authorized revenue requirement and the actual program expenditures incurred. The purpose of the regulatory accounts is to ensure cost recovery of a regulatory program and to avoid the risk of over-collection and under-collection in rates of reasonably incurred program costs.

B. PPP Authorized Budgets and Expenditures

SCE filed multiple ALs to update its PPP revenue requirements and electric rates for PYs 2015 and 2016[6]. Table 1 shows a summary of the total PPP revenue requirements for PYs 2015 and 2016. Table 2 shows a summary of SCE's reported PPP expenditures for PYs 2015 and 2016.

[5] Ibid, pp. 37-38.
[6] Advice Letters 3155-E-A and 3319-E-A

Table 1
Summary of 2015 and 2016 PPP Authorized Revenue Requirements[7]

Public Purpose Programs	2015	2016
Procurement Energy Efficiency (EE)[8]	$322,120,000	$322,120,000
Energy Efficiency Finance Programs (EEFPBA)	11,200,000	11,200,000
Energy Savings Assistance Program (ESA)	70,736,631	70,146,377
California Alternate Rates for Energy (CARE)[9]	7,023,970	7,430,134
Electric Program Investment Charge – SCE (EPIC)	13,898,000	13,898,000
Electric Program Investment Charge– CEC (EPIC)	55,593,000	55,593,000
Electric Program Investment Charge– CPUC (EPIC)	349,000	349,000
Statewide Marketing, Education, & Outreach (ME&O)	6,000,000	7,700,000
New Solar Home Partnership Program (NSHPP)[10]	N/A	45,950,000
Total Recorded PPP Authorized Revenue Requirement	**$486,920,601**	**$534,386,511**

Table 2
Summary of 2015 and 2016 Reported PPP Expenditures[11]

Public Purpose Programs	2015	2016
Procurement Energy Efficiency (PEE)	$315,591,890	$273,137,900
Energy Efficiency Finance Programs (EEFP)	957,042	2,958,747
Energy Savings Assistance Program (ESAP)	51,176,408	55,971,487
California Alternate Rates for Energy (CARE)	4,599,059	5,079,257
Electric Program Investment Charge – SCE (EPIC)	11,338,390	21,302,493
Electric Program Investment Charge– CEC (EPIC)	81,217,808	97,505,025
Electric Program Investment Charge– CPUC (EPIC)	349,201	349,201
Statewide Marketing, Education, & Outreach (SWME&O)	10,715,679	1,609,588
Total Recorded PPP Expenditures	**$475,945,477**	**$436,611,205**

C. SCE's Public Purpose Program Regulatory Accounts

SCE maintained ten (10) regulatory accounts to capture its PPP activities during PYs 2015 and 2016. These PPP regulatory accounts are listed below:

7 The table excluded the Conservation Incentive Adjustment, Intervenor Compensation Cost, and the Cool Center Expense.
9 Authorized revenue requirements here exclude refund amounts.
10 CARE authorized revenue requirement here includes CARE administrative cost only.
11 Program started in 2016.
12 Expenditures/payments were taken from SCE's regulatory accounts' monthly closing statements. They included payments of commitments from previous funding cycles' budgets.

REGULATORY ACCOUNTS	Acronym
1. Public Purpose Programs Adjustment Mechanism	PPPAM
2. Procurement Energy Efficiency Balancing Account	PEEBA
3. Energy Efficiency Finance Programs Balancing Account	EEFPBA
4. Energy Savings Assistance Program Adjustment Mechanism	ESAPAM
5. California Alternate Rates for Energy Balancing Account	CAREBA
6. Electric Program Investment Charge Balancing Account – Southern California Edison	EPICBA – SCE
7. Electric Program Investment Charge Balancing Account – California Energy Commission	EPICBA - CEC
8. Electric Program Investment Charge Balancing Account – California Public Utilities Commission	EPICBA – CPUC
9. Statewide Marketing, Education, & Outreach Balancing Account	SWME&O
10. New Solar Home Partnership Program Balancing Account	NSHPPBA

A detailed description and the purpose of each PPP regulatory account are included in Appendix A of this report.

D. Significant Findings

<u>**Excessive Over-collection of PPP Regulatory Accounts**</u>

SCE consistently collected unneeded funding for the PPP, resulting in many PPP regulatory accounts carrying excessive balances in the past 10 years. Appendix B presents the year-end balances of those PPP regulatory accounts from 2007 or inception of the programs to 2016. As of December 31, 2016, the total net balance on those PPP regulatory accounts resulted in an over-collection of $448 million. These over-collection balances represent monies collected from and funded by SCE's ratepayers. Many of these material over-collections and underspent-authorized budgets have been accumulated and carried forward during the past 10 years. These accounts should carry minimum balances by the end of every program year. The Commission could have established such minimum balances. Appendix B demonstrates a consistent pattern of material over-collection in aggregate of these PPP regulatory accounts. The EE Program consistently has the highest over-collection balance among all PPP regulatory accounts, with only $21,051,000 of $152,246,971 over-collection being returned to ratepayers as of December 31, 2015. SCE kept high commitment amount to fund incentive rebates, services, and other deliverables so that it did not have to return the over-collection.

Appendix B discloses the overall trend of significant increase in over-collections of PEEBA, EEFPBA, ESAPAM, and EPIC-CEC from PY 2007 (or inceptions of programs) to PY 2016. The PEEBA balance increased from $52 million in 2007 to $221 million in 2016, a 325% rise. The ESAPAM soared from $47,611 under-collection in 2007 to $124,383,309 over-collection in 2016, a 261,149% rise. The increases of accumulated ending balances of over-collections were because SCE did not refund or did not refund timely to its customers the unused funds.

The comparison of the regulatory accounts' over-collection as of December 31, 2016 with the 2016 AAR/budget disclosed that the amounts of over-collections as of December 31, 2016 are closed to or exceed one year's budget in most accounts. See Table 3 below. For example, the PEEBA's over-collection as December 31, 2016 is 69% of the annual budget. The EEFPBA's over-collection as of December 31, 2016 is 650% of the annual budget. The ESAPMA's over-collection as of December 31, 2016 is 177% of the annual budget. Therefore, the over-collections in majority PPP accounts are excessive.

Table 3
Comparison of Over-collection with Budget

	Over-collection[12] as of 12/31/2016	Budget	% of Over-collection to Budget
PEEBA	($221,347,912)	$322,120,000	69%
EEFPBA	(72,790,818)	11,200,000	650%
ESAPAM	(124,383,309)	70,146,377	177%
CARE	(17,491,292)	7,430,134	235%
EPIC-SCE	(29,988,079)	13,898,000	216%
EPIC-CEC	(69,353,752)	55,593,000	125%
EPIC-CPUC	(827)	349,000	0%
SWME&O	(10,309,085)	7,700,000	134%
NSHPPBA	(11,496,070)	45,950,000	25%

Any over-collection and under-collection accrue interest based on a 90-day commercial paper rate published by the U.S. Federal Reserve. After the 2008 financial crisis, the U.S. Federal Reserve has kept the interest rate artificially low. During our examination period from January 1, 2015 through December 31, 2016, the interest rates used to calculate interest on under-collection and over-collection ranged from 0.10% to 0.62%. Keeping the excess funding in SCE's bank account was similar to obtaining an ultra-low interest loan from its ratepayers. Not timely refunding the excess amount to its ratepayers provided SCE source of low interest loan from its ratepayers.

UAFCB also observed that the PPP authorized budgets were significantly higher than the actual PPP expenditures. Table 4 below shows a comparison of the authorized revenue requirements with the actual expenditures incurred on EE, EEFP, and SWME&O programs that included the majority of total PPP funding. Some payments issued in current year did not come out of current year's budget but from prior years' budget due to the prior years' commitment carried forward. The expenditure on Table 4 includes the payments of commitment from previous budgets. With the inclusion of additional payments from previous budgets, the current years' budgets are still significantly higher than the actual expenditures. These budgets were authorized to be collected

[13] A negative balance denotes over-collection.

from the ratepayers. The over-budgeting raises serious concerns that SCE collected unnecessary PPP funds from its ratepayers.

Table 4
Comparison of Budget and Expenditures on EE, EEFP, and SWME&O
(Dollar in millions)

	Program Years							
Description	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
EE, EEFP, and SWME&O Budget	$ 277.09	$409.33	$409.33	$409.33	$341.55	$358.06	$338.72	$339.42
EE Program Expenditures	238.41	292.30	339.87	306.09	263.89	343.83	309.71	265.52
Excess (Deficit) Budget	38.68	117.04	69.46	103.24	77.66	14.23	29.01	73.90
Excess (Deficit) %	14%	29%	17%	25%	23%	4%	9%	22%

Note: Expenditures incurred each year included payments of commitments from previous funding cycles' budgets

UAFCB reviewed the Commission directives and SCE's treatment of over-collections and under-collections of the PPP regulatory accounts during the examination period. The over-collection and under-collection settlements at year-ends for the PPP regulatory accounts are summarized as follows:

Regulatory Accounts	Over-collection/ Under-collection Settlements Status
PEEBA	See section Unreturned PEEBA Over-collection
EEFPBA	See section Unreturned EEFPBA Over-collection
PPPAM and CARE	The forecasted ending balances as of December 31, 2015 and 2016 in the PPPAM and CAREBA (either over-collected or under-collected) were offset with the consolidated PPP authorized revenue requirements as required by PPPAM and CAREBA preliminary statements.
ESAPAM	The Commission instructed the IOU to use the over-collections to fund additional programs over the next four years and pay for any Aliso Canyon emergency costs. SCE proposed to allocate $65.6 million to the additional programs and return the remaining balance to ratepayers.
EPIC-SCE, and EPIC-CEC	Per D.13-11-025, the Commission instructed the IOU to refund the uncommitted fund at the conclusion of the second investment plan cycle due to the delay of project expenditure incurrence. Therefore, SCE was allowed to hold on to the over-collection until the end of December 31, 2017.
EPIC-CPUC	SCE maintains a small balance on the account.
SWME&O	The preliminary statement of the SWME&O allows the unspent fund in 2013, 2014 and 2015 to be carried over into 2014, 2015 and 2016, respectively. Therefore, SCE was allowed to carry forward the over-collection as of December 31, 2015. The preliminary statement of SWME&O is silent on the 2016 year-end settlement requirement.
NSHPPBA	It was a new regulatory account beginning 2016. The over-collection settlement requirement was absent on the preliminary statement.

Unreturned PEEBA Over-collection

The PEEBA monthly closing statements disclosed over-collections of $152,246,971 and $221,347,913 as of December 31, 2015 and 2016, respectively. The SCE's advice letters for consolidated revenue requirements and rate changes effective on January 1, 2016 and January 1, 2017 did not show any refund of PEEBA over-collections. SCE submitted a request to refund $21,051,000 uncommitted and unspent over-collection from Program Cycle 2013-2015 by AL 3465-E-B dated July 28, 2017. SCE should have filed the AL in 2015 effective January 1, 2016 to refund at least $100 million to its customers. Therefore, the refund of uncommitted and unspent over-collection was not made timely.

As of August 1, 2017, SCE refunded only $21,051,000 of $152,246,971 over-collection balance, but still had $131,195,971, or 86% of the total over-collection, remaining in the PEEBA account. SCE has the practice to commit collected funds for future spending. SCE's Job Aid defines commitment as *"rebates, incentives, services or other deliverables that SCE, by consenting via written documents, will pay to contractors, customers, or third parties, from a program budget, but that it has not yet actually paid."* UAFCB reviewed a small sample of 23 commitments and traced them to supporting documents to determine if the committed funds were properly supported and justified. Our review disclosed the following:

1. Six (6) out of 23 commitments totaling $8.9 million were justified by non-signed contracts. These documents included purchase orders, project overview, and request for proposal. SCE used them to justify the use of over-collections not refunded to ratepayers.

2. Eighteen (18) of 23 commitment contracts amounting to $7.9 million spanned multiple years, ranging from three to five years with potential for further extension.

3. SCE committed administrative cost of $100,000 for SCE employee to manage each IDEEA365 project. It was estimated to cover one full time equivalent employee to manage a project for one year at initial award if the project required it. Administrative costs should not be part of the committed funds because they are already included in SCE's normal business operation budgets.

SCE loosely committed funds to rebates, incentives, services or other deliverables that SCE would pay by consenting via written documents. This practice encourages spending and keeping the over-collections larger than necessary. The spending capacity is inflated by the un-refunded portion of the over-collection. For example, the 2016 maximum budget or spending capacity in the EE program was increased to $522 million from the $322 million revenue requirement authorized by Commission. The extra $200 million represents $221 million over-collection accumulated balance carried over from the prior year, less $21 million revenue requirement offset to SCE's ratepayers.

<u>Unreturned EEFPBA Over-collection</u>
The main purpose of the EEFPBA is to track the operation of the ratepayer-financed loans and funding. The administrative costs of the financing programs are recorded in the PEEBA. The EEFPBA closing statements disclosed a net cash outflow associated with loan activities (excluding authorized revenue requirement, interest, fund shift, and return of money) of $1 million and $3 million in 2015 and 2016, respectively. In addition, the EEFPBA closing statements disclosed over-collections of $82,749,007 and $72,790,818 as of December 31, 2015 and 2016, respectively. SCE did not refund the unnecessary over-collection to the ratepayers. Rather, SCE continued to receive new budget annually despite the large accumulated over-collection balances. SCE reported $11.2 million authorized revenue requirement in EEFPBA for each year for 2015 and 2016. UAFCB believes that the cumulative over-collection balance of $72,790,818 as of December 31, 2016 in EEFPBA is excessive and should be refunded to ratepayers in a timely manner.

<u>Improvement Needed for Refunding Mechanism of Over-collected Refunds</u>
SCE currently returns uncommitted and unspent over-collection to ratepayers by offsetting the returned amounts with the authorized revenue requirements during the year-end AL rate filings. SCE's refund arrangement was approved by CPUC. However, a budget offset is not a refund to ratepayers. It is a reduction of future spending.

The comparison of authorized revenue requirement with actual expenditure from 2009 to 2016 for EE, EEFP, and SWME&O programs in Table 4 shows that the authorized revenue requirements are historically higher than the actual expenditures. The over-collection should not be offset with authorized revenue requirements. The authorized revenue requirement is a budget, an estimated spending for each year. Offsetting the over-collection with authorized revenue requirement encourages over-budgeting. Therefore, UAFCB recommends that the refunds of over-collection be made as bill credits against service charges on customers' billing statements.

Certain Preliminary Statements Not Updated

SCE's preliminary statements for EPICBA-SCE, EPICBA-CEC, and ESAPAM were not updated to incorporate the Commission directives regarding the treatment of accumulated year-end balances of these PPP regulatory accounts. Ordering Paragraph (OP) 39 of Decision (D.) 13-11-025 states that *"At the conclusion of the second investment plan cycle, if any funds approved for the first investment plan cycle are uncommitted or unencumbered, they must be credited against the approved budget for the third investment plan cycle."*[13] SCE did not update the EPICBA-SCE and EPICBA-CEC preliminary statements to incorporate the directive specified in D.13-11-025. With regard to 2009-2015 accumulated ESAPAM carry-over fund, Section 5.1.6 of D.16-11-022 directs that *"All current unspent funds shall be utilized to fund program and policy objectives adopted in this decision, and to offset the program collections that would otherwise have been required. These funds shall be used to achieve ESA program and policy objectives and are not to be returned to ratepayers at this time."*[14] The ESAPAM preliminary statement did not incorporate the above directive.

UAFCB concluded that SCE's preliminary statements for EPICBA-SCE, EPICBA-CEC and ESAPAM were not updated timely to incorporate the Commission's directives regarding the treatment of accumulated year-end balances of these PPP regulatory accounts. Not updating these preliminary statements in a timely manner increases the risks that the over-collections at the year-ends are not refunded to ratepayers timely.

Inaccurate Financial Information in Annual PPP Rate Setting Advice Letter

UAFCB reviewed the PPP financial information in the annual consolidated revenue request and rate change effective on January 1, 2017 to determine if the PPP financial information agreed with the PPP regulatory accounts' 2016 closing statements. UAFCB's review of the PPP financial information in the annual consolidated revenue request and rate change filing (AL 3515-E-A) disclosed that PPPAM schedule in the filing included an error of $6,570,276 in the November ending balance. The error was carried to the December PPPAM ending balance, and the December PPPAM ending balance was included in the total authorized PPP revenue requirement for 2017. The PPP rates were developed based on the total PPP revenue requirement.

E. PPP Billing Rates and PPP Revenue Recording Testing

PPP Billing Rates

To review the accuracy of the PPP rates billed by SCE, UAFCB randomly selected SCE's billing data of March 3, 2015 and October 4, 2016. UAFCB judgmentally selected 27 and 26 samples

[14] D.13-11-025, p. 142
[15] D.16-11-022, p. 361

from the 2015 and 2016 PPP billings, respectively, by each type of customer class to verify if the PPP rates used for the billing statements agreed with those on the tariffs. UAFCB also recalculated the PPP revenue amounts of the samples by multiplying the usage with the PPP rates. The aggregate PPP charges in the two sets of samples are $20,723 in 2015 and $12,316 in 2016. UAFCB's review disclosed that SCE applied proper PPP rates authorized by the Commission to its customer billings for PYs 2015 and 2016. The PPP charges on customer billing statements were calculated properly.

UAFCB also selected 10 billing exceptions in each year to determine if SCE properly and timely resolve the billing exceptions to ensure proper billing to customers. The billing exceptions are system built-in edits to validate billing data. Our review disclosed that SCE appropriately cleared billing exceptions to ensure proper customer billings. Furthermore, UAFCB performed a limited review of SCE's internal controls over resolving billing exceptions and the implementation of PPP billing rates and their updates. Our review disclosed that SCE had adequate internal control in place for resolving the billing exception and implementing PPP billing rates and their updates. SCE complied with the requirements specified in the Commission-approved tariffs.

PPP Revenue Recording

To review the PPP revenue recording, UAFCB evaluated the internal control over PPP revenue tracking and recording by interviewing SCE's employees and obtaining flowchart of the revenue allocation. SCE collects PPP charges from its ratepayers on a volumetric basis (i.e., based on kilowatt-hours or kWh for electricity) and by customer class such as residential, commercial, industrial, agricultural and street lighting, etc. SCE's PPP revenue is tracked in its billing system by transaction codes. Each night around midnight, the Customer Revenue Reporting Information System (CRRIS) extracts all the prior day's activity recorded by the billing system. Month-end reports are generated from the CRRIS by profit center codes to identify the non-CARE revenues and CARE revenues. The non-CARE revenues are recorded to PPPAM, while the CARE revenues are reported to CAREBA.

SCE does not distribute the PPP revenue to the individual program tracking PPP regulatory accounts such as the PEEBA, ESAPBA, EPICBA, and EEFPBA. SCE accrues unbilled PPP revenues in the PPPAM. The unbilled non-CARE revenue at month-end is calculated by the estimated unbilled GWhs multiplied by the actual billed rates. Near year-end, SCE trues up the forecasted PPPAM and CAREBA year-end balances in the advice letter filing to collect from ratepayers at the maximum authorized revenue requirement amounts. Revenues collected at the maximum amounts are then used to fund the PPP programs. The expenditures and authorized revenue requirements are tracked in the expenditure/reimbursement regulatory accounts such as the PEEBA, ESAPBA, EPICBA, and EEFPBA. Our review disclosed that SCE's internal controls for revenue tracking and recording were adequate. In addition, UAFCB judgmentally selected four months of recorded billed revenues and unbilled revenues from the PPPAM and CAREBA closing statements and traced the revenues to the CRRIS reports. See Table 5 for summary of PPP revenues selected for testing. Our testing disclosed that the recorded revenues on the PPPAM and CAREBA were adequately supported. Therefore, we concluded that the revenue regulatory accounts were properly recorded and accounted for.

Table 5
Summary of PPP Revenues Selected for Testing

PPP Revenue	July 2015	December 2015	January 2016	July 2016	December 2016
Billed Revenue:					
PPPAM	$32,196,881	$28,096,319	$40,636,275	$74,523,981	$65,635,271
CAREBA	38,984,812	33,836,982	28,004,933	Not Selected	30,443,061
Unbilled Revenue:					
PPPAM	19,603,000	16,079,000	38,818,000	49,983,000	27,293,000
Total	**$90,784,693**	**78,012,301**	**$107,459,208**	**$124,506,981**	**$123,371,332**

Appendix A

Description of SCE's Public Purpose Program (PPP) Regulatory Accounts

UAFCB reviewed the preliminary statements of the PPP regulatory accounts maintained by SCE for Program Years (PYs) 2015 and 2016. Below are the general descriptions for each electric regulatory account.

1. **Public Purpose Programs Adjustment Mechanism (PPPAM)**
   PPPAM records actual PPP revenue and authorized PPP revenue requirements except CARE charge and discount.

2. **Procurement Energy Efficiency Balancing Account (PEEBA)**
   Ordering Paragraph No. 21 of Decision (D) 03-12-062 established PEEBA. PEEBA is a "one-way" balancing account used to track the difference between actual incremental procurement-related energy efficiency (EE) costs and authorized procurement-related EE revenues.

3. **Energy Efficiency Finance Programs Balancing Account (EEFPBA, formerly known as OBFBA)**
   D.09-09-047, D.12-11-015 and D.14-10-046 established the EEFPBA. The account records (1) authorized On Bill Financing loan funding and EE Finance Pilots and the ARRA Program Credit Enhancements; (2) actual On Bill Financing (OBF) loan amounts and EE Finance Pilots and ARRA Credit Enhancements; and (3) OBF loan payment proceeds and the return of EE Finance Pilots and ARRA Program Credit Enhancements.

4. **Energy Savings Assistance Program Adjustment Mechanism (ESAPAM)**
   ESAPAM tracks the Public Purpose Program Charge (PPPC) funds allocable to the ESAP and the ESAP expenses.

5. **California Alternate Rates for Energy Balancing Account (CAREBA)**
   On a monthly basis CAREBA records the following: 1) the under or over-collection in revenue which results from the difference between the amounts of the CARE Discount provided to CARE-eligible customers and the CARE charge billed to non-CARE customers; 2) the difference between the Commission-authorized CARE and Family Electric Rate Assistance (FERA) administrative costs recorded in the PPPAM and actual CARE and FERA administrative costs; 3) actual costs incurred for automatic enrollment program per D.02-07033; and 4) reimbursements made to the Energy Division (ED) associated with ED's Audits of SCE's CARE programs.

6. **Electric Program Investment Charge Balancing Account – Southern California Edison (EPICBA – SCE)**
The EPICBA-SCE was established in accordance with Ordering Paragraph No. 7 of D.12-05-037. The account records authorized administrative and program EPICBA-SCE revenue requirements, and authorized administrative and program EPIC-SCE expenditures.

7. **Electric Program Investment Charge Balancing Account – California Energy Commission (EPICBA - CEC)**
The EPICBA-CEC was established in accordance with Ordering Paragraph No. 7 of D.12-05-037. The account records authorized administrative and program EPICBA-SCE revenue requirements, and authorized administrative and program EPIC-CEC expenditures.

8. **Electric Program Investment Charge Balancing Account – California Public Utilities Commission (EPICBA - CPUC)**
The EPICBA-CPUC was established in accordance with Ordering Paragraph No. 7 of D.12-05-037. The account records authorized administrative and program EPICBA-CPUC revenue requirements, and authorized payments to the CPUC.

9. **Statewide Marketing, Education, & Outreach Balancing Account (SWME&OBA)**
Pursuant to D. 13-04-021, the SWE&OBA is a one-way balancing account. The SWME&OBA records the difference between the Commission-authorized SWME&O funding and actual recorded SWME&O costs. The SWME &O recorded costs are tracked separately in EE and demand response sub-accounts in the SME&OBA.

10. **New Solar Home Partnership Program Balancing Account (NSHPPBA)**
The NSHP Program provides funding for financial incentives for homeowners, builders, and developers to install solar energy systems on new, energy efficient residential dwellings under provisions of the NSHP Program. NSHPPBA records the difference between authorized NSHP Program funding level and disbursements of those funds transferred to the CEC or the applicants.

Appendix B

Summary of SCE's PPP Regulatory Account Balances from Program Years 2007 through 2016

Item No.	Regulatory Accounts	SCE's Reported PPP Regulatory Account Balances as of									
		12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016
1	PPPAM	($19,543,318)	($212,963,055)	($8,047,893)	$107,213,830	$54,113,481	($105,188,320)	($62,929,419)	$131,634,476	$314,251,147	$109,267,905
2	PEEBA	(52,068,923)	(18,323,682)	(52,092,533)	(96,843,813)	(103,457,591)	(347,561,855)	(377,432,354)	(229,477,468)	(152,246,971)	(221,347,912)
3	EEFPBA	0	0	0	(5,339,817)	(6,912,077)	(25,226,314)	(52,981,429)	(74,648,341)	(82,749,007)	(72,790,818)
4	ESAPMA	47,611	5,323,496	(13,953,577)	(7,453,780)	(21,611,368)	(54,685,654)	(71,860,962)	(87,917,334)	(109,625,436)	(124,383,309)
5	CARE	2,327,549	28,791,920	56,740,500	55,213,075	54,293,376	19,346,497	(32,889,872)	(20,467,440)	(20,518,860)	(17,491,292)
6	EPIC-SCE	0	0	0	0	0	(12,069,889)	(25,704,483)	(34,982,638)	(37,217,009)	(29,988,079)
7	EPIC-CEC	0	0	0	0	0	(41,568,685)	(88,918,830)	(136,304,740)	(110,849,690)	(69,353,752)
8	EPIC-CPUC	0	0	0	0	0	69	(329,103)	(801)	(764)	(827)
9	SWME&O	0	0	0	0	0	0	(66,098)	(1,333,091)	(3,617,413)	(10,309,085)
10	NSHPPBA	0	0	0	0	0	0	0	0	0	(11,496,070)
	Total	**($69,237,081)**	**($197,171,322)**	**($17,353,503)**	**$52,789,493**	**($23,574,179)**	**($566,954,151)**	**($713,112,550)**	**($453,497,378)**	**($202,574,003)**	**($447,893,239)**

Note: Zero denotes non-existence. Negative amounts denote over-collection and positive amounts denote under-collection.

Appendix C

SCE's Comments

SOUTHERN CALIFORNIA EDISON
An EDISON INTERNATIONAL Company

Randy Lisbin
Principal Manager

December 1, 2017

Kayode Kajopaiye
Utility Audit, Finance and Compliance Branch
California Public Utilities Commission
505 Van Ness Ave., 3rc1 Floor, Room 3105
San Francisco, CA 94102

Dear Mr. Kajopaiye:

Southern California Edison Company (SCE) appreciates the opportunity to review and provide comments and clarification on the draft *Compliance Examination of the Public Purpose Program Regulatory Accounts of Southern California Edison Company For the Years Ended December 31, 2015 and 2016* (Draft Report), issued by the California Public Utilities Commission's (Commission) Division of Water and Audits' Utility Audit, Finance and Compliance Branch (UAFCB) on November 15, 2017.

SCE appreciates UAFCB's review over the last year of the Public Purpose Programs, including the findings that concluded SCE complied with the requirements established in Commission directives, and of our internal policies and procedures. For the observations contained in the Draft Report SCE takes the feedback seriously and respectfully provides comments on each of the observations. Please see the attached document for SCE's response to the observations contained in the Draft Report.

If you have any questions about SCE's comments, or would like to set up a meeting to discuss the information provided, please contact Mary Beth Quinlan at 626-302-2026.

Thank you,

Attachments

cc: Timothy Sullivan, Executive Director
Mabel Wu, Division of Water and Audits
Raymond Yin, Division of Water and Audits
Maryam Ebke, Deputy Executive Director
Ed Randolph, Energy Division
Pete Skala, Energy Division
Barbara Owens, Executive Division

Southern California Edison's Comments to the Draft Report in UAFCB's Audit of SCE's Public Purpose Program for the Years Ended December 31, 2015 and 2016

The following are SCE's comments on the Draft Report prepared by the UAFCB in its audit of SCE's Public Purpose Program for the Years Ended December 31, 2015 and 2016. With the exception of the few items noted below, SCE believes that the Draft Report accurately reflects the information that SCE provided to the auditors during the audit. Thus, these comments only address those observations and recommendations where SCE disagrees with an observation and/or has updated information to provide.

<u>Draft Observation 6:</u> SCE consistently collected unneeded funding from the PPP, resulting in six PPP regulatory accounts carrying excessive over-collection balances in the past 10 years.

Appendix B of this report presents the year-end balances of those PPP regulatory accounts from 2007, or inception of the programs, to 2016. As of December 31, 2016, the total net balance of those PPP regulatory accounts resulted in an over-collection amount of approximately $448 million. Appendix B demonstrates a consistent pattern of material over-collection in aggregate of these PPP regulatory accounts. Technically, these accounts should be balanced or carry small balances by the end of every program year. UAFCB also observed that SCE kept high commitment amount to fund incentive rebates, services, and other deliverables so that it did not have to return the over-collection. In addition, UAFCB noted that the PPP budgets were significantly higher than the actual PPP expenditures. Section IV of this report provides additional details regarding this matter.

<u>Recommendation Draft Observation 6:</u>
The Commission should address the over-collection issue by substantially reducing the PPP budget to lessen the burden on SCE's ratepayers while providing only necessary level of funding for those programs. The Commission should also establish clear, uniform, and stringent guidelines for determining "committed funds" to effectively minimize the usage of "committed but unspent funds" in SCE's PPP regulatory accounts. In addition, the Commission should establish clear guidelines to require all the energy utilities to return unspent funds to their ratepayers through customer bill credits, providing budget transparency.

<u>SCE's Response to Draft Observation 6:</u>
While this recommendation is directed to the Commission, SCE would like to address the comments in the Draft Report related to the over-collected balances. The over-collected amounts are associated with regulatory accounts related to three distinct program areas, Energy Efficiency Programs, Low Income Programs (i.e., Energy Savings Assistance Program) and the Electric Program Investment Charge (EPIC) program, each with distinct reasons for the existing over-collections.

Energy Efficiency Programs
Energy Efficiency program funds are collected in two of the balancing accounts within PPP regulatory accounts, PEEBA and EEFPBA. These funds have been authorized in various decisions throughout the past 10 years. SCE manages the programs in accordance with the Energy Efficiency Policy Manual. The nature of some energy efficiency programs requires funds to be committed to customers to begin long-term energy efficiency projects. The projects can sometimes take up to 3-5 years to complete. SCE only commits funds where we have Commission authorization to do so. SCE retains these funds until the projects are completed and incentives are paid out.

SCE believes the current mechanism of reducing the annual revenue requirement via the Annual Budget Advice Letter is an effective way to return funds to customers. Previously, any funds at the end of program cycles that were not committed or spent were returned to customers by reducing the revenue collection in a future cycle. SCE has returned funds multiple times previously, including $75 million in 2015 for prior program years. SCE, however, was not required by the Commission to file a compliance filing for the 2016 program year, but rather the 2015 authorized budgets and revenue were carried forward at the same levels. SCE did file a 2017 Budget Advice Letter which included $21 million of unspent funds to be returned. That was the amount of funds available at the end of 2015 that were uncommitted or unspent. SCE is required to file on September 1st of each year for the subsequent year. This timing does not allow for unspent/uncommitted funds for that year to be included or returned. SCE filed its 2018 Budget Advice Letter on September 1, 2017, but will be required to file a true-up advice letter upon a Final Decision on SCE's Energy Efficiency Business Plan Application (A.17-01-013). At that time, SCE will return unspent/uncommitted funds through 2016 for the PEEBA and EEFPBA regulatory accounts.

Income Qualified Programs

As discussed in the report, SCE has been instructed by the Commission to utilize the over-collection in the ESAPAM and CAREBA to fund new activities within the Income Qualified Program area. SCE has filed to utilize a substantial portion of those funds for new program activity and will continue to pursue appropriate avenues to serve income qualified customers.

EPIC

The Commission issued decision (D.)12-05-037, establishing the EPIC. This Commission decision determined there would be four EPIC Administrators: Pacific Gas and Electric (PG&E), SCE, San Diego Gas and Electric (SDG&E) and the California Energy Commission (CEC).[1] Furthermore, this Commission decision requires SCE to collect funding on behalf of the CEC.[2] The Commission's decision establishing the EPIC came nearly two years prior to approval of the EPIC I Investment Plan Applications.[3] Given that collections occurred almost two years before funding could be expended, contributed to the EPIC balancing account's overcollection. Furthermore, the CEC approves EPIC funds at their monthly business meetings. These approved funding amounts vary depending on the number of CEC Project Opportunity Notices (PONs) available. SCE does not control these CEC EPIC funds. Per the Commission's requirements for EPIC, SCE collects and holds CEC funds in the EPIC balancing account, then remits to the CEC when funding is approved.[4]

<u>Draft Observation 8:</u> SCE did not properly refund its customers the over-collected funds.

SCE currently returns uncommitted and unspent over-collection amounts to its ratepayers by offsetting

[1] D.12-05-037, Ordering Paragraph (OP) 5.

[2] D.12-05-037, OP 7.

[3] D.13-11-025.

[4] D.12-05-037, as supplemented by D.13-11-025 and D.15-04-020.

them against authorized revenue requirements through year-end rate setting Advice Letters (ALs) or other ALs approved by the CPUC. Our review disclosed that the authorized PPP revenue requirements significantly exceeded actual PPP expenditures for the last eight years based on the information UAFCB reviewed.

Recommendation Draft Observation 8:
The Commission should consider revising its directives regarding the refunding mechanism to ratepayers for transparency. Any refund of over-collection should be a credit against service charge on customer billing statements instead of an offset with the authorized revenue requirements similar to the recommendation in Observation 6.

SCE's Response to Draft Observation 8:
UAFCB's characterization of this observation is incorrect. In fact, UAFCB's own report states that "SCE's refund arrangement was approved by the CPUC."[5] Thus, SCE did properly refund customers the over-collected funds; however, UAFCB simply does not agree with the Commission-approved mechanism that has historically been in place.

As such, SCE vigorously opposes UAFCB's proposed recommendation to include a separate line item on customer bill statements to reflect the refund of program amounts collected in the Public Purpose Programs Adjustment Mechanism. This proposal is a very inefficient way to refund over-collections and would be costly for our customers. In fact, UAFCB ignored SCE's responses to several data requests that explained our position and the harm it would cause our customers.[6]

First, implementation of this proposal would be costly for our customers, especially when considering the numerous refunds that could occur over various time periods. As stated in our data request response, adding a line item credit on the customer billing statement is costly to implement, because it requires IT analysis and the development of end-to-end system testing prior to implementation of a solution within SCE's billing systems. In addition, SCE would have to engage in customer outreach efforts and communications, additional costs our customers would have to bear if this recommendation was implemented.

Further, this recommendation is extremely complex for IT to implement as it has an impact on many of SCE's current systems. Adding a line item would typically take nine months to a year to implement, but is not practical at this time due to SCE's implementation of its Customer Service Re-Platform (CSRP) project that is replacing several customer service-related functions including the generation of new bills. SCE is currently deferring IT projects in order to support the successful deployment and stabilization of the CSRP. Any changes to our billing system would not be able to be made until (at least) 2021 after the

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5 Compliance Examination of the Public Purpose Program Regulatory Accounts of Southern California Edison Company For the Years Ended December 31, 2015 and 2016, p. 13.

6 See SCE's responses to four data requests prepared for UAFCB in Appendix A as follows: 2016 BA Review PPP and PGC-CPUC-SCE-001-MDR, Question 10, SCE-015, Question 3, SCE-01-Verbal-02, Question 1, and SCE-01-Verbal-02, Question 2.

implementation of the CSRP project. Given the lengthy amount of time it would require to implement this recommendation, customers would not receive their refund in a timely manner and SCE does not agree that this is a beneficial outcome for our customers.

Currently, our customers are able to review the total refund amounts in SCE's advice letters and/or applications, both of which are public documents. This information is not "comingled" as UAFCB insinuates. Refunds are clearly itemized in SCE's public documents.

Further, this recommendation is counter to SCE's efforts to simplify customer billing statements. Thus, the credit (or debit if the account is under-collected) could potentially be confusing to customers given that only a few balancing account refunds (out of approximately 90 balancing and memorandum accounts) would be reflected as a customer credit on the statement.

Last, the impact on the customer bill statement would be negligible. SCE does not agree that customers should have to bear any expense to receive a refund. The cost to implement this recommendation would partially offset (or fully offset, depending on the refund amount at any given time) the refund amount that is returned to customers. This is not an acceptable outcome for our customers.

As stated in UAFCB's own report, "SCE complied with the requirements established in the Commission directives and SCE's internal policies and procedures with regard to its PPP regulatory accounts."[7]

For these reasons, SCE will not implement this recommendation unless directed to do so by the Commission which would be a major deviation from historical precedent.

Draft Observation 9: SCE's preliminary statements for EPICBA-SCE, EPICBA-CEC, and ESAPAM were not updated timely to incorporate the Commission's directives regarding the treatment of over-collections and under-collections at year-ends.
SCE's preliminary statements for those PPP regulatory accounts were not updated to reflect the intent of the Commission. Not updating these preliminary statements in a timely manner increases the risk that the over-collection balances at year-ends are not refunded to ratepayers timely.

Recommendation Draft Observation 9:
SCE should timely update its preliminary statements for EPICBA-SCE, EPICBA-CEC, and ESAPAM to reflect the Commission's directives on the treatment of over- collections at year-ends.

SCE's Response to Draft Observation 9:
Though the Commission did not explicitly order SCE to add this language to its preliminary statements in D.13-11-025 or D.16-11-022, SCE is amenable to this recommendation. In its year-end consolidated revenue requirement and rate change advice letter to set January 1, 2018 rate levels and effective tariffs, SCE will include updates to the EPICBA-SCE, EPICBA-CEC, and ESAPAM preliminary statements to incorporate the language shown in italics on page 14 of the UAFCB draft report.

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[7] Compliance Examination of the Public Purpose Program Regulatory Accounts of Southern California Edison Company for the Years Ended December 31, 2015 and 2016, p. ii.

<u>Draft Observation 10:</u> The PPP financial information in the annual consolidated revenue request and rate change filing was not accurate.

Our review of the PPP financial information in the annual consolidated revenue request and rate change filing (AL 3515-E-A) disclosed that SCE's PPPAM schedule in the filing included an error of $6,570,276 in the ending balance of November 2016. The error was carried forward to the December 2016 balance. Since the PPPAM ending balance in December 2016 was a component of the 2017 consolidated authorized revenue requirement, which was used to develop the 2017 PPP rate, the inaccuracy of the PPP financial information could affect the 2017 PPP rate.

<u>Recommendation Draft Observation 10:</u>
SCE should ensure the accuracy of the financial information included in its annual consolidated revenue request in the rate change AL filing with the Commission.

<u>SCE's Response to Draft Observation 10:</u>
The UAFCB draft report correctly observes that the PPPAM balance contained in SCE's annual consolidated revenue requirement and rate change advice filing (Advice 3515-E-A) included an error of approximately $6.5 million in the November 2016 activity which was carried forward to the December 2016 balance and reflected in SCE's January 1, 2017 rate change. Through the operation of the PPPAM, this inadvertent refund of $6.5 million in 2017 rate levels will self-correct and be collected from customers when SCE makes its January 1, 2018 rate change.

SCE will implement internal controls to prevent this problem from recurring in the future.

Southern California Edison
2016 BA Review 2016 BA Review PPP and PGC

DATA REQUEST SET 2016 BA Review PPP and PGC-CPUC-SCE-001-MDR

To: CPUC
Prepared by: Sue DiBermardo
Title: Manager
Dated: 12/22/0016

Received Date: 12/19/2016

Question 10:

D. Billing:

Provide a detail description about the utility's processes of revising the PPP and PGC rates.

Response to Question 10:

SCE updates its Public Purpose Programs Charge (PPPC) rate levels to reflect the most current Commission-adopted revenue requirements in its annual year-end revenue requirement and rate consolidation advice letter. The authorized revenue requirements collected in the PPPC include funding established by Commission decisions for Energy Efficiency (EE), Energy Efficiency Finance Programs (includes On-bill Financing), Energy Savings Assistance (ESA), CARE Administration, Electric Program Investment Charge (EPIC), and Statewide Marketing and Outreach (SME&O) programs. All authorized funding amounts are also contained in the Preliminary Statements for each of these programs. The one exception to this over the 2015 - 2016 time frame is, pursuant to D.16-06-006, SCE revised its PPPC effective October 1, 2016 to include funding for the New Solar Home Partnership Program.

In addition, the balance forecast to be recorded in the PPPAM (either overcollected or undercollected) on December 31st of the current year, plus an amount for Franchise Fees & Uncollectibles expense, is included in the PPPC to either be returned to, or recovered from, SCE's retail electric customers in PPPC rate levels. Prior to implementing consolidated Commission-authorized revenue requirements and rate levels, the PPPAM balance is updated to reflect the latest recorded balance available.

Southern California Edison
2016 BA Review 2016 BA Review PPP and PGC

DATA REQUEST SET 2016 BA Review PPP and PGC-CPUC-SCE-015

To: CPUC
Prepared by: Sue DiBernardo
Title: Senior Manager
Dated: 07/18/2017

Received Date: 07/18/2017

Question 03:

3. The current practice for SCE on returning uncommitted and unspent fund to the ratepayers is by offsetting (instead of refunding) the returned amounts with the authorized revenue requirements during the year-end rate setting advice letter. The authorized revenue requirement is a budget, an estimated spending. The retuned amount is actual overcollection. The refund is not done via printed checks to the ratepayers or the deduction from the ratepayers' billing statements. Please provide the history and reasoning for the offsetting arrangement instead of refunding with printed checks or deduction from the ratepayers' billing statements.

Response to Question 03:

Refunding an overcollection via printed checks is a very inefficient way to refund over-collections. The postage expense to send checks to approximately 5 million customers, excluding the additional expense of printing the checks, is approximately $2.0 million. SCE has over 80 balancing and memorandum accounts, including PPPAM. This would result in an enormous expense that is unnecessary for our customers. In addition, the company would also have to monitor the checks to see when checks are cashed or deposited. Left-over amounts fall under the state's escheatment rules.

The opposite would also be true. If we were under-collected in a two-way balancing account, we would not send a separate bill to customers.

Thus, it would be a very burdensome and expensive process to mail printed checks and/or billing statements to our customers and, as such, the Commission has not required utilities to do so.

Southern California Edison
2016 BA Review 2016 BA Review PPP and PGC

DATA REQUEST SET 2016 BA Review PPP and PGC-CPUC-SCE-001-Verbal-02

To: CPUC
Prepared by: Sue DiBernardo
Title: Manager
Dated: 09/18/2017

Received Date: 09/18/2017

Question 01:

As discussed in the teleconference call on September 12, 2017 with Mabel Wu and SCE representatives Linda Letizia, Sue DiBernardo and Mary Beth Quinlan, please provide any additional information to support SCE's position regarding including a separate line item on the customer bill statements to reflect the refund of program amounts collected in the Public Purpose Programs Adjustment Mechanism.

Response to Question 01:

SCE opposes ORA's proposed recommendation to include a separate line item on customer bill statements to reflect the refund of program amounts collected in the Public Purpose Programs Adjustment Mechanism for the following reasons:

- Implementation of this proposal could be costly, especially when you consider numerous refunds that could occur over various time periods. Please see SCE's response to PPP and PGC-CPUC-SCE-001-Verbal-02, Question 2.

- If desired, customers are able to review the total refund amount in SCE's advice letters and/or applications, both of which are public documents.

- Given the lengthy amount of time it would require to implement this recommendation, customers would not receive their refund in a timely manner. SCE's Customer Service Replatform project is underway, and any changes to our billing system would not be able to be made until (at least) 2021 after the implementation of the Customer Service Re-Platform project.

- It is counter to SCE's efforts to simplify customer billing statements.

- Credit could potentially be confusing to customers given that only a few balancing account refunds (out of approximately 80-90 balancing accounts) would be reflected as a customer credit on the statement.

- The impact on the customer bill would be negligible.
- It is extremely complex for IT to implement as it has an impact on many of SCE's current systems. Please see SCE's response to PPP and PGC-CPUC-SCE-001-Verbal-02, Question 2.

Southern California Edison
2016 BA Review 2016 BA Review PPP and PGC

DATA REQUEST SET 2016 BA Review PPP and PGC-CPUC-SCE-001-Verbal-02

To: CPUC
Prepared by: Melodee Black
Title: Project Manager
Dated: 09/18/2017

Received Date: 09/18/2017

Question 02:

In the September 12, 2017 teleconference call SCE indicated that including a separate line item to reflect the refund of program amounts collected in the Public Purpose Programs Adjustment Mechanism on the customer's bill statement would be costly and untimely to implement. Please explain.

Response to Question 02:

SCE estimates that adding a separate line item on its billing statement to reflect the refund of program amounts collected in the Public Purpose Programs Adjustment Mechanism would be costly and time consuming, because adding the line item is projected to cost $200,000 or more depending upon the recommendation. In addition regarding timing, adding the line item would take nine months to a year to implement, and is not practical at this time due to SCE's implementation of its Customer Service Re-Platform (CSRP) project that is replacing several customer service-related functions including the generation of new bills. Please refer to SCE's response to Question No.1 of this data set for further details. Additional details on the timing and cost estimates are provided below:

- Costs: SCE's cost estimate of $200,000 or more is based upon other billing statement projects. Therefore the actual cost could be more because SCE would need to initiate a project and develop business requirements in order to obtain a project specific estimate. Adding a separate line item credit on the bill is costly to implement, because it requires IT analysis, development and end-to-end system testing prior to implementation of a solution within SCE's billing system. Costs for other forms of customer outreach and communications (i.e., emails, letters, online displays) are not included.

- Timing: Typically, a project of this magnitude requires approximately nine months to one year to implement, because it requires updates to multiple SCE systems. SCE's billing system has various sub-systems and processes. Additional systems and areas that will require enhancements and testing include: CSS service billing, CRISS (corporate revenue reporting), Customer billing (print bill) and receivables (reporting and general ledger). In addition, SCE is currently preparing to implement its CSRP project, which will replace its legacy Customer Service System with a new customer relationship and billing system that will perform several critical customer-service related functions, such as generating customer bills and providing account management, overall customer care, credit and collections, and account receivables. SCE is currently deferring IT projects in order to support the successful deployment of and stabilization of the CSRP.