State of California

Memorandum

Date: June 30, 2015

To: Michelle Cook
Deputy Executive Director for Administration and Budget

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

Subject: **Financial, Management, Regulatory, and Compliance Examination Report on Southern California Gas Company's Energy Efficiency For the Period January 1, 2013 through December 31, 2013**

Except for the matters discussed in Observations 4, 7, 9, 12 and, 21 below, Southern California Gas Company (SCG) demonstrated compliance with Commission directives respecting the areas of its 2013 Energy Efficiency (EE) program examined by the Utility Audit, Finance and Compliance Branch (UAFCB). However, UAFCB found: (1) SCG incorrectly recorded in program year 2013 direct implementation costs of $43,853 related to the Codes and Standards (C&S) program that belonged to program year 2012. The Energy Division should reduce the C&S incentive award by $5,262 when the true-up filing and 2014 awards are processed; and (2) SCG incorrectly recorded in program year 2013 administrative costs of $250,000 related to the Non-Resource (NR) program that belonged to program year 2012. The $250,000 should be excluded from the reported 2013 EE expenditures. SCG should provide the evidence of the correction to the Director of DWA 30 days after the date of this memo report.

UAFCB also recommends that the administrative costs incurred by SCG in connection with the local government partnerships and third party programs should be reported separately from the direct administrative costs of these programs.

The draft memo report was revised for consistency with the other UAFCB's reports and clarity as needed but no substantive changes to the initial observations and recommendations.

UAFCB conducted this examination pursuant to Ordering Paragraph (OP) 17 of Decision (D.) 13-09-023.[1] The examination was limited to: (1) Reconciliation of EE Program Portfolio Costs to Reported Amounts; (2) Codes and Standards (C&S) programs; (3) Non-Resource (NR) programs; (4) Local Government Partnership (LGP) programs – Western Riverside Energy Partnership (WREP) program; (5) Third Party (TP) program contracts; (6) Plug Load and Appliances (PLA) program; (7) Fund Shifting; and (8) Follow-up on Prior UAFCB's Examination and SCG's Internal Audit Recommendations.

[1] D.13-09-023, OP No. 17, p. 98, provides "In order to verify Codes and Standards and Non-Resource program expenditures for the purposes of awarding these management fees, we will rely upon public versions of the Commission's Utility Audit, Finance and Compliance Branch reports. Upon completion, the Commission's Utility, Audit, Finance and Compliance Branch shall serve on the service list in this proceeding (or its successor) a notice of availability of the public copy of its audit report detailing its review of annual expenditures for 2013 and 2014 Energy Efficiency programmatic activity."

SCG's management is responsible for ensuring accurate reporting of energy efficiency program data and information to the Commission in compliance with applicable laws and administrative requirements.

A. Summary of Examination, Observations, and Recommendations

The following is a brief summary of UAFCB's observations and recommendations resulting from the examination. A detailed description of UAFCB's analysis and observations is included in Appendix A.

Reconciliation of EE Program Portfolio Costs to Reported Amounts:

Observation 1: SCG demonstrated compliance with Public Utility (PU) Code §§ 581, 582 and 584[2] respecting the total portfolio costs. The total program portfolio expenditures amounted to $52,066,544,[3] excluding evaluation measurement and validation (EM&V) costs. A reconciliation of reported Energy Efficiency portfolio expenditures (the annual report (Table 3), including the quarterly and monthly reports) to SCG's records disclosed no exceptions.

Recommendation: None

Observation 2: SCG demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the required report filings. SCG filed its monthly, quarterly, and annual reports timely as required by the Commission.

Recommendation: None

Codes and Standards (C&S) Programs:

Observation 3: SCG demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the reported program costs. A reconciliation of reported C&S program expenses (the annual report and Advice Letter 4661) to SCG's records disclosed no exceptions. The reported $236,959 reconciled to the accounting records.[4]

Recommendation: None

Observation 4: SCG failed to demonstrate compliance with PU Code §§ 581, 582 and 584, including SCG's established accrual policy and procedures. SCG incorrectly recorded in program year 2013 the direct implementation costs of $43,853, or 19% of the total 2013 C&S program expenditures, that belonged to program year 2012.

SCG agrees with the recommendation below and plans to strengthen the internal controls over the accrual process.

Recommendation: The Energy Division should reduce the C&S incentive award by $5,262 when the true-up filing and 2014 awards are processed. Also, SCG should strengthen its oversight over the existing accrual system as indicated in its response dated June 15, 2015 to the draft memo report.

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[2] All statutory references are to the Public Utilities Code unless stated otherwise.
[3] For audited total EE portfolio costs, refer to Appendix B, Table B-1 or Table B-2.
[4] For audited C&S program costs, refer to Appendix B, Table B-3.

Observation 5: SCG demonstrated compliance with applicable provisions of D.12-11-015 and the Energy Efficiency Policy Manual, Version 5, July 2013. SCG had the necessary policies and procedures in place to implement the C&S programs to comply with Commission directives.

Recommendation: None

__Non-Resources (NR) Programs:__

Observation 6: SCG demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the reported NR program costs. A reconciliation of reported NR program expenditures (the annual report and Advice Letter 4661) to SCG's records disclosed no exceptions. The reported $5,764,129 reconciled to the accounting records. [5]

Recommendation: None

Observation 7: SCG failed to demonstrate compliance with PU Code §§ 581, 582 and 584 and its established accrual policies and procedures. SCG incorrectly recorded in program year 2013 the administrative costs of $250,000, or 4.3% of total NR program costs of $5,764,129, that belonged to program year 2012.

SCG agrees with the recommendation below because it constantly looking for ways to improve its business practices as promised in its response dated June 15, 2015 to the draft memo report.

Recommendation: The $250,000 should be excluded from the reported 2013 EE expenditures. SCG should provide the evidence of the correction to the Director of DWA 30 days after the date of this memo report. Also, SCG should strengthen the oversight over the existing accrual system as indicated in its response dated June 15, 2015 to the draft memo report.

Observation 8: SCG demonstrated compliance with applicable provisions of D.13-09-023 and the Energy Efficiency Policy Manual, Version 5, July 2013. SCG had the necessary policy and procedures in place to comply with Commission directives, including the definition of how to designate the programs between resource and non-resource.

Recommendation: None

__Local Government Partnerships (LGP) – Western Riverside Energy Partnership (WREP) program:__

Observation 9: SCG demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the LGP reported program costs. A reconciliation of reported EE LGP program costs (annual report, Table 3) to SCG's records disclosed no exceptions. However, there is no clear directive on how to group and report the administrative costs that SCG incurred in support of the LGP programs. SCG grouped and reported $680,682 of such expenses as part of LGP program overall administrative expenditures.

SCG indicated in its comments to the UAFCB's draft memo report that it will raise the matter identified above with the Energy Division and whatever format it prescribes for reporting purposes will be followed.

[5] For audited total NR program costs, refer to Appendix B, Table B-4.

Recommendation: The administrative costs incurred by SCG in support of the LGP programs should be clearly identified and separately reported from those incurred by the third-party contractors for reporting purposes in the future. [6]

Observation 10: SCG demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the WREP program costs. A reconciliation of reported LGP–WREP program costs (annual report) to SCG's records disclosed no exceptions. The reported $26,899 reconciled to the accounting records. [7]

Recommendation: None

Observation 11: SCG demonstrated compliance with applicable provisions of D.12-11-015 and the Energy Efficiency Policy Manual, Version 5, July 2013. SCG's established policy and procedures to implement the LGP programs, including the WREP program, were adequately designed to comply with Commission directives.

Recommendation: None

Third Party Contracts:

Observation 12: SCG demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the reported TP program contract costs. A reconciliation of reported EE TP contracts costs (annual report (Table 3, including quarterly and monthly reports) to SCG's records disclosed no exceptions. The $14,064,210 reconciled to the accounting records. However, because there is no clear directive on how to group and report the administrative costs SCG incurred in support of the TP programs, SCG grouped and reported $312,788 of such expenses as part of TP program overall administrative expenditures. [8]

SCG indicated in its comments to the UAFCB's draft memo report that it will raise the matter identified above with the Energy Division and whatever format it prescribes for reporting purposes will be followed.

Recommendation: The administrative costs incurred by SCG in support of the TP programs should be clearly identified and separately reported from those incurred by its third-party contractors for reporting purposes in the future.

Observation 13: SCG demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the TP program costs. A sample of TP program expenses that the UAFCB verified disclosed no exceptions. SCG maintained and provided adequate documentation to support the recorded expenditures.

Recommendation: None

Observation 14: SCG demonstrated compliance with applicable provisions of D.12-11-015 and the Energy Efficiency Policy Manual, Version 5, July 2013. SCG's established policy

[6] For a UAFCB's recommended reporting format, refer to Appendix B, Table B-2.
[7] For audited total WREP program costs, refer to Appendix B, Table B-5.
[8] For a UAFCB's recommended reporting format, refer to Appendix B, Table B-2.

and procedures to implement the TP programs were adequately designed to comply with Commission directives.

Recommendation: None

Observation 15: SCG demonstrated compliance with applicable provisions of D.12-11-015 and the Energy Efficiency Policy Manual, Version 5, July 2013. UAFCB excluded the budgets of the Regional Energy Network (REN) and Marketing Education and Outreach (ME&O) from the calculation of the 20% requirement from its total EE portfolio budget. SCG dedicated 20% of the total EE portfolio budget to implementing the TP programs to third-party contracts acquired through competitive bidding.

Recommendation: None

Plug Load and Appliance (PLA) Program:

Observation 16: SCG demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the PLA reported costs. A reconciliation of reported PLA program expenditures (the annual report, quarterly report, monthly report, and Advice Letter 4661) to SCG's records disclosed no exceptions. SCG spent $6,377,686 on the program in 2013.[9]

Recommendation: None

Observation 17: SCG demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the PLA program costs. A sample of recorded PLA program expenses that the UAFCB verified disclosed no exceptions. SCG maintained and provided adequate documentation to support the recorded expenditures.

Recommendation: None

Observation 18: SCG demonstrated compliance with applicable provisions of D.12-11-015 and the Energy Efficiency Policy Manual, Version 5, July 2013. SCG's established policy and procedures to implement the PLA program were adequately designed to comply with Commission directives.

Recommendation: None

Fund Shifting:

Observation 19: SCG demonstrated compliance with Attachment C of the Adopted Fund Shifting Rules, Rulemaking (R.) 09-11-014. SCG completed one fund shifting in the 2013-2014 budget cycle between two TP programs within the same cost category. SCG's accounting and reporting of fund shift was compliant with Commission directives.

Recommendation: None

Observation 20: SCG demonstrated compliance with Attachment C of the Adopted Fund Shifting Rules, Rulemaking (R.) 09-11-014. SCG's established policy and procedures to

[9] For audited total PLA program costs, refer to Appendix B, Table B-7

implement the fund shifting activities were adequately designed to comply with Commission directives.

Recommendation: None

Follow-up on Prior UAFCB's Examination Observations and Recommendations:

Observation 21: SCG demonstrated compliance with prior year's (2012) UAFCB examination recommendations, except for recommendation related to compliance with fund shift rules stated in Observation #6. UAFCB observed that SCG should have filed an Advice Letter because funds shifted from the C&S Building Standard Advocacy program budget to the C&S Compliance Training program budget during the prior year was greater than the 1% benchmark established by Commission's rule. However, SCG asserted that based on its interpretation of established Commission's fund shift rules; it was not required to file an Advice Letter because the fund shift was within the C&S program's sub-programs.

Recommendation: UAFCB continues to disagree with SCG on its interpretation of the fund shifting rule in this particular area. ED is looking into the matter for a resolution.

B. Examination Process

UAFCB focused its examination on the areas mentioned above based on consultation with the Energy Division, its prior experience in examining SCG's programs, and the results of UAFCB's risk assessment. It also evaluated SCG compliance with Commission directives and the established EE Policy and Procedures, Version 5, July 2013. Additional details regarding some pertinent information about SCG's specific EE programs under review are provided in Appendix B.

On June 1, 2015, the UAFCB provided a draft of its analysis, observations and recommendations to SCG for its comments. On June 15, 2015, SCG provided its comments. UAFCB summarized SCG's comments, including UAFCB's rebuttal to those comments, in Appendix A. SCG's response in its entirety is provided in Appendix C.

UAFCB conducted its examinations in accordance with the attestation standards established by the American Institute of certified Public Accountants (AICPA), and accordingly, included examining on a test basis, evidence concerning SCG's compliance with the requirements of the energy efficiency programs, directives of the Commission pertaining to the programs, SCG's internal policies and procedures, and the generally accepted accounting principles and practices.

C. Conclusion

Except for the items discussed above, SCG demonstrated compliance with Commission directives in the areas the UAFCB examined.

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

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Appendix A
Analysis and Findings

A.1 Introduction

Except for the matters discussed in Observations 4, 7, 9 12 and, 21 below, Southern California Gas Company (SCG) demonstrated compliance with Commission directives respecting the areas of its Energy Efficiency (EE) programs that the Utility Audit, Finance and Compliance Branch (UAFCB) examined for program year (PY) 2013.

This report addresses EE financial, management, regulatory, and compliance areas pertaining to PY 2013. UAFCB's examination was limited to the following specific areas of EE programs of interest to the Energy Division and UAFCB:

(1) Reconciliation of EE Program Portfolio Costs to Reported Amounts
(2) Codes and Standards (C&S) programs
(3) Non-Resource (NR) programs
(4) Local Government Partnership (LGP) programs – Western Riverside Energy Partnership (WREP) program
(5) Third Party (TP) Program Contracts
(6) Plug Load and Appliances (PLA) program
(7) Fund Shifting; and
(8) Follow-up on Prior UAFCB's Examination Observations and Recommendations and SCG's Internal Audit Recommendations, if applicable.

On June 1, 2015, the UAFCB submitted a copy of its draft report to SCG for its review and comments. The draft report included UAFCB's observations and recommendations for the specific areas reviewed during the examination. SCG provided its comments on June 15, 2015. UAFCB includes a summary of SCG's comments and UAFCB's rebuttal to them in Appendix A. SCG's comments in its entirety are included in Appendix C.

Appendix A was revised for consistency with the other UAFCB's reports and clarity as needed but no substantive changes to the initial observations and recommendations.

A.2 Reconciliation of EE Program Portfolio Costs to Reported Amounts

Observation 1: SCG demonstrated compliance with Public Utility (PU) Code §§ 581, 582 and 584[1] respecting the total portfolio costs. The total program portfolio expenditures amounted to $68,263,315,[2] excluding evaluation measurement and validation (EM&V) costs. A reconciliation of reported Energy Efficiency portfolio expenditures (the annual report (Table 3), including the quarterly and monthly reports) to SCG's records disclosed no exceptions.

Criteria: Sections 581, 582 and 584 require utilities to provide timely, complete and accurate data as prescribed by the Commission.

[1] All statutory references are to the Public Utilities Code unless stated otherwise.
[2] For audited total EE portfolio costs, refer to Appendix B, Table B-1 or Table B-2.

Condition: UAFCB reconciled the reported EE portfolio costs (the annual report (Table 3), including the quarterly and monthly reports) to SCG's records (general ledger). There were no material exceptions.

SCG's Comments: SCG stated that the correct total EE portfolio expenditures should be $52,066,544, net of audit adjustments. This amount removes the double counted costs of Third Party programs and Local Government Partnership programs.

Rebuttal: UAFCB through further review of relevant documentation confirmed the audited EE portfolio expenditures to be $52,066,544.

Recommendation: None

Observation 2: SCG demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the required reports. SCG filed its monthly, quarterly, and annual reports timely as required by the Commission.

Criteria: The EE Policy Manual (R.09-11-014), Version 5, July 2013, Appendix D (1) (b) provides, in part, that the due date for monthly reports is the first day of the month 30 days following the month of the report, and Appendix D (2) (c) requires that the due date for [quarterly] reports is the first day of the month [60] days following the month of the report.[3]

Condition: UAFCB reviewed the annual, quarterly, and monthly reports to determine if the reports were timely filed on EEStats.[4] There were no material exceptions.

Recommendation: None

A.3 Codes and Standards (C&S) Programs

Observation 3: SCG demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the reported program costs. A reconciliation of reported C&S program expenses (the annual report and Advice Letter 4661) to SCG's records disclosed no exceptions. The reported $236,959 reconciled to the accounting records.

Criteria: Sections 581, 582 and 584 require utilities to provide timely, complete and accurate data as prescribed by the Commission.

Condition: UAFCB reconciled the reported C&S program expenditures (the annual report (fourth quarterly report) and Advice Letter 4661) to SCG's records (general ledger). There were no material exceptions.

[3] The "monthly" and the "30 days following the month of the report" as stated at Appendix D (2) (c) may have been a mistake because this section refers not to the monthly reports, but to the quarterly reports. For further details on the required frequency on filing quarterly reports, refer to R.09-11-014, filed November 20, 2009, Attachment B (II) (d) and (III) (c). Also, on July 29, 2013, Energy Division issued a Memorandum to IOUs in regards to the "2013-2014 Energy Efficiency Program Reporting Timeline and Guidance – Version 2." In essence, the Memo sets forth the report filing requirements for program years 2013-2014.

[4] The California Energy Efficiency Statistics (EEStats) - a repository of utility-submitted reports to CPUC

Recommendation: None

Observation 4: SCG failed to demonstrate compliance with PU Code §§ 581, 582 and 584, including SCG's established accrual policy and procedures. SCG incorrectly recorded in program year 2013 the direct implementation costs of $43,853, or 19% of the total 2013 C&S program expenditures, that belonged to program year 2012.

Criteria: Sections 581, 582 and 584 require utilities to provide timely, complete and accurate data in prescribed formats to the Commission. Per SCG's accounting accrual policy, an expense item having a value of $10,000 or greater must be accrued in the period in which such expense is incurred.[5]

Condition: UAFCB noted that SCG included $43,853 related to 2012 C&S program direct implementation costs in 2013. The total amount consisted of $20,079, $4,915, $5,569, $6,125, and $7,165 from test items #8, #9, #10, #11, and #12, respectively. This total represents about 19% of the total C&S program expenditures.

Cause: Of the items verified, item #8 had a value of $10,000 and greater. This met the required minimum threshold for accrual. Although the invoice related to test item #8 was dated December 16, 2012, the invoice was routed to the wrong business contact, and after it was re-routed to the appropriate business contact, the invoice was approved for payment on January 29, 2013.

Effect: Improper accrual resulted in an overstatement of the C&S program direct implementation costs which in turn overstated the 2013 management incentives. Furthermore, lack of adequate oversight over accrual system may lead to an overall inaccurate presentation of Energy Efficiency cost data.

SCG's Comments: SCG acknowledged UAFCB's finding regarding test # 8 in the amount of $20,079 (as it pertains to internal controls over accrual). As a business practice, SCG continuously seeks and will seek to strengthen its internal processes, including enhanced procedures, training of relevant EE program staff and appropriate coordination with its vendors and other counterparties, to ensure compliance with its accrual practices.

Rebuttal: None

Recommendation: The Energy Division should reduce the C&S incentive award by $5,262 when the true-up filing and 2014 awards are processed. Also, SCG should strengthen its oversight over the existing accrual system as promised in its response dated June 15, 2015 to the draft memo report.

Observation 5: SCG demonstrated compliance with applicable provisions of D.12-11-015 and the Energy Efficiency Policy Manual, Version 5, July 2013. SCG had the necessary policies and procedures in place to implement its C&S programs to comply with Commission directives.

[5] Data response to DR-001, Q3 (SCG's accrual policy)

Criteria: SCG's Codes & Standards program policy and procedures encompass provisions of Decision (D.) 12-11-015, as the guiding policy document, and its approved program implementation plan (PIP), as the guiding program implementation document.

Condition: SCG's established C&S program policies and procedures seemed adequate for the implementation of the C&S programs in accordance with Commission directives.

Recommendation: None

A.4 Non-Resource (NR) Programs

Observation 6: SCG demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the reported program costs. A reconciliation of reported NR program expenditures (the annual report and Advice Letter 4661) to SCG's records disclosed no exceptions. The reported $5,764,129 reconciled to the accounting records.[6]

Criteria: Sections 581, 582 and 584 require utilities to provide timely, complete and accurate data as prescribed by the Commission.

Condition: UAFCB reconciled the reported NR program expenditures (the annual report (fourth quarterly report) and Advice Letter 4661) to SCG's records (general ledger). There were no material exceptions.

Recommendation: None

Observation 7: SCG failed to demonstrate compliance with PU Code §§ 581, 582, and 584 and its established accrual policies and procedures on. SCG incorrectly recorded in program year 2013 the administrative costs of $250,000, or 4.3% of $5,764,129, that belonged to program year 2012.

Criteria: Sections 581, 582 and 584 require utilities to provide timely, complete and accurate data in prescribed formats to the Commission. Per SCG's accounting accrual policy, an expense item having a value of $10,000 or greater must be accrued in the period in which such expense was incurred.

Condition: UAFCB noted that SCG included $250,000 belonging to 2012 NR program administrative costs in 2013 based on the results of its verification process. This total represents 4.3% of the NR program total expenditures of $5,764,129.

Cause: On November 28, 2012, the contractor incorrectly submitted the invoice, dated October 31, 2012, to San Diego Gas & Electric Company (SDG&E) with a wrong Purchase Order number (PO# 5660009062) instead of SCG. After working its way through the system, the invoice was eventually rejected on February 6, 2013. On February 13, 2013, the contractor resubmitted the invoice to SCG with the original date with a correct PO#. SCG approved the invoice on March 4, 2013.

[6] For audited total NR program costs, refer to Appendix B, Table B-4.

Effect: Improper accrual resulted in an overstatement of the 2013 NR program administrative expenditure by $250,000, with a corresponding understatement by same amount in 2012. This improper accrual might have had an impact on the result of the calculated 2010-2012 budget cycle administrative costs (10%) cap. Lacking adequate oversight over accrual system may lead to an overall inaccurate presentation of EE program cost data.

SCG's Comments: SCG acknowledged UAFCB's finding. As a business practice, SCG continuously seeks and will seek to strengthen its internal processes, including enhanced procedures, training of relevant EE program staff and appropriate coordination with its vendors and other counterparties, to ensure compliance with its accrual practices.

Rebuttal: None

Recommendation: The $250,000 should be excluded from the reported 2013 EE expenditures. SCG should provide the evidence of the correction to the Director of DWA 30 days after the date of this memo report. Also, SCG should strengthen the oversight over the existing accrual system as promised in its response dated June 15, 2015 to the draft memo report.

Observation 8: SCG demonstrated compliance with applicable provisions of D.13-09-023 and the Energy Efficiency Policy Manual, Version 5, July 2013. DCG had the necessary policy and procedures in place to comply with Commission directives, including the definition of how to designate programs between resource and non-resource.

Criteria: The definition in the Policy Manual dated July 2013.

Condition: SCG did follow the definition in the Policy Manual for the designation of resource and non-resource programs.

Recommendation: None

A.5 Local Government Partnership (LGP) – Western Riverside Energy Partnership Program

Observation 9: SCG demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the overall LGP reported program costs. A reconciliation of reported the EE LGP program costs (the annual report (Table 3)) to SCG's records disclosed no exceptions. However, because there is no clear directive on how to group and report the administrative costs that SCG incurred in support of its LGP programs, SCG grouped and reported $680,682 of such expenses as part of LGP program overall administrative expenditures

Criteria: Sections 581, 582 and 584 require utilities to provide timely, complete and accurate data as prescribed by the Commission.

Condition: UAFCB reconciled the reported LGP program expenditures (the annual report (Table 3)) to SCG's records (general ledger). There were no material exceptions. However, as SCG does not have clear directive on how to group and report the administrative costs that SCG incurred in support of its LGP programs, SCG grouped and reported $680,682 of such expenses as part of LGP program overall administrative expenditures.

Cause: Currently, there is no clear directive on how the administrative costs that SCG incurred to support the LGP programs should be grouped and reported. SCG is grouping its administrative costs as part of the LGP program overall administrative costs.

Effect: Identifying and reporting separately the two types of administrative cost components, one incurred by SCG and the other incurred by its contractors, would enhance the report's usefulness.

SCG's Comments: SCG will discuss the subject matter with the Energy Division (ED), and will comply with any new reporting formats adopted by ED.

Rebuttal: None

Recommendation: The administrative costs incurred by SCG in support of the LGP programs should be clearly identified and separately reported from those incurred by the third-party contractors for reporting purposes in the future. [7]

Observation 10: SCG demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the WREP program costs. A reconciliation of reported LGP–WREP program costs (the annual report (Fourth Quarter Report)) to SCG's records disclosed no exceptions. The reported $26,899 reconciled to the accounting records. [8]

Criteria: Sections 581, 582 and 584 require utilities to provide timely, complete and accurate data as prescribed by the Commission.

Condition: A reconciliation of the reported WREP program expenditures (the annual report) to SCG's records (general ledger) disclosed no exceptions. SCG incurred $26,898 in WREP program. The resulting minimal program expenditure was due primarily to a late start of the program.

Recommendation: None

Observation 11: SCG demonstrated compliance with applicable provisions of D.12-11-015 and the Energy Efficiency Policy Manual, Version 5, July 2013. SCG's established policy and procedures to implement the LGP programs, including the WREP program, were adequately designed to comply with Commission directives.

Criteria: SCG's approved (Master) Program Implementation Plan, the Energy Efficiency Calculated Incentive Program Participant Handbook (LGP program specifics), and the WREP program's Implementation Plan (WREP program specifics) provide policies and procedures for implementing the Local Government and Institutional Partnership programs for program years 2013-2014.

[7] For a UAFCB's recommended reporting format, refer to Appendix B, Table B-2.
[8] For audited total WREP program costs, refer to Appendix B, Table B-5.

Condition: SCG's established policies and procedures were adequate for implementing the WREP in accordance with Commission directives.

Recommendation: None

A.6 Third Party Program Contracts

Observation 12: SCG demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the reported TP program contract costs. A reconciliation of EE TP contracts reported costs (the annual report (Table 3), including quarterly and monthly reports) to SCG's records disclosed no exceptions. The $14,064,210 reconciled to the accounting records. However, because there is no clear directive on how to group and report the administrative costs SCG incurred in support of the TP programs, SCG grouped and reported $312,788 of such expenses as part of TP program overall administrative expenditures.

Criteria: Sections 581, 582 and 584 require utilities to provide timely, complete and accurate data as prescribed by the Commission.

Condition: UAFCB reconciled the reported TP program expenditures (the annual, quarterly, and monthly reports) to SCG's records (general ledger). There were no material exceptions. However, as SCG does not have clear directive on how to group and report the administrative costs that SCG incurred in support of the TP programs, SCG grouped and reported $312,788 of such expenses as part of TP program overall administrative expenditures.

Cause: Currently, there is no clear directive on how the administrative costs that SCG incurred to support the TP programs should be grouped and reported. SCG is grouping such administrative costs as part of the TP program overall administrative costs.

Effect: Identifying and reporting separately the two administrative cost components, one incurred by SCG and the other incurred by its contractors, would enhance the report's usefulness.

SCG's Comments: SCG stated that the correct amount for its TP-IOU administrative costs in Table B-2 should be $312,788, not $529,007 as provided in the draft examination report, dated and issued on June 1, 2015. Regarding reporting format recommendation, SCG will discuss the subject matter with the Energy Division (ED), and will comply with any new reporting formats adopted by ED.

Rebuttal: UAFCB verified and confirmed the TP-IOU administrative costs to be $312,788.[9]

Recommendation: The administrative costs incurred by SCG in support of the TP programs should be clearly identified and separately reported from those incurred by the third-party contractors for reporting purposes in the future.

[9] For audited TP program costs, refer to Appendix B, Table B-2 or Table B-6.

Observation 13: SCG demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the TP program costs. A sample of TP program expenses that the UAFCB verified disclosed no exceptions. SCG maintained and provided adequate documentation to support the recorded expenditures.

Criteria: Sections 581, 582 and 584 require utilities to provide timely, complete and accurate data as prescribed by the Commission.

Condition: UAFCB reviewed a total of 60 transactions having a combined value of $3,800,375 or 28% of the total TP program contract costs of $13,751,422.[10] Documentation reviewed included, but was not limited to, contract, invoices and other relevant documents that substantiated and supported the recorded expenses. There were no material exceptions.

Recommendation: None

Observation 14: SCG demonstrated compliance with applicable provisions of D.12-11-015 and the Energy Efficiency Policy Manual, Version 5, July 2013. SCG's established policy and procedures to implement the TP programs were adequately designed to comply with Commission directives.

Criteria: The approved (Master) Program Implementation Plan and the Energy Efficiency Collaboration Platform (EECP) system provided policies and detailed procedures for implementing the TP programs for years 2013-2014.

Condition: SCG's TP program policies and procedures, including its EECP system to facilitate program management, reporting, tracking, and invoicing for third party contractors, seemed adequate for implementing its TP programs to meet Commission directives

Recommendation: None

Observation 15: SCG demonstrated compliance with applicable provisions of D.12-11-015 and the Energy Efficiency Policy Manual, Version 5, July 2013. UAFCB excluded the budgets of the Regional Energy Network (REN) and Marketing Education and Outreach (ME&O) from the calculation of the 20% requirement from its total EE portfolio budget. SCG dedicated 20% of its total EE portfolio budget to implementing the TP programs to third-party contracts acquired through competitive bidding.

Criteria: Commission requires that at least 20% Energy Efficiency portfolio budget be dedicated to implementing the TP programs through competitive bidding to third-party contractors.[11]

[10] This total excludes $312,788 administrative costs which SCG incurred in support of its TP programs.
[11] D.12-11-015, p. 82, para.1

Condition: UAFCB performed calculation and examined relevant documentation, and determined that SCG dedicated 20% of the EE portfolio budget, excluding the budgets of REN and ME&O, to implementing the TP programs through competitive bid to third-party contractors.

Recommendation: None

A.7 Plug Load and Appliance Program

Observation 16: SCG demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the PLA reported costs. A reconciliation of reported PLA program expenditures (the annual report (Table 3), including the quarterly and monthly reports, and Advice Letter 4661) to SCG's records disclosed no exceptions. SCG spent $6,377,686 on the program in 2013.[12]

Criteria: Sections 581, 582 and 584 require utilities to provide timely, complete and accurate data as prescribed by the Commission.

Condition: UAFCB reconciled the reported PLA program expenses (the annual, quarterly and monthly reports, and Advice Letter 4661) to SCG's records (general ledger). There were no material exceptions. SCG spent $6,377,686 on the PLA program in 2013.

Recommendation: None.

Observation 17: SCG demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the PLA program costs. A sample of recorded PLA program expenses that the UAFCB verified disclosed no exceptions. SCG maintained and provided adequate documentation to support the recorded expenditures.

Criteria: Sections 581, 582 and 584 require utilities to provide timely, complete and accurate data as prescribed by the Commission.

Condition: UAFCB selected a sample of recorded expenses to determine their validity. The supporting documentation that the UAFCB examined included, but was not limited to, contracts, vendor invoices, and employee time records. These documents supported the recorded expenses.

Recommendation: None.

Observation 18: SCG demonstrated compliance with applicable provisions of D.12-11-015 and the Energy Efficiency Policy Manual, Version 5, July 2013. SCG's established policy and procedures to implement the PLA program were adequately designed to comply with Commission directives.

[12] For audited total PLA program costs, refer to Appendix B, Table B-7

Criteria: SCG's PLA program policies and procedures, including the 'SoCalGas 2013 Processing Procedures' and terms and conditions set forth in its '2013 Residential Rebate Program.'

Condition: SCG's established policies and procedures seemed adequately designed to implement the PLA program in accordance with Commission directives.

Recommendation: None

A.8 Fund Shifting

Observation 19: SCG demonstrated compliance with Attachment C of the Adopted Fund Shifting Rules, Rulemaking (R.) 09-11-014. SCG completed one fund shifting in the 2013-2014 budget cycle between two TP programs within the same cost category. SCG's accounting and reporting of fund shift was compliant with Commission directives.

Criteria: The Energy Efficiency Policy Manual, Version 5, July 2013, Appendix C: Adopted Fund Shifting Rules in Rulemaking (R.) 09-11-014.

Condition: SCG shifted $306,518 in direct implementation operating budget from SCG3759 – On-Demand Efficiency (Benningfield) to SCG3761 – MF Home Tune Up (Econva). This shift occurred between two programs within the TP program (fund shifting) category, and was not subject to filing an advice letter. Relevant supporting documents showed SCG's accounting and reporting of the fund shift was compliant with Commission directives.

Recommendation: None

Observation 20: SCG demonstrated compliance with Attachment C of the Adopted Fund Shifting Rules, Rulemaking (R.) 09-11-014. SCG's established policy and procedures to implement the fund shifting activities were adequately designed to comply with Commission directives.

Criteria: SCG's established "Fund-Shifting Procedure" and the Energy Efficiency Policy Manual, Version 5, July 2013, Appendix C: Adopted Fund Shifting Rules of Rulemaking (R.) 09-11-014.

Condition: The established policies and procedures seemed adequately designed to implement and monitor the fund shifting activities to comply with Commission directives.

Recommendation: None

A.9 Follow-up on Prior Examination Observations and Recommendations of UAFCB and SCG's Internal Audit Report Recommendations

Observation 21: SCG demonstrated compliance with prior year's (2012) UAFCB audit recommendations, except for recommendation as provided under Observation #6.

Observation #6 related to differences in the interpretation of the 1%, as opposed to the 15%, fund shifting rules. The prior year fund shift of greater than 1% from the C&S Building Standard Advocacy program budget to the C&S Compliance Training program budget was subject to filing an advice letter, but because SCG misinterpreted the 1% fund shifting rules, SCG did not file an advice letter.

Criteria: Attachment A of the Adopted Fund Shifting Rules, Rulemaking (R.) 09-11-014, filed November 20, 2009.[13]

Condition: In its 2012 audit report, UAFCB disclosed that SCG shifted fund of greater than 1% from the C&S Building Standard Advocacy program to the C&S Compliance Training program without filing an advice letter. Per its interpretation of the fund shifting rules and prior discussion with the Energy Division, SCG stated the referenced fund shifts were "among categories, within a program, no formal Commission review/approval is required." According to the Adopted Fund Shifting Rules, shifts among [sub-] programs within [a fund shifting] category, or shifts among [fund shifting] categories, for the C&S, Emerging Technology, and Marketing Education & Outreach require filing an advice letter. Accordingly, as (1) the referenced 2012 fund shifts were among sub-programs within a fund shifting category (C&S program) and (2) having a value of greater than 1% of the respective subprogram budgets, SCG was required to file, and should have filed, an advice letter.

Cause: Misinterpretation of the 1% fund shifting rules lead SCG to not file a required advice letter.

Effect: SCG may not be in compliance with fund shifting rules based on UAFCB's interpretation. The Energy Division is in consultation with the UAFCB on this matter for a resolution.

SCG's Comments: SCG stated that it believed the referenced 2012 fund shifting did not trigger an advice letter filing requirement. Pursuant to oral conversations with the Energy Division (ED), it was SCG understanding that ED has had a similar interpretation of the Commission's EE fund shifting requirements. SCG is seeking written guidance from the ED on this matter and will keep UAFCB informed.

Rebuttal: None

Recommendation: UAFCB continues to disagree with SCG on its interpretation of the fund shifting rule in this particular area. ED is looking into the matter for a resolution.

Observation 22: **SCG's Internal Audit did not conduct internal audit covering EE program year 2013.**

Recommendation: None

[13] Applicable to pre-2013-2014 EE programs

Appendix B
Program Compendium

B.1 Introduction

On November 8, 2012, the California Public Utilities Commission (Commission) issued Decision (D.) 12-11-015 which, among other things, authorized Southern California Gas Company (SCG) a total budget of $178.7 million in ratepayer funds to administer and implement its Energy Efficiency (EE) programs for budget cycle 2013-2014. This represents about 9% of the total $1.9 billion EE program budget for all Investor-Owned Utilities (IOUs) for the same period. The total authorized budget includes approved budgets and programs for two regional energy networks (RENs)[1] and one community choice aggregator (CCA),[2] set energy savings goals, established cost-effectiveness requirements, and required the IOUs to offset the unspent and uncommitted EE program funding from program years prior to 2010-2012 cycle against 2013 revenue requirements.[3]

B.2 EE Funding Components

Of the $178.7 million authorized portfolio budget for program cycle 2013-2014, $171.4 million is to administer and implement SCG's EE programs and the remaining $7.3 million is dedicated to fund the Evaluation Measurement and Verification (EM&V) program. SCG spent $52.1 million or 30% of the total authorized budget for the 2013 -2014 budget cycle. Table B-1 provides a summary of authorized funding (2013/2014) and spending for 2013 EE programs.

Table B-1
Authorized Ratepayer Funding (2013/14) and Spending (2013) EE Programs (Excluding EM&V)

Description		Amount	%
Authorized Budget per D.12-11-015		$171,429,996	100
2013 Actual EE Program Expenditures:		52,066,544	30
ME&O	$ 273,119		
Others	51,793,425		
Amounts Carried Forward to 2014		$119,363,452	70

B.3 Reconciliation of Total EE Portfolio Costs to Reported Amounts

SCG identifies and captures its energy efficiency (EE) program expenditures in its Enterprise Resource Planning application using a unique internal order system. Overhead costs are general administrative expenses associated with the overall management of EE portfolio in regulatory, compliance, reporting and other support activities not attributable to specific EE program(s). Overhead costs are tracked in the same manner as other EE program costs, and they are later allocated to various EE programs in proportion to individual EE program costs to the combined total costs of all EE programs.

[1] The Southern California Regional Energy Network and the San Francisco Bay Area Regional Energy Network
[2] The Marin Energy Authority
[3] D.12-11-015, OP 38, p. 140. SCG's unspent and uncommitted EE program funding was $46.7 million as identified in Table 9, p. 94 of D.12-11-015.

SCG reported all EE portfolio expenses in Table 3 of the Annual Report. In addition to providing expense data associated with Evaluation, Measurement, and Validation (EM&V), the Annual Report includes all EE portfolio costs under the Third Party (TP) and the Local Government Partnership (LGP) channels, respectively, and their total expenditures are combined with the expenditures of the IOU (Core) to arrive at the Total Portfolio Expenditures.[4] Under each delivery channel, there are three general cost categories: Administrative; Marketing/Advertising/Outreach; and Rebates and Direct Implementation.

For program year 2013, SCG combined and reported the administrative expenses that it incurred in support of the TP and LGP EE programs with their respective TP and LGP overall administrative expenses, making the two administrative cost components indistinguishable. Table B-2 provides a summary of verified EE portfolio expenditures for program year 2013, net of the recommended examination adjustments to the reported C&S program direct implementation costs of $43,853 and the NR program administrative expenses of $250,000.

[4] The reporting format of Table 3, as it is, does not distinguish the expenditure data of IOU (Core) programs from the TP programs and the LGP programs. In order to arrive at the expenditure data of IOU (Core) programs, costs of TP programs and the LGP programs had to be subtracted from the Total Portfolio Expenditures. Therefore, it is of the UAFCB's opinion that in order for the expenditure data of the IOU (Core) programs to be readily available and distinguishable from that of TP programs and LGP programs, a separate reporting IOU (Core) delivery channel, with the three mentioned cost categories, should be presented.

Table B-2
Verified EE Portfolio Expenditures – 2013
(Excluding EM&V)

Expense Types	As Audited	%
IOU/(Core):		
Administrative	$ 5,795,441	11.1%
Marketing & Outreach	3,229,619	6.2%
Rebates/Incentives/Implementation	26,844,713	51.6%
Sub-Total	35,869,773	68.9%
TP:		
Administrative:	1,165,938	2.2%
TP	853,150	
TP-IOU	312,788	
Marketing & Outreach	561,128	1.1%
Rebates/Incentives/Implementation	12,337,144	23.7%
Sub-Total	$ 14,064,210	27.0%
LGP:		
Administrative:	791,975	1.5%
LGP	111,293	
LGP-IOU	680,682	
Marketing & Outreach	217,553	0.4%
Rebates/Incentives/Implementation	1,123,033	2.2%
Sub-Total	2,132,561	4.1%
Total	**$52,066,544**	**100.0%**

B.4 Codes and Standards Programs

Statewide Codes and Standards (C&S) Program saves energy by: 1) Influencing standards and code-setting bodies (such as the California Energy Commission) to strengthen energy efficiency regulations; 2) Improving compliance with existing codes and standards; 3) Assisting local governments to develop ordinances that exceed statewide minimum requirements; and 4) coordinating with other programs and entities to support the state's ambitious policy goals.[5]

The Codes and Standards program advocacy and compliance improvement activities extend to virtually all buildings and potentially any appliance in California. These C&S activities mainly focus on California Title 20 and Title 24, Section 6 enhancements. The C&S program conducts advocacy activities to improve building and appliance efficiency regulations. The principal audience is the California Energy Commission (CEC) which conducts periodic rulemakings, usually on a three-year cycle (for building regulations), to update building and appliance energy efficiency regulations. The C&S program also seeks to influence the United States Department of Energy (DOE) in setting national energy policy that impacts California.

In some cases, the C&S activities seek to influence the state legislature and other state agencies like California Air Resources Board (CARB) to influence policy regarding buildings and

[5] Fact Sheet, "Statewide Codes and Standards Program (2013-2014)," March 2013, p. 1, Codes and Standards Support at http://www.cpuc.ca.gov/PUC/energy/Energy+Efficiency/

appliances. SCG may explore ways to influence the US Congress outside the traditional means of negotiating through the Federal partners such as the American Council for an Energy Efficient Economy (ACEEE) or the Appliance Standards Awareness Project (ASAP). The Codes and Standards Enhancement (CASE) studies, focused on energy efficiency improvements, are developed for promising designs practices and technologies and presented to standards- and code-setting bodies. The advocacy also includes affirmative expert testimony at public workshops and hearings, participation in stakeholder meetings, ongoing communications with industry, and a variety of other support activities.

Per Commission directives, an incentive for savings from building the C&S advocacy will be paid to SCG in a form of a management fee equal to 12% of approved C&S program expenditures, not to exceed the authorized expenditures, and excluding administrative costs.[6] Table B-3 provides a summary of verified C&S program expenditures for program year 2013, net of examination adjustment of $43,853 in direct implementation costs.

Table B-3
Verified C&S Program Expenditures – 2013

Program Description	Administrative	Others	Total	%
Building Codes & Compliance Advocacy	$ 9,785	$ 43,146	$ 52,931	27%
Appliance Standards Advocacy	5,113	35,289	40,402	21%
Compliance Enhancement	7,799	47,648	55,447	29%
Reach Codes	2,684	15,865	18,549	10%
Planning Coordination	3,556	22,221	25,777	13%
Total C&S Expenditures	**$28,937**	**$164,169**	**$193,106**	**100%**

B.5 Non-Resource Programs

The Non-Resource (NR) programs represent energy efficiency (EE) activities that do not focus on displacement of supply-side resources at the time they are implemented, but may lead to displacement over a longer-term, or may enhance program participation overall. The NR programs in themselves do not provide direct energy savings and only have costs, making them not cost-effective on their own. Therefore, to motivate utility management focus on achieving NR program goals while removing disincentives to shift funds and resources away from the NR programs,[7] performance reward in implementing the NR programs will be paid in a form of a management fee equal to 3% of NR program expenditures, not to exceed the program authorized expenditures, and excluding administrative costs.[8]

Currently, there are no set definitive rules or criteria on whether a particular EE program is to be classified as Resource or Non-resource for the purpose of calculating incentives under the Efficiency Savings and Performance Incentive (ESPI) mechanism. SCG categorized the following programs as non-resource for the calculation of the incentive award:

a) Statewide Emerging Technologies;
b) Statewide Workforce Education & Training;

[6] D.13-19-023, OP 3(C), p. 95
[7] D.13-19-023, Findings of Fact 10, p. 88
[8] D.13-19-023, OP 3(D), p. 95

c) Statewide Integrated Demand-Side Management (IDSM);
d) Customer Relationship Management (CRM); and
e) Codes & Standards Program[9]

Table B-4 provides a summary of verified NR program expenditures for program year (PY) 2013.

Table B-4
Verified Non-Resource Program Expenditures – 2013

Program Description	Administrative	Others	Total	%
SW Emerging Technologies	$ 271,485	$ 1,057,130	$ 1,328,615	24%
SW Workforce Education & Training	323,758	2,437,305	2,761,063	50%
SW Integrated Demand Side Management	53,841	174,136	227,977	4%
Customer Relationship Management	1,186,972	9,502	1,196,474	22%
Total Non-Resource Expenditures	**$1,836,056**	**$3,678,073**	**$5,514,129**	**100%**

B.6 Local Government Partnerships (LGP) - Western Riverside Energy Partnership Program

The Western Riverside Council of Governments (WRCOG) is the implementer of the Western Riverside Energy Partnership (WREP) program. The WREP program was an existing Local Government Partnership (LGP) program in the Southern California Edison Company's (SCE's) energy leader partnership portfolio in the program cycle 2013-14. SCG joined the partnership in mid - 2013. The WRCOG and several communities requested that SCG join the partnership [with SCE] to provide supports to implement the energy efficiency programs in the following participating jurisdictions:

1) The cities of Calimesa;
2) Canyon Lake;
3) Eastvale;
4) Hemet;
5) Lake Elsinore
6) Menifee;
7) Murrieta;
8) Norco;
9) Perris;
10) San Jacinto;
11) Temecula; and
12) Wildomar

SCG partners with the WRCOG as well as SCE to provide energy saving information and assist participating cities with implementation of municipal facilities retrofits and EE upgrades. In addition, Partnership incentives, eligible rebates, and technical assistance will be offered by SCG whenever possible. Furthermore, the partnership will coordinate education and outreach efforts

[9] Though C&S program is part of NR programs, C&S incentive is calculated differently compared to NR incentive calculations.

by providing resources and support, as available, for training, events, and marketing programs. The partnership's comprehensive portfolio of activities focus on the following key areas:

1) Educate local governments and residents on energy efficiency;
2) Collaborate with SCG to implement its existing programs in the participating communities;
3) Retrofit existing government facilities in participating jurisdictions;
4) Seek innovative approaches to energy efficiency; and
5) Provide California's long term energy efficiency strategic plan implementation in participating jurisdictions

Table B-5 provides a summary of verified WREL program expenditures for program year 2013.

Table B-5
Verified WREP Program expenditures – 2013

Cost Category	Total	%
Administrative	$ 8,731	32%
Marketing/Advert./Outreach	2,425	9%
Direct Implementation	15,742	59%
Total	**$26,898**	**100%**

B.7 Third Party (TP) Program Contracts

The Commission requires that at least 20% of energy efficiency (EE) portfolio budget consisting of all budget elements, including evaluation measurement and validation (EM&V), be dedicated to competitively bid third-party contractors to implement the Third Party programs.[10] [11] Regarding concerns as to whether the budget of RENs/MEA and Administrative components should be excluded from the calculation, the response with regards to the RENs/MEA would necessarily be that, based on the substance of the transactions in terms of the extent of controls and responsibilities to which the IOUs have over the RENs/MEA operations, [12] the RENS/MEA

[10] D.12-11-015, p. 82, para 1

[11] In terms of the calculation of the 20% minimum, TP program (TPP) budget is the numerator (D.12-11-015, p. 82, last paragraph, second to last sentence, wherein, in part, "We ... require ... that the budget for [Third Party] program solicited directly and competitively from third parties ...") and the EE portfolio budget should be the denominator (D.12-05-015, bottom of page 9, footnote 6).

[12] There remain concerns with respect to the budgets of RENs/MEA programs and Administrative Cost element. The Commission is silent on these particulars. Therefore, in the absence of specific directives, determination on whether to exclude certain cost elements from our consideration in determining the 20% minimum should be based on substance, rather than form, of the transaction in that we should consider the extent of controls to which the IOUs have on RENs/MEA program operations and responsibilities. On this, Commission has in D.12-11-015 concluded, among other things, the following [D.12-11-015, Conclusion of Law, p. 117, paras 5-6]:

budget can and should be excluded from consideration, while the same cannot be said for Administrative Cost component as the Commission in D.12-11-015, page 82, first paragraph only mentions the exclusion of the EM&V budget.

In the implementation of its Third Party (TP) programs, SCG acquired its contracts through competitive bids to third-party contractors/implementers. There are three types of contracts: Fixed Fee, Time-and-Materials (T&M) and Hybrid, and according to SCG:

1) Fixed Fee: A Fixed-Fee payment is generally used to describe either fixed-unit or fixed-fee deliverable pricing structures. Under a fixed-unit pricing payment structure (100% Pay-for-Performance) a contractor receives payments only when a contractor has delivered energy savings. Payment for any other services (such as audits performed) is not considered pay-for-performance. This pricing structure is appropriate for Resource programs. Under this pricing structure, contractor program payments must be solely based upon $/savings achieved (therms). No other structures for fixed-unit-pricing is allowed, including the $/measure installed. Instead, measures or numbers of units installed should be converted to savings claimed for the installed measures.

   Under a fixed-fee deliverable pricing payment structure, a contractor is paid a fixed fee for specific deliverables (e.g., audits completed and reports submitted). This payment structure is most appropriate for non-resource programs. Any proposed pricing structure that includes fixed-fee deliverables is structured such that payments align with completion of deliverables meaningful to the success of the Program.

2) T&M: Under a Time & Materials (T&M) payment structure, a contractor is paid based on labor expended (hours worked x approved hourly rates) and actual costs of materials. All roles and rates used to calculate T&M payments are negotiated and documented in the contract. In addition, a 'not-to-exceed payments' provision must be tied to specific and identifiable milestones, tasks and/or deliverables.

3) Hybrid: A hybrid contract type includes elements of fixed-unit, fixed-fee deliverable, and/or time & material type pricing structures. The administration and marketing areas most commonly have some payment in the form of time and materials with a 'not-to-exceed limit' provision.

For the program year 2013, SCG incurred a total of $14,064,210 on TP programs. Table B-6 provides a summary of verified TP program expenditures for PY 2013.

"5. The utilities should not have control over the design of or modifications to REN or MEA programs or delivery models.

"6. The RENs and MEA should be independently responsible to the Commission for delivering the results of their programs.

Based on the above, RENs programs operational controls and responsibilities are in substance rest upon the RENS and MEA, not on the IOUs. Therefore, the budgets of RENs and MEA should be (and have been) excluded from consideration in determining the 20% minimum.

Table B-6
Verified TP Program Expenditure – 2013
By Contract Type and Cost Category

Contract Type	Marketing	DI	Administrative[13]	Total	%
Hybrid	$ 405,668	$ 7,741,191	$ 734,714	$ 8,881,573	63%
Fixed Fee	160,926	3,574,753	296,712	4,032,391	29%
T&M	62,792	876,648	94,177	1,033,617	7%
IDEEA365	76,255	12,192,592	40,374	116,629	1%
Total	**$ 705,641**	**$12,192,592**	**$1,165,977**	**$14,064,210**	**100%**
%	5%	87%	8%	100%	

B.8 Plug Load and Appliance

The Plug Load and Appliances (PLA) program includes the former Home Energy Efficiency Rebate (HEER), Business Consumer Electronics (BCE), and Appliance Recycling subprograms (ARP).[14] The PLA program is designed to promote energy efficient plug load and appliance measures through rebates via mail-in, online and point of sale (POS). The program focuses on refining the present strategies and tactics that integrate, leverage and build upon the existing delivery channels and customer relationships, while developing and testing market transformation strategies for commercially viable, advanced plug load technologies.[15]

Table B-7 provides a summary of verified SCG's PLA program expenditures for program year 2013.

Table B-7
Verified PLA Program Expenditures – 2013

Cost Category	POS	Others	Total	%
Administrative	$ 171,361	$ 466,146	$ 637,507	10%
Marketing/Advert./Outreach	936	732,842	733,778	12%
Direct Implementation	1,839,359	3,167,042	5,006,401	78%
Totals	**$2,011,656**	**$4,366,030**	**$6,377,686**	**100%**

B.9 Fund Shifting

Per Decision (D.) 12-11-015, Opinion Paragraph (OP) 10, the existing fund shifting rules[16] are to be applied to the following categories of programs of the IOUs:[17]

a. Statewide residential

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[13] TPP Administrative expenses include $312,787 of administrative expenses that SCG incurred to support the TP program activities.
[14] Fact Sheet, "Statewide Residential Programs (2013-2014)," March 2013, p. 3, Residential at http://www.cpuc.ca.gov/PUC/energy/Energy+Efficiency/
[15] Data response to DR-001, Q39
[16] This is in reference to fund shifting rules in D.09-09-047, OP 43(b) and Ruling (R.) 09-11-014, "Assigned Commissioner's Ruling Clarifying Fund Shifting Rules and Reporting Requirements," dated December 22, 2011.
[17] D.12-11-015, OP 20, pp. 135-136

b. Statewide commercial
c. Statewide agricultural
d. Statewide industrial
e. Statewide lighting
f. Statewide codes and standards
g. Statewide emerging technologies
h. Statewide workforce, education, and training
i. Statewide marketing, education, and outreach
j. Statewide integrated demand-side management
k. Statewide financing
l. Third party programs (competitively bid)
m. Local government partnerships
n. Other

The above enumerated program categories (a-n) are re-characterized into program categories 1 through 14 per R.09-11-014, "Energy Efficiency Policy Manual," Version 5, July 2013, Applicable to post-2012 Energy Efficiency Programs. Generally, fund shifts among the fourteen program categories exceeding 15% require a filing of an Advice Letter. However, there are a few exceptions where a filing of an advice letter is required when fund shifts would reduce the following statewide programs by more than 1% of their respective budget levels:

1) Codes & Standards (C&S) program;
2) Emerging Technology (ET) program; and
3) Marketing Education & Outreach (ME&O) program

For the program year 2013, SCG conducted one fund shift under TP program category between two programs within the same cost category.

B.10 Follow-up on Prior UAFCB's Observations and Recommendations and SCG's Internal Audit Report Recommendations

UAFCB performed a follow-up examination on findings and recommendations contained in its prior year examination report addressed to the Deputy Director, Operations and Budget, dated June 27, 2014. The findings and recommendations in the report pertain to the following subjects:

a) Administrative Costs charged to the Statewide, Local Government Partnership (LGP) and Third Party (3P) Programs;
b) Non-IOU Administrative Costs of Local Government Partnership and Third Party programs were grouped and reported in the Marketing Cost category on Table 3, Annual Report;
c) Insufficient invoice-related documentation in support of payments to a third party contractor;
d) On-Bill Financing Program;
e) Multifamily Energy Efficiency Rebate Program;
f) Fund Shifting; and

g) SCG's Internal Audit Reports

For current examination comments and recommendation on the remaining 2012 examination issue, refer to Observation #21, Appendix A.

Appendix C
SCG's Comments

Southern California Gas Company

A Sempra Energy utility

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June 15, 2015

Mr. Kayode Kajopaiye
CPUC Utility Audit, Finance & Compliance Branch
505 Van Ness Avenue
San Francisco, CA 94102

Re: SoCalGas Comments on Financial, Management, and Regulatory Compliance Examination Report of Southern California Gas Company Energy Efficiency Programs For the Period January 1, 2013 through December 31, 2013

Dear Mr. Kajopaiye,

Southern California Gas Company (SoCalGas) has reviewed the Draft Financial, Management, and Regulatory Compliance Examination Report of Southern California Gas Company Energy Efficiency (EE) Programs For the Period January 1, 2013 through December 31, 2013 (Report) prepared by the Utility Audit, Finance and Compliance Branch (UAFCB). SoCalGas hereby provides the following comments.

UAFCB Observation 1
SCG demonstrated compliance with Public Utility (PU) Code § 451, 581, 582 and 584.2 The audited total EE program portfolio cost for 2013 was $68,263,315, excluding evaluation measurement and validation (EM&V). UAFCB did not find material audit exception in the reconciliations of the Energy Efficiency portfolio expenditures between SCG's records and the as-filed annual report (Table 3), quarterly report, and monthly report.

Response to Observation 1
The audited total EE program portfolio expense of $68,263,315 referenced in Observation 1, Table B-1 and Table B-2 is incorrect. The correct amount should be $52,066,544, net of audit adjustments. The corrected value removes double counted Third Party (TP) and Local Government Partnership (LGP) sub-total amounts in Table B-2, as those costs already reflected in the IOU/(Core) Sub-Total amount of $52,066,544 (Note the Annual Report Table 3 reflects this as a Total Portfolio Expenditures excluding EM&V). The revised Table B-2 below reflects the correct cost breakouts of IOU/Core, TP and LGP, and the revised percentage calculation for the entire table.

Mr. Kayode Kajopaiye
June 15, 2015
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Table B-2
Audited EE Portfolio Expenditures – 2013
(Excluding EM&V)

Expense Types	As Audited	%
IOU/(Core)		
Administrative	$5,795,441	11.1
Marketing & Outreach	3,229,619	6.2
Rebates/Incentives/Implementation	26,844,713	51.6
Sub-Total	$35,869,773	68.9
TP:		
Administrative:	1,165,938	2.2
TP	853,150	
TP-IOU	312,788	
Marketing & Outreach	561,128	1.1
Rebates/Incentives/Implementation	12,337,144	23.7
Sub-Total	$14,064,210	27.0
LGP:		
Administrative:	791,975	1.5
LGP	111,293	
LGP-IOU	680,682	
Marketing & Outreach	217,553	0.4
Rebates/Incentives/Implementation	1,123,033	2.2
Sub-Total	2,132,561	4.1
Total	$52,066,544	100.0

UAFCB Observation 4
SCG failed to demonstrate compliance with PU Code §§ 451, 581, 582 and 584 and SCG's established policy and procedures on accounting accrual. SCG incorrectly recorded in program year 2013 the direct implementation costs of $43,853, or 19% of the total 2013 C&S program expenditures, that belonged to program year 2012.

Response to Observation 4
SoCalGas acknowledges that test item # 8 with the amount of $20,079 should be accrued in 2012 as it met SoCalGas' minimal accrual threshold of $10,000 per transaction. As a business practice, SoCalGas continuously seeks to strengthen its internal processes, including enhanced procedures and training to ensure that program expenditures are valid and accurate, and they are recognized and reported in the appropriate reporting period. SoCalGas will enhance its internal accrual compliance practices to ensure EE program staff is well trained on the company's

accrual policy and requirements, and ensure coordination with vendors and other counterparties for accrual compliance.

UAFCB Observation 7
SCG failed to demonstrate compliance with PU Code §§ 451, 581, 582, and 584 and SCG's established policies and procedures on the accounting accrual. SCG incorrectly recorded in program year 2013 the administrative costs of $250,000, or 4.3% of the total 2013 NR program total expenditures, that belonged to program year 2012.

Response to Observation 7
SoCalGas acknowledges that $250,000 related to administrative costs should have been accrued in 2012 as it met SoCalGas' minimal accrual threshold of $10,000 per transaction. See comment in response to Observation 4 regarding strengthening training on accrual practices.

UAFCB Observation 9
SCG demonstrated compliance with PU Code §§ 451, 581, 582 and 584. UAFCB did not find material audit exception in the reconciliation of SCG's EE Local Government Partnership (LGP) program costs between SCG's records and the as-filed annual report (Table 3). However, as there is no clear directives on how to group and report the administrative costs that SCG incurred in supports of its LGP programs, SCG grouped and reported $680,682 of such expenses as part of LGP program overall administrative expenditures.

Response to Observation 9
SoCalGas will raise UAFCB's findings in Observation 9 with the Energy Division. SoCalGas currently reports expenditures in accordance the Commission's requirements; in the event the Energy Division updates the reporting template in association with this finding, SoCalGas will comply with the new reporting format.

UAFCB Observation 12
SCG demonstrated compliance with PU Code §§ 451, 581, 582 and 584. The audited total TP program costs for 2013 was $14,064,210. UAFCB did not find material audit exception in the reconciliations of EE Third Party (TP) program costs between SCG's records and the as-filed annual report (Table 3), quarterly report, and monthly report. However, as there is no clear directives on how to group and report the administrative costs that SCG incurred in supports of its TP programs, SCG grouped and reported $312,788 of such expenses as part of TP program overall administrative expenditures.

Response to Observation 12
See the response to Observation 9 regarding the reporting recommendation. In addition, SoCalGas notes that Table B-2 reflects an incorrect amount for TP-IOU of $529,007. The correct amount as reflected in the discussion of this observation

is $312,788. The revised Table B-2 in response to Observation 1 reflects the correct administrative amounts for TP and TP-IOU.

UAFCB Observation 21
SCG demonstrated compliance with prior year's (2012) UAFCB audit recommendations, except for recommendation related to compliance with fund shift rules stated in Observation #6. UAFCB observed that SCG should have filed an Advice Letter because funds shifted from the C&S Building Standard Advocacy program budget to the C&S Compliance Training program budget during the prior year was greater than the 1% benchmark established by Commission's rule. However, SCG asserted that based on its interpretation of established Commission's fund shift rules, it was not required to file an Advice Letter because the fund shift was subject to a 15% benchmark rule and not the 1% benchmark.

Response to Observation 21
As stated in response to the UAFCB Audit Report of program year 2012, SoCalGas believes that the Codes & Standards program is a fund shifting category and has the flexibility to shift funds within the subprograms of this category without seeking approval from the Commission via Advice Letter. Pursuant to oral conversations, it is SoCalGas understanding that the Energy Division has a similar interpretation of the Commission's EE fund shifting requirements. SoCalGas is seeking written guidance from the Energy Division on this matter and will submit that to UAFCB when available.

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

Sincerely,

Daniel J. Rendler

Daniel J. Rendler
Director, Customer Programs and Assistance

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