

Application: 15-09-001
(U 39 M)
Exhibit No.: (PG&E-36)
Date: June 20, 2016
Witness(es): Stephen P. Lechner

PACIFIC GAS AND ELECTRIC COMPANY

2017 GENERAL RATE CASE

SUPPLEMENTAL TESTIMONY

EXHIBIT (PG&E-36)

SMARTMETER™ AUDIT



PACIFIC GAS AND ELECTRIC COMPANY
SMARTMETER™ AUDIT

PACIFIC GAS AND ELECTRIC COMPANY
SMARTMETER™ AUDIT

Q 1 Please state your name and the purpose of this testimony.

A 1 My name is Stephen P. Lechner. This chapter presents the Independent Accountant's Report, SmartMeter™ Balancing Accounts, Inter-Agency Agreement 14IA5020 for the California Public Utilities Commission (Commission) (the SmartMeter™ Audit).

Q 2 Why is Pacific Gas and Electric Company (PG&E) submitting the SmartMeter™ Audit in the 2017 General Rate Case (GRC)?

A 2 PG&E is submitting the SmartMeter™ Audit pursuant to Commission Decision (D.) 15-01-029, Ordering Paragraph 5, which states:

Upon the issuance of the final version of the SmartMeter™ Audit Report, Pacific Gas and Electric Company (PG&E) is directed to submit the SmartMeter™ Audit Report as part of its evidentiary showing, which shall be made part of the record, in PG&E's 2017 General Rate Case.¹

The requirement to perform a SmartMeter™ Audit originated in the multi-party settlement agreement that was approved in PG&E's 2011 GRC.²

Q 3 Are you an author of the SmartMeter™ Audit report?

A 3 No. The Audit was performed by the State Controller's Office and overseen by Commission Staff.

Q 4 What was PG&E's role in the Audit?

A 4 PG&E responded to inquiries from Commission Staff and the State Controller's Office. PG&E also provided comments on a draft of the report.

Q 5 What is the scope of your testimony?

A 5 I can describe PG&E's support to, and interactions with, Commission staff and the State Controller's Office. Since I am not an author of the report, I cannot directly address the content of the SmartMeter™ Audit.

Q 6 Did you have any personal involvement in the interactions with the Commission Staff and State Controller's Office in relation to the Audit?

A 6 Yes. I participated in the initial planning meetings and Audit close-out meeting with members of the State Controller's Office. I was also consulted

¹ D.15-01-026, *mimeo*, p. 19.

² D.11-05-018, *mimeo*, pp. 33-34 and Attachment 1, pp. 1-10 to 1-11.

1 by PG&E in relation to various inquiries by the Commission Staff and State
2 Controller's Office during the course of the Audit.

3 Q 7 Does this conclude your testimony?

4 A 7 Yes, it does.

**PACIFIC GAS AND ELECTRIC COMPANY
ATTACHMENT A
SMARTMETER™ BALANCING ACCOUNTS
INTER-AGENCY AGREEMENT 14IA5020,
FOR THE CALIFORNIA PUBLIC UTILITIES COMMISSION**

PACIFIC GAS & ELECTRIC COMPANY

Independent Accountant's Report

SMARTMETER BALANCING ACCOUNTS Inter-Agency Agreement 14IA5020, for the California Public Utilities Commission

July 20, 2006, through December 31, 2013



BETTY T. YEE
California State Controller

June 2016



BETTY T. YEE
California State Controller

June 15, 2016

Cliff Gleicher, Senior Director
Customer Operations Regulatory Strategy
Pacific Gas & Electric Company
77 Beale Street
PO Box 7442 Mail Code B8Q, #839
San Francisco, CA 94120

Steven W. Frank, Attorney
Pacific Gas & Electric Company
Law Department
77 Beale Street, Mail code B30A
San Francisco, CA 94105

Laura J. Tudisco, Attorney
Office of Ratepayer Advocates
Legal Division/CPUC
505 Van Ness Avenue
San Francisco, CA 94102

James Loewen
Energy Division
California Public Utilities Commission
505 Van Ness Avenue, Fourth Floor
San Francisco, CA 94102

Hayley Goodson, Attorney
The Utility Reform Network
785 Market Street, Suite 1400
San Francisco, CA 94103

Dear Mr. Gleicher, Mr. Frank, Ms. Tudisco, Mr. Loewen, and Ms. Goodson:

The State Controller's Office (SCO) examined Pacific Gas and Electric Company (PG&E) management's assertions that the accompanying balancing account schedules, relative to PG&E's SmartMeter-Gas and SmartMeter-Electric programs, reflect properly recorded expenses and revenues in accordance with the attached criteria. Our examination included PG&E's recording of revenues and expenses in those accounts for the period of July 20, 2006, through December 31, 2013. Our responsibility is to express an opinion on the assertions based on our examination.

The SCO conducted the examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, examined on a test basis, evidence supporting PG&E's recording of revenues and expenses in those balancing accounts and determined whether such evidence was consistent with both PG&E's internal policies and guidelines, and, determined where applicable, any rules or orders established by the California Public Utilities Commission (CPUC). We believe that our examination provides a reasonable basis for our opinion.

We examined the two SmartMeter Balancing Accounts (SBA), SBA-E and SBA-G, and determined that PG&E followed applicable internal policies and guidelines and related CPUC rules or orders. We also reviewed the following balancing accounts: Advanced Metering and Demand Response Account, Gas Advanced Metering Account, Customer Data Access, Customer Energy Efficiency, Demand Response, Meter Reading Balancing Account, Dynamic Pricing Memo Account, and SmartMeter Opt-out Balancing Account and determined that SmartMeter Balancing Accounts costs were not included in these accounts.

Our report includes, in the Additional Information section, examination information requested in our Inter-Agency Agreement 14IA5020 with the CPUC, such as background information on the PG&E SmartMeter Program, and our examination objectives, scope, methodology, and conclusion.

In our opinion, PG&E management's assertions referred to above are fairly stated in all material respects, based on management's written internal control policies and guidelines, and applicable rules and orders established by the CPUC.

Our examination did not disclose any findings.

This report is solely for the information and use of the CPUC, PG&E, The Utility Reform Network, the Office of Ratepayer Advocates, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of the final report, which is a matter of public record.

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, at (916) 324-6310.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

cc: Marty Namjou, Audit Manager
Division of Audits
State Controller's Office

Table of Contents

Independent Accountant’s Report	1
Schedule 1—SmartMeter Electric Balancing Accounts	2
Schedule 2—SmartMeter Gas Balancing Accounts	3
Schedule 3—SmartMeter Other Balancing Accounts	4
Acronyms – Abbreviations List	6
Criteria Used During Examination	7
Additional Information	9
Executive Summary	9
Background	10
Objectives, Scope, and Methodology	11
Conclusion	12
Views of Responsible Officials	12
List of Records Examined	13

Independent Accountant's Report

The State Controller's Office (SCO) examined Pacific Gas and Electric Company (PG&E) management's assertions that the accompanying schedules of balancing account revenues and expenses for the period of July 20, 2006, through December 31, 2013, are presented in accordance with the PG&E's written internal cost management policies and other applicable criteria. PG&E's management is responsible for the assertions. Our responsibility is to express an opinion on the assertions based on our examination.

We conducted the examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, examined on a test basis, evidence supporting PG&E management's assertions and performed such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, PG&E management's assertions referred to above are fairly stated in all material respects, based on management's written internal control policies and guidelines, and applicable rules and orders established by the California Public Utilities Commission (CPUC).

Our examination did not disclose any findings.

This report is solely for the information and use of the CPUC, PG&E, The Utility Reform Network, the Office of Ratepayer Advocates, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of the final report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

June 15, 2016

Schedule 1— SmartMeter Electric Balancing Accounts Revenues and Expenses July 20, 2006, through December 31, 2013

	Fiscal Year (PG&E uses calendar year as its fiscal year)							Total
	2006	2007	2008	2009	2010	2011	2012	
Beginning Balance	0.00	(10,462,160.65)	(29,026,906.08)	(569,968.65)	49,497,665.11	57,257,114.01	40,906,909.58	
Smart Meter Revenues								
Gross Revenues								(766,178,213.63)
FF&U	*	*	(49,185,511.55)	(86,910,439.75)	(135,012,263.68)	(174,573,544.61)	(201,576,211.27)	8,036,264.09
Net Revenues	(26,809,192.66)	(43,324,359.49)	(48,718,801.14)	(85,996,267.83)	(133,641,754.18)	(172,709,972.02)	(199,424,385.22)	(828,275,501.69)
Calculated Benefits								
Meter Activation Benefits								
Upgrade			(2,543,695.39)	(8,511,313.83)	(31,004,747.11)	(18,816,931.49)	(25,240,382.48)	(116,735,327.56)
Software Licensing Benefits		(763,505.98)	(2,700,002.16)	(4,414,140.62)	(3,185,850.60)	(5,017,553.67)	(6,521,069.45)	(27,048,992.08)
Total Benefits		(763,505.98)	(5,243,697.55)	(15,625,456.61)	(36,890,599.87)	(24,734,485.88)	(31,761,451.93)	(9,763,513.18)
Expenses								
O&M and A&G Costs	7,928,719.30	21,513,588.11	50,757,755.04	83,451,722.97	74,996,093.95	41,021,848.78	16,762,804.98	301,075,556.62
Transfer of ANIMA-E	7,247,149.00							7,247,149.00
Capital-Related RRQ								
Pre-Deployment	51,533.00	284,547.00	287,494.00	237,960.00	273,542.00	237,859.00	241,935.00	1,833,849.00
Deployment	385,276.61	4,814,368.00	31,505,065.00	65,414,062.00	111,762,457.00	144,306,107.00	132,207,234.89	613,708,617.50
Retirements (excludes COR)					(9,141,940.00)	(13,129,512.00)	0.00	(22,271,452.00)
Upgrade				2,710,194.00	2,403,597.00	2,377,605.00	2,190,562.00	11,728,852.00
COR Net					(2,046,670.00)	5,919,322.00	10,869,684.00	30,033,256.00
COR True-up							1,711,537.00	1,976,415.00
NOL Adjustment							781,448.61	1,044,774.53
HAN						267,863.72	691,171.00	1,060,444.00
Total Capital RRQ	436,809.61	5,098,915.00	31,792,559.00	68,362,216.00	103,250,986.00	139,979,244.72	148,693,572.50	639,114,756.03
Total Expenses	15,612,677.91	26,612,503.11	82,550,314.04	151,813,938.97	178,247,079.95	181,001,093.50	165,456,377.48	947,437,461.65
Prior Period Adjustments								
Transfers	413,865.24							413,865.24
Interest	318,875.62							318,875.62
Ending Balance	1,613.25	(1,089,419.09)	(130,877.92)	(124,580.77)	44,723.00	93,159.97	7,867.18	(1,230,427.45)
	(10,462,160.65)	(29,026,906.13)	(569,968.65)	49,497,665.11	57,257,114.01	40,906,909.58	(24,814,682.91)	(34,883,523.43)

Decision 06-07-027, Page 49, section 13.2, Balancing Accounts, states “The balancing accounts will record the revenue requirement on an actual cost basis as AMI deployment occurs with an offset of the per-meter benefit as adopted here. PG&E would record (1) actual AMI Project revenues from rates set in this proceeding, as a credit to the account; (2) actual capital-related revenue requirements calculated on actual recorded plant additions as a debit to the account; (3) actual O&M expense as a debit to the account; (4) per meter forecast benefits as a credit to the account based on the number of meters activated and the meeting of other project milestones; and (5) interest calculated monthly based on the average account balance for the month.”

Source: PG&E Reconciliation Sheet by FY (PG&E uses calendar year as its fiscal year).

*PG&E reported only net revenue for FY 2006 and 2007.

**Schedule 2—
SmartMeter Gas Balancing Accounts
Revenues and Expenses
July 20, 2006, through December 31, 2013**

	Fiscal Year (PG&E uses calendar year as its fiscal year)							Total
	2006	2007	2008	2009	2010	2011	2012	
Beginning Balance	0.00	3,393,114.37	(127,187.81)	16,665,262.61	31,839,856.22	55,237,588.83	60,464,831.37	
Smart Meter Revenues								
Gross Revenues								(506,255,868.40)
FT&U	*	*	(30,070,235.10)	(53,132,084.21)	(76,331,309.87)	(107,500,289.48)	(144,261,927.08)	6,372,009.81
Net Revenues	(10,219,272.30)	(25,218,125.58)	(29,709,227.05)	(52,494,215.15)	(75,414,929.02)	(106,120,835.31)	(142,406,148.55)	(535,321,256.47)
Calculated Benefits								
Meter Activation Benefits			(2,161,687.28)	(13,129,411.81)	(22,122,076.45)	231,917.61	(630,619.29)	(38,525,930.51)
Upgrade			(2,300,001.84)	(2,300,001.84)	(2,300,001.84)	0.00	0.00	0.00
Software Licensing Benefits		(597,099.74)	(4,461,689.12)	(15,429,413.65)	(24,422,078.29)	(766,667.28)	0.00	(8,263,772.54)
Total Benefits		(597,099.74)	(4,461,689.12)	(15,429,413.65)	(24,422,078.29)	(534,749.67)	(630,619.29)	(46,789,703.05)
Expenses								
O&M and A&G Costs	6,487,133.98	17,602,026.62	11,468,566.49	20,534,702.71	39,233,485.44	14,817,725.03	431,235.57	110,601,795.33
Transfer from ANIMA-E	6,173,868.20							6,173,868.20
Capital-Related RRQ								
Pre-Deployment	39,319.00	221,049.00	219,492.00	184,510.00	189,507.00	186,738.00	552,367.00	1,813,649.00
Deployment	500,074.17	4,533,526.39	39,428,074.00	62,315,658.00	82,612,594.00	96,052,585.00	97,193,571.40	473,132,241.96
COR Net					1,148,321.00	1,067,567.00	1,767,095.00	5,926,650.00
COR True-up							(28,092.00)	(239,281.00)
NOL Adjustment						219,161.23	639,367.05	854,815.53
Transfer Adjustment						(550,223.00)		(550,223.00)
Total Capital RRQ	539,393.17	4,754,575.39	39,647,566.00	62,500,168.00	83,950,422.00	96,975,828.23	100,124,308.45	480,937,852.49
Total Expenses	13,200,395.35	22,356,602.01	51,116,132.49	83,034,870.71	123,183,907.44	111,793,553.26	100,555,544.02	597,713,516.01
Prior Period Adjustments								
Transfers	273,401.72							273,401.72
Interest	48,466.00	(61,678.44)	(152,765.90)	63,351.70	50,832.48	89,274.26	63,349.38	48,466.00
Ending Balance	3,393,114.37	(127,187.38)	16,665,262.61	31,839,856.22	55,237,588.83	60,464,831.37	18,046,956.92	158,257.07

Decision 06-07-027, Page 49, section 13.2, Balancing Accounts, states “The balancing accounts will record the revenue requirement on an actual cost basis as AMI deployment occurs with an offset of the per-meter benefit as adopted here. PG&E would record (1) actual AMI Project revenues from rates set in this proceeding, as a credit to the account; (2) actual capital-related revenue requirements calculated on actual recorded plant additions as a debit to the account; (3) actual O&M expense as a debit to the account; (4) per meter forecast benefits as a credit to the account based on the number of meters activated and the meeting of other project milestones; and (5) interest calculated monthly based on the average account balance for the month.”

Source: PG&E Reconciliation Sheet by FY (PG&E uses calendar year as its fiscal year).

*PG&E reported only net revenue for FY 2006 and 2007.

**Schedule 3—
SmartMeter Other Balancing Accounts
Revenues and Expenses
July 20, 2006, through December 31, 2013**

Fiscal Year (PG&E uses calendar year as its fiscal year)							
2006	2007	2008	2009	2010	2011	2012	2013

1. Advanced Metering and Demand Response Account (AMDRA)

Billed Revenue*	-	-	-	-	-	-	-	-
Expense	8,896,319.00	(79,526.00)	-	-	-	-	-	-
Capita RRQ	347,421.00	-	-	-	-	-	-	-

2. Gas Advanced Metering Account (GAMA)

Billed Revenue*	-	-	-	-	-	-	-	-
Expense	4,624,219.00	21,054.00	-	-	-	-	-	-
Capita RRQ	212,842.00	-	-	-	-	-	-	-

3. Customer Data Access (CDA)

Billed Revenue*	-	-	-	-	-	-	-	-
Expense	-	-	-	-	-	-	-	18,865.00
Capita RRQ	-	-	-	-	-	-	-	-

4. Customer Energy Efficiency (CEE)

Electric

Billed Revenue*	(108,180,096.00)	-	-	-	-	-	-	-
Expense	180,552,797.00	273,794,315.00	423,980,276.00	336,633,663.00	308,979,012.00	319,430,284.00	358,833,722.00	303,226,455.00
Capita RRQ	-	-	-	-	-	-	-	-

Gas

Billed Revenue*	(33,998,697.00)	(44,756,101.00)	(49,778,982.00)	(65,090,740.00)	(69,828,283.00)	(91,904,066.00)	(77,174,329.00)	(55,782,636.00)
Expense	27,386,789.00	44,909,718.00	68,320,759.00	67,037,387.00	67,699,433.00	69,261,095.00	78,662,510.00	66,672,569.00
Capita RRQ	-	-	-	-	-	-	-	-

Schedule 3 (continued)

	2006	2007	2008	2009	2010	2011	2012	2013
5. Demand Response (DR)								
Billed Revenue*	(25,577,933.00)	(44,427,432.00)	(80,402,244.00)	(85,712,548.00)	(82,341,479.00)	(4,022,765.00)	984,054.00	-
Expense	17,378,965.00	29,977,779.00	35,870,469.00	22,549,261.00	20,800,128.00	29,723,100.00	33,730,631.00	28,833,926.00
Capita RRQ	656,475.00	732,407.00	823,992.00	932,910.00	913,142.00	918,430.00	809,792.00	792,957.00
6. Meter Reading Balancing Account (MRBA)								
Billed Revenue*	-	-	-	-	-	-	-	-
Expense						46,323,381.00	59,953,725.00	56,418,715.00
Capita RRQ	-	-	-	-	-	-	-	-
7. Dynamic Pricing Memo Account (DPMA)								
Billed Revenue*	-	-	-	-	-	-	-	-
Expense	-	-	825,538.00	1,812,352.00	11,623,472.00	1,070,776.00	346,514.00	1,792,600.00
Capita RRQ	-	-	-	-	(5,830,304.00)	-	-	-
8. SmartMeter Opt-Out Balancing Account (SOMA)								
Billed Revenue*	-	-	-	-	-	-	(3,238,447.00)	(4,276,036.00)
Expense	-	-	-	-	-	-	7,741,128.00	5,746,499.00
Capita RRQ	-	-	-	-	-	-	492,104.00	1,534,958.00

Source: PG&E provided the auditors with the amounts to complete this schedule.

*Note:

Recovery Mechanism 2006 - 2013 (Revenue)	Recovery	Frequency
AMDR	Transfer to DRAM / DREBA	As directed by CPUC
GAMA	Transfer to CFCA	As directed by CPUC
CDA	AET Transfer to DRAM	Year-End Balance
CEE-Electric	2006: PEERBA rate component; 2007-2013: PEERAM/PPPRAM RRQs	Annually
CEE-Gas	Gas PPP Surcharge AL (PPPEE)	Annually
DR-Operations	2006-2012: DRBBA rate component; 2013: DRAM RRQ	Annually
DR-Incentives	2006-2012: Transfer to DRBBA; 2013: Transfer to DRAM	Year-End Balance
MRCBA	Transfers to DRAM for Electric / Transfers to CFCA for Gas	Year-End Balance
DPMA	Transfer to DRAM	Monthly / Annually
SOMA	SOMA rate component	Monthly

Acronyms – Abbreviations List

- AET – Annual Electric True-Up
- AMDRA – Advanced Metering and Demand Response Account
- AMI – Advanced Metering Infrastructure
- ANIMA-E – Advanced Metering Infrastructure Memorandum Account – Electric
- ATE – Agency Test Environment
- A&G – Administrative and General Expenses
- CDA – Customer Data Access
- CEE – Customer Energy Efficiency
- CFCA – Core Fixed Cost Account
- COR – Cost of Removal
- DPMA – Dynamic Pricing Memo Account
- DR – Demand Response
- DRAM – Distribution Revenue Adjustment Mechanism
- DREBA – Demand Response Expenditures Balancing Accounts
- DRRBA – Demand Response Revenue Balancing Accounts
- FF&U – Franchise Fees and Uncollectable
- GAMA – Gas Advanced Metering Account
- HAN – Home Area Network
- MRBA – Meter Reading Balancing Account
- MRCBA – Meter Reading Cost Balancing Account
- NOL – Net Operating Loss
- O&M – Operations and Maintenance
- PEEBA – Procurement Energy Efficiency Balancing Account
- PEERAM/PPPRAM – Procurement Energy Efficiency Revenue Adjustment Mechanism (PEERAM) and Public Purpose Program Revenue Adjustment Mechanism (PPPRAM)
- PPA – Power Purchase Agreement
- PPP-EE – Public Purpose Program Surcharge-Energy Efficiency (Gas)
- RRQ – Revenue Requirement
- SOMA – SmartMeter Opt-Out Balancing Account

Criteria Used During Examination

California Public Utility Commission Orders

- Decision 05-09-044, Decision Approving Pre-Deployment Funding for PG&E's AMI Project, dated September 22, 2005
- Decision 06-07-027, Final Opinion Authorizing PG&E to Deploy AMI, dated July 20, 2006
- Decision 09-03-026, Decision on PG&E's Proposed Upgrade to the SmartMeter Program, dated March 12, 2009
- Decision 11-05-018, Decision on PG&E's Test Year 2011 General Rate Increase Request, dated May 5, 2011
- Decision 14-12-078, Decision Regarding SmartMeter Opt-Out Provisions, dated December 18, 2014

Pacific Gas and Electric Company Advice Letters

- Advice Letter 2877-E/2752-G – SmartMeter Balancing Accounts – (SBA-E) and (SBA-G), effective as of September 1, 2006
- Advice Letter 3850-E/3210-G – Updated SM Project Revenue Requirements and Revise the SBAs and Benefits Realization Mechanism in Compliance with Decision 11-05-018, effective as of May 31, 2011
- Preliminary Statement for AMDRA Application 05-03-016, dated September 27, 2005
- Preliminary Statement for GAMA Application 05-03-016, dated September 22, 2005
- Advice Letter 4297-E – Establishment of the Customer Data Access Balancing Account Pursuant to Decision 13-09-025, effective as October 9, 2013
- Advice Letter 4016-E/3118-G-A – Customer Energy Statement Balancing Accounts Preliminary Statements, effective March 27, 2012
- Advice Letter 3558-E-A – Demand Response Expenditures Balancing Account Preliminary Statement, effective January 1, 2009
- Advice Letter 3521-E – Modification to Dynamic Pricing Memorandum Account (DPMA) to allow PG&E to Track Incremental Peak Time Rebate (PTR) Expenditures, effective September 1, 2009
- Advice Letter 3275-G/4002-E – Approval of Electric Preliminary Statement FW, SmartMeter Opt-out Memorandum Account, and Gas Preliminary Statement CU, SmartMeter Opt-out Memorandum, in Compliance with D12-02-014, effective February 2, 2012

Pacific Gas and Electric Company Policies, Procedures, or Guidelines

- Advanced Metering Infrastructure (AMI) Project and Cost Management Guidelines, dated October 8, 2005
- Payroll Processing Standard (*Utility Standard: FIN-2100S*)
- Invoice Payment Standard (*Utility Standard: FIN-2301S*)
- Gas Unbilled Revenue Calculation (*Utility Procedure: FIN-3230P-02*)
- Gas Balancing Account Factor and Rule Changes (Rates) Verification (*Utility Procedure: FIN-3200P-02*)
- Electric Unbilled Revenue Calculation (*Utility Procedure: FIN-3230P-01*)
- Electric Balancing Account Factor and Rule Changes (Rates) Verification (*Utility Procedure: FIN-3200P-01*)

- Customer Care & Billing Project Standard (*Utility Standard: FIN-3210S*)
- Removal and Salvage of Assets Standard (*Utility Standard: FIN-3810S*)
- Capital and Expense Standard (*Utility Standard: FIN-3801S*)
- Account Reconciliation Standard (*Utility Standard: FIN-3110S*)
- Regulatory Accounting Policy (*Utility Standard: FIN-3000S*)

Additional Information

This examination was conducted on behalf of the California Public Utilities Commission (CPUC) and under Inter-Agency Agreement 14IA5020 (Agreement) between the State Controller's Office (SCO) and the CPUC. The agreement requires the SCO to issue an examination report and distribute the report to Pacific Gas & Electric Company (PG&E), The Utility Reform Network (TURN), and the Office of Ratepayer Advocates (ORA). The examination report includes our opinion, the balancing account schedules subject to our examination, and a list of the criteria used during our examination.

The agreement also requires us to include the following additional information as part of our report:

- Executive Summary
- Background of PG&E's SmartMeter Program
- Objectives, Scope, and Methodology
- Conclusion
- Views of Responsible Officials
- SCO's Comments (to be included in final report, if applicable)
- Examination Findings and Recommendations (if applicable)
- List of Records Examined
- Attachment—Auditee's Response to Draft Examination Report (to be included in final report, if submitted)

Executive Summary

We examined PG&E management's assertions that the SmartMeter-Gas and SmartMeter-Electric balancing accounts, for the period of July 20, 2006, through December 31, 2013, reflect revenues and expenses properly recorded in a manner consistent with applicable written internal policies and guidelines, and, where applicable, rules and orders established by the CPUC. For the period examined, PG&E recorded revenues net of \$1,363,596,758 and expenses of \$1,545,150,977 in these two balancing accounts. Our examination found that for the period July 20, 2006, through December 31, 2013, PG&E management's assertions referred to above are fairly stated in all material respects. Our examination did not disclose any findings.

We conducted the examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, examined on a test basis, evidence supporting PG&E management's assertions and performed other procedures as we considered necessary.

We provided PG&E, CPUC, and ratepayer advocates (TURN and ORA) an opportunity to provide to us written comments regarding our draft report. In general, they agreed with the content of the draft report.

Background

The CPUC and the SCO entered into an Inter-Agency Agreement to examine PG&E's assertions relative to its SmartMeter Program for the period of July 20, 2006, through December 31, 2013. Within the terms of Inter-Agency Agreement 14IA5020, the CPUC provided the SCO with specific examination objectives, as summarized in the Objectives, Scope, and Methodology section of this report.

PG&E is a public utility operating in Northern and Central California, and is a subsidiary of the Pacific Gas and Electric Corporation. The utility is primarily regulated by the CPUC and the Federal Energy Regulatory Commission (FERC). PG&E generates revenues mainly through the sale and delivery of electricity and natural gas. PG&E also administers public-purpose programs, primarily related to customer energy efficiency programs. On July 20, 2006, one of the projects/programs the CPUC approved (through Decision 06-07-027) was the full deployment of the Advanced Metering Infrastructure (AMI), known by PG&E as "SmartMeter."

PG&E's SmartMeter program consists of metering and communications infrastructure, as well as the related computerized systems and software, to develop a response to demand in order to enhance electric-system reliability, reduce power purchase and individual consumer costs, and protect the environment. PG&E also proposed new balancing accounts to track actual costs and pre-approved benefits of the SmartMeter deployment. On August 4, 2006, PG&E filed an advice letter following the CPUC decision to establish SmartMeter-Gas and SmartMeter-Electric balancing accounts. The balancing accounts are tracking mechanisms in which PG&E records:

- Actual SmartMeter revenues from rates set, as a credit to the account;
- Actual capital-related revenue requirements calculated on actual recorded plant additions, as a debit to the account;
- Actual Operations and Maintenance (O&M) expenses as a debit to the account;
- Per-meter forecast benefits, as a credit to the account (initially \$1.7722 for electric and \$1.0366 for gas per activated meter per month) based on the number of meters activated and the meeting of other project milestones; and
- Interest calculated monthly based on the average account balance for the month.

Any residual debit or credit balances eventually will be accounted for when PG&E files the next General Rate Case proceeding in which the CPUC determines the amount of base revenue that PG&E is authorized to collect from customers.

Objectives, Scope, and Methodology

The SCO examined PG&E management's assertions that the schedules of revenues and expenses for the SmartMeter-Gas and SmartMeter-Electric balancing accounts, for the period July 20, 2006, through December 31, 2013, are properly recorded. As part of the examination, the SCO also examined other PG&E balancing account schedules and gained an understanding of PG&E's written internal controls and guidelines as they relate to recording SmartMeter balancing account transactions.

Our objectives were to examine the following assertions made by PG&E, relative to its SmartMeter balancing accounts for the period noted above, and determine whether PG&E:

- Maintained adequate written internal cost management policies and guidelines (internal controls and guidelines) to ensure that PG&E labor and non-labor costs were properly recorded in the SmartMeter-Gas and SmartMeter-Electric balancing accounts.
- Properly recorded all SmartMeter costs (expenses) in its SmartMeter-Gas and SmartMeter-Electric balancing accounts from July 20, 2006, through December 31, 2013.
- Properly recorded all estimated operational dollar savings (revenues) in its SmartMeter balancing accounts from July 20, 2006, through December 31, 2013.
- Properly recorded revenues and expenses for the SmartMeter-Gas and SmartMeter-Electric programs in their respective balancing accounts and not, instead, in other accounts.

To achieve our examination objectives, we performed the following procedures:

- Examined PG&E's written internal controls related to SmartMeter balancing accounts, identified controls critical to the examination objectives, and conducted tests of PG&E's adherence to the controls.
- Interviewed PG&E employees, completed internal control questionnaires, and performed a walk-through of critical controls in order to: (a) gain a general understanding of PG&E's internal controls, such as accounting, timekeeping, and payroll systems; and (b) conduct limited tests of those controls to assess whether the controls were functioning as PG&E intended.
- Examined the CPUC's orders and other documents related to SmartMeter balancing accounts, identified those orders critical to the examination objectives, and used those orders as criteria within our audit procedures.

After completing the above procedures, which were designed to obtain an understanding of internal controls and assess the strengths of those controls, we concluded that the internal controls related to our objectives were effective. We further assessed the risk that our planned testing might be insufficient for us to conclude that the revenues and expenses for the SmartMeter-Gas and SmartMeter-Electric balancing accounts were properly recorded, as asserted

by PG&E management. To reduce that risk, we used a non-statistical sampling method to select categories of transactions within the balancing accounts and traced those transactions to supporting documentation. Specifically, for revenues (direct charges and operational benefits) we selected and tested the monthly activity for 25% of the 88 months covered by this examination. For expenses, we used two different sampling methods, depending on the type of expense. For capital recovery expenses (depreciation, return on rate base, and taxes) associated with the SmartMeter program, we selected each of the corresponding year-end transactions for the eight years covered by this examination and reconciled those transactions to PG&E records. For the remaining expenses (including operating, maintenance, administrative, and general expenses) we selected and tested labor costs for each year examined, and non-labor costs for 25% of the 88 examined months. For labor costs we selected 50 employees for each year examined, and for non-labor expenses we selected 25 transactions for each month examined.

Conclusion

In our opinion, PG&E management's assertions that the schedules of revenues and expenses for the SmartMeter-Gas and SmartMeter-Electric balancing accounts, for the period of July 20, 2006, through December 31, 2013, are fairly stated in all material respects, based on PG&E's written internal control policies and guidelines, and applicable rules and orders established by the CPUC.

Our examination did not disclose any findings.

Views of Responsible Officials

We issued a draft examination report on April 25, 2016. Cliff Gleicher, Senior Director; Steven W. Frank, Attorney; Hayley Goodsen, Attorney; Laura J. Tudisco, Attorney; and James Loewen, CPUC Energy Division, responded by letter, and by email, agreeing with the examination results, and agreed that we could issue the examination report as final.

List of Records Examined

- All records listed as Criteria Used During Examination
- PG&E Corporation and Pacific Gas and Electric Company 2014 Joint Annual Report to Shareholders
- Internal Controls
 - Organization chart for SmartMeter
 - PG&E cost model presentation
 - SmartMeter overview presentation
 - SmartMeter Steering Committee meeting minutes
 - Price Waterhouse Cooper quarterly reports
- Reconciliation spreadsheets from 2006-2013
 - SmartMeter Balancing Accounts (SBA-E and SBA-G)
 - Advanced Metering and Demand Response Account
 - Gas Advanced Metering Account
 - Customer data access
 - Customer energy efficiency
 - Demand response
 - Meter Reading Balancing Account
 - Dynamic Pricing Memo Account
 - SmartMeter Opt-out Balancing Account
- Detailed expenditure report
- Operational benefits savings
- Revenue allocation documents
- Capital Recovery (RRQ) Year-end Reconciliation Package
- CATS reports for labor cost
- Daily log time/physical time-cards
- Invoices for material purchases

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>

S16-SMP-0001

AtchA-18