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CPUC Energy Division
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RE: **TURN Comments on draft Resolution E-4633**

Dear Energy Division Staff:

TURN provides the following comments on draft Resolution E-4633, issued on November 19, 2013 in response to Southern California Edison Company's (SCE) Advice Letter 2946-E (the AL).

1. Summary

TURN supports the draft Resolution without any modifications. The draft Resolution would deny only \$45,486 of SCE's request for over \$18 million in shareholder incentives for energy efficiency activities in 2011. The draft Resolution would hold back \$5,005,528 in incentives subject to an additional complete audit of SCE's 2011 expenditures.

2. Holding Back 27% of SCE's Incentive Request Until a Complete Auditing Is an Entirely Reasonable Response to the Numerous Material Errors Discovered in the Limited Audit Conducted by UAFCB

Edison's original Advice Letter 2946-E briefly stated that the annual audit of energy efficiency expenditures "was completed" by the Commission's Utility Audit, Finance and Compliance Branch (UAFCB) and that "the above PY 2011 EE expenditures have been verified by the UAFCB."¹

¹ SCE AL 2946-E, p. 2-3. By "above PY 2011 EE expenditures" SCE apparently meant their entire 2011 expenditures.

However, the draft Resolution explains in detail that the scope of the audit was actually quite limited due to a very reduced time period, so the audit covered only \$113.4 million out of SCE's total spending of \$334.6 million.²

More importantly, the audit found over \$30 million in misreported expenditures, and SCE agreed in principle with over \$25 million of those discrepancies.³ The audit only recommended removal of about \$818,092 of the recording and reporting discrepancies. This amount represent money that reduces the spending amount for 2011, but does not include any reductions due to potential errors in SCE's accounting.

The UAFCB conducted similar limited audits of 2011 energy efficiency spending by PG&E, SDG&E and SCG.⁴ For all three of those utilities the UAFCB found a "reasonable degree of compliance with respect to accounting, recording, and reporting of its 2011 EE portfolio transactions," except for a few issues identified for each utility. In contrast, the UAFCB audit of SCE found "material errors" and concluded that SCE's 2011 reports were "less than accurate and reliable." The unique findings for SCE indicate that even though the UAFCB conducted a limited audit on an expedited timeline, the findings for SCE reflect a real problem and not just an artifact of the auditing process.

The draft Resolution concludes that a more exhaustive and complete audit of SCE's 2011 expenditures is necessary before ratepayers reward shareholders million of dollars in incentives based directly on energy efficiency spending. The draft Resolution awards SCE approximately 73% of its request, and holds back the remainder subject to a more detailed audit of its expenditures.

The Commission should absolutely require a more detailed audit prior to approving SCE's requested incentive. Only the Commission has the ability and authority to conduct detailed audits of utility spending. Such auditing is a bedrock of the regulatory paradigm, as illustrated by various code

² Draft Resolution E-4633, p. 8, fn. 15.

³ Draft Resolution E-4633, p. 6.

⁴ All the audits are available on the CPUC website at <http://www.cpuc.ca.gov/PUC/Water/Available+Documents/Reports/Financial+Compliance+Audit+Reports+for+EE+Programs.htm>

sections and regulatory policies.⁵ The UAFCB limited audit of SCE's spending raises serious questions. It may turn out that SCE has adequate responses for the discrepancies, or that the discrepancies are not material enough to warrant adjustments. However, given the importance of the energy efficiency incentive mechanism as a policy tool to align shareholder and ratepayer interests in promoting cost-effective energy efficiency spending, the Commission must ensure that the award is based on accurate and audited data. Holding back 27% of the award is a reasonable, if not generous, method of ensuring ratepayers are not harmed by inadequate or inaccurate utility accounting.

3. Conclusion

TURN recommends that the Commission adopt draft Resolution E-4633 without modifications and require a complete audit of SCE's 2011 energy efficiency expenditures.

Yours truly,

/s/ Marcel Hawiger
Staff Attorney
TURN

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Service List for R.12-01-005

⁵ The Draft Resolution E-4633 identifies some of these statutory provisions and Commission policies, including PU Code Sections 314(a), 581 and 584.