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

State of California

Memorandum

Date: May 21, 2012

To: Edward Randolph
Director, Energy Division

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

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

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

A. Summary of Examination Observations and Recommendations

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

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

Recommendations

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

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

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

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

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

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

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

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

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

   Recommendation
   None

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

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

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

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

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

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

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

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

B. Conclusion

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

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

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

cc: Rami Kahlon, Director, Division of Water and Audits
Peter Skala, Energy Division
Carmen Best, Energy Division
Bernard Ayanruoh, Division of Water and Audits
Kevin Nakamura, Division of Water and Audits
Gilda Robles, Division of Water and Audits

Appendix A
Analysis and Findings

I. Summary

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

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

A. On-Bill Financing (OBF) Program

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

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

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

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

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

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

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

B. Energy Efficiency Administrative Costs

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

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

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

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

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

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

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

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

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

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

---

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

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

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

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

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

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

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

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

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

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

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

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

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

Recommendation: None.

C. Home Energy Efficiency Rebate (HEER) Program

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

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

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

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

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

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

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

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

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

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

---

[4] See FERC USOA General Instructions 11.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SDG&E's Response to Observation 3

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

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

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

Rebuttal to SDG&E's Response

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

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

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

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

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

SDG&E's Response to Observation 4

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

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

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

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

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

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

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

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

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

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

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

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

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

Appendix B
Examination Elements

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

Authority

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

Scope

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

Objectives

UAFCB's overall objectives determine whether the:

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

Methodology and Testing

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

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

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

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

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

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

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

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

(*) $1difference due to rounding.

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

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

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

Table B-3
Summary of HEER Expenditures Tested

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

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

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

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

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

Standards

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

Appendix C
Program Compendium

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

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

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

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

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

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

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

A. On-Bill Financing (OBF) Program

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

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

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

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

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

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

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

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

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

B. Energy Efficiency Administrative Costs

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

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

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

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

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

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

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

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

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

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

C. Home Energy Efficiency Rebate Program

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

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

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

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

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

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

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

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

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

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

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

Appendix D
SDG&E Comments

SDGE
A Sempra Energy utility

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

March 7, 2012

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

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

Dear Mr. Ayanruoh:

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

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

Sincerely,

Joy Yamagata
Regulatory Manager

Enclosure

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

SAN DIEGO GAS & ELECTRIC COMPANY

RESPONSE TO DRAFT INTERIM EXAMINATION REPORT

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

A. On-Bill Financing (OBF) Program

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

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

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

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

SDG&E's OBF program offers zero-interest financing to facilitate the purchase and installation of qualified energy efficiency retrofit measures to non-residential customers who might not otherwise be able to act given capital constraints and/or the administrative and time burdens involved in obtaining traditional project financing. Only energy efficiency measures which qualify for rebates and/or incentives in SDG&E's portfolio are qualified for the OBF program. They include Institutional (taxpayer-funded) and Non-Institutional customers such as commercial, industrial, and agricultural. Tax-payer funder customers are agencies/facilities whose energy bills are paid by federal, state, county, city or Indian tribal governments.
SDG&E's OBF budget for the 2010-2012 EE program cycle is $11.6 million as set forth in Commission D.09-09-047. The budget provides for operating expenses of $2.6 million funded by Public Goods Charge (PGC) and a revolving fund loan pool of $9 million funded by non-PGC revenues per Commission's approval of SDG&E Advice Letter 2123-E/ 1901-G.

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

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

B. Energy Efficiency Administrative Costs

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

SDG&E Response to Observation 2:

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

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

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

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

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

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

LetterAdm Costs.doc

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

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

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

SDG&E Response to Observation 3:

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

(1) Mobile Energy Clinic [redacted]

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

SDGE3167-MEC.xls
(16 KB)

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

MEC invoice.pdf

(2) Comprehensive Mobile Home [redacted]

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

SDGE3172-CMH.xls

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

Intergy - ComprehensiveMobli

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

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

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

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

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

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

SDGE3129-CityOfChulaVista.xls

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

City of Chula Vista Q1 2010 Funding Exp

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

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

SDG&E Response to Observation 4:

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

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

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

C. Home Energy Efficiency Rebate (HEER) Program

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

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

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

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

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

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

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

2009 Bridge Funding Close-Out Procedures

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

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

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

HEER JE.pdf (481 KB)

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

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

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

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