



Memorandum

Date: June 30, 2015

To: Michelle Cook
Deputy Executive Director for Administration and Budget

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

Subject: Financial, Management, Regulatory, and Compliance Examination Report on San Diego Gas and Electric Company's Energy Efficiency For the Period January 1, 2013 through December 31, 2013.

A handwritten signature in black ink, appearing to be "Kajopaiye", written over the name of the sender in the memorandum header.

Except for the matters discussed in observations 2, 5, and 20 below, San Diego Gas and Electric Company (SDG&E) demonstrated compliance with Commission directives respecting the areas of its Energy Efficiency (EE) programs examined by the Utility Audit, Finance and Compliance Branch (UAFCB). However, SDG&E incorrectly recorded the Codes and Standards (C&S) program costs of \$25,025 pertaining to 2012 expenditures for 2013. Therefore, an adjustment of \$25,025 should be made to the C&S program expenditures before the calculation of the incentive award when SDG&E files 2014 Advice Letter to true up or request incentive awards for 2013 and 2014, respectively.

UAFCB conducted this examination pursuant to Decision (D.)13-09-023.¹ The examination was limited to the following specific areas: (1) Reconciliation of EE Program Portfolio Costs to Amounts Reported; (2) Codes and Standards (C&S) programs; (3) Non-Resource (NR) programs; (4) Local Government Partnerships (LGP) programs; (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 SDG&E's Internal Audit Recommendations.

SDGE'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 Recommendation

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.

¹D.13-09-023, OP No. 17, p. 98, states "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 UAFCB reports. Upon completion, the Commission's UAFCB 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 program activity."

Reconciliation of EE Program Portfolio Costs to Reported Amounts

Observation 1: SDG&E demonstrated compliance with Public Utility (PU) Code §§ 581, 582 and 584² respecting the total portfolio costs For 2013, this amounted to \$72,792,287, not including the Evaluation Measurement and Verification (EM&V) costs. A reconciliation of reported EE portfolio expenditures (annual report (Table 3), including the quarterly and monthly reports) to SDG&E's records disclosed no exceptions.

Recommendation: None

Observation 2: SDG&E failed to demonstrate compliance with PU Code §§, 581, 582 and 584 respecting a recorded program amount. SDG&E reported an expenditure of \$320,010 for a program to the Commission, instead of reporting \$185,269 recorded in its fourth quarter report. This incorrect reporting resulted in an overstatement of \$134,741. SDG&E stated that it inadvertently did not update the report with the correct data. However, it did so during the course of the examination. SDG&E's report update was untimely.

SDG&E comments that it agrees with the Observation and plans to strengthen the internal controls and oversight of reporting to the Commission.

Recommendation: UAFCB should review any controls and additional oversight put in place by SDG&E in a future EE examination.

Observation 3: SDG&E demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the reports filed with the Commission. SDG&E filed its monthly, quarterly, and annual reports timely with the Commission.

Recommendation: None

Codes and Standards (C&S) programs

Observation 4: SDG&E demonstrated compliance with PU Code §§, 581, 582 and 584 respecting the reported program costs. A reconciliation of C&S program expenses to SDG&E's records and the annual report disclosed no exceptions. The reported \$319,889 expended on C&S programs reconciled to the accounting records.

Recommendation: None

Observation 5: SDG&E failed to demonstrate compliance with PU Code §§ 581, 582 and 584 respecting the C&S verified program costs. UAFCB verified \$150,889, or 47% of \$319,889. In general, the expenditures were properly supported. However, the review also disclosed that SDG&E recorded \$25,025 direct implementation costs in 2013 that belonged to program year 2012, overstating the program expenditures for 2013 by the same amount.

SDG&E comments that it agrees with the recommendation below. However, the invoices were not timely submitted by the vendor for 2012 accrual and that this was a legitimate EE program expenses.

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

Recommendation: SDG&E should strengthen its oversight over accrual process. The \$25,025 should be removed from the incentive award calculation when SDG&E files 2014 Advice Letter to true up or request awards for 2013 and 2014, respectively.

Observation 6: SDG&E demonstrated compliance with PU Code §§ 581, 582 and 584 respecting its C&S program policies and procedures. SDG&E had the necessary policies and procedures in place to implement and monitor the programs to comply with Commission directives.

Recommendation: None

Non-Resource (NR) programs

Observation 7: SDG&E demonstrated compliance with PU Code §§ 581, 582, and 584 respecting the reported program costs. A reconciliation of NR reported program expenditures (annual report) to SDG&E's records disclosed no exceptions. The reported \$8,913,748 expended on NR programs reconciled to the accounting records.

Recommendation: None

Observation 8: SDG&E demonstrated compliance with PU Code §§, 581, 582 and 584 respecting certain amounts sampled for verification. UAFCB verified \$3,240,717, or 36% of \$8,913,748. In general, the expenditures were properly supported.

Recommendation: None

Observation 9: SDG&E demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the NR policy and procedures. In general, SDG&E had the necessary policy and procedures in place to implement the NR programs to comply with Commission directives including the program designation whether being a resource or non-resource.

Recommendation: None

Local Government Partnerships (LGP)

Observation 10: SDG&E demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the LGP. A reconciliation of LGP reported program expenses (annual report) to SDG&E's records disclosed no exceptions.

Recommendation: None

Observation 11: SDG&E demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the LGP program expenses reported to the Commission.

Recommendation: None

Observation 12: SDG&E demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the LGP program policy and procedures. SDG&E established policy and procedures to implement the LGP to comply with Commission directives.

Recommendation: None

Third Party (TP) program contracts

Observation 13: SDG&E demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the reported TP program contracts. A reconciliation of reported TP program expenses (annual report) to SDG&E's records disclosed no exceptions. SDG&E expended \$25,801,201 on TP program contracts.

Recommendation: None.

Observation 14: SDG&E demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the (TP) program costs. UAFCB verified \$10,516,676, or 41% of \$25,801,201. The documents reviewed included, but not limited to, contracts, invoices and other relevant documents that substantiated and supported the recorded expenses. The review did not disclose material exceptions.

Recommendation: None

Observation 15: SDG&E demonstrated compliance with the EE Policy Manual and its internal policies and procedures. UAFCB's review disclosed that they were designed, structured, managed, and implemented in compliance with Commission's directives and SDG&E's policies and procedures.

Recommendation: None

Observation 16: SDG&E demonstrated compliance with applicable provisions of D.12-11-015 by dedicating 20% of its total EE portfolio budget to TP programs through competitive bidding to third-party contractors.

Recommendation: None

Plug Load and Appliances (PLA) programs

Observation 17: SDG&E demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the reported program costs. A reconciliation of PLA reported program expenses (annual report) to SDG&E's records disclosed no exceptions. SDG&E expended \$3,602,742 on PLA program.

Recommendation: None

Observation 18: SDG&E demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the PLA program costs. UAFCB verified \$1,257,742 or 35%, of \$3,602,742. In general, the expenditures were properly supported.

Recommendation: None

Observation 19: SDG&E demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the program policy and procedures. SDG&E had the necessary policies and procedures in place to implement the PLA programs to comply with Commission directives.

Recommendation: None

Fund Shifting

Observation 20: UAFCB previously alleged that SDG&E failed to demonstrate compliance with Decision D.09-09-047 and the EE Policy Manual R.09-11-014³ requirements in the draft memo report provided to SDG&E for comment. Upon further review and given the additional information provided by SDG&E, UAFCB believes now that SDG&E was in compliance.

Recommendation: None.

Follow up on Prior UAFCB's Examination Observation and Recommendation and SDG&E's Internal Audit Recommendations

Observation 21: SDG&E demonstrated compliance with the prior UAFCB's recommendation that the quarterly Fund Shift reports (EEStats) be on a cumulative basis.

SDG&E's Internal Audit Department did not conduct EE audits in 2013.

Recommendation: None

B. Examination Process

UAFCB focused its examination on the areas mentioned above based on consultation with the Energy Division, its prior experience in examining SDG&E's programs, and the results of its risk assessment. Pertinent information about SDG&E's EE programs is found in Appendix B.

On June 5, 2015 the UAFCB provided a draft of its analysis, observations and recommendations to SDG&E for its comment. SDG&E filed comments on June 22, 2015 and they are included in its entirety 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 SDG&E's compliance with the requirements of the energy efficiency programs, directives of the Commission pertaining to the programs, SDG&E's internal policies and procedures, and the generally accepted accounting principles and practices.

C. Conclusion

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

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

cc: Rami Kahlon, Director, Division of Water and Audits
Bernard Ayanruoh, Division of Water and Audits
Frederick Ly, Division of Water and Audits
Fred Kyama, Division of Water and Audits
Pete Skala, Energy Division

³ EE policy manual v5 of July 2013 pgs.64 - 66 Appendix C: Adopted Fund Shifting Rules.

Appendix A Analysis and Findings

A.1 Introduction

Except for the matters discussed in observations 2, 5 and 20 below, San Diego Gas and Electric Company (SDG&E) 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;
- (5) Third Party (TP) program contracts;
- (6) Plug Load and Appliances (PLA) programs;
- (7) Fund Shifting, and
- (8) Follow-up on Prior UAFCB's Observation and Recommendation and SDG&E's Internal Audit Recommendations, if applicable.

On June 5, 2015, the UAFCB submitted a draft memo report to SDG&E for its review and to comment. The draft report included UAFCB's observations and recommendations for the specific areas reviewed during the examination. On June 22, 2015 SDG&E filed its comments and they are included in their entirety as Appendix C. UAFCB summarized the comments and its response to them in Appendix A as needed.

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

Observation 1: SDG&E demonstrated compliance with Public Utility (PU) Code §§ 581, 582, and 584¹ respecting the total portfolio costs. For 2013, this amounted to \$72,792,287, not including the Evaluation Measurement and Verification (EM&V). A reconciliation of reported EE portfolio expenditures (annual report (Table 3), including the quarterly and monthly reports) to SDG&E'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.

Condition: UAFCB reconciled the reported EE portfolio expenditures (annual report (Table 3), including the quarterly and monthly reports) to SDG&E's records (general ledger) with no exceptions.

Recommendation: None

¹ All statutory references are to the Public Utilities Code unless stated otherwise.

Observation 2: SDG&E failed to demonstrate compliance with PU Code §§ 581, 582 and 584 respecting a recorded program cost. SDG&E reported an expenditure of \$320,010 for a program to the Commission, instead of \$185,269 recorded in its fourth quarter report. This incorrect reporting resulted in an overstatement of \$134,741. SDG&E stated that it inadvertently did not update the report with the correct data. However, it did so during the course of the examination. SDG&E's report update was untimely.

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

Condition: The review of the fourth quarter report disclosed that SDG&E incorrectly over reported the cost of SDGE3264-FIN-New Offering program. SDG&E stated it inadvertently did not update the previously filed report with the correct data, but did so during the course of the present examination. Therefore, the report update was not timely.

Cause: SDG&E did not timely update the EEStats when it needed to do so

Effect: A lack of updated information could make the existing information unreliable.

SDG&E Comments: SDGE agrees with the UAFCB's observation of the inaccurate reporting noted in the quarterly report filing and plans to improve the controls and oversight of the reporting to the Commission.

Recommendation: UAFCB should review any controls and additional oversight put in place by SDG&E in a future EE examination.

Observation 3: SDG&E demonstrated compliance with PU Code §§ 4581, 582 and 584 respecting the reports filed with the Commission. SDG&E filed its monthly, quarterly, and annual reports timely with the Commission.

Criteria: The EE policy manual requires that all utilities file monthly, quarterly, and annual reports as prescribed and directed in a timely manner.² The reporting deadlines were modified by the Energy Division's letter dated July 29th, 2013,³ to indicate that the monthly, quarterly, and annual reports should be filed by 30, 60, and 120 days, respectively, after the end of each respective period.

Condition:

- a) Monthly Reports - SDG&E did not file the monthly reports for January through April, and attributed the non-filing to the Energy Division's finalization and approval of reporting requirements. All subsequent monthly reports (May to December) were filed as prescribed timely.
- b) Quarterly Reports - SDG&E did not file the first quarterly report for the same reason (as mentioned in (a) above). All subsequent quarterly reports were filed as prescribed timely.
- c) Annual Report- the annual report was filed timely.

² EE policy Manual Version 5, July 2013, p. 67, Appendix D: Reporting Requirements for Energy Efficiency

³ 2013-2014 Energy Efficiency Program Reporting Timeline and Guidance

Recommendation: None

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

Observation 4: SDG&E demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the reported program costs. A reconciliation of reported C&S program expenses (annual report) to SDG&E's records disclosed no exceptions. The reported \$319,889 expended on C&S programs 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 C&S program expenditures to SDG&E's records (general ledger) and the annual report (fourth quarterly report), and Advice Letter 2448.

Recommendation: None

Observation 5: SDG&E failed to demonstrate compliance with PU Code §§ 581, 582 and 584 respecting the C&S verified program costs. UAFCB verified \$150,889, or 47% of \$319,889. In general, the expenditures were properly supported. However, the review also disclosed that SDG&E recorded \$25,025 direct implementation costs in 2013 that belonged to program year 2012 overstating the expenditures for 2013 by the same amount.

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

Condition: UAFCB noted that SDG&E incorrectly recorded the Codes and Standards (C&S) program costs of \$25,025 pertaining to 2012 as expenditures for 2013. According to its established accrual policy, the cut off for accruals is \$10,000, therefore, any expense having a value of \$10,000 or greater must be recorded in the appropriate accrual period.

Cause: SDG&E had inadequate oversight over its accrual processes.

Effects: An improper accrual resulted in an overstatement of the 2013 C&S program expenses by \$25,025, with a corresponding understatement by the same amount in program year 2012.

SDG&E Comments: SDG&E states that "The invoices in question or estimated invoices were not submitted in time for the 2012 year end accrual." SDG&E later processed the invoices when they were received. It agrees with the recommendation but asserts that this was a legitimate program expenses.

Rebuttal: It is SDG&E's responsibility to ensure that all its vendors submit invoices or estimates of completed work in a respective financial year timely for accrual

Recommendation: SDG&E should strength its oversight over the accrual process. The \$25,025 should be removed from the incentive award calculation when SDG&E files 2014 Advice Letter to true up or request awards for 2013 and 2014, respectively.

Observation 6: SDG&E demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the C&S program policy and procedures. SDG&E had the necessary policies and procedures in place to implement and monitor these programs to comply with Commission directives.

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

Condition: SDG&E's established policy and procedures encompass the Customer Program and Project Handbook (CPPH), version 3, dated January 4, 2013. CHHP provided standard guidelines to staff on the development, implementation, and operation of EE program common areas, as well as specific program areas, such as C&S programs. SAP system is the primary accounting system used in tracking the C&S program expenses.

Recommendation: None

A.4 Non-Resource (NR) Programs

Observation 7: SDG&E demonstrated compliance with PU Code §§ 581, 582, and 584 respecting the reported program costs. A reconciliation of reported NR program expenditures (annual report) to SDG&E's records disclosed no exceptions. The reported \$8,913,752 expended on the NR programs 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 NR program expenditures (annual report (fourth quarterly report) and Advice Letter 2448) to SDG&E's records (general ledger)

Recommendation: None

Observation 8: SDG&E demonstrated compliance with PU Code §§, 581, 582 and 584 respecting certain amounts sampled for testing. UAFCB verified \$1,257,742, or 35% of \$3,602,742. In general, the expenditures were properly supported.

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

Condition: UAFCB selected and verified a few samples of recorded expenses to determine the accuracy of the program costs. UAFCB examined supporting documents that included, but not limited to, contracts, vendor invoices, and labor charges and other records. These documents supported and justified the program recorded expenses.

Recommendation: None

Observation 9: SDG&E demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the NR policy and procedures. In general, SDG&E had the necessary policy and procedures in place to implement the NR to comply with Commission directives including the program designation whether being a resource and non-resource.

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

Condition: See "Condition" under Observation 6 to avoid repetition.

Recommendation: None

A.5 Local Government Partnership Programs

Observation 10: SDG&E demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the LGP. A reconciliation of reported LGP program expenses (annual report) to SDG&E'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.

Condition: UAFCB reconciled the LGP program expenditures to SDG&E's records (general ledger), the annual report (fourth quarterly report) and Advice Letter 2448.

Recommendation: None

Observation 11: SDG&E demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the program expenses reported to the Commission.

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

Condition: SDG&E's LGP program costs were accurately reported to the Commission.

Recommendation: None

Observation 12: SDG&E demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the LGP program policy and procedures. SDG&E established policy and procedures to implement the LGP programs to comply with Commission directives.

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

Condition: See "Condition" under Observation 6 to avoid repetition.

Recommendation: None

A.6 Third Party (TP) Program Contracts

Observation 13: SDG&E demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the reported TP program contracts. A reconciliation of reported TP program expenses (annual report) to SDG&E's records disclosed no exceptions. SDG&E expended \$25,801,201 on TP program contracts.

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

Condition: UAFCB reconciled the TP program expenditures (annual and fourth quarter reports and Advice Letter 2448) to SDG&E's records (general ledger) UAFCB did not find material exceptions.

Recommendation: None

Observation 14: SDG&E demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the (TP) program costs. UAFCB verified \$10,516,676, or 41 of \$25,801,201. The documents reviewed included, but were not limited to, contracts, invoices and other relevant documents that substantiated and supported the recorded expenses. The review did not disclose material exceptions.

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

Condition: UAFCB selected and verified a few samples of TP recorded expenses to determine whether they were allowable and had the appropriate supporting documents. Most of them were properly supported.

Recommendation: None

Observation 15: SDG&E demonstrated compliance with the EE Policy Manual and its internal policies and procedures. UAFCB's review disclosed that they were designed, structured, managed, and implemented in compliance with the Commission's directives and its policies and procedures.

Criteria: The EE Policy Manual provides general guidance on PIP⁴. The Customer Programs and Projects Handbook provides guidance on the contracting process. The internal accounting policies and procedures provide guidance for recording and reporting the TP program expenditures.

Condition: SDG&E had the necessary policies and procedures in place to control and monitor its accounting practices including the recording and reporting of TP program expenditures.

Recommendation: None

⁴ EE Policy Manual, pp. 26 and 27

Observation 16: SDG&E demonstrated compliance with applicable provisions of D.12-11-015 by dedicating 20% of its total EE portfolio budget to TP programs through competitive bidding to third-party contractors.

Criteria: Commission requires that at least 20% of Energy Efficiency portfolio budget be dedicated to TP programs through competitive bidding to third-party contractors.⁵

Condition: UAFCB calculated that SDG&E dedicated 20% of its EE portfolio budget to TP programs through competitive bidding to third-party contractors by following the directives from the Commission.

Recommendation: None

A.7 Plug Load and Appliances (PLA) Program

Observation 17: SDG&E demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the reported program costs. A reconciliation of PLA program expenses (the annual report) to SDG&E's records disclosed no exceptions. SDG&E expended \$3,602,742 on PLA program.

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 expenditures (annual and fourth quarter reports and Advice Letter 2448) to SDG&E's records (general ledger) UAFCB did not find material exceptions.

Recommendation: None

Observation 18: SDG&E demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the PLA program costs. UAFCB verified \$1,257,742 or 35%, of \$3,602,742. In general, the expenditures were properly supported.

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

Condition: UAFCB selected and verified a sample of recorded expenses to determine whether they were allowable, not unusual or excessive, and had the appropriate supporting documentation. The documents reviewed included, but were not limited to, contracts, vendor invoices, and labor costs and other records. UAFCB did not find material exceptions.

Recommendation: None

⁵ D.12-11-015, p. 82, para.1

Observation 19: SDG&E demonstrated compliance with PU Code §§ 581, 582 and 584 respecting the PLA program policy and procedures. SDG&E had the necessary policies and procedures in place to implement the PLA programs to comply with Commission directives.

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

Condition: See "Condition under Observation 6.

Recommendation: None

A.8 Fund Shifting

Observation 20: Observation 20: UAFCB previously alleged that SDG&E failed to demonstrate compliance with Decision D.09-09-047 and the EE Policy Manual R.09-11-014⁶ requirements in the draft memo report provided to SDG&E for comment. Upon further review and given the additional information provided by SDG&E, UAFCB believes now that SDG&E was in compliance.

Criteria: EE Policy Manual required each utility to file updated reports in EEStats. An authorized Advice Letter is required respecting the Emerging Technologies fund shift category under the following conditions;

- a) Shifts Among Programs Within a Category - An Advice Letter is required for a shift that would reduce any of the programs by more than 1% of budgeted levels.
- b) Shifts Among Categories - An Advice Letter is required for shifts that would reduce these programs by more than 1% of budgeted levels.

Condition: D.12-11-015 dated November 12, 2012 approved SDG&E's original ET program budget filed in A-12-07-002. Later, new update budget figures for ET programs were approved in Advice Letter 2448-E-B/2167-G-B dated June 12, 2013. UAFCB alleged that SDG&E did not update its EEStats Quarterly Fund Shift Report for ET program budgets with the latest budget figures⁷.

Cause: UAFCB alleged that an oversight on the part of SDG&E caused the problem.

Effects: Failure to follow the Commission's guidelines renders information unreliable and lessens the reports usefulness.

SDG&E Comments: SDG&E disagrees with the initial UAFCB's observation and insisted that it filed AL 2448-E-B/2167-G-B for its fund shift and that it updated its quarterly report timely on August 28, 2013.

Rebuttal: None.

Recommendation: None.

⁶ EE policy manual v5 of July 2013 pgs.64 - 66 Appendix C: Adopted Fund Shifting Rules.

⁷ Refer to Appendix B, Table B-5

A.9 Follow-up on Prior UAFCB's Examination Observation and Recommendation and SDG&E's Internal Audit Recommendations

Observation 21: SDG&E demonstrated compliance with the prior UAFCB's recommendation that the quarterly Fund Shift reports (EEStats) be on a cumulative basis.

SDG&E's Internal Audit Department did not conduct EE audits in 2013.

Criteria: In the 2012 examination, the UAFCB recommended that data in the fourth quarter Fund Shift report be on a cumulative basis.

Condition: SDG&E's reported its quarterly fund shift report on a cumulative basis in 2013.

Recommendation: None

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 San Diego Gas and Electric Company (SDG&E) a total budget of \$205.2 million in ratepayer funds to administer and implement its Energy Efficiency (EE) programs for budget cycle 2013-2014. This represents about 11% of the total \$1.9 billion in EE program budget for all Investor-Owned utilities (IOUs) for the same period. The decision 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.¹

B.2 EE Funding Components

Of the \$205.2 million authorized portfolio budget for program cycle 2013-2014, \$196.7 million is to administer and implement SDG&E's EE programs and the remaining \$8.5 million is dedicated to fund the Evaluation Measurement and Verification (EM&V) program. SDG&E spent \$72.7 million or 37% of the total authorized budget for the 2013-2014 budget cycle. Table B-1 provides a summary of EE programs funding for 2013/14 cycle and the 2013 total spending including the remaining balance for 2014.

Table B-1
Summary of Ratepayer Funded EE Programs 2013/2014 and 2013 Spending
(Excluding EM&V)

| Description | Amount | % |
|--------------------------------------|----------------------|-----|
| Authorized Budget per D.12-11-015 | \$ 196,701,467 | 100 |
| 2013 Actual EE Expenses ² | <u>72,792,287</u> | 37 |
| Amounts Available for 2014 | <u>\$123,909,180</u> | 63 |

B.3 Total EE Program Expenditures

SDG&E identifies and captures its Energy Efficiency (EE) program expenditures using an enterprise resource planning application software called Systems, Applications and Products (SAP) in Data Processing. A system of unique internal order numbers is used to identify each program and a chart of accounts is used to identify the cost element or type of expense incurred. 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 a similar manner as other EE program costs, and are later allocated to various EE programs in proportion to individual EE program costs to the combined total costs of all EE programs. For labor allocation and tracking, SDG&E

¹ D.12-11-015, OP 38, p. 140. SDG&E's unspent and uncommitted EE program funding was \$50.9 million as identified on Table 9, p. 94 of D.12-11-015.

² Total includes \$1,441,639 in ME&O's expenditures.

uses specialized software called the Workforce Information and Timekeeping System (WITS) which also keeps track of hourly labor, vacation, flex days and sick time. SDG&E also uses software called SMART to manage and track project status and cost of its Third Party Programs.

SDG&E reported all EE portfolio expenses on Table 3 of the Annual Report. In addition to providing expense data associated with the EM&V, the Annual Report includes all EE portfolio costs under three delivery channels – IOU (Core), Third Party (TP) and Local Government Partnership (LGP). Under each delivery channel, there are three general cost categories: Administrative; Marketing/Advertising/Outreach; and Rebates and Direct Implementation. A summary of SDG&E's EE portfolio expenditures for each of the three delivery channel and by cost category is provided in Table B-2 below.

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

| Expense Types | As Audited | % to Total Exp. |
|-----------------------------------|---------------------|--------------------|
| <u>IOU/(Core):</u> | | |
| Administrative | \$ 3,190,327 | 4.4% |
| Marketing & Outreach | 2,564,061 | 3.5% |
| Rebates/Incentives/Implementation | <u>35,575,563</u> | <u>48.9%</u> |
| Sub-Total | <u>41,329,951</u> | <u>56.8%</u> |
| <u>Third Party:</u> | | |
| Administrative | 886,786 | 1.2% |
| Marketing & Outreach | 505,243 | 0.7% |
| Rebates/Incentives/Implementation | <u>24,409,169</u> | <u>33.5%</u> |
| Sub-Total | <u>25,801,198</u> | <u>35.4%</u> |
| <u>Partnerships:</u> | | |
| Administrative | 1,060,743 | 1.5% |
| Marketing & Outreach | 324,263 | 0.4% |
| Rebates/Incentives/Implementation | <u>4,276,132</u> | <u>5.9%</u> |
| Sub-Total | <u>5,661,138</u> | <u>7.8%</u> |
| Total | <u>\$72,792,287</u> | <u>100%</u> |

B.4 Codes and Standards Programs

The 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.³

³ 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/>

The primary mission of SDG&E's C&S program is on advocacy and compliance improvement activities that 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 requires 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 policies that impacts California.

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

At SDG&E, the C&S program consists of five subprograms: 1) Building Codes & Compliance Advocacy; 2) Appliance Standards Advocacy; 3) Compliance Enhancement; 4) Planning Coordination; and 5) Reach Codes.

The C&S program is an incentive based program which the Commission approved in D.13-09-023, OP 3, in the form of a management fee equal to 12% of the approved C&S program costs, excluding administrative costs and not to exceed the authorized budget. Table B-3 provides a summary of SDG&E's C&S program expenditures for PY 2013.

Table B-3
Summary of C&S Program Verified Expenses – 2013

| Program Description | Administrative | Others | Total | % |
|--------------------------------------|-----------------------|------------------|------------------|------------|
| Building Codes & Compliance Advocacy | \$ 10,280 | \$ 88,002 | \$ 98,282 | 31 |
| Appliance Standards Advocacy | 12,080 | 103,612 | 115,692 | 36 |
| Compliance Enhancement | 11,043 | 61,642 | 72,685 | 22 |
| Planning Coordination | 5,754 | 12,199 | 17,952 | 6 |
| Reach Codes | 4,487 | 10,791 | 15,278 | 5 |
| | <u>\$43,643</u> | <u>\$276,246</u> | <u>\$319,889</u> | <u>100</u> |

B.5 Non-Resource (NR) Programs

The NR EE 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 do not directly procure energy resources that can be counted, such as marketing,

outreach and education, workforce education and training, and emerging technologies⁴. The objective of these programs is to promote and encourage public participation in EE programs with directly attributed energy savings. Because the NR programs in themselves do not provide direct energy savings but only have costs, utilities may not be motivated to implement them. Therefore, in order to motivate utilities to achieve the NR program goals and remove disincentives to shift funds and resources away from the NR programs, the Commission approved an incentive mechanism for all of the IOUs in the form of a management fee equal to 3% of incurred NR expenditures not to exceed authorized expenditures for these programs, and excluding administrative costs.⁵

Currently, there are no specific criteria for determining whether a particular EE program is to be classified as Resource or NR EE program for each IOU. At SDG&E, the primary criteria used for determining if a program should be classified as a NR program is based on whether the program has no installations that are directly attributable to energy savings and whether the utility is not tracking and reporting them as part of its EE installed energy savings goals.

Table B-4 provides a summary of NR program expenditures for PY 2013.

Table B-4
Verified NR Program Expenditures – 2013

| Program Description | Administrative | Others | Total | % |
|--------------------------------------|-----------------------|--------------------|--------------------|------------|
| SW Workforce Education & Training | \$ 602,383 | \$2,705,025 | \$3,307,408 | 37 |
| SW Integrated Demand Side Management | 591,875 | 1,087,450 | 1,679,325 | 19 |
| Customer Relationship Management | 1,613,270 | - | 1,613,270 | 18 |
| SW Marketing, Education and Outreach | 1,655 | 1,439,988 | 1,441,643 | 17 |
| SW Emerging Technologies | 95,300 | 560,981 | 656,281 | 7 |
| SW WE&T Connection K-12 | 18,277 | 197,543 | 215,820 | 2 |
| | <u>\$2,904,483</u> | <u>\$6,009,265</u> | <u>\$8,913,748</u> | <u>100</u> |

B.6 Fund Shifting

Per Decision (D.) 12-11-015, Opinion Paragraph (OP) 10, the existing fund shifting rules⁶ are to be applied to the following categories of programs by the IOUs:⁷

- a. Statewide residential
- b. Statewide commercial
- c. Statewide agricultural
- d. Statewide industrial
- e. Statewide lighting
- f. Statewide codes and standards (C&S)
- g. Statewide emerging technologies (ET)
- h. Statewide workforce, education, and training
- i. Statewide marketing, education, and outreach (ME&O)

⁴ Energy Efficiency Policy Manual, v5, p.57

⁵ D.13-19-023, OP 3(D), p. 95

⁶ This is made 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, 2013.

⁷ D.12-11-015, OP 20, pp. 135-136

- j. Statewide integrated demand-side management
- k. Statewide financing
- l. Third party programs (competitively bid)
- m. Local government partnerships
- n. Other

The above program categories (a-n) are re-characterized into program categories 1 through 14 in 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 the utility to file 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 program 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 ET programs the approved original budget as per D.12-11-015 in A-12-07-002 is shown in the first column in table B-5 below while the revised budget per AL 2448-E-B/2167-G-B is shown in the second column.

Table B-5
ET Budget Revisions EE 2013

| Fund Shift Category | Original Budget | Revised Budget |
|---------------------------------|------------------------|-----------------------|
| SW Emerging Technologies | | |
| Technology Introduction Support | \$1,485,021 | \$ 837,000 |
| Technology Assessment Support | 1,080,044 | 1,458,079 |
| Technology Deployment Support | <u>135,012</u> | <u>405,000</u> |
| Total | <u>\$2,700,079</u> | <u>\$2,700,079</u> |

A summary of fund shifts conducted by SDG&E in 2013 by fund shift categories and the corresponding percent budget changes is shown in table B-6 below. Based on the table below a fund shift within the ET program exceeded the Commission's 1% set requirement and therefore required an advice letter.

Table B-6
Summary of Fund Shift Program Activity- 2013

| Fund Shift Categories | Budget 2013 | Fund Shifts | | % Change | |
|---------------------------------|--------------------|--------------------|--------------------|-----------------|------------|
| | | In | Out | in | out |
| SW Commercial EE Programs | \$25,474,593 | \$ 100,000 | \$3,594,600 | - | 14 |
| Third Party Programs | 25,032,156 | 3,750,000 | - | 15 | - |
| SW Industrial EE Programs | 2,558,038 | 44,600 | 300,000 | 2 | 12 |
| SW Emerging Technologies | | | | | |
| Technology Introduction Support | 742,511 | - | 324,011 | - | 44 |
| Technology Assessment Support | 540,022 | 189,018 | - | 35 | - |
| Technology Deployment Support | \$ 67,507 | <u>134,993</u> | - | 200 | - |
| Total Funds Shifted | | <u>\$4,218,611</u> | <u>\$4,218,611</u> | | |

B.7 Local Government Partnerships (LGP)

The information about the LGP program is provided below since the LGP City of San Juan program was not operative during the examination period because the City opted out of it and engaged in other partnership programs.

SDG&E had EE partnership programs with seven (7) cities in 2013 and spent a combined total of \$4.8 million and each city was the primary implementer of the EE programs. The local government partnership programs act as a one stop center channel for the provision of a wide variety of energy saving measures in the local government's area of jurisdiction. The partnership's comprehensive portfolio of activities focused on the following program area elements:

- 1) Government facilities: retrofit of county and municipal buildings, retro commissioning, integrated demand response, technical assistance and on bill financing;
- 2) Strategic Plan Support: Code compliance, reach code support, guiding document support, financing for the community and peer to peer support;
- 3) Core Program Coordination: Outreach education, third party program coordination and technical support;
- 4) Emerging Cities;
- 5) Individual Local Government Partnerships.

Table B-7 provides a summary of verified LGP program expenditures for PY 2013.

Table B-7
Summary of LGP Program Expenditures – 2013

| Program Description | Administrative | Others | Total | % |
|----------------------------|-----------------------|--------------------|--------------------|------------|
| LGP- City of Chula Vista | \$212,614 | \$1,069,845 | \$1,282,459 | 27 |
| LGP- City of San Diego | 212,818 | 891,245 | 1,104,063 | 23 |
| LGP- County of San Diego | 99,505 | 670,672 | 770,177 | 16 |
| LGP- Port of San Diego | 86,294 | 612,984 | 699,278 | 15 |
| LGP- Sandag | 104,718 | 541,306 | 646,024 | 13 |
| LGP- SEEC Partnership | 25,882 | 167,537 | 193,419 | 4 |
| LGP- Emerging Cities | <u>14,869</u> | <u>73,915</u> | <u>88,784</u> | <u>2</u> |
| | <u>\$756,700</u> | <u>\$4,027,504</u> | <u>\$4,784,204</u> | <u>100</u> |

B.8 Energy Efficiency Contracts -Third Party (TP) Contracts

The Commission requires that at least 20% of the entire EE budget portfolio, including EM&V, be dedicated to competitively bid third-party contractors.⁸ RENs/MEA budgets and Administrative cost components should be excluded from the calculation, unless if the utility had substantial control of the operations of the RENs/MEA.⁹

⁸ D.12-11-015, p. 82, para 1

⁹ There have been concerns as to the treatment of the budgets of RENs/MEA programs and Administrative Cost element in the context of determining the 20% minimum. The Commission is silent on these particulars. Therefore, in the absence of specific directives, determination on whether to exclude certain cost elements from consideration in this context 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

For the Third Party (TP) programs, SDG&E used competitive bids to acquire third-party contractors/implementers. There were three types of contracts entered into with the contractors: Fixed Fee, Time-and-Materials (T&M) and Hybrid, SDG&E described them as the following:

- 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' 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.

SDG&E incurred a total of \$25,501,199 on Third Party (PP) programs in 2013. A summary by program and cost category is provided in table B-8.

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]:

“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, though the budgets of RENs and MEA should be (and have been) excluded from consideration in determining the 20% minimum.

Table B-8
Summary of TP Programs Expenditures – 2013
By Program and Cost Category

| Program Description | Administrative¹⁰ | Others | Total | % |
|--|------------------------------------|----------------------------|----------------------------|-------------------|
| SW Direct Install | \$ 126,566 | \$12,254,088 | \$12,380,654 | 48 |
| SW Deemed Incentives HVAC Comm. | 198,544 | 2,688,466 | 2,887,010 | 11 |
| Third Party Residential Mobile Homes | 184,863 | 2,283,565 | 2,468,428 | 10 |
| SW Calculated Incentives | 107,563 | 1,713,318 | 1,820,881 | 7 |
| SW-Plug Load & Appliance | 41,667 | 1,599,554 | 1,641,221 | 6 |
| SW Lodging Energy Efficiency (LEEP) | 43,636 | 1,142,100 | 1,185,736 | 5 |
| SW Residential HVAC | 95,131 | 1,081,981 | 1,177,112 | 5 |
| SW Healthcare Energy Efficiency (HEEP) | 31,063 | 782,739 | 813,802 | 3 |
| Local Middle Income Direct Install | 11,949 | 524,100 | 536,049 | 2 |
| SW Audits CIEEP | 32,509 | 452,504 | 485,013 | 2 |
| SW Connections K-12 | 18,277 | 197,543 | 215,820 | 1 |
| SW Industrial Pump Test Services | 13,969 | 101,589 | 115,558 | - |
| SW Commercial Pump Test Services | 7,714 | 36,695 | 44,409 | - |
| SW Pump Test Services | 3,334 | 19,616 | 22,950 | - |
| Third Party IDEA | 6,556 | - | 6,556 | - |
| Total | <u>\$ 923,341</u> | <u>\$24,877,858</u> | <u>\$25,801,199</u> | <u>100</u> |

B.9 Plug Load and Appliances (PLA Program)

The PLA refers to home appliances, consumer electronics, and other miscellaneous plug loads. The 2013 PLA program merged the former Home Energy Efficiency Rebate (HEER), the Business Consumer Electronics (BCE), and the Appliance Recycling subprograms (ARP).¹¹ The PLA uses comprise about 66% of current California home electricity usage, with plug loads (televisions, personal computers, and office equipment) accounting for about 20% of home electricity usage alone.¹² The primary objective of the PLA program was to curb the increasing consumption of electricity in California homes resulting from the use of energy inefficient PLAs. SDG&E's 2013 PLA program was developed and built upon existing retail relationships and included recycling strategies and whole house solutions, plug load efficiency, performance standards, and included opportunities to integrate with local government, water agencies, publically owned utilities and the Demand side Management Subprogram.¹³

A summary of SDG&E's 2013 PLA program expenditures is provided in table B-9.

¹⁰ TPP Administrative expenses include \$117,020 administrative expenses that SDG&E incurred to support the TP programs per EE Stats - Fund Shift Report Quarter 2013.

¹¹ Fact Sheet, "Statewide Residential Programs (2013-2014)," March 2013, p. 3, Residential at <http://www.cpuc.ca.gov/PUC/energy/Energy+Efficiency/>

¹² D.12-05-015 p. 202

¹³ AL 2448-E/2167-G et al. PIP Appendix B.2: Clean Version, p.3

Table B-9
Summary of PLA Program Expenses – 2013

| Program | Administrative | Others | Total | % |
|-----------------------------------|-----------------------|--------------------|--------------------|------------|
| Appliance Recycling Program | \$ 41,667 | \$1,599,554 | \$1,641,221 | 46 |
| Home Energy Efficiency Rebate | 121,396 | 1,143,978 | 1,265,374 | 35 |
| Point of Sale Rebate | 45,078 | 573,996 | 619,074 | 17 |
| Business and Consumer Electronics | 22,794 | 54,279 | 77,073 | 2 |
| | <u>\$230,935</u> | <u>\$3,371,807</u> | <u>\$3,602,742</u> | <u>100</u> |

B.10 Follow Up on Prior UAFCB's Examination Observation and Recommendation and SDG&E's Internal Audit Recommendations

UAFCB performed a follow-up examination of SDG&E's response to findings and recommendations raised in UAFCB's 2012 Energy Efficiency report dated June 27, 2014. The observation and recommendation in the report pertain mainly to the quarterly Fund Shifting reporting format which SDG&E began to implement in 2013.

SDG&E's Internal Audit Department did not conduct audits of EE programs in 2013.

Appendix C SDG&E Comments



Lisa Davidson
Director, Customer Programs
8335 Century Park Court, CP12F
San Diego, CA 92123
Tel: 858-654-8653
Cell: 619-708-6740
LDavidson@sempra.com

June 19, 2015

Kayode Kajopaiye
Utility, Audit, Finance and Compliance Branch - Room 3105
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: SDG&E Comments on Financial, Management, Regulatory, and Compliance Examination Report of San Diego Gas & Electric Company's EE Programs for the Period January 1, 2013 through December 31, 2013

Dear Mr. Kajopaiye:

San Diego Gas & Electric Company (SDG&E) has reviewed the draft report, dated June 5, 2015, prepared by the Utility, Audit Finance and Compliance Branch (UAFCB). SDG&E focuses its responses on Observations 2, 5 and 20 as these were the only items for which UAFCB provided recommendations. In addition, SDG&E is providing a corrected table for Appendix B Table B-5 to reflect the correct revised 2013 Emerging Technologies programs budgets.

Responses to Observations:

Observation 2:

UAFCB states in Observation 2 (at pages 2 and A-2):

SDG&E failed to demonstrate compliance with PU Code §§, 581, 582 and 584. SDG&E reported an expenditure of \$320,010 for a program to the Commission, instead of reporting \$185,269 recorded in its records. This incorrect reporting resulted in an overstatement of \$134,741. SDG&E stated it inadvertently did not update the report with the correct data. However, it did so during the course of the examination. SDG&E's report update was untimely.

Response: The incorrect reporting cited by this observation is limited to the 2013 Fourth Quarter Report. The report consists of two tabs, (1) "SDGE Q4 Summary" and (2) "SDGE Q4_Fundshift." SDG&E reported accurate information in the tab "SDGE Q4_Fundshift" but inadvertently did not update the information in the tab "SDGE Q4 Summary."

SDG&E will improve its controls and oversight over its reporting to the Commission.

Observation 5:

UAFCB states in Observation 5 (at pages 5 and A-3):

Observation 5: SDG&E failed to demonstrate compliance with PU Code §§ 581, 582 and 584 respecting the C&S program costs. UAFCB verified \$150,889, or 47% of \$319,889. In general, the expenditures were properly supported. However, the review disclosed that SDG&E recorded \$25,025 direct implementation costs in 2013 that belonged to program year 2012, overstating the program expenditures for 2013 by the same amount.

Response: The invoices in question or estimated invoices were not submitted by the vendor in time for 2012 year-end accrual. Consistent with SDG&E's accrual policies, SDG&E had no valid basis for recording the expenditure under the 2012 program. At the time of receipt, SDG&E reviewed, approved and recorded the invoices in 2013 consistent with its payment policies. These were then recorded in 2013. SDG&E will continue to strengthen its oversight over its accrual system and will remove the expense from the calculation of the Codes and Standards (C&S) incentive award. SDG&E, however, clarifies that UAFCB does not dispute that these are valid payments but only focuses its recommendation on the appropriate program year to report these expenses.

Observation 20:

UAFCB states in Observation 20 (at pages 4 and A-8):

Observation 20: SDG&E failed to demonstrate compliance with Decision D.09-09-047 and the corresponding EE Policy Manual R.09-11-0143 requirements. SDG&E was not compliant with the Commission's directives in its 2013 fund shifting activities as follows; (a) SDG&E did not update its EEStats Quarterly Report in a timely manner with the most current budget figures approved for its Emerging Technology Program in AL 2448-E-B/2167-G-B dated June 12, 2013. (b) SDGE shifted funds within programs among its Emerging Technologies Category, reducing one program budget by about 44% without an advice letter filing. This exceeded the individual program budget mandatory restriction guideline of 1% that would require a Commission advice letter filing.

Response: SDG&E disagrees with Observation 20 that the Utility was non-compliant with D.09-09-047 and the corresponding EE Policy Manual as it related to fund shifting for the following reasons:

(1) EE Policy Manual V5 (at page 65) as it pertained to Emerging Technology budget requires an Advice Letter (AL) for shifts that would reduce any of these programs by more than 1% of budgeted levels.

SDG&E filed and received approval of AL 2448-E-B/2167-G-B for the shifts among the three Emerging Technologies programs with the budgets as follows:

| | | A | B | C | D | F | G |
|-----------------------------------|---------------------------------------|-------------------------------------|--|---------------------------|--------------------------------------|---|---|
| | | | | A/2 | B/2 | D-C | C-D |
| | | D. 12-11-015 2013-2014 Budget | AL2448-E-B/ 2167-G-B 2013- 2014 Budget | Annualized 2013 Budget | Revised Annualized 2013 Budget | Funds Transferred In (Cumulative for 2013) | Funds Transferred Out (Cumulative for 2013) |
| SW Emerging Technologies Programs | | | | | | | |
| SDGE3246 | SW-ET-Technology Introduction Support | \$ 1,486,021 | \$ 837,000 | \$ 742,511 | \$ 418,500 | | \$ (324,011) |
| SDGE3247 | SW-ET-Technology Assessment Support | \$ 1,088,044 | \$ 1,458,079 | \$ 540,022 | \$ 729,040 | \$ 188,017 | |
| SDGE3248 | SW-ET-Technology Deployment Support | \$ 135,013 | \$ 405,900 | \$ 67,507 | \$ 202,500 | \$ 134,983 | |
| | Total | \$ 2,709,079 | \$ 2,700,979 | \$ 1,350,040 | \$ 1,350,040 | \$ 324,011 | \$ (324,011) |

(2) SDG&E reported these fund shifts among the Emerging Technologies programs in its 2013 Second Quarterly Report since the fund shift was approved on June 12, 2013. SDG&E reported the fund shift in a timely manner per the EE Policy Manual V5 Appendix C Note 1 which states "Any fund shift will be shown on the quarterly fund shifting report which will be provided to the Energy Division beginning 7/1/13 (and every 90 days thereafter). In addition, the April 18, 2013, Energy Division Memo 2014-2014 Energy Efficiency Program Reporting Timeline and Guidance – Version 1, directs the utilities to submit Program Quarters 1 & 2 by August 29, 2013. (Please see Attached Energy Division Memo.)

SDG&E original Second Quarterly Report was posted to EEStats on August 28, 2013 as shown on EEStats (please see screen shot below).

The screenshot shows the California Energy Efficiency Statistics website interface. At the top, there is a navigation bar with links for Energy Efficiency Data, Evaluation, Regulatory, Resources, and Site Feedback. Below the navigation bar, there are sections for Report Categories and Report Options. The Report Categories section includes Monthly, Quarterly, Annual, Program Plans (PIPs), and Asset Documents. The Report Options section includes Program Cycle (2013-15), Utility (SDGE), Start Month (May 2013), and End Month (Apr 2015). The main content area is titled "Documents and Reports" and contains a table of reports categorized by time period (monthly, quarterly, or annual). The table lists reports with columns for ID, Utility, Report Name, Report Date, Report Name, and Upload Date. The report with ID 2348 is highlighted in yellow.

| ID | Utility | Report Name | Report Date | Report Name | Upload Date |
|------|---------|-------------|---------------------------------|-------------|-------------|
| 3833 | SDGE | 2013Q4 | SDGE FundShifting 2013Q4 1.xlsx | | 05/02/2015 |
| 3833 | SDGE | 2014Q4 | SDGE FundShifting 2014Q4 2.xlsx | | 05/02/2015 |
| 3824 | SDGE | 2013Q4 | SDGE FundShifting 2013Q4 7.xlsx | | 05/20/2015 |
| 3555 | SDGE | 2014Q3 | SDGE FundShifting 2014Q3 2.xlsx | | 01/06/2015 |
| 3119 | SDGE | 2014Q2 | SDGE FundShifting 2014Q2 4.xlsx | | 10/13/2014 |
| 3104 | SDGE | 2014Q1 | SDGE FundShifting 2014Q1 1.xlsx | | 05/29/2014 |
| 3132 | SDGE | 2013Q3 | SDGE FundShifting 2013Q3 2.xlsx | | 04/02/2014 |
| 2348 | SDGE | 2013Q2 | SDGE FundShifting 2013Q2 1.xlsx | | 08/28/2013 |

In summary, SDG&E complied with the Commission requirement to fund shift through the advice letter process and reported the fund shift in a timely manner according to the schedule provided by Energy Division.

Corrections to Appendix B Table B-5:

Appendix B Table B-5 does not provide the correct revised budgets for the three Emerging Technologies programs. The revised budgets should be corrected as follows:

| Fund Shift Category | SW Emerging Technologies | |
|---------------------------------|--------------------------|----------------|
| | Original Budget | Revised Budget |
| Technology Introduction Support | \$ 1,485,021 | \$ 837,000 |
| Technology Assessment Support | \$ 1,080,044 | \$ 1,458,079 |
| Technology Deployment Support | \$ 135,013 | \$ 405,000 |
| Total | \$ 2,700,079 | \$ 2,700,079 |

Sincerely,



Lisa Davidson
Director – Customer Programs

cc: F. Kyama – UAFCB
F. Ly – UAFCB
S. Patrick – SDG&E
A. Besa – SDG&E
J. Yamagata – SDG&E
Central Files