State of California

Memorandum

Date: March 23, 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 Southern California Edison 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 Southern California Edison Company's (SCE's) 2010 Energy Efficiency (EE) programs. Based on consultation with the Energy Division (ED) and UAFCB's prior experience, it examined the following SCE 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 SCE in these areas.

A. Summary of Examination Observations

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

1) **SCE Didn't Fund any OBF Loan Applications in 2010.** Due to the delays and time needed to set up its OBF program protocols, SCE was unable to fund any OBF loans in 2010.

2) **SCE Improperly Charged Third-Party Direct Implementation Expenses to its EE Administrative Expenses.** During the examination , SCE acknowledged the recording error and took corrective actions to reclassify the $231,495 in third-party vendor charges to the appropriate direct implementation internal order.

3) **SCE Charged Business Meal Expenses as Incentives.** During the examination, SCE acknowledged the recording error and took corrective actions to reclassify the $1,524 in business meal charges to the appropriate EE administrative expense cost element.

[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.

4) **SCE Continues to Incorrectly Include EE Payroll Taxes in its General Rate Case (GRC).** SCE is not in compliance with the Commission's directives contained in D.09-09-047. SCE insists that ED's memo dated October 22, 2009 to EE utilities is not bidding because it contradicts the established policy for SCE to recover its payroll taxes through the GRC.

B. Recommendations

1) UAFCB will continue to monitor SCE's funding activities during the remaining years of the 2010-2012 EE budget cycle to ensure that SCE is complying and achieving Commission's objectives and goals for establishing the OBF program.

2) SCE should exercise due diligence in reviewing and approving invoices from its vendors and ensure that the EE expenditures are accurately classified and properly recorded in its accounting system

3) SCE should exercise due diligence in reviewing and approving invoices and ensure that the EE expenditures are accurately classified and properly recorded in its accounting system

4) ED should consult with and direct SCE to comply with its directive in order to achieve the objective and goal of the Commission of monitoring and overseeing the EE program costs.

C. Conclusion

With the exception of the items identified above, SCE 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 SCE's EE programs is included in Appendix C.

UAFCB provided a copy of its analysis and observations of its examination to SCE for comment. UAFCB summarized SCE's response comments and UAFCB's rebuttal to them in Appendix A. SCE's full response is included in Appendix D of this memo in its entirety.

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

cc: Rami Kahlon, Director, Division of Water and Audits
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Appendix A
Analysis and Findings

I. Summary

Except for the deficiencies noted by UAFCB, Southern California Edison Company (SCE) demonstrated to a reasonable degree its compliance with Commission directives respecting, 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 Utility Audit, Finance and Compliance Branch (UAFCB) used to test 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 (ED) memo, dated October 22, 2009. UAFCB's scope and methodology used for the examination are in Appendix B, Examination Elements.

On February 21, 2012, UAFCB provided a copy of its analysis and findings and its summary of SCE's EE program for comment. On March 2, 2012, SCE provided its comments to UAFCB's observations and recommendations. UAFCB summarized SCE's comments and UAFCB's rebuttal at the end this appendix, and included SCE's comments in their entirety in Appendix D.

A. On-Bill Financing (OBF) Program

<u>Observation 1: SCE Didn't Fund any OBF Loan Applications in 2010.</u>

Criteria: D.09-09-047, OP 40 approved SCE's OBF program for the 2010-2012 program cycle. Ordering paragraph 2 specifically states "The energy efficiency program cycle … shall start on January 1, 2010. All approved energy efficiency programs should begin January 1, 2010."

Condition: On March 25, 2010, SCE filed Advice Letter (AL) 2456-E to request authorization to launch its OBF program. However, the Commission's Energy Division suspended SCE's AL 2456-E for 120 days due to protests. Subsequently, SCE filed supplemental AL 2456-E-A, which was approved by the Commission on July 8, 2010.

Cause: The 120 day suspension of SCE's AL 2456-E and subsequent filing of AL 2456-E-A delayed SCE's ability to timely implement its OBF program in 2010.

Effect: Due to the delays and time needed to set up its OBF program protocols, SCE was unable to fund any OBF loans in 2010.

Recommendation: UAFCB will continue to monitor SCE's funding activities during the remaining years of the 2010-2012 EE budget cycle to ensure that SCE is complying with and achieving the Commission's objectives and goals established for its OBF program.

B. Energy Efficiency Administrative Costs

Observation 2: SCE Improperly Charged Third-Party Direct Implementation Expenses to its EE Administrative Expenses.

Criteria: ALJ Gottstein's Ruling in R.01-08-028 dated February 21, 2006 provided a list of allowable administrative costs and also delegated authority to ED to provide guidance to EE utilities on administrative costs. D.09-09-047 ordered a 10% cap on administrative costs and in addition ED issued a letter dated October 22, 2009 providing further guidance to EE utilities on administrative costs as directed by D.09-09-047. In order to achieve accurate and appropriate reporting, EE expenses have to be classified appropriately as required by ED.

Condition: Third-party vendor charges totaling $231,495 billed to SCE's Comprehensive Mobile Home program were misclassified as EE administrative costs.

Cause: SCE data entry personnel incorrectly charged the expense to the wrong internal order account. The third-party invoice amount totaling $231,495 was charged to internal order 604843-Comprehensive Mobile Home Program Administration instead of charging the amount to the correct internal order 604839 -Comprehensive Mobile Home Third Party Implementation.

Effect: During the audit, SCE acknowledged the recording error and took corrective actions to reclassify the $231,495 in third-party vendor charges to the appropriate direct implementation internal order.

Recommendation: SCE should exercise due diligence in reviewing and approving invoices from its vendors and ensure that EE expenditures are accurately classified and properly recorded in its accounting system.

Observation 3: SCE Charged Business Meal Expenses as Incentives

Criteria: ALJ Gottstein's Ruling in R.01-08-028 dated February 21, 2006 provided a list of allowable administrative costs and also delegated authority to ED to provide guidance to EE utilities on administrative costs. D.09-09-047 ordered a 10% cap on administrative costs and in addition ED issued a letter dated October 22, 2009 providing further guidance to the EE utilities on administrative costs as directed by D.09-09-047.

Condition: Business meal expenditures totaling $1,524 were misclassified as incentive expenses and charged to the direct implementation cost category.

Cause: SCE data entry personnel incorrectly charged the expense to the wrong cost element account. The invoice totaling $1,524 for business meals was charged to cost element 6251040 - customer incentive instead of cost element 6070025 -Business meals.

Effect: During the examination, SCE acknowledged the recording error and took corrective actions to reclassify the $1,524 in business meal charges to the appropriate EE administrative expense cost element.

Recommendation: SCE should exercise due diligence in reviewing and approving invoices and ensure that its EE expenditures are accurately classified and properly recorded in its accounting system.

Observation 4: SCE Continues to Incorrectly Include EE Payroll Taxes in its General Rate Case (GRC).

Criteria: Commission D.09-09-047, page 50, defines allowable administrative costs as Overhead (General and Administrative (G&A) Labor and Materials), Labor (Management and Clerical), Human Resources (HR) Support and Development, Travel and Conference Fees (Administrative Costs) costs, which are necessary for implementing the energy efficiency programs. Furthermore, the Commission's Energy Division (ED) memo dated October 22, 2009, recommends, and among other things that SCE's EE payroll taxes be placed as general EE administrative costs and that SCE should cease recovering them through the GRC. In addition D.09-09-047, page 57, the Commission categorically stated "we … direct our staff to issue a revised guideline describing the details of administrative costs versus direct implementation." The primary reason the Commission established specific guidelines and definitions set forth in its decisions, ruling and the ED memo is to ensure EE costs are properly recorded and reported for comparability, uniformity and consistency among the four California Investor-Owned Utilities (IOUs).

Condition: SCE is recovering its EE payroll taxes through its GRC. According to SCE, since 2009 it has recovered approximately $ 2,633,000 in EE payroll taxes through the GRC. For the year 2010, SCE recovered a total of $877,000 in EE payroll taxes.

Cause: SCE contends that it has always recovered its EE payroll taxes through its GRC and that the ED's memo dated October 22, 2009 was not formally adopted by the Commission, and therefore not binding on SCE.

Effect: SCE is not in compliance with the Commission's directives in D.09-09-047 and the Memo issued by ED. SCE's action defeats the purpose of cost comparability.

Recommendation: ED should consult with and direct SCE to comply with its directive in order to achieve the objective and goal of the Commission of monitoring and overseeing the EE program costs.

II. SCE's Comments on UAFCB' Draft Report

On February 21, 2012, the UAFCB submitted a copy of its draft report to SCE for its review and response. The draft report included UAFCB's observations and recommendations to the specific areas reviewed during the examination of SCE's EE programs for budget year 2010. SCE provided its response comments on March 2, 2012. A copy of SCE's response is included in Appendix D in its entirety.

SCE's Response to Observations 2 and 3

SCE agrees to UAFCB's recommendation and indicated it had already carried out some refresher course training in internal order and cost element accounting for its staff in January and February 2012.

SCE's Response to Observation 4
SCE disagrees with UAFCB's Observation #4. SCE insists that it is in compliance with Commission directive and correctly included EE payroll taxes in its GRC. SCE acknowledges that the Commission did in fact direct staff in D.09-09-047 to issue a revised guideline describing the details of administrative costs versus direct implementation costs. However, SCE downplays the significance of ED's memo, dated October 22, 2009 which provided a revised guideline describing the details of administrative costs versus direct implementation costs.

According to SCE, the guidelines contained in the ED's memo required that "the IOUs should be required to include payroll taxes in their EE applications" is non-binding because "full Commission action was needed to require SCE to change its practice of collecting payroll taxes pursuant to Commission approval in the GRC." SCE claims that because the ED recommendation was never formally adopted by the Commission, SCE did not recover payroll taxes in the EE program costs as administrative costs. SCE claims that payroll taxes for its EE staff have never been part of its EE budget. UAFCB is yet to substantiate this claim because the matter came up at a teleconference meeting with SCE.

III. UAFCB Rebuttal

Rebuttal to SCE's Response on Observations #2 and #3.
UAFCB appreciates SCE's efforts of recently providing staff refresher training on the review of internal order and cost element accounting. For purposes of documentation for the record, ED should request that SCE provide a copy of materials used for conducting the training and a list of attendees, including their positions and the date that the training was held and copy the UAFCB in its response.

Rebuttal to SCE's Response on Observation #4
UAFCB understands SCE's position for not wanting to double recover payroll taxes. However, SCE is wrong for saying that ED's memo is not bidding.

Commission' goal for requiring the issuance of the revised guidelines is to ensure conformity and consistency concerning the recording and reporting of EE expenditures by the four IOUs. Uniformity in the treatment of costs is necessary for allowing fair comparison of reported EE expenditures which is pivotal in enhancing the Commissions decision making and oversight responsibilities. SCE is the only utility among the four IOUs that recovers payroll taxes in the GRC.

ED should consult with SCE to determine how soon SCE can comply with its guideline on payroll taxes in order to achieve the objective and goal of the Commission of cost comparison and oversight.

Appendix B
Examination Elements

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

Authority

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 to determine the scope of its support of OP 14.

Scope

Based on consultation with Energy Division, the UAFCB was to examine SCE'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 its examination, the Home Energy Efficiency Rebate Program (HEER). Consequently, the scope of UAFCB's examination was limited to those three areas for 2010 activities and expenditures.

Objectives

UAFCB's overall objectives are to determine whether the:

1. Program design, structure, processes, implementation, costs and controls of SCE'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) SCE's own internal policies and procedures;

2. EE administrative costs that SCE incurred were proper and 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) with SCE's own internal policies and procedures; and

3. Design, structure, processes, implementation, costs and controls of SCE'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) SCE's own internal policies and procedures.

Methodology and Testing

UAFCB used SCE'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): Although SCE received 575 loan applications in August of 2010, none of the applications were processed to completion and funded because the program was operational for five months during the period. However, UAFCB judgmentally selected and examined 30 OBF applications for compliance with the underwriting guidelines and loan requirements as stipulated in SCE's OBF policies and procedures manual.

UAFCB observed that SCE had consistently applied its OBF loan processes and procedures based on its underwriting guidelines and loan requirements as outlined by its On-Bill Financing Flowchart, which also served as a checklist to complete the loan process. UAFCB did not find any exceptions in its examination of the OBF program loan underwriting process.

Energy Efficiency Administrative Costs: UAFCB judgmentally selected and tested 66 transactions of EE administrative expenditures totaling $8.2 million for relevancy, accuracy, proper authorization, classification and appropriate supporting documentation. The following table lists the nature, number of transactions and amounts tested.

Table B-1
SCE 2010 Administrative Sample Test Composition

Nature	Number	Amount
SCE	32	$ 7,129,026
Third Party	12	1,315,352
Government	22	131,809
Total	66	$ 8,223,427

Furthermore, UAFCB tested and reviewed EE administrative costs accumulated in Distributed Cost Center's[2] (DCC's) and their subsequent allocation to various EE programs. The review and tests were aimed at ensuring that both the accumulation and allocation of costs in the DCCs were appropriate. The table below provides a summary of the DCC allocated costs selected and tested.

Table B-2
SCE 2010 DCC Allocated Samples Tested

Cost Categorization	Number	Amount
Allocation booked to DCCs	42	$ 961,307
Allocation from DCCs	10	352,760
Total	52	$ 1,314,067

During the review, UAFCB noted some errors which were discussed in Appendix A of this memo.

Home Energy Efficiency Rebate Program (HEER): In 2010, SCE spent $7.6 million on the HEER program. Of this amount, incentives and rebates payments amounted to $ 5.1 million. Other components of the $7.6 million included costs for non-incentive, direct implementation,

[2] Distributed Cost Centers are utilized by SCE to allocate Customer Service Business Unit CSBU costs incurred by EE programs and include costs such as financial support, regulatory support, internal audit, training, etc.

marketing and outreach and SCE's administrative costs. UAFCB judgmentally selected 30 transactions for testing. Of the 30 sample transactions selected, 13 transactions amounting to $1.63 million were for direct implementation and 17 amounting to $1.17 million were for marketing and outreach. A detailed breakdown of SCE's total HEER program expenditures for 2010 is shown in the table below.

Table B-3
SCE 2010 HEER program Expense

Cost Category	Amount	%
Direct Implementation		
Incentive	$ 5,108,794	67%
Non incentive	1,036,261	13%
Total Direct Implementation	6,145,055	80%
Marketing and Out Reach	1,110,889	15%
Administration	371,406	5%
Total Expenses	$ 7,627,350	100%

Retailers who participated in the HEER program included; Home Depot, Best Buy, Lowes, and Sears. Home Depot accounted for over 90% of the point-of-sale rebate payments followed by Best Buy at 5%. The rest of the other participating point-of-sale retailers had minimal or no transactions. UAFCB tested 13 HEER incentive payment samples amounting to $1.48 million for appropriateness and found no exceptions.

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 SCE's compliance with the requirements noted above and performing any other procedures as we considered necessary in the circumstances.

Appendix C
Program Compendium

Introduction

On September 24, 2009, the California Public Utilities Commission (Commission) issued Decision (D.) 09-09-047 which, among other things, authorized (SCE) a total budget of approximately $1.228 billion in ratepayer funds to administer and implement its Energy Efficiency (EE) programs for the years 2010 through 2012, including $49 million dedicated to Evaluation, Measurement and Verification (EM&V). This represents about 39% of the total funds the Commission authorized for 2010-2012 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.

SCE's total Commission authorized EE budget (net of EM&V of $49 million) was $ 1.179 billion for budget cycle 2010-2012. For the year 2010, excluding EM&V expenditures, SCE spent $271 million, or 23%, of its total authorized budget for the period 2010-2012. The following table shows the amount carried forward, authorized budget, funds available for spending and actual expenditures for SCE during 2010.

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

Description	Amount
Authorized Budget per D.09-09-047	$ 1,178,880,003
Available for Spending	1,178,880,003
Actual 2010 EE Expenditures	271,131,995
Amounts Carried Forward	$ 907,748,008

SCE's Customer Service Business Unit (CSBU) is responsible for the operation of the energy efficiency programs, among other things. Under the CSBU, the Customer Programs & Services Division's (CP&S) primary function is to assure that energy efficiency programs are properly managed and in compliance with Commission's directives. Within the CP&S are the Customer Energy Efficiency and Solar Division (CEES), which manages the implementation and the day-to-day operation of SCE's energy efficiency programs. As of December 31, 2010, CEES employed 184 fulltime employees, not including consultants and contract workers.

A. On-Bill Financing (OBF) Program

SCE'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 SCE'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.

SCE's OBF budget for the 2010-2012 EE programs cycle is approximately $24 million as set forth in D.09-09-047. The budget provides for operating expenses of $8 million funded by the Public Goods Charge (PGC) and a revolving fund loan pool of $16 million funded by non-PGC revenues pursuant to D.09-09-047 and approved in SCE's Advice Letters AL 2456-E and AL 2456-E-A.

SCE'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 the calculation of the project's energy savings; post-installation inspection and project cost adjustments; the calculation of loan terms, loan amount (net of rebate/incentives), and monthly loan payment.

In D.09-09-047, OP 40, the Commission set 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 less. Institutional[3] customers may be granted loans of up to a total of $1 million with a maximum loan 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 SCE's utility billing system and the treatment of default loans is supposed to be treated and pursued in a similar manner as SCE's own defaulted utility bills.

Advice Letter (ALs) 2456-E and 2456-E-A authorized SCE to set up a On-Bill Financing Balancing Account (OBFBA) for the 2010-2012 EE budget cycle to track OBF loan disbursement and repayment activities. As of December 31, 2010, SCE had not disbursed any OBF loans. A review of the OBFBA will be conducted during the examination of the 2011 EE programs sometime in 2012.

B. Energy Efficiency Administrative Costs

Pursuant to D.09-09-47 OP 13, the Commission limited the utilities' administrative costs for managing the EE programs to 10% of the total EE budget for years 2010-2012. SCE's 2010 EE administrative budget amounts to $125.2 million. SCE's total EE administrative expenditures (excluding EM&V) incurred in 2010 amounted to $28.5 million and is broken down by cost type in table below:

[3] Institutional customers are tax-payer funded agencies/facilities whose energy bills are paid by federal, state, county, city, or Indian tribal governments.

Table C-2
SCE EE Expenditures by Cost Type

Category	Amount	% of Total Program
IOU Admin Expense (Exp)	$ 24,342,016	8.9%
3rd Party Non-SCE Admin. Exp.	3,805,609	1.39%
Local Govt. Non-SCE Admin. Exp	317,385	0.1%
Total 2010Admin Expenditures	$ 28,465,011	10.4%

SCE classifies EE administrative expenses into three cost categories: (1) Program costs that are expenses related to EE program activities internally handled by SCE, (2) Vendor costs that are non-IOU EE program activities from strategic partners, and (3) Allocated costs that are indirect costs incurred by SCE's internal units that provide support services to the EE programs.

SCE uses two methods to allocate indirect costs to its EE programs- (1) the Distribution Cost Centers (DCC) method and the Internal Market Mechanism (IMM) method. The DCC method allocates Customer Service Business Unit (CSBU) costs incurred by EE programs which cannot be directly assigned to each program. DCC costs include financial support, regulatory support, internal audit, training, etc. The IMM involves the allocation of competitively procured services by internal providers and includes services such as telephone moves, telephone toll and long distance calls, pager services, device repairs.

SCE reported $28.5 million of EE administrative costs or 10.4% of the total EE expenditure portfolio including the administrative costs of third party and local government program implementers. Table 3 below shows a summary of SCE's 2010 EE administrative cost cap and target expenditures that demonstrates that SCE is on track to stay within the 10% cap imposed by the Commission.

Table C-3
Energy Efficiency Administrative Cost Cap and Expenditures For 2010

Expense Category	Amount	% to Total Expend Portfolio	% Cap	% Target
SCE Own Admin Exp.	$ 24,342,016	8.89%	10%	
#3rd Party Non-SCE Admin	3,805,609	1.39%		10.0%
Local Govt. Non SCE Admin	317,385	0.1%		10.0%
Total IOU Admin (Net of EM&V)	**$ 28,464,011**	**10.4%**		
Total Portfolio Expenditure (Net of EM&V)	**$271,131,995**			

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. SCE's 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 SCE's service territory can claim rebates from SCE through a mail-in and/or on-line rebate application process. SCE also offers instant point-of-sale (POS) rebates to individuals who purchase EE qualified appliances at participating retailers in SCE's service territory.

SCE incurred $7.6 million for its HEER program in 2010. Of the $7.6 million in HEER program expenses $5.1 millionor 67% was for customer rebates. A detailed breakdown of SCE's 2010 HEER program expenses and related percentages is shown in the following table:

Table C-4
Summary of SCE 2010 HEER Expenses - 2010

Cost Category	Amount	%
Direct Implementation		
Incentive	$ 5,108,794	67%
Non incentive	1,036,261	13%
Total Direct Implementation	6,145,055	80%
Marketing and Outreach	1,110,889	15%
Administration	371,406	5%
Total Expenses	$ 7,627,350	100%

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

SCE paid a total of $5.1 million in HEER rebates charged to the Direct Implementation Cost category in 2010 through mail-in applications, on-line applications and discounts at the point-of-sale. The table below provides a summary of SCE's HEER rebates paid by measure type in 2010.

Table C-5
Summary of HEER Rebate Payments

Type of Measure	Amount	%
Refrigerators	$ 3,891,151	76%
Variable speed pool Pumps in Ground Pools	650,500	13%
Deducted Evaporative Cooling Systems		
(i) Single stage ducted	$164,915	
(ii) Single stage ducted with new pressure relief dampers	61,800	
(iii)Two stage ducted	500	
(iv) Two stage ducted with new pressure relief dampers	-	
Subtotal - Cooling Systems	*227,215*	*4%*
Pool pump contractor incentive	122,400	2%
Whole House Fans	97,800	2%
Energy Star Qualified Air Conditioner	90,002	2%
Pool Pump two speed (2009 carryover measure)	28,600	1%
Energy Star Electric Storage Water Heater	960	0%
Attic and/or Wall Insulation	166	0%
Total	**$5,108,794**	**100%**

Appendix D
SCE Comments

SOUTHERN CALIFORNIA
EDISON
An EDISON INTERNATIONAL® Company

Gene Rodrigues,
Director of Customer Energy Efficiency and Solar

March 02, 2012

Kayode Kajopaiye
Utility Audit, Finance and Compliance Branch
California Public Utilities Commission
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Dear Mr. Kajopaiye:

Southern California Edison Company (SCE) appreciates the opportunity to review and provide comments on the *Interim Examination Report of Southern California Edison Company Energy Efficiency Program for the Year Ended December 31, 2010* (Interim Report), issued by the California Public Utilities Commission's (Commission) Division of Water and Audit's Utility Audit, Finance and Compliance Branch (UAFCB) on February 21, 2012.

To clarify SCE's position and avoid any potential misinterpretation of findings in the Interim Report, SCE provides its response to the findings and recommendations included in the Interim Report (please see attachment).

Consistent with previous audits, SCE will provide the Commission with comprehensive responses to each of the recommendations and findings that are included in the final audit report and offer the appropriate corrective actions.

SCE appreciates the opportunity to continuously improve its administration and operation of the Energy Efficiency (EE) programs and, more importantly, to help achieve the envisioned EE program goals.

If you have any questions, please contact me to discuss further.

Thank you.

Gene Rodrigues
Director of Customer Energy Efficiency and Solar
Southern California Edison Company

3/2/2012

Enclosure

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Recommendations 2 and 3: *SCE should exercise due diligence in reviewing and approving invoices from its vendors and ensure that the EE expenditures are accurately classified and properly recorded in its accounting system.*

Underlying Observations:

Observation 2: *SCE Improperly Charged Third-Party Direct Implementation Expenses to its EE Administrative Expenses.*

Observation 3: *SCE improperly charged EE administrative expenses to its direct implementation expenses.*

SCE's Response to Recommendations 2 and 3:

SCE agrees with Recommendations 2 and 3 and recently provided a refresher training in January and February 2012 on the review of internal orders and cost element accounting. This training reinforced existing policies and procedures on energy efficiency (EE) expenditures and other information to help managers exercise appropriate due diligence in reviewing energy efficiency (EE) expenditures to ensure they are accurately classified and properly recorded in SCE's accounting system.

Recommendation 4: *SCE should comply with the Commission's directives in D.09-09-047 if it does not want to face fines and penalties.*

Underlying Observation:

Observation 4: *SCE incorrectly included EE payroll taxes in its GRC.*

SCE's Response to Recommendation 4:

SCE disagrees with Observation 4. SCE is in compliance with the Commission's directives and correctly included EE payroll taxes in its General Rate Case (GRC).

SCE's 2009-2011 GRC Application (A.)07-11-01 (GRC Application) included the following payroll taxes: SCE's Federal Insurance Contribution Act (FICA), Federal Unemployment Tax Act (FUTA), State Unemployment Insurance (SUI), and California Employment Training (CET) for all SCE employees, including those supporting SCE's EE programs.[1]

[1] The testimony and forecast of SCE's payroll taxes are found in A.07-11-011 at SCE-11, Vol. 2, pp. 47-49 (Attachment 3) and the Results of Operation model summarized in SCE-11, Vol. 1 (Attachment 2).

In March 2009, the Commission issued SCE's GRC Decision (D.)09-03-025 approving SCE's GRC Application, including payroll taxes for employees supporting EE programs.[2]

Later that year, the Commission issued D.09-09-047 in SCE's EE proceeding. D.09-09-047 defined allowable administrative costs for the EE programs.[3] D.09-09-047 also provided that ". . . [we] direct our staff to issue a revised guideline describing the details of administrative costs versus direct implementation costs."[4]

On October 22, 2009, Anne Premo from the Commission's Energy Division (ED) sent a letter to Pacific Gas and Electric Company, SCE, and the Sempra Utilities providing information regarding "how administrative costs should be categorized in light of the energy efficiency portfolio decision (D.09-09-047) and the overall budgets." With respect to payroll taxes, the attachment to this letter noted that "SCE . . . includes EE payroll taxes in the GRC, whereas Sempra and PG&E currently place those under administrative costs." The attachment further provided a "recommendation" that "the IOUs *should be required* to consistently place EE payroll taxes as general EE administrative costs (i.e., SCE should change its current practice of placing these costs in the GRC)." (emphasis added). In providing this *recommendation*, and stating that "the IOUs *should be required* to" (emphasis added) include payroll taxes in their EE applications, the ED recognized that full Commission action was needed to require SCE to change its practice of collecting payroll taxes pursuant to Commission approval in the GRC. The full Commission did not take action to require SCE to change its practice of collecting payroll taxes pursuant to Commission approval in the GRC. Accordingly, SCE could not change its practice on recovering payroll taxes. Furthermore, to have done so in 2010, would have led to double collection of payroll taxes in both EE and GRC, or would lead to SCE being out of compliance with both the EE and GRC decisions, because payroll taxes were included and approved in the GRC and not the EE proceeding.

Ultimately, because the ED recommendation was never formally adopted by the Commission, SCE did not recover or record EE payroll taxes in the EE proceeding as general EE administrative costs, and continued recovering them in compliance with D.09-03-025.

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[2] D.09-03-025, p. 314; Appendix C, p. C-18. The CPUC's adopted payroll taxes forecast of $69.7 million. Although this issue was uncontested, the Commission has explained in prior GRC proceedings that unless it states otherwise in its final decisions, uncontested issues are considered to be *prima facie* reasonable. (*See* e.g., D.06-05-016, p.8 ("As a general matter, with respect to individual uncontested issues in this proceeding, we find that SCE has made a *prima facie* just and reasonable showing, unless otherwise stated in this opinion.").

[3] p. 50.

[4] p. 57.