State of California

Memorandum

Date: June 27, 2014

To: Michelle Cook
Deputy Director, Operations and Budget

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

Subject: **Financial, Management Regulatory, and Compliance Examination Report of San Diego Gas and Electric Company's (SDG&E) EE Programs For the Period January 1, 2011 through December 31, 2012**

Except for the issues discussed below, SDG&E demonstrated compliance with Commission directives respecting the Energy Efficiency (EE) areas examined by the Utility Audit, Finance and Compliance Branch (UAFCB) for the program years 2011 and 2012. UAFCB did not find any reported costs that SDG&E should not have its incentives calculated on.

UAFCB conducted this examination pursuant to Decision (D.) 12-12-032.[1] Based on consultation with the Energy Division (ED) and UAFCB's prior experience, this examination was limited in scope and included SDG&E's 2011 and 2012 EE program specific areas. For program year 2012: (1) On-Bill Financing program (OBF); (2) Administrative costs; (3) Multi-Family Energy Efficiency Rebate program (MFEER); and (4) EE Contracts. For program years 2011 and 2012: (1) Fund Shifting, (2) Balancing Accounts, (3) Internal Audit of Utility Reports, and (4) Follow-up on Prior UAFCB's Examination recommendations.

A. Summary of Examination, Observations, and Recommendation

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

Observation 1: SDG&E demonstrated compliance with Ordering Paragraph (OP) 13(a) of D.09-09-047 with respect to the 10% cap and target of its Administrative Costs.

Recommendation: None.

Observation 2: SDG&E did not purposely fail to demonstrate compliance with Public Utility (PU) Code §§ 581 and 584.[2] SDG&E reported the 3P and LGP Administrative costs totaling $6.7 million in the Marketing/Advertising/Outreach costs category as shown in its cumulative report on Table 3 of the 2012 Annual Report.

[1] In D.12-12-032, on page 40, the Commission discussed that it anticipates relying on public versions of UAFCB's examination reports when determining the amount of each utility's incentives. In Conclusion of Law (COL) No. 9, the Commission indicated that upon completion, UAFCB shall serve a notice of availability of its report on the service list in R.12-01-005, or its successor.
[2] All statutory references are to the Public Utilities Code unless stated otherwise.

> **Recommendation:** The Energy Division should provide a separate line item in Table 3 for utilities to present accurate and proper reporting as recommended in the examination memo report for 2011. The present reporting requirement does not allow for accuracy in reporting and not in compliance with (D.) 09-09-047, (OP) 13 a and b.

Observation 3: UAFCB did not find any exceptions during its examination of SDG&E's EE contractor payments. SDG&E maintained adequate supporting documentation for the payments of transactions selected for substantive testing and these were relevant to the programs.

> **Recommendation:** None.

Observation 4: SDG&E failed to demonstrate compliance as follows: A) the On-Bill Financing Balancing Account (OBFBA) Preliminary Statement Section 4 (c) and (d); B) Post – 1997 Electric Energy Efficiency Balancing Account (PEEEBA) Preliminary Statement Section 3 (c); and C) Public Utilities Code §§ 581 and 584. In 2009, an OBF loan amounting to $100,000 went into dispute. The account was settled for $50,000 but no record of the loan default and settlement in SDG&E's accounting records.

> **Recommendation:** None. SDG&E revised its balancing accounts and posted a $50,000 adjustment to its accounting records in May 2014.

Observation 5: UAFCB did not find any exceptions during its examination of SDG&E's MFEER rebates in program year 2012. SDG&E maintained adequate supporting documentation for the rebates selected for substantive testing.

> **Recommendation:** None.

Observation 6: SDG&E demonstrated compliance with the Commissioner Ruling in Rulemaking (R.) 09-11-014 regarding Fund Shifting Rules discussed in Attachment B Section II (c), for the fund shift activities for the year 2011, and the first three quarters for the year 2012. However, SDG&E failed to demonstrate compliance with the fund shift activities in the fourth quarter of 2012. SDG&E accounted for its fourth quarter fund shift activities on a quarterly basis, instead of a cumulative year-to-date basis.

> **Recommendation:** UAFCB recommends that SDG&E should account for its fund shifting activities on a cumulative year-to-date basis as clarified by the Commissioner's Ruling.

Observation 7: UAFCB did not find any material exceptions during the examination of SDG&E's Energy Efficiency balancing account for the years 2011 and 2012, except as noted on Observation 3. SDG&E complied with the Commission approved Preliminary Statement in tracking EE expenditures.

> **Recommendation:** None.

Observation 8: SDG&E's Internal Audit (IA) performed its EE audits covering program years 2011 and 2012. Reports 11-2011 Deemed Incentives Programs, and 12-433 Whole House Program, were issued on November 28, 2011 and December 21, 2012, respectively.

Recommendation: None.

Observation 9: SDG&E demonstrated compliance with the UAFCB's recommendations from the audit reports for2010 and 2011.

Recommendation: None.

B. Examination Process

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

UAFCB provided a copy of its analysis, observations and recommendations to SDG&E for review and comment. UAFCB summarized SDG&E's comments, including UAFCB's rebuttal to those comments in Appendix A. SDG&E's comments are included as Attachment A in its entirety to this report.

UAFCB conducted its examination in accordance with attestations 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 of the energy efficiency programs, directives of the Commission pertaining to the programs, SDG&E's internal policies and procedures, and the generally accepted accounting principles and practices.

C. Conclusion

Except for the items discussed above, SDG&E demonstrated compliance with Commission directives respecting its EE program in the limited areas that the UAFCB examined.

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

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Appendix A
Analysis and Findings

A.1 Introduction

The Utility, Audit and Finance Branch (UAFCB) found that San Diego and Electric Company SDG&E demonstrated compliance with Commission directives respecting the areas of its Energy Efficiency (EE) program that the UAFCB examined for program years 2011 and 2012, except for a few concerns discussed below.

UAFCB's examination was limited in scope and included SDG&E's 2011 and 2012 EE specific areas of EE programs of concern to Energy Division and UAFCB. They are as follows:

1. SDG&E Statewide (Investor Owned Utility, IOU), Third Party (3P), and Local Government Partnership (LGP) Administrative Costs – 2012;
2. EE Contracts - 2012;
3. On-Bill Financing (OBF) – 2012;
4. Multi-Family Energy Efficiency Rebates (MFEER) – 2012;
5. Fund Shifting – 2011 and 2012;
6. EE Portfolio Balancing Accounts – 2011 and 2012;
7. SDG&E's Internal Audit Reports – 2011 and 2012; and
8. Follow-up on Prior UAFCB's Examination Reports - 2010 and 2011.

This report addresses regulatory and compliance issues for program years 2011 and 2012, including financial compliance regulatory matters pertaining to program year 2012. This report excludes any financial compliance matters that pertain to SDG&E's EE for program year 2011 since the UAFCB previously addressed them in the examination report issued on September 19, 2013[1].

On June 9, 2014, the UAFCB submitted a copy of its draft report to SDG&E for review and comment. The draft report included UAFCB's observations and recommendations for the specific areas reviewed during the examination. SDG&E provided its comments on June 20, 2014. UAFCB includes a summary of SDG&E's comments and UAFCB's rebuttal to them in Appendix A. SDG&E's comments are included as Attachment A in its entirety to this report.

A.2 Administrative Costs

Observation 1: SDG&E demonstrated compliance with Ordering Paragraph (OP) 13(a) of D.09-09-047 with respect to the 10% cap and target of its Administrative Costs.

1 Refer to Energy Efficiency Program (EE) Financial Compliance Examination report of San Diego Gas & Electric Company (SDG&E) For the Period January 1, through December 31, 2011 that is available at the following link: http://www.cpuc.ca.gov/PUC/Water/Available+Documents/Downloadable+Reports/Financial+Compliance+Audit+Reports+for+EE+Programs.htm

Criteria: OP 13 (a) of the Decision (D).09-09-047 states that the IOU administrative costs for EE programs, excluding 3P and LGP budgets, are limited to 10% of the total EE budgets.[2]

Condition: UAFCB determined that the administrative costs cap and target were both under 10% of the total EE budgets.[2]

SDG&E's Comments: None.

Recommendation: None.

Observation 2: SDG&E did not purposely fail to demonstrate compliance with Public Utility (PU) Code §§ 581 and 584.[3] SDG&E reported its 3P and LGP Administrative costs totaling $6.7 million in the Marketing/Advertising/Outreach costs category as shown in its cumulative report on Table 3 of the 2012 Annual Report.

Criteria: Public Utility Code §§ 581 and 584[4] requires that the utility provide complete and accurate data to the Commission.

Condition: SDG&E's Management Workbook shows that $6.7 million of 3P and LGP administrative costs as part of the IOU's Marketing/Advertising/Outreach category in its Table 3 of the 2012 Annual report.

The table below shows the detail breakdown of the $6.7 million of 3P and LGP administrative costs incurred by SDG&E for 2010-2012 period.

Table A-1
2010 - 2012 LGP and 3P Administrative Costs

Program Type	2010	2011	2012	Total
3P	$ 1,037,163	$ 1,462,812	$ 2,043,179	$ 4,543,154
LGP	674,580	661,274	803,059	2,138,913
Total	**$ 1,711,743**	**$ 2,124,086**	**$ 2,846,238**	**$ 6,682,067**

Cause: SDG&E reported a total of $22 million of Marketing/Advertising/Outreach which included 3P and LGP administrative costs of $6.7 million in Table 3 of the 2012 Cumulative Annual Report. This was a misclassification of expenditures.

Effect: The misclassification overstates Marketing/Advertising/Outreach by $6.7 million. The misclassification does not affect the total portfolio expenditures for 2012.

SDG&E's Comments: None.

[2] UAFCB's interpretation of the 'budgets' to be the 'adopted or authorized budgets'.
[3] All statutory references are to the Public Utilities Code unless stated otherwise.
[4] All statutory references are to the Public Utilities Code unless stated otherwise.

Recommendation: The Energy Division should provide a separate line item in Table 3 for utilities to present accurate and proper reporting as recommended in the examination memo report for 2011. The present reporting requirement does not allow for accuracy in reporting and not in compliance with (D.) 09-09-047, (OP) 13 a and b.

A.3 Energy Efficiency Contracts

Observation 3: UAFCB did not find any exceptions during its examination of SDG&E's EE contractor payments. SDG&E maintained adequate supporting documentation for the payment of transactions selected for substantive testing and these were relevant to the programs.

Criteria: The Federal Energy Regulatory Commission (FERC) Uniform System of Accounts(USOA) and General Order (GO) 28 require that the utilities preserve all records, memoranda and papers supporting each and every entry so that the Commission may readily examine the same at its convenience.

Condition: UAFCB found that the transactions that it tested were in compliance with the set pricing for measure/installations, tasks, product /deliverables, and hourly rates identified in the Compensation Schedules of each approved contract. The amounts were relevant to EE and in agreement with the supporting documentation. In addition, payments were processed and approved in accordance with SDG&E's policies and procedures. UAFCB did not find any exceptions regarding EE contractor payments in the sample it reviewed including fixed price or performance contracts.

SDG&E's Comments: None

Recommendation: None.

A.4 On-Bill Financing (OBF)

Observation 4: SDG&E failed to demonstrate compliance as follows: A) the On-Bill Financing Balancing Account (OBFBA) Preliminary Statement Section 4 (c) and (d); B) Post – 1997 Electric Energy Efficiency Balancing Account (PEEEBA) Preliminary Statement Section 3 (c); and C) Public Utilities Code §§ 581 and 584. In 2009, an OBF loan amounting to $100,000 went into dispute. The account was settled for $50,000 but no record of the loan default and settlement in SDG&E's accounting records.

Criteria: The Preliminary Statements on OBFBA Section 4(c) requires a debit entry to the OBFBA when recording a loan default and Section 4(d) requires a credit entry equal to the loan default amount in order to re-establish the loan pool balance resulting from the loan default; and the Post-1997 Electric Energy Efficiency Balancing Account (PEEEBA) Section 3 (c) requires a debit entry equal to the cost of defaults associated with the OBF Program.

Pursuant to (D.) 97-12-103 and Resolution E-3792 of December 17, 2002, SDG&E's Post-1997 Electric Energy Efficiency Balancing Account (PEEEBA) tracks revenues and expenses associated with the electric Energy Efficiency Public Purpose Program (PPP) and the costs associated with the On-Bill Financing (OBF) Program.

PUC Code Sections 581 and 584 require that the utility provide complete and accurate data to the Commission.

Condition: An OBF loan amounting to $100,000 went into dispute in 2009. After the litigation in 2010, settlement was signed in September 22, 2011 amounting to $50,000. However, SDG&E failed to record this loan settlement and default of $50,000 in its 2012 balancing accounts for OBFBA-Electric and PEEEBA.

Cause: According to SDG&E, the loan settlement and default were not recorded on SDG&E's 2012 OBFBA - Electric reconciliation or its accounting records because the Program Manager did not fully understand how to account for the transactions resulting from the loan default and litigation settlement.

Effect: The unrecorded loan default resulted in SDG&E's OBFBA – Electric to be understated and PEEEBA to be overstated by $50,000 for the year 2012.

SDG&E's Comments: SDG&E corrected the UAFCB's original observation on this matter. SDG&E provided supporting documentation to the UAFCB that showed a $50,000 revision was made to its balancing accounts for OBF-Electric and PEEBA and posted to SDG&E's accounting records in May 2014.

Rebuttal: None.

Recommendation: None

A.5 Multi-Family Energy Efficiency Rebate (MFEER)

Observation 5: UAFCB did not find any exceptions during its examination of SDG&E's MFEER rebates for program year 2012. SDG&E maintained adequate supporting documentation for the rebates selected for substantive testing.

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 provided adequate documentation for expenditure and rebate transactions examined.

SDG&E's Comments: None.

Recommendation: None.

A.6 Fund Shifting

Observation 6: SDG&E demonstrated compliance with the Commissioner Ruling in Rulemaking (R.) 09-11-014 regarding Fund Shifting Rules discussed in Attachment B Section II (c), for the fund shift activities for the year 2011, and the first three quarters for the year 2012. However, SDG&E failed to demonstrate compliance with the fund shift activities in the fourth quarter of 2012. SDG&E accounted for its fourth quarter fund shift activities on a quarterly basis, instead of a cumulative year-to-date basis.

Criteria: Fund Shifting reporting requirements in Attachment B Section II (c), states that Fund Shift Report for Funds Transferred In and Funds Transferred Out requires cumulative year-to-date amount in reporting of fund shift activities.

Condition: SDG&E accounted for its 2012 fourth quarter fund shift activities on a quarterly basis, instead of a cumulative year-to-date.

Cause: According to SDG&E, incorrect data were inadvertently uploaded in EEGA report for its 2012 fourth quarter fund shift activities.

Effect: Accounting for a fund shift activity on a quarterly basis may create conditions whereby no advice letter filing would be required for certain activity, while an advice letter would have been required for the same activity had the activity been accounted for on a cumulative year-to-date basis.

SDG&E's Comments: None

Recommendation: UAFCB recommends that SDG&E should account for its fund shifting activities on a cumulative year-to-date basis as clarified by the Commissioner's Ruling.

A.7 EE Portfolio Balancing Accounts

UAFCB did not find material exception during the examination of SDG&E's Energy Efficiency balancing account for the years 2011 and 2012, except as noted on Observation 3. SDG&E complied with the Commission approved Preliminary Statement in tracking EE expenditures.

Criteria: Pursuant to (D.) 97-12-103 and Resolution E-3792 of December 17, 2002, SDG&E is required by the Post-1997 Electric Energy Efficiency Balancing Account (PEEEBA) to record revenues and expenses associated with the electric Energy Efficiency Public Purpose Program (PPP) and the costs associated with the On-Bill Financing (OBF) Program.

Condition: Except as noted in Observation 3 above, UAFCB did not find any exceptions in the recorded balances and transactions in SDG&E's Energy Efficiency balancing accounts as of and for the periods ending December 31, 2011 and 2012.

SDG&E's Comments: None.

Recommendation: None.

A.8 SDG&E's Internal Audit Reports

Observation 8: SDG&E's Internal Audit (IA) performed its EE audits covering program years 2011 and 2012. Reports 11-2011 Deemed Incentives Programs, and 12-433 Whole House Programs, were issued on November 28, 2011 and December 21, 2012, respectively.

Criteria: Determine whether management's responses to the 2011 and 2012 audit recommendations were implemented on a timely manner.

Condition: All management corrective actions have been addressed.

Effect: None.

SDG&E's Comments: None

Recommendation: None.

A.9 Follow-up on Prior UAFCB's Examination Reports

Observation 9: SDG&E demonstrated compliance with the UAFCB's recommendations from the examination reports for2010 and 2011.

Criteria: According to the examination report issued on May 21, 2012[5], SDG&E is required to do the following: 1) maintain a positive fund balance in its OBF balancing account and loan activities; 2) maintain adequate documentation for all expenditures; 3) exercise due diligence in classifying and recording program expenditures; and 4) exercise due diligence in reviewing and approving invoices to ensure rebates are recorded and classified properly.

In reference to the examination report issued on September 19, 2013[6], SDG&E is required to do the following: (1) enforce its established policy and procedures regarding invoice accruals; and 2) maintain a positive fund balance in its OBF balancing account.

Condition: The following is a summary of SDG&E's responses to the 2010 and 2011examination recommendations:

1. In response to the balancing account deficit, SDG&E proposed and received approval for additional $17 million in D.12-11-015, for a total of $26 (the original $9 million and 17 million) plus any interest in OBF program funding.
2. In response to the lack of documentation, improper classification and recording of expenditures, SDG&E stated that it would continue to train its program managers to understand and review its expenditures.
3. In response to UAFCB's recommendation to ED regarding reporting of non-IOU administrative costs, SDG&E stated that it continues to comply with the current reporting requirements the Commission established for EE programs and awaits further guidance from ED.
4. In response to the un-accrued contractor invoice, in its resolution G-3491 issued on December 5, 2013, the Commission's Energy Division approved SDG&E's Advice Letter 2520-E/2228-G which applied UAFCB's recommendation to exclude

[5] Interim Financial, Management and Regulatory Compliance Examination San Diego Gas & Electric Company's Energy Efficiency (EE) Programs for the Year Ended December 31,2010.
[6] Energy Efficiency Programs (EE) Financial Compliance Examination Report of San Diego Gas & Electric Company (SDG&E) For the Period January 1 through December 31, 2011.

SDG&E's un-accrued contractor invoice from its 2011 EE incentive award calculation.

SDG&E's Comments: None.

Recommendation: None. .

Appendix B
Program Compendium

B.1 Introduction

On September 24, 2009, the California Public Utilities Commission (Commission) issued Decision (D.) 09-09-047 which, among other things, authorized SDG&E a total budget of $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 $3.16 billion total funds the Commission authorized for the 2010 -2012 EE budget cycle for the large four energy utilities. 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 program administrative costs.

B.2 EE Funding Components

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 2012, excluding EM&V expenditures, SDG&E spent $95 million, or 36%, of its total authorized budget for the 2010 -2012 budget cycle. The following table shows the authorized budget, and actual expenditures during 2010 - 2012.

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

Description	Amount
Authorized Budget for 2010-2012	266,879,999
Actual 2010 EE Expenditures	(62,748,018)
Actual 2011 EE Expenditures	(74,048,471)[1]
Actual 2012 EE Expenditures	(95,945,113)
Funds Available	$ 34,138,397

B.3 Administrative Costs

Administrative costs incurred by SDG&E in direct implementation of the EE programs include its own costs for running its programs and those expended for administering Third Party (3P)/Local Government Partnership (LGP) programs. They include labor (management, clerical/technical and agency), employee travel, consulting services and other services provided by contractors, materials, vacation and sick leaves, payroll taxes and allocated overhead. Also included in SDG&E's administrative costs are charges for services cross-billed by Southern California Gas Company. These include labor, payroll taxes, leaves, pension and benefits. Non-

[1] Amount does not reflect adjustment recommended by UAFCB.

IOU program administrative costs are incurred by 3P contractors as well as government agencies participating in LGP programs. These entities are the major implementers of the programs beside SDG&E.

The Commission placed a cap of 10% on utility administrative costs. D.09-09-047, Ordering Paragraph 13.a, states that *"Administrative costs for utility energy efficiency programs (excluding third party and/or local government partnership budgets) are limited to 10% of total energy efficiency budgets..."* And according to D.09-09-047, p 63, *the Commission directs the utilities to seek to achieve a 10% administrative cost target for third party and local government partnership direct costs (i.e., separate from utility costs to administer these programs).*

SDG&E spent a cumulative total of $18.4 million in administrative expenditures for its Statewide, 3P and LGP programs or 6.65% of the $278 million EE budget (excluding EM&V) for the 2010-2012 cycle.

The table below presents a breakdown of SDG&E administrative costs cap for 2010-2012 for costs expended by SDG&E for managing its EE programs.

Table B – 2
EE Administrative Cost Cap and Expenditures
Examination Period: January 1, 2010 - December 31, 2012

Expenditure Type	2010	2011	2012	Total	% to Total Budget
Statewide	$ 3,659,860	$ 3,367,819	$ 4,836,535	$ 11,864,214	4.27%
LGP	1,691,388	1,837,747	2,368,189	5,897,324	2.12%
3P	242,707	263,469	212,849	719,025	0.26%
Totals	**$ 5,593,955**	**$ 5,469,035**	**$ 7,417,573**	**$ 18,480,563**	**6.65%**

2010-2012 Authorized Budget (Excluding EM&V) **$277,999,999**

B.4 Energy Efficiency Contracts

The Commission requires that 20% of the energy efficiency portfolio budget including administration, marketing, and EMV be administered by contractors and consultants. To comply with this requirement SCG contracts out several EE program activities to contractors and non-profit organizations to administer and implement EE programs. SDG&E contracts out several EE program activities to outside contractors in administering and implementing EE programs. SDG&E maintains three types of compensation methods to the contractors namely:

1) Time and Materials (T&M) is based on labor expended (hours worked x approved rates) and actual costs of materials. Not to Exceed (NTE) amount/payments portion are tied to specific and identifiable milestones, tasks and/or deliverables. Payment is made monthly as invoiced.

2) Fixed Price contractor is paid a fixed rate for savings achieved or for specific deliverables. Payments align towards completion of deliverables (e.g. audits completed, reports submitted). Under the Fixed-Unit Pricing structure, contractor payment is solely based upon: $/unit installed; and/or $/savings achieved (kWh, kW, thermal), as indicated by the number of widgets installed; or deliverable (e.g., monthly/quarterly reports, EM&V draft report, final report, etc). Payment is made by milestone.

3) Hybrid is a combination of T&M and Fixed Price payment types discussed above.

For the year 2012, SDG&E entered into agreements with fifty eight (58) contractors valued at approximately $5 million. SDG&E utilized seventy (70) contractor agreements with compensation payment structured as T&M and Fixed Price totaling $4.6 million, and $319,850, respectively. The Fixed Price contracts represent 6.4% of the total contract paid of

A summary detailing contractor costs by cost category and delivery channel is provided in B-3 below.

Table B-3
Contractor Costs by Contractor Type
January 1, 2012 through December 31, 2012

Description	Statewide	Local	3P	Total	%
Administration	$ 714,773	$ 14,542	$ 35,097	$ 764,412	15%
Marketing	57,293	218,284	-	275,577	6%
Direct Implementation	2,200,215	1,226,711	495,130	3,922,056	79%
EM&V	-	-	-	-	0%
Total	$ 2,972,281	$ 1,459,537	$ 530,227	$ 4,962,045	100%

A summary detailing contractor costs by cost category and payment type is provided below in Table B-4 below.

Table B-4
Contractor Costs by Payment Type
January 1, 2012 through December 31, 2012

Description	T&M	Fixed	Hybrid	Total	%
Administration	$ 756,912	$ 7,500	$ -	$ 764,412	15%
Marketing	196,287	79,290		275,577	6%
Direct Implementation	3,688,996	233,060	-	3,922,056	79%
EM&V	-	-	-	-	0%
Total	$ 4,642,195	$ 319,850	$ -	$ 4,962,045	100%

B.5 On-Bill Financing

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 and Non-Institutional customers such as commercial, industrial, and agricultural and government funded customers.

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. Government-funded customers may be granted loans of up to $250,000 (or $1 million for State of California) 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.

On May 11, 2010 SDG&E established the On-Bill Financing (OBF) loan pool and the On-Bill Financing Balancing Account (OBFBA) in compliance with Decision D.09-09-047 and approved by Advice Letter 2123-E/1901-G. The purpose of the OBFBA is to record the difference between the ratepayer funding and actual loans provided to customers participating in SDG&E's OBF program. Loan transactions, such as loans, loan repayments and accrued interest, are tracked and recorded monthly in the OBFBA through the billing system.

SDG&E's OBF budget for the 2010-2012 EE program cycles is $11.6 million as set forth in 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 by non-PGC revenues per Commission's approval of Advice Letter 2123-E/ 1901-G.

As of December 31, 2011 and 2012, SDG&E maintains the following OBFBA:

1) On-Bill Financing Balancing Account – Electric (OBFBA-Electric)
2) On-Billed Financing Balancing Account – Gas (OBFBA-Gas)

In 2012, SDG&E amortized funds of $5.9 million through the OBFA-Electric account and $150,000 through the OBFBA-Gas account as approved by the Commission. SDG&E's report on the 2012 OBFBA-Electric account shows available funds of $4.4 million.

A summary detailing the OBFA-Electric loan activities is provided in Table B-5.

Table B-5
SDG&E OBFBA-Electric Account Activities for 2010 – 2012

Description	2010	2011	2012
Authorized Funding	$ 5,950,000	$ 6,046,000	$ 5,947,896
OBF Loan Payments	2,723,252	4,693,384	5,854,092
Reimbursement of Loan Write-Off	5,743	79,503	27,581
Available Funds for 2012	**8,678,995**	**10,818,887**	**11,829,569**
Prior Yrs. OBF Loan Balance	(3,577,233).	(2,054,502)	(3,262,872)
2012 OBF Loan Disbursements	(7,151,256)	(12,022,688)	(4,159,154)
Interest Expense	(5,009)	(4,567)	2,287
Disbursements & Interest	**(10,733,498)**	**(14,081,757)**	**(7,419,739)**
Year-End OBFBA	**$ (2,054,503)**	**$ (3,262,870)**	**$ 4,409,830**[2]

In 2012 OBFBA-Gas account, SDG&E's report shows loan disbursement and loan payment totaling ($430,654) and $126,794, respectively.

B.6 Multi-Family Energy Efficiency Rebates

The Multi-Family Energy Efficiency Rebate Program (MFEER) offer prescribed rebates for energy efficient products to motivate multifamily property owners/managers to install energy efficient products in both common and dwelling areas of multifamily complexes and common areas of mobile home parks and condominiums. The desired outcome of MFEER implementation is to realize long-term energy savings.

A detailed summary of SDG&E's 2010-2012 MFEER expenditures is shown in the following table.

[2] Amount does not reflect the loan default of $45,500 and recovery of $50,000.

Table B-6
MFEER Expenditures – Program Years 2011 and 2012

Expenditures	2011	2012	Combined Amount	% of Combined MFEER Costs
Admin				
Admin-Labor	$ 29,366	$ 34,028	$ 63,394	2.8%
Allocated Overhead	58,875	64,481	123,356	5.4%
Admin-Non Labor	3,126	6,425	9,551	0.42%
Sub-Total Admin	**$ 91,367**	**$ 104,934**	**$ 196,301**	**8.5%**
Marketing				
Marketing-Labor	$ 13,188	$ 19,150	$ 32,338	1.4%
Marketing-Non Labor	7,947	4,260	12,207	0.53%
Sub-Total Marketing	**$ 21,135**	**$ 23,410**	**$ 44,545**	**1.9%**
Direct Implementation (DI)				
DI-Labor	$ 109,830	$ 160,087	$269,917	11.7%
DI-Non Labor	622	6,757	7,379	0.32%
DI Incentives (Rebates)	863,444	916,589	1,780,033	77.5%
Subtotal DI	**$973,896**	**$1,083,433**	**$2,057,329**	**89.5%**
Total Expenditures	**$1,086,398**	**$1,211,777**	**$2,298,175**	**100.0%**

The distribution of paid rebates is detailed in Table B-7

Table B-7
MFEER Rebate Payments[3] - Program Years 2011 and 2012

Measure/Appliance Description	2011	2012	Combined Total
HVAC-Energy Star Room Air Conditioners	$ 300	$ 3,600	$ 3,900
LED Outdoor Landscape Fixtures =<5 Watts		9,990	9,990
Lighting -Ext. Hardwired Fluorescent Porch Light (19-27 Watts)	7,980	10,380	18,360
Lighting-Energy Star Exterior Hardwired Fluorescent Fixtures 15 Watt	120,090	115,778	235,868
Lighting-Energy Star Interior Hardwired Fluorescent Fixtures >=30 Watt	243,761	297,903	541,664
Lighting-Energy Star Screw-In CFL Interior (14-20 Watt)	64,111	32	64,143
Lighting-Energy Star Screw-In CFL Interior (21-30 Watt)	13,488	30,540	44,028
Lighting-Energy Star Screw-In CFL Interior (5-13 Watt)	848	346	1,194
Lighting-Interior CFL Fixtures (ENERGY STAR Qualified) 22-29 Watt	65,760	158,284	224,044
Lighting-LED Exit Signs	5,985	5,740	11,725
Lighting-Occupancy Sensors	20	20	40
Lighting-Screw-in Compact Fluorescent (CF)	61,625	12,708	74,333
Lighting-T12 Delamping	288	30	318
Lighting-T-8 or T-5 Lamp and Electronic	184,636	242,491	427,127
Shell-Attic Insulation	1,188	263	1,451
Shell-Wall Insulation	270		270
W/H-Boiler Controllers = < 34 Units	20,300	19,600	39,900
W/H-Boiler Controllers = > 35 Units	7,000	2,800	9,800
Water Heating-Central system Natural Gas Boilers-Hot Water /Space Heating	15,000		15,000
Water Heating-Central System Natural Gas Water Heaters	500	1,000	1,500
Water Heating-Faucet Aerators	10,214	2,452	12,666
Water Heating-Low-Flow Showerhead	40,080	2,633	42,713
Total MFEER Rebates	**$ 863,444**	**$ 916,589**	**$ 1,780,034**

B.7 Fund Shifting

In Decision (D.) 09-09-47, Ordering Paragraph (OP) 43(b), IOUs are required to file an Advice Letter for shifts of funds of more than 15% per annum within and between any of the twelve statewide energy efficiency programs, third-party programs, or governmental programs for the entire portfolio cycle. The twelve state programs are identified on pp.104 and 105 of the D.09-09-047 as: 1) Residential, 2) Commercial, 3) Industrial, 4) Agricultural, 5) New Construction, 6)Lighting Market Transformation, 7) Heating, Ventilation and Air Conditioning (HVAC), 8) Codes and Standards (C&S), 9) Emerging Technologies (ET), 10) Workforce Education and Training, 11) Marketing Education and Outreach (ME&O), and 12) Demand Side Management Coordination and Integration (IDSM). Also, in Rulemaking 09-11-014-*"Assigned*

[3] Per UTILITY response to (DR 001 Question # 28), List of Appliance/Measures Rebates

Commissioner's Ruling Clarifying Fund Shifting Rules and Reporting Requirements" dated December 22, 2011, it states that the utilities shall comply with the energy efficiency fund shifting rules reflected in Attachment A of the Ruling. This explains in detail the fund shifting requirements.

An exception to the 15% rule is made for fund shifts in categories C&S, ET and ME&O. In Attachment A of R.09-11-014, the IOUs are required to file an Advice Letter for fund shifts that would reduce any of the programs by more than 1% of budgeted levels among programs within these categories or among the three categories. Furthermore on page 2, it states that, *"the fund shifting changes adopted in D.09-09-047 are not intended to change Section II, Rule 11 of the Energy Efficiency Policy Manual (version 4) as applied to EM&V and ME&O, or to change the fund shifting rules for C&S and Emerging Technologies programs."*

SDG&E's cumulative year- to- date fund shifting activities for the years 2011 and 2012 totaled $1.3 million and $27 million, respectively. UAFCB's observations are discussed in Appendix A of this report.

B.8 EE Portfolio Balancing Accounts

SDG&E maintains separate gas and electric EE balancing accounts in its preliminary statements as part of its approved tariffs. EE expenditures are tracked by Internal Order (IO), a unique SAP number used to identify either FERC accounts or projects, and provide additional accounting information about why the expenditure was incurred. Order groups are set up in SAP for each balancing account to capture expenditures that are to be included in the balancing accounts.

Below is the list of balancing accounts maintained by SDG&E to account for EE program costs and revenues for the period ending December 31, 2011 and 2012:

Electric:

EPEEBA - Electric Procurement Energy Efficiency Balancing Account (authorized in D.03-12-062).
PEEEBA -POST-1997 Electric Energy Efficiency Balancing Account (Post 1997 DSM- Electric).

Gas:

PGEEBA – Post-2005 Gas Energy Efficiency Balancing Account.
GEEBA - Gas Energy Efficiency Balancing Account (Post 1997 DSM- Gas).

SDG&E's Preliminary statement describes EPEEBA to record the revenue from a non by-passable surcharge that will fund the procurement EE program costs as authorized in D.03-12-062. SDG&E maintains the account to record the following:

a. Actual costs associated with procurement energy efficiency programs;
b. Revenue billed during the month from the EPEEBA revenue, net of franchise fees and uncollectible expense;
c. Monthly transfer of net revenues to the PEEEBA;

d. Interest on the average of the balance during the month.

Pursuant to D.09-09-047, SDG&E's PEEEBA is to record the following: a) monthly PEEBA revenue and b) an entry equal to the Non-Low-Income EE program performance incentives; c) actual costs of defaults associated with the OBF Program and; c) Interest on the average of the balance during the month and; d) an entry to reflect the transfer of the EPEEBA net revenues to the PEEEBA.

SDFG&E's GEEBA is to track the non-low-income and low-income activities and funding from January 1, 1998 forward, and to facilitate the transfer of gas funds. GEEBA also includes Pre-2001 and Post-2000 sub-accounts to record expenses and revenues for the applicable time frames. SDG&E maintains this account by recording all expenses incurred for EE program and activities, transfer of funds as directed by the Commission.

SDG&E's PGEEBA is to track the non-low income and low-income activities and funding for the program cycle beginning from January 1, 2006 as approved by D.05-09-043. This account also tracks all expenses incurred for EE programs and activities, and the cost of defaults associated with OBF program adopted in D.09-09-047.

SDG&E maintains both GEEBA and PGEEBA, and record monthly transactions:

a. Surcharge from the recorded gas PPP surcharge;
b. Surcharge related to the refunds to customers that are exempt from the PPP surcharge;
c. Surcharge from the reimbursement of the gas PPP surcharge funds;
d. Year-end credit entry, if necessary equal to the excess of annual expense above authorized levels (including authorized carry-over funding);
e. Interest on the average of the balance during the month.

UAFCB's observations are discussed in Appendix A of this report.

B.9 SDG&E's Internal Audit Report

UAFCB requested that SDG&E provide a copy of any internal audit reports that were issued affecting the utilities EE program activities for the 2011-2012 audit periods and related management responses.

In response, SDG&E identified two internal audit reports that affected its EE program activities for the 2011-2012 audit periods. They are:

1. 11-211 Sempra Energy utilities, Energy Efficiency Deemed Incentives Programs for the period January 2010 through July 2011, dated November 28, 2011.
2. 12-433 San Diego Gas & Electric Company, Energy Efficiency Program – Whole House Program for the period January 2010 through September 2012, dated December 21, 2012.

SDG&E also provided the UAFCB with a status update on management actions in implementing the corrective action plan contained in the internal audit reports. UAFCB's observations are discussed in Appendix A of this report.

B.10 Follow-up on Prior UAFCB's Examination Reports

UAFCB performed a follow-up examination on each observation and recommendation in its prior examination reports addressed to the Energy Division Director dated March 23, 2012 and Operations and Budget Deputy Director dated September 19, 2013.

For the examination on SDG&E's EE for the year ended December 31, 2010, see Appendix A

For the examination on SDG&E's EE for the period covering January 1, 2011 through December 31, 2011, UAFCB followed-up with SDG&E to obtain the implementation of the examination recommendations included in the examination report. See Appendix A for the responses from SDG&E.

Attachment A
SDG&E Comments

SDGE
A Sempra Energy utility

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June 20, 2014

Bernard Ayanruoh – Program and Project Supervisor
Utility, Audit, Finance and Compliance Branch
California Public Utilities Commission
505 Van Ness Avenue, 3rd Floor
San Francisco, CA 94102

Re: SDG&E Comments on Financial, Management, Regulatory, and Compliance Examination Report of San Diego Gas & Electric Company's EE Programs for the Period January 1, 2011 through December 31, 2012

Dear Mr. Ayanruoh:

San Diego Gas & Electric Company (SDG&E) has reviewed the report prepared by the Utility, Audit Finance and Compliance Branch (UAFCB) dated June 9, 2014. SDG&E provides the following limited comments with regard to Observation 4's recommendation, on page 2, which states:

> *SDG&E should revise its balancing accounts for OBF-Electric and PEEEBA to properly account for this loan default and settlement. Additionally, SDG&E should provide evidence that it has complied with our recommendation within 30 days of issuance of this report.*

SDG&E agrees with the observation and has made a revision in its balancing accounts for OBF- Electric and PEEEBA to properly account for the loan default and settlement. Documentation will be provided in support of the balancing account revision that was posted to the Company's accounting records in May 2014.

If you have any questions or require additional information, please feel free to contact me.

Sincerely,

Joy C. Yamagata
Regulatory Manager

cc: M. Somerville – SDG&E
S. Patrick – SDG&E
A. Besa – SDG&E
Central Files