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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Reform the Commission's Energy Efficiency Risk/Reward Incentive Mechanism.	Rulemaking 12-01-005 (Filed January 12, 2012)

ASSIGNED COMMISSIONER AND ADMINISTRATIVE LAW JUDGE'S RULING AND AMENDED SCOPING MEMO

This ruling and the amended scoping memo broadens the scope of the proceeding and provides further detail on the schedule of the proceeding specifically relating to the 2010-2012 cycle. In addition, this ruling notifies the parties of additional information that will be moved into the record of the proceeding for possible use of applicable data in developing and calculating formulas and amounts of incentive awards for the 2010-2012 cycle. The previous scoping memo, issued May 16, 2012, contemplated a proposed decision (PD) by the third quarter of 2012 addressing (a) whether to adopt a Risk/Reward Incentive Mechanism (RRIM) for the 2010-2012 cycle, and (b) if so, prescribing how the mechanism will be designed and implemented. Assuming the Commission decides to adopt an incentive mechanism for 2010-2012, the scoping memo contemplated a subsequent process for submission, review and approval of claims for incentive payments, by Commission decision prior to year-end 2012.

This planned approach is amended as follows: The expected issuance date of a proposed decision on 2010-2012 RRIM issues may be deferred from the third quarter to the fourth quarter of 2012. Also, instead of addressing in sequential decisions: (1) possible approval/design of an incentive mechanism for 2010-2012 and (2) the submission, review and approval of award payments, the PD will address these issues concurrently. Consequently, if an incentive mechanism is found warranted for the 2010-2012 cycle, the PD will concurrently (a) prescribe the incentive mechanism design and (b) authorize the resulting incentive payment amounts to be awarded by year-end 2012.

For past installments of RRIM payment awards, the Investor-owned Utility's (IOUs) calculated and submitted proposals for RRIM payment amounts based on an adopted incentive formula. The IOU claims were then reviewed by the Commission, resulting in authorized RRIM award payments. For 2009 RRIM awards, the review was processed in separate application filings. To date, no claims for specific incentive payments have been presented in this proceeding, only proposals for the design of a mechanism. Appropriate measures will be applied to assure that the basis, methodology, and derivation of any authorized incentive payments is transparent to parties and clearly explained.

To the extent that any incentive awards may be contemplated for approval before year-end 2012, the period covered by such awards will be limited to calendar year 2010 program activities. (Assuming incentive earnings were to be deemed appropriate for calendar year 2011 and/or 2012 activities, the specific amount of the awards would be determined in a subsequent decision(s) after year-end 2012).

In order to calculate any year-end 2012 incentive payments, (assuming that 2010-2012 incentive payments are authorized), the PD may utilize data regarding 2010 energy efficiency program results reported by each respective IOU namely, Pacific Gas and Electric Company, Southern California Edison Company, San

Diego Gas & Electric Company and Southern California Gas Company. Each of the IOUs previously filed reports dated May 2, 2011, regarding their respective calendar year 2010 energy efficiency program in Rulemaking (R.) 09-11-014 (Rulemaking to Examine Post-2008 Energy Efficiency Policies, Programs, Evaluation, Measurement and Verification and Related Activities).[1] Among other things, the filed reports present statistics on each IOU's claimed energy savings, emission reductions, and program expenditures relating to 2010 energy efficiency portfolio programs. These IOU reports of 2010 energy efficiency portfolio program activity results are hereby moved into the record for this proceeding (R. 12-01-005). To the extent that incentive awards may be calculated covering calendar year 2010 activity, and depending on how the mechanism to calculate such incentives may be designed, the Commission may choose to rely on and to utilize applicable data contained in these reports regarding energy efficiency savings and/or program expenditures.

The Commission's Utility Audit, Finance and Compliance Branch has also completed its "Financial, Management and Regulatory Compliance Examination" of each of the IOUs' 2010 energy efficiency reported data. The redacted versions of these staff reports are also attached to this ruling and hereby moved into the record for this proceeding. The Commission may consider the staff report in determining whether (or for what limited purposes) to rely upon or make use of data in the 2010 energy efficiency reports in prescribing the

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1 *See* http://docs.cpuc.ca.gov/EFILE/REPORT/134753.htm, http://docs.cpuc.ca.gov/EFILE/REPORT/135012.htm, http://docs.cpuc.ca.gov/EFILE/REPORT/134991.htm, and http://docs.cpuc.ca.gov/EFILE/REPORT/135009.htm

amount of any energy efficiency incentive payments. A notice of availability of the public version of these reports was provided to the service list on August 14, 2012.

It is anticipated that this proceeding will conclude in 2013, but in any event, within 18 months of the issuance of this amended scoping memo, pursuant to Public Utilities Code Section 1701.5.

IT IS RULED that:

1. The previous Scoping Memo issued in this proceeding on May 16, 2012 is hereby amended to provide for the following modified approach for addressing incentive issues for the 2010-2012 cycle:

    a. The issuance date of a proposed decision on 2010-2012 RRIM issues may be deferred from the third quarter to the fourth quarter of 2012.

    b. Instead of addressing in sequential decisions: (1) approval and design of an incentive mechanism for 2010-2012 and (2) the submission, review and approval of award payments, a single proposed decision will address both of these issues concurrently.

2. The following documents are moved into the record for this proceeding for possible use of applicable data in developing and calculating formulas and amounts of incentive awards for the 2010-2012 cycle:

    a. The investor-owned utility reports dated May 2, 2011, regarding calendar year 2010 energy efficiency program results, previously filed in R. 09-11-014[2]; and

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[2] *See* http://docs.cpuc.ca.gov/EFILE/REPORT/134753.htm, http://docs.cpuc.ca.gov/EFILE/REPORT/135012.htm, http://docs.cpuc.ca.gov/EFILE/REPORT/134991.htm, and http://docs.cpuc.ca.gov/EFILE/REPORT/135009.htm,

b. The Commission's Utility Audit, Finance and Compliance Branch completed reports on the "Financial, Management and Regulatory Compliance Examination" of each of the IOUs' 2010 energy efficiency reported data, Attachment A to this ruling.

Dated August 22, 2012, at San Francisco, California.

/s/ MARK J. FERRON	/s/ THOMAS R. PULSIFER
Mark J. Ferron	Thomas R. Pulsifer
Assigned Commissioner	Administrative Law Judge

ATTACHMENT A

Public Versions of the Commissions Utility Audit, Finance and Compliance Branch

Examination of 2010 Energy Efficiency Programs for:

Pacific Gas and Electric Company
Southern California Edison Company
San Diego Gas & Electric Company
Southern California Gas Company

State of California

Memorandum

Date: June 4, 2012

To: Edward Randolph
Director, Energy Division

From: **Public Utilities Commission—San Francisco**
Kayode Kajopaiye, Branch Chief
Division of Water and Audits

Subject: Interim Financial, Management and Regulatory Compliance Examination Pacific Gas & Electric Company's Energy Efficiency (EE) Programs for the Year Ended December 31, 2010

This memo provides the Utility Audit, Finance and Compliance Branch's (UAFCB's) observations and recommendations on its Financial, Management and Regulatory Compliance Examination of Pacific Gas and Electric Company's (PG&E's) 2010 Energy Efficiency (EE) programs. Based on consultation with the Energy Division (ED) and UAFCB's prior experience, it examined the following PG&E's 2010 EE programs and costs: (1) the On-Bill Financing program (OBF); (2) EE administrative costs; and (3) the Home Energy Efficiency Rebate program (HEER). UAFCB observed certain deficiencies respecting PG&E's implementation of its EE programs in these areas.

A. Summary of Examination Observations and Recommendations

Except for the items noted below, PG&E demonstrated a reasonable degree of compliance with Commission directives respecting its OBF program, EE administrative costs and HEER program.[1]

Observation 1: PG&E could not fund OBF loans in 2010 because funding was tied to project completion and no projects were completed in 2010.

Recommendation
UAFCB recommends that its examination of PG&E's 2011EE program should include a review of the OBF procedures for disbursing funds and collecting loan payments.

Observation 2: The total administrative costs PG&E reported in its annual report to the Commission in 2010 is $4,161,085 more than the amount reflected in its SAP accounting records because of the subsequent correct reclassification made by PG&E to comply with the allowable cost definitions for cost elements in the administrative cost category.

Recommendation
UAFCB should revisit this matter in its next examination of PG&E's EE administrative costs because it misunderstood the reclassification process explained by PG&E.

[1] Commission directives used to measure compliance included, but were not limited to, D.09-09-047, the ruling in R.01-08-028, dated February 21, 2006 and Energy Division's memo, dated October 22, 2009.

Observation 3: PG&E could not easily access supporting documents to substantiate 42 transactions amounting to $288,241 from the 75 items representing $2,333,306 of the EE administrative expenses selected for testing.

Recommendation
UAFCB should revisit testing PG&E's EE administrative costs in its next examination, in particular the allocated EE administrative costs, to evaluate PG&E's SAP changes and perform other tests to evaluate the integrity of PG&E's allocation methodology.

Observation 4: Although PG&E was responsive to UAFCB's data requests, changes to PG&E's SAP and time constraints affected the scope and approach to UAFCB's substantive testing of certain EE specific cost elements.

Recommendation
PG&E is reminded of its obligation to provide all relevant and timely information to Commission representatives so that they can make the appropriate assessment of its EE programs since the Commission has the oversight function over the program costs and activities.

Observation 5: PG&E's Integrated Demand Side Management (IDSM) Division, which is now known as Customer Energy Solutions (CES) Division, did not follow PG&E's established policy for implementing a new cost allocation methodology.

Recommendation
PG&E's CES should be diligent and thorough in ensuring that it follows PG&E's policies and procedures and that only relevant and appropriate program costs are charged to the EE programs.

Observation 6: PG&E established a company-wide policy and procedures for developing Provider Cost Center (PCC) rates or standard rates for tracking services rendered to organizations within the company. The policy allows PCC manager to establish planned costs at their discretion. UAFCB was unable to test this assertion and the internal controls in connection with the discretion.

Recommendation
During its examination of 2011 EE programs, the UAFCB should examine the relationship(s) between the actual costs charged to EE programs and the monthly standard cost variance of the PCC rates, and evaluate whether there are proper internal controls in place.

B. Conclusion

With the exceptions of the items identified above, PG&E demonstrated compliance with other Commission directives in the three areas examined. A detailed summary of UAFCB's analysis and observations is attached in Appendix A. Additional information on UAFCB's examination is included in Appendix B and pertinent information on PG&E's EE programs is included in Appendix C.

UAFCB provided a copy of its analysis and observations of its examination to PG&E for comment. UAFCB summarized PG&E's response comments and UAFCB's rebuttal to them in Appendix A. PG&E's full response is included in Appendix D of this memo in its entirety. UAFCB made changes to its observations and recommendations, and the appendices, as appropriate, based on the comments received from PG&E for clarity.

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

cc: Rami Kahlon, Director, Division of Water and Audits
Peter Skala, Energy Division
Carmen Best, Energy Division
Jean Lamming, Energy Division
Bernard Ayanruoh, Division of Water and Audits
Kevin Nakamura, Division of Water and Audits
Helen Vaughn, Division of Water and Audits

Appendix A
Analysis and Findings

I. Summary

Except for the deficiencies noted by UAFCB below, Pacific Gas and Electric Company (PG&E) demonstrated to a reasonable degree compliance with Commission directives regarding its 2010 On-Bill Financing program (OBF) and Home Energy Efficiency Rebate program (HEER), as well as its energy efficiency (EE) administrative costs. The areas examined by the UAFCB are described in Appendix C, Program Compendium. The directives that the Utility Audit, Finance and Compliance Branch (UAFCB) used to test compliance included, but were not limited to Decision (D.) 09-09-047, the ruling in Rulemaking (R).01-08-028, dated February 21, 2006 and Energy Division's (ED) memo, dated October 22, 2009. UAFCB's scope and methodology used for the examination are included in Appendix B, Examination Elements.

On March 8, 2012, UAFCB provided a copy of its analysis, observations and a summary of PG&E's 2010 EE programs to PG&E for comment. On March 22, 2012, PG&E provided its comments in response to UAFCB's observations and recommendations. UAFCB included the summary of PG&E's comments and UAFCB's rebuttal at the end of this appendix, and included PG&E's comments in their entirety in Appendix D. UAFCB made changes to its observations and recommendations, and the appendices, as appropriate, based on the comments received from PG&E for clarity.

A. On-Bill Financing (OBF) Program

Observation 1: PG&E could not fund OBF loans in 2010 because funding was tied to project completion.

Criteria: In D.09-09-047, Ordering Paragraph (OP) 2, the Commission approved the 2010-2012 energy efficiency program cycle effective on January 1, 2010. In D.09-09-047, OP 40, the Commission also approved PG&E's OBF program for the 2010-2012 program cycle.

Condition: PG&E's OBF program was not offered to its customers until July 1, 2010. In addition, PG&E tied OBF funding was tied to project completion and no projects were completed in 2010. Therefore, no OBF loans were funded in 2010.

Cause: On November 23, 2009, PG&E filed EE Advice Letter (AL) 3065-G/3562-E to implement its 2010-2012 EE program budgets and tariff changes in compliance with (D.) 09-09-047. On December 18, 2010, the Energy Division (ED) suspended the Compliance AL to allow more time for staff review. PG&E's OBF program was inclusive in the suspended AL. Subsequently, in a memo dated April 21, 2010, ED directed PG&E to revise its 2010-2012 portfolio program budgets, to offer its OBF program using an off-bill solution by July 1, 2010, and file an abbreviated OBF program implementation plan (PIP).

Effect: Although PG&E was able to process and approve funding for 11 OBF loan applications, however, due to the delay in launching the OBF program and its requirement that projects be completed before they can be funded, no loans were funded until March 2011.

PG&E's Response: PG&E provides that OBF loan funding requires project completion. No funding took place in 2010 because no projects were completed in that year.

Recommendation: UAFCB recommends that its examination of PG&E's 2011 EE program should include a review of the OBF procedures for disbursing funds and collecting loan payments.

B. Energy Efficiency Administrative Costs

Observation 2: The total administrative costs PG&E reported in its annual report to the Commission in 2010 is $4,161,085 more than the amount reflected in its SAP accounting records because of the subsequent correct reclassification made by PG&E to comply with the allowable cost definitions for cost elements in the administrative cost category.

Criteria: The ruling in Rulemaking (R).01-08-028 dated February 21, 2006 prescribed what should be reported as allowable costs under the administrative cost category. ED's memo dated October 22, 2009 requires the utilities to report Program Manager (PM) activities that are related to the direct interface with customers or program participants (i.e., working with contractors, customers, planning scope of work etc.) in the direct implementation cost category. PG&E used to report these PM activities in Administration Cost Category.

Condition: PG&E charged PM labor expenses that it used to charge to administrative cost category to the respective direct implementation and marketing and outreach cost categories. However, the associated payroll taxes of those labor costs and certain other costs were reported in the administrative cost category based on the allowable cost guidelines. Therefore, PG&E's SAP accounting system showed $28,493,527 in total EE administrative costs in 2010, while the amount reported in the EE Annual Report filed with the Commission was $32,654,612, a difference of $4,161,085.

Cause: PG&E states that the reported difference was due to reporting the payroll taxes ($4,075,692 and $85,392) associated with the PM labor expenses and certain other costs reported in the direct implementation and marketing and outreach cost categories in the administrative cost category as required by the allowable cost definitions prescribed by the Commission.

Effect: PG&E's total EE administrative costs reported to the Commission in its 2010 EE Annual Report was $4,161,085 more than what it recorded in its SAP system.

PG&E's Response: PG&E corrected the UAFCB's original observation on this matter.

Recommendation:
UAFCB should revisit this matter in its next examination of PG&E's EE administrative cost category because it misunderstood the reclassification process explained by PG&E.

Observation 3: PG&E could not substantiate 42 transactions amounting to $288,241 from the 75 items representing $2,333,306 of the EE administrative expenses selected for testing.

Criteria: General Order (GO) No. 28 requires that "every public utility … preserve all records, memoranda and papers supporting each and every entry." "The manner in which these records, memoranda and papers shall be preserved must be such that this Commission may readily examine the same at its convenience."

Condition: Of the 75 EE administrative expense transactions representing $2,333,306 selected for testing, PG&E was unable to substantiate 42 expense transactions totaling $288,241.

Cause: The 42 expense transactions represent allocated labor costs from various provider cost centers (PCC). Each transaction consists of multiple allocations from various PCCs based on PG&E's elaborate cost allocation methodology. An organization's PCC is specific to a PCC, cost category (admin. and direct implementation) and funding source.

An organization's PCC is assigned several allocation order numbers representing the types of services provided to other organizations or teams within PG&E and the CES division. Each allocation order is assigned a pre-determined sector allocation order or percentage based on some determination by the PCC manager to assign the amount of the organization's services to other departments or teams. The sector order allocation or percentage determines the amount allocated (hours charged x the PCC rate x the sector allocation order percentage) or charged to the order number of the organization receiving the services based on the hours worked by employees on their timesheets for the services provided to it.

The amount derived by the sector allocation is further allocated based on the target order allocation factor. This factor may depend on the authorized amount or other determination. The final amount charged to a PCC organization is unbundled to the PCC cost element by pre-determined factors by the organization that provided the service. The SAP system is programmed to perform the task. Instead of PG&E providing the documentation to support the results of the steps outlined above for each transaction sampled, PG&E offered a detailed explanation and mapping of 20 transactions of the 42 selected.

Effect: UAFCB was unable to satisfy its objective for ascertaining that PG&E's administrative expenses for propriety and relevance to the EE programs.

PG&E's Response: PG&E states that it is time consuming to provide the documentation for all the 42 expense transactions due to the volume of source documents supporting each individual cost allocation sample. It added that it had implemented functionality to its SAP system to allow PG&E to trace the types of transactions the UAFCB wanted to test.

Recommendation: UAFCB should revisit testing PG&E's EE administrative costs in its next examination, in particular the allocated EE administrative costs, to evaluate PG&E's SAP changes and perform other tests to evaluate the integrity of PG&E's allocation methodology.

Observation 4: Although PG&E was responsive to UAFCB's data requests, changes to PG&E's SAP and time constraints affected the scope and approach to UAFCB's substantive testing of certain EE specific cost elements.

Criteria: Public Utility (PU) Code 584 requires that "every public utility shall furnish such reports to the Commission at such time and in such form as the commission may require in which the utility shall specifically answer all questions propounded by the Commission…"

Condition: On June 9, 2011, PG&E provided the UAFCB the data dump pertaining to EE cost categories that it was not familiar with from its SAP accounting system after the UAFCB request on May 24, 2011. On October 24, 2011, one week before the completion of the fieldwork on October 31, 2011, PG&E provided additional revised accounting data from SAP as a result of many hours of discussions on changes that took place in 2010 to the SAP system that also affected EE programs.

Cause: PG&E changed its SAP system in 2010 and thought that it provided what the UAFCB auditor asked for. It didn't realize that the auditor would need the detail SAP expenditure data dump for her work.

Effect: UAFCB was unable to select and test an appropriate level of expenditures to ensure that charges were relevant and appropriate to PG&E's EE programs.

PG&E's Response: PG&E states that it provided what the auditor asked for and it also spent so many hours explaining in detail the changes that took place in 2010 to its accounting system.

Recommendation: PG&E is reminded of its obligation to provide all relevant and timely information to Commission representatives so that they can make the appropriate assessment of its EE programs since the Commission has the oversight function over the program costs and activities.

Observation 5: PG&E's Integrated Demand Side Management (IDSM) Division, now known as Customer Energy Solutions (CES) Division did not follow PG&E's established policy for implementing a new cost allocation methodology.

Criteria: PG&E established Policies and Procedures that each business unit is required to follow before implementing a new or making changes to existing process that impact the accounting treatment of costs, revenues, and/or other transactions resulting from a regulatory decision.

Condition: In 2010 PG&E's IDSM implemented a new methodology for allocating shared costs to its energy efficiency programs that affected the allocation of labor and overhead costs. Prior to its implementation, IDSM did not obtain the proper approval from the relevant stakeholders, consistent with PG&E's defined process for changes that impact the accounting treatment of costs resulting from a regulatory decision.

Cause: According to a finding in PG&E's internal audit report dated July 30, 2010, CES's Customer Energy Efficiency (CEE) organization did not follow a discipline to ensure that relevant stakeholders review, approve, and concur with changes to regulatory interpretations and/or accounting that affect the recording or reporting of CEE transactions.

Effect: The failure by CEE to obtain the proper approval for changes that impact the accounting treatment of costs resulting from regulatory decisions could result in improper program costs being recorded.

PG&E's Response: PG&E's CEE provided the evidence that it did resolve this problem with the Internal Audit Department on January 5, 2011.

Recommendation: PG&E's CEE should be diligent and thorough in ensuring that it follows PG&E's policies and procedures and that only relevant and appropriate program costs are charged to the EE programs.

<u>Observation 6:</u> **PG&E established a company-wide policy and procedures for developing Provider Cost Center (PCC) rates or standard rates for tracking services rendered to organizations within the company. The policy allows PCC manager to establish planned costs at their discretion. UAFCB was unable to test this assertion and the internal controls in connection with the discretion.**

Criteria: In D.09-09-47, page 50, the Commission defined administrative labor as the utility labor costs related to either management or clerical positions directly related to program administration.

Condition: PCC rates include labor charges and other cost items based on the PCC policy. The standard rates are generally adjusted quarterly or more frequently if they meet certain thresholds and also based on the planned costs anticipated by the PCC manager.

Cause: A PCC manager can add to the existing planned costs to change the PCC rate. The purpose of the adjustment could include changes to add costs for conferences, uniforms, dues, and staff augmentation.

Effect: Although the PCC rate does not affect the actual costs charged to EE programs but it does affect the standard cost variances settled to the actual program costs.

PG&E's Response: PG&E states that "planned costs in the standard rates have no effect on the actual costs that ultimately flowed through the program orders. PCC standard rates are a planning mechanism for transferring organization support costs from a PCC to a program order. Only actual costs charged to a PCC flows to the order(s). Any over or under-allocation of PCC costs in a given month is offset by the standard cost variance (SCBV)."

Recommendation: During its examination of 2011 EE programs, the UAFCB should examine the relationship(s) between the actual costs charged to EE programs and the monthly standard cost variance of PCC rates, and evaluate whether there are proper internal controls in place.

II. Summary of PG&E's Comments on UAFCB's Draft Report and Rebuttal

On March 8, 2012, the UAFCB submitted a copy of its interim draft report to PG&E for its review and response. The draft report included UAFCB's observations and recommendations to the specific areas reviewed during the examination of PG&E's EE programs for budget year 2010. PG&E provided its comments on March 22, 2012. A copy of PG&E's responses is included in Appendix D in its entirety. The following is UAFCB's summary of PG&E's comments and UAFCB's rebuttal.

PG&E's Response to Observation 1
PG&E acknowledges that it processed 11 OBF loan applications in 2010 and clarified that loan funds were not disbursed in 2010 as none of the customers had completed their projects by the end of 2010. The first project to request payment did so in March 2011. PG&E noted that a long lead time is typical of many energy efficiency projects and requests that the draft report be revised to clarify that the OBF loan funds are disbursed once the projects are completed.

Rebuttal to PG&E's Response
UAFCB will test PG&E's assertion on this matter in its next review of PG&E's OBF program.

PG&E's Response to Observation 2
PG&E states that "its reclassification process was not triggered by the October 22, 2009, memo rather, it dates back to at least the 2006-08 EE cycle." PG&E states further that "the reclassification occurs because PG&E reports certain costs, such as payroll taxes, in SAP to the same cost category as the associated labor and that the Commission considers payroll taxes and certain other costs to be administrative costs under its allowable cost definition, rather than having these costs follow labor charges as PG&E records in SAP."

Rebuttal to PG&E's Response
UAFCB agrees with PG&E that the reclassifications were necessary in order for PG&E to comply with the Commission's allowable cost definitions. UAFCB modifies its observation and recommendation in agreement with comments received from PG&E on this matter.

PG&E's Response to Observation 3
PG&E acknowledges that it is time consuming to provide the documentation for all 42 cost allocation samples, due to the volume of source documents supporting each individual cost allocation sample. PG&E requests that UAFCB's recommendation that its shareholders refund $288,241 be changed.

PG&E states that it has implemented functionality to its SAP system to allow for an automated trace of transactions, such as the cost allocation samples requested for the 2010 EE audit, back to their source. This process improvement will be useful in responding to similar requests in future EE program examinations.

Rebuttal to PG&E's Response
On May 15, 2012, the UAFCB met with representatives of PG&E to obtain further understanding of its comments on the interim draft report. That meeting was productive.

However, PG&E has the burden to demonstrate that the EE program costs are relevant and appropriate. To that end, the UAFCB's next review of administrative costs of EE programs will include testing of the relevance and appropriateness of allocated costs to EE programs. UAFCB will also test the adequacy of the new system.

PG&E's Response to Observation 4
PG&E states that it was responsive to the UAFCB and provided the SAP monthly expenditures for PG&E's EE programs for 2010 grouped into cost categories as requested by the UAFCB staff.

Rebuttal to PG&E's Response
UAFCB agrees that PG&E provided responses to all of the data requests from the UAFCB and was forthcoming when explaining to the UAFCB staff things that she did not understand. However, it did not alert the UAFCB that the data dump it provided would not be similar to the detail it used to provide to UAFCB in prior audits. If this warning had been given, it would have generated further questions or changed UAFCB's data request earlier in the process rather than at the end of the fieldwork when PG&E brought the matter to UAFCB's attention.

PG&E's Responses to Observation 5
PG&E's Customer Energy Solutions (CES) implemented procedures to ensure that all relevant stakeholders review, approve, and concur with changes to regulatory interpretation and/or accounting that impact the recognition, recording, or reporting of EE transactions and reviewed these procedures with Internal Audit. PG&E states that the issue was closed on January 5, 2011.

Rebuttal to PG&E's Response
UAFCB commends PG&E for resolving this issue and for providing documentation to support the resolution.

PG&E's Response to Observation 6
PG&E requests that UAFCB's Observation 6 be modified to state that PG&E does follow its established company-wide policy surrounding costs and overheads when determining Provider PCC rates. PG&E states further that standard rate calculations are done by PG&E's Business Finance department annually and that changes are made quarterly. It states further that the PCC managers have some discretion including additional items in their standard rates, if warranted. This may include charges for uniforms, conference fees, dues, contributions, staff augmentation. PG&E concludes that planned costs in the standard rate have no effect on the actual costs that ultimately flow to the program orders,

Rebuttal to PG&E's Response
UAFCB agrees and acknowledges that PG&E does follow its company wide policy surrounding costs and overheads when determining the PCC rates because the UAFCB reviewed this particular area a in prior examination engagement. However, UAFCB was not aware of the discretion given to the PCC managers. It needs to test the extent of this discretion in a future examination and evaluate whether there are safeguards to maintain the integrity of the policy

Appendix B
Examination Elements

The Utility Audit, Finance and Compliance Branch (UAFCB) initiated this examination by sending an engagement letter to Pacific Gas and Electric Company (PG&E), dated April 14, 2011. UAFCB representatives visited PG&E's office in San Francisco, California on a few occasions, met with PG&E management and staff, and reviewed original supporting data. UAFCB completed its fieldwork on October 31, 2011.

Authority

Decision (D).09-09-047 ordering paragraph (OP) 14 states among other things, that "Commission staff conduct a full audit of the utilities' administrative and other costs in order to understand the changes in characterization of costs in the revised applications and to ensure accountability of the amount, allocation and the composition of the total administrative costs for this portfolio timeframe." UAFCB met with ED's management and based on the requirements of OP 14, developed the scope for the examination.

Scope

Based on consultation with Energy Division, UAFCB was to examine PG&E's 2010 On-Bill Financing Program (OBF) and energy efficiency administrative costs. In addition, based on prior experience, UAFCB selected a statewide program to include in the examination, the Home Energy Efficiency Rebate Program (HEER). Consequently, the scope of UAFCB's examination was limited to the three areas for PG&E's 2010 activities and expenditures.

Objectives

UAFCB's overall objectives determine whether the:

1. Program design, structure, processes, implementation, costs and controls of PG&E's OBF were in compliance with (1) the Commission's guidelines including, but not limited to, D.09-09-047, the ruling in R.01-08-028, dated February 21, 2006 and Energy Division's memo, dated October 22, 2009; and (2) PG&E's own internal policies and procedures;
2. EE administrative costs that PG&E incurred were proper and in compliance with (1) the Commission's guidelines including, but not limited to, D.09-09-047, the ruling in R.01-08-028, dated February 21, 2006 and Energy Division's memo, dated October 22, 2009; and (2) with PG&E's own internal policies and procedures; and
3. Design, structure, processes, implementation, costs and controls of PG&E's HEER were in compliance with the Commission's guidelines including, but not limited to, D.09-09-047, the ruling in R.01-08-028, dated February 21, 2006 and Energy Division's memo, dated October 22, 2009 and (2) PG&E's own internal policies and procedures.

Methodology and Testing

UAFCB used PG&E's responses to UAFCB's Internal Control Questionnaires (ICQ) to perform a preliminary risk analysis. Based on the results of its risk analysis, UAFCB determined specific areas for testing and developed its testing methodology.

On-Bill Financing (OBF): UAFCB judgmentally selected and examined only 2 OBF customer application files since no OBF loans were funded in 2010. UAFCB also reconciled PG&E's OBF program expenditures to amounts reported to the Commission.

UAFCB observed that PG&E had consistently applied its OBF loan processes and procedures based on its underwriting guidelines and loan requirements. UAFCB did not find any exceptions in its examination of the OBF program loan underwriting process. The loan delinquency timelines from past-due to write-off were in order.

In addition, UAFCB observed that PG&E's OBF program expenditures totaled $702,135 in its SAP accounting records, which reconciled to the amounts reported to the Commission in its 2010 EE Annual Report. Of the $702,135 in OBF program expenses in 2010, PG&E incurred $128,566 for administrative costs and $573,568 in direct implementation costs. PG&E had no OBF marketing/outreach costs in 2010.

Energy Efficiency Administrative Expenditures: UAFCB judgmentally selected and examined 75 EE administrative expense transactions for Core, Third Party and LGP delivery channels totaling $2,333,036. The following table shows the selected administrative transactions by the delivery channel, total dollar amount of the transactions and the number of transactions tested,

Table B-1
Administrative Expenses Tested By Deliver Channel

Delivery Channel	Amount	No. of Transactions
Core Delivery	$ 364,170	57
Third Party Delivery	1,645,533	12
Government Partnership	323,603	6
Total	**$2,333,306**	**75**

UAFCB was unable to fully complete its testing of the 75 administrative expenses transactions selected for testing due to the following circumstances: (1) 42 of the 75 transactions selected for testing were aggregated into a single cost element and no source documents were provided to support the recorded costs, (2) supporting documentation for 3 of the 33 transactions in which PG&E provided inadequate and incomplete supporting documentation , and (3) PG&E provided a revised SAP data dump of its expenditures consisting of sixty-six costs elements on October 24, 2011, one week before the completion of the fieldwork on October 31, 2011. PG&E original SAP data dump provided to the UAFCB on June 9, 011 contained only seven cost elements. Therefore, the UAFCB was unable to verify the relevance and appropriateness of EE administrative costs during its testing.

Home Energy Efficiency Rebate Program (HEER): UAFCB judgmentally selected and tested 47 transactions amounting to $4,511,812 recorded to PG&E's SAP incentive and implementation costs categories. The samples included 21 transactions totaling $159,540 of processed and paid rebates through mail-in, online, POS, and Venders. Other transactions were: Program Management Labor, Consulting, PCC Allocation, Journal Entry (JE) Accruals and 4 transactions in the amount of $350 were for rebates paid by PG&E on behalf of Water Districts and reimbursed to PG&E. These rebates were not included as PG&E EE rebates reported to the Commission. A breakdown of the number of transactions and amounts tested are provided in the following table.

Table B-2
Summary of HEER Expenditures Tested

Type Tested	# Tested	Amount Tested
Mail-in	8	$ 5,509
On-line	7	3,761
POS	2	57,750
Vendor	4	92,520
Water District	4	350
Program Mgr Labor	4	4,036
Consulting Contract	3	125,786
PCC Allocation	2	17,204
JE/Accruals	13	4,204,896
Total	**47**	**$4,511,812**

UAFCB's examination of PG&E's HEER program expenditures found that expenditures tested were relevant, accurately reported and recorded, and fully supported with appropriate documentation. Results of UAFCB's examination of selected rebates did not yield a pattern of duplicity in the rebate applications or in payment and recording of rebate amounts. However, due to time constraints, the UAFCB was unable to verify third-party vendor contracts associated with PG&E's HEER program or its contracts with the water districts.

Standards

The UAFCB conducted this audit in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence concerning PG&E's compliance with the requirements noted above and performing any other procedures as we considered necessary in the circumstances. The UAFCB believes that its audit provides a reasonable basis for an opinion. Our examination does not provide a legal determination on PG&E's compliance with specified requirements.

Appendix C
Program Compendium

On September 24, 2009, the California Public Utilities Commission (Commission) issued Decision (D.) 09-09-047 which, among other things, authorized Pacific Gas and Electric Company (PG&E) a total budget of approximately $1.338 billion in ratepayer funds to administer and implement its EE programs for the years 2010 through 2012. This represents about 42.8% of the total funds the Commission authorized for this program cycle. In addition, this decision also set energy savings goals, established cost-effectiveness requirements, placed a cap of 10 percent on utility administrative costs, authorized types of programs, and set targets for certain programs.

The authorized EE budget for PG&E was $1.284 billion excluding $54 million dedicated to fund the Evaluation, Measurement and Verification (EM&V) portion of the program portfolio during the 2010-2012 budget period. For the year 2010, excluding EM&V expenditures, PG&E spent $370 million, or 28.8%, of its total authorized budget for the years 2010 through 2012. The following table shows the amount carried forward, authorized budget, funds available for spending and actual expenditures for PG&E during 2010.

Table C-1
Summary of 2010 Ratepayer Funded EE Programs
(Excluding EM&V)

Description	Amount
Amounts Brought-Forward	$0
Authorized Budget per D.09-09-047	1,284,000,000
Available for Spending	1,284,000,000
Actual 2010 EE Expenditures	370,371,323
Amounts Carried Forward	$913,628,677

In 2010, PG&E's Integrated Demand Side Management (IDSM) organization renamed the Customer Energy Solutions (CES) used a total of 79 Provider Cost Centers[2] (PCCs) to implement its EE programs. Of the 79, sixty five (65 PCCs) were for the teams and organization within the IDSM and 14 from outside of IDSM.

PG&E states that the PCC is PG&E's company-wide Activity Price Policy similar to standard rates or standard costs. Standard rate calculations are done by PG&E's Business Finance department annually and updated quarterly. "Planned costs in the standard rates have no effect on the actual costs flowing to the program orders. PCC rates are planning mechanism for transferring organization support costs from a PCC to a program order. Actual costs are the ones that flow to the orders. Over or under allocation of PCC costs in a given month is offset by the standard cost variance (SCV)."

[2] Provider Cost Centers are individual groups and/or departments that operate within PG&E that provide distinct products and services.

PCCs are teams, or organizations performing specific activities. The PCCs under the umbrella of the IDSM organization are directly responsible for implementing all of the energy programs such as Energy Savings Assistance Program (ESAP), California Solar Initiative (CSI) and any other energy public purpose programs.

Under the direction of a Director, the PCC managers are responsible for PCC planned costs. Directors report to a Senior Director and the Senior Director reports to the VP of the IDSM Division. The planned costs used in developing a PCC rate are specific to the services provided by the PCC team or organization to others.

IDSM PCC services include Core Products, Technical Product Support, Core Technologies & Building Products, Policy and Integration Planning, Emerging Products, IDSM Operations-Inspections, IDSM Operations-Enrollment and Incentive Management, Mass Market Contract, Mass Market Education Training, Mass Market Government Partnership, etc. PCCs outside of the IDSM organization include Information Technology Services, Customer Care Call Center, Business Finance Services, and Reprographics services. [3]

All levels throughout the organization are identified as PCC teams. Employees charge their time for working on EE programs at a rate of the PCC where they work. The methodology for calculating a PCC hourly rate is the total cost it takes to run a specific PCC team or organization, including employee actual salaries and overhead costs, divided by an estimate of billing hours.

A. On-Bill Financing (OBF) Program

PG&E's OBF program offers zero-interest financing to facilitate the purchase and installation of qualified energy efficiency retrofit measures to non-residential customers who might not otherwise be able to act given capital constraints and/or the administrative and time burdens involved in obtaining traditional project financing. Only energy efficiency measures which qualify for rebates and/or incentives in PG&E's portfolio are qualified for the OBF program. They include Institution and Non-Institution customers such as commercial, industrial, and agricultural and tax-payer funded customers.

PG&E's OBF budget for the 2010-2012 EE program cycle is $27.8 million as set forth in Commission D.09-09-047. The budget provides for operating expenses of $9.3 million funded by the Public Goods Charge (PGC) and a revolving fund loan pool of $18.5 million funded by one time transfer of funds from the Public Purpose Program Energy Efficiency Balancing Account (PPPEEBA) subaccounts to another balancing account, per Commission's approval of PG&E Advice Letter 3118-G-A/3667-E-A on June 30, 2010.

PG&E's OBF underwriting guidelines include verification of customer's project cost; project eligibility for other EE rebate/incentive program(s); and specific credit criteria review, which includes customer's utility bill payment history, and for commercial customers, a credit agency report. The OBF loan process includes calculation of project's energy savings; post-installation

[3] For 2010 PG&E had 79 PCCs charge to the EE Programs. Sixty five are direct charges, or charges through PCCs within the Customer Energy Solutions (CES) Organization, formerly (IDSM) Integrated Demand Side Management, and 14 outside of the CES Organization.

inspection and project cost adjustments; calculation of loan term, loan amount (net of rebate/incentives), and monthly loan payment.

In D.09-09-047, OP 40, the Commission sets a loan cap of $100,000 for commercial loans with loan terms of up to five years, or may extend beyond five, but not to exceed the expected useful life (EUL) of the bundle efficiency measures proposed, whichever is lower. Institutional[4] customers may be granted loans of up to a total of $1 million with a maximum term of 10 years per facility to capture large savings and when all other terms are met. As for the treatment of delinquent OBF loans, the OBF billing is tied to PG&E's utility billing system wherein an outstanding bill which remains unpaid for more than 180 days will be considered in default and written off to Bad Debt Account. As stated in 7(c.) of the special conditions of the OBF Electric and Gas Preliminary statements, customers are considered in default of both the energy bill and the loan bill and (d) shall be subject to the discontinuance provisions of Rule 11-section D.

Pursuant to D.09-09-047, the Commission approved on June 30, 2010, PG&E's request in Advice Letter (AL) 3118-G-A and 3667-E-A to establish an $18.5 million loan pool or a sub-account in the On-Bill Financing Balancing Account (OBFBA). On July 1, 2010 in compliance with the approved AL, PG&E established OBFBA revolving fund sub-account in the OBFBA to track OBF loan disbursements and repayment activities. PG&E maintains separate accounts for electric and gas OBFBA. In 2010, PG&E's Gas and Electric OBFBA's activity was limited to earned interest. Balances for OBFA Electric and Gas balancing accounts are shown in Tables C-2 and C-3 below.

Table C-2
OBFBA-GAS Account Activities – 2010

Description	Amount
Authorized Funding	$ 3,330,000
2010 OBF Loan Disbursements	0
Interest	4,202
2010 Year-End OBFBA -G	**$ 3,334,202**

[4] Institutional customers are tax-payer funded agencies/facilities whose energy bills are paid by federal, state, county, city, or Indian tribal governments.

Table C-3
OBFBA-Electric Account Activities – 2010

Description	Amount
Authorized Funding	$ 15,170,000
2010 OBF Loan Disbursements	0
Interest	19,552
2010 Year-End OBFBA -E	**$ 15,189,552**

B. Energy Efficiency Administrative Costs

Pursuant to D.09-09-47 OP 13, the Commission limited the utilities' administrative costs for managing the EE programs to 10% of the total EE budget for years 2010-2012. Consequently, PG&E's authorized three year EE administrative budget for 112 EE programs for years 2010-2012 amounts to $144.2 million. PG&E's 2010 EE portfolio expenditures are $370.4 million and its administrative expenditures (excluding EM&V) amount to $32.6 million. Table 4 below shows administrative expenses as a percentage to total portfolio expenditures by delivery channel.

Table C-4
PG&E EE Expenditures by Cost Category

Category	Amount	% of Total Program	% Cap	% Target
PG&E Admin. Exp.	$ 22,910,764	6.2%	10%	
3rd Party and GP Admin. Exp.	9,743,848	2.6%		10%
Total Admin. Expenses	$ 32,654,612	8.82%		10%
Total 2010 EE Expenses	$370,371,323			

PG&E incurred $22.9 million in EE administrative costs or 6.2% of the total 2010 EE expenditures. PG&E is on track to stay within the 10% cap imposed by the Commission.

C. Home Energy Efficiency Rebate Program

The Home Energy Efficiency Rebate Program (HEER) encourages the adoption of energy-efficient choices when purchasing and installing household appliances by offering residential customers educational materials about energy efficiency options and by providing rebates and/or incentives. For PG&E, its HEER targets residential customers who are either owners or renters of single-family homes, townhomes, condominiums and mobile homes.

Residential customers who purchase EE qualified household appliances in PG&E's service territory can claim rebates from PG&E through a mail-in rebate or online application process. PG&E also offers instant point-of-sale (POS) rebates to individuals who purchase EE qualified appliances at participating retailers in PG&E's service territory. Also, several Water Districts within PG&E's service territory offer energy efficiency programs that provide rebates for high efficiency clothes washers. PG&E has agreements with these districts that allow each participating Water District's customer to request for the water district rebate through PG&E on a PG&E application. PG&E is reimbursed for rebates paid on behalf of the water district.

PG&E's HEER program incurred a total of $19.2 million in expenditures during 2010. Of the $19.2 million, $13.7 million, or 71.2% was for rebates provided to customers for the purchase of EE qualified appliances. To administer and implement the HEER program, PG&E incurred operating expenses totaling $5.5 million, or 28% of its total 2010 expenses for the HEER program. A detailed summary of PG&E's HEER program expenses and their ratios to total amount in 2010 is shown in Table C-5 below.

Table C-5
Summary of PG&E HEER Expenses – 2010

Description	Amount	%
Administrative Expenses	$ 634,987	3.3%
Marketing & Outreach Expenses	2,859,379	14.8%
Direct Implementation Expenses	2,057,414	10.7%
Mail-in and/or On-line Rebates	13,326,117	69.2%
POS Rebates	378,414	2.0%
Total HEER Expenses	$ 19,256,311	100.0%

PG&E pays HEER rebates to customers for the purchase of EE qualified appliances either through a mail-in, on-line, POS, or reimbursement process. The process for mail-in and on-line rebates generally takes PG&E 4 days to complete.

POS rebates are provided to customers who purchase Low Flow Showerheads from Stores located within PG&E's service territory, as approved in the Notification of Incentive Fund Allocation Form (NOIFA). To reimburse for POS rebates, electronically submits a monthly sales data report to PG&E for the previous month's sales by the 15th day of the following month. Upon review and approval of the monthly sales data report, PG&E remits payment to within thirty (30) days.

Vendor Rebates provided by contracted third-party vendors on behalf of PG&E customers submit claims for reimbursement through PG&E's Vendor Rebate System as follows:

- Vendor uploads file to system.
- System validated applications. Issues are flagged to be resolved manually.
- Validated applications are given an approved status and available for invoicing.
- Approved applications are bundled per vendor and per rebate program into invoices nightly.
- Invoices are reviewed by Program Managers for approval.
- Approved invoices are transferred into the MDSS system for additional validation checking, including possible double dipping and inspections.
- Once passed MDSS checks, MDSS submits the invoice to SAP for payment.
- Once paid, payment information is reported back to the Bulk Load System.

According to PG&E its customers also apply through PG&E for the water district rebates on its mail-in application form if the water district within PG&E's service territory has a rebate program that offers a rebate for the same qualifying appliance. Prior to approving and paying the rebate, the eligibility of the product is verified with the water district. Once verified and approved by the water district, PG&E pays the rebate on behalf of the water district along with its own rebate to the customer. Upon request by PG&E, the water district pays PG&E the amount paid on its behalf. PG&E credits the amount paid by the water district to its implementation cost category to acknowledge the reimbursement reducing the cost of the HEER program.

Appendix D
PG&E Comments

Pacific Gas and Electric Company

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May 11, 2012

Kayode Kajopaiye - Branch Manager
Utility Audit, Finance and Compliance Branch
California Public Utilities Commission
505 Van Ness Avenue, 3rd Floor
San Francisco, CA 94102

Dear Mr. Kajopaiye,

Subject: PG&E's response to the CPUC 2010 EE Interim Examination Report

Attached is the Response of Pacific Gas and Electric Company to the California Public Utilities Commission's Utility Audit, Finance and Compliance Branch Interim Examination Report of PG&E's Energy Efficiency Program for the Year Ended December 31, 2010.

Please contact me if you have any questions or concerns.

Thank you,

Janice S. Berman
Sr. Director
CES Policy & Integrated Planning

Pacific Gas and Electric Company

Janice S. Berman
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PACIFIC GAS AND ELECTRIC COMPANY
2010 ENERGY EFFICIENCY AUDIT

Response of Pacific Gas and Electric Company to the California Public Utilities Commission's Utility Audit, Finance and Compliance Branch Interim Examination Report of PG&E's Energy Efficiency Program for the Year Ended December 31, 2010

PG&E appreciates the opportunity to comment on UAFCB's draft Interim Examination Report (Report) and provides the following clarifications and comments for inclusion in the final Report.

I. Analysis and Findings – PG&E's Response to Recommendations

A. On-Bill Financing (OBF) Program

UAFCB Observation 1: PG&E failed to fund any OBF loan applications in 2010.

UAFCB Recommendation: PG&E should step up its efforts in approving and funding OBF loans during the remaining program cycle in order to minimize any lost opportunities caused by the delay in launching its OBF program. Also, UAFCB recommends that during the audit of 2011 EE program, OBF procedures for disbursing OBF funds and collecting loan payments should be reviewed.

PG&E Comments: UAFCB states in the "Effect" section: "Although PG&E was able to process and approve funding for 11 OBF applications, due to the delay in launching the OBF program, PG&E was unable to actually disburse any OBF funds in 2010."

PG&E launched its OBF program on July 1, 2010, upon Energy Division's approval of Advice Letter 3118-G-A/3667-E-A on June 30, 2010, and subsequently processed 11 OBF loan applications in 2010. Loan funds were not disbursed in 2010 as none of the customers had completed projects by the end to 2010. The first project to be completed and to request payment was in March 2011. Note that long lead time is typical of many energy efficiency projects. PG&E requests that the Report be revised to clarify that the OBF loan funds are disbursed once the projects are completed.

B. Energy Efficiency Administrative Costs

UAFCB Observation 2: PG&E used a manual process to reclassify $4,161,085 of costs from the Marketing and Implementation costs categories to its EE Admin Costs category.

UAFCB Recommendation: PG&E's manual reclassification process and procedure to be examined during the next audit to ensure the reclassification is relevant and appropriate.

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PG&E Comments: The Report states in the "Condition" section: "Since PM labor cost that [sic] is now charged to the direct implementation cost category, PG&E does a monthly reclassification to extract the component of administrative costs from the recorded direct implementation costs so as to comply with allowable administration cost as required in the October 22, 2009 memo." PG&E would like to clarify that the reclassification process was not triggered by the October 22, 2009, memo rather, it dates back to at least to the 2006-08 EE cycle. The reclassification occurs because PG&E reports certain costs, such as payroll taxes, in SAP to the same cost category as the associated labor. However, the CPUC considers payroll taxes and certain other costs to be administrative costs under its allowable cost definitions, rather than having these costs follow labor charges as PG&E records it in SAP. Therefore, the monthly reclassification is done to appropriately move these costs that PG&E records in SAP as direct implementation or marketing costs, to administrative, for external reporting purposes only. PG&E requests that the Report be modified to incorporate this clarification.

For additional details, please see PG&E's response to UAFCB data request number 6, dated October 10, 2011. (see attachment 1)

UAFCB Observation 3: PG&E failed to provide all source documents to support 42 transactions amounting to $288,241 out of the 75 transactions or $2,333,306 of the EE admin expenditure transactions selected for testing.

UAFCB Recommendation: PG&E should maintain adequate source documentation. Without documentation to validate these expenditures, PG&E's shareholders should refund the 2010-12 cycle for these expenditures.

PG&E Comments: PG&E would like to provide clarification on UAFCB Observation 3. On September 28, 2011, PG&E met with the UAFCB audit team to walk through the cost allocation methodology. PG&E acknowledges the fact that it is time consuming to provide the documentation for all 42 cost allocation samples, due to the volume of source documents supporting each individual cost allocation sample. As documented in the attached summary e-mail (see attachment 2), PG&E provided documentation for 20 of the 42 transactions. As instructed, PG&E did not provide the individual time records for these samples. PG&E and the UAFCB staff agreed that PG&E was to provide a detailed trace for several cost allocation samples including the timecard approval / signature page for the relevant PCC owner, pertaining to the labor related cost allocation samples.

As such, PG&E requests that UAFCB's recommendation that PG&E's shareholders refund $288,241 be changed. As PG&E indicated during the audit, PG&E can provide the necessary documentation to validate the expenditure transactions if such documentation is now desired. PG&E requests the opportunity for UAFCB to review the documentation, or a sample therein, prior to finalizing the Report.

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As provided in PG&E's response to UAFCB's oral data request number 1, question 1, dated November 18, 2011, (see attachment 3) PG&E has implemented functionality to its SAP system to allow for an automated trace of transactions, such as the cost allocation samples requested for the 2010 EE audit, back to their source. This process improvement will be useful in responding to similar requests in future EE audits or other program audits.

UAFCB Observation 4: PG&E's failure to provide relevant SAP accounting data on time resulted in limiting the scope and size of EE expenditures that UAFCB was able to review during the audit.
UAFCB Recommendation: PG&E should be reminded of its obligation to provide relevant and timely information during audits.

PG&E Comments: PG&E understands the need to provide relevant and timely information during the audit. Throughout the audit period, PG&E worked closely with the UAFCB staff in order to provide requested information in a timely manner. PG&E also worked closely with the UAFCB staff to explain the organizational and program expenditure reporting process changes made in 2010 that impacted the EE audit. The draft report in the "Criteria" section references Public Utility (PU) Code 584 that the utility needs to furnish reports "to the Commission at such time and in such form as the commission may require in which the utility shall specifically answer all questions propounded by the Commission."

PG&E was responsive to the UAFCB and provided SAP monthly expenditures for PG&E's EE programs for 2010 grouped into cost categories as requested by the UAFCB staff. Subsequent to providing the expenditures, PG&E engaged in many hours of explanation of the changes that PG&E made to its internal order and organizational structure in 2010 to accommodate a greater focus on integrated demand side management. As the result of these discussions, PG&E presented a refined version of the same SAP expenditures, broken out by direct charges and allocated charges. PG&E also provided the UAFCB staff a roadmap ("CES 2010 Administration Cost Allocation Demographic"), which may assist the UAFCB in developing their sampling approach in future audits. (see attachment 4)

The "Cause" section states that "PG&E provided no explanation for not providing the sub-account of its SAP data with the response to UAFCB's original request for SAP data dump of expenditures related to the 2010 recorded costs for its EE programs." PG&E requests the Report be revised to reflect that sub account detail that PG&E provided at the end of the audit was the same expenditure information provided in the original SAP data dump, but with greater granularity, in order to assist UAFCB in requesting similar data in the future for EE or other program audits.

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UAFCB Observation 5: PG&E IDSM failed to follow established Company's policy for cost allocation methodology before implementing it.

UAFCB Recommendation: PG&E should be more diligent in ensuring that company's policies and procedures are followed and that only relevant and appropriate program costs are charged to the EE program. PG&E should provide how it resolved the problem or situation to the UAFCB in its comments.

PG&E Comments: PG&E's Customer Energy Solutions (CES) implemented procedures to ensure that all relevant stakeholders review, approve, and concur with changes to regulatory interpretation and/or accounting that impact the recognition, recording, or reporting of EE transactions. CES has reviewed these procedures with Internal Audit and this issue was closed on January 5, 2011. (see attachment 5)

UAFCB Observation 6: PG&E does not clearly define what costs and overheads each PCC manager can include when determining labor charges for his/her cost center.

UAFCB Recommendation: The UAFCB may revisit the development of PCC rates in future audits.

PG&E Comments: PG&E requests that UAFCB's Observation 6 be modified to state that PG&E does follow its established company-wide policy surrounding costs and overheads when determining Provider Cost Centers (PCC) rates. PG&E's company-wide Activity Price Policy (see attachment 6) provides guidance on how the activity prices are calculated. Note that the term "activity price" is synonymous with standard rates, standard costs, activity type rates, or PCC rates.

Standard rate calculations are done by the PG&E's Business Finance department annually and updated each quarter. Note that a PCC manager does have some discretion on including additional items in his/her standard rate, if warranted (e.g. uniforms, conference fees, dues, contributions, staff augmentation). Planned costs in the standard rate have no effect on the actual costs that ultimately flow to the program orders. PCC standard rates are a planning mechanism for transferring organizational support costs from a PCC to a program order. Only actual costs charged to a PCC flows to the order(s). Any over- or under-allocation of PCC costs in a given month is offset by the standard cost variance (SCV).

As provided in PG&E's response to UAFCB's oral data request number 1, question 3, dated November 18, 2011, (see attachment 3) PG&E uses standard rates to move costs from PCC to other cost objects (other PCCs or orders) within SAP.

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II. Introduction - PG&E's Comments

Page 4: PG&E's 2010-12 Energy Efficiency authorized total budget should be $1.338 billion, not $1.388 billion.

Page 4, Table 1: Actual 2010 EE Expenditures should be $370,371,323 and amount carried forward $913,628,677.

D. Energy Efficiency Administrative Costs

Page 6: PG&E Admin Expenses should be $22,910,764 and Total Admin Expenditures $32,654,612.

E. Home Energy Efficiency Rebate Program

Page 7: PG&E would like to add that the HEER program promotes installation of energy efficient appliances and general improvements (e.g. insulation). The rebates are offered through a mail-in OR online rebate redemption process.

Page 7: PG&E contracted with a single third-party vendor to deliver some of our water heater rebates. It was a relatively small portion of the sub-program.

Page 8: PG&E processes water agencies rebates if it comes in on a PG&E application, but there is also a Cooperative Water Agency specific application.

State of California

Memorandum

Date: March 23, 2012

To: Edward Randolph
Director, Energy Division

From: **Public Utilities Commission—San Francisco** Kayode Kajopaiye, Branch Chief
Division of Water and Audits

Subject: Interim Financial, Management and Regulatory Compliance Examination Southern California Edison Company's Energy Efficiency (EE) Programs for the Year Ended December 31, 2010

This memo provides the Utility Audit, Finance and Compliance Branch's (UAFCB's) observations and recommendations on its Financial, Management and Regulatory Compliance Examination of Southern California Edison Company's (SCE's) 2010 Energy Efficiency (EE) programs. Based on consultation with the Energy Division (ED) and UAFCB's prior experience, it examined the following SCE 2010 EE programs and costs: (1) the On-Bill Financing Program (OBF); (2) EE administrative costs; and (3) the Home Energy Efficiency Rebate program (HEER). UAFCB observed certain recordkeeping deficiencies and lack of compliance by SCE in these areas.

A. Summary of Examination Observations

Except for the items noted below, SCE demonstrated a reasonable degree of compliance with Commission directives respecting its OBF program, EE administrative costs and HEER program.[1]

1) **SCE Didn't Fund any OBF Loan Applications in 2010.** Due to the delays and time needed to set up its OBF program protocols, SCE was unable to fund any OBF loans in 2010.

2) **SCE Improperly Charged Third-Party Direct Implementation Expenses to its EE Administrative Expenses.** During the examination , SCE acknowledged the recording error and took corrective actions to reclassify the $231,495 in third-party vendor charges to the appropriate direct implementation internal order.

3) **SCE Charged Business Meal Expenses as Incentives.** During the examination, SCE acknowledged the recording error and took corrective actions to reclassify the $1,524 in business meal charges to the appropriate EE administrative expense cost element.

[1] Commission directives used to measure compliance included, but were not limited to, D.09-09-047, the ruling in R.01-08-028, dated February 21, 2006 and Energy Division's memo, dated October 22, 2009.

4) **SCE Continues to Incorrectly Include EE Payroll Taxes in its General Rate Case (GRC).** SCE is not in compliance with the Commission's directives contained in D.09-09-047. SCE insists that ED's memo dated October 22, 2009 to EE utilities is not bidding because it contradicts the established policy for SCE to recover its payroll taxes through the GRC.

B. Recommendations

1) UAFCB will continue to monitor SCE's funding activities during the remaining years of the 2010-2012 EE budget cycle to ensure that SCE is complying and achieving Commission's objectives and goals for establishing the OBF program.

2) SCE should exercise due diligence in reviewing and approving invoices from its vendors and ensure that the EE expenditures are accurately classified and properly recorded in its accounting system

3) SCE should exercise due diligence in reviewing and approving invoices and ensure that the EE expenditures are accurately classified and properly recorded in its accounting system

4) ED should consult with and direct SCE to comply with its directive in order to achieve the objective and goal of the Commission of monitoring and overseeing the EE program costs.

C. Conclusion

With the exception of the items identified above, SCE demonstrated compliance with other Commission directives in the three areas examined. A detailed summary of UAFCB's analysis and observations is attached in Appendix A. Additional information on UAFCB's examination is included in Appendix B and pertinent information on SCE's EE programs is included in Appendix C.

UAFCB provided a copy of its analysis and observations of its examination to SCE for comment. UAFCB summarized SCE's response comments and UAFCB's rebuttal to them in Appendix A. SCE's full response is included in Appendix D of this memo in its entirety.

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

cc: Rami Kahlon, Director, Division of Water and Audits
Peter Skala Energy Division
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Jean Lamming, Energy Division
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Appendix A
Analysis and Findings

I. Summary

Except for the deficiencies noted by UAFCB, Southern California Edison Company (SCE) demonstrated to a reasonable degree its compliance with Commission directives respecting, On-Bill Financing Program (OBF) and Home Energy Efficiency Rebate Program (HEER), as well as its energy efficiency (EE) administrative costs. The areas examined by the UAFCB are described in Appendix C, Program Compendium. The directives the Utility Audit, Finance and Compliance Branch (UAFCB) used to test compliance included, but were not limited to, D.09-09-047, the ruling in R.01-08-028, dated February 21, 2006 and Energy Division's (ED) memo, dated October 22, 2009. UAFCB's scope and methodology used for the examination are in Appendix B, Examination Elements.

On February 21, 2012, UAFCB provided a copy of its analysis and findings and its summary of SCE's EE program for comment. On March 2, 2012, SCE provided its comments to UAFCB's observations and recommendations. UAFCB summarized SCE's comments and UAFCB's rebuttal at the end this appendix, and included SCE's comments in their entirety in Appendix D.

A. On-Bill Financing (OBF) Program

<u>Observation 1: SCE Didn't Fund any OBF Loan Applications in 2010.</u>

Criteria: D.09-09-047, OP 40 approved SCE's OBF program for the 2010-2012 program cycle. Ordering paragraph 2 specifically states "The energy efficiency program cycle … shall start on January 1, 2010. All approved energy efficiency programs should begin January 1, 2010."

Condition: On March 25, 2010, SCE filed Advice Letter (AL) 2456-E to request authorization to launch its OBF program. However, the Commission's Energy Division suspended SCE's AL 2456-E for 120 days due to protests. Subsequently, SCE filed supplemental AL 2456-E-A, which was approved by the Commission on July 8, 2010.

Cause: The 120 day suspension of SCE's AL 2456-E and subsequent filing of AL 2456-E-A delayed SCE's ability to timely implement its OBF program in 2010.

Effect: Due to the delays and time needed to set up its OBF program protocols, SCE was unable to fund any OBF loans in 2010.

Recommendation: UAFCB will continue to monitor SCE's funding activities during the remaining years of the 2010-2012 EE budget cycle to ensure that SCE is complying with and achieving the Commission's objectives and goals established for its OBF program.

B. Energy Efficiency Administrative Costs

Observation 2: SCE Improperly Charged Third-Party Direct Implementation Expenses to its EE Administrative Expenses.

Criteria: ALJ Gottstein's Ruling in R.01-08-028 dated February 21, 2006 provided a list of allowable administrative costs and also delegated authority to ED to provide guidance to EE utilities on administrative costs. D.09-09-047 ordered a 10% cap on administrative costs and in addition ED issued a letter dated October 22, 2009 providing further guidance to EE utilities on administrative costs as directed by D.09-09-047. In order to achieve accurate and appropriate reporting, EE expenses have to be classified appropriately as required by ED.

Condition: Third-party vendor charges totaling $231,495 billed to SCE's Comprehensive Mobile Home program were misclassified as EE administrative costs.

Cause: SCE data entry personnel incorrectly charged the expense to the wrong internal order account. The third-party invoice amount totaling $231,495 was charged to internal order 604843- Comprehensive Mobile Home Program Administration instead of charging the amount to the correct internal order 604839 -Comprehensive Mobile Home Third Party Implementation.

Effect: During the audit, SCE acknowledged the recording error and took corrective actions to reclassify the $231,495 in third-party vendor charges to the appropriate direct implementation internal order.

Recommendation: SCE should exercise due diligence in reviewing and approving invoices from its vendors and ensure that EE expenditures are accurately classified and properly recorded in its accounting system.

Observation 3: SCE Charged Business Meal Expenses as Incentives

Criteria: ALJ Gottstein's Ruling in R.01-08-028 dated February 21, 2006 provided a list of allowable administrative costs and also delegated authority to ED to provide guidance to EE utilities on administrative costs. D.09-09-047 ordered a 10% cap on administrative costs and in addition ED issued a letter dated October 22, 2009 providing further guidance to the EE utilities on administrative costs as directed by D.09-09-047.

Condition: Business meal expenditures totaling $1,524 were misclassified as incentive expenses and charged to the direct implementation cost category.

Cause: SCE data entry personnel incorrectly charged the expense to the wrong cost element account. The invoice totaling $1,524 for business meals was charged to cost element 6251040 - customer incentive instead of cost element 6070025 -Business meals.

Effect: During the examination, SCE acknowledged the recording error and took corrective actions to reclassify the $1,524 in business meal charges to the appropriate EE administrative expense cost element.

Recommendation: SCE should exercise due diligence in reviewing and approving invoices and ensure that its EE expenditures are accurately classified and properly recorded in its accounting system.

Observation 4: SCE Continues to Incorrectly Include EE Payroll Taxes in its General Rate Case (GRC).

Criteria: Commission D.09-09-047, page 50, defines allowable administrative costs as Overhead (General and Administrative (G&A) Labor and Materials), Labor (Management and Clerical), Human Resources (HR) Support and Development, Travel and Conference Fees (Administrative Costs) costs, which are necessary for implementing the energy efficiency programs. Furthermore, the Commission's Energy Division (ED) memo dated October 22, 2009, recommends, and among other things that SCE's EE payroll taxes be placed as general EE administrative costs and that SCE should cease recovering them through the GRC. In addition D.09-09-047, page 57, the Commission categorically stated "we … direct our staff to issue a revised guideline describing the details of administrative costs versus direct implementation." The primary reason the Commission established specific guidelines and definitions set forth in its decisions, ruling and the ED memo is to ensure EE costs are properly recorded and reported for comparability, uniformity and consistency among the four California Investor-Owned Utilities (IOUs).

Condition: SCE is recovering its EE payroll taxes through its GRC. According to SCE, since 2009 it has recovered approximately $ 2,633,000 in EE payroll taxes through the GRC. For the year 2010, SCE recovered a total of $877,000 in EE payroll taxes.

Cause: SCE contends that it has always recovered its EE payroll taxes through its GRC and that the ED's memo dated October 22, 2009 was not formally adopted by the Commission, and therefore not binding on SCE.

Effect: SCE is not in compliance with the Commission's directives in D.09-09-047 and the Memo issued by ED. SCE's action defeats the purpose of cost comparability.

Recommendation: ED should consult with and direct SCE to comply with its directive in order to achieve the objective and goal of the Commission of monitoring and overseeing the EE program costs.

II. SCE's Comments on UAFCB' Draft Report

On February 21, 2012, the UAFCB submitted a copy of its draft report to SCE for its review and response. The draft report included UAFCB's observations and recommendations to the specific areas reviewed during the examination of SCE's EE programs for budget year 2010. SCE provided its response comments on March 2, 2012. A copy of SCE's response is included in Appendix D in its entirety.

SCE's Response to Observations 2 and 3

SCE agrees to UAFCB's recommendation and indicated it had already carried out some refresher course training in internal order and cost element accounting for its staff in January and February 2012.

SCE's Response to Observation 4
SCE disagrees with UAFCB's Observation #4. SCE insists that it is in compliance with Commission directive and correctly included EE payroll taxes in its GRC. SCE acknowledges that the Commission did in fact direct staff in D.09-09-047 to issue a revised guideline describing the details of administrative costs versus direct implementation costs. However, SCE downplays the significance of ED's memo, dated October 22, 2009 which provided a revised guideline describing the details of administrative costs versus direct implementation costs.

According to SCE, the guidelines contained in the ED's memo required that "the IOUs should be required to include payroll taxes in their EE applications" is non-binding because "full Commission action was needed to require SCE to change its practice of collecting payroll taxes pursuant to Commission approval in the GRC." SCE claims that because the ED recommendation was never formally adopted by the Commission, SCE did not recover payroll taxes in the EE program costs as administrative costs. SCE claims that payroll taxes for its EE staff have never been part of its EE budget. UAFCB is yet to substantiate this claim because the matter came up at a teleconference meeting with SCE.

III. UAFCB Rebuttal

Rebuttal to SCE's Response on Observations #2 and #3.
UAFCB appreciates SCE's efforts of recently providing staff refresher training on the review of internal order and cost element accounting. For purposes of documentation for the record, ED should request that SCE provide a copy of materials used for conducting the training and a list of attendees, including their positions and the date that the training was held and copy the UAFCB in its response.

Rebuttal to SCE's Response on Observation #4
UAFCB understands SCE's position for not wanting to double recover payroll taxes. However, SCE is wrong for saying that ED's memo is not bidding.

Commission' goal for requiring the issuance of the revised guidelines is to ensure conformity and consistency concerning the recording and reporting of EE expenditures by the four IOUs. Uniformity in the treatment of costs is necessary for allowing fair comparison of reported EE expenditures which is pivotal in enhancing the Commissions decision making and oversight responsibilities. SCE is the only utility among the four IOUs that recovers payroll taxes in the GRC.

ED should consult with SCE to determine how soon SCE can comply with its guideline on payroll taxes in order to achieve the objective and goal of the Commission of cost comparison and oversight.

Appendix B
Examination Elements

The Utility Audit, Finance and Compliance Branch (UAFCB) initiated this examination by sending an engagement letter to Southern California Edison Company (SCE), dated April 14, 2011. UAFCB representatives visited SCE's office in Rosemead, California on a few occasions, and met with SCE management and staff, and reviewed original supporting data. UAFCB completed its fieldwork on November 4, 2011.

Authority

D.09-09-047 ordering paragraph (OP) 14, states among other things, that "Commission staff conduct a full audit of the utilities' administrative and other costs in order to understand the changes in characterization of costs in the revised applications and to ensure accountability of the amount, allocation and the composition of the total administrative costs for this portfolio timeframe." UAFCB met with ED's management to determine the scope of its support of OP 14.

Scope

Based on consultation with Energy Division, the UAFCB was to examine SCE's 2010 On-Bill Financing Program (OBF) and energy efficiency administrative costs. In addition, based on prior experience, UAFCB selected a statewide program to include in its examination, the Home Energy Efficiency Rebate Program (HEER). Consequently, the scope of UAFCB's examination was limited to those three areas for 2010 activities and expenditures.

Objectives

UAFCB's overall objectives are to determine whether the:

1. Program design, structure, processes, implementation, costs and controls of SCE's OBF were in compliance with (1) the Commission's guidelines including, but not limited to, D.09-09-047, the ruling in R.01-08-028, dated February 21, 2006 and Energy Division's memo, dated October 22, 2009; and (2) SCE's own internal policies and procedures;

2. EE administrative costs that SCE incurred were proper and were in compliance with (1) the Commission's guidelines including, but not limited to, D.09-09-047, the ruling in R.01-08-028, dated February 21, 2006 and Energy Division's memo, dated October 22, 2009; and (2) with SCE's own internal policies and procedures; and

3. Design, structure, processes, implementation, costs and controls of SCE's HEER were in compliance with the Commission's guidelines including, but not limited to, D.09-09-047, the ruling in R.01-08-028, dated February 21, 2006 and Energy Division's memo, dated October 22, 2009 and (2) SCE's own internal policies and procedures.

Methodology and Testing

UAFCB used SCE's responses to UAFCB's Internal Control Questionnaires (ICQ) to perform a preliminary risk analysis. Based on the results of its risk analysis, UAFCB determined specific areas for testing and developed its testing methodology.

On-Bill Financing Program (OBF): Although SCE received 575 loan applications in August of 2010, none of the applications were processed to completion and funded because the program was operational for five months during the period. However, UAFCB judgmentally selected and examined 30 OBF applications for compliance with the underwriting guidelines and loan requirements as stipulated in SCE's OBF policies and procedures manual.

UAFCB observed that SCE had consistently applied its OBF loan processes and procedures based on its underwriting guidelines and loan requirements as outlined by its On-Bill Financing Flowchart, which also served as a checklist to complete the loan process. UAFCB did not find any exceptions in its examination of the OBF program loan underwriting process.

Energy Efficiency Administrative Costs: UAFCB judgmentally selected and tested 66 transactions of EE administrative expenditures totaling $8.2 million for relevancy, accuracy, proper authorization, classification and appropriate supporting documentation. The following table lists the nature, number of transactions and amounts tested.

Table B-1
SCE 2010 Administrative Sample Test Composition

Nature	Number	Amount
SCE	32	$ 7,129,026
Third Party	12	1,315,352
Government	22	131,809
Total	66	$ 8,223,427

Furthermore, UAFCB tested and reviewed EE administrative costs accumulated in Distributed Cost Center's[2] (DCC's) and their subsequent allocation to various EE programs. The review and tests were aimed at ensuring that both the accumulation and allocation of costs in the DCCs were appropriate. The table below provides a summary of the DCC allocated costs selected and tested.

Table B-2
SCE 2010 DCC Allocated Samples Tested

Cost Categorization	Number	Amount
Allocation booked to DCCs	42	$ 961,307
Allocation from DCCs	10	352,760
Total	52	$ 1,314,067

During the review, UAFCB noted some errors which were discussed in Appendix A of this memo.

Home Energy Efficiency Rebate Program (HEER): In 2010, SCE spent $7.6 million on the HEER program. Of this amount, incentives and rebates payments amounted to $ 5.1 million. Other components of the $7.6 million included costs for non-incentive, direct implementation,

[2] Distributed Cost Centers are utilized by SCE to allocate Customer Service Business Unit CSBU costs incurred by EE programs and include costs such as financial support, regulatory support, internal audit, training, etc.

marketing and outreach and SCE's administrative costs. UAFCB judgmentally selected 30 transactions for testing. Of the 30 sample transactions selected, 13 transactions amounting to $1.63 million were for direct implementation and 17 amounting to $1.17 million were for marketing and outreach. A detailed breakdown of SCE's total HEER program expenditures for 2010 is shown in the table below.

Table B-3
SCE 2010 HEER program Expense

Cost Category	Amount	%
Direct Implementation		
Incentive	$ 5,108,794	67%
Non incentive	1,036,261	13%
Total Direct Implementation	6,145,055	80%
Marketing and Out Reach	1,110,889	15%
Administration	371,406	5%
Total Expenses	$ 7,627,350	100%

Retailers who participated in the HEER program included; Home Depot, Best Buy, Lowes, and Sears. Home Depot accounted for over 90% of the point-of-sale rebate payments followed by Best Buy at 5%. The rest of the other participating point-of-sale retailers had minimal or no transactions. UAFCB tested 13 HEER incentive payment samples amounting to $1.48 million for appropriateness and found no exceptions.

Standards

The UAFCB conducted this examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence concerning SCE's compliance with the requirements noted above and performing any other procedures as we considered necessary in the circumstances.

Appendix C
Program Compendium

Introduction

On September 24, 2009, the California Public Utilities Commission (Commission) issued Decision (D.) 09-09-047 which, among other things, authorized (SCE) a total budget of approximately $1.228 billion in ratepayer funds to administer and implement its Energy Efficiency (EE) programs for the years 2010 through 2012, including $49 million dedicated to Evaluation, Measurement and Verification (EM&V). This represents about 39% of the total funds the Commission authorized for 2010-2012 EE budget cycle. In addition, this decision also set energy savings goals, established cost-effectiveness requirements, placed a cap of 10 percent on utility administrative costs, authorized types of programs, and set targets for certain programs.

SCE's total Commission authorized EE budget (net of EM&V of $49 million) was $ 1.179 billion for budget cycle 2010-2012. For the year 2010, excluding EM&V expenditures, SCE spent $271 million, or 23%, of its total authorized budget for the period 2010-2012. The following table shows the amount carried forward, authorized budget, funds available for spending and actual expenditures for SCE during 2010.

Table C-1
Summary of 2010 Ratepayer Funded EE Programs
(Excluding EM&V)

Description	Amount
Authorized Budget per D.09-09-047	$ 1,178,880,003
Available for Spending	1,178,880,003
Actual 2010 EE Expenditures	271,131,995
Amounts Carried Forward	$ 907,748,008

SCE's Customer Service Business Unit (CSBU) is responsible for the operation of the energy efficiency programs, among other things. Under the CSBU, the Customer Programs & Services Division's (CP&S) primary function is to assure that energy efficiency programs are properly managed and in compliance with Commission's directives. Within the CP&S are the Customer Energy Efficiency and Solar Division (CEES), which manages the implementation and the day-to-day operation of SCE's energy efficiency programs. As of December 31, 2010, CEES employed 184 fulltime employees, not including consultants and contract workers.

A. On-Bill Financing (OBF) Program

SCE's OBF program offers zero-interest financing to facilitate the purchase and installation of qualified energy efficiency retrofit measures to non-residential customers who might not otherwise be able to act given capital constraints and/or the administrative and time burdens involved in obtaining traditional project financing. Only energy efficiency measures which qualify for rebates and/or incentives in SCE's portfolio are qualified for the OBF program. They include Institution and Non-Institution customers such as commercial, industrial, and agricultural and tax-payer funded customers.

SCE's OBF budget for the 2010-2012 EE programs cycle is approximately $24 million as set forth in D.09-09-047. The budget provides for operating expenses of $8 million funded by the Public Goods Charge (PGC) and a revolving fund loan pool of $16 million funded by non-PGC revenues pursuant to D.09-09-047 and approved in SCE's Advice Letters AL 2456-E and AL 2456-E-A.

SCE's OBF underwriting guidelines include verification of customer's project cost; project eligibility for other EE rebate/ incentive program(s); and customer's utility bill payment history. The OBF loan process includes the calculation of the project's energy savings; post-installation inspection and project cost adjustments; the calculation of loan terms, loan amount (net of rebate/incentives), and monthly loan payment.

In D.09-09-047, OP 40, the Commission set a loan cap of $100,000 for commercial loans with loan terms of up to five years, or may extend beyond five, but not to exceed the expected useful life (EUL) of the bundle efficiency measures proposed, whichever is less. Institutional[3] customers may be granted loans of up to a total of $1 million with a maximum loan term of 10 years per facility to capture large savings and when all other terms are met. As for the treatment of delinquent OBF loans, the OBF billing is tied to SCE's utility billing system and the treatment of default loans is supposed to be treated and pursued in a similar manner as SCE's own defaulted utility bills.

Advice Letter (ALs) 2456-E and 2456-E-A authorized SCE to set up a On-Bill Financing Balancing Account (OBFBA) for the 2010-2012 EE budget cycle to track OBF loan disbursement and repayment activities. As of December 31, 2010, SCE had not disbursed any OBF loans. A review of the OBFBA will be conducted during the examination of the 2011 EE programs sometime in 2012.

B. Energy Efficiency Administrative Costs

Pursuant to D.09-09-47 OP 13, the Commission limited the utilities' administrative costs for managing the EE programs to 10% of the total EE budget for years 2010-2012. SCE's 2010 EE administrative budget amounts to $125.2 million. SCE's total EE administrative expenditures (excluding EM&V) incurred in 2010 amounted to $28.5 million and is broken down by cost type in table below:

[3] Institutional customers are tax-payer funded agencies/facilities whose energy bills are paid by federal, state, county, city, or Indian tribal governments.

Table C-2
SCE EE Expenditures by Cost Type

Category	Amount	% of Total Program
IOU Admin Expense (Exp)	$ 24,342,016	8.9%
3rd Party Non-SCE Admin. Exp.	3,805,609	1.39%
Local Govt. Non-SCE Admin. Exp	317,385	0.1%
Total 2010Admin Expenditures	$ 28,465,011	10.4%

SCE classifies EE administrative expenses into three cost categories: (1) Program costs that are expenses related to EE program activities internally handled by SCE, (2) Vendor costs that are non-IOU EE program activities from strategic partners, and (3) Allocated costs that are indirect costs incurred by SCE's internal units that provide support services to the EE programs.

SCE uses two methods to allocate indirect costs to its EE programs- (1) the Distribution Cost Centers (DCC) method and the Internal Market Mechanism (IMM) method. The DCC method allocates Customer Service Business Unit (CSBU) costs incurred by EE programs which cannot be directly assigned to each program. DCC costs include financial support, regulatory support, internal audit, training, etc. The IMM involves the allocation of competitively procured services by internal providers and includes services such as telephone moves, telephone toll and long distance calls, pager services, device repairs.

SCE reported $28.5 million of EE administrative costs or 10.4% of the total EE expenditure portfolio including the administrative costs of third party and local government program implementers. Table 3 below shows a summary of SCE's 2010 EE administrative cost cap and target expenditures that demonstrates that SCE is on track to stay within the 10% cap imposed by the Commission.

Table C-3
Energy Efficiency Administrative Cost Cap and Expenditures For 2010

Expense Category	Amount	% to Total Expend Portfolio	% Cap	% Target
SCE Own Admin Exp.	$ 24,342,016	8.89%	10%	
#3rd Party Non-SCE Admin	3,805,609	1.39%		10.0%
Local Govt. Non SCE Admin	317,385	0.1%		10.0%
Total IOU Admin (Net of EM&V)	**$ 28,464,011**	**10.4%**		
Total Portfolio Expenditure (Net of EM&V)	**$271,131,995**			

C. Home Energy Efficiency Rebate Program

The Home Energy Efficiency Rebate Program (HEER) encourages the adoption of energy-efficient choices when purchasing and installing household appliances by offering residential customers educational materials about energy efficiency options and by providing rebates and/or incentives. SCE's HEER program targets residential customers who are either owners or renters of single-family homes, townhomes, condominiums and mobile homes.

Residential customers who purchase EE qualified household appliances in SCE's service territory can claim rebates from SCE through a mail-in and/or on-line rebate application process. SCE also offers instant point-of-sale (POS) rebates to individuals who purchase EE qualified appliances at participating retailers in SCE's service territory.

SCE incurred $7.6 million for its HEER program in 2010. Of the $7.6 million in HEER program expenses $5.1 millionor 67% was for customer rebates. A detailed breakdown of SCE's 2010 HEER program expenses and related percentages is shown in the following table:

Table C-4
Summary of SCE 2010 HEER Expenses - 2010

Cost Category	Amount	%
Direct Implementation		
Incentive	$ 5,108,794	67%
Non incentive	1,036,261	13%
Total Direct Implementation	6,145,055	80%
Marketing and Outreach	1,110,889	15%
Administration	371,406	5%
Total Expenses	$ 7,627,350	100%

SCE pays rebates only on appliances and equipment listed on the Energy Star® website. Before approving a rebate application, SCE refers to the website to verify that each appliance listed on the application and the receipt submitted by the customer-applicant is qualified. Appliances rebated at the point-of-sale do not qualify for mail-in and/or on-line rebates. Point-of-sale retailers that have contract agreements with SCE invoice SCE for the reimbursement of point-of-sale rebates given to customers. SCE classifies the point-of-sale reimbursements/payments to its contracted retailers as Incentives under the Direct Implementation Cost category.

SCE paid a total of $5.1 million in HEER rebates charged to the Direct Implementation Cost category in 2010 through mail-in applications, on-line applications and discounts at the point-of-sale. The table below provides a summary of SCE's HEER rebates paid by measure type in 2010.

Table C-5
Summary of HEER Rebate Payments

Type of Measure	Amount	%
Refrigerators	$ 3,891,151	76%
Variable speed pool Pumps in Ground Pools	650,500	13%
Deducted Evaporative Cooling Systems		
(i) Single stage ducted	$164,915	
(ii) Single stage ducted with new pressure relief dampers	61,800	
(iii)Two stage ducted	500	
(iv) Two stage ducted with new pressure relief dampers	-	
Subtotal - Cooling Systems	*227,215*	*4%*
Pool pump contractor incentive	122,400	2%
Whole House Fans	97,800	2%
Energy Star Qualified Air Conditioner	90,002	2%
Pool Pump two speed (2009 carryover measure)	28,600	1%
Energy Star Electric Storage Water Heater	960	0%
Attic and/or Wall Insulation	166	0%
Total	**$5,108,794**	**100%**

Appendix D
SCE Comments

SOUTHERN CALIFORNIA EDISON
An EDISON INTERNATIONAL® Company

Gene Rodrigues,
Director of Customer Energy Efficiency and Solar

March 02, 2012

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

Dear Mr. Kajopaiye:

Southern California Edison Company (SCE) appreciates the opportunity to review and provide comments on the *Interim Examination Report of Southern California Edison Company Energy Efficiency Program for the Year Ended December 31, 2010* (Interim Report), issued by the California Public Utilities Commission's (Commission) Division of Water and Audit's Utility Audit, Finance and Compliance Branch (UAFCB) on February 21, 2012.

To clarify SCE's position and avoid any potential misinterpretation of findings in the Interim Report, SCE provides its response to the findings and recommendations included in the Interim Report (please see attachment).

Consistent with previous audits, SCE will provide the Commission with comprehensive responses to each of the recommendations and findings that are included in the final audit report and offer the appropriate corrective actions.

SCE appreciates the opportunity to continuously improve its administration and operation of the Energy Efficiency (EE) programs and, more importantly, to help achieve the envisioned EE program goals.

If you have any questions, please contact me to discuss further.

Thank you.

Gene B. R

3/2/2012

Gene Rodrigues
Director of Customer Energy Efficiency and Solar
Southern California Edison Company

Enclosure

cc: Bernard Ayanruoh
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Interim Examination Report of SCE's Energy Efficiency Programs
Audit Recommendations Response
For the Year Ended December 31, 2010

Recommendations 2 and 3: *SCE should exercise due diligence in reviewing and approving invoices from its vendors and ensure that the EE expenditures are accurately classified and properly recorded in its accounting system.*

Underlying Observations:

Observation 2: *SCE Improperly Charged Third-Party Direct Implementation Expenses to its EE Administrative Expenses.*

Observation 3: *SCE improperly charged EE administrative expenses to its direct implementation expenses.*

SCE's Response to Recommendations 2 and 3:

SCE agrees with Recommendations 2 and 3 and recently provided a refresher training in January and February 2012 on the review of internal orders and cost element accounting. This training reinforced existing policies and procedures on energy efficiency (EE) expenditures and other information to help managers exercise appropriate due diligence in reviewing energy efficiency (EE) expenditures to ensure they are accurately classified and properly recorded in SCE's accounting system.

Recommendation 4: *SCE should comply with the Commission's directives in D.09-09-047 if it does not want to face fines and penalties.*

Underlying Observation:

Observation 4: *SCE incorrectly included EE payroll taxes in its GRC.*

SCE's Response to Recommendation 4:

SCE disagrees with Observation 4. SCE is in compliance with the Commission's directives and correctly included EE payroll taxes in its General Rate Case (GRC).

SCE's 2009-2011 GRC Application (A.)07-11-01 (GRC Application) included the following payroll taxes: SCE's Federal Insurance Contribution Act (FICA), Federal Unemployment Tax Act (FUTA), State Unemployment Insurance (SUI), and California Employment Training (CET) for all SCE employees, including those supporting SCE's EE programs.[1]

[1] The testimony and forecast of SCE's payroll taxes are found in A.07-11-011 at SCE-11, Vol. 2, pp. 47-49 (Attachment 3) and the Results of Operation model summarized in SCE-11, Vol. 1 (Attachment 2).

In March 2009, the Commission issued SCE's GRC Decision (D.)09-03-025 approving SCE's GRC Application, including payroll taxes for employees supporting EE programs.[2]

Later that year, the Commission issued D.09-09-047 in SCE's EE proceeding. D.09-09-047 defined allowable administrative costs for the EE programs.[3] D.09-09-047 also provided that ". . . [we] direct our staff to issue a revised guideline describing the details of administrative costs versus direct implementation costs."[4]

On October 22, 2009, Anne Premo from the Commission's Energy Division (ED) sent a letter to Pacific Gas and Electric Company, SCE, and the Sempra Utilities providing information regarding "how administrative costs should be categorized in light of the energy efficiency portfolio decision (D.09-09-047) and the overall budgets." With respect to payroll taxes, the attachment to this letter noted that "SCE . . . includes EE payroll taxes in the GRC, whereas Sempra and PG&E currently place those under administrative costs." The attachment further provided a "recommendation" that "the IOUs *should be required* to consistently place EE payroll taxes as general EE administrative costs (i.e., SCE should change its current practice of placing these costs in the GRC)." (emphasis added). In providing this *recommendation*, and stating that "the IOUs *should be required* to" (emphasis added) include payroll taxes in their EE applications, the ED recognized that full Commission action was needed to require SCE to change its practice of collecting payroll taxes pursuant to Commission approval in the GRC. The full Commission did not take action to require SCE to change its practice of collecting payroll taxes pursuant to Commission approval in the GRC. Accordingly, SCE could not change its practice on recovering payroll taxes. Furthermore, to have done so in 2010, would have led to double collection of payroll taxes in both EE and GRC, or would lead to SCE being out of compliance with both the EE and GRC decisions, because payroll taxes were included and approved in the GRC and not the EE proceeding.

Ultimately, because the ED recommendation was never formally adopted by the Commission, SCE did not recover or record EE payroll taxes in the EE proceeding as general EE administrative costs, and continued recovering them in compliance with D.09-03-025.

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[2] D.09-03-025, p. 314; Appendix C, p. C-18. The CPUC's adopted payroll taxes forecast of $69.7 million. Although this issue was uncontested, the Commission has explained in prior GRC proceedings that unless it states otherwise in its final decisions, uncontested issues are considered to be *prima facie* reasonable. (*See* e.g., D.06-05-016, p.8 ("As a general matter, with respect to individual uncontested issues in this proceeding, we find that SCE has made a *prima facie* just and reasonable showing, unless otherwise stated in this opinion.").

[3] p. 50.

[4] p. 57.

With the exception of a link to a Commission ruling, all links to files in this document have been removed.
Redactions were requested and inserted by the utility and the public version is subject to update if some of the redacted information or files are in fact public.

State of California

Memorandum

Date: May 21, 2012

To: Edward Randolph
Director, Energy Division

From: **Public Utilities Commission— San Francisco**
Kayode Kajopaiye, Branch Chief
Division of Water and Audits

Subject: Interim Financial, Management and Regulatory Compliance Examination San Diego Gas & Electric Company's Energy Efficiency (EE) Programs for the Year Ended December 31, 2010

This memo provides the Utility Audit, Finance and Compliance Branch's (UAFCB's) observations and recommendations on its Financial, Management and Regulatory Compliance Examination of San Diego Gas & Electric Company's (SDG&E's) 2010 Energy Efficiency (EE) programs. Based on consultation with the Energy Division (ED) and UAFCB's prior experience, it examined the following SDG&E's 2010 EE programs and costs: (1) the On-Bill Financing Program (OBF); (2) EE administrative costs; and (3) the Home Energy Efficiency Rebate program (HEER). UAFCB observed certain recordkeeping deficiencies and lack of compliance by SDG&E in these areas.

A. Summary of Examination Observations and Recommendations

Except for the items noted below, SDG&E demonstrated a reasonable degree of compliance with Commission directives respecting its OBF program, EE administrative costs, and HEER program.[1]

1) **SDG&E failed to demonstrate compliance with Decision (D.) 09-09-047, Ordering Paragraph 40, with respect to its OBF balancing account.** SDG&E disagrees**.** However, on December 31, 2010, SDG&E's electric OBF balancing account had a deficit of $2.05 million.

   Recommendations

   (a) SDG&E should restrict its loan activities to positive fund balances or seek an increase in funding for the OBF.

   (b) SDG&E should maintain a zero or positive balance in its OBF balancing account at all times.

2) **ED does not have guidelines on how the energy efficiency services rendered by SDG&E to Southern California Company (SCG) or SCG to SDG&E should be accounted for.** UAFCB originally alleged that SDG&E failed to demonstrate compliance with Commission's Ruling R.01-08-028 and Energy Division's memo dated October 22, 2009 by including $128,061 of SCG's cross-billed pension and benefits (P&B) costs in SDG&E's EE administrative expenses. UAFCB now agrees with the explanation provided by SDG&E in its comments to the interim draft report

[1] Commission directives used to measure compliance included, but were not limited to, D.09-09-047, the ruling in R.01-08-028, dated February 21, 2006 and Energy Division's memo, dated October 22, 2009.

that the October memo does not address the matter of cross-billing between two affiliates such as SDG&E and SCG. .

Recommendation
ED should provide guidelines to SDG&E and SCG on cross-billing for services that might be rendered to each other for proper accounting and reporting.

3) **SDG&E failed to demonstrate compliance with General Order (GO) No. 28.** UAFCB found that SDG&E failed to maintain adequate documentation to support $1,050,806 of EE administrative expenditures. SDG&E later provided responses to substantiate some of the payments but could not satisfactorily support $753,544 to American Synergy under the Comprehensive Mobile Home program. SDG&E disagrees, however.

   Recommendation
   SDG&E needs to maintain adequate documentation for all expenditures. ED should request that SDG&E provide the list of customers to support the amount indicated above if it does not want its shareholders to bear the burden of the unsubstantiated charges of $753,544 to the EE programs. ED should make SDG&E provide its response to ED and UAFCB at the same time for its review and determination.

4) **UAFCB originally alleged that SDG&E failed to demonstrate compliance with D.09-09-047, page 50.** UAFCB found that SDG&E improperly charged $33,037 in marketing expenditures as EE administrative expenses. SDG&E provided additional explanation and supporting documentation satisfactory to UAFCB on this matter in its response to the interim draft report.

   Recommendation
   None

5) **SDG&E failed to demonstrate compliance with D.09-09-047, page 50.** UAFCB found that SDG&E incorrectly classified $42,710 of its costs for HEER Home Energy Savings Kits as administrative (non-labor) instead of as direct implementation (non-incentive) costs. However, in October 2011, SDG&E corrected the misclassification error and provided the correcting journal entries to UAFCB as part of its response to the interim draft report.

   Recommendation
   SDG&E should exercise due diligence in ensuring that it would continue to correctly classify and record program expenditures.

6) **SDG&E failed to demonstrate compliance with the FERC Uniform System of Accounts on accruing expenditures for its HEER rebates.** SDG&E disagrees. However, SDG&E included a 2009 rebate of $339,826 in its 2010 program costs.

   Recommendation
   ED should request that SDG&E require POS retailers to submit invoices within a certain time frame to enable proper recording, and record the accrued rebates in the appropriate accounting period. ED should make SDG&E provide its response to ED and UAFCB at the same time for its review and determination.

7) **SDG&E failed to demonstrate compliance with the FERC Uniform System of Accounts in maintaining consistency between its accounting records and supporting documentation.** UAFCB found that SDG&E incorrectly classified a rebate amount of $174,500 as Advertising and Marketing. In response to the interim draft report, SDG&E corrected the error in September 2011 and provided the evidence that it did so.

   Recommendation
   SDG&E should exercise due diligence in reviewing and approving invoices to ensure that payments for rebates are properly classified and accurately recorded.

8) **SDG&E failed to demonstrate compliance with GO No. 28.** SDG&E did not provide adequate documentation for $350,050 of its HEER rebate transactions. SDG&E disagrees, however**.**

   Recommendations
   (a) SDG&E should ensure that the documents provided by its vendors/contractors are complete, accurate and auditable.
   (b) ED should request SDG&E to substantiate the $350,050 in rebates if it does not want its shareholders to be responsible for the charges. ED should make SDG&E provide its response to ED and UAFCB at the same time for its review and determination.

B. Conclusion

With the exceptions of the items identified above, SDG&E demonstrated compliance with other Commission directives in the three areas examined. A detailed summary of UAFCB's analysis and observations is attached in Appendix A. Additional information on UAFCB's examination is included in Appendix B and pertinent information on SDG&E's EE programs is included in Appendix C.

UAFCB provided a copy of its analysis, observations, and recommendations of its examination to SDG&E for comment. UAFCB summarized SDG&E's comments and UAFCB's rebuttal to them in Appendix A. SDG&E's full response is included in Appendix D of this memo in its entirety. UAFCB made changes throughout the report to reflect comments received from SDG&E.

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

cc: Rami Kahlon, Director, Division of Water and Audits
Peter Skala, Energy Division
Carmen Best, Energy Division
Bernard Ayanruoh, Division of Water and Audits
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Appendix A
Analysis and Findings

I. Summary

Except for the deficiencies noted by the Utility Audit, Finance and Compliance Branch (UAFCB) below, San Diego Gas & Electric Company (SDG&E) demonstrated to a reasonable degree its compliance with Commission directives regarding its 2010 On-Bill Financing Program (OBF) and Home Energy Efficiency Rebate Program (HEER), as well as its energy efficiency (EE) administrative costs. The areas examined by the UAFCB are described in Appendix C, Program Compendium. The directives the UAFCB used to test compliance included, but were not limited to, Decision (D.) 09-09-047, the Rulemaking (R.) 01-08-028, dated February 21, 2006 and Energy Division's (ED) memo, dated October 22, 2009. UAFCB's scope and methodology used for this examination are included in Appendix B, Examination Elements.

On February 21, 2012, UAFCB provided a copy of its analysis, observations, recommendations and summary of SDG&E's 2010 EE programs to SDG&E for comment. On March 7, 2012, SDG&E provided its comments in response to UAFCB's observations and recommendations. UAFCB included a summary of SDG&E's comments and UAFCB's rebuttal at the end this of appendix, and included SDG&E's comments in their entirety in Appendix D. UAFCB made changes to its observations and recommendations including the appendices, as appropriate, based on the comments received from SDG&E and for clarification.

A. On-Bill Financing (OBF) Program

Observation 1: At December 31, 2010, SDG&E's electric OBF balancing account contained a deficit of $2.05 million.

Criteria: According to D.09-09-047, Ordering Paragraph (OP) 40, the On-Bill Financing Balancing Account (OBFBA) "will be a revolving fund, applying loan repayments to make additional loans in the future."

Condition: SDG&E's electric OBFBA balance at the end of 2010 was a negative $2,054,503.

Cause: The OBFBA-Electric account deficit primarily occurred because loan disbursements exceeded total loan repayments by $4.4 million or 263%.

Effect: This is a cash flow issue for SDG&E and it also indicates that SDG&E is making loans when it doesn't have designated program funds on hand to do so.

SDG&E's Response: SDG&E asserts that it s not necessary to maintain zero or positive balance at all times.

Recommendation: SDG&E should restrict its loan activities to positive fund balances or seek an increase in loan funding for the OBF. SDG&E should maintain a zero or positive balance in its OBF balancing account at all times.

B. Energy Efficiency Administrative Costs

Observation 2: ED does not have guidelines on how the energy efficiency services rendered by SDG&E to SCG or SCG to SDG&E should be accounted for. UAFCB originally alleged that SDG&E improperly recorded pension and benefits in its EE administrative expenses. Its view has changed on this matter.

Criteria: In its memo, dated October 22, 2009, the Energy Division states "All IOUs currently place all EE staff pensions and benefits in the GRC… Recommendation: IOUs should be allowed to continue to place EE staff pension and benefit costs in the GRC… Justification: It is CPUC standard practice to allow IOUs to recoup benefit and pension costs in the GRCs…"[2]

Condition: SDG&E included SCG's cross-billings for P&B totaling $128,061 in its administrative costs for 2010.

Cause: It is SDG&E's position that EE related salaries, which include overheads such as P&B, vacation/sick and payroll taxes and are excluded from the GRC, are billed fully-loaded to the EE programs.

Effect: Due to the inclusion of $128,061 of P&B in its administration costs, SDG&E's administration cost category was overstated by at least $128,061.

SDG&E's Response: SDG&E pointed out that ED's guidelines do not address cross billings between itself and SCG.

Recommendation: ED should provide guidelines to SDG&E and SCG on cross-billing for services rendered to each other for proper accounting and reporting. UAFCB modified its recommendation in response to SDG&E's comments on the interim draft report.

Observation 3: UAFCB originally found that SDG&E did not maintain adequate documentation for $1,050,806 or 48% of the $2.2 million of the administrative expenses tested. Of the $1,050,806, SDG&E failed to support $753,544.[3]

Criteria: General Order (GO) No. 28 requires that "every public utility … preserve all records, memoranda and papers supporting each and every entry."

Condition: SDG&E did not originally provide adequate supporting documentation for the following:

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[2] ALJ Gottstein's Ruling in R.01-08-028, dated February 21, 2006, addressed and listed allowable costs and delegated authority to Energy Division to provide further clarification to the reporting requirements and list of costs. ED's memo, dated October 22, 2009, expanded cost definitions and how costs should be treated.

[3] $1 million/$2.2 million = 48%.

1. Seven transactions totaling $192,428, or 40%, of the $484,451of admin-non labor transactions tested. The seven transactions were associated with the following programs: (a) Mobile Energy Clinic; (b) Comprehensive Mobile Home: (c) City of Chula Vista Partnership. SDG&E provided additional documentation in response to its review of the UAFCB's interim draft report.
2. 17 transactions totaling $858,378, or 50%, of the $1.7 million of the marketing/direct implementation transactions selected for testing. The 17 transactions were associated with the following programs: (a) Comprehensive Mobile Home and (b) City of Chula Vista Partnership. In response to UAFCB's interim draft report, SDG&E provided documentation in support of $104,834 of these expenses, leaving $753,544 not fully substantiated.

Cause: SDG&E's lack of supporting documentation indicates problems or issues with contractor compliance, availability or accessibility of original files, and/or SDG&E's filing process for EE expenditure documents.

Effect: Incomplete documentation diminishes the assurance that SDG&E's assertions on EE expenditures are reasonable and relevant to the EE program.

SDG&E's Response: SDG&E claims it maintains adequate documentation.

Recommendation: SDG&E needs to maintain adequate documentation. ED should request that SDG&E provide the list of customers to support the $753,544 indicated above if it does not want its shareholders to bear the burden of the unsubstantiated charges to the EE programs. ED should make SDG&E provide its response to ED and UAFCB at the same time for its review and determination.

Observation 4: SDG&E improperly charged marketing expenditures to its EE administrative expenses. However, SDG&E corrected the error within the accounting period.

Criteria: Pursuant to D.09-09-047, page 50, "These Administrative Costs categories do not include EM&V or Marketing and Outreach."

Condition: Marketing costs on two invoices totaling $33,037 billed to SDGE3167-Mobile Energy Clinic were misclassified by the [redacted] as administrative costs. SDG&E did not make corrections prior to approving the invoices for payment and incorrectly posted the expenditures.

Cause: SDG&E either did not verify whether the $33,037 in charges billed by the contractor were classified in the proper cost category or failed to make corrections in its review of vendor/contractor invoices and supporting documentation.

Effect: SDG&E's administrative costs were overstated by $33,037.

SDG&E's Response: SDG&E provided evidence demonstrating that it corrected this error in August 2010 and the UAFCB is satisfied.

Recommendation: None.

C. Home Energy Efficiency Rebate (HEER) Program

Observation 5: SDG&E was inconsistent in categorizing its Home Energy Savings Kits (Water Kits) expenses and incorrectly charged some of them as administrative expenses. In October 2011, SDG&E corrected the error and updated its procedures to correctly account for the water kits as direct implementation costs.

Criteria: Pursuant to D.09-09-047, page 50, "These Administrative Costs categories do not include EM&V or Marketing and Outreach. Direct Implementation costs for delivering programs, which are defined as "costs associated with activities that are a direct interface with the customer or program participant or recipient (i.e., contractor receiving training),"are also excluded."

Condition: SDG&E inconsistently classified the costs of Water Kits: one payment of $42,710 was classified under the administrative (non-labor) category; another payment of $63,391 was classified under the direct implementation (non-incentive) category.

Cause: SDG&E may not have reviewed the invoices for correctness and/or made manual errors.

Effect: Cost reports for administrative costs or Direct Implementation (Non-Incentive) costs were misrepresented, invalidating cost cap or other evaluations.

SDG&E's Response: SDG&E corrected the water kits expenses of $42,710 in October 2011 and updated its procedures to ensure that water kits costs are properly recorded.

Recommendation: SDG&E should exercise due diligence in ensuring that it would continue to correctly classify and record program expenditures. The water kits expenses are to be accounted for as direct implementation costs.

Observation 6: SDG&E incorrectly recorded 2009 HEER costs to 2010.

Criteria: The FERC USOA prescribes that "The utility is required to keep its accounts on the accrual basis. This requires the inclusion in its accounts of all known transactions of appreciable amount which affect the accounts. If bills covering such transactions have not been received or rendered, the amounts shall be estimated and appropriate adjustments made when the bills are received."[4]

Condition: Two POS retailer invoices issued in December 2009 totaling $339,826 were recorded as paid rebates in 2010.

[4] See FERC USOA General Instructions 11.

Cause: The two invoices totaling $339,826 were not accrued in 2009, the appropriate accounting period for the expenditure.

Effect: Due to SDG&E's failure to accrue rebates in the appropriate accounting period, the 2009 report on EE expenditure is understated by $339,826 while the 2010 report is overstated by the same amount. By recording the 2009 expense in 2010, not only was the expense reported in the wrong year, SDG&E recorded and reported this expense in the incorrect program year.

SDG&E's Response: To allow for transitions, SDG&E allowed rebates postmarked December 9, 2009 or to be processed later using the 2009 rebate amount but be paid out of or counted towards 2010 goals.

Recommendation: ED should request that SDG&E require POS retailers to submit invoices within a certain time frame to enable proper recording and record the accrued rebates in the appropriate accounting period. ED should make SDG&E provide its response to ED and UAFCB at the same time for its review and determination.

Observation 7: SDG&E's records did not reflect all of HEER rebates reported in 2010, overstating its Advertising and Marketing expenses. SDG&E corrected the error.

Criteria: The FERC USOA prescribes that "Each utility should keep its books of account, and all other books, records, and memoranda which support the entries in such … Each entry shall be supported by such detailed information as will permit ready identification, analysis, and verification of all facts relevant thereto."[5]

Condition: SDG&E recorded $158,369 less in total rebates in SAP than it reported to the Commission. SDG&E's rebates in SAP totaled $2,719,583, compared to the total rebates of $2,877,952 reported.

Cause: The net difference of $158,369 was due to a combination of the following:

(a) A rebate invoice for $174,150 (3,483 units of HEW at $50/unit) from SDCWA was incorrectly recorded as Advertising & Marketing and misclassified as Direct Implementation-Non Labor. This was not detected by SDG&E until UAFCB requested a reconciliation of rebates per HEER measures it reported to the SAP totals for DI Incentives. UAFCB was unaware if SDG&E corrected its SAP.

(b) Furthermore, after accounting for the difference of $174,150 for the rebate invoice misclassification, there was still a difference of $15,781 between SAP and what SDG&E reported. Since this difference was immaterial relative to the $2.9 million cost of rebates, UAFCB did not conduct further examination.

Effect: SDG&E's misclassification of rebates resulted in an overstatement of Direct Implementation (Non-Labor) by $174,150 and an understatement of Direct Implementation

[5]See FERC USOA General Instructions 2. Records.

(Incentives) by the same amount. Although this did not impact the total cost for this cost category, it, nonetheless raises issues regarding the accuracy and timeliness in the reconciliation of rebate measure costs.

SDG&E's Response: SDG&E agreed to correct the misclassification and in September 2011 made the correcting journal entries to correct the error.

Recommendation: SDG&E should exercise due diligence in reviewing and approving invoices to ensure payments for rebates are properly classified and accurately recorded.

Observation 8: SDG&E did not maintain adequate supporting documentation for some of its HEER rebate expenditures.

Criteria: GO No. 28 requires that "every public utility … preserve all records, memoranda and papers supporting each and every entry."

Condition: Three invoice payments classified under Direct Implementation totaling $350,050 for reimbursements of HEW rebates to SDCWA could not be verified for accuracy and reasonableness due to missing or incomplete supporting documentation.

Cause: SDG&E's inadequate supporting documentation for the $350,050 in rebates paid to SDCWA indicates problems or issues with vendor/contractor compliance, availability and accessibility of original files, and/or the filing process of EE expenditure documents.

Effect: The lack of supporting documentation for the $350,050 rebate transactions selected for testing compromises the reliability of these transactions. Furthermore, the lack of documentation prevented UAFCB from verifying the accuracy and reasonableness of these transactions.

SDG&E Response: SDG&E claims it demonstrated adequate documentation in its response to UAFCB's draft report. UAFCB disagrees.

Recommendation: SDG&E should ensure that the documents provided by its vendors/contractors are complete, accurate and auditable. ED should request SDG&E to substantiate the $350,050 in rebates if it does not want its shareholders to be responsible for the charge. ED should make SDG&E provide its response to ED and UAFCB at the same time for its review and determination.

II. Summary of SDG&E's Comments on UAFCB's Draft Report and Rebuttal

On February 21, 2012, the UAFCB submitted a copy of its draft report to SDG&E for its review and response. The draft report included UAFCB's observations and recommendations to the specific areas reviewed during the examination of SDG&E's EE programs for budget year 2010. SDG&E provided its comments on March 7, 2012. A copy of SDG&E's responses is included in Appendix D in its entirety. The following is UAFCB's summary of SDG&E's comments and UAFCB's rebuttal.

SDG&E's Response to Observation 1
The Energy Division's approved Advice Letter E-2123/ 1901-G to establish the OBF Balancing Account (OBFBA) on May 11, 2010, with an additional submittal at Energy Division's request, which was approved via a letter from Ms. Fitch on May 11, 2010. As such, SDG&E is authorized to exceed the base funding of the balancing account, operating it under the rules of two-way balancing accounts. It is not necessary to maintain a zero or positive balance at all times.

Rebuttal to SDG&E's Response
Commission D. 09-09-047, Ordering Paragraph (OP) 40, clearly states that "each loan pool will be a revolving fund, applying loan repayments to make additional loans in the future." SDG&E needs to take additional measures to narrow or bridge its funding gap, maintain a sustainable OBF loan pool and continue to meet the demand of a growing OBF portfolio without slowing down the revolving mechanism during the 2010-2012 program cycle. A revolving loan fund is a self-replenishing pool of money that relies on loan payments to issue new loans.

The Commission was very specific about this issue in D.09-09-047 (Section 6.2.2.2 Cost) by stating: *"Several parties commented that the total amount of funds being committed to these loan pools may prove insufficient in the face of potential customer demand. Indeed, we would hope and expect that the availability of such financing might drive more customers to undertake efficiency actions at greater degrees of scale than might occur absent the financing* ***. We anticipate that in the face of such demand, utilities may return to the Commission to seek increased funding for these loan pools under fund-shifting or budget augmentation rules."***

SDG&E's Response to Observation 2
SDG&E and SoCalGas' utility integration allowed for utility employees to provide shared services to the other utility. If a utility performs work for the other utility, all costs including labor overheads associated with the utility performing the work for the other should be billed. The 2009 Energy Divisions Guidance letter discussing benefits/pension and payroll taxes, among other issues was only stating what ED staff understood to be the status at that time. This statement related only to employees working for their respective utility, not employees charging other utilities for work performed for the other utility as SDG&E and SoCalGas' cross billing practices were not mentioned.

Rebuttal to SDG&E's Response
UAFCB concurs with SDG&E that the October 22, 2009 Energy Division (ED) Guidance letter on benefits/pensions and payroll taxes used as the basis for its initial recommendation does not address cross billing services between affiliates such as SDG&E and SCG.

SDG&E's Response to Observation 3

1) **Mobile Energy Clinic [redacted] -** SDG&E mistakenly provided the incorrect back-up documentation to support the $63,024 transaction for administrative costs.
2) **Comprehensive Mobile Home [redacted] -** All invoices related to the transactions in question provided breakdowns of expenses by the four cost categories. SDG&E provided a table showing the breakdown of each invoice by cost categories and

the invoice total. Therefore these expenses should not be all considered administrative expenses as stated in the draft interim examination report.

3) **City of Chula Vista Invoice, Q1 2010 (Audited Documents) -** SDG&E's City of Chula Vista Expense Tracking Workbook shows the invoice details referenced against the corresponding invoice number and the page of the backup documents it relates to, as well as an explanation of the expense. Therefore, SDGE maintains adequate documentation to support the recorded expenditures for its EE programs.

Rebuttal to SDG&E's Response

1) **Mobile Energy Clinic ([redacted] -** SDG&E provided the UAFCB the supporting documentation for the $63,024.26 administrative costs in its comments in response to Observation 3. UAFCB reviewed the supporting documentation and found the evidence to the transaction satisfactory. This matter is closed.

2) **Comprehensive Mobile Home ([redacted] -** The costing method for the Third Party contractor, [redacted] follows the budget allocation in its contract agreement with SDG&E, where the Administrative Cost is set at 10% of the total invoice amount. Marketing is set at 5.99%, Direct Implementation-Labor at 35.31% and Direct Implementation-Materials at 48.70%.

   The Administrative Cost is a fixed percentage of the total invoice amount. In order to validate the pre-determined 10% administrative cost, it would be prudent for UAFCB to examine the total invoice amount and the supporting documentation in its entirety in order to gain the assurance that every portion of the invoice is properly charged and valid in accordance to the predetermined percentages of the contract.

   UAFCB could not complete its examination of the 20 transactions selected for five invoices totaling $753,544 because SDG&E did not provide the complete documentation identifying the list of customers and the related program measures provided to them by SDG&E's contractors. UAFCB is not in agreement with SDG&E's comments on this matter. Therefore, the issue remains pending.

3) **City of Chula Vista Partnership** - SDG&E provided UAFCB the supporting documentation for the administrative, marketing and direct implementation costs totaling $234,236.99 in response to Observation 3. UAFCB reviewed the supporting documentation and found the evidence to the transaction(s) satisfactory. This matter is closed.

SDG&E's Response to Observation 4

SDG&E did make the appropriate corrections to the misclassified expenditures totaling $33,306.98. In August 2010 a journal entry was made to reclassify the transactions in question. Therefore, SDG&E does exercise due diligence in reviewing, approving its invoices and when appropriate makes required corrections to ensure that all recorded EE expenditures are appropriately classified.

Rebuttal to SDG&E's Response
Upon further review, UAFCB agrees with SDG&E's explanation that the items were included in a journal entry of $51,486.31 dated 08/17/2010 and UAFCB's copy of the SAP dumps for June and August 2010. UAFCB finds the explanation and supporting documentation satisfactory. This matter is closed.

SDG&E's Responses to Observation 5
In October 2011, a journal entry was prepared to move the $42,710.37 to Direct Implementation. In addition, the program procedures have been updated to outline cost distribution of water kits.

Rebuttal to SDG&E's Response
In its response, SDG&E provided proof of correcting entries posted on 10/12/2011 to classify cost of water kits totaling $42,710.37 originally posted in SAP on 2/1/2010 to the proper cost category. SDG&E's correction transfers the amount **from** the Administrative Cost category (Cost Ctr 2100-0650) **to** Direct Implementation (Cost Ctr 2100-3778) which is the appropriate category. UAFCB reviewed the corrections and accepted SDG&E's explanations. Therefore, the matter is closed.

SDG&E's Response to Observation 6
SDG&E's year-end Customer Programs closing process gave direction and guidance to the program managers on processing year-end activities to ensure smooth transition between program cycles. For the 2009 Rebates/Incentives, the procedure states that "Any applications for measures purchased and installed by December 31, 2009, postmarked between December 5, 2009 – March 31, 2010, and not expensed to the 2009 bridge funding program will be processed using the 2009 rebate or incentive amount, but paid out of and counted toward 2010 goals."

Rebuttal to SDG&E's Response
SDG&E used the cash method of accounting instead of the accrual method for rebate payments between Dec 2009 and January 2010 totaling $339,826. Between the two methods, accrual basis is more accurate. To that effect, the rebates and corresponding energy savings were not reported in the actual program year 2009, and instead were imputed to program year 2010.

SDG&E's accounting system is based on accrual accounting method. As such, this method should also be applied to the EE program. Revenue and expenses including rebates /incentives should be recorded and accounted for when incurred. This is consistent with the company's accrual policy which states that "*All significant costs (expense or capital) must be recorded in the period incurred. A cost is considered "incurred" in the reporting period if the Company has ordered and received materials or if services were provided during the period."*

The accrual system of accounting is also consistent with FERC's requirement for utilities' "Accounting to be on Accrual Basis." Specifically, it states that: *"The utility is required to keep its accounts on the accrual basis. This requires the inclusion in its accounts of all known transactions of appreciable amount which affect the accounts. If bills covering such transactions have not been received or rendered, the amounts* ***shall be estimated*** *and appropriate adjustments made when the bills are received."*

SDG&E's Response to Observation 7
SDG&E conferred with other IOU'S to ensure consistency of incentive treatments (direct install, rebates paid directly to customers and Point-of-Sale rebates) and based on the responses SDG&E made a journal entry in September 2011 for the $174,150 incorrectly recorded as Advertising and Marketing.

Rebuttal to SDG&E's Response
SDG&E corrected the transaction entry for rebates totaling $174,150 misapplied to Advertising and Marketing by debiting it to the appropriate cost element, SRV-Conservation. Both cost elements are in the same cost category. Since this did not impact the 2010 and 2011 Direct Implementation category, the matter is closed. .

SDG&E's Response to Observation 8
SDG&E provided its response for the $350,050 payment made to San Diego Water Authority. These responses provided SAP details for the three payments which included the spreadsheet listing the customer name/addresses who received rebates. Furthermore, this does not warrant a refund of $350,050 from shareholders to the programs.

Rebuttal to SDG&E's Response
During fieldwork, UAFCB audit staff did not find any spreadsheet containing the customer list for items #18 - $77,150, #20 - $98,750 and #28 - $174,150, contrary to SDG&E's claim in its comments. In fact, copies provided by SDG&E to UAFCB auditor did not include the list of customers.

This observation remains open unless SDG&E can provide the list of customers for each item listed above as supporting documentation, giving evidence to its claim and response. This would provide the UAFCB the assurances necessary to validate the transactions.

Appendix B
Examination Elements

The Utility Audit, Finance and Compliance Branch (UAFCB) initiated this examination by sending an engagement letter to San Diego Gas & Electric Company (SDG&E), dated April 14, 2011. UAFCB representatives visited SDG&E's office in San Diego, California on a few occasions, and met with SDG&E management and staff, and reviewed original supporting data. UAFCB completed its fieldwork on November 4, 2011.

Authority

Decision (D.)09-09-047 ordering paragraph (OP) 14 states among other things, that "Commission staff conduct a full audit of the utilities' administrative and other costs in order to understand the changes in characterization of costs in the revised applications and to ensure accountability of the amount, allocation and the composition of the total administrative costs for this portfolio timeframe." UAFCB met with ED's management and based on the requirements of OP 14.developed the scope of the examination.

Scope

Based on consultation with Energy Division, UAFCB was to examine SDG&E's 2010 On-Bill Financing Program (OBF) and energy efficiency administrative costs. In addition, based on prior experience, UAFCB selected a statewide program to include in the examination, the Home Energy Efficiency Rebate Program (HEER). Consequently, the scope of UAFCB's examination was limited to the three areas for SDG&E's 2010 activities and expenditures.

Objectives

UAFCB's overall objectives determine whether the:

1. Program design, structure, processes, implementation, costs and controls of SDG&E's OBF were in compliance with (1) the Commission's guidelines including, but not limited to, D.09-09-047, the ruling in R.01-08-028, dated February 21, 2006 and Energy Division's memo, dated October 22, 2009; and (2) SDG&E's own internal policies and procedures;
2. EE administrative costs that SDG&E incurred were proper and in compliance with (1) the Commission's guidelines including, but not limited to, D.09-09-047, the ruling in R.01-08-028, dated February 21, 2006 and Energy Division's memo, dated October 22, 2009; and (2) with SDG&E's own internal policies and procedures; and
3. Design, structure, processes, implementation, costs and controls of SDG&E's HEER were in compliance with the Commission's guidelines including, but not limited to, D.09-09-047, the ruling in R.01-08-028, dated February 21, 2006 and Energy Division's memo, dated October 22, 2009 and (2) SDG&E's own internal policies and procedures.

Methodology and Testing

UAFCB used SDG&E's responses to UAFCB's Internal Control Questionnaires (ICQ) to perform a preliminary risk analysis. Based on the results of its risk analysis, UAFCB determined specific areas for testing and developed its testing methodology.

On-Bill Financing Program (OBF): UAFCB judgmentally selected and examined 43 OBF customer files totaling $1.95 million in loans. Included were four loan files of customers who have defaulted. A summary of the type of OBF files tested including the number of files and dollar amount of each type tested is provided in the following table.

Table B-1
SDG&E OBF Loan Files Tested – 2010

Customer Type	# Files Tested	Amount Tested
Corporations	28	$1,510,550.27
Local Government Institutions	7	246,589.32
Partnerships	1	6,579.84
Sole Proprietorships	7	190,348.76
Totals	**43**	**$1,954,068.19**

UAFCB observed that SDG&E had consistently applied its OBF loan processes and procedures based on its underwriting guidelines and loan requirements as outlined on its On-Bill Financing Flowchart which also served as a checklist to complete the loan process. UAFCB did not find any exceptions in its audit of the OBF program loan underwriting process. The loans provided to borrowers were within the Commission guidelines and directives as well as SDG&E's own program policy and requirements. The loan delinquency timelines from past-due to write-off were in order.

Energy Efficiency Administrative Expenditures: UAFCB reviewed fluctuations in the amount of monthly salaries in admin-labor totaling $484,343 and judgmentally selected and examined 32 admin-non-labor transactions totaling $484,451 in eight programs. There were no transactions selected from SDGE 3139-OBF due to the insignificant amount of charges noted. The following table lists the selected programs, and the dollar amount and the number of administrative costs tested.

Table B-2
Summary of SDG&E EE Administrative Expenses Tested By Program

Program ID/Name	Program Type	Admin Labor Amount	Admin Non-Labor Amount	No. of Trans
SDGE3118-Savings by Design	Statewide	$ 96,437	$ 1,805	3
SDGE3121-Home EE Rebates	Statewide	99,581	36,191	8
SDGE3167-Mobile Energy Clinic	3rd Party	170	163,297	5
SDGE3172-Compr Mobile Home	3rd Party	16,235	75,354	5
SDGE3117-Local Non-Residential BID	Local	88,061	40,000	2
SDGE3139-On Bill Financing	Local	105,873	0	0
SDGE3129-City of Chula Vista Part	LGP[6]	42,716	98,481	2
SDGE3131-County of San Diego Part	LGP	35,270	69,322	7
TOTAL		**$484,343**	(*)**$484,451**	**32**

(*) $1difference due to rounding.

In addition to the administrative costs tested, UAFCB reviewed 32 transactions totaling $1.7 million in the Marketing and Direct Implementation categories to determine if any administrative cost had been included in those categories.

UAFCB examined labor charges for each individual employee and did not find any inconsistencies or exceptions. However, in the examination of selected transactions for non-labor admin costs, the supporting documents provided by SDG&E were incomplete on some items. Therefore, UAFCB could not ascertain if the recorded non labor administrative costs were relevant to the EE program.

HEER: UAFCB judgmentally selected and tested 171 transactions amounting to $1.07 million that were charged to Admin-Non Labor, Marketing/Outreach and Direct Implementation cost categories. A detailed breakdown of the number of transactions and amounts tested are provided in the following table.

Table B-3
Summary of HEER Expenditures Tested

Types of Transactions Tested	# of Trans	Amount	Category
Mail-In Rebates	125	$ 19,389.63	DI-Incentive
Retailer POS Rebates	16	504,854.90	DI-Incentive
Conservation-SDCWA HEW[7]	2	175,900.00	DI-Incentive
Administrative Expenses	9	53,013.00	Admin-Non Labor
DI Expenses-Non Labor	12	262,196.91	DI-Non Incentive
Marketing	7	49,777.01	Marketing/Outreach
Totals	**171**	**$1,065,131.45**	

[6] Local Government Partnership
[7] High Efficiency Clothes Washer

For the examination of mail-in and point-of sale rebates, UAFCB judgmentally selected and tested 141 transactions totaling $524,245 to ensure that rebates were processed and paid in accordance with SDG&E policies and procedures.

The result of the examination did not yield a pattern of duplicity in the customer's rebate applications nor in SDG&E's payment and recording of mail-in rebates. Any opportunity for fraudulent or duplicate rebate claims by customers is preventable as long as the Quality Assurance staffs adhere to SDG&E's detailed verification processes.

In addition, UAFCB verified that reimbursements for point-of-sale invoices were paid and remitted directly to retailers.

Standards

The UAFCB conducted this examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence concerning SDG&E's compliance with the requirements noted above and performing any other procedures as we considered necessary in the circumstances.

Appendix C
Program Compendium

On September 24, 2009, the California Public Utilities Commission (Commission) issued Decision (D.) 09-09-047 which, among other things, authorized San Diego Gas &Electric Company (SDG&E) a total budget of approximately $278 million in ratepayer funds to administer and implement its Energy Efficiency (EE) programs for the years 2010 through 2012. This represents about 7.7% of the total funds the Commission authorized for EE budget cycle. In addition, this decision also set energy savings goals, established cost-effectiveness requirements, placed a cap of 10 percent on utility administrative costs, authorized types of programs, and set targets for certain programs.

Of the $278 million authorized budget, $266.9 million of the funds is to administer and implement SDG&E's EE programs and the remaining $11.1 million is dedicated to fund the Evaluation, Measurement and Verification (EM&V) portion of the program portfolio. For the year 2010, excluding EM&V expenditures, SDG&E spent $62.7 million, or 23.5%, of its total authorized budget for the 2010 --2012 periods. The following table shows the amount carried forward, authorized budget, funds available for spending and actual expenditures for SDG&E during 2010.

Table C-1
Summary of 2010 Ratepayer Funded EE Programs
(Excluding EM&V)

Description	Amount
Amounts Brought-Forward[8]	$0
Authorized Budget per D.09-09-047	89,090,016
Available for Spending	89,090,016
Actual 2010 EE Expenditures	62,748,018
Amounts Carried Forward	$26,341,998

SDG&E's Customer Program Division (CPD) is responsible for the overall implementation and management of the EE programs. The CPD is comprised of five branches, namely: EE Analysis & Support, Program Operations, Residential & Commercial/Industrial Mass Markets, Strategic Planning/Codes & Standards, and Mass Market Strategy.

The Program Operations Branch is responsible for the implementation, marketing and outreach, and customer support and is composed of six units, namely: Customer Programs Engineering Support, New Construction, Customer Programs Support, Customer Programs Marketing & Outreach, Commercial/Industrial Segment, and Residential Programs.

[8] Per D.09-09-47, Ordering Paragraph (OP) 2.d, the Commission authorized SDG&E to carry forward $63 million in unspent, uncommitted EE funds from its prior years. However, in response to Verbal Request –Budget 1, Question 1, SDG&E elected not to carry forward the $63 million.

A. On-Bill Financing (OBF) Program

SDG&E's OBF program offers zero-interest financing to facilitate the purchase and installation of qualified energy efficiency retrofit measures to non-residential customers who might not otherwise be able to act given capital constraints and/or the administrative and time burdens involved in obtaining traditional project financing. Only energy efficiency measures which qualify for rebates and/or incentives in SDG&E's portfolio are qualified for the OBF program. They include Institution and Non-Institution customers such as commercial, industrial, and agricultural and tax-payer funded customers.

SDG&E's OBF budget for the 2010-2012 EE program cycle is $11.6 million as set forth in Commission D.09-09-047. The budget provides for operating expenses of $2.6 million funded by Public Goods Charge (PGC) and a revolving fund loan pool of $9 million funded by non-PGC revenues per Commission's approval of SDG&E Advice Letter 2123-E/ 1901-G.

SDG&E's OBF underwriting guidelines include verification of customer's project cost; project eligibility for other EE rebate/ incentive program(s); and customer's utility bill payment history. The OBF loan process includes calculation of project's energy savings; post-installation inspection and project cost adjustments; calculation of loan term, loan amount (net of rebate/incentives), and monthly loan payment.

In D.09-09-047, OP 40, the Commission sets a loan cap of $100,000 for commercial loans with loan terms of up to five years, or may extend beyond five, but not to exceed the expected useful life (EUL) of the bundle efficiency measures proposed, whichever is lower. Institutional customers may be granted loans of up to a total of $1 million with a maximum term of 10 years per facility to capture large savings and when all other terms are met. As for the treatment of delinquent OBF loans, the OBF billing is tied to SDG&E's utility billing system wherein an outstanding bill which remains unpaid for more than 145 days will be considered in default and will be written off to Bad Debt.

Pursuant to D.09-09-047, the Commission approved on May 11, 2010 retroactive to September 24, 2009, SDG&E's request in Advice Letter (AL) 2123-E and 1901-G to establish a $9 million loan pool, namely On-Bill Financing Balancing Account (OBFBA) beginning with the 2010-2012 EE program cycle. The OBFBA would include the transfer of existing OBF loan balance of approximately $6 million from the utility's working cash and an additional funding of $1 million each year over the three years from 2010 to 2012. The OBFBA would be set up as a revolving fund to track OBF loan disbursements and repayment activities and to record funding to be collected from non-PGC gas transportation rates and electric distribution rates.

SDG&E maintains separate accounts for electric and gas OBFBA. In 2010, SDG&E amortized funds of approximately $6 million to the OBFBA-Electric account and $1 million to the OBFBA-Gas account per Commission's approval of AL 2123-E/1901-G. SDG&E's report on the 2010 OBFBA-Electric[9] account shows a deficit of $2 million. A summary detailing the OBFBA-Electric loan activities in 2010 is provided in the following table.

Table C-2
SDG&E OBFBA-Electric Account Activities – 2010

Description	Amount
Authorized Funding	$ 5,950,000
OBF Loan Repayments	2,723,252
Reimbursement of Loan Write-off	5,743
Available Funds for 2010	**8,678,995**
Prior Yrs OBF Loan Balance	(3,577,233)
2010 OBF Loan Disbursements	(7,151,256)
Interest Expense	(5,009)
Disbursements & Interest	**(10,733,498)**
2010 Year-End OBFBA Deficit	**$ (2,054,503)**

As for the 2010 OBFBA-Gas[10] account, SDG&E's report shows a monthly amortized funding totaling $1,051,318 but no loan disbursement or loan payment activity.

B. Energy Efficiency Administrative Costs

Pursuant to D.09-09-47 OP 13, the Commission limited the utilities' administrative cost for managing the EE programs to 10% of its total EE budget for years 2010-2012. Consequently, for SDG&E, the authorized three year EE administrative budget for 77 EE programs for years 2010-2012 amounts to $26 million. For the 2010 program SDG&E's total EE administrative expenditures (excluding EM&V) is $62.7 million. This amount is broken down by cost category in table below:

Table C-3
SDG&E EE Expenditures by Cost Category[11]

Category	Amount	% of Total Program
IOU Admin Exp	$ 5,593,955	8.9%
Non-IOU Admin Exp	1,711,743	2.7%
Total Admin Expenditures	$ 7,305,698	11.6%
Total 2010 EE Expenditures	$62,748,018	

SDG&E's IOU administrative expenditures are classified as labor and non-labor. Labor charges comprise salaries, taxes, pensions and benefits paid to SDG&E management and clerical and

[9] Data Response – SDGE2010EE 012 Q3
[10] Data Response – SDGE 2010EE 012 Q3
[11] Obtained from SDG&E's Management Workbook Report-Dec 2010

technical staff. It also includes similar type of charges cross-billed by Southern California Gas (SCG) for its portion of EE services rendered to SDG&E. Non-labor charges include employee travel, materials, services, and other costs incurred to implement the EE programs.

Non-IOU administrative expenditures are all classified as non-labor charges which include services provided by contractors in implementing Third Party and Local Government Partnership programs.

SDG&E reported $5.6 million in EE administrative costs (including allocated overheads totaling $2.9 million) which is 8.9% of the total EE expenditure portfolio. A summary of SDG&E's EE administrative cost cap and target expenditures for 2010 in the following table shows that SDG&E is on track to stay within the 10% cap imposed by the Commission.

Table C-4
Energy Efficiency Administrative Cost Cap and Expenditures For 2010

Expense Category	Amount	% to Total Expend Portfolio	% Cap	% Target
3rd Party & Partnership Programs - IOU Admin	$ 874,877	1.4%		10.0%
Local (Core & Non-Resource) Programs IOU Admin	1,059,218	1.7%	10.0%	10.0%
Statewide Programs IOU Admin	3,659,860	5.8%	10.0%	
Total IOU Admin (Net of EM&V)	**$ 5,593,955**	**8.9%**		
Total Portfolio Expenditure (Net of EM&V)	**$62,748,018**			

C. Home Energy Efficiency Rebate Program

The Home Energy Efficiency Rebate Program (HEER) encourages the adoption of energy-efficient choices when purchasing and installing household appliances by offering residential customers educational materials about energy efficiency options and by providing rebates and/or incentives. For SDG&E, its HEER program targets residential customers who are either owners or renters of single-family homes, townhomes, condominiums and mobile homes.

Residential customers who purchase EE qualified household appliances in SDG&E's service territory can claim rebates from SDG&E through a mail-in rebate application process. SDG&E also offers instant point-of-sale (POS) rebates to individuals who purchase EE qualified appliances at participating retailers in SDG&E service territory. Additionally, in 2010, SDG&E also collaborated with the San Diego County Water Authority (SDCWA) by providing rebates on High Efficiency Washers claimed by participants to SDCWA's SoCal Smart Water Program.

SDG&E incurred $4.4 million of various expenditures on its HEER in 2010. SDG&E recorded $1.5 million in operating costs which is 34% of its 2010 HEER expenses. A detailed summary of SDG&E's 2010 HEER expenses and related percentages is shown in the following table.

Table C-5
Summary of SDG&E HEER Expenses – 2010

EXPENDITURES	Amount	% to Total HEER Exp
Admin		
Admin-Labor	$ 99,580.72	2.2%
Allocated Overhead	260,081.56	5.9%
Admin-Non Labor	118,566.71	2.7%
Sub-Total Admin	**478,228.99**	**10.8%**
Marketing		
Marketing-Labor	11,220.39	0.3%
Marketing-Non Labor	205,346.55	4.6%
Sub-Total Marketing	**216,566.94**	**4.9%**
Direct Implementation (DI)		
DI-Labor	565,942.35	12.8%
DI-Non Labor	455,406.98	10.3%
DI Incentives (Rebates)	2,719,582.80	61.3%
Subtotal DI	**3,740,932.13**	**84.3%**
Total Expenditures - 2010	**$4,435,728.06**	**100.0%**

Aside from rebates, the HEER also offers Home Energy-Savings Kits (Water Kits consisting of faucet aerator-swivel, faucet aerator-dual thread model, and a massage showerhead) at community events through its pre-approved distribution channels/ organizations or through an on-line audit. Customers who receive the kits on-site are required to complete a pledge card. If kits are not available, customers may sign and complete a request card to receive a kit in the mail. Kits are limited to one per household.

SDG&E pays rebates only on appliances and equipment listed on the Energy Star® website. Before approving a rebate application, SDG&E refers to the website to verify that each appliance listed on the application and receipt submitted by the customer-applicant is qualified. Appliances rebated at the point-of-sale do not qualify for mail-in rebates. Appliance/equipment retailers with contract agreements invoice SDG&E for the reimbursement of point-of-sale rebates given to customers. SDG&E classifies the reimbursements/payments as Incentives under the Direct Implementation category.

SDG&E paid a total of $2.9 million in HEER rebates charged to the Direct Implementation category in 2010 through mail-in applications and discounts at the point-of-sale. The table below provides a summary of the rebates paid for each measure in 2010.

Table C-6
Summary of HEER Rebate Payment[12]

Measure/Appliance Description	Rebate Amount Paid
A/C - Room Unit	$ 294,200.00
A/C-Whole House Fan	14,400.00
Attic Insulation	189,766.58
Dishwasher	379,800.00
Electric Water Heater	2,550.00
Heating - Gas AUFE 92%	465,230.00
Motor - Pool Pump (two-speed)	16,800.00
Motor - Pool Pump (variable speed) Contractor	59,300.00
Motor - Pool Pump (variable speed) Owner	143,300.00
Pool Contractor Incentive	32,800.00
Refrigerator	443,625.00
Wall Insulation	36,748.52
Natural Gas Water Heater	67,200.00
Cold Water Laundry (CWLD) - 88 Load Bottle	13,815.00
Computer Monitor (Energy Star) w/fee	17,267.25
Television (Energy Star) w/fee	322,558.75
Thermostatic Valve and 1.6 GPM SH	28,230.00
Water Heating - HEW – SDCWA	350,360.57
TOTAL HEER REBATES	**$2,877,951.67**

[12] Per response to SDGE 2010EE-003 Q9, 2010 Monthly List of Appliance/Measures Rebated

Appendix D
SDG&E Comments

SDGE
A Sempra Energy utility

Joy C. Yamagata
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(858) 654-1755

March 7, 2012

Bernard Ayanruoh
UAFCB
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: SDG&E Comments on 2010 EE Interim Examination Report

Dear Mr. Ayanruoh:

Attached please find San Diego Gas & Electric Company's (SDG&E) comments on the above referenced report. SDG&E appreciates your granting of an extension, until March 7, in which to provide comments.

If you have any questions, please do not hesitate to contact me.

Sincerely,

Joy Yamagata
Regulatory Manager

Enclosure

cc: Kayode Kajopaiye -UAFCB
Kevin Nakamura - UAFCB
Gilda Robles - UAFCB
Central Files

SAN DIEGO GAS & ELECTRIC COMPANY

RESPONSE TO DRAFT INTERIM EXAMINATION REPORT

San Diego Gas & Electric Company (SDG&E) provides its responses to various observations and recommendations contained in the UAFCB's draft "*Interim Examination Report on SDG&E's Energy Efficiency Program for the program year ended December 31, 2010*" ("Report") issued on February 21, 2011.

A. On-Bill Financing (OBF) Program

Observation 1: At December 31, 2010, SDG&E's electric OBF balancing account contained a deficit of $2.05 million.

SDG&E Response to Observation 1:

D.09-09-047 OP 40 approved SDG&E's proposal for its OBF program without any modifications to its proposed two-way balancing account, the On Bill Financing Balancing account. The two-way balancing account is described in SDG&E testimony (attached below). SDG&E filed an Advice Letter E-2123-E/1901-G to establish the account, with an additional submittal at Energy Division's request, which was approved via letter from Ms. Fitch on May 11, 2010. As such, SDG&E is authorized to exceed the base funding of the balancing account, operating it under the rules of two-way balancing accounts. SDG&E is attaching the Advice Letter establishing the OBFBA, along with an additional submittal and the approval from the CPUC.

SDG&E Disposition letter.doc | OBFBA.doc | SDG&E's 2123-E_1901-G Subs | TestimonyofAthenaBesa-MarkGaines.pdf

The following is a brief description of SDG&E's OBF program:

SDG&E's OBF program offers zero-interest financing to facilitate the purchase and installation of qualified energy efficiency retrofit measures to non-residential customers who might not otherwise be able to act given capital constraints and/or the administrative and time burdens involved in obtaining traditional project financing. Only energy efficiency measures which qualify for rebates and/or incentives in SDG&E's portfolio are qualified for the OBF program. They include Institutional (taxpayer-funded) and Non-Institutional customers such as commercial, industrial, and agricultural. Tax-payer funder customers are agencies/facilities whose energy bills are paid by federal, state, county, city or Indian tribal governments.

SDG&E's OBF budget for the 2010-2012 EE program cycle is $11.6 million as set forth in Commission D.09-09-047. The budget provides for operating expenses of $2.6 million funded by Public Goods Charge (PGC) and a revolving fund loan pool of $9 million funded by non-PGC revenues per Commission's approval of SDG&E Advice Letter 2123-E/ 1901-G.

SDG&E's OBF underwriting guidelines include verification of customer's project cost; project eligibility for other EE rebate/ incentive program(s); and customer's utility bill payment history. The OBF loan process includes calculation of project's energy savings; post-installation inspection and project cost adjustments; calculation of loan term, loan amount (net of rebate/incentives), and monthly loan payment.
D.09-09-047, OP 40, the Commission sets a loan cap of $100,000 for commercial loans with loan terms of up to five years, or may extend beyond five, not to exceed the expected useful life (EUL) of the bundled efficiency measures proposed whichever is lower. Taxpayer-funded customers qualify for up to $250,000 and State of California customers may be granted loans of up to a total of $1 million with a maximum term of 10 years per facility to capture large savings and when all other terms are met. As for the treatment of delinquent OBF loans, the OBF billing is tied to SDG&E's utility billing system wherein an outstanding bill which remains unpaid for more than 145 days will be considered in default and will be written off to Bad Debt.

Therefore, the Audit Report's Recommendation below is unwarranted and it is not necessary to maintain a zero or positive balance at all times.

B. Energy Efficiency Administrative Costs

Observation 2: SDG&E improperly recorded pension and benefits in its EE administrative expenses.

SDG&E Response to Observation 2:

The Report states that SDG&E should not include SoCalGas' cross-billing for P&B to SDG&E's administration costs. The following explanation provides the justification for SDG&E's inclusion of all administration overheads from SoCalGas' cross-billing.

1. SDG&E and SoCalGas' utility integration allowed for utility employees to provide shared services to the other utility. However, the SDG&E and SCG merger decision specifically states that there should not be cross subsidies between the utilities. Therefore if a utility performs work for the other utility, all costs, including labor overheads associated with the utility performing the work for the other utility should be billed.
2. D.09-09-047 footnote 30 references the December 12, 2008 Assigned Commissioner's Ruling Attachment 5-A for the list of allowable costs.[13] OP 3 of the Ruling states:

   "The Utilities shall adhere to the updated budget and energy savings templates prepared by Energy Division and included as Attachment 5, 5a, and 5b to this Ruling…"

[13] See http://docs.cpuc.ca.gov/EFILE/RULINGS/95004.PDF

The Appendix to Attachment 5-A clearly shows that Pensions and Benefits (P&B) are included in the allowable costs.

3. The Report cites the October 22, 2009 Energy Division Guidance letter discussing benefits/pensions and payroll taxes, among other issues. (see attachment) It states "All IOUs currently place all EE staff pensions and benefits in the GRC. The recommendation is to continue to place EE pensions and benefits costs in the GRC." The letter was only stating what ED staff understood to be the status at that time. This statement related only to employees working for their respective utility, not employees charging other utilities for work performed for the other utility as SDG&E and SoCalGas' cross billing practices were not mentioned.

Letter Adm
Costs.doc

4. Specifically these labor overheads associated with cross-billing for SDG&E's EE programs are not covered in SDG&E's GRC.

SDG&E asserts that it is compliant with D.09-09-047 and the December 12, 2008 Ruling that directs the utilities to use the approved Allowable Cost list as the basis for its determination of appropriate costs and cost categories that can be charged to EE programs. The list includes P&B as administration costs. The October 22, 2009 ED letter does not, nor did the letter represent that it was overriding any Commission decision or Ruling on the issue. Therefore SCG cross-billing P&B costs are appropriately charged and recorded in SDG&E's EE expenditures as administration costs.

Observation 3: SDG&E did not maintain adequate documentation with respect to $1,050,806 of its EE administrative expenses, approximately 48% of the sample that UAFCB tested.2

SDG&E Response to Observation 3:

The Report states that there were (a) seven transactions tested totaling $192,428 of admin non-labor and (b) 17 transactions totaling $858,378 of the marketing/direct implementation that did not provide adequate supporting documentation associated with the following programs: (1) Mobile Energy Clinic, (2) Comprehensive Mobile Home, and (3) City of Chula Vista thereby diminishing the assurance that SDG&E's assertions that its EE expenditures are reasonable and relevant to the EE Programs. SDG&E provides its explanation for the transactions in question.

(1) Mobile Energy Clinic [redacted]

The following Excel spreadsheet provided by UAFCB as its reference for $63,024.26 (highlighted) in question.

SDGE3167-MEC.xls
(16 KB)

SDG&E mistakenly provided the incorrect back-up documentation to support the sampled transaction in response to the data request. Attached is the correct SAP image documentation for Document Reference "5802078926" that supports the $63,024.26 of administration costs for the program.

MEC invoice.pdf

(2) Comprehensive Mobile Home [redacted]

The following Excel spreadsheet provided by UAFCB as its reference for $753,544.13 (highlighted) in question.

SDGE3172-CMH.xls

Attached below is an excerpt from the Comprehensive Mobile Home Service Agreement 5660017899[14] that shows the Table 1 – Overall Budget Allocation page from the contract) that shows the program's budget for each of the four cost categories: administration, marketing, direct implementation labor and direct implementation materials.

Intergy -
Comprehensive Mobli

The vendor is required to identify their invoiced expenses by these cost categories. All invoices related to the transactions in question provided breakdowns of expenses by the four cost categories. SDG&E provides the table below to show breakdown of each invoice by cost categories and the invoice total:

[14] SDG&E provided the original contract in response to data request R.09-11-014 SDG&E Response DW&A-CPUC Financial, Management and Regulatory Compliance Audit (EE 2010) SDGE-2010EE-006 2010 EE Administrative Costs SDG&E Response to Question 2

Examination of SDG&E's 2010 Energy Efficiency Program
May 21, 2012

Item#	Order	Cost Elem.	Name of offsetting account	RefDocNo	Val/COArea Crcy	Percentage of Total	Cost Category
1	7042692	6220004	[redacted]	[redacted]	12,170.96	0.100	Administration
2	7042692	6220050	[redacted]	[redacted]	7,289.05	0.060	Marketing
3	7042692	6220590	[redacted]	[redacted]	42,836.79	0.352	DI Labor
4	7042692	6220600	[redacted]	[redacted]	59,412.76	0.488	DI Material
					Total	121,709.560	
5	7042692	6220004	[redacted]	[redacted]	13,613.32	0.100	Administration
6	7042692	6220050	[redacted]	[redacted]	8,152.86	0.060	Marketing
7	7042692	6220590	[redacted]	[redacted]	47,913.31	0.352	DI Labor
8	7042692	6220600	[redacted]	[redacted]	66,453.68	0.488	DI Material
					Total	136,133.170	
10	7042692	6220050	[redacted]	[redacted]	11,339.30	0.060	Marketing
9	7042692	6220590	[redacted]	[redacted]	66,639.57	0.352	DI Labor
11	7042692	6220600	[redacted]	[redacted]	18,933.89	0.100	Administration
12	7042692	6220600	[redacted]	[redacted]	92,426.18	0.488	DI Material
					Total	189,338.940	
13	7042692	6220004	[redacted]	[redacted]	61,033.04	0.488	DI Material
14	7042692	6220050	[redacted]	[redacted]	7,487.83	0.060	Marketing
15	7042692	6220600	[redacted]	[redacted]	12,502.88	0.100	Administration
16	7042692	6220930	[redacted]	[redacted]	44,005.02	0.352	DI Labor
					Total	125,028.770	
17	7042692	6220004	[redacted]	[redacted]	88,518.40	0.488	DI Material
18	7042692	6220600	[redacted]	[redacted]	18,133.37	0.100	Administration
19	7042692	6220930	[redacted]	[redacted]	63,822.04	0.352	DI Labor
20	7042692	6220050	[redacted]	[redacted]	10,859.88	0.060	Marketing
					Total	181,333.690	

Therefore these expenses should not be all considered administrative expenses as stated in the draft interim examination report.

City of Chula Vista Invoice, Q1 2010 (Audited Document)

The following Excel spreadsheet provided by UAFCB as its reference for $234,236.99 (highlighted) in question.

SDGE3129-CityOfChulaVista.xls

The attached pdf below "City of Chula Vista Q1 2010 Funding Exp (Expense Tracking Workbook) reflects the breakdown of costs and is used by the program manager when reviewing the invoices. This internal monthly reconciliation worksheet was not provided in the original audit response. The internal monthly reconciliation by the program manager for the City of Chula Vista includes vendor invoices for admin-non labor (reflected via Invoices for Copier Lease, Office Supplies, etc.). The Expense Tracking Workbook shows the invoice details referenced against the corresponding invoice number and what page of the backup documents it relates to, as well as an explanation of the expense.

City of Chula Vista Q1 2010 Funding Exp

Therefore, SDG&E maintains adequate documentation to support the recorded expenditures for its EE programs.

Observation 4: SDG&E improperly charged marketing expenditures to its EE administrative expenses.

SDG&E Response to Observation 4:

The Report states that marketing cost for 2 of the sampled [redacted] invoices were misclassified as administration costs and did not make the appropriate corrections. However, SDG&E did make the appropriate corrections to this misclassified expenditure. In August 2010 a journal entry was made to reclassify the transactions in question.[15] Since the journal entry is recorded as a separate SAP transaction and was not part of the sample, SDG&E did not associate the journal entry with the questioned transactions at the time of the request. Below are the documents for the attached journal entry and supporting documentation showing the correction.

Matrix JE.pdf (492 KB)   Oberservation #4.xls (28 KB)

Therefore, SDG&E does exercise due diligence in reviewing, approving its invoices and when appropriate makes required corrections to ensure that all recorded EE expenditures are appropriately classified.

C. Home Energy Efficiency Rebate (HEER) Program

Observation 5: SDG&E was inconsistent in categorizing its Home Energy Savings Kits (Water Kits) expenses and incorrectly charged some of them as administrative expenses.
SDG&E Response Observation 5:

The Report states that SDG&E inconsistently classified the costs of its Water Kits. Some payments were classified as administration costs and others as direct implementation. In October 2011 a journal entry was prepared to move the $42,710.37 to Direct Implementation. See attached journal entry and supporting documentation below (pdf Water Kit Oct 2011). In addition, the program procedures have been updated to outline cost distribution of water kits.

Water Kit JE Oct 2011.pdf (509...

Observation 6: SDG&E charged 2009 HEER costs to its 2010 program.
SDG&E Response Observation 6:

The Report states that SDG&E did not appropriately accrue 2 invoices totaling $339,826 in 2009. The year-end Customer Programs closing process embedded below (2009 Bridge Funding Close-Out Procedure) gave direction and guidance to the program managers on processing year end activities to ensure smooth transition between program cycles. The invoices

[15] This August 2010 journal entry transaction was included in the SAP dump provided to UAFCB.

in question were received from the retailer [redacted] on 1/19/2010 (see table below). Since these invoices came in after the cut off dates for accruals both the expenses and savings for the invoices were appropriately recorded as 2010 activity.

2009 Bridge Funding Close-Out Procedures

Date	Invoice Number	Amount	Invoice Received from Vendor
12/10/2009	BB-11/2009	160,661	01/19/2010
12/31/2009	BB-12/2009	179,165	01/19/2010
		$339,826	

Observation 7: SDG&E's books of account do not reflect all of HEER rebates reported in 2010 and SDG&E overstated its Advertising and Marketing expenses.
SDG&E Comments to 7:

The Report identified some misclassification of $174,150 incorrectly recorded as Advertising & Marketing. Some of the inconsistency comes from the treatment of various incentives paid (direct install, rebates paid directly to customers and Point-of –Sale rebates) in terms of cost categories and the cost effectiveness cost categories as directed by the Commission. In a separate review of these various incentive treatments, SDG&E conferred with other IOUs to ensure consistency of incentive treatments. Based on the responses, SDG&E made appropriate changes. A journal entry was made in September 2011 for the $174,150 incorrectly recorded as Advertising & Marketing. See attached journal entry and supporting documentation below.

HEER JE.pdf (481 KB)

Observation 8: SDG&E did not maintain adequate supporting documentation for some of its HEER rebate expenditures.
SDG&E Response to Observation 8:

SDG&E provided its response for the $350,050 payment made to the San Diego County Water Authority as part of R.09-11-014 SDG&E Response DW&A-CPUC Financial, Management and Regulatory Compliance Audit EE2010 EE HEER_ SDG&E _2010EE 011 Dated October 19, 2011SDG&E Response to Question 4. The response provided the SAP details for the three payments (see the table below) made to the SDCWA which included the spreadsheet listing the customer names/addresses who received the rebates.

SAP Item #	Amount	# of Clothes Washers
18	77,150	1,543
20	98,750	1,975
28	174,150	3,483
	$350,050	7,001

Therefore, all necessary supporting documentation to verify the total rebate amounts invoiced were maintained and available and appropriate to record these expenditures for SDG&E's EE programs. Furthermore, this does not warrant a refund of $350,050 from shareholders to the programs

With the exception of a link to a Commission ruling, all links to files in this document have been removed.
Redactions were requested and inserted by the utility and the public version is subject to update if some of the redacted information or files are in fact public.

State of California

Memorandum

Date: March 23, 2012

To: Edward Randolph
Director, Energy Division

From: **Public Utilities Commission— San Francisco**
Kayode Kajopaiye, Branch Chief
Division of Water and Audits

Subject: Interim Financial, Management and Regulatory Compliance Examination Southern California Gas Company's Energy Efficiency Program for the Year Ended December 31, 2010

This memo provides the Utility Audit, Finance and Compliance Branch's (UAFCB's) observations and recommendations on its Financial, Management and Regulatory Compliance Examination of Southern California Gas Company's (SCG's) 2010 Energy Efficiency (EE) programs. Based on consultation with the Energy Division (ED) and UAFCB's prior experience, it examined the following SCG's 2010 EE programs and costs: (1) the On-Bill Financing Program (OBF); (2) EE administrative costs; and (3) the Home Energy Efficiency Rebate program (HEER). UAFCB observed certain deficiencies respecting SCG's implementation of its EE programs in these areas.

A. Summary of Examination Observations

Except for the items noted below, SCG demonstrated compliance with Commission directives respecting its OBF program, EE administrative costs and HEER program.[1]

1) **SCG's OBF Loan Underwriting Guidelines should be enhanced to Minimize Loan Default Risk.** Loan underwriting requirement of a 12 month payment history is insufficient to minimize loan default risk in the long run

2) **SCG Recorded Pension and Benefits (P&B) in its EE Administrative Expenses without Authority or Permission.** SCG included SDG&E's cross-billing for P&B totaling $472,710 in its administrative costs because there are no proper guidelines from the ED for costing of services between subsidiaries.

3) **The Commission's reporting requirements established in D.05-01-055 and ALJ Ruling dated August 8, 2007 are inadequate for the reporting of non-IOU EE administrative costs in their Annual Reports.** Non-IOU administrative costs should be

[1] Commission directives used to measure compliance included, but were not limited to, D.09-09-047, the ruling in R.01-08-028, dated February 21, 2006 and Energy Division's memo, dated October 22, 2009.

disclosed or reported as a separate line item in the EE Annual Reports and not lumped together with the Direct Implementation Cost category.

4) **HEER Point-of-Sale (POS) rebate process lacks appropriate protocols for monitoring and tracking customers provided with rebates by participating POS retailers.** Invoices submitted to SCG by participating retailers for POS rebates contain inadequate information to allow for proper monitoring and tracking in case of a need to audit for fraud or program abuse by ineligible customers.

B. Recommendations

1) The UAFCB recommends that SCG revise its OBF loan underwriting guidelines to include a 24 month or longer payment history when evaluating loan applications for eligibility and approval. This would allow SCG's internal OBF loan underwriting guidelines to be consistent with loan underwriting best practices in the financial services industry, provide SCG with a better indicator of the applicant's overall ability to repay the loan, and help minimize loan default risk in the long run.

2) ED should provide guidelines to SCG and SDG&E regarding cross billing for services rendered to each for proper cost accounting and recovery from each other.

3) The UAFCB recommends that the Commission revise its EE reporting requirements to require SCG, as well as PG&E, SCE and SDGE, to report non-IOU administrative costs as a separate line item under the Direct Implementation Cost category in their EE Annual Reports.

4) The UAFCB recommends that SCG implement changes to its POS information gathering processes so that HEER POS rebates can be monitored and tracked based on customer name, address and/or account number. UAFCB also recommends that SCG require its POS retailers to include name, address, and/or account number on its invoices for each customer who received a rebate for the purchase of a qualified HEER energy efficient appliance.

C. Conclusion

Except for the items identified above, SCG demonstrated compliance with Commission directives in these three areas. A detailed summary of UAFCB's analysis and findings is attached in Appendix A. Additional information on UAFCB's examination is included in Appendix B and pertinent information on SCG's EE program is included in Appendix C.

UAFCB provided a copy of its analysis and observations of its examinations to SCG for its comments. UAFCB summarized SCG's response comments and UAFCB's rebuttal to them in Appendix A. SCG's full response is included in Appendix D of this memo in its entirety.

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

Examination of SCG's 2010 Energy Efficiency Program
March 23, 2012

cc: Rami Kahlon, Director, Division of Water and Audits
Peter Skala, Energy Division
Carmen Best, Energy Division
Jean Lamming, Energy Division
Bernard Ayanruoh, Division of Water and Audits
Kevin Nakamura, Division of Water and Audits
Vic Duong, Division of Water and Audits

Appendix A
Analysis and Findings

I. Summary

Except for the deficiencies noted by UAFCB, Southern California Gas Company (SCG) demonstrated to a reasonable degree its compliance with Commission directives respecting On-Bill Financing program (OBF) and Home Energy Efficiency Rebate program (HEER), as well as its energy efficiency (EE) administrative costs. The areas examined by the UAFCB are described in Appendix C, Program Compendium. The directives the Utility Audit, Finance and Compliance Branch (UAFCB) used to test compliance included, but were not limited to, D.09-09-047, the ruling in R.01-08-028, dated February 21, 2006 and Energy Division's (ED) memo, dated October 22, 2009. UAFCB's scope and methodology used for the examination are in Appendix B, Examination Elements.

On February 21, 2012, UAFCB provided a copy of its analysis and findings and its summary of SCG's EE program for comment. On March 7, 2012, SCG provided its response comments on UAFCB's observations and recommendations. UAFCB provides a summary of SCG's response comments and UAFCB's rebuttal to SCG's comments in Appendix A. SCG's full response comments is included in Appendix D of this memo in its entirety.

A. On-Bill Financing (OBF) Program

Observation 1: SCG's OBF Loan Underwriting Guidelines should be enhanced to Minimize Loan Default Risk.

Criteria: SCG's loan underwriting criteria include eligibility requirements, loan terms and conditions, and loan default procedures as detailed in its OBF policy and procedures.

Condition: SCG's current OBF loan underwriting requirement of a 12 month payment history is not consistent with loan underwriting best practices in the financial services industry.

Cause: The cause could have been an oversight. SCG may not have consulted with appropriate financial industry experts when developing its OBF loan underwriting requirements.

Effect: SCG's loan underwriting requirement of a 12 month payment history is insufficient to help minimize loan default risk in the long run.

Recommendation: The UAFCB recommends that SCG revise its OBF loan underwriting guidelines to include a 24 month or longer payment history when evaluating loan applications for eligibility and approval. This would allow SCG's internal OBF loan underwriting guidelines to be consistent with loan underwriting best practices in the financial services industry, provide SCG with a better indicator of the applicant's overall ability to repay the loan, and help minimize loan default risk in the long run.

B. Energy Efficiency Administrative Costs

Observation 2: SCG Recorded Pension and Benefits (P&B) in its EE Administrative Expenses without Authority or Permission.

Criteria: In ED's memo, dated October 22, 2009, ED states "All IOUs currently place all EE staff pensions and benefits in the GRC… Recommendation: IOUs should be allowed to continue to place EE staff pension and benefit costs in the GRC… Justification: It is CPUC standard practice to allow IOUs to recoup benefit and pension costs in the GRCs…"[2]

Condition: SCG included SDG&E's cross-billings for P&B totaling $472,710 in its administrative costs.

Cause: It is SCG's position that EE related salaries, which include overheads such as P&B, vacation/sick and payroll taxes, be excluded from the GRC since they are fully billed to the EE programs.

Effect: Due to the inclusion of $472,710 of P&B in its EE administration costs, SCG's EE administration cost category was overstated by that amount.

Recommendation: ED should provide guidelines to SCG and SDG&E regarding cross-billing for services rendered to each other for proper cost accounting and recovery.

Observation 3: The Commission's reporting requirements established in D.05-01-055 and ALJ Ruling dated August 8, 2007 are inadequate for the reporting of non-IOU EE Administrative costs in their Annual Reports.

Criteria: ALJ Ruling dated August 8, 2007 adopted the annual reporting requirements for energy efficiency programs for all utilities.

Condition: In 2010, SCG incurred $1,702,425 in non-IOU EE administrative expenses paid to third-party implementers and government partnerships that were reported and included in SCG's 2010 Annual Report in the Direct Implementation Cost category.

Cause: The Commission's EE reporting requirements established in D.05-01-055 and ALJ Ruling dated August 8, 2007 are not specific on how non-IOU EE administrative costs should be reported in the EE Annual Reports filed by the IOU.

Effect: By not having non-IOU administrative costs disclosed or reported as a separate line item in the EE Annual Reports, it is difficult for readers of the EE Annual Reports to appropriately evaluate and assess the types of costs incurred by the IOUs to administer and implement the EE programs.

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[2] ALJ Gottstein's Ruling in R.01-08-028, dated February 21, 2006, addressed and listed allowable costs and delegated authority to Energy Division to provide further clarification to the reporting requirements and list of costs. ED's memo, dated October 22, 2009, expanded cost definitions and how costs should be treated.

Recommendation: The UAFCB recommends that the Commission revise its EE reporting requirements to require SCG, as well as PG&E, SCE and SDGE, to report non-IOU administrative costs as a separate line item under the Direct Implementation Cost category in their EE Annual Reports.

C. Home Energy Efficiency Rebate (HEER) Program

Observation 4: SCG's HEER Point-of-Sale (POS) rebate process lacks appropriate protocols for monitoring and tracking customers provided with rebates by participating POS retailers.

Criteria: SCG developed its own internal rebate processing policies and procedures for the issuance of HEER mail-in rebates and Point-of-Sale (POS) rebates. The participating retailers' invoices are processed through the Accounts Payable, the Quality Assurance (QA) and the Program Manager.

Condition: Invoices submitted to SCG by participating retailers for POS rebates fail to include the name, address and/or account number of the customer receiving the rebate.

Cause: SCG does not record HEER POS rebates by customer name, address and or account number.

Effect: The limitations in SCG's recording of HEER POS rebates would prevent the detection of instances where multiple HEER rebates/discounts are granted to the same customer for the same appliance purchased in a single reporting period.

Recommendation: The UAFCB recommends that SCG implement changes to its POS information gathering processes so that HEER POS rebates can be monitored and tracked based on customer name, address and/or account number. UAFCB also recommends that SCG require its POS retailers to include name, address, and/or account number on its invoices for each customer who received a rebate for the purchase of a qualified HEER energy efficient appliance.

II. SCG's Comments on UAFCB' Draft Report

On February 21, 2012, the UAFCB submitted a copy of its draft audit report to SCG for its review and response. The draft report included UAFCB's observation and recommendations to the specific areas reviewed during the examination of SCG's EE program for budget year 2010. SCG provided its comments on the draft report on March 7, 2012. A copy of SCG's comments is included in Appendix D in its entirety.

SCG asserts the following in its responses to UAFCB Draft Report:

Observation 1: SCG's OBF Loan Underwriting Guidelines should be Enhanced to Minimize Loan Default Risk.

1. **SCG's Response**: SCG states that the draft report provides no basis for the recommendation to revise its OBF underwriting guidelines or cites any example that would lead to the conclusion that there are issues with SCG's default risk. SCG issued 30 loans in 2010 with a zero default rate and believes the existing guidelines are adequate to address its default risk.

Observation 2: SCG Recorded Pension and Benefits (P&B) in its EE Administrative Expenses without Authority or Permission.

2. **SCG's Response**: The draft report erroneously indicated that SCG should not include SDG&E cross-billing for Pension & Benefits (P&B) to SCG's administration costs. SCG pointed out that:
    - D.09-09-047 and the December 12, 2008 Ruling directs the utilities to use the approved Allowable Cost list as the basis of determining costs that can be charged to EE programs. The list includes P&B as administration costs;
    - The October 22, 2009 Energy Division guidance letter discussing benefits/pension and used as the basis for the draft audit report recommendation should not override any Commission decision or ruling on this issue;
    - The October 22, 2009 Energy Division guidance letter related only to employees working for their respective utility, not employees charging other utilities for work performed (cross-billings practices by SDG&E and SCG).

Observation 3: The Commission's reporting requirements established in D.05-01-055 and ALJ Ruling dated August 8, 2007 are inadequate for the reporting of non-IOU EE Administrative costs in the Annual Reports.

3. **SCG's Response**: SCG Annual Report is consistent with the approved reporting requirements and will update its procedures to comply with any reporting changes adopted by the Commission.

Observation 4: SCG's HEER Point-of-Sale (POS) rebate process lacks appropriate protocols for monitoring and tracking customers provided with rebates by participating POS retailers.

4. **SCG's Response**: SCG recognizes the value of having the name, address and account number of each Home Energy Efficiency Rebate point-of-sale program participant and is working with retailers to develop mechanisms to capture the recommended POS customer information for the next program cycle.

III. UAFCB Rebuttal

In response to SCG comments regarding the recommendations contained in UAFCB's draft report, UAFCB made some changes to its report and provided the following comments and clarifications to its observations, as deemed appropriate:

Observation 1: SCG's OBF Loan Underwriting Guidelines should be Enhanced to Minimize Loan Default Risk.

1) UAFCB concurs with SCG that the default risk of the 2010 loan portfolio appears to be insignificant and that a 12 month payment history might have been enough to properly evaluate the 30 loans outstanding as of the end of 2010. However, UAFCB believes that the current 12-month loan underwriting guideline might not be adequate to minimize

default risk for a much bigger loan portfolio in the future. UAFCB's stands by its recommendation that the loan underwriting best practices in the financial services industry requiring a 24 to 36 month payment history to evaluate customer's ability to repay is better than a 12 month payment history. It is up to ED to adopt the guideline for the EE utilities.

Observation 2: SCG Improperly Recorded Pension and Benefits (P&B) in its EE Administrative Expenses.

- UAFCB concurs with SCG that the October 22, 2009 ED memo to EE utilities on administrative and implementations costs does not address cross billing for services provided between subsidiaries such as SCG and SDG&E.

Observation 3: The Commission's reporting requirements established in D.05-01-055 and ALJ Ruling dated August 8, 2007 are inadequate for the reporting of non-IOU EE Administrative costs in the Annual Reports.

2) The recommendation is for ED to consider.

Observation 4: SCG's HEER Point-of-Sale (POS) rebate process lacks appropriate protocols for monitoring and tracking customers provided with rebates by participating POS retailers.

3) UAFCB recommends a follow up with SCG during the program year 2012 EE examination with a review of the developed mechanisms mentioned in SCG's response to capture the customer information from point-of-sale rebate transactions.

In addition, UAFCB has made all the suggested minor corrections to the introduction information on OBF except for the 2010-2012 budget information.

Appendix B
Examination Elements

The Utility Audit, Finance and Compliance Branch (UAFCB) initiated this examination by sending an engagement letter to Southern California Gas Company (SCG), dated April 14, 2011. UAFCB representatives conducted its fieldwork for SCG at the offices of SDG&E in San Diego, California on several occasions, and while there, met with SCG management and staff, and reviewed original supporting data. UAFCB completed its fieldwork on November 4, 2011.

Authority

D.09-09-047, Ordering Paragraph (OP) 14, states among other things, that "Commission staff conduct a full audit of the utilities' administrative and other costs in order to understand the changes in characterization of costs in the revised applications and to ensure accountability of the amount, allocation and the composition of the total administrative costs for this portfolio timeframe." UAFCB met with ED's management to determine the scope of its support of OP 14.

Scope

Based on consultation with Energy Division, UAFCB was to examine SCG's 2010 On-Bill Financing Program (OBF) and energy efficiency administrative costs. In addition, based on prior experience, UAFCB selected a statewide program to include in the examination, the Home Energy Efficiency Rebate Program (HEER). Consequently, the scope of UAFCB's examination was limited to those three areas for 2010 activities and expenditures.

Objectives

UAFCB's overall objectives are to determine whether the:

1. Program design, structure, processes, implementation, costs and controls of SCG's OBF were in compliance with (1) the Commission's guidelines including, but not limited to, D.09-09-047, the ruling in R.01-08-028, dated February 21, 2006 and Energy Division's memo, dated October 22, 2009; and (2) SCG's own internal policies and procedures;

2. EE administrative costs that SCG incurred were proper and were in compliance with (1) the Commission's guidelines including, but not limited to, D.09-09-047, the ruling in R.01-08-028, dated February 21, 2006 and Energy Division's memo, dated October 22, 2009; and (2) with SCG's own internal policies and procedures; and

3. Design, structure, processes, implementation, costs and controls of SCG's HEER were in compliance with the Commission's guidelines including, but not limited to, D.09-09-047, the ruling in R.01-08-028, dated February 21, 2006 and Energy Division's memo, dated October 22, 2009 and (2) SCG's own internal policies and procedures.

Methodology and Testing

UAFCB used SCG's responses to UAFCB's Internal Control Questionnaires (ICQ) to perform a preliminary risk analysis. Based on the results of its risk analysis, UAFCB determined specific areas for testing and developed its testing methodology.

On-Bill Financing (OBF): UAFCB judgmentally selected and examined 8 out of 10 OBF customer loan files approved and issued in 2010 totaling $334,218.

UAFCB observed that SCG had consistently applied its OBF loan processes and procedures based on its underwriting guidelines and loan requirements except for the current 12-month loan underwriting guideline as explained in Appendix A..

Energy Efficiency Administrative Costs: UAFCB judgmentally selected and examined 50 administrative expense transactions totaling $236,159. The 50 administrative expense transactions selected for testing covered three statewide programs, one third party implementer (3P) and one government partnership (GP) program. The following table lists the selected programs, and the dollar amounts of the administrative costs population tested.

Table B-1
Summary of SCG EE Administrative Expenses Tested by Program

Programs Tested	Total Program Expenses	IOU Administrative Expenses	Labor	Non-Labor	Indirect Overhead
Statewide					
ComB-Deemed	$ 2,952,597	$ 508,224	$327,576	$ 14,185	$ 166,463
IndA-Calculated	6,797,520	795,484	389,128	23,121	383,235
HEER	12,003,096	1,099,124	230,256	192,150	676,7158
	$21,759,213	$2,402,832	$946,960	$229,456	$1226,416
Third Party					
Manufactored Mobile Home	2,703,281	26,056	25,292	764	0
Gov't Partnership					
Palm Desert IOU Pilot	253,548	79,048	45,327	19,426	14,295
Totals	$24,716,042	$2,507,936	$1,017,579	$249,646	$1,240,711

For the administrative expenses included in the programs selected, UAFCB reviewed the allocation of SCG's labor charges between administrative, marketing and direct implementation cost categories.

UAFCB also reviewed 30 allocated indirect overhead charges totaling $174,059 that were recorded as administrative costs. In addition to the allocated overhead tested, UAFCB recalculated all vacation & sick leave, payroll taxes, pension and benefits charges for accuracy and compliance with SCG internal policies.

Home Energy Efficiency Rebate (HEER) program: UAFCB judgmentally selected and tested 15 transactions amounting to $2,993,846 that were charged to the Marketing/Outreach and Direct Implementation Cost categories. A detailed breakdown of the number of transactions and amounts tested are provided in the following table.

Table B-2
Summary of HEER Expenditures Tested

Types of Transactions Tested	# of Trans	Amount	Category
Mail-In Rebates	3	$ 1,240,555	DI-Incentive
Retailer POS Rebates	9	1,696,738	DI-Incentive
Marketing/Outreach	3	56,553	Marketing/Outreach
Totals	**15**	**$ 2,993,846**	

The result of the examination did not yield a pattern of duplicity in the customer's rebate applications nor in SCG's payment and recording of mail-in rebates. Any opportunity for fraudulent or duplicate rebate claims by customers is preventable as long as the Quality Assurance staff adheres to SCG's verification processes.

In addition, UAFCB verified that reimbursements for point-of-sale invoices were paid and remitted directly to retailers.

Standards

The UAFCB conducted this examination in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA) and, accordingly, included examining, on a test basis, evidence concerning SCG's compliance with the requirements noted above and performing any other procedures as we considered necessary in the circumstances.

Appendix C
Program Compendium

On September 24, 2009, the California Public Utilities Commission (Commission) issued Decision (D.) 09-09-047 which, among other things, authorized Southern California Gas Company (SCG) a total budget of approximately $285 million in ratepayer funds to administer and implement its Energy Efficiency (EE) programs for the years 2010 through 2012. This represents about 9.2% of the total funds the Commission authorized for EE for this program cycle. In addition, this decision also set energy savings goals, established cost-effectiveness requirements, placed a cap of 10 percent on utility administrative costs, authorized types of programs, and set targets for certain programs.

The Commission authorized SCG $278.6 million in ratepayer funds to administer and implement its EE programs and $6.4 million to fund the Evaluation, Measurement and Verification (EM&V) portion of the program portfolio. For the year 2010, including EM&V expenditures, SCG spent $50.7 million, or 17.5%, of its total authorized budget for the years 2010 through 2012. The following table shows the amount carried forward, authorized budget, funds available for spending and actual expenditures for SCG during 2010.

Table C-1
Summary of 2010 Ratepayer Funded EE Programs
(Including EM&V)

Description	Amount
Amounts Brought-Forward[3]	$ 0
Authorized Budget per D.09-09-047	95,526,068
Available for Spending	95,526,068
Actual 2010 EE Expenditures	50,689,961
Amounts Carried Forward	$44,836,106

SCG implements its energy efficiency programs through its Customer Program Division. Because SCG and SDG&E are part of the same parent company, Sempra Utilities, the Program Management function is performed by SCG while Program Support function is performed by SDG&E. The Program Management Division is comprised of several segments, including segments for the Residential/Statewide and Third Party implementer programs; Codes and Standards; and Partnerships programs. Each of the segments is administered by a Segment Manager. Program Managers report to the Segment Managers and are responsible for reviewing and approving expenditures; monitoring program performance and providing day-to-day administrative oversight of the respective programs. The Program Managers also have one or several supervisors that report directly to them and are responsible for the specific energy efficiency program measures that are assigned to them.

[3] Per D.09-09-47, Ordering Paragraph (OP) 2.c, the Commission authorized SCG to carry forward $45 million in unspent, uncommitted EE funds from its prior years. However, in response to Verbal Request –Budget 1, Question 1, SCG elected not to carry forward the $45 million.

The Program Support Department provides general support to SCG as well as SDG&E and is organized into three major segments:

(1) Planning and Analysis, which provides market analysis and planning support;
(2) Customer Support including claim processing and others;
(3) Engineering Technical Support, which includes inspections and other engineering support.

The Director of Customer Programs Division provides overall oversight and management of the Segment Managers. The Director meets bi-weekly with the Segment Managers to monitor the effectiveness and efficiency of all energy efficiency programs and to ensure compliance with company policies and Commission directives.

A. On-Bill Financing (OBF) Program

SCG's OBF program offers zero-interest financing to facilitate the purchase and installation of qualified energy efficiency retrofit measures to non-residential customers who might not otherwise be able to act given capital constraints and/or the administrative and time burdens involved in obtaining traditional project financing. Only energy efficiency measures which qualify for rebates and/or incentives in SCG's portfolio are qualified for the OBF program. They include Institution and Non-Institution customers such as commercial, industrial, and agricultural and tax-payer funded customers.

SCG's OBF budget for the 2010-2012 EE program cycle is $6.3 million as set forth in Commission D.09-09-047. The budget provides for operating expenses of $2.8 million funded by Public Goods Charge (PGC) and a revolving fund loan pool of $3.5 million funded by non-PGC revenues per Commission's approval of SCG Advice Letter 4035.

SCG's OBF underwriting guidelines include verification of customer's project cost; project eligibility for other EE rebate/ incentive program(s); and customer's utility bill payment history. The OBF loan process includes calculation of the project's energy savings; post-installation inspection and project cost adjustments; calculation of loan terms, loan amount (net of rebate/incentives), and monthly loan payment.

In D.09-09-047, OP 40, the Commission set a loan cap of $100,000 for commercial loans with loan terms of up to five years, or may extend beyond five, but not to exceed the expected useful life (EUL) of the bundle efficiency measures proposed, whichever is lower. Institutional[4] customers may be granted loans of up to a total of $1 million with a maximum loan term of 10 years per facility to capture large savings and when all other terms are met. As for the treatment of delinquent OBF loans, an outstanding bill which remains unpaid for more than 180 days will be considered in default and written off to Bad Debt.

[4] Institutional customers are tax-payer funded agencies/facilities whose energy bills are paid by federal, state, county, city, or Indian tribal governments.

Pursuant to D.09-09-047, the Commission approved on May 10, 2010, SCG's request in Advice Letter (AL) 4035 to establish a $3.5 million loan pool, namely On-Bill Financing Balancing Account (OBFBA) beginning with the 2010-2012 EE program cycle, and set up as a revolving fund to track OBF loan disbursements and repayment activities and to record funding to be collected from non-PGC gas transportation rates and SCG's gas rates.

SCG's 2010 OBFBA loan pool balance as of December 31, 2010 shows a balance of $1,022,155. The following table shows a summary of SCG's OBF loan pool at December 31, 2010.

Table C-2
Summary of SCG OBF Loan Pool –December 31, 2010

Description	Amount
Authorized Funding – 2010	$ 1,500,000
Loan Disbursements – 2010	(334,218)
Loan Repayments/Collections – 2010	189,610
Loan Disbursed Prior Years – Carry over	(334,391)
Interest Earned – 2010	1,154
Balance – December 31, 2010	$1,022,155

B. Energy Efficiency Administrative Costs

Pursuant to D.09-09-47, OP 13, the Commission limited the utilities' administrative cost for managing its EE programs to 10% of its total EE budget for years 2010-2012. Consequently, SCG's authorized three year EE administrative budget for seventy seven (77) EE programs during the 2010-2012 cycle amounts to 10% of $285 million, or $28.5 million. For the 2010 program year, SCG's total EE portfolio expenditures (including EM&V) was $50.7 million and is summarized by cost category in Table 3 below:

Table C-3
SCG EE Expenditures by Cost Category

Category	Amount	% of Total Program
Administrative[5]	$ 5,787,698	11.42%
Marketing & Outreach	3,353,119	6.61%
Direct Implementation	41,540,961	81.97%
Total 2010 EE Expenditures	$50,689,961	100.00%

SCG's EE administrative expenditures are classified as labor and non-labor. Labor charges comprise salaries, taxes, pensions and benefits paid to SCG management and clerical and

[5] There is $281,941 of EM&V expenditures included.

technical staff. Non-labor charges include employee travel, materials, services, and other costs incurred to implement the EE programs.

Non-IOU administrative expenditures are all classified and recorded as non-labor charges which include services provided by contractors in implementing Third Party and Local Government Partnership programs.

SCG recorded $5.5 million in EE administrative costs (excluding EM&V and including allocated indirect overheads totaling $2.3 million) which is 10.9% of the total EE expenditure portfolio. A summary of SCG's EE Administrative Cost Cap and Target Expenditures for 2010 is provided in the table below which shows that SCG is on track to stay within the 10% cap imposed by the Commission.

Table C-4
Energy Efficiency Administrative Cost Cap and Expenditures For 2010

Expense Category	Amount	% to Total Exp. Portfolio	Cap	Target
3rd Party & Partnerships – IOU Admin.	$ 849,599	1.7%		10%
Local (Core & Non-Resource) – IOU Admin.	493,748	1.0%	10%	10%
Statewide Programs – IOU Admin.	4,162,410	8.2%	10%	
Total IOU Admin. (Net of EM&V)	$ 5,505,757	10.9%		
Total Portfolio Expenditures	$50,408,020			

C. Home Energy Efficiency Rebate Program

The Home Energy Efficiency Rebate Program (HEER) encourages the adoption of energy-efficient choices when purchasing and installing household appliances by offering residential customers educational materials about energy efficiency options and by providing rebates and/or incentives. For SCG, its HEER program targets residential customers who are either owners or renters of single-family homes, townhomes, condominiums and mobile homes.

Residential customers who purchase EE qualified household appliances in SCG's service territory can claim rebates from SCG through a mail-in rebate application process. SCG also offers instant point-of-sale (POS) rebates to individuals who purchase EE qualified appliances at participating retailers in SCG's service territory.

SCG incurred $12 million of various expenditures on its HEER program in 2010. SCG recorded $1.1 million in administrative operating costs which is 9.1% of its 2010 HEER expenses. A detailed summary of SCG's 2010 HEER expenses and related percentages is shown in the following table.

Table C-5
Summary of SCG HEER Program Expenditures - 2010

Cost Type	Amount	%
Administrative	$ 1,099,124	9.1%
Marketing and Outreach	335,022	2.8%
Direct Implementation	10,568,950	88.1%
Total HEER Expenses - 2010	$12,003,096	100%

SCG pays rebates only on appliances and equipment listed on the Energy Star® website. Before approving a rebate application, SCG refers to the website to verify that each appliance listed on the application and the receipt submitted by the customer-applicant is qualified. Appliances rebated at the point-of-sale do not qualify for mail-in rebates. Appliance/equipment retailers with contract agreements invoice SCG for the reimbursement of point-of-sale rebates given to customers. SCG classifies the reimbursements/payments as Incentives under the Direct Implementation category.

SCG recorded $10,568,950 of Direct Implementation (DI) expenditures of which a total of $8.8 million were rebates processed through both mail-in applications and at the point-of-sale (POS). Of the $8.8 million in HEER rebates, $2.1 million in rebates was paid through the POS process in 2010.

Appendix D
SCG Comments

Southern California Gas Company
A Sempra Energy company

Joy C. Yamagata
Regulatory Manager
Southern California Gas Company
8330 Century Park Court
San Diego, CA 92123-1530

March 7, 2012

Bernard Ayanruoh
UAFCB
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: SoCalGas Comments on 2010 EE Interim Examination Report

Dear Mr. Ayanruoh:

Attached please find Southern California Gas Company's (SoCalGas) comments on the above referenced report. SoCalGas appreciates your granting of an extension, until March 7, in which to provide comments.

If you have any questions, please do not hesitate to contact me.

Sincerely,

Joy Yamagata
Regulatory Manager

Enclosure

cc: Kayode Kajopaiye -UAFCB
Kevin Nakamura - UAFCB
Kai Duong - UAFCB
Central Files

Examination of SCG's 2010 Energy Efficiency Program
March 23, 2012

SOUTHERN CALIFORNIA GAS COMPANY

RESPONSE TO DRAFT INTERIM EXAMINATION REPORT

Southern California Gas Company (SCG) provides its responses to various observations and recommendations contained in the UAFCB's draft "*Interim Examination Report on Southern California Gas Company's Energy Efficiency Program for the program year ended December 31, 2010*" ("Report") issued on February 21, 2011.

A. On-Bill Financing (OBF) Program

Observation 1: SCG's OBF Loan Underwriting Guidelines should be Enhanced to Minimize Loan Default Risk.

SCG Response to Observation 1:

The Report states that SCG's loan underwriting requirement of 12 month payment history is not consistent with loan underwriting practices in the financial industry and recommends that SCG revise its underwriting guidelines to include a 24 month or longer payment history for evaluating loan applications. However, the Report provides no basis for its recommendation to SCG to revise its OBF loan underwriting guidelines nor does the Report cite any examples that would lead to the conclusion that there are issues with SCG's default risk. To-date, SCG has made 30 loans with a zero default rate.

When OBF was first envisioned in 2004, one of the key premises was to use a credit check methodology that was simple and easy. While SCG does only look at the last 12 months of payment history, it also *requires* that the customer be an active customer for the last 24 months (12/24 month criteria). As a bit of history, when SCG OBF was tasked with creating a simplified credit check that would be the best proxy of not having to go thru a "normal" processes (e.g. FICO), one of the steps undertaken was to research what other utilities were doing for similar programs, and found that there were actually only a few utilities that had an OBF-type program, with only one that appeared successful. That program offered by United Illuminating, used similar underwriting guidelines and became the basis of SCG's guidelines. SCG discussed the 12/24-month criteria internally with its Billing and Collections Department it was agreed that the 12/24 month criteria it should be a good indicator of credit (under the notion that a good utility bill payer indicates a good credit risk). In fact, we originally used an additional criterion that was later dropped (no more than 3 late notices in the last 12 months, which its Billing and Collections Department agreed was not necessary). Additionally, the OBF program design was discussed many times with the Program Advisory Group (PAG), who supported the proposed guidelines.

In addition, SCG has made minor corrections to introduction information on OBF (pages 4 and 5 of the Interim Examination Report). See Attachment.

B. Energy Efficiency Administrative Costs

Observation 2: SCG Improperly Recorded Pension and Benefits (P&B) in its EE Administrative Expenses.

SCG Response to Observation 2:

The Report states that SCG should not include SDG&E's cross-billing for P&B to SCG's administration costs. The following explanation provides the justification for SCG's inclusion of all administration overheads from SDG&E's cross-billing.

1. SDG&E and SoCalGas' utility integration allowed for utility employees to provide shared services to the other utility. However, the SDG&E and SCG merger decision specifically states that there should not be cross subsidies between the utilities. Therefore if a utility performs work for the other utility, all costs, including labor overheads associated with the utility performing the work for the other utility should be billed.
2. D.09-09-047 footnote 30 references the December 12, 2008 Assigned Commissioner's Ruling Attachment 5-A for the list of allowable costs.[6] OP 3 of the Ruling states:

   "The Utilities shall adhere to the updated budget and energy savings templates prepared by Energy Division and included as Attachment 5, 5a, and 5b to this Ruling…"

   The Appendix to Attachment 5-A clearly shows that Pensions and Benefits (P&B) are included in the allowable costs.
3. The Report cites the October 22, 2009 Energy Division Guidance letter discussing benefits/pensions and payroll taxes, among other issues. (see attachment) It states "All IOUs currently place all EE staff pensions and benefits in the GRC. The recommendation is to continue to place EE pensions and benefits costs in the GRC." The letter was only stating what ED staff understood to be the status at that time. This statement related only to employees working for their respective utility, not employees charging other utilities for work performed for the other utility as SDG&E and SoCalGas' cross billing practices were not mentioned.

   Letter Adm
   Costs.doc

4. Specifically these labor overheads associated with cross-billing for SCG's EE programs are not covered in SCG's GRC.

SCG asserts that it is compliant with D.09-09-047 and the December 12, 2008 Ruling that directs the utilities to use the approved Allowable Cost list as the basis for its determination of appropriate costs and cost categories that can be charged to EE programs. The list includes P&B as administration costs. The October 22, 2009 ED letter does not, nor did the letter represent that it was overriding any Commission decision or Ruling on the issue. Therefore SDG&E cross-billing P&B costs are appropriately charged and recorded in SCG's EE expenditures as administration costs.

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[6] See http://docs.cpuc.ca.gov/EFILE/RULINGS/95004.PDF

<u>Observation 3: The Commission's reporting requirements established in D.05-01-055 and ALJ Ruling dated August 8, 2007 are inadequate for the reporting of non-IOU EE Administrative costs in the Annual Reports.</u>

SCG Response to Observation 3:

SCG Annual Report complies with the Commission's reporting requirements. SCG notes that this Observation and accompanying Recommendation are directed to the Commission to update its reporting requirements as necessary. SCG will update its processes and procedures to comply with any reporting changes adopted by the Commission.

C. Home Energy Efficiency Rebate (HEER) Program

<u>Observation 4: SCG's HEER Point-of-Sale (POS) rebate process lacks appropriate protocols for monitoring and tracking customers provided with rebates by participating POS retailers.</u>

SCG Response to Observation 4:

The utilities offer point-of-sale (POS) rebates to encourage customers to purchase EE appliances and simplify the process for customer. Each POS contract is negotiated separately with each participating retailer ([redacted] Deliverables for validating POS invoices from these participating retailers are included in their contracts. It should be noted that participating retailers use their own funds to pay POS rebates and then invoice SCG for repayment at no extra cost to SCG. In addition, these partnerships with retailers who pay the rebates by discounting the price at the register are a more cost effective means of offering rebates when compared to the mail-in application process.

Although SCG recognizes the value of having the name, address and/or account number of each Home Energy Efficiency Rebate point of sale program participant, not all participating retailers are willing to provide detailed customer information. Retailers are required by law to protect confidential customer information, therefore requiring POS retailers to include name, address, and/or account number on its invoices for each customer who received a rebate for the purchase of a qualified HEER energy efficient appliance without balancing the need to maintain customer confidentiality would essentially put an end to the successful point of sale program we have today.

To mitigate the concern for tracking actual participating customers, SCG collects a sample of point of sale participant contact information by including a mail-in gift card claim form available only at the point of sale. The redeemed claim forms represent roughly 5% of point of sale transactions. Based on this sample, SCG has not found any duplicate purchases from these redeemed claimed forms. That said, the additional cost to rate payers resulting from the remote chance that a customer would receive multiple HEER rebates/discounts for the same appliance purchased in a single reporting period is overwhelmingly outweighed by the cost advantage point of sale offers over mail in rebates.

For the next program cycle, SCG is working with retailers to develop mechanisms to capture the recommended customer information from point of sale transactions.

Examination of SCG's 2010 Energy Efficiency Program
March 23, 2012

ATTACHMENT

Corrections to On-Bill Financing (OBF) Program Write-up (Report Pages 4-5)

A. On Bill Financing (OBF) Program

SCG's OBF program offers zero-interest financing to facilitate the purchase and installation of qualified energy efficiency ~~retrofit~~ measures to non-residential customers who might not otherwise be able to act given capital constraints and/or the administrative and time burdens involved in obtaining traditional project financing. Only energy efficiency measures which qualify for rebates and/or incentives in SCG's portfolio are qualified for the OBF program. They include Taxpayer-funded Institutional customers and Non- Institutional customers such as commercial, industrial, and agricultural ~~and tax-payer funded~~ customers. Tax-payer funder customers are agencies/facilities whose energy bills are paid by federal, state, county, city or Indian tribal governments.
SCG's OBF budget for the 2010-2012 EE program cycle is $6.~~3~~1 million as set forth in Commission D.09-09-047. The budget provides for operating expenses of $2.~~8~~6million funded by Public Goods Charge (PGC) and a revolving fund loan pool of $3.5 million funded by non-PGC revenues per Commission's approval of SCG Advice Letter 4035.
SCG's OBF underwriting guidelines include verification of customer's project cost; project eligibility for other EE rebate/ incentive program(s); and customer's utility bill payment history. The OBF loan process includes calculation of project's ~~energy savings~~ simple payback period; pre- and post-installation inspection and project cost adjustments; calculation of loan term, loan amount (net of rebate/incentives), and monthly loan payment.
In D.09-09-047, OP 40, the Commission sets a loan cap of $100,000 for commercial loans with loan terms of up to five years, or may extend beyond five, not to exceed the expected useful life (EUL) of the bundle efficiency measures proposed whichever is lower. Institutional[3] customers may be granted loans of up to a total of $1 million with a maximum term of 10 years per facility to capture large savings and when all other terms are met (SCG offers the higher cap only to State agencies). As for the treatment of delinquent OBF loans, an outstanding bill which remains unpaid for more than 180 days will be considered in default and written off to Bad Debt.
Pursuant to D.09-09-047, the Commission approved on May 10, 2010 SCG's request in Advice Letter (AL) 4035 to establish a $3.5 million loan pool, namely On-Bill Financing Balancing Account (OBFBA) beginning with the 2010-2012 EE program cycle, set up as a revolving fund to track OBF loan disbursements and repayment activities and to record funding to be collected from non-PGC gas transportation rates and SCG's gas rates. The OBFBA was approved by the Commission as a two-way balancing account.

(END OF ATTACHMENT A)