



California Public Utilities Commission
Division of Water and Audits

**Financial, Management and Regulatory
Compliance Audit Report**
on the
**California Alternate Rate for Energy Program
Administrative Costs**
and the
Low Income Energy Efficiency Program
of
**San Diego Gas & Electric Company
(U-0902-E)**
For the Years Ended
December 31, 2007 and December 31, 2008

Prepared by
Kayode Kajopaiye, CPA
Kevin Nakamura
Gilda Robles

May 13, 2011



Edited by Donna Wagoner

Financial, Management and Regulatory Compliance Audit

California Alternate Rate for Energy Administrative Costs and the Low Income Energy Efficiency Program

San Diego Gas & Electric Company (U-0902-E)

For the Years Ended December 31, 2007 and December 31, 2008

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Financial, Management and Regulatory Compliance Audit

California Alternate Rate for Energy Administrative Costs and the Low Income Energy Efficiency Program

San Diego Gas & Electric Company (U-0902-E)

For the Years Ended December 31, 2007 and December 31, 2008

INDEPENDENT ACCOUNTANT'S REPORT

Pursuant to Public Utilities Code § 900, the Utility Audit, Finance and Compliance Branch (UAFCB), of the Commission's Division of Water and Audits, performed a financial, management and regulatory compliance audit of San Diego Gas and Electric Company's (SDG&E) Low Income Energy Efficiency program (LIEE) expenditures and its California Alternate Rate for Energy (CARE) administrative expenses for the years ended December 31, 2007 and December 31, 2008.

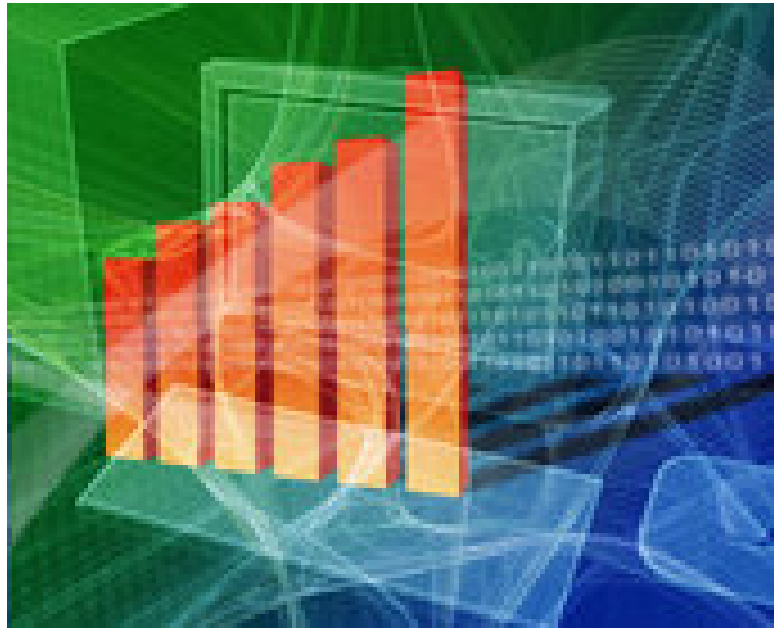
SDG&E's management is responsible for compliance with the requirements of Commission directives on implementing LIEE and CARE in its service area. A list of Commission directives applicable to the implementation of the LIEE and CARE is included in Appendix B, attached to this report.

The responsibility of the UAFCB is to express an opinion on SDG&E's compliance with the aforementioned regulations based on the UAFCB's audit of SDG&E's records. The UAFCB's audit was conducted 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. The UAFCB believes that its audit provides a reasonable basis for an opinion. UAFCB's opinion does not provide a legal determination on SDG&E's compliance with specified requirements.

In the opinion of the UAFCB, with the exception of the replacement of 916 refrigerators manufactured after 1992, SDG&E complied, in all material respects, with the aforementioned requirements for the two years ending December 31, 2008.

The report is intended for the information and use by the California Public Utilities Commission and the utility being examined, and it is not intended to be and should not be used by anyone other than the specified parties.

Kayode Kajopaiye, Chief
Utility Audit, Finance and Compliance Branch
March 11, 2011



Financial, Management and Regulatory Compliance Audit

California Alternate Rate for Energy Administrative Costs and the Low Income Energy Efficiency Program

San Diego Gas & Electric Company (U-0902-E)

For the Years Ended December 31, 2007 and December 31, 2008

I. Executive Summary¹

This report presents the results of the Utility Audit, Finance and Compliance Branch's (UAFCB) financial, management and regulatory compliance audit of San Diego Gas & Electric Company's (SDG&E) Low Income Energy Efficiency program (LIEE) and its California Alternate Rates for Energy Program's (CARE) administrative costs for calendar years 2007 and 2008. The UAFCB conducted this audit pursuant to Public Utilities Code § 900.²

The main purpose of the UAFCB's audit is to determine whether SDG&E implemented its LIEE program and incurred CARE administrative costs in compliance with the Commission's directives.

SDG&E's Customer Assistance Department is responsible for the operations of its LIEE and CARE programs. With respect to LIEE and CARE, SDG&E's Customer Assistance Department is tasked with ensuring that its programs are properly managed and in compliance with the Commission's directives. As of December 31, 2008, SDG&E's Customer Assistance Department employed 11 full time employees dedicated exclusively to the LIEE and CARE programs.

SDG&E contracted with Richard Heath and Associates Inc. (RHA) as its prime contractor for the administration and implementation of its LIEE program in SDG&E's service territory through the end of December 31, 2008.

The Commission authorized a budget for SDG&E's LIEE of \$13.4 million for 2007 and \$13.3 million for 2008.³ The Commission authorized SDG&E to carry over funds totaling \$1.7 million from unspent LIEE funds from prior years.⁴ Consequently, SDG&E's total LIEE budget for 2007 amounted to \$15.1 million and with unspent funds from 2007, its 2008 total budget amounted to \$16.5 million.

¹ Appendix D describes the abbreviations and acronyms used in this report.

² All statutory references are to the Public Utilities Code unless stated otherwise.

³ See Decision D.06-12-038, as modified by D.07-06-004. All references in this report to D.06-12-038 include the modifications made by the Commission in D.07-06-004.

⁴ See D.06-12-038, Order Paragraph (OP) 15. However, the Commission did not permit the utilities to allocate carry-over funds to administrative overhead costs, regulatory costs or the costs of studies.

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SDG&E maximized its program deployment in this program cycle, leaving only \$40,051 of funding left as a carry-forward for 2009. In doing so, a significant number of SDG&E's low-income customers might have benefited from being able to save energy and lower their bills.

In the following table, UAFCB summarizes SDG&E's authorized budget and the amounts SDG&E spent for its LIEE program during the 2007 and 2008 audit period.

Table I
LIEE Budgets and Expenditures

Description	2007	2008
2006 Amount Brought Forward	\$ 1,716,020	\$ 0
Carry-over from 2007	0	3,157,548
Authorized Budgets per D.06-12-038	<u>13,424,892</u>	<u>13,302,750</u>
Available Spending Amounts	15,140,912	16,460,298
Less: Amount Spent By SDG&E	<u>11,983,364</u>	<u>16,420,247</u>
Amounts Carried Forward	<u>\$ 3,157,548</u>	<u>\$ 40,051</u>

For CARE administrative costs, the Commission authorized SDG&E a budget of \$2.75 million per year for 2007 and 2008.⁵ In both years, SDG&E incurred CARE administrative costs within its authorized budgets, as shown in the following table.

Table II
CARE Administrative Expenditures

Description	2007	2008
Admin Expenditures	\$2,425,730	\$2,694,119
% of Authorized Admin Budget	88%	98%

UAFCB found weaknesses in SDG&E's internal controls and its LIEE policies and procedures, which require attention. These included: (1) a lack of internal controls to ensure hazardous post-inspection fails are addressed within the time period required in the SPPM and (2) the lack of internal controls to ensure changes to contract measures are properly approved and authorized. In addition, UAFCB found that (1) SDG&E lacked appropriate forms to substantiate the year of the replaced refrigerators, (2) SDG&E replaced refrigerators manufactured after 1992 in violation of Commission directives and (3) SDG&E failed to perform an internal audit of its newly implemented CARE billing/database operating system to determine its effectiveness and reliability. UAFCB presents its outstanding audit recommendations in the next section of this report.

UAFCB reviewed information provided by SDG&E on its implementation of UAFCB's prior audit findings and recommendations. SDG&E complied with UAFCB's previous audit findings and recommendations. UAFCB's previous audit on SDG&E's LIEE

⁵ See D.06-12-038.

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program and CARE administrative costs was completed in 2008 and addressed the period January 1 through December 31, 2006.⁶

II. Audit Recommendations

UAFCB presented its draft audit report on program years 2007 and 2008 to SDG&E for its comments. Included in the draft report were UAFCB's preliminary findings and recommendations. As discussed in Sections V., VI. and VII. of this report, SDG&E agreed to implement many of UAFCB's recommendations and UAFCB does not present those recommendations here. The following UAFCB recommendations remain outstanding.

1. SDG&E should train and ensure its Energy Specialists contractors exercise diligence in their assessment of customer needs for door repairs and replacements to ensure eligible customers receive full benefits from the LIEE program.⁷ (Refer to Section V.B, Audit Goal 1.)
2. SDG&E should reimburse its LIEE program for costs associated with the replacement of refrigerators that were not in compliance with Commission directives, including but not limited to the cost of the refrigerators, installation costs, recycling costs and associated overheads. (Refer to Section V.B., Audit Goal 2.)
3. In a future audit, UAFCB should review SDG&E's implementation and effectiveness of:
 - a. Requiring that its agreement with contractor(s) specify that hazardous fails are customer safety issues requiring urgent attention and that corrective work must be initiated within 24-hours of notification by the utility or its inspectors in accordance with the Statewide LIEE Policy & Procedures Manual (SPPM). (Refer to Section V.B, Audit Goal 1.)
 - b. Revisions to its Refrigerator Replacement policies and procedures and form to ensure its refrigerator replacements are in compliance with Commission directives. (Refer to Section V.B, Audit Goal 2.)
 - c. Its internal audit conducted within 180 days of this report determining the extent of changes to its Home Energy Assistance Tracking (HEAT) system for calendar years 2007 and 2008 that were carried out based on verbal agreements with its contractors. (Refer to Section V.C, Audit Goal 1.)
 - d. Additional levels of control in the HEAT system to accept and process only those changes in contracted measures and/or fees that have been properly authorized and documented in compliance with Sempra's corporate Approval and Commitment Policy (Refer to Section V.C, Audit Goal 1.)
 - e. Corrective actions noted in its July 24, 2009 internal audit report on LIEE. (Refer to Section V.D, Audit Goal 2.)

⁶ See UAFCB's audit report entitled, Regulatory Compliance and Financial Audit of the California Alternate Rates for Energy Program Administrative Costs and the Low Income Energy Efficiency Program of San Diego Gas & Electric Company (U-0902-E) and Southern California Gas Company (U-0904-G), dated February 29, 2008.

⁷ SDG&E's Energy Specialist contractors perform the LIEE home assessment process for SDG&E.

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- f. Its internal audit of its CARE billing/database operating system to measure its efficiency in qualifying and quantifying enrollment and determine whether any weaknesses exist. (Refer to Section VI.A, Audit Goal 1.)

III. Introduction

Over time, the Commission established and updates specific directives for the four energy utilities to implement and operate LIEE and CARE. Effective with D.05-10-044, the Commission increased the income-eligibility requirements for all utilities' LIEE to match those of CARE at 200% of the federal poverty guidelines.

In D.06 -12-038, as amended by D.07-06-004, the Commission made multiple revisions to LIEE and CARE, some of which UAFCB outlines below.

LIEE:

- Authorized SDG&E a budget of \$13.4 million for 2007 and \$13.3 million for 2008;
- Authorized the carry-over as well as carry-back of funds in 2007 and 2008; and
- Directed utilities to meet on a quarterly basis with interested parties to confer on LIEE program protocols, procedures and operations between LIEE budget cycles.

CARE:

- Encouraged utilities to increase enrollment by continuing to partner with community-based organizations and increased the capitation fee from \$12 to \$15 for every new enrollee;
- Adopted Social Security Disability Income as “fixed income” for the purpose of the extended recertification process;
- Required the design of the utility’s websites to permit the visually disabled to access the information on them;
- Required the use of Telecommunications Device for the Deaf (TDD) equipment for those with hearing disabilities for enrollment and certification to improve participation by disabled customers;
- Approved CARE categorical eligibility for the 2007-2008 program years;
- Required utilities to provide CARE discounts to common areas of non profit group living facilities without regard to metering arrangements as long as the facility meets the criteria set forth by § 739.1; and
- Set SDG&E’s CARE administrative budget at \$2.75 million each year for the 2007 and 2008 program years.

IV. Compliance Audit

UAFCB conducted this audit pursuant to § 900. Section 900 states that the Commission may conduct compliance and financial audits to ensure compliance with any Commission order or resolution relating to the implementation of programs pursuant to §§ 739.1, 739.2, and 2790.

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On October 27, 2009, the UAFCB began its audit planning of SDG&E's 2007 and 2008 CARE administrative costs and LIEE expenditures. UAFCB completed its fieldwork on August 16, 2010. The audit focused on SDG&E's LIEE expenditures and CARE administrative costs for the period January 1, 2007 through December 31, 2008.

A. Audit Purpose

The main purpose of UAFCB's audit is to determine whether SDG&E implemented its LIEE program and incurred CARE administrative costs in compliance with the Commission's directives.

B. Audit Scope

The scope of UAFCB's audit included the following:

- (1) Process compliance: the SPPM, Commission decisions and directives pertaining to the LIEE and CARE programs (see Appendix C), SDG&E's own policies and program guidelines for the implementation of LIEE program, documentation of customer applications, in-home energy education documentation, post-inspections reports, and refrigerator replacements processes and forms.
- (2) Existence of safeguards – SDG&E's internal controls, including its own policies and procedures.
- (3) Integrity of Reporting – SDG&E's LIEE and CARE 2007 and 2008 annual reports, SDG&E's SAP accounting system and SDG&E's LIEE /CARE balancing accounts.
- (4) Oversight Adequacy – SDG&E's Customer Assistance Department's organizational structure, duties and responsibilities, monthly internal Program Activity Summary Reports, monthly LIEE Contractor Activity Reports, SDG&E's internal monitoring practices over the LIEE program from January 1, 2007 through December 31, 2008, and SDG&E's internal audit reports on CARE and LIEE.

C. Audit Objectives

The UAFCB established the following audit objectives, designed to meet the overall audit purpose.

- (1) Determine whether SDG&E's accounting system for capturing LIEE measure expenditures adequately produced reliable information to the Commission and avoided any duplication of cost recovery.
- (2) Evaluate SDG&E's administrative and accounting controls were in place to protect ratepayer funds utilized for LIEE.
- (3) Determine whether SDG&E followed its specific program policies, procedures, processes, and Commission directives.
- (4) Ascertain and evaluate whether SDG&E's management exercised sufficient oversight to meet the program goals and objectives.
- (5) Determine whether SDG&E's CARE administrative costs were appropriate.

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D. Audit Task Areas and Goals

The UAFCB delineated its audit objectives into the following specific goals indentified below by audit task areas.

Program Accounting and Reporting:

- 1) Determine if SDG&E's expenditures recorded in its records and regulatory accounts were correctly recorded and reported to the Commission; and
- 2) Determine whether SDG&E excluded its LIEE expenditures from its general rate increase (GRC) request.

Program Implementation, Processes and Controls:

- 1) Determine whether SDG&E's LIEE implementation and controls were in compliance with Commission directives, including but not limited to the Statewide LIEE Program Policy and Procedures Manual (SPPM) and D.06-12-038; and
- 2) Determine if SDG&E's Refrigerator Replacement processes and procedures were in compliance with the applicable program requirements.

Program Expenditure Analysis and Testing:

- 1) Determine and test on a sample basis whether all reported charges including general administration expenses and LIEE measure expenditures were relevant to the program and were sufficiently supported with appropriate documentation.

Program Oversight:

- 1) Determine if SDG&E's internal reporting system and management oversight processes for LIEE were properly in place, executed, and working; and
- 2) Determine whether SDG&E maintained adequate oversight over LIEE.

California Alternate Rate for Energy (CARE) Program:

- 1) Determine whether the administrative costs SDG&E charged to its CARE program are appropriate.

E. Auditing Standards Applied

UAFCB conducted this audit 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 SDG&E's compliance with Commission directives and performing such other procedures as considered necessary in the circumstances.

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F. Auditing Procedures Applied

The UAFCB performed the following procedures in its audit:

Pre-audit Procedures:

- Become familiar with SDG&E's LIEE program, e.g. program processes and operations.
- Review pertinent Commission decisions, resolutions and applicable rules and regulations.
- Review prior audit reports and working papers for current audit planning purposes; discuss prior audit adjustments and issues with the previous UAFCB audit team members.
- Contact SDG&E regulatory personnel to set up current audit logistics and protocols.

Low Income Energy Efficiency Program Processes Review:

- Interview SDG&E program personnel to gain information and an understanding of SDG&E's LIEE operations and processes, in connection with customer enrollment, program administration, and management oversight.
- Review SDG&E's program policy and process manuals for compliance with regulatory directives and decisions.
- Compare actual expenditures to budget program data for variances and analyze such variances for reasonableness and allowances.

Other Procedures:

- Review the utility's accounting manual and procedures concerning the proper recording of program expenditures.
- Evaluate SDG&E's internal control procedures concerning expenditures for effectiveness and deficiencies; implement additional audit procedures to assess and resolve any deficiencies.
- Verify program expenditures, on a sample basis, to supporting documentation and sources to determine accuracy and the degree of any irresponsibility.
- Reconcile program databases to general ledger systems and authorized balancing accounts.
- Formulate audit findings, conclusions and recommendations.

G. Preliminary Audit Findings

UAFCB discussed its preliminary audit findings with SDG&E at an exit meeting on October 21, 2010. SDG&E did not dispute UAFCB's preliminary audit findings at the time of the meeting.

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V. LIEE Audit Findings

A. Program Accounting and Reporting

Audit Goal 1: Determine if the expenditures recorded in SDG&E's records and regulatory accounts were correctly recorded and reported to the Commission.

Findings:

- (1) SDG&E's LIEE accounting system and procedures were generally consistent with the accrual system of accounting.
- (2) SDG&E appropriately reported its LIEE expenditures in accordance with Commission directives.

Discussion: SDG&E utilized the System Applications and Products in Data Processing Accounting System (SAP) for capturing and recording its LIEE expenditures. SDG&E also utilized several feeder operating systems that interface with SAP to help administer and manage its LIEE.

SDG&E used a feeder operating system that interfaced with SAP, the Home Energy Assistance Tracking (HEAT) system, to assist in the administration and management of its LIEE. SDG&E pre-assigned each type of LIEE expenditure for measures and services captured in the HEAT system an internal order (I/O) account number in SAP. These I/O numbers were specific to the LIEE program. Once SDG&E reviewed and approved its LIEE expenditures in the HEAT system, SDG&E uploaded the charges into its SAP. On a monthly basis, SDG&E reviewed the expenditure amounts in the LIEE I/O account numbers in SAP, posted them to the appropriate LIEE balancing accounts, and used them in preparing its reports to the Commission.

SDG&E used Sempra's company-wide Workforce Information Tracking System (WITS) for capturing and recording employee labor charges. SDG&E transferred and uploaded the labor charges in WITS into SAP on a bi-weekly basis. SDG&E also used Sempra's company-wide Enterprise Contract Management (ECM) system, for administering and managing service and material contracts. The ECM system also interfaced with SAP to assist in maintaining contract information and monitoring payments to LIEE contractors.

SDG&E recorded total expenditures of \$12 million in its SAP for its LIEE program in calendar year 2007, which reconciled to the LIEE balancing accounts and the amounts reported to the Commission. For calendar year 2008, SDG&E recorded a total of \$16.4 million in LIEE expenditures which also reconciled to its LIEE balancing accounts and the amounts reported to the Commission.

Recommendations: None.

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Audit Goal 2: Determine whether SDG&E excluded its LIEE expenditures from its general rate increase (GRC) request.

Findings:

- (1) SDG&E had adequate processes in place to ensure that its LIEE expenditures were not included in rates.

Discussion: UAFCB acquired and examined documentation prepared by SDG&E that SDG&E used in its latest GRC, for test year 2007. SDG&E properly excluded its LIEE expenditures from its GRC filing.

Recommendations: None.

B. Program Implementation, Processes and Controls

Audit Goal 1: Determine whether SDG&E's LIEE implementation and controls were in compliance with Commission directives, including but not limited to the SPPM and D.06-12-038.

Findings:

- (1) During its testing of SDG&E's customer in-home assessment documents selected for testing, UAFCB found 32 out of 107, or 30% of these documents indicated that LIEE Energy Specialist contractors performing the assessment failed to adequately assess the homes' needs for door repair or replacement. Instead, the installation contractors determined the need and performed the appropriate door repairs or replacements.
- (2) UAFCB found a few instances where post-inspection hazardous fails were not corrected within the 24-hour period required by SPPM Section 8.4.4.
- (3) With the exception of certain refrigerator replacements discussed in the following section and the foregoing, SDG&E designed and structured its policies and procedures for the implementation of the LIEE in accordance with Commission directives, including the SPPM and Commission D.06-12-038.

Discussion: UAFCB judgmentally selected and tested LIEE customer files to ensure, among other things, customer applications, in-home energy education, and post-installation inspections were being processed and implemented in accordance with Commission directives, including but not limited to the SPPM and D.06-12-038. UAFCB chose 107 customer files for testing, 32 from 2007 and 75 from 2008. Forty-nine of the customers qualified for LIEE through self-certification, 28 by categorical eligibility and 30 through the full documentation process.

Customer Eligibility and Enrollment: UAFCB examined customer proof of income documentation for household size, housing type, proof of homeownership, and apartment or homeowner waiver for rental property. UAFCB tested whether the customer was within the income guidelines. From the 107 customer files selected for testing, UAFCB found 35, or approximately 33%, were homeowners who qualified for the LIEE program

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based on the income guidelines and household size. The remaining 72 customers were renters in multi-family, single-family, and mobile homes.

UAFCB found that 49 of the 107 customer files tested were enrolled in the LIEE program through targeted self-certification and qualified based on the PRIZM[®] code.⁸ The PRIZM code identifies customers into 66 segments of neighborhood or households based on geographical location, demographics and lifestyle behaviors (such as household income, age of resident, family size & children, homeownership, etc.). In D.06-12-038, the Commission authorized SDG&E to accept self-certification enrollment from customers in PRIZM codes 46 through 49 and 52 through 66 without providing proof of income.⁹ These codes belong to segments of the population with household incomes within the 200% of the Federal Poverty guidelines adopted by the Commission.

All 28 customers enrolled through Categorical Eligibility provided and SDG&E properly maintained proof of participation in federal, state or local programs.

The UAFCB did not find any major reportable deficiencies with SDG&E's implementation of its customer eligibility and enrollment processes.

In-Home Energy Education: During its assessment of SDG&E's processes and procedures for administering in-home energy education, UAFCB analyzed and reviewed energy education materials provided to customers by SDG&E. SDG&E complied with Commission directives by including in the brochure provided to customers the required information on water conservation and reducing greenhouse gas in its in-home energy education.

In-Home Assessment: To ensure in-home assessments were performed in accordance with LIEE program rules and guidelines, UAFCB examined the In-Home Assessment forms completed by RHA's Energy Specialists and the assessments recorded in the HEAT system. Of the 107 in-home assessments reviewed during the audit, UAFCB found 32 dwellings, or 30%, that were not assessed for door repair or replacement. However, the sub-contractors performing the installation of measures determined that door repairs or replacements were feasible and provided the LIEE measure.

Post-Installation Inspection: SDG&E conducted mandatory inspections for all attic insulation and random non-mandatory inspections on a sample of projects not involving ceiling insulation as required in the SPPM. SDG&E's records indicated a total of ten (10) hazardous fails and 67 non-hazardous fails during program years 2007 and 2008.

UAFCB examined the post-installation records of three hazardous fails and 17 non-hazardous fails and discovered that all three hazardous fails for attic insulation had not

⁸ PRIZM is a system developed by Claritas Inc. using census data to categorize consumers based on demographical and behavioral types for marketing in the United States.

⁹ See D.06-12-038, pp. 41-42 and OP 3.

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been corrected within the mandatory 24-hour period after notification by inspectors per the SPPM Section 8.4.4.

Preliminary Findings and Recommendations – In-Home Assessments: During the exit meeting held on October 21, 2010, UAFCB recommended that SDG&E review its Energy Specialist procedures to ensure in-home assessments are performed in accordance with the LIEE program rules and guidelines. SDG&E did not dispute UAFCB's preliminary audit findings at the time of the meeting.

In its comments on UAFCB's draft audit report, SDG&E requested that this recommendation be removed since it is not accurate. According to SDG&E, Section 8.3 of the 2006 SPPM permits installation contractors to make the final determination regarding the feasibility of installing program measures, including door repairs and/or replacements, due to their technical expertise and to assure that the customer is receiving all feasible measures required by the program.

UAFCB acknowledges that the SPPM permitted the installation contractors to make the final determination on the feasibility of installing program measures. However, UAFCB maintains that in addition to the installation contractors making the final determination on door repair and/or replacement, SDG&E should train and ensure its Energy Specialists diligently assess door repairs and replacements.

Preliminary Findings and Recommendations – Post Installation Inspections: During the exit meeting and in its draft audit report, UAFCB recommended that SDG&E enhance its internal controls to ensure that post-inspection hazardous fails be addressed within 24-hours of notification in accordance with the SPPM. In its comments on UAFCB's draft report, SDG&E agreed with UAFCB's recommendation to enhance its internal controls to ensure hazardous fails are addressed within the time periods as required in the SPPM.

Recommendations:

- 1) SDG&E should train and ensure its Energy Specialists exercise diligence in their assessment of customer needs for door repair and/or door replacement to ensure that eligible customers receive full benefits from the LIEE program.
- 2) In a future audit, UAFCB should review SDG&E's implementation and effectiveness of SDG&E underscoring in its agreement with contractor(s) that hazardous fails are customer safety issues requiring urgent attention and that corrective work must be initiated within 24-hours of notification by the utility or its inspectors in accordance with the SPPM.

Audit Goal 2: Determine if SDG&E's Refrigerator Replacement processes and procedures were in compliance with the applicable program requirements.

Findings:

- (1) SDG&E was not in compliance with the Commission's SPPM and Weatherization Installation Standards when it replaced refrigerators manufactured after 1992.

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- (2) In addition, SDG&E failed to include space on its Refrigerator Replacement forms that were completed by the contractors for the year manufactured or the reasons for the replacement of the existing refrigerator manufactured after 1992.
- (3) With the exception of the above, SDG&E's refrigerator replacement processes and procedures were in compliance with the applicable program requirements.

Discussion: The SPPM states that refrigerators shall not be replaced if manufactured after 1992.¹⁰ The Weatherization Installation Standards (WIS) states that refrigerators may be replaced only if the existing refrigerators were manufactured before 1993.¹¹

However, SDG&E included in its Energy Team/LIEE Procedure Manual replacement of operational but visibly inefficient refrigerators manufactured from 1993 to 1995 based on one or more of the following conditions:

- Damaged or leaking door gasket.
- Excessively loud operating cycle (compressor failure imminent).
- Improper cooling (can't regulate temperature).
- Frost on freezer cabinet walls (manual de-frost required).
- Ineffective evaporative cycle (standing water in bottom of refrigerator cabinet).

Over the two year period, SDG&E indicated that it replaced 916 refrigerators that were manufactured after 1992, and therefore not in compliance with the SPPM and the WIS.¹² In the following table, UAFCB summarizes additional information that SDG&E provided on those refrigerator replacements.

Table III
Refrigerator Replacements Not in Compliance

Year Manufactured	PY 2007	PY 2008	Difference	% Increase
1993	82	275	193	70.2%
1994	58	225	167	74.2%
1995	<u>44</u>	<u>232</u>	<u>188</u>	<u>81.0%</u>
Total	<u>184</u>	<u>732</u>	<u>548</u>	<u>74.9%</u>

In addition, during its review of the Refrigerator Replacement Forms completed by the contractors, UAFCB found that the form SDG&E was using was deficient since it lacked spaces to show the manufactured year or reason for the replacement of the existing refrigerator manufactured after 1992.

Since it was not in compliance with the SPPM and WIS when it replaced refrigerators manufactured after 1992, SDG&E should reimburse LIEE for all costs associated with

¹⁰ See the SPPM, dated October 25, 2005, Section 7.3.19.

¹¹ See the California Conventional Home WIS, page 17-A.

¹² As indicated by SDG&E in its May 5, 2011 email to UAFCB.

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the replacement of those refrigerators. These costs should include, but not be limited to, the cost of the refrigerators, installation costs, recycling costs and associated overheads.

Preliminary Findings and Recommendations: At the exit meeting and in its draft audit report, UAFCB recommended that SDG&E revise its Refrigerator Replacement Form to include the year the existing refrigerator was manufactured and the reason(s) for the refrigerator replacement if manufactured after 1992. In its comments on UAFCB's draft report, SDG&E agreed to revise its refrigerator replacement form to include the year the existing refrigerator was manufactured. However, SDG&E asserts that there is no reason to include the reason(s) for the refrigerator replacement on the form since beginning in 2010; SDG&E no longer permits the replacement of refrigerators for "other reasons," in accordance with the SPPM.

UAFCB inadvertently did not include a finding in its draft audit report on SDG&E's noncompliance with the SPPM and the WIS or its recommendation for a disallowance. However, SDG&E was well aware of the requirements of the SPPM and WIS because it participated in the former Standardization Team comprised of staff from the four energy utilities, Energy Division and the Division of Ratepayer Advocates. The former Standardization Team developed the SPPM and WIS, including revisions adopted by the Commission. In addition, SDG&E asserts that beginning in 2010, it no longer permits the replacement of refrigerators manufactured after 1992 so that it would be in compliance with the SPPM.

Recommendations:

- 1) In a future audit, UAFCB should review SDG&E's implementation and effectiveness of its revisions to its refrigerator replacement policies and forms to ensure it is in compliance with the requirements of the Commission's SPPM and WIS when replacing refrigerators.
- 2) The Commission should disallow costs for 2007 and 2008 associated with the replacement of refrigerators manufactured after 1992, including but not limited to the cost of the refrigerators, installation costs, recycling costs and associated overheads

C. Program Expenditure Analysis and Testing

Audit Goal 1: Determine and test on a sample basis whether all reported charges including general administration expenses and LIEE measure expenditures were relevant to the program and were sufficiently supported with appropriate documentation.

Findings:

- (1) SDG&E added contractor fees and Window Assembly-Pane measures to the HEAT system based on only a verbal agreement with RHA.
- (2) SDG&E's HEAT system lacked operating controls to prevent overrides and, therefore, not in compliance with Sempra's corporate policy on commitments.
- (3) With the exception of some refrigerator replacements and the forgoing, SDG&E's LIEE expenditures for energy efficiency measures, general administration, and

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other general administrative charges were relevant to the LIEE program and sufficiently supported with appropriate documentation.

Discussion: UAFCB judgmentally selected and tested 150 energy efficiency expenditure transactions from invoices recorded in SDG&E accounting records totaling \$3.3 million for calendar years 2007 and 2008.

Based on a verbal agreement with RHA, SDG&E added three contractor fees and one sub-measure to its HEAT databases. These items were not included in SDG&E's 2008 contract with RHA. In addition, SDG&E's HEAT system lacked operating controls to prevent overrides and, therefore, not in compliance with Sempra's policy.

In an August 3, 2010 phone conference with UAFCB, SDG&E acknowledged that by entering into a verbal agreement with RHA for the additional fees, it failed to comply with Sempra's corporate contract policy. The contractor fees that SDG&E shouldn't have added to HEAT without a written contract included amounts for Energy Specialist Installer (ESI) Fee-Mobile Home, ESI Fee-Single-Family, and ESI Fee-Multi-Family. The sub-measure that SDG&E added was for Window Assembly-Dual Pane.

Preliminary Findings and Recommendations: At the exit meeting and in its draft audit report, UAFCB recommended that SDG&E conduct an internal review to determine the extent of changes to contract measures and/or fees that SDG&E added to the HEAT system during the years 2007 and 2008 that were based on verbal agreements between SDG&E and RHA. In addition, UAFCB recommended that SDG&E implement additional levels of controls in the HEAT system that would verify and accept only those changes in contracted measures and/or fees that have been properly authorized in compliance with Sempra's corporate Approval and Commitment Policy.

In its comments on UAFCB's draft report, SDG&E agreed to implement these recommendations. SDG&E committed to conduct an internal audit within 180 days of UAFCB's audit report to determine the extent of non-documented verbal agreements on changes to contract measures and/or fees. In addition, SDG&E agreed to create additional levels of controls in its HEAT system to ensure only properly authorized changes to contract measures and/or fees are accepted in accordance with Sempra's corporate Approval and Commitment Policy.

Recommendations:

- 1) In a future audit, UAFCB should review SDG&E's implementation and effectiveness of SDG&E's internal audit conducted within 180 days of this report to determine the extent of changes to contract measures and/or fees in its HEAT system related to non-documented verbal agreements on for the years 2007 and 2008.
- 2) In a future audit, UAFCB should review SDG&E's implementation and effectiveness of SDG&E creating additional level of controls in the HEAT system to verify and accept only those changes in contracted measures and/or fees that have been properly authorized in compliance with Sempra's corporate Approval and Commitment Policy.

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D. Program Oversight

Audit Goal 1: Determine if SDG&E's internal reporting system and management oversight processes for LIEE were properly in place, executed, and working.

Findings:

- (1) Overall, except for the incidences noted in other findings, SDG&E's internal reporting system and management oversight processes for LIEE were adequate.

Discussion: SDG&E prepares a monthly internal report known as Program Activity Summary Report that updates the Director of Customer Assistance and higher level management on key program achievements. The report summarizes the LIEE program activities for installation, energy savings and expenditures of all four major energy utilities.¹³ The Director is also provided a monthly report on the LIEE contractor activity which shows the number of homes treated and weatherized and contractor expenditures for the current month and year-to-date. Other updates to the Director are provided through the review of SDG&E Monthly Report on Low-Income Program Assistance submitted to the Commission.¹⁴

Updates on the LIEE program development and the progress monthly internal reports are regularly channeled to SDG&E's executive level. In addition, SDG&E conducts internal audits of LIEE.

Recommendations: None

Audit Goal 2: Determine whether SDG&E maintained adequate oversight over LIEE.

Findings:

- (1) SDG&E maximized the deployment of its authorized LIEE funds yet stayed within its budget.
- (2) UAFCB obtained and reviewed an internal audit report on SDG&E's LIEE program issued on July 24, 2009 but was unable to perform a follow-up examination on the recommended corrective actions listed in the report due to time constraints.

Discussion: SDG&E's LIEE program is headed by a Customer Assistance Manager who is responsible for the day-to-day operations of the Customer Assistance programs including the LIEE, CARE, Family Electric Rate Assistance (FERA), Medical Baseline, and Neighbor-to-Neighbor programs. The Customer Assistance Manager directly reports to the Director of Customer Assistance, who is responsible for the executive level oversight and approval of day-to-day operations to ensure that programs meet corporate and Commission goals and objectives.

¹³ The four energy utilities consist of Pacific Gas & Electric Company, Southern California Edison Company, Southern California Gas Company, and SDG&E.

¹⁴ SDGE 0708LIEE-14 Q1

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Meetings between the manager and the director and between the director and the vice president are conducted biweekly/monthly to ensure that the executive management has sufficient and reliable information on the LIEE program. SDG&E's internal reports and updates generally provided senior management with an adequate tool to oversee LIEE's progress, goals and achievements.

With SDG&E maximizing its deployment of LIEE in 2008, spending almost all of its authorized budget and carry-forward funds while not exceeding its authorized budget, it was critical that its internal reporting and management processes were working and accurate. It was also essential that SDG&E's LIEE management effectively used these tools to ensure that it didn't run out of funds before the end of the year.

UAFCB obtained a copy of an internal audit report on SDG&E's LIEE program dated July 24, 2009. This internal audit report addressed, among other things, the operation of SDG&E's HEAT system used to record customer enrollment information, job measure costs, and contractor workflow on measures and services provided to customers. The internal audit report's findings addressed the following:

- The HEAT application lacked adequate controls. Specifically, several users were allowed administrator rights with wide-ranging edit rights, generic user IDs for application testing were not removed, and Customer Assistance lacked the policies and procedures for adding and removing users, granting developer access, and setting roles.
- There were no follow-up inspections of job corrections for jobs that originally failed inspections, as required in the SPPM.
- There was an absence of controls in changing measure amounts in the HEAT system. Customer Assistance staff corrected a measure that had already been invoiced and paid.

SDG&E's audit findings corroborate UAFCB's findings discussed above in Section V.C, Audit Goal 1. However, due to time constraints, UAFCB was unable to evaluate SDG&E's LIEE management's actions in response to the internal audit findings.

Preliminary Findings and Recommendations: In its draft audit report, UAFCB recommended that within 180 days of UAFCB's audit report, SDG&E should provide the UAFCB a report that substantiates that it has taken the necessary actions recommended in SDG&E's July 24, 2009 internal audit report on its LIEE program. In its comments on UAFCB's draft report, SDG&E agreed to provide the UAFCB, within 180 days of this report, a report that substantiates that it has taken the necessary actions recommended in SDG&E's July 24, 2009 internal audit report of its LIEE program.

Recommendations:

- (1) In a future audit, UAFCB should review SDG&E's implementation and effectiveness of the audit it conducts and reports to the UAFCB within 180 days

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of this audit report to substantiate that it has taken the necessary corrective actions noted in its July 24, 2009 LIEE internal audit report.

VI. CARE AUDIT FINDINGS

A. Program Accounting and Reporting

Audit Goal #1: Determine whether SDG&E's administrative costs charged to its CARE program are appropriate.

Findings:

- (1) In general, SDG&E's CARE administrative costs were appropriate.
- (2) SDG&E incurred total CARE administrative expenses of \$2.4 million for calendar year 2007 and \$2.7 million in 2008, both years within its authorized budget.
- (3) For 2007 and 2008, SDG&E charged approximately 57% and 44%, respectively, of CARE administrative expenditures to the Salary cost category.
- (4) SDG&E had not audited its Customer Assistance Reporting and Enrollments (CARE) operating system, implemented in September 2007, for integrity and reliability.

Discussion: SDG&E incurred charges totaling \$2.4 million for calendar year 2007 and \$2.7 million in 2008 for administering its CARE program. Of these amounts, more than 87% of expenditures were incurred for SDG&E management/clerical salaries, advertising, consulting, print/graphics and postage cost categories. The remaining administrative expenditure amounts were for employee travel and other materials and services. In the following table, UAFCB provides a breakdown of the types of administrative charges and their percentages to total administrative costs.

Table IV
CARE Administrative Costs by Cost Element

Expenditures	2007	% to Total Admin Cost	2008	% to Total Admin Cost
Salaries, Payroll Taxes & Additives	\$ 1,356,561	56%	\$ 1,196,384	44%
Advertising & Marketing	218,966	9%	289,786	11%
Consulting - Other	193,153	8%	591,836	22%
Print / Graphics	179,042	7%	183,617	7%
Mail-Postage	165,237	7%	138,397	5%
Employee Travel	18,082	1%	30,285	1%
Other Materials & Services	<u>294,690</u>	<u>12%</u>	<u>263,814</u>	<u>10%</u>
Total Administrative Costs	<u>\$2,425,731</u>	<u>100%</u>	<u>\$2,694,119</u>	<u>100%</u>

SDG&E asserts that its Consulting-Other expense increased approximately 206% from \$193,153 in 2007 to \$591,836 in 2008 because of the non-recurring cost for installing its

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CARE billing/database system. In the following table, UAFCB provides a breakdown of SDG&E's Consulting-Other charges by expense categories for 2007 and 2008.

Table V
CARE Expenditure - SRV-Consulting -Other

Expenditure Category	Vendor Name	2007	2008	Increase (Decrease)
Billing System	DirectApps/Product Support	\$ 84,708	\$392,442	\$307,734
Outreach	Outreach Consultant Services	59,867	98,794	38,927
Outreach - Capitation Fee ^(a)	Third Parties/CBOs	14,259	81,593	67,334
General Admin	Travis Research / McNulty	25,419	19,007	(6,412)
Measurement & Evaluation	Mark McNulty & Assoc.	8,900	0	(8,900)
Total		<u>\$193,153</u>	<u>\$591,836</u>	<u>\$398,683</u>
Percentage Increase Over 2007^(b)				<u>206%</u>

Notes:

(a) "Outreach - Capitation Fee" is an administrative fee paid on a fixed basis to community-based organizations and other agencies for each successful CARE enrollment, originally authorized in D.01-05-033.

(b) $\$398,683 \div \$193,153 \times 100\% = 206\%$

SDG&E began converting its enrollment tracking and reporting functions from manual to an automated process in September 2007 which caused the increase in Consulting-Other expenditures in 2008. SDG&E refers to its automated billing/data base system is referred to as the Customer Assistance Reporting and Enrollments System (CARE System). SDG&E has yet to undertake an internal audit of its newly established CARE System.

UAFB noted other cost increases in Consulting-Other expenses in both outreach-consultants services and outreach-capitation. The outreach-consultants service category includes charges for market research and telecommunications services. The outreach-capitation expense category includes charges for utility contract services with community agencies and Community Based Organizations (CBO's) to reach low income communities in its service area and enroll the utility's customers into CARE. In D.06-12-038, the Commission authorized an increase in the maximum capitation fees paid to third parties (usually CBOs) from \$12 to \$15 per customer enrolled. CARE enrollment through the CBOs more than quadrupled, from about 4,300 customers in 2007 to over 21,000 customers in 2008.¹⁵

Preliminary Findings and Recommendations: At the exit meeting and in its draft audit report, UAFCB recommended that SDG&E should perform an internal audit of its CARE System to measure its integrity, reliability and efficiency in qualifying and quantifying enrollment and determine whether any weaknesses exist. UAFCB requested that the results of the audit be provided to the UAFCB so that UAFCB may undertake any follow-up examination during its next audit of SDG&E's CARE program. In its comments on UAFCB's draft report, SDG&E agreed to perform an internal audit of its

¹⁵ SDGE 0708 CARE-01 Q5 & SDGE 0708CARE-01 Q6.

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CARE operating system to determine its effectiveness and efficiency in qualifying and quantifying customer enrollments into the CARE program.

Recommendation:

- (1) In a future audit, UAFCB should review the effectiveness of SDG&E's actions in response to its internal audit of its CARE System measuring its integrity, reliability and efficiency in qualifying and quantifying enrollment and determining whether any weaknesses exist.

VII. COMMENTS ON UAFCB'S DRAFT AUDIT REPORT

On February 24, 2011, the UAFCB submitted a copy of its draft audit report to SDG&E for its review and comments. The draft report, dated February 18, 2011, included Sections I through VI, as well as the UAFCB's draft audit findings and recommendations.

SDG&E provided timely comments to UAFCB's draft audit report on March 11, 2011. SDG&E provided some clarifications and corrections to UAFCB's draft audit report, as well as discussing UAFCB's findings and recommendations.

UAFCB provides a brief summary of SDG&E's comments below. In addition, the UAFCB includes a copy of SDG&E's comments on UAFCB's draft report, in their entirety, in Appendix C.

SDG&E disagreed with UAFCB's Audit Recommendation 1, in Section V.B, Audit Goal 1, on In-Home Assessments. SDG&E asserts that this recommendation should be removed from the report since it is inaccurate. SDG&E contends that the 2006 SPPM, Section 8-3 permits installation contractors to make final determination on whether a measure meets the program's feasibility criteria due to their technical expertise.

As discussed in Section V., above, SDG&E agreed with many of UAFCB's findings and agreed to implement UAFCB's recommendations on:

- Post-installation inspections, see Section V.B, Audit Goal 1;
- Refrigerator replacement forms, see Section V.B, Audit Goal 2;
- Internal audit on verbal agreements, see Section V.C, Audit Goal 1;
- Additional controls to the HEAT system, see Section V.C, Audit Goal 1;
- LIEE internal audit report, see Section V.D, Audit Goal 2; and
- Internal audit of its CARE operating system, see Section VI.A, Audit Goal 1.

VIII. UAFCB REBUTTAL

Based on SDG&E's comments, UAFCB made changes to its report, as appropriate. In addition, UAFCB made minor edits throughout its report to improve clarity or to correct

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minor errors. Where UAFCB believes further discussion is warranted on an issue raised by SDG&E in its comments, UAFCB provides a brief clarification below.

Section V.B, Audit Goal 1, In-Home Assessments: UAFCB is satisfied with SDG&E's explanation regarding Section 8-3 of the 2006 SPPM. However, UAFCB maintains that providing training and education to Energy Specialists on door repair or door replacements will ensure eligible customers receive the full benefits from the LIEE program.

UAFCB appreciates SDG&E's willingness to accept UAFCB's findings and SDG&E's assertions that it will implement UAFCB's recommendations on:

- Post-installation inspections, see Section V.B, Audit Goal 1;
- Refrigerator replacement forms, see Section V.B, Audit Goal 2;
- Internal audit on verbal agreements, see Section V.C, Audit Goal 1;
- Additional controls to the HEAT system, see Section V.C, Audit Goal 1;
- LIEE internal audit report, see Section V.D, Audit Goal 2; and
- Internal audit of its CARE operating system, see Section VI.A, Audit Goal 1.

UAFCB reserves the right to evaluate SDG&E's effectiveness in addressing these issues during future audits.

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Appendix A

Background by Audit Task Areas

A. Program Accounting and Reporting

SDG&E uses Sempra's company-wide System Applications and Products in Data Processing Accounting System (SAP) for capturing and recording its Low Income Energy Efficiency (LIEE) revenues and expenditures. SDG&E also utilizes additional feeder operating systems that interface with SAP to help manage and implement its LIEE program.

The Home Energy Assistance Tracking (HEAT) system is a feeder operating system that interfaces with SAP and it is used by SDG&E to assist in the administration and management of its LIEE program. HEAT is a database system primarily used for gathering and maintaining LIEE customer application and enrollment information, tracking contractor service workflow, tracking program measure costs and installations, and tracking results from inspections. The HEAT system processes charges invoiced to SDG&E for measures and services provided to LIEE customers. Each type of measure and service captured in HEAT is linked to pre-assigned Internal Order (I/O) account numbers in SAP specific to the LIEE program. Once invoices are reviewed and approved by the appropriate SDG&E management, the charges are then entered into SAP and processed for payment.

SDG&E uses Sempra's company-wide Workforce Information Tracking System (WITS) for capturing and recording employee labor charges related to its LIEE program. The data and information included in WITS is transferred and uploaded into SAP on a bi-weekly basis.

SDG&E also uses the Enterprise Contract Management System (ECM) for the administration and management of service and material contracts. Implemented in February 2005, this system is linked to SAP to assist in maintaining contract information and monitoring payments to LIEE contractors.

Except for Natural Gas Appliance Testing (NGAT) and other indirect expenses, SDG&E uses 22 Internal Order (I/O) account numbers in SAP that are specifically assigned to the LIEE program for posting and recording LIEE expenditures.

On a monthly basis, Sempra's Utility Accounting – Regulatory Reporting Department reviews the LIEE expenses charged to the LIEE program SAP I/O accounts and posts the charges to the appropriate LIEE balancing accounts. The gas and electric balancing accounts used by SDG&E to record its LIEE revenues and expenditures are the following:

- Low Income Energy Efficiency Balancing Account (LIEEBA) – established to record the electric costs and non-bypassable surcharge funds authorized in D.97-12-103
- Post 2005 Gas Low Income Energy Efficiency Balancing Account (PGLIEEBA) – established to record the gas costs and non-bypassable surcharge funds authorized in D.05-12-026

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B. Program Implementation, Processes and Controls

For the program years 2007 and 2008, SDG&E's LIEE program provided measures and services for attic insulation &/or venting, air conditioning (AC) tune up and central air conditioning, caulking, door repair/replacement, furnace repair/replacement, low-flow showerhead, miscellaneous minor home repairs, refrigerator replacement, room air conditioner replacement, water heating repair/replacement, weather-stripping, and window repair/replacement.

In accordance with Commission D.06-12-038, SDG&E added and/or modified the following LIEE measures and services for calendar years 2007 and 2008:

- Installation of compact fluorescent lamps (CFL) and exterior hardwired CFLs: limit on the amount of CFL's replaced and installed were lifted.
- Central Air Conditioning Diagnostic and Tune-ups was added.
- Tankless Waterheater measure was added.
- Torchiere lamps measure was added.
- Interior Hardwired CFL measure was added.
- Energy Education was modified to include the promotion of water conservation and reducing greenhouse gases.

SDG&E contracted with Richard Heath and Associates Inc. (RHA) as its prime contractor for the administration and implementation of its LIEE program in SDG&E's service territory through the end of December 31, 2008.

SDG&E's role is to provide administrative support and oversight of the LIEE program by, among other things, managing the program budget, processing and approving customer enrollment, handling marketing and advertising activities through direct mail, creating canvassing lists, monitoring quality control, inspecting measures,¹ and working closely with RHA in tracking, reconciling, and projecting year-end expenditures.

RHA's responsibilities included: 1) performing services offered under the LIEE program, 2) hiring contractors as needed to perform the various services under the program, 3) processing all work orders, 4) answering inquiries about the program, 5) maintaining and safeguarding records regarding the services performed in each household, and 6) being the primary interface with the customers participating in the program. In addition, RHA was also the sole contractor for refrigerator replacements and responsible for performing weatherization, outreach, training, and dispatching Energy Specialists (ES) to assist in customer enrollments. RHA also provided in-home energy education and audit customer dwellings for feasibility of energy efficiency measures.

RHA charged SDG&E a total of \$10.3 million in 2007 and \$14.2 million in 2008 for administering and implementing SDG&E's LIEE program. For 2007, RHA contracted the LIEE services to 10 private sub-contractors to provide weatherization and energy efficiency

¹SDGE 0708LIEE-02 Q15

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installation work. RHA also hired two community based organizations (CBO) to provide weatherization, and 11 private contractors provided energy education workshops. In 2008, SDG&E phased out the workshops and eliminated its contractors and added one more private contractor for weatherization. In the following table, UAFCB provides a detailed breakdown of costs charged to SDG&E by contractor type.

Table A-I
LIEE Contractor Costs
 (000)

Contractor Type	2007	2008
Private sub-contractors	\$ 3,217	\$ 5,151
Community-based organizations	1,027	1,200
RHA (prime contractor)	<u>6,106</u>	<u>7,883</u>
Total	<u>\$10,350</u>	<u>\$14,234</u>

During the audit, the UAFCB judgmentally selected and tested 107 customer files² by enrollment type and geographic location, covering several cities and towns within SDG&E's service territory to ensure RHA and its contractors provided LIEE measures and services in accordance with the SPPM, Commission directives, and contract terms and conditions. In the following table, UAFCB provides a detailed summary of customer files selected for testing by enrollment type and quantity.

Table A-II
Number of Customers Selected for Testing by Enrollment Type

Enrollment Type	2007	2008	Total
Self-Certification	14	35	49
Categorical Eligibility	10	18	28
Full Documentation	<u>8</u>	<u>22</u>	<u>30</u>
Total Sample	<u>32</u>	<u>75</u>	<u>107</u>

Customer Eligibility and Enrollment: Customer's eligibility is generally based on 200% of the Federal income guideline, number of household, participation in government low-income programs, and geographical location in SDG&E's service territory. Customers may enroll in the LIEE program by Categorical Eligibility, Self-Certification, or Full Documentation. Enrollment through categorical eligibility requires customers to provide proof of participation of a household member in any of the following government programs in the last 12 months: Aid to Families with Dependent Children (AFDC); Temporary Assistance for Needy Families (TANF); Food Stamps; Healthy Families A or B; Low Income Home Energy Assistance Program (LIHEAP); Medi-Cal; and, Special Nutrition Program for Women, Infant, or Children (WIC).

² SDGE 0708LIEE-09 Q1 & -10 Q1

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Enrollment through self-certification only requires that customer self-certifies based on the PRIZM code for the customer's address³. SDG&E accepts self-certification enrollment from customers in PRIZM codes 46 through 49 and 52 through 66.⁴ Release of proof of income by the customer at the time of enrollment is optional for categorical eligibility and self-certification. By signing the enrollment form, the customer certifies that the household income is within the LIEE guidelines and agrees to provide proof of eligibility upon request by SDG&E for audit process.

In order to verify customer program qualifications, UAFCB examined the selected customers' enrollment applications (Customer Agreement form), number of occupants, household income sheet, proof of income, proof of participation in government low-income program, PRIZM code, and HEAT records.

In-Home Energy Education: In Decision 06-12-038, p.40, the Commission directed SDG&E to include in its energy education materials information on the benefits of energy efficiency programs in efforts to reduce green house gasses and promote water conservation. This is in addition to the guidance on home energy savings in heating, air-conditioning, weatherization, appliances, lighting, etc. UAFCB reviewed the materials provided to the customers to ensure that SDG&E complied with the decision.

In-Home Assessment: This is performed and completed by Energy Specialists (ES) who evaluate and determine the types of measures and services needed for each LIEE customer. The data and information collected by the ES is then recorded in the HEAT system. During the audit, UAFCB examined the measures and repairs recommended by the ES against those provided or rejected by the installation contractors to ensure that the ES provided optimum assessment of minor repairs needed in the home.

Refrigeration Replacement: UAFCB examined the year the existing refrigerator was manufactured and the size of both the existing and replaced refrigerators to verify that the replacement was in accordance with SPPM, section 7.3.19 which allows the replacement only if the existing refrigerator is manufactured in or before 1992. The replaced refrigerator must also be approximately equal in size to the size of the existing unit.

Post Installation Inspection: UAFCB verified whether hazardous fails were corrected within the required time frame. Section 8.4.4 of the SPPM requires contractors to correct a hazardous fail within 24 hours of notification by the utility and/or its inspector.

UAFCB also verified that follow-up inspections were being performed on job mistakes since this area was found deficient in SDG&E's 2009 LIEE internal audit report.

³ The PRIZM coding system was developed by Nielsen Claritas to group consumers into segments. There are 66 segments of neighborhood or households identified based on geographical location, demographics and lifestyle behaviors (such as household income, age of resident, family size & children, homeownership, etc.).

⁴SDGE 0708LIEE-02 Q12; see Appendix B

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C. Program Expenditure Analysis and Testing

For the analysis and testing of the LIEE program for the years 2007 and 2008, UAFCB segregated its testing into three (3) groups based on the nature of the charge: (1) measure/invoice-energy efficiency expenses, (2) general administration expenses, and (3) other administrative costs and other non-energy efficiency expenses. UAFCB analyzed the monthly expenditures for the three major cost categories and identified the months with the highest programs costs, with the exception of the month of December. Based on the information provided by SDG&E, the months of June, August, and October 2007, and July, September, and November 2008 had the highest LIEE expenditure totals for the three major cost categories. UAFCB judgmentally selected expenditure transactions for testing totaling \$3.3 million, or 11.7% of the combined program costs for the years 2007 and 2008. In the following table, UAFCB provided a detailed breakdown of the expenditure amounts selected for testing based on the three major cost categories.

**Table A-III
 LIEE Expenditures Selected for Testing**

Type of Expenditure	Total 2007/2008 Expenditures	Total Amount Tested	% Tested
Measure/Invoice-Energy Efficiency	\$24,899,068	\$2,910,029	11.70%
General Administration	2,015,800	216,711	10.80%
Other Administration & Non-Energy Efficiency	<u>1,488,747</u>	<u>193,238</u>	<u>13.00%</u>
Total Program Cost - Gas & Electric	<u>\$28,403,615</u>	<u>\$3,319,978</u>	<u>11.70%</u>

For the measure/invoice energy efficiency expenditure category, UAFCB selected transactions from RHA invoices that included charges for gas and electric appliances, weatherization, outreach and assessment, and in-home Energy Education. For the general administration expense category, UAFCB selected expenditure transactions pertaining to SDG&E management/clerical salaries, contract services, materials, and employee travel. For the other administrative and non-energy efficiency expense category, UAFCB selected expenditure transactions that included charges for inspections, marketing, regulatory compliance, and CPUC Energy Division charges.

In the following table, UAFCB provided a detailed breakdown of the LIEE expenditures and percentage tested by cost category for the years 2007 and 2008.

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**Table A-IV
 SDG&E LIEE Expenditures and Percentages Tested By Category⁵**

Category	Expenditures Per Annual Report			Amount Tested			Total % Tested
	2007	2008	Total	2007	2008	Total	
Gas Appliances	\$ 1,165,778	\$ 1,274,541	\$ 2,440,319	\$ 188,528	\$ 157,375	\$ 345,903	14.20%
Electric Appliances	3,815,641	5,597,883	9,413,524	319,102	827,259	1,146,361	12.20%
Weatherization	3,599,765	5,114,461	8,714,227	333,648	424,227	757,875	8.70%
Outreach/Assessment	1,568,993	2,294,308	3,863,301	200,835	369,629	570,464	14.80%
In-Home Education	199,046	268,648	467,694	38,138	51,288	89,426	19.10%
Total Measures	10,349,224	14,549,842	24,899,066	1,080,251	1,829,778	2,910,029	11.70%
Inspections	34,658	38,192	72,850	2,240	1,943	4,183	5.70%
Marketing	330,853	439,710	770,563	51,954	44,216	96,170	12.50%
M&E Studies	2,566	82,126	84,692	-	40,998	40,998	48.40%
Regulatory	298,931	226,236	525,168	32,974	12,262	45,236	8.60%
General Admin	952,307	1,063,492	2,015,799	96,223	120,488	216,711	10.80%
Energy Division	14,823	20,650	35,473	1,071	5,581	6,651	18.80%
Total Admin	1,634,140	1,870,405	3,504,545	184,462	225,487	409,949	11.70%
Total	\$11,983,364	\$16,420,247	\$28,403,611	\$1,264,713	\$2,055,265	\$3,319,978	11.70%

Measure/Invoice – Energy Efficiency Expenses:

During its testing of the measure/invoice –energy efficiency expenditure category, UAFCB judgmentally selected transactions by invoice and category in SDG&E’s SAP report with a combined total of \$2,910,029 or 11.7% of the \$24,899,066 total energy efficiency measures for 2007 and 2008. The purpose of this test was to ensure that the charges were appropriate and relevant to the LIEE program by reviewing the invoices for accuracy, tracking measure costs on invoice to customer records, and reviewing documentation, including contracts, employee labor rates and approved hours.

The weatherization cost category showed total expenditures of \$3.6 million and \$5.1 million for 2007 and 2008, respectively. In an itemized costing for weatherization, Table A-V below shows that the sub-measure, weatherstripping, recorded the highest charges, totaling \$1,128,148 in 2007 and \$1,629,910 for 2008. UAFCB’s audit of weatherization measures billed or invoiced included weatherstripping amounting to \$191,392 and \$228,932 in 2007 and 2008, respectively.

⁵ Minor differences in amounts in the table are due to rounding.

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**Table A-V
 Weatherstripping Measure**

Sub-Measures	2007	2008	Total
Weatherstripping -Multifamily	\$ 323,521	\$ 559,756	\$ 883,277
Weatherstripping-Mobile Home Specialty	1,601	1,226	2,827
Weatherstripping-Mobile Home Standard	9,531	8,697	18,228
Weatherstripping-Single Family	424,712	537,257	961,969
Weatherstripping-Interior Door	-	6,864	6,864
Total Weatherstripping	759,365	1,113,800	1,873,165
Subcontractor Support Fees	258,402	406,244	664,646
RHA Administration Fees	110,381	109,866	220,247
Total Contractors' Fees	368,783	516,110	884,893
Total Weatherstripping Measure Costs	<u>\$1,128,148</u>	<u>\$1,629,910</u>	<u>\$2,758,058</u>

Contractors' fees totaling \$368,784 in 2007 and \$516,110 in 2008 represented approximately 32% of total weatherstripping charges for both years. In 2008, weatherstripping increased by approximately 18% and the contractor's fees increased by 17% compared to 2007. The increase was relative to the overall increase in homes weatherized in 2008, the final year of the 2006-2008 cycle of LIEE program. In its LIEE Annual Reports to the Commission, SDG&E reported that it weatherized more than 17,700 homes in 2008 as compared to 11,200 homes in 2007.

General Administration Expenses

SDG&E recorded \$952,307 and \$1,063,492 in total general administration expenses for years 2007 and 2008, respectively. UAFCB judgmentally selected and tested a total of \$96,223 for 2007 and \$120,488 for 2008 (please refer to Table A-III columns E and F above).

The LIEE general administration expenditures consist of several cost elements that UAFCB grouped into five components: (1) salaries, (2) payroll taxes & additives, vacation & sick, (3) service - contract labor, (3) employee travel, and (5) other materials and services. An analysis provided in Table A-V below shows that the first three components incurred more than 90% of the total general administration expenses in 2007 and 88% in 2008. The remaining balances were recorded in employee travel and other materials and services.

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Table A-VI
General Administration Expenses by Category

Expenses by Cost Element	2007		2008	
	Amount	% of Total Admin	Amount	% of total Admin
Salaries	\$ 637,942	67%	\$ 636,627	60%
Payroll Taxes & Additives	171,995	18%	181,507	17%
Service-Contract Labor	64,228	7%	121,063	11%
Employee Travel	21,298	2%	39,280	4%
Other Materials & Services	<u>56,844</u>	<u>6%</u>	<u>85,015</u>	<u>8.00%</u>
Total	<u>\$952,307</u>	<u>100.00%</u>	<u>\$1,063,492</u>	<u>100.00%</u>

For 2007 and 2008, UAFCB judgmentally selected and tested 136 general expense transactions totaling \$96,223 and 102 transactions totaling \$120,488 respectively.

Other Administration and Non-Energy Efficiency Expenses

For testing, UAFCB grouped non-energy efficiency expenditures for LIEE together and included transactions in the following categories: the Commission’s Energy Division, Inspections, Measurement and Evaluation Studies, Marketing, and Regulatory Compliance. For 2007 and 2008, UAFCB judgmentally selected and tested 64 transactions totaling \$88,239 and 63 transactions totaling \$104,999, respectively.

D. Program Oversight

SDG&E’s Director of Customer Assistance is responsible for the overall management and implementation of SDG&E’s LIEE, CARE, Family Electric Rate Assistance (FERA) Programs, and other assistance programs funded through base rates such as the Medical Baseline Program. The Director’s responsibilities include, oversight and management of the program’s day-to-day operations to ensure the programs meet Commission goals and objectives; working with executive management to set program policies and goals; representing SDG&E at various regulatory and legislative proceedings; working and negotiating with interested parties on resolving LIEE related issues and concerns; and serving as the energy utility representative on the Low Income Oversight Board on a rotational basis with the other energy utilities.⁶

The Customer Assistance Manager (Programs) reports directly to SDG&E’s Director-Customer Assistance. The position is responsible for developing program plans and budgets, working with and negotiating contracts with CBO’s, contractors and other vendors who perform various implementation services, developing collateral materials and management of the HEAT database.

The Customer Assistance Manager (Program Support), also reports directly to the Director of Customer Assistance. The position is responsible for providing policy, regulatory, and financial tracking and reporting support to SDG&E’s customer assistance program operations

⁶ SDGE 0708LIEE-14 Q2

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groups, including preparation of various regulatory and management reports, including the CARE, FERA, and LIEE monthly and Annual Reports, and responses to data requests related to the customer assistance programs, budget expenditures, reports and other regulatory filings.⁷

SDG&E's Program Manager has budget oversight. The LIEE supervisor and the manager review LIEE budgets on a monthly basis. Their review includes tracking charges against monthly expenses and against projected year end expenses. This allows management to quickly identify areas where costs are not tracking against budgeted/projected expenses and make appropriate changes.

SDG&E's LIEE supervisor, through the HEAT system, tracks contractor performance on meeting contractual requirements for serving customer and resolving any issues. SDG&E's Program Manager works directly with all of the program contractors to maintain performance. SDG&E conducts monthly surveys of 100 randomly selected LIEE customers to determine satisfaction level, measure feedback, and respond to problems reported through the survey.⁸

SDG&E prepares a monthly internal Program Activity Summary Report that is used to update the Director of Customer Assistance and higher level management on key program achievements. The report summarizes the program activities of the LIEE and CARE programs as well as the other energy utilities' customer assistance programs. The activities include installations, energy savings, and total program costs. SDG&E also prepares a monthly LIEE Contractor Activity Report to track the actual number of homes treated and weatherized against monthly and yearly goals. The report also reflects program costs against the authorized LIEE budget.

E. California Alternate Rate for Energy (CARE) Program

As stated in D.02-07-033, the statewide goal of the Commission and utilities is to enroll 100% of all qualified customers and housing facilities to the CARE program. Pursuant to D.01-06-010, CARE provides a 20% discount to qualified residential customers and housing facilities that provide housing to low income individuals or households. Customers may directly apply for the CARE discount with the utilities. In D.02-07-033, the Commission authorized automatic enrollment by allowing eligible customers to be automatically enrolled in the CARE program without requiring income verification.

Customers enroll by self-certification based on household size and income level or by categorical eligibility based on their participation in federal or state assistance programs such as Medi-Cal, Food Stamps, LIHEAP, WIC, TANF, WIC, and Healthy Families A & B. The customer is enrolled in the program effective the next billing period once the application is approved.

Qualified housing facilities include group living facilities, hospices, homeless shelters, women's shelters with tax exempt status, non-profit migrant farm worker housing centers, etc. Facilities have to recertify their CARE eligibility annually.

⁷ SDGE 0708LIEE-14 Q3

⁸ SDGE 0708LIEE-03 Q9

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CARE customers residing in mobile home parks and sub-metered apartments with master-metered accounts should be billed by their landlord at the discounted rate. Most residential customers are required to recertify every two years or four years if they pass the probability model. Fixed income customers must recertify their CARE eligibility every four years and sub-metered customers must recertify every year.

Since income verification is not required, SDG&E performs post-enrollment verifications by randomly selecting customers and requesting that they provide proof of eligibility. This random verification process is administered by SDG&E's CARE department.

To assist in the administration of the CARE program, SDG&E implemented the Customer Assistance Reporting and Enrollments operating system (CARE System) in September 2007 to help manage the major aspects of the CARE program. The CARE System functions both as a reporting and processing tool and tracks and reports enrollment activity for the program.

SDG&E's records reflected CARE administrative costs totaling \$2.4 million in 2007 and \$2.7 million in 2008. In the following table, UAFCB provides a detailed breakdown of the CARE administrative expenditures for 2007 and 2008.

Table A-VI
CARE Administration Costs

Category	2007	2008
Outreach	\$1,249,023	\$ 1,304,732
Processing, Certification & Verification	287,079	260,507
Information Technology/Programming	324,531	508,779
Measurement & Evaluation	16,136	58
Regulatory Compliance	192,809	193,528
General Administration	321,565	381,657
CPUC Energy Division Staff Funding	34,587	44,858
Total CARE Administrative Costs	<u>\$2,425,730</u>	<u>\$2,694,119</u>

During the audit, UAFCB performed an analysis of the administrative costs by cost element (or expense account) to determine which accounts contributed the majority of expenditures. UAFCB also analyzed the huge increase in the cost of Information Technology/Programming cost in 2008 to determine the cause of such increase and identify the expense accounts. According to SDG&E, the increase was in connection with the cost of maintaining and operating the automated CARE System that SDG&E implemented in September 2007.

(END OF APPENDIX A)

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Appendix B Applicable Commission Directives

LIEE Income Guidelines	
Directive	Directive's Highlights

D.01-06-010	Set the income guidelines at 175% of Federal Poverty Guidelines (FPG) for LIEE: Handicapped and seniors qualify at 200% of FPG.
D.05-10-044	Expanded eligibility for LIEE and CARE from 175% of FPG to 200% of FPG effective November 1, 2005.

LIEE - Funding Levels and Budgets	
Directive	Directive's Highlights

PUC § 382	Established Minimum Funding Levels
PUC § 2790	<ol style="list-style-type: none"> 1. Mandated direct assistance to low income customers in the form of feasible energy efficiency measures and education; 2. Feasible energy efficiency measures include weatherization services and energy efficient appliances
D.03-11-020	<ol style="list-style-type: none"> 1. Refined the measures offered by LIEE 2. Ordered unspent funding from prior years to be carried forward
D.04-08-010	Implemented PUC § 890 establishing a natural gas surcharge to fund gas related PPP.
D.06-12-038	Established Funding Levels and Budgets for 2007-2008 Program Years and list of allowable measures.
D.07-06-004	Minor corrections to D.06-12-038 granting one year deferral for the third party administrator competitive bidding process.

LIEE EM&V	
Directive	Directive's Highlights

D.07-06-004	Established the LIEE Measurement and Evaluation budget at \$260,000 for each program year 2007 – 2008.
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LIEE Reporting Requirements	
Directive	Directive's Highlights
D.00-09-036	Standardized LIEE by adopting the first Statewide Weatherization Installation Standards Manual (WIS). Ordered the development of a Statewide Policy and Procedures Manual (SPPM).
D.01-03-028	<ol style="list-style-type: none"> 1. Adopted a Reporting Requirements Manual. 2. Adopted a Statewide SPPM and revised the original WIS manual
D.01-12-020	Standardized LIEE reporting methodology and expanded the WIS and SPPM adopted earlier.

CARE Policies and Procedures	
Directive	Directive's Highlights
D.89-09-044	<ol style="list-style-type: none"> 1. Implemented the Low Income Energy Rate Assistance (LIRA) Program, providing a 15% discount on energy bills to residential customers with total household income below 150% of FPG. 2. Only incremental administrative costs are permitted to be booked to the balancing accounts. Administrative costs are to be allocated between gas and electric in the same proportions as gas and electric program discounts.
D.95-10-047	Made changes to LIRA including changing the name to CARE.
D.99-12-001	Described the types of income used to determine eligibility.
D.01-06-010	Set the income guidelines at 175% of Federal Poverty Guidelines (FPG) for both LIEE and CARE: Handicapped and seniors qualify at 200% of FPG.
D.02-07-033	<ol style="list-style-type: none"> 1. Set participation goals of 100% and adopted automatic enrollment from certain social programs. 2. Adopted improvements to the annual estimation of eligible customers.
D.02-09-021	Authorized the recovery of CARE administrative costs through a balancing account, subject to the Commission's determination that such costs are reasonable and in compliance with the revisions to PUC § 739.1.
D.05-10-044	Expanded eligibility for LIEE and CARE from 175% of FPG to 200% of FPG effective November 1, 2005.
D.06-12-038	Established Funding Levels and Budgets for 2007-2008 Program Years and list of allowable measures.

(END OF APPENDIX B)

May 13, 2011

Appendix C



Joy C. Yamagata
Regulatory Manager
San Diego Gas & Electric Company
jyamagata@semprautilities.com
(858) 654-1755

March 11, 2011

A. 08-05-024

Bernard Ayanruoh – Program and Project Supervisor
Utility, Audit, Finance and Compliance Branch
California Public Utilities Commission
505 Van Ness Avenue, 3rd Floor
San Francisco, CA 94102

Re: SDG&E Comments on Draft Report Addressing Financial, Management and Regulatory Compliance Audit of the California Alternate Rates (CARE) for Energy Program Administrative Costs and the Low Income Energy Efficiency (LIEE) Program

Dear Mr. Ayanruoh:

San Diego Gas & Electric Company (SDG&E) has reviewed the draft report prepared by the Utility, Audit, Finance and Compliance Branch (UAFCB), in response to the audit of SDG&E's low-income programs for 2007 and 2008. SDG&E provides the following comments/corrections for consideration and potential incorporation into the "final" version of the audit report and findings.

Section III Introduction

Page 4 - Fifth Bullet: The text currently states "Set the CARE administrative budget at \$7.5 million and \$7.4 million for 2007 and 2008 program years, respectively...." The dollar amounts should be corrected to be \$2.8 million per year in accordance with Decision (D.) 06-12-038 – Table 6.

Section IV Compliance Audit

A. Audit Scope, Purpose and Objectives

Page 4 - Subsection A2: The text states "...to protect ratepayer funded LIEE/CARE measures and monitor" The reference to measures is not appropriate for the CARE program. SDG&E suggests revising the language as follows: "...to protect ratepayer funded LIEE/CARE programs and monitor....."

Section V Audit Findings

A.2 Program Implementation, Process and Controls

Page 9 - Customer Eligibility and Enrollment Second Full Paragraph: SDG&E suggests the draft report should be revised to acknowledge the Commission in D. 06-12-038 (at pg. 42),¹ authorized SDG&E to continue to utilize targeted self-certification in neighborhoods where

¹ The Commission first authorized SDG&E to utilize targeted self-certification for its LIEE program in D. 05-10-044 (at pg. 15).

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eligibility requirements. The current text states “.....behaviors (such as household income, age of resident, family size & children, homeownership, etc.) SDG&E accepts self-certification enrollment from customers in PRIZM codes 46.....” For clarity, SDG&E proposes to revise the narrative as follows: “.....behaviors (such as household income, age of resident, family size & children, homeownership, etc.) In D. 06-12-038, the Commission authorized SDG&E to accept self-certification enrollment from customers in PRIZM codes 46.....”

Page 10 - Audit Goal 1 Post-Installation Inspection Recommendation 1: SDG&E believes that Recommendation should be removed from the report because it is not accurate. The Statewide Policy and Procedures (P&P) Manual permits installation contractors to make the final determination regarding the feasibility of installing program measures, such as doors, due to the crew’s technical expertise. Section 8-3 of the LIEE Program’s 2006 Statewide Policy and Procedures Manual permits the installation crews to make the final determination on whether a measure meets the program’s feasibility criteria. This assures that the customer is receiving “all feasible measures” as required by the program. The LIEE installation contractor typically has the materials and equipment on their vehicles required for installation of the most common measures. It is also in the LIEE contractor’s best interest to complete repairs and installations in a timely manner as their goal is to also minimize the number of visits to the customer’s home and to complete installation in the most efficient and cost-effective manner.

If the UAFCB determines the recommendation should be included, then SDG&E requests the first paragraph of the discussion be revised to clarify if the report is stating that the audit found “32 dwellings that were not assessed for door weather stripping repairs and/or replacement” or that the dwellings were not assessed for “door replacement.” If the report is referencing door replacement, then the report should be revised as follows:

“To ensure in-home assessments were performed in accordance with LIEE program rules and guidelines, UAFCB examined In-Home Assessment forms completed by RHA’s Energy Specialists and the assessment recorded in the HEAT system. Of the 107 in-home assessments reviewed during the audit, UAFCB found 32 dwellings, or (30%) that were not assessed for door weather-stripping repairs and/or replacement. However, the subcontractors performing the installation of measures determined that door repairs and/or replacements were feasible and provided the LIEE measure.”

SDG&E also requests that Recommendation 1 be revised as follows:

“Although the Statewide Policy and Procedures Manual permits contractors to make the final determination regarding the feasibility of installing a measure, UAFCB recommends that SDG&E train and ensure Energy Specialists exercise diligence in their assessment of customer needs for door repairs and/or replacements.”

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Page 10 - Audit Goal 1 Post-Installation Inspection Recommendation 2:

SDG&E agrees with the recommendation regarding hazardous fails and will institute it.

Page 11 - Audit Goal 2 Recommendation 1:

SDG&E agrees with the recommendation and will revise its refrigerator replacement form to reflect the year the existing refrigerator was manufactured. SDG&E, however, believes that there is no longer a need to include the reason for the replacement of the existing refrigerator "if manufactured after 1992" because beginning in program year 2010 SDG&E no longer permits refrigerators to be replaced for "other reasons" consistent with the P&P manual.

A.3 Program Expenditures Analysis and Testing

Page 12 - Audit Goal 1 Recommendation 1:

SDG&E agrees with UAFCB's recommendation regarding the conducting of an internal audit and will institute it.

Page 12 - Audit Goal 1 Recommendation 2:

SDG&E agrees with the recommendation addressing additional levels of controls in the HEAT system and will institute it.

A.4 Program Oversight

Page 13 - Audit Goal 2:

Audit Goals 2 makes reference to SCE internal audit reports and should be revised to indicate SDG&E.

Page 14 - Audit Goal 2 Recommendation 1:

SDG&E will submit a response to the UAFCB within 180 days to substantiate that it has taken the necessary corrections actions noted in the July 24, 2009 internal audit report.

B. CARE – Administrative Costs

Page 16 - Audit Goal 1 Recommendation 1:

SDG&E agrees with the recommendation to perform an internal audit of its CARE operating system.

If you have any questions or require additional information regarding these comments/corrections, please do not hesitate to contact me.

Sincerely,



Joy C. Yamagata
Regulatory Manager

cc: Kevin Nakamura – CPUC
Gilda Robles – CPUC
Kim Hassan – SDG&E
Central Files

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Appendix D

Abbreviations and Acronyms

AFDC	Aid to Families with Dependent Children
AICPA	American Institute of Certified Public Accountants
CARE	California Alternate Rate for Energy
CARE System	Customer Assistance Reporting and Enrollments System
CBOs	Community Based Organizations
CFL	Compact Fluorescent Lamps
Commission	California Public Utilities Commission
D.	Decision
DWA	Division of Water and Audits
EM&V	Evaluation, Measurement & Verification
ES	Energy Specialists
ESI	Energy Specialist Installer
FERA	Family Electric Rate Assistance
FPG	Federal Poverty Guidelines
GRC	General Rate Case
HEAT	Home Energy Assistance Tracking
I/O	Internal Order
LIEE	Low Income Energy Efficiency Program
LIEEBA	Low Income Energy Efficiency Program Balancing Account
LIHEAP	Low Income Home Energy Assistance Program
OP	Ordering Paragraph
PPP	Public Purpose Programs

Financial, Management and Regulatory Compliance Audit
San Diego Gas and Electric Company
For the Years Ended December 31, 2007 and December 31, 2008

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RHA	Richard Heath and Associates
SAP	Systems and Applications Products Accounting System
SDG&E	San Diego Gas and Electric Company
SPPM	Statewide LIEE Program Policy and Procedures Manual
TANF	Temporary Assistance for Needy Families
UAFCB	Utility Audit, Finance and Compliance Branch
WIC	Special Nutrition Program for Women, Infant, or Children
WIS	Weatherization Installation Standards
WITS	Workforce Information Tracking System