



Memorandum

Date: June 30, 2015

To: Michelle Cook
Deputy Executive Director for Budget and Administration

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

Subject: **Financial, Management, and Regulatory Compliance Examination Report on Pacific Gas and Electric Company's (PG&E's) Energy Efficiency (EE) Programs For the Period January 1, 2013 through December 31, 2013**

Except for the matters discussed in Observations 2, 4, 12, 13, 15 and 21 below, PG&E demonstrated compliance with Commission directives respecting the areas of its Energy Efficiency (EE) examined by the Utility Audit, Finance and Compliance Branch (UAFCB) for program year 2013. UAFCB, however, found that PG&E overstated its Third Party Program expenditures by \$394,913. Therefore, a reduction of \$394,913 should be made to the appropriate program expenditures before calculating the awards for the 2013 true-up or 2014 Advice Letter filing.

UAFCB also recommends that the Energy Division adopt uniform reporting requirements among EEStats reports for easy review, comparison, and consistency. It noted a few PG&E's internal control deficiencies and reporting errors. It raised concerns regarding PG&E's calculation of the 20% minimum funding requirement of portfolio budget devoted to third party competitively bid program contracts and lack of specific instructions from the Commission on how the 20% should be calculated by the utilities.

UAFCB conducted this examination pursuant to Ordering Paragraph (OP) 17 of Decision (D.) 13-09-023.¹ The examination was limited to the following specific EE program areas: (1) Reconciliation of EE Program Portfolio Costs to Reported Amounts; (2) Codes and Standards (C&S) Programs; (3) Non-Resource (NR) Programs; (4) Local Government Partnership (LGP) – Santa Barbara Energy Watch (SBEW); (5) Third Party (TP) Program Contracts; (6) Plug Load and Appliances (PLA) Program; (7) Fund Shifting; and (8) Follow-up on Prior UAFCB's Examination Observations and Recommendations and PG&E's Internal Audit (IA) Recommendations.

PG&E's management is responsible for ensuring accurate reporting of energy efficiency program data and information to the Commission in compliance with applicable law and administrative requirements.

A. Summary of Examination, Observations, and Recommendations

A detailed description of UAFCB's analysis and observations is included in Appendix A.

¹ D.13-09-023, pp. 97 and 98.

Reconciliation of EE Program Portfolio Costs to Reported Amounts:

Observation 1: PG&E demonstrated compliance with Public Utility (PU) code §§ 581, 582 and 584 respecting the reported total EE program portfolio costs.² PG&E reported \$328,613,694 of EE program portfolio costs, including the Non-utility Programs³ and Evaluation, Measurement and Verification (EM&V) costs, in the Annual EEStats Report. This amount reconciled to the total EE program portfolio costs reported for the 2013 4th Quarter (Q4 2013) Quarterly EEStats Report with no exceptions.

Recommendation: None.

Observation 2: During the reconciliation of reported EE program expenditures among PG&E's EEStats reports (annual, quarterly, and monthly), UAFCB noted various variances due to inconsistent reporting requirements for the EEStats reports, as shown below.

Summary of EE Program Reporting Differences Among 2013 EEStats Reports				
Description	EEStats Reports			Difference
	Annual	Quarterly	Monthly	
BayREN actual expenses (reported by BayREN)	No	No	Yes	\$4,507,459
PG&E's actual payment to BayREN (recorded as expenditures by PG&E)	Yes	Yes	No	
MEA actual expenses (reported by MEA)	No	No	Yes	\$747,797
PG&E's actual payment to MEA (recorded as expenditures by PG&E)	Yes	Yes	No	
EM&V Expenditures	Yes	Yes	No	\$1,664,012
Energy Savings Assistance (ESA) Expenditures	No	No	Yes	(\$146,009,536)
Total Variance				(\$139,090,268)
Pre-2013 EE program carryover expenditures related to EM&V	Yes	No		\$13,356,595
Pre-2013 EE program carryover expenditures		Yes	No	\$48,699,178

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

³ PG&E's Non-utility programs include San Francisco Bay Area Regional Energy Network (BayREN) and Marin Energy Authority (MEA) programs.

Recommendation: The Commission's Energy Division (ED) should develop uniform reporting requirements for all the EEStats reports (annual, quarterly, and monthly) to enable utilities report their EE program data consistently.

Codes and Standards (C&S) Programs:

Observation 3: PG&E demonstrated compliance with PU code §§ 581, 582 and 584 respecting the C&S program reported costs. A reconciliation of \$5,891,638 reported as C&S program expenditures for the Q4 2013 Quarterly EEStats Report and December 2013 Monthly EEStats Report to its SAP Report disclosed no exceptions.

Recommendation: None.

Observation 4: PG&E failed to demonstrate compliance with PU code §§ 581, 582 and 584 respecting certain amounts sampled for verification. UAFCB verified \$1,845,092 or 31.32% of \$5,891,638 expended on C&S programs. In general, the expenditures were supported; however, UAFCB found certain deficiencies in: (1) internal control on invoice review, approval and payment process; (2) record retention; and, (3) Master Contract Agreement (MSA) with the Regents of the University of California (UC).

Recommendation: PG&E should strengthen its internal control on the invoice review, approval, and payment process to ensure that billings from outside entities have adequate and proper supporting documents. Additionally, PG&E should strengthen its employee timecard review and approval process to ensure that the employee timesheets are accurate, complete, properly reviewed and approved, and the records are properly kept and tracked.

Also, PG&E should modify its MSA with the UC to include a clause specifying the term of indirect cost markup by the UC.

Observation 5: PG&E demonstrated compliance with the Energy Efficiency Policy Manual, Version 5, dated July 2013 (EE Policy Manual), PG&E's Program Implementation Plan (PIP), and its internal accounting policies and procedures for the C&S Programs. PG&E had the necessary policies and procedures in place to control and monitor its accounting practices including the recording and reporting of C&S program expenditures.

Recommendation: None.

Non-Recourse (NR) Programs:

Observation 6: PG&E demonstrated compliance with PU code §§ 581, 582 and 584 respecting the NR program reported costs. A reconciliation of \$38,582,888 reported as NR program expenditures for the Q4 2013 Quarterly EEStats Report and December 2013 Monthly EEStats Report to its SAP Report disclosed no exceptions.

Recommendation: None.

Observation 7: PG&E demonstrated compliance with PU code §§ 581, 582 and 584 respecting certain amounts sampled for verification. UAFCB verified \$3,192,957 or

8.28% of \$38,582,888 expended on NR programs. In general, the expenditures were properly supported.

Recommendation: None.

Observation 8: PG&E demonstrated compliance with the EE Policy Manual and its internal policies and procedures for the NR programs. PG&E had the necessary policies and procedures in place to control and monitor its accounting practices, including the recording and reporting of NR program expenditures.

Recommendation: None.

Local Government Partnerships (LGP) – Santa Barbara energy Watch (SBEW):

Observation 9: PG&E demonstrated compliance with PU code §§ 581, 582 and 584 respecting the SBEW program reported costs. A reconciliation of \$1,202,114 reported as SBEW program expenditures for the Q4 2013 Quarterly EEStats Report and December 2013 Monthly EEStats Report to its SAP Report disclosed no exceptions.

Recommendation: None.

Observation 10: PG&E demonstrated compliance with PU code §§ 581, 582 and 584 respecting certain amounts sampled for verification. UAFCB verified \$752,053 or 62.56% of \$1,202,114 expended on SBEW program. In general, the expenditures were properly supported.

Recommendation: None.

Observation 11: PG&E demonstrated compliance with the EE Policy Manual and its internal policies and procedures for the SBEW program. UAFCB's review of the SBEW program, a subpart of the LGP programs, disclosed that it was designed, structured, managed, and implemented in compliance with Commission's directives and PG&E's policies and procedures.

Recommendation: None.

Third Party (TP) Program Contracts:

Observation 12: PG&E failed to demonstrate compliance with PU code §§ 581, 582 and 584 respecting the TP program reported costs. A reconciliation of PG&E's reported 2013 TP program expenditures of \$76,540,613 for the Q4 2013 Quarterly EEStats Report and December 2013 Monthly EEStats Report to its SAP Report disclosed no exceptions. However, PG&E reclassified \$149,810 from the TP programs to the Core programs at year end and reflected such adjustment only in its 2013 Annual EEStats Report and not in the Q4 2013 Quarterly EEStats Report and December 2013 Monthly EEStats Report.

Additionally, UAFCB found that \$394,913 TP program expenditures for 2012 were not properly accrued but were incorrectly recorded and reported as TP program expenditures for 2013.

PG&E comments that it disagrees with the UAFCB's recommendation below on accrual basis of accounting. UAFCB, however, stands by its recommendation because the work was completed by the end of 2012. The timing of inspection should not determine when an amount should be accrued for accounting and reporting purposes.

Recommendation: The \$394,913 should be excluded from the incentive award calculations in the true-up and/or 2014 Advice Letter filing. In addition, PG&E should consistently report the EE program expenditures in all EEStats reports.

Observation 13: PG&E failed to demonstrate compliance with PU code §§ 581, 582 and 584 respecting certain amounts sampled for verification. UAFCB verified \$4,726,902 or 6.18% of \$76,540,613 expended on TP programs. In general, the expenditures were properly supported, except for the three samples with an aggregate amount of \$394,913 mentioned in Observation No. 12.

Recommendation: See Observation 12.

Observation 14: PG&E demonstrated compliance with the EE Policy Manual and its internal policies and procedures for the EE TP program contracts. UAFCB's review of the TP programs disclosed that they were designed, structured, managed, and implemented in compliance with Commission's directives and PG&E's policies and procedures.

Recommendation: None.

Observation 15: UAFCB's review of EE TP contract policy requirement disclosed that the Commission lacks clear guidance on how to determine whether or not PG&E met the Commission's requirement of the 20% minimum funding requirement for competitively bid third party programs. PG&E determined its compliance with this requirement based on the Commission-approved EE budget. PG&E claimed that its budget for competitively bid TP programs was 22.5% of the total EE portfolio budget. However, PG&E included in the calculation five statewide programs competitively bid. Additionally, PG&E did not exclude the BayREN/MEA budgets from the total EE portfolio budget in its calculation of the denominator. If PG&E were allowed to use the Commission-approved EE budget for PG&E to compute the percentage of competitively bid TP programs, the calculation would be 18.76% as against 22.5% calculated by PG&E.

Recommendation: The Commission should clarify the 20% minimum funding requirement for competitively bid third party contracts and provide specific computation instructions on the matter. PG&E should follow Commission's instructions when directed to do so.

Observation 16: In evaluating PG&E's compliance with the 20% minimum funding requirement for competitively bid TP contracts, ED provided the following computation formula to UAFCB:

Numerator = The total contract dollar amount, including incentives, of all competitively bid third party programs, including the funding set aside to conduct competitive solicitations throughout the program cycle.

Denominator = The total authorized energy efficiency program budget, including EM&V budget, but excluding REN/CCA budgets. The third party value (numerator in formula) is the summation of the contract amount, including incentives, of all competitively bid third party programs, including the funding set aside to conduct competitive solicitations throughout the program cycle.

UAFCB found it challenging in computing the numerator using ED's directive because there are no set criteria to determine the total contract dollar amount for a particular contract in an EE cycle if that contract's duration is not completely within the EE budget cycle.

Recommendation: The Commission should clarify the 20% minimum funding requirement for competitively bid third party contracts and provide specific computation instructions on the matter. UAFCB recommends that the Commission should modify the requirement and require the IOUs to use actual expenditures of competitively bid TP Program contracts for the EE cycle in computing the numerator.

Plug Load and Appliances (PLA) Program:

Observation 17: PG&E demonstrated compliance with PU code §§ 581, 582 and 584 respecting the PLA program reported costs. A reconciliation of \$18,615,907 reported as PLA program expenditures for the Q4 2013 Quarterly EEStats Report and December 2013 Monthly EEStats Report to its SAP Report disclosed no exceptions.

Recommendation: None.

Observation 18: PG&E demonstrated compliance with PU code §§ 581, 582 and 584 respecting certain amounts sampled for verification. UAFCB verified \$8,132,930 or 43.69% of \$18,615,907 expended on PLA program. In general, the expenditures were properly supported.

Recommendation: None.

Observation 19: PG&E demonstrated compliance with the EE Policy Manual and its internal policies and procedures for the PLA program. In 2013, PG&E utilized various channels to deliver and implement the PLA program. UAFCB's review disclosed that the PLA Program was designed, structured, managed, and implemented in compliance with Commission's directives and PG&E's policies and procedures. PG&E had a reasonable process in place to capture the PLA program costs, inspect and verify services delivered, and ensure that the rebates were properly processed.

Recommendation: None.

Fund Shifting and Follow-up on Prior Examination Observation and Recommendation:

Observation 20: PG&E demonstrated compliance with PU code §§ 581, 582 and 584, the EE Policy Manual, and its internal policies and procedures respecting the fund shifting activities. PG&E's EE program fund shifting in PY 2013 did not exceed the annual thresholds specified in Appendix C of the EE Policy Manual. Therefore, PG&E was not required to file Advice Letters with the Commission about fund shifting. PG&E was in compliance with the Commission's fund shifting requirements in 2013.

Recommendation: None.

Observation 21: PG&E fully implemented UAFCB's recommendations specified in its Examination Memo Report for the 2011-2012 EE Programs, except for: (1) UAFCB's recommendation #4 that PG&E should discuss with the Energy Division its third party contracting accounting practices to determine if they are acceptable to the Commission. PG&E deferred the matter pending the Commission's ruling on "SCE's Motion for Clarification Pursuant to Ordering Paragraph #49 of D.12-11-015" filed on May 19, 2014; (2) Recommendation # 8 on fund shifting. UAFCB found that PG&E accounted for its fund shift activities on a non-annual cumulative, transaction-by-transaction basis. UAFCB continues to find that the fund-shifting annual thresholds should be applied to the funds shifted on an annual cumulative basis and not based on non-cumulative basis asserted by PG&E in its response to UAFCB's prior examination report.

On item #2 above, PG&E changed its position at the exit meeting of the 2013 EE examination indicating that it agrees with the UAFCB when the matter was brought to its attention as an outstanding item from the last examination of EE programs.

Recommendation: UAFCB plans to monitor PG&E's continuing compliance in future examinations of the programs to assure itself of PG&E's agreement.

PG&E's Internal Audit (IA) Reports:

Observation 22: The IA Report dated October 28, 2013, found that PG&E's Customer Energy Solutions' (CES') controls over its contract administration processes for the competitively bid energy efficiency programs need strengthening in program management, internal compliance procedures, record management, and quality assurance services. As of April 8, 2014, all these matters had been addressed and resolved by the CES to the satisfaction of the IA.

Recommendation: None.

Observation 23: The IA Report dated February 6, 2014, found that CES's controls over rebate processing for the Single Family Residential Program are inadequate, particularly in (1) reconciling program data maintained in PG&E and third-party systems, (2) monitoring the effectiveness of key program processes and controls, and (3) activities related to Central Inspection Program (CIP). As of January 12, 2015, all these matters had been addressed and resolved by the CES to the satisfaction of the IA.

Recommendation: None.

B. Examination Process

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

On June 1, 2015, the UAFCB provided its draft observations and recommendations to PG&E for its comments. On June 11, 2015, PG&E provided its comments to UAFCB. UAFCB summarized PG&E's comments, including UAFCB's rebuttal to them in Appendix A.

UAFCB conducted its examination in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA), and, accordingly, included examining on a test basis, evidence concerning PG&E's compliance with the requirements of the energy efficiency programs, directives of the Commission pertaining to the programs, PG&E's internal policies and procedures, and the generally accepted accounting principles and practices.

C. Conclusion

Except for Observations 2, 4, 12, 13, 15 and 21 discussed above, PG&E demonstrated compliance with Commission directives respecting its EE programs in the limited areas the UAFCB examined.

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

cc: Rami Kahlon, Director, Division of Water and Audits
Bernard Ayanruoh, Division of Water and Audits
Raymond Yin, Division of Water and Audits
Beth Chia, Division of Water and Audits
Pete Skala, Energy Division

Appendix A Analysis and Findings

A.1 Introduction

Except for Observations 2, 4, 12, 13, 15 and 21 discussed below, Pacific Gas and Electric Company (PG&E) demonstrated compliance with Commission directives respecting the areas of its Energy Efficiency (EE) program that the Utility Audit, Finance and Compliance Branch (UAFCB) examined for program year (PY) 2013.

This report addresses EE financial, management, regulatory and compliance areas for PY 2013. However, UAFCB's examination scope was limited to the following specific EE program areas that are of interest to the Energy Division (ED) and UAFCB.

1. Total EE Program Portfolio Cost Reconciliation to Reported Amounts;
2. Codes and Standards (C&S) Programs;
3. Non-Resource (NR) Programs;
4. Local Government Partnership (LGP) – Santa Barbara Energy Watch (SBEW);
5. Third Party (TP) Program Contracts;
6. Plug Load and Appliances (PLA) Program;
7. Fund Shifting; and,
8. Follow-up on Prior UAFCB's Examination observations and Recommendations and PG&E's Internal Audit (IA) Recommendations.

On June 1, 2015, the UAFCB submitted its draft memo report to PG&E for its review and comments. The draft report included UAFCB's observations and recommendations for the specific areas reviewed during the examination. PG&E provided its comments on June 11, 2015. UAFCB includes a summary of PG&E's comments and UAFCB's rebuttal to them in Appendix A. PG&E's full response comment is included in Appendix C of this memo in its entirety.

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

Observation 1: PG&E demonstrated compliance with Public Utility (PU) code §§ 581, 582 and 584 respecting the reported total EE program portfolio costs.¹ PG&E reported \$328,613,694 of EE program portfolio costs, including the Non-utility Programs² and Evaluation, Measurement and Verification (EM&V) costs, in the Annual EEStats Report. This amount reconciled to the total EE program portfolio costs reported for the 2013 4th Quarter (Q4 2013) Quarterly EEStats Report with no exceptions.

Criteria: Sections 581, 582 and 584 require that the utility provide complete and accurate data to the Commission. Appendix D of the EE Policy Manual, Version 5, dated July 2013 (EE Policy Manual) specifies the reporting requirements.

Condition: The total EE program portfolio expenditure of \$328,613,694 reported in the 2013 Annual EEStats Report agrees with the reported amount in the Q4 2013 Quarterly EEStats Report.

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

² PG&E's Non-utility programs include San Francisco Bay Area Regional Energy Network (BayREN) and Marin Energy Authority (MEA) programs.

Recommendation: None.

Observation 2: During the reconciliation of reported EE program expenditures among PG&E's EESStats reports (annual, quarterly, and monthly), UAFCB noted various variances due to inconsistent reporting requirements for the EESStats reports, as shown below.

Summary of EE Program Reporting Differences Among 2013 EESStats Reports				
Description	EESStats Reports			Difference
	Annual	Quarterly	Monthly	
BayREN actual expenses (reported by BayREN)	No	No	Yes	\$4,507,459
PG&E's actual payment to BayREN (recorded as expenditures by PG&E)	Yes	Yes	No	
MEA actual expenses (reported by MEA)	No	No	Yes	\$747,797
PG&E's actual payment to MEA (recorded as expenditures by PG&E)	Yes	Yes	No	
EM&V Expenditures	Yes	Yes	No	\$1,664,012
Energy Savings Assistance (ESA) Expenditures	No	No	Yes	(\$146,009,536)
Total Variance				(\$139,090,268)
Pre-2013 EE program carryover expenditures related to EM&V	Yes	No		\$13,356,595
Pre-2013 EE program carryover expenditures		Yes	No	\$48,699,178

Criteria: The EE Policy Manual specifies the EESStats reporting requirements.³

Condition: The EE program expenditures pertaining to BayREN, MEA, EM&V, ESA and Pre-2013 EE Program Carryovers were not reported consistently among EESStats reports.

Cause: The Commission's reporting requirements among EESStats reports are inconsistent.

Effect: The noted variances do not affect PG&E's actual EE program expenditures.

³ Appendix D of the EE Policy Manual, pp. 67-71.

Recommendation: ED should develop uniform reporting requirements for all the EEStats reports (annual, quarterly, and monthly) to enable utilities report their EE program data consistently.

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

Observation 3: PG&E demonstrated compliance with PU code §§ 581, 582 and 584 respecting the C&S program reported costs. A reconciliation of \$5,891,638 reported as C&S program expenditures for the Q4 2013 Quarterly EEStats Report and December 2013 Monthly EEStats Report to its SAP Report disclosed no exceptions.

Criteria: Sections 581, 582 and 584 require that the utility provide complete and accurate data to the Commission.

Condition: The \$5,891,638 reported in the Q4 2013 Quarterly EEStats Report and December 2013 Monthly EEStats Report as the total C&S expenditures reconciled to the amount in PG&E's SAP Report. PG&E's SAP Reports were the supporting documents used to compile the EEStats reports. The breakdown of the \$5,891,638 is as follows: \$142,046 recorded to the Administrative cost category, (\$263) to the Marketing cost category, and \$5,749,855 to the Direct Implementation cost category.

Recommendation: None.

Observation 4: PG&E failed to demonstrate compliance with PU code §§, 581, 582 and 584 respecting certain amounts sampled for verification. UAFCB verified \$1,845,092 or 31.32% of the 2013 C&S program expenditures of \$5,891,638. In general, the expenditures were supported; however, UAFCB found certain deficiencies in: (1) internal control on invoice review, approval and payment process; (2) record retention; and, (3) Master Contract Agreement (MSA) with the Regents of the University of California (UC).

Criteria: Sections 581, 582 and 584 require that the utility provide complete and accurate data to the Commission.

Condition:

- (1) Of the 60 C&S samples verified, UAFCB found the following:
 - a) PG&E could not provide a subcontractor's labor timecards for two samples;
 - b) PG&E could not locate its IDSM Invoice Review Checklist for one sample;
 - c) PG&E approved and paid \$4,055 to one contractor for work completed in 2011;
 - d) An over-billing of \$2,154 from a contractor was paid by PG&E due to oversight.
 - e) The University of California at Davis (UCD) added 26% markup for indirect cost in its billing to PG&E based on the UC Contract and Grant Manual. However, the 26% markup wasn't specified in PG&E's MSA with the UC.

- f) PG&E could not provide supporting documents for employee timesheet approvals on 17 samples. All of those 17 samples related to one PG&E employee.

(2) Of the 85 cost allocation samples verified, PG&E could not provide employee timesheet approvals for 19, or 22.35%. In addition, five samples or 5.88% missed the employees' names and personnel numbers on the timesheets. UAFCB also found that 21 out of 85 samples or 24.71% had variances in employee hours between employee timecards and PG&E's SAP records.

Cause: PG&E's internal control weaknesses in documentation review and approval, record retention, and the MSA with the UC contributed to the noted exceptions.

Effect: The noted exceptions did not materially affect the costs allocated to the orders because any Standard Cost Variance (SCV) at the end of each month would have been redistributed to the orders.

PG&E Comments: PG&E agrees with UAFCB's recommendations.

Rebuttal: None.

Recommendation: PG&E should strengthen its internal control on the invoice review, approval and payment process to ensure that billings from outside entities have adequate and proper supporting documents. Additionally, PG&E should strengthen its employee timecard review and approval process to ensure that the employee timesheets are accurate, complete, properly reviewed and approved, and the records are properly kept and tracked.

Also, PG&E should modify its MSA with the UC to include a clause specifying the term of indirect cost markup by the UC.

Observation 5: PG&E demonstrated compliance with the Energy Efficiency Policy Manual, PG&E's Program Implementation Plan (PIP), and its internal accounting policies and procedures for the C&S Program. PG&E had the necessary policies and procedures in place to control and monitor its accounting practices, including the recording and reporting of C&S program expenditures.

Criteria: The EE Policy Manual specifies the purpose of the C&S Programs and provides general guidance on PIP.⁴ PG&E's PIP for the C&S Program is the guiding document for implementing the statewide C&S program. PG&E's internal accounting policies and procedures provide guidance for recording and reporting the C&S program expenditures.

Condition: PG&E had the necessary policies and procedures in place to control and monitor its accounting practices including the recording and reporting of C&S program expenditures. PG&E complied with the guiding documents.

Recommendation: None.

⁴ EE Policy Manual, Version 5, pp. 6, 26 and 27.

A.4 Non-Resource (NR) Programs

Observation 6: PG&E demonstrated compliance with PU code §§ 581, 582 and 584 respecting the NR program reported costs. A reconciliation of \$38,582,888 reported as NR program expenditures for the Q4 2013 Quarterly EESStats Report and December 2013 Monthly EESStats Report to its SAP Report disclosed no exceptions.

Criteria: Sections 581, 582 and 584 require that the utility provide complete and accurate data to the Commission.

Condition: The \$38,582,888 reported in the Q4 2013 Quarterly EESStats Report and the December 2013 Monthly EESStats Report as the total NR expenditures reconciled to the amount in the SAP Report. PG&E's SAP Reports were the supporting documents used to compile the EESStats reports. The breakdown of the \$38,582,888 is as follows: \$3,079,932 recorded to the Administrative cost category, \$1,588,649 to the Marketing cost category, and \$33,914,307 to the Direct Implementation cost category.

Recommendation: None.

Observation 7: PG&E demonstrated compliance with PU code §§ 581, 582 and 584 respecting certain amounts sampled for verification. UAFCB verified \$3,192,957 or 8.28% of \$38,582,888 expended on NR programs. In general, the expenditures were properly supported.

Criteria: Sections 581, 582 and 584 require that the utility provide complete and accurate data to the Commission.

Condition: Of the 21 samples reviewed, the reported expenses were properly supported.

Recommendation: None.

Observation 8: PG&E demonstrated compliance with the EE Policy Manual and its internal policies and procedures for the NR programs. PG&E had the necessary policies and procedures in place to control and monitor its accounting practices including the recording and reporting of NR program expenditures.

Criteria: The EE Policy Manual defines the NR Programs.⁵ PG&E's internal accounting policies and procedures provide guidance for recording and reporting the NR program expenditures.

Condition: PG&E had the necessary policies and procedures in place to control and monitor its accounting practices including the recording and reporting of NR program expenditures. PG&E complied with the guiding documents.

Recommendation: None.

⁵ EE Policy Manual, p. 57.

A.5 Local Governmental Partnership (LGP) – Santa Barbara Energy Watch (SBEW)

Observation 9: PG&E demonstrated compliance with PU code §§ 581, 582 and 584 respecting the SBEW program reported costs. A reconciliation of \$1,202,114 reported as SBEW program expenditures for the Q4 2013 Quarterly EEStats Report and December 2013 Monthly EEStats Report to its SAP Report disclosed no exceptions.

Criteria: Sections 581, 582 and 584 require that the utility provide complete and accurate data to the Commission.

Condition: The \$1,202,114 reported in the Q4 2013 Quarterly EEStats Report and the December 2013 Monthly EEStats Report as the total SBEW expenditures reconciled to the amount in the SAP Report. PG&E's SAP Reports were the supporting documents used to compile the EEStats reports. The breakdown of the \$1,202,114 is as follows: \$112,449 recorded to the Administrative cost category, \$36,738 to the Marketing cost category, and \$1,052,927 to the Direct Implementation cost category.

Recommendation: None.

Observation 10: PG&E demonstrated compliance with PU code §§ 581, 582 and 584 respecting certain amounts sampled for verification. UAFCB verified \$752,053 or 62.56% of \$1,202,114 expended on SBEW program. In general, the expenditures were properly supported.

Criteria: Sections 581, 582 and 584 require that the utility provide complete and accurate data to the Commission.

Condition: Of the 19 samples reviewed, the reported expenses were properly supported.

Recommendation: None.

Observation 11: PG&E demonstrated compliance with the EE Policy Manual and its internal policies and procedures for the SBEW program. Our review of the SBEW program, a subpart of the LGP programs, disclosed that it was designed, structured, managed, and implemented in compliance with Commission's directives and PG&E's policies and procedures.

Criteria: The EE Policy Manual specifies the purpose of the LGP Programs and provides general guidance on PIP.⁶ PG&E's PIP for the LGP Program – Santa Barbara is the guiding document for implementing the statewide SBEW program. PG&E's internal accounting policies and procedures provide guidance for recording and reporting the SBEW program expenditures.

Condition: PG&E had the necessary policies and procedures in place to control and monitor its accounting practices including the recording and reporting of SBEW program expenditures. PG&E complied with the guiding documents for the SBEW Program.

⁶ EE Policy Manual, pp. 7, 26 and 27.

Recommendation: None.

A.6 Third Party (TP) Program Contracts

Observation 12: PG&E failed to demonstrate compliance with PU code §§ 581, 582 and 584 respecting the TP program reported costs. A reconciliation of PG&E's reported 2013 TP program expenditures of \$76,540,613 for the Q4 2013 Quarterly EEStats Report and December 2013 Monthly EEStats Report to its SAP Report disclosed no exceptions. However, PG&E reclassified \$149,810 from the TP programs to the Core programs at year end and reflected such adjustment only in its 2013 Annual EEStats Report and not in the Q4 2013 Quarterly EEStats Report and December 2013 Monthly EEStats Report.

Additionally, UAFCB found that \$394,913 TP program expenditures for 2012 were not properly accrued but were incorrectly recorded and reported as TP program expenditures for 2013.

Criteria: Sections 581, 582 and 584 require that the utility provide complete and accurate data to the Commission.

Condition: The \$76,540,613 reported in the Q4 2013 Quarterly EEStats Report and the December 2013 Monthly EEStats Report as the total TP program expenditures reconciled to the amount in the SAP Report. However, PG&E reclassified \$149,810 from the TP programs to the Core programs at year end and reflected such adjustment in its 2013 Annual EEStats Report but not in the quarterly and monthly reports. Additionally, UAFCB found that \$394,913 TP program expenditures for 2012 were accrued and reversed in January 2013. The amount was recorded and reported as TP program expenditures for 2013. UAFCB removed both the reclassification and the improper accrual from \$76,540,613 to arrive at \$75,995,890.

The breakdown of the \$75,995,890 is as follows: \$11,321,453 recorded to the Administrative cost category, \$2,654,608 to the Marketing cost category, and \$62,019,829 to the Direct Implementation cost category.

Cause: PG&E's Annual EEStats Report reflected a year end reclassification of \$149,810 from the TP programs to the Core programs. However, such reclassification was not reflected in the Q4 2013 Quarterly EEStats Report and the December 2013 Monthly EEStats Report. Also, PG&E did not properly accrue \$394,913.

Effect: The various reported amounts were over-stated by \$394,913 since the reclassification would not have any effect on the total.

PG&E Comments: PG&E agrees with UAFCB's recommendations in Observations 12 and 13 with some clarifications including: 1) PG&E adheres to the accrual basis of accounting (Generally Accepted Accounting Principles (GAAP)); 2) PG&E recommends no adjustment to the 2013 Efficiency Savings and Performance Incentive (ESPI) claim, as the expenditures and related savings were properly claimed in 2013; and 3) PG&E agrees that the expenditures should be consistently reported in all EEStats reports.

Regarding the \$394,913 project accrual, PG&E states that it followed its accrual process because the customer notified PG&E that the project was completed and installed in December 2012. As such, this project was accrued in December 2012. PG&E adds that since an inspection was not completed by December 31, 2012, the accrual was reversed in January 2013 and those costs were re-accrued to the 2013-2014 cycle in January through March 2013. It further asserts that in March 2013, the project was inspected, verified, and authorized for payment. PG&E states that it recognized the energy savings associated with this project in the 2013-2014 cycle. As a result, expenditures and related savings were both claimed in 2013. PG&E recommends no adjustment to the 2013 ESPI claim.

Rebuttal: Regarding UAFCB's adjustment of \$394,913 to the TP program costs, it should remain unchanged because those costs were incurred in 2012 and the project was completed and installed in 2012. On accrual basis of accounting, costs should be recorded when incurred, not when the project was inspected or paid. PG&E should have reported those costs in 2012 and claimed the related ESPI in 2012.

Recommendation: The \$394,913 should be excluded from the incentive award calculations in the true-up and/or 2014 Advice Letter filing. In addition, PG&E should consistently report the EE program expenditures in all EEStats reports.

Observation 13: PG&E failed to demonstrate compliance with PU code §§ 581, 582 and 584 respecting certain amounts sampled for verification. UAFCB verified \$4,726,902 or 6.18% of \$76,540,613 expended on TP programs. In general, the expenditures were properly supported, except for the three samples with an aggregate amount of \$394,913 mentioned in Observation No. 12.

Criteria: Sections 581, 582 and 584 require that the utility provide complete and accurate data to the Commission.

Condition: Of the 16 TP program expenditures verified, UAFCB found recording errors in three samples pertaining to the same contractor totaling \$394,913, which should have been accrued in 2012 but was incorrectly recorded and reported as expenditures for 2013.

Cause: See Observation 12.

Effect: See Observation 12.

PG&E Comments: See Observation 12.

Rebuttal: See Observation 12.

Recommendation: See Observation 12.

Observation 14: PG&E demonstrated compliance with the EE Policy Manual and its internal policies and procedures for the EE TP program contracts. UAFCB's review of the TP programs disclosed that they were designed, structured, managed, and implemented in compliance with Commission's directives and PG&E's policies and procedures.

Criteria: The EE Policy Manual provides general guidance on PIP.⁷ PG&E's PIPs for the TP programs are the guiding documents for implementing the TP programs. PG&E's "Requisition To Pay (RTP) Procurement Manual - Contract Process" provides guidance to the contracting process. PG&E's internal accounting policies and procedures provide guidance for recording and reporting the TP program expenditures.

Condition: PG&E had the necessary policies and procedures in place to control and monitor its accounting practices including the recording and reporting of TP program expenditures. PG&E complied with the guiding documents for the TP Program.

Recommendation: None.

Observation 15: UAFCB's review of EE TP contract policy requirement disclosed that the Commission lacks clear guidance on how to determine whether or not PG&E met the Commission's requirement of the 20% minimum funding requirement for competitively bid third party programs. PG&E determined its compliance with this requirement based on the Commission-approved EE budget. PG&E claimed that its budget for competitively bid TP programs was 22.5% of the total EE portfolio budget. However, PG&E included in the calculation five statewide programs competitively bid. Additionally, PG&E did not exclude the BayREN/MEA budgets from the total EE portfolio budget in its calculation of the denominator. If PG&E were allowed to use the Commission-approved EE budget for PG&E to compute the percentage of competitively bid TP programs, the calculation would be 18.76% as against 22.5% calculated by PG&E.

Criteria: The Commission decisions⁸ and the EE Policy Manual⁹ provide some general guidance on the Commission's requirement of the 20% minimum funding for competitively bid third party programs.

Condition: PG&E used the Commission-approved EE budget in Table 3.4 of Appendix D in AL 3356-G-A/4176-E-A as the basis to compute the extent of funding of competitively bid third party programs. PG&E claimed that its budget for competitively bid TP programs was 22.5% of the total EE portfolio budget. UAFCB's analysis disclosed that the amount should be 18.76%.

Cause: PG&E included in its calculation five statewide programs competitively bid. Additionally, PG&E did not exclude the BayREN/MEA budget from the total EE portfolio budget in its calculation of the denominator.

Effect: PG&E overstated the percentage of budget for competitively bid TP programs by 3.74%. Based on UAFCB's computation and interpretation of Commission's decision, PG&E would not meet the 20% minimum funding requirement for competitively bid third party programs for 2013-2014.

PG&E Comments: PG&E notes that the Commission approved PG&E's 2013-2014 EE portfolio wherein it presented a table that demonstrated how PG&E met the 20% minimum funding requirement for competitively bid third party contracts. If the

⁷ EE Policy Manual, pp. 26 and 27.

⁸ D.05-01-055, pp. 9, 91-96; and D.12-11-015, p. 82.

⁹ EE Policy Manual, pp. 6 and 7.

Commission provides additional direction on this matter, PG&E will incorporate them into its future filings.

Rebuttal: The Commission's approval of AL 3356-G-A/4176-E-A for PG&E's 2013-2014 EE portfolio budget is for budgetary purpose only. It should not be interpreted as an approval of PG&E's compliance with the 20% minimum funding requirement for competitively bid third party contracts. Besides, UAFCB's analysis disclosed that the percentage should be 18.76% if computed properly based on the Commission-approved 2013-2014 EE portfolio budget.

Recommendation: The Commission should clarify the 20% minimum funding requirement for competitively bid third party contracts and provide specific computation instructions on the matter. PG&E should follow Commission's instructions when directed to do so.

Observation 16: In evaluating PG&E's compliance with the 20% minimum funding requirement for competitively bid TP contracts, ED provided the following computation formula to UAFCB:

"Numerator = The total contract dollar amount, including incentives, of all competitively bid third party programs, including the funding set aside to conduct competitive solicitations throughout the program cycle.

Denominator = The total authorized energy efficiency program budget, including EM&V budget, but excluding REN/CCA budgets. The third party value (numerator in formula) is the summation of the contract amount, including incentives, of all competitively bid third party programs, including the funding set aside to conduct competitive solicitations throughout the program cycle."

UAFCB found it challenging in computing the numerator using ED's directive because there are no set criteria to determine the total contract dollar amount for a particular contract in EE cycle if that contract's duration is not completely within the EE budget cycle.

Criteria: The Commission decisions¹⁰ and the EE Policy Manual¹¹ provide some general guidance on the Commission's requirement of the 20% minimum funding for competitively bid third party programs. The ED's correspondence also provided some instruction on the components of computing the actual percentage of funding set aside for competitively bid TP programs.

Condition: UAFCB found it challenging to determine the exact contract dollar amount for the EE cycle if a contract's duration falls outside the EE budget cycle.

Cause: Due to lack of criteria and proper guidance from the Commission.

Effect: The actual proportion of funding set aside for competitively bid third party programs cannot be determined until the 2013-2015 EE cycle is over.

¹⁰ D.05-01-055, pp. 9, 91-96; and D.12-11-015, p. 82.

¹¹ EE Policy Manual, pp. 6 and 7.

Recommendation: The Commission should clarify the 20% minimum funding requirement for competitively bid third party contracts and provide specific computation instructions on the matter. UAFCB recommends that the Commission should modify the requirement and require the IOUs to use actual expenditures of competitively bid TP Program contracts for the EE cycle in computing the numerator.

A.7 Plug Load and Appliances (PLA) Program

Observation 17: PG&E demonstrated compliance with PU code §§ 581, 582 and 584 respecting the PLA program reported costs. A reconciliation of \$18,615,907 reported as PLA program expenditures for the Q4 2013 Quarterly EEStats Report and December 2013 Monthly EEStats Report to its SAP Report disclosed no exceptions.

Criteria: Sections 581, 582 and 584 require that the utility provide complete and accurate data to the Commission.

Condition: The \$18,615,907 reported in the Q4 2013 Quarterly EEStats Report and the December 2013 Monthly EEStats Report as the total PLA expenditures reconciled to the amount in the SAP Report. PG&E's SAP Reports were the supporting documents used to compile the EEStats reports. The breakdown of the \$18,615,907 is as follows: \$2,318,371 recorded to the Administrative cost category, \$1,040,834 to the Marketing cost category, and \$15,256,702 to the Direct Implementation cost category.

Recommendation: None.

Observation 18: PG&E demonstrated compliance with PU code §§ 581, 582 and 584 respecting certain amounts sampled for verification. UAFCB verified \$8,132,930 or 43.69% of \$18,615,907 expended on PLA program. In general, the expenditures were properly supported.

Criteria: Sections 581, 582 and 584 require that the utility provide complete and accurate data to the Commission.

Condition: Of the 43 transactions reviewed, the reported expenses were properly supported.

Recommendation: None.

Observation 19: PG&E demonstrated compliance with the EE Policy Manual and its internal policies and procedures for the PLA program. In 2013, PG&E utilized various channels to deliver and implement the PLA program. UAFCB's review disclosed that the PLA Program was designed, structured, managed, and implemented in compliance with Commission's directives and PG&E's policies and procedures. PG&E had a reasonable process in place to capture the PLA program costs, inspect and verify services delivered, and ensure that the rebates were properly processed.

Criteria: EE Policy Manual provides general guidance on PIP.¹² PG&E's PIP for the Statewide Residential Program is the guiding document for implementing the PLA program. PG&E's "Central Inspection Program (CIP) Criteria" provides guidance to its PLA inspection process. PG&E's "CIP Verification Process" outlines the detailed CIP verification process. PG&E's internal accounting policies and procedures provide guidance for recording and reporting the PLA program expenditures.

Condition: PG&E's PLA Program was designed, structured, managed, and implemented in compliance with Commission's directives and PG&E's policies and procedures. PG&E had a reasonable process in place to capture the PLA program costs, inspect and verify services delivered, and ensure that the rebates were properly processed. PG&E complied with the guiding documents.

Recommendation: None.

A.8 Fund Shifting

Observation 20: PG&E demonstrated compliance with PU code §§ 581, 582 and 584, the EE Policy Manual, and its internal policies and procedures respecting the fund shifting activities. PG&E's EE program fund shifting in PY 2013 did not exceed the annual thresholds specified in Appendix C of the EE Policy Manual. Therefore, PG&E was not required to file Advice Letters (ALs) with the Commission about fund shifting. PG&E was in compliance with the Commission's fund shifting requirements in 2013.

Criteria: Sections 581, 582 and 584 require that the utility provide complete and accurate data to the Commission. Appendix C of the Energy Efficiency Policy Manual specifies the Commission's adopted fund shifting rules.

Condition: PG&E complied with the fund shifting rules among EE program categories and within the annual thresholds specified in the EE Policy Manual. Therefore, PG&E was not required to file ALs with the Commission about its fund shifting activities.

Recommendation: None.

A.9 Follow-up on Prior UAFCB's Examination Observations and Recommendations and PG&E's Internal Audit Recommendations

Observation 21: PG&E fully implemented UAFCB's recommendations specified in its Examination Memo Report for the 2011-2012 EE Programs, except for: (1) UAFCB's recommendation #4 that PG&E should discuss with the Energy Division its third party contracting accounting practices to determine if they are acceptable to the Commission. PG&E deferred the matter pending the Commission's ruling on "SCE's Motion for Clarification Pursuant to Ordering Paragraph #49 of D.12-11-015" filed on May 19, 2014; (2) Recommendation # 8 on fund shifting. UAFCB found that PG&E accounted for its fund shift activities on a non-annual cumulative, transaction-by-transaction basis. UAFCB continues to find that the fund-shifting annual thresholds should be applied to the funds shifted on an annual cumulative basis and not based on non-cumulative basis asserted by PG&E in its response to UAFCB's prior examination report.

¹² EE Policy Manual, pp. 26 and 27.

Criteria: According to the examination report¹³ issued on June 30, 2014, PG&E is required to do the following:

1. Group and report its administrative expenses in connection with TP and LGP activities under its delivery channel or Core;
2. Not classify or report On Bill Financing (OBF) loan pool receivables as an expense;
3. Use the authorized EE portfolio budget amount, not the actual EE portfolio expenditures to determine the 10% cap in compliance with the decision of the Commission;
4. Discuss with the Commission's Energy Division (ED) its allocation and accounting contracting practices to determine whether its method of allocating invoiced amounts to major cost categories of administration, marketing, and direct implementation based on budgeted allocation factors developed by contractors is acceptable to the Commission;
5. Increase its management oversight and controls when reviewing and approving OBF contracts to ensure that the contract contains correct customer information. Provide the UAFCB with a summary of the steps it has taken to resolve this issue within 90 days from UAFCB's examination report;
6. Increase management oversight and controls to ensure that all of its reports are accurate and tie to each other before submitting them to the Commission and posting them to EESTATSS. Provide the UAFCB with a summary of the steps it has taken to resolve this matter within 90 days from UAFCB's examination report;
7. Comply with the directives of the Commission on fund shifting by accounting for its fund shift activities on annual cumulative basis;
8. Reconcile all data and ensure that all of its reports are accurate and tie to each other before submitting them to the Commission and posting them to EEStats; and,
9. Provide UAFCB evidence of its results by July 31, 2014 of management's actions to resolve an internal audit issue on how CES conducts its annual quality assessment in order to verify that appropriate documentation is available to validate appropriateness of allocations.

Condition: Except for the issue of fund shifting and SCE's Motion (third party contracting accounting practices) pending before the Commission, PG&E complied with UAFCB's recommendations by taking the following corrective actions:

¹³ Financial, Management, and Regulatory Compliance Examination Report on Pacific Gas and Electric Company's (PG&E's) Energy Efficiency (EE) Program For the Period January 1, 2011 through December 31, 2012.

1. In its June 20, 2014 comments to UAFCB's 2012 EE draft report, PG&E agreed to report TP and LGP administrative expenses as a separate line item within the respective TP and LGP delivery channels. PG&E has incorporated those modifications in its 2013 Annual EEStats Report filed with the Commission in May 2014.
2. In Table 3 of PG&E's 2013 Annual EEStats Reported filed with the Commission in May 2014, PG&E reported OBF expenditures as a separate line item as recommended by UAFCB.
3. In its 2013 EEStats Reports, PG&E implemented UAFCB's recommendation and used the EE portfolio budget amount to calculate its administrative cost cap percentage.
4. PG&E deferred the matter pending the Commission's ruling on "SCE's Motion for Clarification Pursuant to Ordering Paragraph #49 of D.12-11-015" filed on May 19, 2014
5. In its June 20, 2014 comments to UAFCB's 2012 EE draft report, PG&E agrees to enhance its loan processing procedures by including both the customer's primary account number (Account Number) and the Service Agreement Identification number on OBF loan agreements. In addition to the Account number and Service Agreement Identification number, PG&E also agrees to include the customer's Federal Tax Identification number on all OBF contracts. In addition, PG&E has already taken steps to improve the accuracy of including the Account Number and Service Agreement Identification on its customer loan agreements. PG&E submitted the updated OBF Loan Processing Procedure and OBF Payment History Screening Procedure to UAFCB on September 25, 2014.
6. PG&E has already taken steps to improve the accuracy of its monthly reporting process. PG&E submitted the updated Monthly EEStats Report Procedure to UAFCB on September 25, 2014.
7. In its June 20, 2014 comments to UAFCB's 2012 EE draft report, PG&E asserted that the UAFCB misinterpreted the funding shifting rules that require PG&E to file an advice letter for its cumulative annual fund shifts rather than filing an advice letter to request authority to shift funds between programs in excess of the 15% per annum threshold for most programs. PG&E stated that the prior year UAFCB auditor relied on a number of inaccurate assumptions related to PG&E's fund shift activities in 2010-2012. On that basis, PG&E contended that it had fully complied with the fund shifting rules applicable to the 2010-2012 portfolio cycle reflected in D.09-09-047, the Assigned Commissioner's Ruling Clarifying Fund Shifting Rules and Reporting Requirements, dated December 22, 2011, in R.09-11-014, and the Energy Efficiency Policy Manual Version 5.0, Appendix C, page 64.

UAFCB revisited the issue in the current year examination and continues to find that PG&E should account for its fund shifting activities on an annual, cumulative basis in accordance with Commission's directives.

However, per discussions with PG&E on May 21, 2015, PG&E agreed with UAFCB's audit findings and acknowledged that it should account for its fund shifting activities on an annual, cumulative basis in accordance with Commission's directives.

8. In its June 20, 2014 comments to UAFCB's 2012 EE draft report, PG&E has agreed to revise its December 2012 monthly report and its 4th Quarter Fund Shift Report to reflect the cumulative 2012 fund shift.
9. PG&E has implemented the recommended procedures by its Internal Audit by strengthening the QA validation process. PG&E submitted its corrective action plan to UAFCB on September 30, 2014.

Cause: PG&E had a different interpretation on fund shifting rules.

Effect: PG&E's different interpretation on fund shifting rules resulted in a disagreement between PG&E and UAFCB regarding PG&E's compliance with the Commission's fund shifting requirements for the period January 1, 2011 through December 31, 2012.

PG&E Comments: PG&E agrees with UAFCB's recommendation that the fund shifting annual thresholds should be applied to the funds shifted on an annual cumulative basis.

Rebuttal: None.

Recommendation: UAFCB plans to monitor PG&E's continuing compliance in future examinations of the programs to assure itself of PG&E's agreement.

Observation 22: The Internal Audit (IA) Report dated October 28, 2013 (File #: 13-070), found that PG&E's Customer Energy Solutions' (CES') controls over its contract administration processes for the competitively bid energy efficiency programs need strengthening in program management, internal compliance procedures, record management, and quality assurance services. As of April 8, 2014, all these matters had been addressed and resolved by CES to the satisfaction of the IA.

Criteria: PG&E's CES management's action plan was to revisit the problem areas, update its documentation and procedures, provide training to employees, develop and implement a contract record retention policy in accordance with corporate standard, and strengthen its internal controls on contract management and program monitoring.

Condition: PG&E's IA noted that there were weaknesses in managing the TP programs and Whole House Programs, particularly in invoice review, validation of program requirements and incentive checks to customers. IA also noted that CES stopped performing audits in December 2012 on the original documents retained by TP implementers to confirm compliance with documentation and inspection requirements. IA noted that CES didn't have a process to ensure that all CES EE programs adhere to Utility Standard GOV-7101S. IA noted further that the Central Inspection Program's

(CIP's) inspection of installed measure was only applied to the Basic program and not the Advanced Home Upgrade program. CIP's process was not inclusive of all Whole House programs. As of April 8, 2014, all these matters had been addressed and resolved by CES to the satisfaction of the IA.

Cause: The lack of adherence to the established standards and procedures, inadequate staff training, and management oversight contributed to the noted weaknesses.

Effect: The failure to properly manage contracts and properly monitor programs increases the risk of misreported energy savings, inaccurate payments to vendors, and disallowed costs. The failure to appropriately manage procedures and program requirements implemented at the behest of regulatory bodies increases the risk of costs due to regulatory fines and disallowances. The failure to appropriately manage program records increases the risk of costs due to program mismanagement and regulatory fines.

Recommendation: None.

Observation 23: The IA Report dated February 6, 2014 (File #: 14-019), found that CES's controls over rebate processing for the Single Family Residential Program are inadequate, particularly in (1) reconciling program data maintained in PG&E and third-party systems, (2) monitoring the effectiveness of key program processes and controls, and (3) activities related to CIP. As of January 12, 2015, all these matters had been addressed and resolved by CES to the satisfaction of the IA.

Criteria: PG&E's CES management's action plan was to work with its contractor to build and implement a process to reconcile monthly its program data with the contractor's data and resolve any discrepancy. Additionally, CES would review and enhance its Quality Assurance (QA) criteria and processes, and provide training to employees. Also, CES would partner with its contractor to establish a daily file transfer process that will provide all applications to CIP, which would sample from that database. CIP's daily inspection results would be provided to Enrollment and Incentive Management (E&IM), which would verify all Payment Register records. Finally, E&IM would develop functionality to track and trend projections that fail their CIP inspection.

Condition: IA noted that: (1) CES didn't have a process to ensure its contractor's database and control reports reconcile to the data in MDSS and the general ledger, (2) CES didn't adequately monitor its program bank accounts, and (3) CES needed to strengthen its management on program records and record retention requirements. On monitoring the effectiveness of key programs processing and controls, In addition, IA noted that: (1) CES didn't effectively monitor key rebate program controls, (2) E&IM's QA program was inadequate to manage vendor performance, and (3) CES didn't validate that certain contractors receiving payment were legitimate contractors. Regarding CIP, PG&E's IA noted that (1) CIP didn't create its own inspection samples, nor did it validate the contractor's sampling process, (2) CES didn't have a process to ensure that CIP inspection results were timely and properly processed, and (3) CES didn't have a process to actively monitor and resolve indicators of possible fraudulent activity identified as a result of CIP inspections. As of January 12, 2015, all these matters had been addressed and resolved by CES to the satisfaction of the IA.

Cause: Inadequate operational standards and procedures combined with lax management controls contributed to the noted deficiencies.

Effect: The failure to properly reconcile program databases, manage program records, and monitor program controls increases the risk of misreported rebates and energy savings, inaccurate rebate payments, fraud, and disallowed costs.

Recommendation: None.

Appendix B Program Compendium

B.1 Introduction

On November 8, 2012, the California Public Utilities Commission (Commission) issued Decision (D.) 12-11-015 which, among other things, authorized Pacific Gas and Electric Company (PG&E) a total budget of \$823.1¹ million in ratepayer funds to administer and implement the Energy Efficiency (EE) programs for budget cycle 2013-2014. This represents approximately 43.3% of the total \$1.9 billion EE program budget for the three major energy Investor-Owned Utilities (IOUs) for the same period. The total authorized budget also includes the approved budgets and programs for the San Francisco Bay Area Regional Energy Networks (BayREN) and Marin Energy Authority (MEA). The decision set energy savings goals, established cost-effectiveness requirements, and required the IOUs to offset their unspent and uncommitted EE program funding from pre-2013 program years against 2013-2014 EE budget cycle revenue requirements.² In D.13-09-044 dated September 19, 2013, the Commission denied funding of \$3.8 million for BayREN's Single Family Loan Loss Reserve Pilot program.³ Therefore, PG&E's 2013-2014 EE cycle overall budget was reduced by \$3.8 million to \$819.3 million.

B.2 EE Funding Components

Of the \$819.3 million authorized budget for program cycle 2013-2014, \$785.4 million is to administer and implement PG&E's EE programs and the remaining \$33.9 million is dedicated to fund the Evaluation Measurement and Verification (EM&V) program. PG&E spent about \$328.2 million or 40.1% of the total authorized budget for the 2013 -2014 budget cycle, including BayREN, MEA and EM&V expenditures for the 2013 program year (PY). A summary of the ratepayer funded EE programs fund balance at December 31, 2013, is presented in Table B-1.

¹ Amount does not include the \$22 million budget for the Statewide ME&O program, which was approved in a separate Commission decision (D.13-12-038 dated December 19, 2013), because the ME&O budget period does not correspond with the 2013-2015 EE Cycle.

² D.12-11-015, Ordering Paragraphs (OPs) 38 and 40, at page (p.) 140. PG&E's unspent and uncommitted EE program funding was \$68.3 million as identified on Table 9, p.94 of D.12-11-015.

³ D.13-09-044, OP 23 at p.123.

Table B-1
Summary of Ratepayer Funded EE Programs Fund Balance at 12/31/2013
(Including BayREN, MEA and EM&V Programs)

Description	Amount
2013-2014 Authorized EE Portfolio Budget per D.12-11-015	\$823,082,766
Budget reduction per OP 23 of D.13-09-044	(3,825,000)
2014 EE Benefit Burdens Amount ⁴	19,928,000
2013 EE Program Expenditures	<u>(328,218,781)</u>
EE Program Funding Available for PY 2014	<u>\$510,966,985</u>

B.3 Total EE Program Portfolio Cost Reconciliation to Reported Amounts

PG&E uses SAP software to manage its database and uses a unique internal ordering system to allocate and capture EE program expenditures for specific EE programs. Costs applicable solely to a specific EE program are directly charged to that EE program. Other costs applicable to EE programs including overhead costs and EE program costs are allocated among EE programs using the internal ordering system based on their applicability.

PG&E reported all EE portfolio expenses in Table 3 of the Annual Report. The Annual Report includes all EE portfolio costs under six delivery channels – Core, Third Party (TP), Local Government Partnership (LGP), Non-IOU, EM&V, and On-Bill Financing (OBF) Loan Pool. Except for EM&V and OBF Loan Pool, each delivery channel has three general cost categories: (1) Administrative; (2) Marketing; and (3) Rebates and Direct Implementation (DI). UAFCB adjusted the reported 2013 total TP program expenditure of \$76,390,803 by \$394,913 to \$75,995,890.⁵ See Appendix A, Observation 12. A summary of the EE portfolio expenditures broken down by the delivery channels and cost categories is presented in Table B-2.

⁴ On August 14, 2014, the Commission adopted PG&E's 2014 GRC and approved the Partial Settlement Agreement without modification. OP 39 of D.14-08-032 states, in part, that "...costs associated with applicable employee benefits that are currently allocated to Distribution and recovered in the General Rate Case (GRC) revenue requirement shall be reallocated to Customer Programs and the balancing accounts attributable to the Customer Programs as prescribed in Appendix F-3. This reallocation reduces the GRC revenue requirement by \$27 million and increases the revenue requirement for the Customer Programs in an equal amount." Of that \$27 million reallocation, \$19,928,000 was reallocated to the EE programs.

⁵ In the 2013 Annual EESStats Report, PG&E incorporated a reclassification of \$149,810 expenditures from the total TP programs and \$29,898 from the LGP programs to the Core programs. This adjustment was not reflected in the Q4 2013 Quarterly EESStats Report. PG&E disclosed such information in Footnote 13 of the Q4 2013 Quarterly EESStats Report. PG&E recorded such reclassification in Q2 2014.

Table B-2
Summary of EE Portfolio Expenditures – PY 2013
(Including Non-IOU, EM&V, and OBF Loan Pool)

Expense Types	As Audited	%
<u>Core Programs:</u>		
Administrative – IOU Support	\$22,926,859	7.0
Marketing	6,129,567	1.9
Rebates/Incentives/Direct Install	69,370,128	21.1
Direct Implementation ⁶	<u>70,492,290</u>	<u>21.5</u>
Subtotal	<u>168,918,844</u>	<u>51.5</u>
<u>TP Programs:</u>		
Administrative – Implementer	2,562,328	0.8
Administrative – IOU Support	8,759,125	2.7
Marketing	2,654,607	0.8
Rebates/Incentives/Direct Install	28,032,437	8.5
Direct Implementation ⁵	<u>33,987,393</u>	<u>10.4</u>
Subtotal	<u>75,995,890</u>	<u>23.2</u>
<u>LGP Programs:</u>		
Administrative – Implementer	\$2,487,930	0.8
Administrative – IOU Support	6,246,793	1.9
Marketing	2,580,335	0.8
Rebates/Incentives/Direct Install	22,283,544	6.8
Direct Implementation ⁵	<u>27,229,144</u>	<u>8.3</u>
Subtotal	<u>60,827,746</u>	<u>18.5</u>
<u>Non-IOU Programs:</u>		
Administrative – Implementer	503,072	0.2
Administrative – IOU Support	4,993	0.0
Marketing	1,089,513	0.3
Direct Implementation	<u>9,486,400</u>	<u>2.9</u>
Subtotal	<u>11,083,978</u>	<u>3.4</u>
<u>EM&V:</u>		
EM&V IOU	1,637,778	0.5
EM&V Joint Staff	<u>26,234</u>	<u>0.0</u>
Subtotal	<u>1,664,012</u>	<u>0.5</u>
OBF Loan Pool	9,728,311	3.0
Total	<u>\$328,218,781</u>	<u>100.0</u>

⁶ For presentation purposes, a rounding adjustment of \$1 was made to the reported amounts.

B.4 Codes and Standards (C&S) Programs

Statewide C&S Program saves energy by: (1) Influencing standards and code-setting bodies (such as the California Energy Commission) to strengthen energy efficiency regulations; (2) Improving compliance with existing codes and standards; (3) Assisting local governments to develop ordinances that exceed statewide minimum requirements; and (4) coordinating with other programs and entities to support the state's ambitious policy goals.⁷

The primary mission of the C&S program is on advocacy and compliance improvement activities that extend to virtually all buildings and potentially any appliance in California. These C&S activities mainly focus on California Title 20 and Title 24, Part 6 enhancements. The C&S program requires advocacy activities to improve building and appliance efficiency regulations. The principal audience is the California Energy Commission (CEC) which conducts periodic rulemakings, usually on a three-year cycle (for building regulations), to update building and appliance energy efficiency regulations. The C&S program also seeks to influence the United States Department of Energy (USDOE) in setting national energy policy that impacts California.

PG&E's C&S program consists of five subprograms: 1) Building Codes Advocacy, 2) Appliance Standards Advocacy, 3) Compliance Improvement, 4) Reach Codes, and 5) Planning and Coordination.

PG&E's total C&S program budget for the 2013-2014 EE program cycle is \$12.5 million approved by the Commission's Energy Division (ED) on September 17, 2013 in Compliance Filing Advice Letter (AL) 3356-G/4176-E. A summary of approved C&S program budget for the 2013-2014 EE program cycle by subprogram is presented in Table B-3 below.

Table B-3
Summary of PG&E 2013-2014 C&S Program Budget

C&S Program Name	2013-2014 Approved Budget
Building Codes Advocacy	\$5,725,727
Appliance Standards Advocacy	3,620,202
Compliance Improvement	1,254,615
Reach Codes	370,000
Planning and Coordination	<u>1,525,889</u>
Total 2013-2014 C&S Budget	<u>\$12,496,433</u>

For PY 2013, PG&E's verified C&S program expenditure is \$5,891,638, or approximately 47.1% of the approved total C&S program budget for the 2013-2014 EE program cycle. A detailed summary of PG&E's C&S program expenditures by subprogram and cost category for PY 2013 is presented in Table B-4.

⁷ Fact Sheet, "Statewide Codes and Standards Program (2013-2014)," March 2013, p. 1, Codes and Standards Support at <http://www.cpuc.ca.gov/PUC/energy/Energy+Efficiency/>

**Table B-4
Summary of PG&E C&S Program Expenditures – PY 2013**

Program Name	Admin.	Mktg.	DI	Total
Building Codes Advocacy	\$53,398	(\$263)	\$837,302	\$890,437
Appliance Standards Advocacy	36,374	0	2,983,037	3,019,411
Compliance Improvement	20,357	0	1,258,948	1,279,305
Reach Codes	2,543	0	30,070	32,613
Planning and Coordination	29,374	0	640,498	669,872
Total – PY 2013	<u>\$142,046</u>	<u>(\$263)</u>	<u>\$5,749,855</u>	<u>\$5,891,638</u>

Per OPs 4 and 6 of D.13-09-023, PG&E filed AL 3492-G/4451-E on June 30, 2014 to request the C&S program incentive award for PY2013 in the form of a management fee equal to 12% of approved C&S program expenditures, not to exceed authorized expenditures, and excluding administrative costs. In AL 3492-G/4451-E, PG&E requested a C&S Program Management Fee incentive amount of \$755,474 for PY 2013. A summary detailing PG&E’s calculation of the C&S Program Management Fee requested for PY 2013 is presented below.

Total C&S Program expenditures excluding administrative expenses ⁸	\$6,295,616
Multiplied by 12%	<u>12%</u>
C&S Program Management Fee – PY2013	<u>\$755,474</u>

B.5 Non-Resource (NR) Programs

The NR programs represent energy efficiency activities that do not focus on displacement of supply-side resources at the time they are implemented, but may lead to displacement over a longer-term, or may enhance program participation overall. The NR programs in themselves do not provide direct energy savings and only have costs, making them not cost-effective on their own.⁹

Currently, there are no specific criteria for determining whether a particular EE program is to be classified as a Resource or NR. For PG&E, it classified its EE programs as NR based on the definition contained in the Energy Efficiency Policy Manual,¹⁰ which defines NR Program as “Energy efficiency programs that do not directly procure energy resources that can be counted, such as marketing, outreach and education, workforce education and training, and emerging technologies.”

In 2013, PG&E identified 23 EE programs as active NR with recorded charges totaling \$38.6 million. A detailed summary of PG&E’s NR program expenditures by program and cost category for PY 2013 is presented in Table B-5.

⁸ This amount includes \$546,024 pre-2013 carryover C&S expenditures.

⁹ D.13-09-023, Findings of Fact 10, pp. 88 and 89.

¹⁰ EE Policy Manual, p. 57.

**Table B-5
Summary of PG&E Non-Resource Program Expenditures – PY 2013**

Program Name	Admin.	Mktg.	DI	Total
Commercial Continuous Energy Improvement	36,978	18,143	113,738	\$168,859
Industrial Continuous Energy Improvement	57,704	344	106,411	164,459
Agricultural Continuous Energy Improvement	34,618	17,524	118,643	170,785
Lighting Market Transformation	26,920	97	36,053	63,070
Technology Development Support	27,287	293	419,244	446,824
Technology Assessments	223,269	14,051	1,351,158	1,588,478
Technology Introduction Support	120,474	4,662	628,349	753,485
Centergies	484,696	22,705	8,195,378	8,702,779
Connections	27,140	570	2,063,076	2,090,786
Strategic Planning	129,652	0	668,076	797,728
Statewide DSM Coordination & Integration	177,870	(64)	306,543	484,349
On-Bill Financing ¹¹	758,644	921,171	1,248,536	2,928,351
Third-Party Financing	511	0	150,058	150,569
New Financing Offerings	207,988	0	919,044	1,127,032
Strategic Energy Resources	240,681	552,255	1,673,229	2,466,165
Builder Energy Code Training	171,652	22,688	169,584	363,924
Green Building Technical Support Services	211,802	14,473	269,020	495,295
California Community Colleges ¹²	(191)	0	6,266	6,075
Local Government Energy Action Resources ¹²	38,434	265,998	1,977,709	2,282,141
Association of Monterey Bay Area Governments ¹²	50	0	124,636	124,686
East Bay ¹²	4,334	0	600,676	605,010
Fresno ¹²	34	0	1,293	1,327
Kern ¹²	26	0	39,771	39,797
Madera ¹²	0	0	120	120
Marin County ¹²	74	0	80,385	80,459
Mendocino County ¹²	94	0	27,257	27,351
Napa County ¹²	102	0	22,062	22,164
Redwood Coast ¹²	109	0	204,310	204,419
San Luis Obispo County ¹²	140	0	91,875	92,015
San Mateo County ¹²	1,644	0	154,283	155,927
Santa Barbara ¹²	3	0	42,222	42,225
Sierra Nevada ¹²	255	0	309,762	310,017
Sonoma County ¹²	37	0	16,727	16,764
Silicon Valley ¹²	2,146	0	462,771	464,917
San Francisco ¹²	0	0	396,635	396,635
Ozone Laundry Energy Efficiency ¹³	52,125	7,302	125,649	185,076
Total NR Program Expenditure – PY 2013	<u>\$3,037,302</u>	<u>\$1,862,212</u>	<u>\$23,120,549</u>	<u>\$28,020,063</u>

¹¹ In its 2013 4th Quarter EEStats Report, PG&E reported \$2,928,351 for On-Bill Financing (OBF) program and \$9,728,311 for OBF Loan Pool, whereas it reported the combined amount totaling \$12,656,662 as OBF program in the December 2013 Monthly EEStats Report.

¹² Non-resource expenditure program costs for Government Partnership were itemized by sub-programs and counted as Target Exempt. These costs were not directly connected to achieving measurable energy savings for the partnership but were for the costs associated with marketing, education and outreach, technical assistance, climate planning, and other longer term strategic planning activities.

¹³ ED approved PG&E's AL 3356-G/4176-E on September 17, 2013. In that approval letter, ED directed PG&E to include non-incentive expenditures in Non-resource programs for the 2013-14 Supplemental filing.

Per OPs 4 and 6 of D.13-09-023, PG&E filed AL 3492-G/4451-E on June 30, 2014 to request the NR program incentive award for PY 2013 in the form of a management fee equal to 3% of approved NR program expenditures, not to exceed authorized expenditures, and excluding administrative costs. In AL 3492-G/4451-E, PG&E requested a NR Program Management Fee incentive amount of \$860,262 for PY 2013. A summary detailing PG&E's calculation of the NR Program Management Fee requested for PY 2013 is presented below.

Total NR program expenditures excluding administrative expenses ¹⁴	\$28,675,407
Multiplied by 3%	<u>3%</u>
NR Program Management Fee – PY2013	<u>\$860,262</u>

B.6 Local Government Partnership (LGP) Program – Santa Barbara Energy Watch (SBEW)

At PG&E, SBEW Program is a partnership between PG&E, Southern California Gas Company (SCG), the County of Santa Barbara, and the cities of Buellton, Guadalupe, Santa Maria, and Solvang. The Santa Maria Valley Chamber of Commerce serves as the partnership implementer within PG&E's service area which covers only the Northern County area.

The partnership provides assessments and the direct installation of energy saving measures to qualifying residences, businesses, and municipal facilities throughout the Northern Santa Barbara County service area. The partnership also works to encourage the efficient use of energy by providing energy efficiency information at community events, by providing public and municipal education and training programs, and by providing audits and financial assistance to municipal customers for the energy efficient retrofit of municipal facilities.

For 2013, SBEW program incurred charges of \$1,202,114. A detailed summary of SBEW program expenditures by cost category for PY 2013 is presented in Table B-6 below.

**Table B-6
Summary of SBEW Program Expenditures – PY 2013**

Cost Category	Amount	%
Administrative	\$112,449	9.4%
Marketing	36,738	3.0%
Direct Implementation	<u>1,052,927</u>	<u>87.6%</u>
Total SBEW Program Expenditure – PY 2013	<u>\$1,202,114</u>	<u>100.0%</u>

B.7 Third Party (TP) Program Contracts

PG&E uses contractors to assist in administering and implementing various EE programs, including TP programs. PG&E commonly utilizes two types of contract structures for implementing its EE programs: Master Service Agreements (MSAs) and Stand Alone Contracts. MSAs have multiple Contract Work Authorizations (CWA)/Purchase Orders (POs) for services and/or materials under a primary agreement. A Stand Alone Contract only has one PO under the agreement for services and/or materials. Under each type of contract structure, PG&E allows several types of payment terms – Time and Materials (T&M), Fixed Price (FP), Lump Sum (LS), Performance Based (PB), and Hybrid or combination of these payment types. Each contractor

¹⁴ This amount includes \$3,692,646 pre-2013 carryover Non-resource expenditures.

can have multiple contracts with PG&E that have multiple POs with different payment types. The contract payment type is defined in CWA/PO.

In 2013, PG&E contracted with 30 unique contractors resulting in 46 POs of \$18,136,550 charged to TP programs. Of those 30 contractor agreements, 33 were structured as MSAs covering 44 CWA/POs. The remaining two POs were Stand Alone contracts. The 46 POs consisted of six T&M, 35 PB/FP, and five Hybrid with PB/FP element (Hybrid PB/FP). PG&E spent \$9,922,965 on TP contracts without POs. PG&E accrued \$2,094,514 of TP expenditures in December 2013. In 2013, PG&E spent \$30,154,029 on TP contracts. A summary of TP program expenditures by contract type and cost category is presented in Table B-7.

Table B-7
TP Program Contract Expenditures by Contract Type and Cost Category – PY 2013

Description	T&M	PB/FP	Hybrid	Total	%
Administration	\$80,632	\$2,253,490	\$229,580	\$2,563,702	8.5%
Marketing	52,618	2,398,510	70,837	2,521,965	8.4%
Direct Implementation	<u>576,808</u>	<u>24,241,065</u>	<u>250,489</u>	<u>25,068,362</u>	<u>83.1%</u>
Total	<u>\$710,058</u>	<u>\$28,893,065</u>	<u>\$550,906</u>	<u>\$30,154,029</u>	<u>100%</u>

PG&E reported \$76,540,613 in Q4 2013 Quarterly EESStats Report.¹⁵ UAFCB adjusted this amount to \$75,995,890. For details, See Appendix A, pages A-6 and A-7. A detailed summary of audited TP program expenditures by cost category for 2013 is presented in Table B-8 below.

Table B-8
Summary of Verified TP Program Expenditures by Cost Category – PY 2013

Description	Contract	Non-Contract ¹⁶	Annual Report Reclassification	UAFCB Audit Adj.	Total	%
Administration	\$2,563,702	\$8,829,495	(\$71,744)		\$11,321,453	14.9%
Marketing	2,521,965	137,940		(\$5,297)	2,654,608	3.5%
Direct Implementation	<u>25,068,362</u>	<u>37,419,149</u>	<u>(78,066)</u>	<u>(389,616)</u>	<u>62,019,829</u>	<u>81.6%</u>
Total	<u>\$30,154,029</u>	<u>\$46,386,584</u>	<u>(\$149,810)</u>	<u>(\$394,913)</u>	<u>\$75,995,890</u>	<u>100%</u>

In D.05-01-055, the Commission adopted the 20% minimum funding requirement which required the IOUs to identify at least 20% of their portfolio budget to competitively bid third-party implementers.¹⁷ In D.12-11-055, the Commission reaffirmed that the third party 20% requirement of the portfolio to be competitively bid should be 20% of the total portfolio budget, including EM&V costs.¹⁸ Additionally, D.12-11-015 indicated that San Diego Gas and Electric Company (SDG&E) should not include activities that are actually part of its statewide program delivery as third party in the computation of the 20% minimum funding requirement. The decision clarified that unless a program is selected through a third party solicitation, it does not count toward the 20% minimum requirement.¹⁹ See Appendix A for the UAFCB's position on this matter.

¹⁵ Excluding PG&E's 2013 expenditures of \$10,029,701 for TP Programs pertaining to 2010-2012 carryover implementation.

¹⁶ These amounts represent the Non-contract expenditures for incentives, labor and overheads.

¹⁷ D.05-01-055, pp. 91-96.

¹⁸ D.12-011-015, p. 82, paragraph 1.

¹⁹ D.12-011-015, p. 82, paragraphs 2 and 3.

B.8 Plug Load and Appliances (PLA) Program

The PLA program includes the former Home Energy Efficiency Rebate (HEER), the Business Consumer Electronics (BCE), and the Appliance Recycling Programs (ARP).²⁰ The PLA program develops and builds upon existing retailer relationships, Point of Sale (POS) strategies, and includes the Responsible Appliance Disposal (RAD) appliance recycling strategies. The PLA offers rebates and incentives to customers for purchasing and installing high efficiency appliances (such as ENERGY STAR[®]), recycling inefficient refrigerators and freezers, and working with other partners to drive the adoption of higher efficiency products as well as water saving measures.

A total of \$18,615,907 was spent on the PLA program. A detailed summary of PLA program expenditures by cost category for PY 2013 is presented in Table B-9 below.

Table B-9
Summary of PLA Program Expenditures – PY 2013

Cost Category	Amount	%
Administrative	\$2,318,371	12.4%
Marketing	1,040,834	5.6%
Direct Implementation	<u>15,256,702</u>	<u>82.0%</u>
Total PLA Program Expenditure – PY 2013	<u>\$18,615,907</u>	<u>100.0%</u>

B.9 Fund Shifting

Per D.12-11-015²¹ and the Energy Efficiency Policy Manual,²² the existing fund shifting rules shall be applied to the following categories of programs for PG&E:

- a. Statewide residential
- b. Statewide commercial
- c. Statewide agricultural
- d. Statewide industrial
- e. Statewide lighting
- f. Statewide codes and standards
- g. Statewide emerging technologies
- h. Statewide workforce, education, and training
- i. Statewide marketing, education, and outreach
- j. Statewide integrated demand-side management
- k. Statewide financing
- l. Third party programs (competitively bid)
- m. Local government partnerships
- n. Other

Generally, fund shifts among the fourteen program categories exceeding 15% require a filing of an AL with the Commission. However, there are a few exceptions where a filing of an AL is

²⁰ Fact Sheet, “Statewide Residential Programs (2013-2014),” March 2013, p. 3, Residential at <http://www.cpuc.ca.gov/PUC/energy/Energy+Efficiency/>

²¹ OP 20 of D.12-11-015, pp. 135 and 136.

²² EE Policy Manual, “Fund Shifting Rules,” pp. 10 and 11; and Appendix C, pp. 64-66.

required when fund shifts would reduce the following statewide programs by more than 1% of their respective budget levels:

- 1) Codes & Standards (C&S) program;
- 2) Emerging Technology (ET) program; and,
- 3) Marketing Education & Outreach (ME&O) program.

For competitively bid TP Programs, AL is also required if allocation to these programs falls below 20% of total portfolio funding.²³

B.10 Follow-up on Prior UAFCB's Observations and Recommendations and PG&E's Internal Audit (IA) Recommendations

UAFCB performed a follow-up examination on each finding and recommendation included in its prior report entitled "*Financial, Management and Regulatory Compliance Examination Report on Pacific Gas & Electric Company's (PG&E's) Energy Efficiency (EE) Programs for the Period January 1, 2011 through December 31, 2012,*" issued on June 30, 2014. The observations and recommendations in the report addressed the following subjects:

- a) PG&E under-reported its EE administrative expenses and over-reported its combined TP and LGP administrative expenses;
- b) PG&E overstated its Direct Implementation (DI) expenditures because OBF loan pool receivables were incorrectly recorded as DI costs;
- c) PG&E used its total actual expenditures as the denominator when calculating its 10% cap for the 2010-2012 program cycle rather than the prescribed adopted total EE budget amount;
- d) PG&E pays its TP performance based contractors based on energy savings. However, PG&E allocates the invoiced amount to the three major cost categories, administration, marketing, and DI based on budgeted allocation factors developed by the contractors instead of the actual costs incurred in each cost category;
- e) Errors on OBF loan agreements;
- f) Reporting errors for its OBF costs in PG&E's monthly reports;
- g) Multi-Family Energy Efficiency Rebate (MFEER);
- h) Fund Shifting;
- i) PG&E failed to include the amounts shifted in the Q4 2012 Quarterly Report and the December 2012 Monthly Report;
- j) EE portfolio balancing accounts;
- k) PG&E's internal audit reports; and,
- l) Follow-up on prior UAFCB's examinations.

For further details on the above items, see Appendix A pages A-11 through A-13.

PG&E provided two IA reports pertaining to the 2013 EE programs as well as the related management responses. Specifically, PG&E provided the following internal audit reports to UAFCB:

- a) File #: 13-070 – Audit of Customer Energy Efficiency Programs, dated October 28, 2013.

²³ EE Policy Manual, Appendix C, pp. 64 and 65.

- b) File #: 14-019 – Audit of Customer Energy Efficiency Rebate Processing, dated February 6, 2014.

PG&E also provided the UAFCB updates on management's actions on the findings and recommendations contained in each internal audit report listed above. These reports were reviewed by the UAFCB and its observations are included in Appendix A of this report.

Appendix C PG&E's Comments



Pacific Gas and
Electric Company

Vincent M. Davis
Senior Director
Energy Efficiency
Programs
Customer Energy Solutions

245 Market Street
Suite 686
San Francisco, CA
94105
(415) 973-6250
Vincent.Davis@pge.com

June 11, 2015

Kayode Kajopaiye – Branch Manager
Utility Audit, Finance and Compliance Branch
California Public Utilities Commission
505 Van Ness Avenue, 3rd Floor
San Francisco, CA 94012

Subject: Pacific Gas and Electric Company's Response to the CPUC's Draft Financial, Management, and Regulatory Compliance Examination Report on PG&E's Energy Efficiency Programs for the period January 1, 2013, through December 31, 2013

On June 1, 2015, the Utility Audit, Finance and Compliance Branch (UAFCB) issued its draft Financial, Management, and Regulatory Compliance Report (Draft Report) on Pacific Gas and Electric Company's (PG&E) 2013 Energy Efficiency (EE) Program. This Draft Report addresses EE regulatory and compliance areas for January 1, 2013, through December 31, 2013, including financial regulatory reporting requirements.

PG&E appreciates the UAFCB's efforts and collaboration to support the continuous improvements of EE program administration. PG&E would like to provide the UAFCB with responses to observations 4, 12, 13, 15, and 21. PG&E also proposes corrections to certain sections of Appendix B - Program Compendium.

Summary

- PG&E agrees with UAFCB's recommendations in Observation 4 to: 1) strengthen internal control on the invoice review, approval, and payment process; 2) strengthen its employee timecard review and approval process; and 3) include a clause specifying the terms on indirect cost markup in its contract extension with the Regents of the University of California (UC).
- PG&E agrees with the UAFCB's recommendations in Observations 12 and 13 with some clarifications including: 1) PG&E adheres to the accrual basis of accounting (Generally Accepted Accounting Principles (GAAP)); 2) PG&E recommends no adjustment to the 2013 Efficiency Savings and Performance Incentive (ESPI) claim, as the expenditures and related savings were properly claimed in 2013; and 3) PG&E agrees that expenditures should be consistently reported in all EEStats reports.
- PG&E notes, in response to Observation 15, that the California Public Utilities Commission (Commission) approved PG&E's 2013-2014 EE portfolio wherein it

presented a table that demonstrated how PG&E met the 20% minimum funding requirement for competitively bid third party contracts. If the Commission provides additional direction on this matter, PG&E will incorporate them into its future filings.

- PG&E agrees with UAFCB's recommendation in Observation 21 that the fund-shifting annual thresholds should be applied to the funds shifted on an annual cumulative basis.
- PG&E proposes corrections to the following sections in Appendix B - Program Compendium:
 - Table B-1, Summary of Ratepayer Funded EE Programs – PY2013
 - Table B-2, Summary of EE Portfolio Expenditures – PY2013
 - Table B-3, Summary of PG&E 2013-2014 C&S Program Budget
 - Second paragraph on page B.4, reference to California Title 24
 - Table B-5, Summary of PG&E Non-Resource Program Expenditures – PY2013

A. Observation 4 – Codes and Standards

Observation 4: PG&E failed to demonstrate compliance with PU code 581, 582 and 584 respecting certain amounts sampled for testing. UAFCB verified \$1,845,092 or 31.32% of \$5,891,638 expended on C&S programs. In general, the expenditures were supported; however, UAFCB found certain deficiencies in: (1) internal control on invoice review, approval and payment process; (2) record retention; and, (3) Master Contract Agreement (MSA) with the Regents of the University of California (UC).

Recommendation: PG&E should strengthen its internal control on the invoice review, approval, and payment process to ensure that billings from outside entities have adequate and proper supporting documents. Additionally, PG&E should strengthen its employee timecard review and approval process to ensure that the employee timesheets are accurate, complete, properly reviewed and approved, and the records are properly kept and tracked.

Also, PG&E should modify its MSA with UC to include a clause specifying the terms of indirect cost markup by the UC.

Response:

Invoice Review, Approval and Payment Process

PG&E agrees with UAFCB's recommendation to strengthen internal controls on the invoice review, approval, and payment process. The Codes & Standards (C&S) Program has improved controls over records management by requiring its contract managers to file electronic copies of billing documents and invoice checklists in a centralized shared drive. C&S contract managers have completed required annual Invoice Validation Standard training. As of Q3 2014, PG&E's Customer Energy Solutions (CES) department implemented the "CES Invoice Validation Checklist Quality Assurance (QA) Procedure", which monitors compliance with invoice processing procedures on a quarterly basis.

Time Entry Process

As of 2015, all CES employees are utilizing Self Service Time Entry. With the Self Service Time Entry process, all time entries and approvals are electronically stored in SAP. Employees are responsible for entering and certifying their time data in a timely and accurate manner. Supervisors are accountable for ensuring their employees are consistently adhering to PG&E's policies and procedures as it relates to time reporting.

Contract

PG&E's contract with the UC is expiring on June 30, 2015, and discussions regarding an extension are planned. If the contract is extended, PG&E will address the terms of the UC's indirect cost markup in the contract extension as indicated in this recommendation.

Proposed Appendix A Edits

PG&E recommends that the text pertaining to Observation 4 Condition on page A-3 references 60 C&S samples, not 65.¹

B. Observation 12 – Third Party Contracts

Observation 12: PG&E failed to demonstrate compliance with PU code 581, 582 and 584 respecting TP program reported costs. A reconciliation of PG&E reported 2013 TP program expenditures of \$76,540,613 for Q4 2013 Quarterly EEstats Report and December 2013 Monthly EEstats Report to its SAP Report disclosed no exceptions. However, PG&E reclassified \$149,810 from the TP programs to the Core programs at year end and reflected such adjustment only in 2013 Annual EEstats Report and not in Q4 2013 Quarterly Report and December 2013 Monthly EEstats Report.

Additionally, UAFCB found that \$394,913 TP program expenditures for 2013 were not properly accrued but were incorrectly recorded and reported as TP program expenditures for 2013.

Recommendation: PG&E should adhere to the accrual basis of accounting when recording and reporting its EE program expenditures. In addition, PG&E should consistently report its EE program expenditures in all EEstats reports.

Response:

Accruals and ESPI Calculation

PG&E agrees with the UAFCB's recommendation. PG&E adheres to the GAAP accrual basis of accounting and periodically trains contract managers on the Goods Receipts accrual process. In addition, accruals are reviewed monthly for accuracy and completeness.

In regards to the \$394,913 project accrual, PG&E followed its accrual process. The customer notified PG&E that their project was completed and installed in December 2012. As such, this project was accrued in December 2012. Since an inspection was

¹ Refer to PG&E's response to EE 2013 Audit DR-008_Partial, sent on December 2, 2014.

not completed by December 31, 2012, the accrual was reversed in January 2013². These costs were re-accrued to the 2013-2014 cycle in January through March 2013³. In March 2013, the project was inspected, verified, and authorized for payment. Following payment, PG&E recognized the energy savings associated with this project in the 2013-2014 cycle. As a result, expenditures and related savings were both claimed in 2013, and therefore, PG&E recommends no adjustment to the 2013 ESPI claim.

EEStats Reporting

PG&E agrees with UAFCB's recommendation that expenditures should be consistently reported in all EEStats reports. However, when it is necessary to deviate from that consistency, footnotes are provided with explanations for the deviation, as was the case with the 2013 4th Quarter Fund Shifting Report.

C. Observation 13 - Third Party Contracts

Observation 13: PG&E failed to demonstrate compliance with PU code 581, 582 and 584 respecting certain amounts sampled for testing. UAFCB verified \$4,726,902 or 6.18% if \$76,540,613 expended on TP programs. In general, the expenditures were properly supported, except for three samples with an aggregate amount of \$394,913 for 2012 was incorrectly recorded as expenditures for 2013. Audit adjustment is made to exclude the \$394,913 from the reported 2013 TP program expenditures.

Recommendation: PG&E should adhere to the accrual basis of accounting when recording and reporting its EE program expenditures.

Response: Refer to PG&E's Response to Observation 12.

D. Observation 15 - Third Party Contracts

Observation 15: UAFCB's review disclosed that the Commission lacks clear guidance on how to determine whether or not an Investor-Owned Utility (IOU) has met the Commission's requirement for 20% minimum funding for competitively bid third party programs. PG&E determined its -compliance with this requirement based on the Commission-approved EE budget. PG&E claimed that its budget for competitively bid TP program was 22.5% of the total EE portfolio budget. However, PG&E included in its calculation five statewide programs competitively bid. Additionally, PG&E did not exclude the BayREN/MEA budget from the total EE portfolio budget in its calculation of

² See PG&E's response to EE 2011-12 Audit, DR-003, Attachment "Q06_Atch 26_ 3P GP Admin - Dec 2012-Conf.xlsx" sent on April 23, 2013 (journal entry (JE) accrual - Order #8096887 - KB61 #1001341018) and DR-003_Supp 04, Attachment "DR-003_Supp 04_Atch 01 - 2012 SAP Data.xlsx" sent on August 20, 2013 (JE reversal - Order #8096887 - KB61 #1001349070).

³ See PG&E's response to EE 2013 Audit, DR-001, Attachment "DR-001_Q01, Q34_Atch 02 - 2013 Expenditures Data - 3P_CONF.xlsx" sent on September 14, 2014. Refer to the following entries pertaining to Order #8123442:

- 1) JE accrual Jan 2013 (KB61 #1001353031) / JE reversal Feb 2013 (KB61 #1001361511)
- 2) JE accrual Feb 2013 (KB61 #1001364025) / JE reversal Mar 2013 (KB61 #1001372512)
- 3) JE accrual Mar 2013 (KB61 #1001376005) / JE reversal Apr 2013 (KB61 #1001381531)

the denominator. If PG&E were allowed to use the Commission-approved EE budget to compute the percentage of competitively bid TP programs, UAFCB's calculation showed that the percentage should be 18.76%.

Recommendation: The Commission should clarify 20% minimum funding requirement for competitively bid third party contracts and provide specific computation instructions on this matter. PG&E should follow Commission's directives to compute its percentage on this matter.

Response: The Commission approved PG&E's 2013-2014 EE portfolio wherein it presented a table that demonstrated how PG&E complied with the 20% minimum funding requirement for competitively bid third party contracts. If the Commission provides additional direction on this matter, PG&E will incorporate them into its future filings.

The competitively bid contract values are compared to the total 2013-2014 portfolio budget, including EM&V, as clarified in D.12-11-015 (at p. 82). As shown in Table 3.4 of PG&E's Advice Letter 3356-G-A & B/4176-E-A & B, 23% of PG&E's 2013-2014 EE portfolio was competitively bid.⁴

E. Observation 21 - Fund Shifting and Follow-Up on Prior Examination Observation and Recommendation

Observation 21: PG&E fully implemented UAFCB's recommendations specified in UAFCB's Examination Memo Report for the 2011-2012 EE Program, except for UAFCB's Recommendation #8 on fund shifting. UAFCB found that PG&E accounted for its fund shift activities on a non-annual cumulative, transaction-by-transaction basis. UAFCB continues to find that the fund-shifting annual thresholds should be applied to the funds shifted on an annual cumulative basis and not based on non-cumulative basis asserted by PG&E in its response to UAFCB's prior examination report.

Recommendation: In its comments to this UAFCB drat report, PG&E should acknowledge that it did not disagree with the UAFCB's Observation #8. However, its comments should have been made clearer that what it said to UAFCB's 2011-2012 report.

Response: PG&E agrees that the fund-shifting annual thresholds should be applied to the funds shifted on an annual cumulative basis. PG&E has complied with this recommendation since January 1, 2014.

F. Proposed Corrections to Appendix B, Program Compendium

PG&E would like to propose the following corrections to Appendix B.

⁴ Refer to PG&E's response to 2013 EE Audit DR-013 for additional detail of the calculation.

Table B-1

1. Table B-1 should include the addition of \$19,928,000 of EE benefit burdens authorized for 2014.

On August 14, 2014, the Commission adopted PG&E's 2014 GRC and approved the Partial Settlement Agreement without modification per Ordering Paragraph (OP) 39:

"The Partial Settlement Agreement among Pacific Gas and Electric Company, The Utility Reform Network, and Marin Energy Authority, regarding allocation of certain administrative and general costs from distribution to Customer Program revenues, as set forth in Appendix F-3 is approved and adopted. In accordance with the settlement, as amended, costs associated with applicable employee benefits that are currently allocated to Distribution and recovered in the General Rate Case (GRC) revenue requirement shall be reallocated to Customer Programs and the balancing accounts attributable to the Customer Programs as prescribed in Appendix F-3."

2. As explained in PG&E's response to Observation 12, Table B-1, Line "Audited 2013 EE Program Expenditures" should not be reduced by \$394,913.

Proposed Revised Table B-1

Authorized Budget per Table 13 of D.12-11-015	\$ 823,082,766
Budget Reduction Per OP 23 of D.13-09-044	(3,825,000)
2014 EE Benefit Burdens Amount	19,928,000
Audited 2013 EE Program Expenditures (328,218,781 + 394,913)	(328,613,694)
EE Program Funding Available for PY2014	\$ 510,572,072

Table B-2

TP Programs expenditures in Table B-2 should include \$394,913, based on explanation provided in response to Observation 12. PG&E proposes PY2013 TP Program expenditures equal \$76,390,804.

Table B-3

Table B-3 does not include the 2014 authorized benefit burdens of \$337,031 and the fund shift amounts of \$700,000. Total C&S 2-year budget should equal \$13,533,463, including benefit burdens and Q2 2014 funds shift.

Proposed Revised Table B-3 (Including C&S Expenditures as % of Budget)

C&S Program Name	2013-2014 Approved Budget (\$)	2014 Authorized Benefit Burdens (\$)	Total Approved Budget including Benefit Burdens (\$)	Q2-2014 Funds Shift (\$)	Total Approved Budget including Benefit Burdens (\$)
Building Codes Advocacy	\$5,725,727	\$113,330	\$5,839,057	\$100,000	\$5,939,057
Appliance Standards Advocacy	3,620,202	71,031	3,691,233	350,000	4,041,233
Compliance Improvement	1,254,615	72,389	1,327,004	100,000	1,427,004
Reach Codes	370,000	4,325	374,325	100,000	474,325
Planning and Coordination	1,525,889	75,955	1,601,844	50,000	1,651,844
Total 2013-2014 C&S Budget (including benefit burdens)	\$12,496,433	\$337,031	\$12,833,463	\$700,000	\$13,533,463
C&S Expenditures (\$5,891,638) as % of Budget	47.1%	-	45.9%	-	43.5%

Page B.4

The text in the second sentence of the second paragraph references Title 24 Section 5. PG&E recommends this reference be updated to "Title 24 Part 6".

Revised sentence is as follows: "These C&S activities mainly focus on California Title 20 and Title 24, Part 6 enhancements."

Table B-5

Table B-5 presents non-resource (NR) program expenditures, which should not include C&S expenditures, as C&S is treated as a separate category with different factors applied in the ESPI calculation.

PG&E proposes the following revisions to Table B-5:

- Exclude C&S programs on lines 5 through 9 ("Building Codes Advocacy" through "Planning and Coordination")
- Exclude On-Bill Financing Loan Pool, as this is not included in non-resource programs for ESPI claim
- Add the non-resource portion of Government Partnerships (GP) programs which is included in ESPI claim
- Add the non-resource portion of an additional missing program which is included in ESPI claim

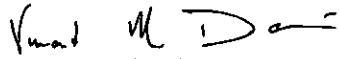
**Proposed Revised Table B-5
Summary of PG&E Non-Resource Program Expenditures – PY2013**

Program Name	Admin.	Mktg.	DI	Total
Commercial Continuous Energy Improvement	\$36,978	\$18,143	\$113,738	\$168,859
Industrial Continuous Energy Improvement	57,704	344	106,411	\$164,459
Agricultural Continuous Energy Improvement	34,618	17,524	118,643	\$170,785
Lighting Market Transformation	26,920	97	36,053	\$63,070
Technology Development Support	27,287	293	419,244	\$446,824
Technology Assessments	223,269	14,051	1,351,158	\$1,588,478
Technology Introduction Support	120,474	4,662	628,349	\$753,485
Centergies	484,696	22,705	8,195,378	\$8,702,779
Connections	27,140	570	2,063,076	\$2,090,786
Strategic Planning	129,652	-	668,076	\$797,728
Statewide DSM Coordination & Integration	177,870	-64	306,543	\$484,349
On-Bill Financing	758,644	921,171	1,248,536	\$2,928,351
Third-Party Financing	511	-	150,058	\$150,569
New Financing Offerings	207,988	-	919,044	\$1,127,032
Strategic Energy Resources	240,681	552,255	1,673,229	\$2,466,165
Builder Energy Code Training	171,652	22,688	169,584	\$363,924
Green Building Technical Support Services	211,802	14,473	269,020	\$495,295
California Community Colleges	-191	-	6,266	\$6,075
Local Govt Energy Action Resources LGEAR	38,434	265,998	1,977,709	\$2,282,141
Association of Monterey Bay Area Govts	50	-	124,636	\$124,686
East Bay	4,334	-	600,676	\$605,010
Fresno	34	-	1,293	\$1,327
Kern	26	-	39,771	\$39,797
Madera	-	-	120	\$120
Marin County	74	-	80,385	\$80,459
Mendocino County	94	-	27,257	\$27,351
Napa County	102	-	22,062	\$22,164
Redwood Coast	109	-	204,310	\$204,419
San Luis Obispo County	140	-	91,875	\$92,015
San Mateo County	1,644	-	154,283	\$155,927
Santa Barbara	3	-	42,222	\$42,225
Sierra Nevada	255	-	309,762	\$310,017
Sonoma County	37	-	16,727	\$16,764
Silicon Valley	2,146	-	462,771	\$464,917
San Francisco	-	-	396,635	\$396,635
Ozone Laundry Energy Efficiency	52,125	7,302	125,649	\$185,076
Total NR Program Expenditures - PY2013	\$3,037,302	\$1,862,212	\$23,120,549	\$28,020,063

Conclusion

This concludes PG&E's response to the UAFCB's Draft Report on PG&E's EE Program for period January 1, 2013, through December 31, 2013. We appreciate the work the UAFCB has put into this audit. If you have any additional questions or concerns, please feel free to contact me.

Thank you,



Vincent M. Davis

Senior Director

Energy Efficiency Programs

Customer Energy Solutions

cc: Bernard Ayanrouh, Division of Water and Audits
Raymond Yin, Division of Water and Audits
Beth Chia, Division of Water and Audits
Jessica Francisco, PG&E
Michael Burger, PG&E