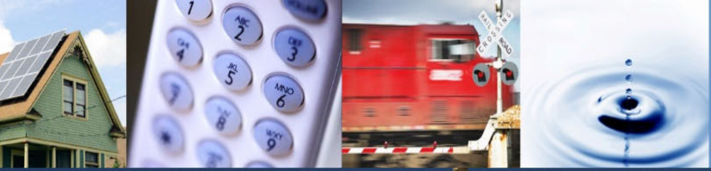

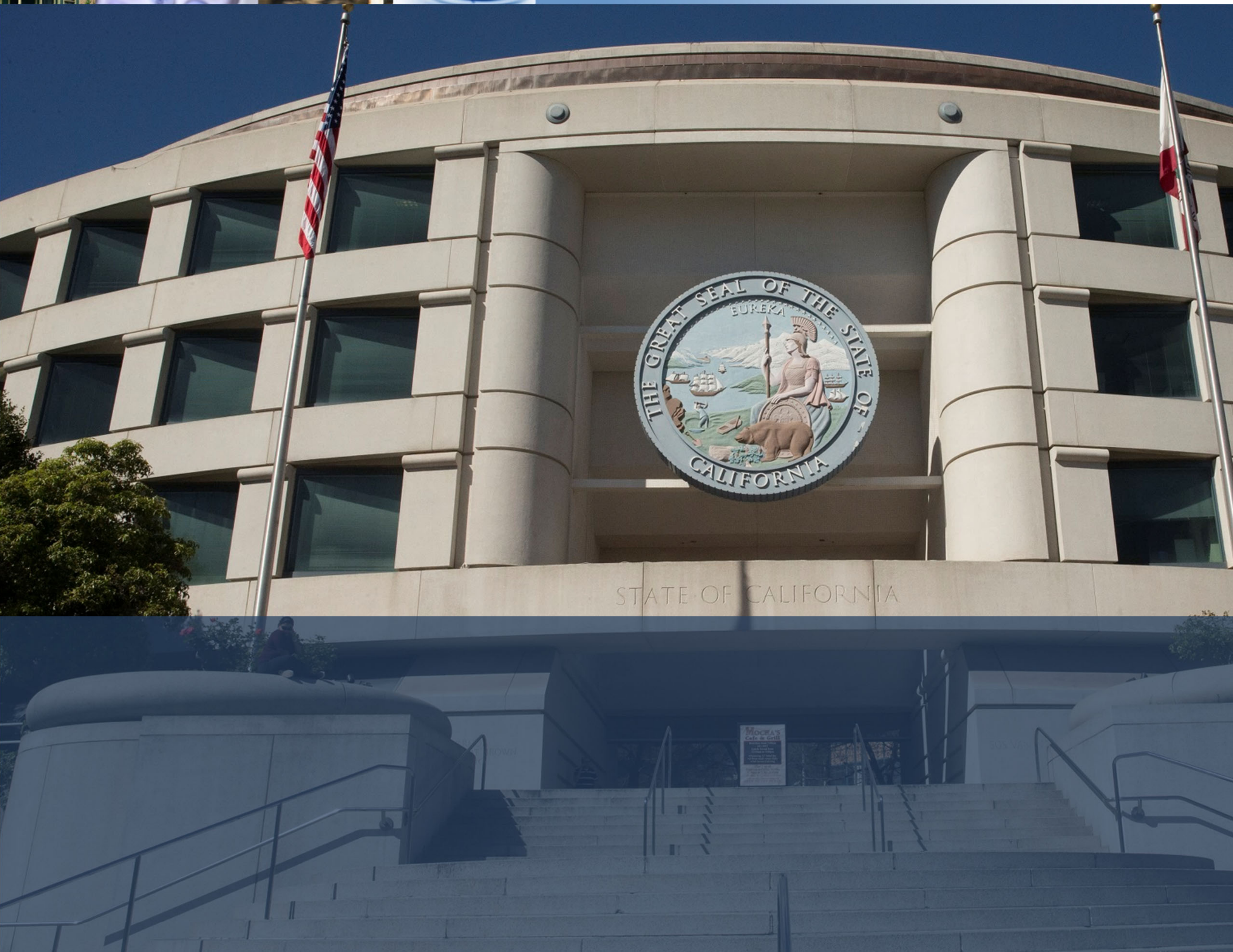

ENERGY EFFICIENCY PROGRAM PERFORMANCE AUDIT

San Diego Gas & Electric Company (SDG&E)

For the Program Year Ended December 31, 2018

Utility Audits, Risk and Compliance Division
Utility Audits Branch
August 11, 2020

STATE OF CALIFORNIA GAVIN NEWSOM, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

Transmitted via e-mail

August 11, 2020

Mr. Alexander Kim, Director
Director of Customer Programs
San Diego Gas & Electric
8330 Century Park Court
San Diego, CA 92123

Dear Mr. Kim:

Final Report Transmittal Letter—Audit of San Diego Gas & Electric Company's Energy Efficiency Program for the period of January 1, 2018 through December 31, 2018

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

SDG&E's response to the draft report finding is incorporated into this final report. SDG&E agreed with the audit finding. We will post the final audit report on our website at https://www.cpuc.ca.gov/utilityaudits/.

A Corrective Action Plan (CAP) addressing the finding and recommendation was included in SDG&E's response to the draft audit report.

We appreciate SDG&E's assistance and cooperation during the engagement, and its willingness to implement corrective actions. If you have any questions regarding this report, please contact Masha Vorobyova, Assistant Director, at Masha.Vorobyova@cpuc.ca.gov, or Randy Enriquez, Senior Management Auditor, at Randy.Enriquez@cpuc.ca.gov.

Sincerely,

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: Athena Besa, CP Operations and Strategy Advisor, SDG&E
Esau Guardado, Regulatory Case Manager, SDG&E
Saul Gomez, Deputy Executive Director, Office of the Commission, CPUC
Jennifer Kalafut, Program Manager, Energy Division, CPUC
Paula Gruendling, Program and Project Supervisor, Energy Division, CPUC
Jeorge Tagnipes, Program and Project Supervisor, Energy Division, CPUC
Masha Vorobyova, Assistant Director, Utility Audits Branch, CPUC
Randy Enriquez, Senior Management Auditor, Utility Audits Branch, CPUC
Nancy Ta, Financial Examiner IV, Utility Audits Branch, CPUC

MEMBERS OF THE TEAM

Angie Williams, Director

Masha Vorobyova, Assistant Director

Randy Enriquez, Lead

Nancy Ta, Staff

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

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

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EXECUTIVE SUMMARY

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

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

Based on the procedures performed, samples tested, and evidence gathered, we found an instance of noncompliance with requirements for PY 2018. This instance is quantified in Summary Schedules of Audit Results and described in Finding and Recommendation section of this audit report. The audit finding is as follows:

- Finding #1: Unallowable C&S Planning & Coordination program expenditures totaling $15,000

SDG&E reported $8,053,137 in C&S and NR program expenditures and $300,465 in corresponding ESPI management fees, for PY 2018. Our audit found that $8,038,137 in program expenditures and $298,665 in corresponding ESPI management fees are allowable and $15,000 in program expenditures and $1,800 in corresponding ESPI management fees are unallowable, respectively.

We issued a draft audit report on July 22, 2020. SDG&E's Director of Customer Programs responded by email dated August 5, 2020, agreeing with the audit results. SDG&E's response is included in this final report as an attachment in Appendix A—Utility's Response to Draft Audit Report.

AUDIT REPORT

Background

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

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

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

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

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

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

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

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

Audit Authority

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

Objective and Scope

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

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

Methodology

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

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

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

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

- Reviewed SDG&E's accounting system, accounting policies, processes and procedures for recording, tracking, and monitoring EE program costs.

- Reconciled the expenditure transactions recorded in the SDG&E's accounting system to the balances reported in the SDG&E's EE Expenditure Claim report for PY 2018, from EE Stats, for completeness.

- Assessed significance by analyzing expenditure data and evaluating program requirements.

- Reviewed results of prior audits and verified whether corrective actions were implemented.

- Obtained an understanding of SDG&E's key internal controls relevant to the EE program, such as classifying and recording, monitoring, approving, and reporting the EE program expenditures, and assessed the design, implementation, and operating effectiveness of selected controls that are significant to the audit objective by:
    - Interviewing key personnel and completing internal control questionnaire;
    - Reviewing SDG&E's policies and procedures, and assessing their implementation pertaining to accounting, recording, and reporting of EE expenditure data;
    - Performing walkthroughs of selected transactions; and
    - Tracing selected transactions to source documents.
- Conducted a risk assessment to determine the nature, timing, and extent of substantive testing.
- Performed transaction testing by judgmentally selecting non-statistical sample of significant transactions for the following categories:
    - Direct Implementation Non-Incentive – We tested $1,360,362 of $6,115,875.
    - Marketing – We tested $97,200 of $862,442.
    - Administrative[2] – We tested $161,183 of $1,074,820.

  For the selected samples, errors found, if any, were not projected to the intended (total) population.
- For the selected samples, we verified that the expenditures incurred during the audit period were supported by appropriate source documents and determined whether costs were accurate, relevant to the EE program, and incurred in compliance with applicable CPUC directives, orders, rules, regulations, and SDG&E's own policies and procedures by:
    - Tracing expenditures to invoice to ensure (1) expenditure was incurred within the Program Year 2018, and (2) expenditure amount agrees to invoice;
    - Verified expenditure is supported by appropriate source documents, such as detailed invoices, purpose of expenditure, agreements/contracts, to confirm expenditure is (1) allowable and (2) categorized correctly;
    - Recomputed invoice amount to ensure expenditure were accurately calculated; and
    - Verified payment has been completed.
- Recomputed revised ESPI management fee amounts for the C&S and NR programs based on audited expenditure amounts.

[2] Administrative costs related to Allocated Overhead of $410,969 were not included in transaction population.

- Verified required monthly, quarterly, and annual reports were submitted timely by randomly selecting 3 reports and confirming compliance of submission dates.

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

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

Conclusion

Based on the procedures performed, samples tested, and evidence gathered, we found an instance of noncompliance with the requirements outlined above for PY 2018. This instance is quantified in Summary Schedules of Audit Results and described in Finding and Recommendation section of this audit report.

SDG&E reported $8,053,137 in C&S and NR program expenditures and $300,465 in corresponding ESPI management fees for PY 2018. Our audit found that $8,038,137 in program expenditures and $298,665 in corresponding ESPI management fees are allowable; and $15,000 in program expenditures and $1,800 in corresponding ESPI management fees are unallowable, respectively.

Follow-up on Prior Audit Findings

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

Views of Responsible Officials

We issued a draft audit report on July 22, 2020. SDG&E's Director of Customer Programs responded by email dated August 5, 2020, agreeing with the audit results. SDG&E's response is included in this final report as an attachment in Appendix A—Utility's Response to Draft Audit Report.

Restricted Use

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

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

FINDING AND RECOMMENDATION

Finding: **Unallowable C&S Planning & Coordination Program Expenditures**

Condition: SDG&E reported unallowable C&S Planning & Coordination program expenditures totaling $15,000 in PY 2018. During our testing of expenditures, we noted that SDG&E reported costs totaling $20,000 in January 2018 for an event sponsorship as a Direct Implementation Non-Incentive (DINI) allowable cost within the C&S Planning & Coordination program. However, IOU sponsorship of major national EE conferences should be classified as corporate marketing activity rather than EE program-related work. Based on supporting documentation provided, we concluded that $5,000 of these reported costs are allowable as DINI within the C&S program as reported and $15,000 are unallowable.

Criteria: PU Code Sections 581, 582, and 584 require that the utility provide timely, complete, and accurate data to the CPUC. 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.

CPUC Energy Division's supplemental guidance dated October 22, 2009 Re: 2010-2012 Energy Portfolio Administrative Costs clarifies that "IOU sponsorship of major national EE conferences should be classified as corporate marketing activity and not EE program-related work."

D.13-09-023, OP 15, indicates that the C&S Management Fee shall be calculated and paid as a management fee equal to 12 percent of C&S program expenditures, not to exceed authorized expenditures, incurred in each program year.

Cause: SDG&E incurred unallowable cost due to insufficient management oversight procedures.

Effect: In reporting unallowable C&S program expenditures totaling $15,000 for PY 2018, SDG&E overstated its corresponding ESPI award amount for the year totaling $1,800 in Advice Letter 3428-E/2796-G, as detailed in Summary Schedules of Audit Results section of this report, Table 2.

Reporting unallowable costs to EE program expenditure can lead to an overpayment of incentive awards to SDG&E. It is critical to ensure that EE program costs are accurately recorded and reported since these programs are funded by ratepayers. Furthermore, an overstatement of expenditures can inflate authorized budget amounts in future years, as prior year costs influence prospective budgeted amounts. This practice does not demonstrate prudent use of ratepayer funds.

Recommendation:

We recommend SDG&E exclude unallowable C&S costs totaling $15,000 from its ESPI base. In addition, we recommend that SDG&E update its management oversight policies and procedures and incorporate a documentation and review process that cites the activity from the EE Policy Manual, Appendix F: Cost Categories, for each transaction including the allowable amount.

SUMMARY SCHEDULES OF AUDIT RESULTS

Table 1 - Schedule of Energy Efficiency Expenditures for PY 2018

Cost Category	Reported	Allowable	Audit Adjustment
Codes & Standards	$1,084,013	$1,069,013	$ (15,000)
Non-Resource	6,969,124	6,969,124	-
Total	$8,053,137	$8,038,137	$ (15,000)

Table 2 - C&S & NR ESPI Management Fee Calculation[3]

Program	Reported	Allowable	Audit Adjustment
C&S ESPI Base	$1,012,401	$ 997,401	$ (15,000)
C&S Earnings Rate	12%	12%	
C&S Subtotal	$ 121,488	$ 119,688	$ (1,800)
NR ESPI Base	$5,965,916	$5,965,916	$ -
NR Earnings Rate	3%	3%	
NR Subtotal	$ 178,977	$ 178,977	$ -
Total Award	$ 300,465	$ 298,665	$ (1,800)

[3] Codes & Standards and Non-Resource ESPI Base amounts exclude administrative expenditures.

APPENDIX A—UTILITY'S RESPONSE TO DRAFT AUDIT REPORT

Alex Kim
Director of Customer Programs
San Diego Gas & Electric Company
8330 Century Park Court
San Diego, CA 92123-1530

August 05, 2020

Angie Williams, Director
Utility, Audit, Risk and Compliance Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: SDG&E's Comments on the Draft Audit Report of San Diego Gas & Electric Company's (SDG&E's) Energy Efficiency Program Codes & Standards (C&S) and Non-Resource (NR) program expenditures for the Period January 1, 2018 through December 31, 2018

Dear Ms. Williams:

San Diego Gas & Electric Company (SDG&E) has reviewed the draft report, dated July 22, 2020, prepared by the Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC). SDG&E focuses its response on the following finding and recommendation from the draft audit report:

> Finding: Unallowable C&S Planning & Coordination Program Expenditures
>
> Condition: SDG&E reported unallowable C&S Planning & Coordination program expenditures totaling $15,000 in PY 2018. During our testing of expenditures, we noted that SDG&E reported costs totaling $20,000 in January 2018 for an event sponsorship as a Direct Implementation Non-Incentive (DINI) allowable cost within the C&S Planning & Coordination program. However, IOU sponsorship of major national EE conferences should be classified as corporate marketing activity rather than EE program-related work. Based on supporting documentation provided, we concluded that $5,000 of these reported costs are allowable as DINI within the C&S program as reported and $15,000 are unallowable.
>
> Recommendation: We recommend SDG&E exclude unallowable C&S costs totaling $15,000 from its ESPI base. In addition, we recommend that SDG&E update its management oversight policies and procedures and incorporate a documentation and review process that cites the activity from the EE Policy Manual, Appendix F: Cost Categories, for each transaction including the allowable amount.

SDG&E Response:

SDG&E will exclude $15,000 from the Codes & Standards expenditures. This will result in a reduction of $1,800 from the Codes & Standards Energy Efficiency Shareholder Incentive (ESPI) component. This adjustment will be reflected in the 2018 ESPI second earnings claim to be submitted in the ESPI advice letter on September 1, 2020.

In addition, by the third quarter 2020 SDG&E will enhance its management oversight and procedures regarding allowable costs in its Program Advisor handbook, a program management resource guide, and incorporate a requirement to document the justification of the cost category for the expense to be included in the expense documentation prior for management approval. Training will be conducted with the program staff to communicate these enhancements to invoice documentation.

Sincerely,

/s/ Alex Kim

Alex Kim
Director of Customer Programs