ENERGY EFFICIENCY AUDIT

PACIFIC GAS AND ELECTRIC COMPANY
PROGRAM YEAR 2016

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Executive Summary

The California Public Utilities Commission (Commission) was established by Constitutional Amendment as the Railroad Commission in 1911. The Legislature passed the Public Utilities Act, expanding the Commission's regulatory authority to include natural gas, electric, telephone, and water companies as well as railroads and marine transportation companies in 1912. One of the Commission's duties is to oversee billions of dollars expended on the energy efficiency (EE) program and subprograms funded by California ratepayers. The EE program is predominantly administered by the four major Investor-Owned Utilities (IOUs) in California. They are Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E), and Southern California Gas Company (SCG).[1] The primary purpose of the EE program is to develop programs and measures to meet energy savings goals and transform technology markets in California.

Pursuant to California Public Utilities Code (PUC) Sections 381 *et seq.*, and 454.5[2], the Commission is responsible to oversee the EE program which is principally administered and implemented by the four major IOUs in California and funded by California ratepayers. The Commission has statutory authority to inspect and audit the books and records of the IOUs to ensure that ratepayers' money is well spent, specifically, pursuant to PUC Section 314.5 and 314.6. Other relevant criteria can be found in Decision (D.) 13-09-023, Ordering Paragraph (OP) 17, Energy Efficiency Policy Manual (Version 5 dated July 2013), and other applicable PUC codes, directives, rulings, etc. For the audit on PG&E's EE program for program year (PY) 2016, we reviewed the expenditures of the EE program and subprograms administered and implemented by PG&E in accordance with Generally Accepted Government Auditing Standards (GAGAS) as required in PUC Section 314.6(b).

The scope of this audit covered the period January 1, 2016 to December 31, 2016 or PY 2016. The purpose of this audit was to ensure that PG&E was in compliance with EE program rules and regulations and to determine whether its reported EE expenditures and commitments were accurate, allowable and verifiable. For the audit on PG&E's EE program, expenditures of the EE program and selected subprograms administered and implemented by PG&E for the period under audit were reviewed. The specific PG&E EE program and subprogram areas audited are included in the scope section of this report. Based on the audit, the following findings were identified:

- Finding #1: Lack of Compliance with Accrual Policy and Procedures Respecting its EE Program Costs for PY 2016
- Finding #2: Overstatement of the Efficiency Savings and Performance Incentive (ESPI) Award Amount for PY 2016
- Finding #3: Lack of Adequate Supporting Documentation for Expenditures
- Finding #4: Lack of Monitoring and Oversight of Contract Management

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[1] San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SCG) are affiliated subsidiaries of SEMPRA Energy.

[2] All statutory citations are the California Public Utilities Code, unless otherwise noted.

Audit Report

BACKGROUND

Pursuant to California Public Utilities Code (PUC) Sections 381 et seq., and 454.5, the Commission is responsible to oversee the energy efficiency (EE) program which is principally administered and implemented by the four major Investor-Owned Utilities (IOUs) in California and funded by California ratepayers. We conducted this audit of Pacific Gas and Electric Company's (PG&E's) 2016 EE program pursuant PUC Section 314.5 and Decision (D.) 13-09-023, Ordering Paragraph (OP) 17.

The major IOUs are Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E), and Southern California Gas Company (SCG). To meet California's aggressive electricity and natural gas energy efficiency goals, the Commission authorized billions to the EE program, which is funded by electric and gas rates included in ratepayer bills. [3] The IOUs have greatly increased its costs and budgets through rate increases for administering and implementing the EE program over time. Prior to 2016, the Commission authorized the IOUs budgets for the EE program and subprograms based on a three-year program cycle. In Rulemaking (R.) 13-11-005, the Commission contemplated moving away from authorizing the EE budgets on a triennial basis and towards authorizing the EE budgets on an annual "rolling" portfolio basis. However, the Commission recognized that the adoption of authorizing EE budgets on a "rolling" portfolio basis would not be completed on time for 2015 funding levels. As a result, in D.14-10-046, the Commission approved the 2015 EE funding levels and authorized the IOUs to use 2015 annual spending levels until the year 2025 or when the Commission issues a superseding decision on funding levels. Subsequently, on October 22, 2015, the Commission issued D.15-10-028 which, among other things, authorized the IOUs 2016 EE funding levels at 2015 annual spending levels.

The EE program spans a variety of sectors encompassing residential homes and commercial buildings, large and small appliances, lighting and heating, ventilation and air conditioning (HVAC), industrial manufacturers, and agriculture. Within those sectors, the EE program utilizes a variety of tools to meet energy savings goals, such as financial incentives and rebates, research and development for EE technologies, financing mechanisms, codes and standards development, education and public outreach, marketing and others. The Commission also adopted the Efficiency Savings Performance Incentive (ESPI) mechanism with the intent "to motivate the utilities to prioritize EE goals, while protecting ratepayers through necessary cost containment mechanisms."[4] In D.13-09-023, OP 15 and 16, the Commission authorized an incentive award to be paid to the IOUs as a management fee equal to 12% of authorized Codes and Standards (C&S) program expenditures and 3% of authorized non-resource (NR) program expenditures, not to exceed authorized expenditures and exclusive of administrative costs.[5]

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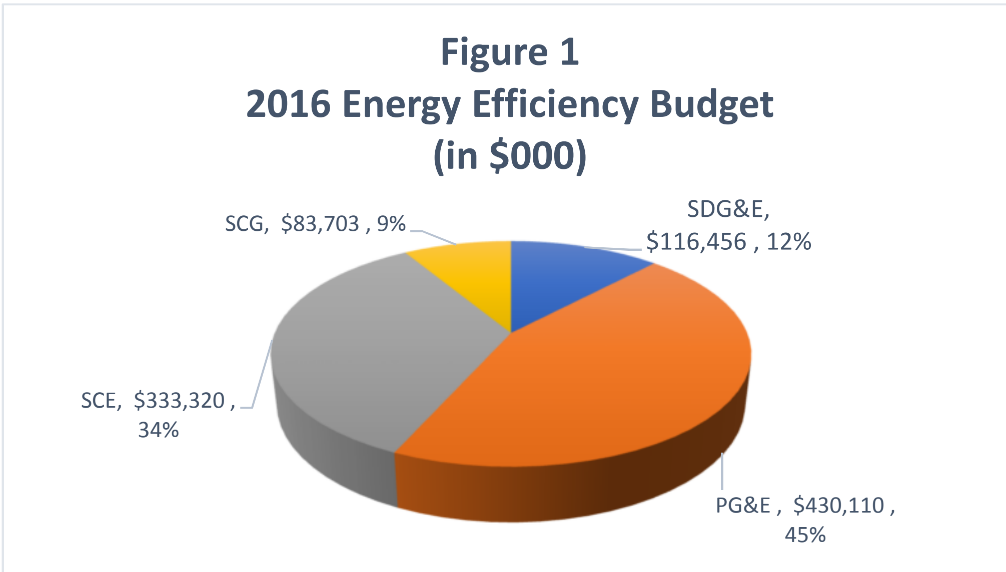
[3] Section 381 established a Public Goods Charge (PGC) that consumers pay on electricity consumption for cost-effective energy efficiency, renewable technologies, and public interest research. Section 900 established a natural gas surcharge to fund cost-effective energy efficiency and other public purpose programs.

[4] Decision 13-09-023, page 2

[5] The C&S and Non-Resource programs support energy savings but do not provide direct energy savings.

For program year (PY) 2016, the Commission issued D.15-10-028 which, among other things, authorized PG&E a total budget amount of $430.1 million, which represented approximately 45% of the total $963.6 million EE program budget for all four IOUs for PY 2016. PG&E's PY 2016 authorized budget also includes $17.2 million for Evaluation, Measurement and Verification (EM&V) which is outside the scope of this examination. A chart reflecting PG&E's portion of the total $963.6 million EE program budget authorized for PY 2016 is shown in the figure below.



PG&E received funding for the EE program through a Public Purpose Program (PPP) rate authorized by the Commission and include on customer billings.

SCOPE

Our audit objective was to ensure that PG&E was in compliance with EE program rules and regulations and to determine whether the EE expenditures claimed by PG&E were for allowable purposes and supported by appropriate documentation, such as invoices, contracts and relevant records, and were recorded appropriately in PY 2016.

In this audit, we examined the expenditures of the following EE programs and subprograms:

1. Codes and Standards (C&S)
2. Non-Resource (NR)
3. Residential Energy Advisor (REA)
4. Commercial Energy Advisor (CEA)
5. Plug Load and Appliances (PLA)
6. Third-Party (TP)

In addition to examining the expenditures of the above selected EE programs and subprograms, we also reviewed the EE commitments that PG&E reported to the Commission and reviewed the monthly EE reports submitted by PG&E and uploaded to the Commission's California Energy Efficiency

Statistics (EEStats) website[6]. A follow-up review was also performed on its PY 2015 EE audit [7] recommendations to determine whether PG&E implemented the appropriate corrective actions.

METHODOLOGY

To address the audit objectives and assist the Commission in its oversight over the EE programs, the following procedures were performed including, but not limited to, the following:

- Obtained an understanding of the EE program by reviewing relevant laws, rules, regulations, PUC codes, decisions, resolutions and advice letters.
- Obtained and reviewed PG&E's accounting system, accounting policies, processes and procedures for recording, tracking, and monitoring EE program costs.
- Assessed whether PG&E's policies, procedures, and practices comply with the EE program requirements.
- Performed analysis of expenditure data to identify any anomalies or significant variances.
- From PG&E's accounting data, judgmentally selected expenditure transactions for review and testing.
- Requested and reviewed supporting documentation such as purchase orders, detailed invoices, contracts, receiving reports, timesheets and additional documentation as needed for the expenditure transactions selected for testing.
- Reviewed relevant contracts to determine if contract terms and provisions supported the EE program.
- Traced expenditure samples recorded in PG&E's accounting records to supporting documentation to determine whether costs were reasonable, allowable, verifiable, and relevant to the EE program.
- Reviewed PG&E's accrual entries and verified the cutoff of expenditure transactions to determine if proper expenditure amounts were recorded and reported in the proper accounting period.
- Reviewed the PG&E's commitments reported in EEStats and performed reconciliation of these reported amounts to PG&E's records to determine whether these commitments were sufficiently justified and properly reported to the Commission.

FINDINGS AND RECOMMENDATIONS

FINDING 1: Lack of Compliance with Accrual Policy and Procedures Respecting its EE Program Costs for PY 2016

[6] This California Energy Efficiency Statistics (EEStats) website is a repository of utility-submitted reports to the Commission and contains up-to-date savings, budgets, expenditures, and cost effectiveness results for each IOUs EE programs.
[7] UAFCB report entitled *"Financial, Management, Regulatory, and Compliance Examination Report on Pacific Gas and Electric's (PG&E's) Energy Efficiency (EE) Program for the Period January 1, 2015 through December 31, 2015"*, dated July 31, 2017.

Condition:

1. PG&E incorrectly recorded $3,296,123 in PY 2016 prepaid expenditures belonging to PY 2017, resulting in an overstatement of PY 2016 expenditures reported to the Commission. Specifically, PG&E improperly recorded and accrued $3,296,123 in prepaid expenses to PY 2016 due to internal policy and procedures that are not consistent with the accrual basis of accounting. A detailed summary of the $3,296,123 PY 2017 expenditures incorrectly charged to PY 2016 by program and subprogram area is shown in **Table 1 of Appendix B**.

2. PG&E incorrectly included $727,440 in PY 2016 expenditures belonging to PY 2015, resulting in an overstatement of PY 2016 expenditures reported to the Commission. Based on its review, it was determined that PG&E incorrectly recorded and reported $727,440 in expenditures to PY 2016 due to inconsistent application of its own internal accrual policy and procedures. Specifically, PG&E combined expenditures that covered multiple months, resulting in $727,440 of PY 2015 expenditures to be improperly recorded and accrued to PY 2016. A detailed summary of the $727,440 PY 2015 expenditures incorrectly charged to PY 2016 by program and subprogram area is shown in **Table 2 of Appendix B**.

Criteria:
PUC Sections 581, 582, and 584 require that the utility provide timely, complete and accurate data to the Commission. PUC Section 793 requires that accounts, records, and memoranda prescribed by the Commission for corporations subject to regulatory authority shall be consistent with the systems and forms established for corporations by or under the United States. The EE Policy Manual (R.09-11-014), Version 5, dated July 2013, provides policy rules for the administration, oversight, and evaluation of the EE program.

PG&E's Customer Energy Solutions (CES) Accrual Standard (CUST-4002S) and CES Accrual Procedure (CUST-4002P01) require the utility to maintain its accounting records in accordance with Generally Accepted Accounting Principles (GAAP).

Cause:
PG&E did not follow GAAP and its internal accrual policy and procedures were not adequately designed for the proper recording of prepaid expenses in accordance with the principles of accrual basis of accounting.

Effect:
Failure to record accurate expenditures in a proper period and program year resulted in an overstatement of program costs reported to the Commission by $4,023,563 for PY 2016. It is critical to ensure that EE costs are accurately recorded and reported because these programs are funded by ratepayers. Furthermore, an overstatement of expenditures may lead to a higher than anticipated authorized budget in future years since PG&E develops its future year EE budget on prior year costs. This practice can result in an over-collection in ratepayer funds that subsidize the EE program through its balancing accounts.

Recommendation:
PG&E should revise its internal accrual policy and procedures to ensure compliance with GAAP and the proper recording and reporting of EE expenditures funded by ratepayers. PG&E should reduce its

PY 2016 EE program costs by a total amount of $4,023,563 based on the exception amounts identified in the audit for the EE program and subprogram areas listed in the scope section of this report.

It is our responsibility to bring this finding to the Commission and PG&E's attention since an overstatement of EE program expenditures has been a repeated finding in prior Commission audits including, but not limited to, PY's 2013, 2014 and 2015.

FINDING 2: Overstatement of the Efficiency Savings and Performance Incentive (ESPI) Award Amount for PY 2016

Condition:
In D.13-09-023, the Commission authorized the IOUs a new Efficiency Savings and Performance Incentive (ESPI) awards mechanism to promote achievement of EE goals. The ESPI mechanism offers each IOU incentive awards in four performance categories:

1. **Energy Efficiency Resource Savings**: A performance award for ex-ante locked down and ex-post verified net lifecycle resource programs (energy efficiency programs that are intended to achieve and report quantified energy savings) energy savings measured in MW, GWh, and MMTh.
2. **Ex-Ante Review (EAR) Process Performance**: A performance award for IOUs ex-ante review conformance.
3. **Codes and Standards (C&S)**: A management fee award for the IOUs advocacy of codes and standards.
4. **Non-Resource (NR) Programs**: A management fee award for implementing non-resource programs (energy efficiency programs that have no directly attributed energy saving but the programs support the energy efficiency portfolio through activities such as marketing or improved access to training and education.)

In D.13-09-023, Ordering Paragraph (OP) 15 and 16, the Commission authorized an incentive award to be paid to the IOUs as a management fee equal to 12% of authorized Codes and Standards (C&S) program expenditures and 3% of authorized non-resource (NR) program expenditures, not to exceed authorized expenditures and exclusive of administrative costs.[8] The decision also ordered verification of the C&S and NR program expenditures for the purposes of awarding the management fees.[9]

Based on its review and testing of the C&S and NR program expenditures, PG&E overstated its ESPI award for PY 2016. Based upon its recalculation, it was determined that the revised ESPI base amount for calculating the C&S and NR program management fee incentive award amounts should be adjusted to $14,394,973 and $23,072,429, respectively. Consequently, PG&E's incentive award amounts should be adjusted to $1,727,397 and $692,173 for the C&S and NR programs, respectively. A detailed recalculation of PG&E's revised ESPI award amount for C&S and NR for PY 2016 is provided in the tables below.

8 The C&S and Non-Resource programs support energy savings but do not provide direct energy savings.
[9] D.13-09-023, OP 17

C&S ESPI Recalculation	
Reported C&S ESPI Base	$14,495,540
Audit Exception	(100,567)
Revised C&S ESPI Base	14,394,973
C&S Earnings Rate	12%
Revised ESPI Award	**$ 1,727,397**

NR ESPI Recalculation	
Reported NR ESPI Base	$23,566,252
Audit Exception	(493,823)
Revised NR ESPI Base	23,072,429
NR Earnings Rate	3%
Revised ESPI Award	**$ 692,173**

Criteria:
Commission D.13-09-023 authorizes an incentive to be paid to each IOU as a management fee equal to 12% of authorized C&S program expenditures and 3% of authorized NR program expenditures, not to exceed authorized expenditures in each program year, and excluding administrative expenditures.

Cause:
When PG&E overstated its EE program costs in the Findings #1, #3 and #4, it also overstated its incentive awards for its C&S and NR programs.

Effect:
PG&E overstated their C&S and NR incentive award amounts filed in AL 3880-G-A/5136-E-A. The proper incentive award amounts should be $1,727,397 and $692,173 for the C&S and NR programs, respectively.

Furthermore, it is critical to ensure that the savings claimed are accurate. The overstatement of incentive award claims by the IOUs can have negative consequences to ratepayers.

Recommendation:
Since PG&E has filed AL 3880-G-A/5136-E-A to claim its C&S and NR program incentive awards for PY 2016, the Commission's Energy Division (ED) should adjust PG&E's management fee incentive awards to $1,727,397 and $692,173 for the C&S and NR programs, respectively, when PG&E's 2016 ex-post ESPI true-up AL is processed.

FINDING 3: Lack of Adequate Supporting Documentation for Expenditures

Condition:
PG&E was unable to provide sufficient documentation to support certain expenditure transactions recorded and reported for PY 2016, resulting in an overstatement of expenditures by a total amount of $516,707. A detailed summary of recorded and reported expenditure that lacked appropriate supporting documentation for PY 2016 by program and subprogram area is provided in **Table 3 of Appendix B**.

Criteria:
PUC Sections 581, 582, and 584 require that the utility provide timely, complete and accurate data to the Commission. PUC Section 793 requires that accounts, records, and memoranda prescribed by the Commission for corporations subject to regulatory authority shall not be inconsistent with the systems and forms established for corporations by or under the United States. The EE Policy Manual (R.09-11-014), Version 5, dated July 2013, provides policy rules for the administration, oversight, and evaluation of the EE program.

CPUC General Order (GO) 28 requires that the utility preserve all records, memoranda, and papers supporting each and every entry so that this Commission may readily examine the same at its convenience.

Cause:
According to PG&E, documents were unavailable due to staff turnover and PG&E's lack of oversight over its operational controls. Original documents were not scanned into the network promptly and hard copies were lost and/or misplaced due to staff turnover. In some instances, PG&E indicated that some documents were not properly transferred during its implementation of a new records retention system.

Effect:
Failure to retain appropriate supporting documentation can result in the incorrect recording of costs to the proper program, overstatement of costs, misclassification costs, and other accounting issues. It is critical and required that the utility preserve all records, memoranda, and papers to support each and every entry recorded to the ratepayer funded EE program.

Recommendation:
PG&E should properly enforce its retention policy and procedures to ensure EE expenditures are fully supported with appropriate documentation. PG&E should reduce its PY 2016 EE program costs by a total amount of $516,707 because it was unable to validate the appropriateness of these charges due to lack of supporting documentation.

FINDING 4: Lack of Monitoring and Oversight of its Contract Management and Invoice Payment Process

Condition:
PG&E failed to consistently follow its own internal Energy Efficiency Operations Invoice Review Procedures Manual, which caused PG&E to incorrectly include a total of $10,650 in expenditures to PY 2016. Based on its review and testing, PG&E processed and paid third-party invoices that were for services performed after the contract expiration date, lacked appropriate management approvals, or were for services completed and delivered after the contract deadline date. A detailed summary of the $10,650 in expenditure improperly recording by PG&E for PY 2016 by program and subprogram area is shown in **Table 4 of Appendix B**.

Criteria:
PG&E's Energy Efficiency Operations Invoice Review Procedures (CUST-4015P-01) and Instruction for Customer Energy Solutions (CES) Invoice Validation Checklist & Delegation of Authority require different level of management authorization in either wet or electronic signature to verify the validity of invoices and prepare for payment.

PG&E's Manage Phase Procedures (CUST-4001P-04) requires project managers to monitor the performance of the supplier and ensure invoices are accurate in accordance with agreed upon contract terms, deliverables meet or exceed quality expectations and deliveries are timely.

Cause:
When internal controls were not adequately enforced in combination with lack of proper training and supervision of employees, recording and reporting errors may occur.

Effect:
Failure to comply with internal policy and procedures resulted in an overstatement of program costs reported to the Commission by $10,650 for PY 2016.

Contracts are legally binding agreements and failure to uphold contractual obligations can result in legal consequences and potentially void the contracts. Additionally, poor contract management may result in higher financial, credit, operational, legal and operational risk.

Recommendation:
PG&E should strictly enforce its internal control process to oversee the contract management and invoice verification and authorization process. Additionally, PG&E should reduce its PY 2016 EE program costs by a total amount of $10,650 based on the exception amounts identified in the audit for the EE program and subprogram areas listed in the scope section of this report.

CONCLUSION

In conducting our audit, we obtained a reasonable understanding of PG&E's internal controls, which were considered relevant and significant within the context of our audit objectives. Deficiencies in internal control that were identified during the audit and determined to be significant are included in this report.

PG&E's management is responsible for the development of its policies and procedures to ensure that expenditures and commitments of its EE programs were reported accurately and timely. The Commission is responsible to ensure the ratepayers' monies funding energy efficiency programs in California explicitly support the EE goals and strategies and protect ratepayers' funds against fraud and abuse.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to afford a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our limited audit objectives.

The report is intended solely for the information and use of the Commission and PG&E and is not intended to be and should not be used by anyone other than these specified parties.

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Appendices

APPENDIX A
Applicable Rules and Regulations

Rule/Regulation Types	Reference	Description
Public Utility Code	Section 314	Guidance providing the Commission the authority to conduct financial and performance audits consistent with Generally Accepted Government Auditing Standards (GAGAS), and to follow-up on findings and recommendations
	Section 381	Guidance mandating that the Commission to allocate funds spent on EE programs that enhance system reliability and provide in-state benefits including cost-effective EE and conservation activities.
	Section 581	Guidance providing the Commission the authority to require a utility to file complete and correct reports in prescribed form and detail
	Section 582	Guidance providing the Commission the authority to require a utility to timely provide applicable records
	Section 584	Guidance providing the Commission the authority to require a utility to furnish reports to the commission
	Section 783	Guidance on the system of accounts and the forms of accounts, records, and memoranda prescribed by the Commission.
Decisions & Rulemaking	D.09-09-047	Adopting Efficiency Savings and Performance Incentive Mechanism
	D.12-11-015	Approving 2013-2014 EE Programs and Budgets
	D.15-10-028	Establishing a “Rolling Portfolio” process for regularly reviewing and revising EE goals for 2016 and beyond
	D.14-10-046	Establishing EE Savings Goals and Approving 2015 EE Programs and Budgets (Concludes Phase I of R.13-11-005)
	R. 13-11-005	Establishing a proceeding in which to fund the current energy efficiency portfolios through 2015, implement energy efficiency "rolling portfolios", and address various related policy
Advice Letters	In AL 3880-G/5136-E	2016 EE Incentive Award Earnings Rates and Award Caps
Federal Energy Regulatory Commission’s (FERC) Uniform System of Accounts (USOA)	Section 11	A. Guidance on accrual accounting B. Guidance on prepayment

APPENDIX B

Table 1
UAFCB Audit Adjustments-Finding 1.1
PY 2016

Program ID	Program Name	Cost Category			Total
		Administrative	Marketing	Direct Implementation	
PGE21001	REA	$ -	$ -	$ 460,000	$ 460,000
PGE21001	REA	-	-	2,183,750	2,183,750
PGE21001	REA	-	92,020	-	92,020
Subtotal		-	92,020	2,643,750	**2,735,770**
PGE21014	CEA	-	92,020	-	92,020
PGE21063	NR Tech Intr Supt	-	-	460,000	460,000
PGE2110052	NR Strt NRG Res	-	-	8,333	8,333
Subtotal		-	92,020	468,333	**560,353**
Grand Total		$ -	**$184,040**	**$3,112,083**	**$3,296,123**

Table 2
UAFCB Audit Adjustments-Finding 1.2
PY 2016

Program ID	Program Name	Cost Category: Administrative	Cost Category: Marketing	Cost Category: Direct Implementation	Total
PGE21002	PLA	$ 19,713	$ -	$ -	$ 19,713
PGE21014	CEA	-	-	8,437	8,437
PGE21014	CEA	-	-	21,936	21,936
PGE21014	CEA	-	-	15,844	15,844
PGE21014	CEA	-	-	(4,563)	(4,563)
Subtotal		19,713	-	41,653	**61,366**
PGE21039	3P CFP Audit & Res.	-	-	23,721	23,721
PGE21039	3P CFP Audit & Res.	-	2,831	-	2,831
PGE21039	3P CFP Audit & Res.	1,395	-	-	1,395
Subtotal		1,395	2,831	23,721	**27,947**
PGE21051	C&S Bldg. Codes Adv.	-	-	10,711	10,711
PGE21051	C&S Bldg. Codes Adv.	-	-	8,161	8,161
PGE21051	C&S Bldg. Codes Adv.	7,294	-	-	7,294
PGE21052	C&S Appl. Std. Adv.	-	-	(14,574)	(14,574)
PGE21052	C&S Appl. Std. Adv.	-	-	59,909	59,909
Subtotal		7,294	-	64,207	**71,501**
PGE210119	3P LED Accl.	-	-	(3,693)	(3,693)
PGE210210	3P Ind. Recommn.	-	-	544,829	544,829
Subtotal		-	-	541,136	**541,136**
PGE21081	NR Stw. DSM Coord.	-	-	3,705	3,705
PGE2110052	NR Strat NRG Res.	-	21,785	-	21,785
Subtotal		-	21,785	3,705	25,490
Grand Total		**$28,402**	**$24,616**	**$674,422**	**$727,440**

Table 3
UAFCB Audit Adjustments-Finding 3
PY 2016

Program ID	Program Name	Cost Category: Administrative	Cost Category: Marketing	Cost Category: Direct Implementation	Total
PGE_21001	REA	$ -	$ -	$ 8,740	$ 8,740
PGE_21002	PLA	-	-	352,950	352,950
PGE_21055	C&S Plan & Coord.	-	-	34,360	34,360
PGE_210135	3P LINCUS WISE	-	-	120,657	120,657
Grand Total		$ -	$ -	**$516,707**	**$516,707**

Table 4
UAFCB Audit Adjustments-Finding 4
PY 2016

Program ID	Program Name	Cost Category			Total
		Administrative	Marketing	Direct Implementation	
PGE21001	REA	$ -	$ -	$ 7,912	$ 7,912
PGE21027	3P Hvy Ind. EE	-	-	738	738
PGE21052	C&S Appl. Std. Adv.	-	-	2,000	2,000
Grand Total		$ -	$ -	**$10,650**	**$10,650**

PG&E's Responses

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July 23, 2018

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Subject: Financial, Management, Regulatory, and Compliance Examination Report on Pacific Gas and Electric Company's Energy Efficiency Program for the period January 1, 2016 through December 31, 2016.

On July 9, 2018, 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) 2016 Energy Efficiency (EE) Program. This Draft Report addresses EE regulatory and compliance areas for January 1, 2016 through December 31, 2016, 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 recommendations in the four findings, as well as proposed corrections to Tables 1 of Finding 2, and Table 3 of Appendix B.

FINDING 1: Lack of Compliance with Accrual Policy and Procedures Respecting its EE Program costs for PY 2016

Condition:

1. PG&E incorrectly recorded $3,296,123 in PY 2016 prepaid expenditures belonging to PY 2017, resulting in an overstatement of PY 2016 expenditures reported to the Commission. Specifically, PG&E improperly recorded and accrued $3,296,123 in prepaid expenses to PY 2016 due to internal policy and procedures that are not consistent with the accrual basis of accounting. A detailed summary of the $3,296,123 PY 2017 expenditures incorrectly charged to PY 2016 by program and subprogram area is shown in Table 2 of Appendix B.

2. PG&E incorrectly included $734,826 in PY 2016 expenditures belonging to PY 2015, resulting in an overstatement of PY 2016 expenditures reported to the Commission. Based on its review, it was determined that PG&E incorrectly recorded and reported $734,826 in expenditures to PY 2016 due to inconsistent application of its own internal accrual policy and procedures. Specifically, PG&E combined expenditures that covered multiple months, resulting in $734,836 of PY 2015 expenditures to be improperly recorded and accrued to PY 2016. A detailed summary of the $734,826 PY 2015 expenditures incorrectly charged to PY 2016 by program and subprogram area is shown in Table 3 of Appendix B.

Recommendation:
PG&E should revise its internal accrual policy and procedures to ensure compliance with GAAP and the proper recording and reporting of EE expenditures funded by ratepayers. PG&E should reduce its PY 2016 EE program costs by a total amount of $3,296,123 and $734,826, based on the exception amounts found during testing of the EE program and subprogram areas listed in the condition section of this finding.

PG&E Response:
PG&E proposes updates to Condition 2 to revise the "incorrectly included" expenditures to $727,440 from $734,826. Refer to PG&E's response in the section below "Proposed Corrections to Appendix B, Table 3 UAFCB Audit Adjustments-Findings 1.2". PG&E adheres to GAAP and will continue to provide periodic accrual training to its employees. PG&E's Finance department conducted accrual trainings on 9/26/17, 10/11/17 and 2/28/18. In addition, PG&E has guidance documents for invoicing.

FINDING 2: Overstated the Efficiency Savings and Performance Incentive (ESPI) Award

Condition:
Based on review and testing of the C&S and NR program expenditures, PG&E overstated its ESPI award amount for PY 2016. It was determined that the revised ESPI base amount for calculating PG&E's NR and C&S program management fee incentive award amounts are $23,072,429 and $14,387,679 for PY 2016, respectively. Consequently, PG&E's incentive award amount should be adjusted to $1,726,521 and $692,173 for the C&S and NR programs, respectively. A detailed recalculation of PG&E's revised ESPI award amount for C&S and NR for PY 2016 is provided in the tables below.

Table 1 – C&S ESPI Recalculation	
Reported C&S ESPI Base	$14,495,540
Audit Exception	(107,861)
Revised C&S ESPI Base	14,387,679
C&S Earnings Rate	12%
Revised ESPI Award	$ 1,726,521

Table 2 – NR ESPI Recalculation	
Reported NR ESPI Base	$23,566,252
Audit Exception	(493,823)
Revised NR ESPI Base	23,072,429
NR Earnings Rate	3%
Revised ESPI Award	$ 692,173

Recommendation:
Since PG&E has filed AL 3880-G-A/5136-E-A to claim its C&S and NR program incentive awards for PY 2016, the Commission's ED should adjust PG&E's management fee incentive awards to $1,726,521 and $692,173 for the C&S and NR programs, respectively, when PG&E's 2016 ex-post ESPI true-up AL is processed.

PG&E Response:
On Table 1, PG&E disagrees with the reduction of $107,861 of "Audit Exception". Of this amount, there are administrative expenditures of $7,294 that should be excluded from the Audit Exception since administrative expenditures are not claimed in the ESPI filing. This amount is also presented as Administrative in Program ID "PGE21051" on Table 3 of Appendix B. Table 1, with PG&E's proposed correction is presented below. PG&E also proposes wording changes to the Recommendation to revise the C&S management fee incentive award to $1,727,397 from $1,726,521. PG&E will file an Advice Letter to incorporate the reductions to its 2017 ESPI in September 2018.

PROPOSED Table 1 – C&S ESPI Recalculation	
Reported C&S ESPI Base	$14,495,540
Audit Exception *	(100,567)
Revised C&S ESPI Base	14,394,973
C&S Earnings Rate	12%
Revised ESPI Award	$ 1,727,397

* Excludes $7,294 of administrative expenses previously included.

FINDING 3: Lack of Adequate Supporting Documentation for Expenditures

Condition:

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PG&E was unable to provide sufficient documentation to support certain expenditure transactions recorded and reported for PY 2016 PG&E's EE expenditure. For PY 2016, expenditures were overstated by a total amount of $516,707. A detailed summary of recorded and reported expenditure that lacked appropriate supporting documentation for PY 2016 by program and subprogram area is provided in Table 4 of Appendix B.

Recommendation:
PG&E should properly enforce its retention policy and procedures to ensure EE expenditures are fully supported with appropriate documentation. PG&E should reduce its PY 2016 EE program costs by a total amount of $516,707 because it was unable to validate the appropriateness of these charges due to lack of supporting documentation.

PG&E Response:
PG&E has addressed the issue with EE program managers who will perform more detailed and thorough reviews of relevant documentation on file. PG&E will continue its focus on improved documentation retention practices.

FINDING 4: Lack of Monitoring and Oversight of its Contract Management and Invoice Payment Process

Condition:
PG&E failed to consistently follow its own internal Energy Efficiency Operations Invoice Review Procedures Manual, which caused PG&E to incorrectly include a total of $10,650 in expenditures to PY 2016. Based on its review, PG&E processed and paid third party invoices that were for services performed after the contract expiration date, lacked appropriate management approvals, or were for services completed and delivered after the contract deadline date. A detailed summary of the $10,650 in expenditure improperly recording by PG&E for PY 2016 by program and subprogram area is shown in Table 5 of Appendix B.

Recommendation:
PG&E should strictly enforce internal control process to oversee the contract management and invoice verification and authorization process. Additionally, PG&E should reduce its PY 2016 EE program costs by a total amount of $10,650 based on the exception amounts found during testing of the EE program and subprogram areas listed in the condition section of this finding.

PG&E Response:
With regards to monitoring its contracts, PG&E has addressed the issue with EE program managers who will perform more detailed and thorough reviews of PO agreements and ensure timeliness of invoice processing.

Proposed Corrections to Appendix B, Table 3 UAFCB Audit Adjustments-Findings 1.2

PG&E proposes the following corrections to Table 3 of Appendix B. Corrections are highlighted in yellow. UAFCB classified $19,713 as Marketing but should be Administrative (PGE21002 PLA). UAFCB presented $3,693 as a positive figure, when it should be characterized as negative on this table (PGE210119 3P LED Accl). The revised total of $727,440 should replace all amounts of $734,626 presented in Condition 2 of Finding 1. It should also be noted that the $28,402 of Administrative expenditures in this table should not be included in any proposed ESPI expenditure reductions.

PROPOSED Table 3
UAFCB Audit Adjustments-Finding 1.2
PY 2016

Program ID	Program Name	Cost Category			Total
		Administrative	Marketing	Direct Implementation	
PGE21002	PLA	$ 19,713	$ -	$ -	$19,713
PGE21014	CEA	-	-	8,437	8,437
PGE21014	CEA	-	-	21,936	21,936
PGE21014	CEA	-	-	15,844	15,844
PGE21014	CEA	-	-	(4,563)	(4,563)
Subtotal		19,713	-	41,653	**61,366**
PGE21039	3P CFP Audit & Res.	-	-	23,721	23,721
PGE21039	3P CFP Audit & Res.	-	2,831	-	2,831
PGE21039	3P CFP Audit & Res.	1,395	-	-	1,395
Subtotal		1,395	2,831	23,721	**27,947**
PGE21051	C&S Bldg. Codes Adv.	-	-	10,711	10,711
PGE21051	C&S Bldg. Codes Adv.	-	-	8,161	8,161
PGE21051	C&S Bldg. Codes Adv.	7,294	-	-	7,294
PGE21052	C&S Appl. Std. Adv.	-	-	(14,574)	(14,574)
PGE21052	C&S Appl. Std. Adv.	-	-	59,909	59,909
Subtotal		7,294	-	64,207	**71,501**
PGE210119	3P LED Accl.	-	-	(3,693)	(3,693)
PGE210210	3P Ind. Recommn.	-	-	544,829	544,829
Subtotal		-	-	541,136	**541,136**
PGE21081	NR Stw. DSM Coord.	-	-	3,705	3,705
PGE2110052	NR Strat NRG Res.	-	21,785	-	21,785
Subtotal		-	21,785	3,705	25,490
Grand Total		$28,402	$24,616	$674,422	$727,440

Conclusion

This concludes PG&E's response to the UAFCB's Draft Report on PG&E's EE Program for period January 1, 2016 through December 31, 2016. 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.

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Thank you,

David Poster
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Customer Energy Solutions - Pacific Gas and Electric Company

cc: Kevin Nakamura – UAFCB
Kristine Du – UAFCB
Vicky Zhong – UAFCB

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Evaluation of Responses

PG&E's responses to the draft report have been reviewed and incorporated into the final report. In evaluating PG&E's response, we provide the following comments:

FINDING 1: Lack of Compliance with Accrual Policy and Procedures Respecting its EE Program Costs for PY 2016

UAFCB agrees with PG&E that the amount incorrectly recorded and reported in Condition 2 be adjusted from $734,826 to $727,440. Additionally, corresponding adjustments have been made to Table 3 of Appendix B.

FINDING 2: Overstatement of Efficiency Savings and Performance Incentive (ESPI) Award Amounts for PY 2016

UAFCB agrees with PG&E that $7,294 of administrative expenditures be excluded from the audit exception amount and have revised the recommended C&S management fee incentive award in Table 1 from $1,726,521 to $1, 727,397. Additionally, corresponding adjustments have been reflected in related sections and tables included in this report.