ENERGY EFFICIENCY EXAMINATION

PACIFIC GAS AND ELECTRIC COMPANY
PROGRAM YEAR 2017

UTILITY AUDIT, FINANCE AND COMPLIANCE BRANCH

AUGUST 5, 2019

A digital copy of this report can be found at:
http://www.cpuc.ca.gov/utilityaudits/

Thanks to:
Angie Williams, Kevin Nakamura, and Judith Mason

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Executive Summary

The California Public Utilities Commission (Commission) was established by Constitutional Amendment as the Railroad Commission in 1911. The Legislature passed the Public Utilities Act, expanding the Commission's regulatory authority to include natural gas, electric, telephone, and water companies as well as railroads and marine transportation companies in 1912. One of the Commission's duties is to oversee billions of dollars expended on energy efficiency (EE) programs funded by California ratepayers. These EE programs are predominantly administered by the four major Investor-Owned Utilities (IOUs) in California. They are Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E), and Southern California Gas Company (SCG).[1] The primary purpose of these EE programs are to develop programs and measures to meet energy savings goals and transform technology markets in California.

The Commission's Utility Audit, Finance, and Compliance Branch (UAFCB) conducted the examinations of the EE programs pursuant to Ordering Paragraph (OP) 17 of Decision (D.) 13-09-023. Additionally, the Commission has statutory authority to inspect and audit the books and records of the IOUs to ensure that ratepayers' money is well spent, specifically, pursuant to Public Utilities Code (PUC) Sections 314.5, 314.6, 581, 582, and 584. UAFCB conducted this examination in accordance with Generally Accepted Governmental Auditing Standards (GAGAS).

The scope of this examination covered the period January 1, 2017 to December 31, 2017 or PY 2017. The purpose of this examination was to ensure that PG&E was in compliance with EE program rules and regulations and to determine whether its reported EE expenditures were accurate, allowable and verifiable. For the examination on PG&E's EE program, expenditures of selected EE programs and subprograms administered and implemented by PG&E for the period under audit were reviewed. The specific PG&E EE program and subprogram areas examined are included in the scope section of this report. Based on the examination, the following findings were identified:

- Finding #1: Lack of Compliance with Accrual Policy and Procedures Relating to its EE Program Costs for PY 2017
- Finding #2: Overstatement/Understatement of the Efficiency Savings and Performance Incentive (ESPI) Award Amount for PY 2017
- Finding #3: Untimely Submission of its Quarterly Claims Report

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

Examination Report

BACKGROUND

The California Public Utilities Commission (Commission) regulates investor-owned electric and gas utilities in California. Through its regulatory oversight, the Commission is responsible for overseeing the energy efficiency (EE) programs which are principally administered and implemented by the four major Investor-Owned Utilities (IOUs) in California and funded by California ratepayers. The four major IOUs in California are Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E), and Southern California Gas Company (SCG).[2] The primary purpose of these EE programs are to develop programs and measures to meet energy savings goals and transform technology markets within California using ratepayer funds.

To meet California's aggressive electricity and natural gas energy efficiency goals, the Commission authorized billions to the EE programs, which are funded by electric and gas rates included in ratepayer bills.[3] The IOUs have greatly increased its costs and budgets through rate increases for administering and implementing these EE programs over time. Prior to 2016, the Commission authorized the IOUs budgets for the EE programs based on a three-year program cycle. In Rulemaking (R.) 13-11-005, the Commission contemplated moving away from authorizing the EE budgets on a triennial basis and towards authorizing the EE budgets on an annual "rolling" portfolio basis. As a result, the IOUs PY 2016 EE portfolio budget was the first year to utilize the new "rolling" portfolio process. Consistent with an annual EE program portfolio, the Commission provided ongoing funding for EE programs from 2015 onward. As such, the Commission extended the existing EE program through 2015, and authorized the IOUs to use the 2015 annual spending levels until the earlier of 2025 or when the Commission issues a superseding decision on funding level.[4]

These EE programs span a variety of sectors encompassing residential homes and commercial buildings, large and small appliances, lighting and heating, ventilation and air conditioning (HVAC), industrial manufacturers, and agriculture. Within those sectors, the EE program utilizes a variety of tools to meet energy savings goals, such as financial incentives and rebates, research and development for EE technologies, financing mechanisms, codes and standards development, education and public outreach, marketing and others. The Commission also adopted the Efficiency Savings Performance Incentive (ESPI) mechanism with the intent "to motivate the utilities to prioritize EE goals, while protecting ratepayers through necessary cost containment mechanisms." [5] In D.13-09-023, Ordering Paragraphs (OP) 15 and 16, the Commission authorized an incentive award to be paid to the IOUs as a management fee equal to 12% of authorized Codes and Standards (C&S) program expenditures and

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

[3] Public Utilities Code (PUC) Section 381 established a Public Goods Charge (PGC) that consumers pay on electricity consumption for cost-effective energy efficiency, renewable technologies, and public interest research. PUC Section 900 established a natural gas surcharge to fund cost-effective energy efficiency and other public purpose programs.

[4] D.14-10-046, OP 21

[5] D.13-09-023, page 2

3% of authorized non-resource (NR) program expenditures, respectively. Furthermore, in OP 17 of D.13-09-023, it directed the Commission's Utility Audit, Finance, and Compliance Branch (UAFCB) to verify the C&S and NR program expenditures for the purposes of awarding these management fees.

In conducting the annual EE program examinations pursuant to D.13-09-023, OP 17, the UAFCB's primary objective is to ensure that the IOUs are in compliance with EE program rules and regulations and to determine whether the EE expenditures claimed by the IOUs were for allowable purposes and supported by appropriate documentation, such as invoices, contracts and relevant records, and were recorded and reported appropriately for the period under examination.

Specifically, UAFCB's objectives for the examination on PG&E's EE program are to determine whether:

1. PG&E's costs recorded and reported for the period January 1, 2017 through December 31, 2017 or program year (PY) 2017 were relevant to the EE program and subprograms, supported by appropriate documentation, and in compliance with: (a) Commission's guidelines, including, but not limited to D.13-09-023, D.12-11-015, D.14-10-046, D.15-10-028, the rulings in R.01-08-028, Energy Division's memo dated October 22, 2009, and any relevant subsequent amendments; and (b) PG&E's established internal policies and procedures.

2. Program design, structures, processes, implementation, cost and controls of PG&E's EE programs were in compliance with: (a) Commission's guidelines, including, but not limited to D.13-09-023, D.12-11-015, D.14-10-046, D.15-10-028, the rulings in R.01-08-028, Energy Division's memo dated October 22, 2009, and any relevant subsequent amendments; and (b) PG&E's established internal policies and procedures.

For PY 2017 EE funding levels, PG&E filed Advice Letter (AL) 3753-G/4901-E on September 1, 2016 pursuant to Commission directives in D.14-10-046 and D.15-10-028. On July 3, 2017, PG&E submitted its fourth supplemental AL 3753-G-D/4901-E-D in order to make revisions and correct errors. On July 26, 2017, the Commission's Energy Division (ED) approved PG&E's AL 3753-G-D/4901-E-D which, among other things, authorized PG&E a total EE portfolio budget of $424.7 million, including $16.9 million for the Evaluation, Measurement and Verification (EM&V) budget, in ratepayer funds to administer and implement the EE programs for PY 2017.

SCOPE

UAFCB developed the scope of its examination based on consultation with the Commission's ED, UAFCB's prior experience in examining PG&E's EE program, and Commission directives. The scope of this examination on PY 2017 is limited to the expenditures and activities of the following EE program and subprogram areas:

1. Overall EE Program Cost Reconciliation
2. Codes and Standards (C&S) Program and Subprograms
3. Non-Resource (NR) Program and Subprograms
4. Local Government Partnership (LGP) Program and Subprograms
5. Third Party (TP) Program and Subprograms

In addition to examining the expenditures of the above selected EE programs and subprograms, we also reviewed the monthly, quarterly claims, and annual EE reports submitted by PG&E and uploaded on the Commission's California Energy Efficiency Statistics (EEStats)[6] and California Energy Data and Reporting System (CEDARS)[7] websites. A follow-up review was also performed on its prior recommendations in its PY 2016 EE audit [8] to determine whether PG&E has implemented the appropriate corrective actions.

For this EE examination on PY 2017, UAFCB has divided the examination into two separate reports. The second examination report covering PG&E's Local Government Partnership (LGP) and Third Party (TP) programs will be issued as a supplemental to this report.

METHODOLOGY

To address the examination objectives and assist the Commission in its oversight over the EE programs, the procedures performed include, but are not limited to, the following:

- Obtained an understanding of the EE program by reviewing relevant laws, rules, regulations, PUC codes, decisions, resolutions and advice letters.
- Obtained and reviewed PG&E's accounting system, accounting policies, processes and procedures for recording, tracking, and monitoring EE program costs.
- Assessed whether the PG&E's policies, procedures, and practices comply with the EE program requirements.
- Evaluated the design, structure and purpose of each EE program and subprogram area included in the scope of this examination to ensure compliance with Commission directives.
- Performed analysis of expenditure data to identify any anomalies or significant variances.
- Reviewed relevant reports filed with the Commission to determine accuracy of reported EE program data and information and ensure compliance with applicable rules and program requirements.
- From PG&E's accounting data, judgmentally selected expenditure transactions for review and testing.
- Requested and reviewed supporting documentation such as purchase orders, detailed invoices, contracts, receiving reports, timesheets and additional documentation as needed for the expenditure transactions selected for testing.
- Reviewed relevant contracts to determine if contract terms and provisions adequately supported the objective and purpose of the EE program.

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

[7] The California Energy Data and Reporting System (CEDARS) website securely manages data associated with demand-side management (DSM) programs, ensuring quality and improving communication between DSM Program Administrators (PAs), the Commission, and the Public.

[8] UAFCB report entitled *"Energy Efficiency Audit, Pacific Gas & Electric Company, Program Year 2016"* issued on August 3, 2018.

- Reviewed PG&E's accrual entries and verified the cutoff of expenditure transactions to determine if proper expenditure amounts were recorded and reported in the proper accounting period.
- Traced expenditures recorded in PG&E's accounting records to supporting documentation and determined whether costs were reasonable, allowable, verifiable, and relevant to the EE program.

FINDINGS AND RECOMMENDATIONS

Finding #1: Lack of Compliance with Accrual Policy and Procedures Relating to its EE Program Costs for PY 2017

Condition:

1. PG&E incorrectly recorded accruals for its Codes and Standards (C&S) program. Specifically, PG&E understated $55,264, $22,025, and $17,085, totaling $94,374, then overstated $39,118 in accruals. A detailed description for this exception amount is included in **Appendix B.**

2. PG&E incorrectly included $131,888 in PY 2017 expenditures belonging to PY 2018, resulting in an overstatement of C&S program expenditures reported to the Commission in PY 2017. A detailed description for this exception amount is included in **Appendix B.**

3. PG&E incorrectly reversed accruals totaling $77,009 in PY 2017, resulting in an understatement of Non-Resource (NR) program expenditures reported to the Commission in PY 2017. A detailed description for this exception amount is included in **Appendix B.**

An overstatement of EE program expenditures has been a repeated finding in prior Commission examinations including, but not limited to, PY's 2013, 2014, 2015, 2016 and 2017.

Criteria:

PUC Sections 581, 582, and 584 require that the utility provide timely, complete and accurate data to the Commission. PUC Section 793 requires that accounts, records, and memoranda prescribed by the Commission for a corporation subject to the regulatory authority shall not be inconsistent with the systems and forms established for corporations by or under the United States. The EE Policy Manual (R.09-11-014), Version 5, dated July 2013, provides policy rules for the administration, oversight, and evaluation of the EE program.

PG&E's Customer Energy Solutions (CES) Accrual Standard (CUST-4002S) and CES Accrual Procedure (CUST-4002P01) require the utility to maintain its accounting records in accordance with Generally Accepted Accounting Principles (GAAP).

Cause:

PG&E improperly recorded and accrued expenses to PY 2017 due to the inconsistent application of its own internal accrual policy and procedures.

Effect:

Failure to record expenditures in the proper period and program year resulted in an overstatement of C&S program costs by a total of $76,632 ($131,888 - $55,256) and an understatement of $77,009 in NR program costs reported to the Commission for PY 2017. It is critical to ensure that EE program costs are accurately recorded and reported since these programs are funded by ratepayers. An overstatement or understatement of expenditures can lead to an overpayment or underpayment of incentive awards to PG&E. Furthermore, an overstatement or understatement in expenditures may lead to higher or lower than anticipated authorized budget amounts in future years since PG&E develops its future year EE budgets on prior year costs.

Recommendations:

PG&E should ensure compliance with Generally Accepted Accounting Principles (GAAP) and its own internal accrual policy and procedures for the proper recording and reporting of EE expenditures funded by ratepayers. PG&E should decrease its C&S and increase its NR program costs by a total amount of $76,632 and $77,009 respectively, for PY 2017.

Finding #2: Overstatement/Understatement of the Efficiency Savings and Performance Incentive (ESPI) Award Amount for PY 2017

Condition:

In D.13-09-023, the Commission authorized the IOUs a new Efficiency Savings and Performance Incentive (ESPI) awards mechanism to promote achievement of EE goals. The ESPI mechanism offers each IOU incentive awards in four performance categories – Energy Efficiency Resource Savings, Ex-Ante Review (EAR) Process Performance, Codes and Standards (C&S), and Non-Resource (NR) programs.

In D.13-09-023, Ordering Paragraph (OP) 15 and 16, the Commission authorized an incentive award to be paid to the IOUs as a management fee equal to 12% of authorized C&S program expenditures and 3% of authorized NR program expenditures, not to exceed authorized expenditures and exclusive of administrative costs.[9] The decision also ordered verification of the C&S and NR program expenditures for the purposes of awarding the management fees.[10]

Based on our sample selected for testing of the C&S and NR program expenditures, PG&E overstated its C&S and understated its NR ESPI management fee incentive award amounts for PY 2017. Based upon its recalculation, UAFCB has determined that the revised ESPI base amount for calculating the C&S program management fee incentive award amount should be adjusted to $15,250,604 for PY 2017. For the NR program, the revised ESPI base amount should be adjusted to $20,591,195. A detailed recalculation of PG&E's revised ESPI award amounts for the C&S and NR programs in PY 2017 are provided in the tables below.

[9] The C&S and Non-Resource programs support energy savings but do not provide direct energy savings.

[10] D.13-09-023, OP 17A

Table 1

C&S ESPI Recalculation	
Reported C&S ESPI Base	$15,327,236
UAFCB's Audit Exception	(76,632)
Revised NR ESPI Base	15,250,604
NR Earnings Rate	12%
Revised ESPI Award	**$ 1,830,072**

Table 2

NR ESPI Recalculation	
Reported NR ESPI Base	$20,514,186
UAFCB's Audit Exception	77,009
Revised NR ESPI Base	20,591,195
NR Earnings Rate	3%
Revised ESPI Award	**$ 617,736**

Criteria:
Commission D.13-09-023 authorizes an incentive to be paid to each IOU as a management fee equal to 12% of authorized C&S program expenditures and 3% of authorized NR program expenditures, not to exceed authorized expenditures in each program year, and excluding administrative expenditures.

Cause:
When PG&E overstated or understated its EE program costs as stated in Finding #1, that resulted in an overstatement or understatement of its incentive award amounts for PY 2017.

Effect:
PG&E overstated its C&S and understated its NR incentive award amounts filed in Advice Letter (AL) 4044-G/5430-E. The corrected incentive award amounts should be $1,830,072 and $617,736 for the C&S and NR programs, respectively.

Furthermore, it is critical to ensure that the savings claimed are accurate. The overstatement or understatement of incentive award claims by the IOUs may lead to higher or lower than anticipated authorized budgets in future years that are funded by ratepayers since PG&E develops its future year EE budgets on prior year costs.

Recommendation:
Since PG&E has filed AL 4044-G/5430-E to claim its C&S and NR program incentive awards for PY 2017, the Commission's Energy Division (ED) should adjust PG&E's management fee incentive awards to $1,830,072 and $617,736 for the C&S and NR programs, respectively, when PG&E's 2017 ex-post ESPI true-up AL is processed.

Finding #3: Untimely Submission of its Quarterly Claims Report

Condition:
PG&E submitted its 4th Quarterly Claims Report for PY 2017 past the due date of March 1, 2018. The report was filed on March 28, 2018, twenty-seven (27) days past the due date.

Criteria:
PUC Sections 581, 582, and 584 require that the utility provide timely, complete and accurate data to the Commission. PUC Section 793 requires that accounts, records, and memoranda prescribed by the Commission for a corporation subject to the regulatory authority shall not be inconsistent with the systems and forms established for corporations by or under the United States. The EE Policy Manual (R.09-11-014), Version 5, dated July 2013, provides policy rules for the administration, oversight, and evaluation of the EE program.

Appendix D, page 70 of the EE policy manual version 5, which states that the due date for the quarterly report is the first of the third month following the end of the quarter.

Cause:
Per PG&E, the assigned report preparer mistakenly assumed that the report deadline was April 1, 2018.

Effect:
PG&E failed to timely file its 4th Quarterly Claims Report for PY 2017, which resulted in its failure to comply with the reporting requirements in Appendix D of the EE Policy Manual, Version 5.

Recommendation:
PG&E should strengthen its internal controls for the processing and reporting of its quarterly claims reports to ensure compliance with Commission directives.

CONCLUSION

In conducting our examination, UAFCB obtained a reasonable understanding of PG&E's internal controls, which were considered relevant and significant within the context of our examination objectives. UAFCB does not provide any assurance on PG&E's internal control. Any significant deficiencies or material weaknesses in internal controls that were identified during the examination were communicated to PG&E's management and identified in this report.

PG&E's management is responsible for the development of its policies and procedures to ensure that its EE program is administered and implemented in accordance with Commission directives. The Commission is responsible to ensure the ratepayers' monies funding PG&E's EE program explicitly support the EE goals and strategies and protect ratepayers' funds against improprieties and abuse.

UAFCB conducted this examination in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the examination to obtain sufficient, appropriate evidence on the subject matter against criteria in order to draw a reasonable basis for our findings and conclusions based on our examination objectives. UAFCB believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our limited examination objectives.

Based on our review and sample testing, UAFCB has determined that, except for the items noted in the Findings and Recommendations section, PG&E has complied, in all material respects, with the recording and reporting requirements of the EE costs for the audit period of January 1, 2017 to December 31, 2017.

The report is intended solely for the information and use of the Commission and PG&E and is not intended to be and should not be used by anyone other than these specified parties.

Angie Williams, Director
Utility Audit, Finance and Compliance Branch and
Enterprise Risk and Compliance Office

Cc: Ed Randolph, Director, Energy Division
Simon Baker, Deputy Director, Energy Division
Manisha Lakhanpal, Supervisor, Energy Division
Kevin Nakamura, Supervisor, UAFCB
Judith Mason, Auditor, UAFCB

Appendices

APPENDIX A
Applicable Rules and Regulations

Rule/Regulation Types	Reference	Description
Public Utility Code	Section 314	Guidance providing the Commission the authority to conduct audits consistent with Generally Accepted Government Auditing Standards (GAGAS), and to follow-up on findings and recommendations.
	Section 381	Guidance mandating the Commission to allocate funds spent on EE programs that enhance system reliability and provide in-state benefits including cost-effective EE and conservation activities.
	Section 581	Guidance providing the Commission the authority to require a utility to file complete and correct reports in prescribed form and detail.
	Section 582	Guidance providing the Commission the authority to require a utility to timely provide applicable records.
	Section 584	Guidance providing the Commission the authority to require a utility to furnish reports to the Commission.
Decisions & Rulemaking	D.09-09-047	Adopting Efficiency Savings and Performance Incentive Mechanism
	D.12-11-015	Approving 2013-2014 EE Programs and Budgets
	D.15-10-028	Establishing a "Rolling Portfolio" process for regularly reviewing and revising EE goals for 2016 and beyond.
	D.14-10-046	Establishing EE Savings Goals and Approving 2015 EE Programs and Budgets (Concludes Phase I of R.13-11-005).
	R. 13-11-005	Establishing a proceeding in which to fund the current energy efficiency portfolios through 2015, implement energy efficiency "rolling portfolios", and address various related policy.
Advice Letter	AL No. 3753-G-D/4901-E-D and 4044-G/5430-E	2017 Authorized Budget Filing and Request of PG&E for its 2016 and 2017 EE Saving Incentive

APPENDIX B
Summary – PY 2017 Exam Adjustments

PrgID	Program Name	ESPI Category	Cost Category			Total
			Admin.	Mktg.	Direct Imp.	
21051	Building Code Advocacy	C&S	$0	$0	$ 55,264	$ 55,264
21052	Appliance Standard Advocacy	C&S	0	0	(39,118)	(39,118)
21053	Compliance Improvement	C&S	0	0	22,025	22,025
21055	Appliance Standard Advocacy	C&S	0	0	17,085	17,085
21053	Compliance Improvement	C&S	0	0	(131,888)	(131,888)
	Total C&S Program		$0	$0	$(76,632)	$(76,632)
21023	Industrial Con. Energy Improv.	NR	0	0	$ 6,443	$ 6,443
21071	Centergies	NR	0	0	36,226	36,226
21072	Connections	NR	0	0	25,629	25,629
21073	Strategic Planning	NR	0	0	8,711	8,711
	Total NR Program		$0	$0	$77,009	$77,009

APPENDIX C
PG&E Responses

Pacific Gas and Electric Company

June 27, 2019

Angie Williams
Utility Audit, Finance, and Compliance Branch and
Enterprise Risk Compliance Office
California Public Utilities Commission
180 Promenade Circle, Suite 115
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Subject: Financial, Management, Regulatory, and Compliance Examination Report on Pacific Gas and Electric Company's Energy Efficiency Program for the period January 1, 2017 through December 31, 2017.

On June 18, 2019, the Utility Audit, Finance and Compliance Branch (UAFCB) issued its draft Financial, Management, and Regulatory Compliance Report (Draft Report) on Pacific Gas and Electric Company's (PG&E) 2017 Energy Efficiency (EE) Codes and Standards (C&S) and Non-Resource (NR) Programs. This Draft Report addresses EE regulatory and compliance areas for January 1, 2017 through December 31, 2017, including financial regulatory reporting requirements.

PG&E appreciates the UAFCB's efforts and collaboration to support the continuous improvements of EE program administration. PG&E would like to provide the UAFCB with responses to recommendations in the three findings.

FINDING 1: Lack of Compliance with Accrual Policy and Procedures Relating to its EE Program Costs for PY 2017

Condition:

1. PG&E incorrectly reversed accruals totaling $55,256 in PY 2017, resulting in an understatement of C&S program expenditures reported to the Commission in PY 2017. A detailed description for this exception amount is included in Appendix B.
2. PG&E incorrectly included $131,888 in PY 2017 expenditures belonging to PY 2018, resulting in an overstatement of C&S program expenditures reported to the Commission in PY 2017. A detailed description for this exception amount is included in Appendix B.
3. PG&E incorrectly reversed accruals totaling $77,009 in PY 2017, resulting in an understatement of NR program expenditures reported to the Commission

in PY 2017. A detailed description for this exception amount is included in Appendix B.

Recommendation:
PG&E should ensure compliance with Generally Accepted Accounting Principles (GAAP) and its own internal accrual policy and procedures for the proper recording and reporting of EE expenditures funded by ratepayers. PG&E should decrease its C&S and increase its NR program costs by a total amount of $76,632 and $77,009 respectively, for PY 2017.

PG&E Response:
PG&E adheres to GAAP and will continue to provide periodic accrual training to its employees. Accruals are based on our best available estimate at the time and may differ from the actual invoice when received. We work with our vendors to get estimates for our accruals and strive to be as accurate as possible. Currently, PG&E's Finance department conducts accrual trainings for EE program managers twice a year. PG&E expects to roll out a web-based accrual training that will be available to employees year round in July 2019.

FINDING 2: Overstatement/Understatement of the Efficiency Savings and Performance Incentive (ESPI) Award Amount for PY 2017

Condition:
Based on our limited review and testing of the C&S and NR program expenditures, PG&E overstated its C&S and understated its NR ESPI management fee incentive award amounts for PY 2017. Based upon its recalculation, UAFCB has determined that the revised ESPI base amount for calculating the C&S program management fee incentive award amount should be adjusted to $15,250,604 for PY 2017. For the NR program, the revised ESPI base amount should be adjusted to $20,591,195. A detailed recalculation of PG&E's revised ESPI award amounts for the C&S and NR programs in PY 2017 are provided in the tables below.

Table 1 – C&S ESPI Recalculation	
Reported C&S ESPI Base	$15,327,236
Audit Exception	(76,632)
Revised C&S ESPI Base	$15,250,604
C&S Earnings Rate	12%
Revised ESPI Award	$ 1,830,072

Table 2 – NR ESPI Recalculation	
Reported NR ESPI Base	$20,514,186
Audit Exception	77,009
Revised NR ESPI Base	$20,591,195
NR Earnings Rate	3%
Revised ESPI Award	$ 617,736

Recommendation:
Since PG&E has filed AL 4044-G/5430-E to claim its C&S and NR program incentive awards for PY 2017, the Commission's Energy Division (ED) should adjust PG&E's management fee incentive awards to $1,830,072 and $617,736 for the C&S and NR programs, respectively, when PG&E's 2017 ex-post ESPI true-up AL is processed.

PG&E Response:
PG&E anticipates it will file the annual ESPI Advice Letter in September 2019. PG&E will incorporate these true-up adjustments to the PY 2017 ESPI incentive award, as well as the impacts of these adjustments on PY 2016 and PY 2018 incentive awards.

FINDING 3: Untimely Submission of its Quarterly Claims Report

Condition:
PG&E submitted its 4th Quarterly Claims Report for PY 2017 past the due date of March 1, 2018.

Recommendation:
PG&E should strengthen its internal controls for the processing and reporting of its quarterly claims reports to ensure compliance with Commission directives.

PG&E Response:
The Q4 2018 Caps and Targets report was filed after the deadline of March 1, 2018 because the report preparer was under the mistaken assumption that the deadline was April 1, 2018. Going forward, the report preparer will make calendar notations as to the correct deadlines for the quarterly reports.

Conclusion
This concludes PG&E's response to the UAFCB's Draft Report on PG&E's EE Codes & Standards and Non-Resource Programs for period January 1, 2017 through December 31, 2017. We appreciate the work the UAFCB has put into this audit. If you have any additional questions or concerns, please feel free to contact me.

Thank you,

Michael Burger
Sr. Manager, Energy Efficiency Portfolio Management
Customer Energy Solutions - Pacific Gas and Electric Company

cc: Kevin Nakamura – UAFCB
Judith Mason – UAFCB

APPENDIX D
Evaluation of Responses

PG&E's responses to the draft report dated June 18, 2019, have been reviewed and incorporated into our final report. In evaluating PG&E's responses, we provide the following comments:

Finding #1: Lack of Compliance with Accrual Policy and Procedures Related to its EE Program Costs for PY 2017

UAFCB appreciates PG&E's efforts to improve its accrual processes and provide training to staff in order to enhance its accuracy for the recording and reporting of EE program costs.

Finding #2: Overstatement/Understatement of the Efficiency Savings and Performance Incentive (ESPI) Award Amount for PY 2017

UAFCB acknowledges PG&E's efforts to incorporate our recommended adjustments when its annual ESPI Advice Letter is filed in September 2019.

Finding #3: Untimely Submission of its Quarterly Claims Report

UAFCB appreciates PG&E's efforts to improve its processes in order to ensure that its quarterly claims reports are filed timely and in accordance with Commission directives.