



**California Public Utilities Commission**  
*Division of Water and Audits*

**Compliance Audit  
of the  
California Solar Initiative Program  
of  
San Diego Gas & Electric Company  
and the  
California Center for Sustainable Energy  
For the Years Ended  
December 31, 2007 and 2008**

**Prepared by  
Kayode Kajopaiye, CPA  
Kevin Nakamura**

**October 28, 2010**



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**INDEPENDENT AUDIT OPINION**


Pursuant to Commission Decision (D.) 06-08-028, Ordering Paragraph (OP) 24, the Assigned Commissioner's Ruling Establishing Program Evaluation Plan for the California Solar Initiative, dated July 29, 2008, Attachment A, Section 3.3.8 and D.06-01-024, page 8, the Division of Water and Audit's Utility Audit, Finance and Compliance Branch (UAFCB) conducted a regulatory compliance audit of San Diego Gas & Electric Company's (SDG&E) ratepayer-funded California Solar Initiative general market programs (CSI) for calendar years 2007 and 2008. In addition, this audit included an examination of SDG&E's CSI program administrator's, the California Center for Sustainable Energy (CCSE), implementation of SDG&E's CSI programs.<sup>1</sup>

SDG&E and CCSE's management are responsible for compliance with the Commission's directives and program requirements applicable to the implementation and oversight of the CSI. A comprehensive summary of the Commission's directives and program requirements that apply to the CSI programs is included in Appendix B of this report.

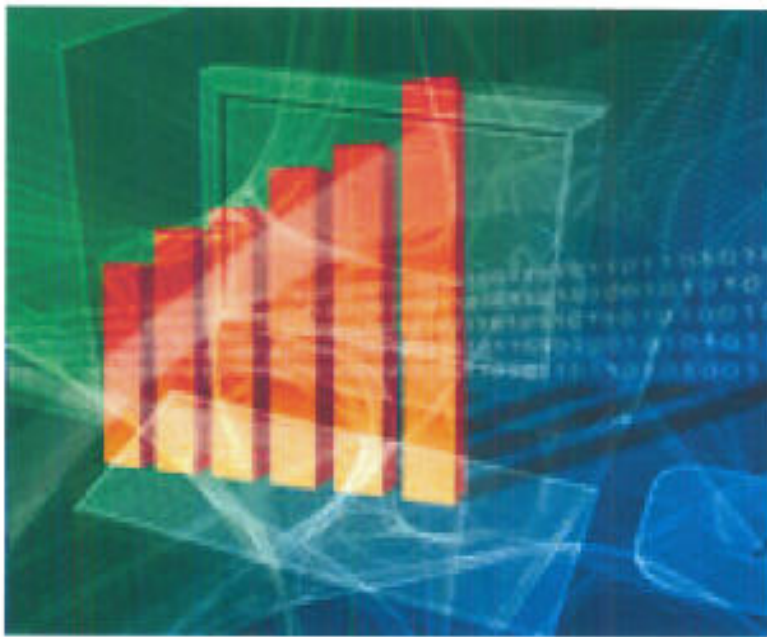
UAFCB's audit was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA) and, accordingly, included examining, on a test basis, evidence concerning SDG&E's and CCSE's compliance with the requirements noted above and performing any other procedures as considered necessary in the circumstances. UAFCB believes that its audit provides a reasonable basis for an opinion. UAFCB does not provide a legal determination on SDG&E's or CCSE's compliance with the specified requirements.

In the opinion of UAFCB, SDG&E and CCSE have complied, in all material respects, with the aforementioned requirements for the years ending December 31, 2007 and 2008. However, UAFCB identified some instances where policies and procedures for the administration and implementation of the CSI and its oversight could be strengthened to ensure that reporting of project information and expenditures are in accordance with the Commission's reporting requirements and directives.

This report is intended for use by the California Public Utilities Commission and the companies being examined. It is not intended to be and should not be used by anyone other than the specified parties.

  
Kayode Kajopaiye, Chief  
Utility Audit, Finance and Compliance Branch  
September 30, 2010

<sup>1</sup> CCSE was formerly the San Diego Regional Energy Office. CCSE/SDREO is SDG&E's program administrator pursuant to D.06-08-028, OP 1.



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## **I. Executive Summary<sup>1</sup>**

This report presents the results of the Utility Audit, Finance and Compliance Branch's (UAFCB) audit of San Diego Gas & Electric Company's (SDG&E) California Solar Initiative general market program (CSI) for calendar years 2007 and 2008. UAFCB conducted this audit pursuant to Commission Decision (D.) 06-08-028, Ordering Paragraph (OP) 24, the Assigned Commissioner's Ruling Establishing Program Evaluation Plan for the CSI, dated July 29, 2008<sup>2</sup> and D.06-01-024, page 8. In addition, this audit included an examination of SDG&E's CSI program administrator's, the California Center for Sustainable Energy (CCSE), implementation of SDG&E's CSI program.<sup>3</sup> UAFCB conducted this audit at the request of the Commission's Energy Division.

The purpose of UAFCB's audit is to determine, for program years 2007 and 2008:

- (1) The reliability and authenticity of the CSI expenditures reported to the Commission and those recovered in electric distribution rates;
- (2) The integrity of the controls for safeguarding the ratepayer-funded CSI targeted customer groups;<sup>4</sup>
- (3) The assurance level of both SDG&E's and CCSE's compliance with the requirements established in the CSI Program Handbook, Commission directives, and each company's policies and procedures; and
- (4) The adequacy of SDG&E and CCSE's program oversight.

Pursuant to D.06-08-028, OP 1, SDG&E contracted with CCSE to implement and administer the CSI program in SDG&E's service territory. SDG&E's responsibilities for the CSI program are limited to cost control, verification of charges, and administrative oversight.

As the assigned program administrator, CCSE is responsible for the overall implementation and management of the CSI program in SDG&E's service territory. CCSE segregated its CSI department into two units – Residential and Non-Residential. Each unit is managed by a Program Manager, who reports directly to CCSE's Director of Programs. CCSE's Program Managers are responsible for monitoring and managing the day-to-day operations of each unit.

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<sup>1</sup> Appendix D describes the abbreviations and acronyms used in this report.

<sup>2</sup> See Attachment A, Section 3.38 of the Assigned Commissioner's Ruling Establishing Program Evaluation Plan for the CSI, dated July 29, 2008.

<sup>3</sup> CCSE was formerly the San Diego Regional Energy Office.

<sup>4</sup> The CSI delivery channels include residential, commercial and government/nonprofit.

In 2007, CCSE employed a total of 44 people, of which CCSE assigned 27 staff members to the implementation of SDG&E's CSI program. For 2008, CCSE employed a total workforce of 47 people and dedicated 30 of its staff members to SDG&E's CSI program.

In D.06-12-033, the Commission authorized a ten-year budget of \$2.2 billion for Pacific Gas and Electric (PG&E), Southern California Edison (SCE) and SDG&E's CSI for years 2007 through 2016. The Commission authorized a CSI administrative budget of \$189.7 million for the same ten-year period. Pursuant to D. Commission D.06-12-033, the utilities were to

SDG&E's portion of the total authorized budget is \$223 million, or 10.3%. For calendar years 2007 and 2008, SDG&E was allocated a total CSI budget of \$33 million per year. In January 2007, SDG&E had a carry-over of \$37,212,818 from unspent 2006 SGIP funds in accordance with Commission D.06-12-033. For 2007, SDG&E spent \$4.3 million, or 7% of its authorized CSI budget of \$33 million. For 2008, SDG&E spent \$10.4 million, or approximately 11% of its authorized budgeted amount. A summary of the CSI program budget for SDG&E is provided in the following table.

**Table 1**  
**SDG&E**  
**Summary of 2007 - 2008 Ratepayer-Funded CSI Program**

SDG&E's Budget	2007	2008
Amounts Brought Forward <sup>5</sup>	\$37,212,818	\$65,893,230
Authorized Budgets per D.06-12-033	<u>33,000,000</u>	<u>33,000,000</u>
Available Spending Amounts	70,212,818	98,893,230
CSI Expenditures <sup>6</sup>	<u>4,319,588</u>	<u>10,442,061</u>
Amounts Carried Forward	<u>\$65,893,230</u>	<u>\$88,451,169</u>

For the calendar years 2007 and 2008 audit of the CSI, UAFCB assessed CCSE's compliance with the CSI program requirements established in the CSI Handbook and Commission directives and evaluated CCSE's policies and procedures and internal controls. UAFCB judgmentally selected CSI incentive applications processed by CCSE for testing. In addition, UAFCB also performed testing of administrative and marketing expenses incurred by CCSE during the years 2007 and 2008.

UAFCB simultaneously conducted an audit of SDG&E's oversight to ensure that the utility was in compliance with its contract with CCSE and Commission directives. UAFCB included a review of SDG&E's policies and procedures and internal controls. UAFCB also conducted an audit of SDG&E's CSI expenditures for calendar years 2007 and 2008 to ensure that amounts were properly recorded in its records and regulatory accounts and correctly reported to the Commission.

<sup>5</sup> SDG&E indicates that the 2007 amount is the amount it transferred from its SGIP on January 1, 2007.

<sup>6</sup> SDG&E asserts that it did not pay any SGIP incentives with CSI funds. SDG&E stated that it completed its remaining SGIP projects/commitments in 2007. According to SDG&E, it charged these SGIP incentives in 2007 to its SGIP I/O account and recovered the cost of the incentives through its SGIP Memorandum Account (SGPMA).



UAFCB discovered weaknesses in CCSE's processes for reporting expenditure information to the Commission's Energy Division, recording customer project information into the PowerClerk and the Trigger Tracker databases, reconciling information between the two data bases, document retention and application processing. In addition, UAFCB found instances wherein CCSE needed to create additional accounts to properly account for certain expense items. Lastly, UAFCB found reporting errors in the reports that CCSE submitted to Energy Division during the audit period.

UAFCB found weaknesses in SDG&E's processes for recording expenditure information in its accounting system and regulatory accounts and UAFCB discovered instances where SDG&E incorrectly recorded CSI incentive payments in its accounting records and regulatory balancing accounts. In addition, SDG&E understated its 2007 CSI expenses by booking certain CSI incentives related to SGIP solar PV and electricity-displacing non-PV solar projects begun before January 1, 2007 and paid after December 31, 2006 into its Self Generation Program Memorandum Account instead of its California Solar Initiative Balancing Account.

In July 2010, UAFCB met with SDG&E and CCSE and discussed UAFCB's preliminary audit findings and recommendations. SDG&E and CCSE cooperatively agreed to and addressed most of UAFCB's findings and recommendations. The Audit Findings section of this report describes, among other things, what SDG&E and CCSE have agreed to implement as a result the UAFCB's preliminary findings and recommendations.

## II. Audit Recommendations

The following UAFCB recommendations remain outstanding:

1. CCSE's monthly reconciliations of its CSI data with SDG&E records should be reviewed during the next audit to ensure that any variances are well documented and fully supported and justify the amounts reported to the Commission's Energy Division. (Refer to Section V.A., Audit Goal 1.)
2. SDG&E's internal review and the resulting improvement of its procedures and controls over the recording of CSI expenses should be reviewed during the next audit. (Refer to Section V.A., Audit Goal 1.)
3. CCSE should add and implement procedures and controls to ensure that CSI information is accurately reflected in both the PowerClerk and the Trigger Tracker. (Refer to Section V.B., Audit Goal 1.)
4. CCSE acknowledged that the inability of the PowerClerk and the Trigger Tracker to interface is a statewide problem affecting all CSI program territories. The Commission should examine whether it is feasible to create an interface between the two systems.<sup>7</sup> (Refer to Section V.B., Audit Goal 1.)
5. The PowerClerk/Trigger Tracker interface issue should be reexamined during the next audit. (Refer to Section V.B., Audit Goal 1.)

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<sup>7</sup> Clean Power Research developed the PowerClerk system and Alternative Energy Systems Consultants Inc. developed the Trigger Tracker system. The utilities co-funded the creation of these two systems.

6. CCSE's revised accounting manual and internal controls should be reexamined in the next audit to ensure that CCSE has implemented the appropriate measures. (Refer to Section V.C., Audit Goal 1.)
7. CCSE's new Application Upload feature should be reexamined in the next audit to ensure applications are being appropriately date stamped and accurately processed in the PowerClerk. (Refer to Section V.C., Audit Goal 2.)

### III. Introduction

The CSI is a solar rebate program for California residents who decide to install solar systems and are customers of PG&E, SCE and SDG&E.<sup>8</sup> The program offers different incentive levels based on the performance of the customers' solar panels, taking into account such factors as installation angle, tilt and location rather than system capacity alone. Unlike prior programs, the CSI framework is based on encouraging and rewarding systems that provide maximum solar generation. The CSI program is funded by electric rate payers through the electric distribution rates of PG&E, SCE and SDG&E.

The Commission collaborated with the California Energy Commission (CEC) to jointly create the CSI program. The CSI program has an authorized budget of \$2.2 billion to be spent over 10 years, 2007 through 2016. The Commission's goal is that CSI will install up to 1,940 megawatts (MW) of new solar generation capacity. To attain its goal of 1,940 MW, the Commission split its MW achievement goal between two incentive based programs; the CSI with a goal of 1,750 MW and the low-income residential program with a goal of 190 MW. The low-income portion is targeted to both multi and single-family households through the Multifamily Affordable Solar Housing Program (MASH) and the Single family Affordable Solar Homes Program (SASH).

The Commission established further details for the implementation of the CSI in D.06-08-028, which included, among other things, the adoption of an administrative structure, a requirement that the program be reviewed at approximately two-year intervals, the development of the CSI Program Handbook, and other program design features for successful implementation.

Initially, the CSI was to be a 10-year, \$2.8 billion incentive program. On August 21, 2006, the Governor of California signed Senate Bill (SB) 1, which directed the Commission and the CEC to implement the CSI with specific requirements and budget limits.<sup>9</sup> To comply with SB 1, the Commission issued D.06-12-033, which addressed the requirements of SB 1 and modified the Commission's earlier CSI decisions. This decision, among other things, modified the budget, clarified the maximum project size that can receive incentives, phased in performance-based incentives (PBI), established reporting requirements, and required the issuance of the CSI Program Handbook.

UAFCB provides additional information on the Commission's CSI decisions, budgets and program history in Appendix B.

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<sup>8</sup> The Commission replaced two former solar incentive programs; the Emerging Renewable Program (ERP) and Self Generation Incentive Program (SGIP) with CSI.

<sup>9</sup> SB 1, Chapter 132, Statutes of 2006 (Murray).

## IV. Compliance Audit

In late 2009, the Commission's Energy Division requested that UAFCB perform the third-party financial audit of the CSI program covering the first two calendar years, 2007 and 2008. The UAFCB and Energy Division finalized the audit plans on December 14 through 22, 2009.

UAFCB began the audit of SDG&E's 2007 and 2008 CSI, by submitting an audit engagement letter to SDG&E and CCSE, dated December 23, 2009. UAFCB concluded its fieldwork with CCSE on July 15, 2010, and with SDG&E on July 16, 2010.

### A. Audit Requirements

An Assigned Commissioner's Ruling (ACR), dated July 29, 2008, addressed the establishment of an evaluation plan for the CSI.<sup>10</sup> The ruling identified the legislative reporting obligations, delineated the program data and reports required for program review, and established a budget and a schedule for publishing reports. In particular, this ruling specified that approximately every two years, starting in 2009 and ending in 2015, an external audit be performed to track the spending and the performance of the program administrators responsible for implementing the CSI program:<sup>11</sup>

The objective of the audit is to ascertain whether the CSI administrative costs and expenditures were properly charged against program funds. A third-party financial audit will provide transparency, enable the Commission to meet its due diligence goals, as well as ensure that ratepayer funds are being prudently managed by program administrators.

### B. Audit Purpose and Scope

The overall purpose of UAFCB's audit is to determine whether the CSI is administered and implemented in accordance with established program guidelines, parameters, and Commission directives for calendar years 2007 and 2008 and provide recommendations to enhance the Commission's oversight of the program.

The scope of UAFCB's audit addressed SDG&E and CCSE's implementation of SDG&E's CSI during the years 2007 and 2008 and included an examination of the following:

1. *Process Compliance* – the compliance of SDG&E and CCSE's accounting systems, particularly, their CSI accounting policies and procedures in place throughout the audit period as required by the Commission.
2. *Existence of Safeguards* - the existence of accounting and administrative controls to safeguard the program funds.
3. *Integrity of Reporting* - the completeness and accuracy of CCSE's reporting to the Commission.
4. *Oversight Adequacy* - internal monitoring of program implementation to provide adequate oversight and support for the program.

<sup>10</sup> See Assigned Commissioner's Ruling Establishing Program Evaluation Plan for the California Initiative, dated July 29, 2008.

<sup>11</sup> Ibid, Appendix A, Section 3.3.8.

### **C. Audit Objectives**

UAFCB established four audit objectives designed to meet the overall CSI program audit purpose and scope:

1. Determine whether SDG&E and CCSE are following CSI program policies and procedures pursuant to CSI Program Handbook, related Commission directives and SDG&E's policies and procedures to support full compliance of the CSI program requirements;
2. Assess and evaluate the administrative and accounting controls in place to protect the ratepayer-funded CSI targeted customer groups; i.e. residential, commercial and government/nonprofit;
3. Determine whether the program administrator's accounting system and methods for capturing CSI expenditures are sufficient in producing reliable information to the Commission; and,
4. Ascertain and evaluate whether SDG&E and/or CCSE maintain sufficient management and oversight to meet the program's goals and objectives.

### **D. Audit Task Areas**

From the audit objectives, UAFCB developed four specific audit tasks and for each audit task, audit goals as follows:

#### **A. Program Accounting and Reporting:**

- 1) Assess SDG&E's and CCSE's accounting systems and procedures related to the CSI and determine if the program's expenditures recorded in CCSE's records and SDG&E's regulatory accounts reconcile to the amounts CCSE reported to the Commission.
- 2) Ascertain whether the CSI program expenditures were not duplicated for recovery in SDG&E's General Rate Case (GRC) application.

#### **B. Program Implementation, Processes and Controls:**

- 1) Assess whether the CSI targeted customer groups are structured and implemented in accordance with prescribed program policies and procedures and Commission directives.
- 2) Determine whether the program processes and controls for the CSI incentives are designed to prevent abuse and misapplication of program funds.
- 3) Ascertain whether SDG&E and CCSE are both complying with the CSI incentive step level structure, including allocation and payment of steps, and that they are sufficiently documented in accordance with the program rules.

#### **C. Program Expenditure Analysis and Testing:**

- 1) Test, on a sample basis, that the expenditures incurred are relevant to the CSI program and are properly supported.
- 2) Test, on a sample basis, that the incentive payments were made in accordance with the established program guidelines and parameters.

#### **D. Program Oversight:**

- 1) Assess the adequacy of SDG&E's and CCSE's internal reporting system and management oversight on monitoring the goals and objectives of the CSI program.

## **E. Auditing Standards Applied**

UAFCB conducted this audit in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA) and accordingly, included an examination, on a test basis, of evidence concerning SDG&E's and CCSE's compliance with Commission directives and the performance of such other procedures as considered necessary in the circumstances.

## **F. Auditing Procedures Applied**

UAFCB's procedures included the following general steps:

### Pre-audit Procedures:

- Become familiar with both SDG&E's and CCSE's CSI programs, e.g. types of programs, program processes and operations.
- Review pertinent Commission decisions, resolutions, and applicable rules, regulations, and program manuals.
- Contact both SDG&E's and CCSE's regulatory personnel and establish audit logistics and protocols.

### CSI Program Processes Review:

- Interview both SDG&E and CCSE program personnel to gain information and an understanding of the CSI operations and processes, in connection with customer enrollment, program administration, and management oversight.
- Review SDG&E's and CCSE's program policy and process manuals for compliance with regulatory directives and decisions.
- Conduct on-site visits to CSI program centers to observe program operations and test for compliance with program policies and objectives.
- Compare actual expenditures to budget program data for variances and analyze such variances for reasonableness.

### Evaluation and Analysis:

- Review both SDG&E and CCSE accounting manuals and procedures concerning the proper recording of program revenue and expenditures.
- Evaluate both SDG&E's and CCSE's internal control procedures concerning revenue and expenditures for effectiveness and deficiencies; implement additional audit procedures to assess and resolve any deficiencies.
- Verify program expenditures, on a sample basis, to supporting documentation and sources to determine accuracy and the degree of irresponsibility.
- Reconcile program databases to general ledger systems and authorized balancing accounts.
- Formulate audit findings, conclusions, and recommendations.
- Issue an audit opinion upon completion of the engagement.

In Appendix A, UAFCB describes SDG&E and CCSE's CSI program processes and UAFCB's audit methodologies by Audit Task Area.

## G. Preliminary Findings

UAFCB held an audit exit meeting with CCSE on July 15, 2010 to discuss UAFCB's preliminary audit findings. CCSE submitted responses to UAFCB's preliminary audit findings on July 23, 2010. On July 16, 2010, UAFCB held an audit exit meeting with SDG&E and UAFCB presented its preliminary audit findings to SDG&E. SDG&E provided responses to UAFCB's preliminary audit findings on July 27, 2010. Where findings were still pending, UAFCB continued its review and analysis.

## V. Audit Findings

### A. Program Accounting and Reporting

**Audit Goal 1:** Assess SDG&E's and CCSE's accounting system and procedures related to the CSI and determine if the expenditures recorded in CCSE's records and SDG&E's regulatory accounts reconcile with the amounts CCSE reported to the Commission.

#### Findings:

1. UAFCB did not discover any material weaknesses in its assessment of SDG&E's and CCSE's accounting systems.
2. However, SDG&E incorrectly recorded the CSI program expenditures in its regulatory accounts.
3. In addition, CCSE incorrectly reported the CSI expenditures to the Commission for 2007 and 2008 by \$625,170.
4. The CSI expenditures are actually \$4,280,187 for 2007 and \$10,745,690 for 2008.

**CCSE:** CCSE incorrectly reported its total CSI expenditures to the Commission's Energy Division. In its revised Expense Report submitted to the Commission's Energy Division on March 26, 2010, CCSE reported total CSI expenditures of \$4,553,702 for 2007 and \$11,097,345 for 2008. However, CCSE's accounting records showed the total CSI expenditures of \$4,280,187 in 2007 and \$10,745,690 for 2008; with differences of \$273,515 and \$351,655, respectively, as shown in the following table.

**Table II**  
**CCSE – Summary of Expenditures**

Description	Total Expenditures		Total
	2007	2008	
Per CCSE Report 3/26/10 (Revised)	\$4,553,702	\$11,097,345	\$15,651,047
Per CCSE Records	<u>4,280,187</u>	<u>10,745,690</u>	<u>15,025,877</u>
<b>Audited Difference</b>	<b><u>\$ 273,515</u></b>	<b><u>\$ 351,655</u></b>	<b><u>\$ 625,170</u></b>

**SDG&E:** UAFCB discovered discrepancies in the amounts recorded in SDG&E's Systems, Applications and Products in Data Processing (SAP) accounting system and in its regulatory accounts. For 2007, SDG&E's records indicated a total CSI expenditure of \$4,319,587, a difference of \$39,400 from the amounts included in CCSE's records. SDG&E incorrectly recorded \$39,400 in its CSI accounts for incentive payments made to CCSE for SDG&E's Self-Generation Incentive Program (SGIP) – Rebuild San Diego.

For 2008, SDG&E's accounting records indicated a total CSI expenditure of \$10,442,031, a difference of \$303,660 from the amounts included in CCSE's records. SDG&E incorrectly recorded \$328,529.27 in CSI incentive expenses for its Solar Water Heating Pilot Program. In addition, SDG&E recorded and paid CCSE customer payments totaling \$31,824 twice and overpaid CCSE \$311 for some canceled projects. SDG&E also failed to record a \$6,954 incentive payment made to CCSE in its accounting records. CCSE credited SDG&E for these overpayments but SDG&E did not reverse the entries in its accounting system. A summary of the differences is provided in the following table:

**Table III**  
**SDG&E – Summary of 2008 Recording Discrepancies**

<b>Date</b>	<b>Description</b>	<b>Amount</b>
1/8/2008	Overpayment due to canceled project	\$ (291.72)
4/24/2008	Paid to CCSE/Not Recorded in SAP	6,954.00
9/12/2008	Overpayment to CCSE	(20.00)
9/18/2008	Duplicate Payment for Invoice #2895	(4,336.00)
9/26/2008	Duplicate Payment for Invoice #2911	(27,176.00)
11/19/2008	CSI Payment Recorded to SWH	<u>328,529.27</u>
<b>Total Audit Adjustment</b>		<b><u>\$303,659.55</u></b>

UAFCB didn't review SDG&E's entries in its California Solar Initiative Balancing Account (CSIBA)-Electric to ascertain their correctness or reconcile them to the balances in the SAP. However, in its September 28, 2010 response to UAFCB's September 23, 2010 data request, SDG&E indicated that it:

1. Booked its SGIP incentives paid in 2007 into its Self Generation Program Memorandum Account (SGPMA); and
2. Recovered its electric SGIP incentives that it paid in 2007 through its Annual Electric Regulatory Account Update instead of through the CSIBA.

Based on SGIP project information provided to UAFCB by CCSE on October 26, 2010, SDG&E recovered several solar PV applications reserved in 2006 and paid in 2007 through its Annual Electric Regulatory Account Update instead of through its CSI balancing account.

UAFCB believes that, in D.06-12-033, when the Commission ordered SDG&E to apportion the unspent SGIP electric funding for the incentives for solar PV and electricity-displacing non-PV solar to CSI, the Commission intended that incentives paid after December 31, 2006 for any SGIP solar PV and electricity-displacing non-PV solar projects begun before January 1, 2007 be paid with CSI funds. Consequently, SDG&E incorrectly charged any incentives for solar PV and electricity-displacing non-PV solar projects begun before January 1, 2007 to its SGPMA and then incorrectly recovered those amounts through its Annual Electric Regulatory Account Update.

Consequently, SDG&E understated its 2007 CSI expenses and expenditures by solar PV and electricity-displacing non-PV solar projects begun before January 1, 2007 and paid in 2007.

Preliminary Findings and Recommendations - CCSE: In its preliminary audit findings, UAFCB recommended that CCSE modify its reported expenditures to the Commission's Energy Division to reflect the total CSI expenditures of \$4,280,187 for 2007 and \$10,745,690 for 2008. Following the July 15, 2010 audit exit meeting, CCSE provided UAFCB with additional information pertaining to the reconciliation of CCSE records to the amounts reported to the Energy Division and the amounts recorded in SDG&E's records. According to CCSE, the discrepancies were the result of 1) statewide program database issues, 2) timing issues for the recording of payments, and 3) manual entry errors.

According to CCSE, the variance resulting from statewide program database issues are due to the PowerClerk's inability to reflect actual incentive payment amounts. Instead, the PowerClerk is limited to providing estimated incentive payment amounts based on when the incentive claim form was processed, resulting in a timing difference between what is reported to the Commission and the PowerClerk's online information. The timing issues for the recording of payments are related to:

1. PBI incentive payments for the month of December that were paid through CCSE's Quickbooks accounting system in January ; and
2. Payments made in December but recorded in PowerClerk during January.

CCSE also indicated that small payment discrepancies were found based on human error related to the processing of PBI incentive payments.

As UAFCB recommended, CCSE agreed to perform monthly reconciliations of its records to SDG&E's records. Consequently, the UAFCB recommends such monthly reconciliations be reviewed during its next audit to ensure any variances are well documented and fully explained.

Preliminary Findings and Recommendations – SDG&E: At its audit exit meeting with SDG&E, UAFCB recommended that SDG&E decrease its 2007 SAP CSI Incentive Internal Order (I/O) 7023284 by \$39,400.40 and increase its SGIP SAP I/O by the same amount. For 2008, UAFCB recommended that SDG&E should decrease its SWH SAP I/O 7026840 by \$328,529.27 and increase the CSI Incentive I/O 7023284 by the same amount. Lastly, UAFCB recommended that SDG&E make a reduction of \$24,869.72 to the CSI Incentive I/O 7023284 due to duplicate payments, overpayments and unrecorded incentive payments made to CCSE.

Following the audit exit meeting held with SDG&E on July 16, 2010, SDG&E agreed and provided supporting documentation reflecting the reclassification and adjustment to its accounting records in accordance with UAFCB's findings for the years 2007 and 2008.

In its draft report that UAFCB provided to SDG&E for comments, UAFCB recommended, among other things, that SDG&E strengthen and improve its processes and controls for the recording of expenditures into its CSI SAP I/Os. In its comments on UAFCB's draft report, SDG&E stated that it would comply with UAFCB's recommendation.

In addition, UAFCB also requested that SDG&E explain why its treatment of its SGIP incentives paid in 2007 is not in violation of D.06-12-033, pages 32-34 and OP 12. SDG&E



stated that it believes its treatment of its incentives is consistent with D.06-12-033. However, SDG&E noted that it is willing to take any corrective measures as the UAFCB determines is appropriate.

**Recommendations:**

1. SDG&E should make the adjustments to its accounts as noted above.
2. A future audit should review SDG&E's review, modification and implementation of any changes to its processes and controls from the recording of expenditures into its CSI SAP I/Os.
3. CCSE's monthly reconciliations should be reviewed during the next audit to ensure any variances are well documented and fully supported to justify the amounts reported to the Commission's Energy Division.
4. SDG&E should perform an internal review of its procedures for the recording of CSI expenses to prevent overpayments and incorrect account use in the future. As part of the review, SDG&E should enhance its controls for recording CSI expenditures. Results from the internal review should be examined during the next audit.
5. Future CSI audits may consider including the reconciliation of the CSIIBA –Electric to the SAP system

**Audit Goal 2:** Ascertain whether CSI program expenditures were not duplicated for recovery in SDG&E's GRC application.

**Findings:**

1. UAFCB did not find any material weaknesses in SDG&E's process for excluding refundable CSI expenditures for its latest GRC currently in effect.

SDG&E aggregates its I/O account numbers associated with the CSI to FERC Account 908 – Customer Assistance Expenses.

Following UAFCB's review of SDG&E's process for excluding the CSI refundable expenditures, it examined documentation prepared by SDG&E used in the latest GRC currently in effect. For refundable code CS in FERC Account 908, SDG&E excluded \$4,319,587 in 2007 and \$10,442,061 in 2008, which reconciled with the total CSI expenditures recorded in SAP.

**Recommendations:** None.

## **B. Program Implementation, Processes and Controls**

**Audit Goal 1:** Assess whether the CSI targeted customer groups are structured and implemented in accordance with prescribed program policies and procedures and the Commission's directives.

**Findings:**

1. CCSE designed and structured its policies and procedures for the implementation of the CSI in accordance with the applicable CSI Program Handbook and the Commission's directives.

2. However, CCSE's policies and procedures for ensuring that the CSI data is consistent between the PowerClerk and the Trigger Tracker are weak.
3. SDG&E designed and structured its policies and procedures for the implementation of its CSI market program in accordance with program guidelines and its responsibilities are defined in its contract with CCSE.

The CSI program administrators, including CCSE, use the PowerClerk and the Trigger Tracker database applications for managing the CSI targeted customer groups. The PowerClerk and the Trigger Tracker are independent software systems and there is no direct interface between the two systems. Consequently, in 2007 and 2008, CCSE manually entered project information into the Trigger Tracker once a project had either a Confirmed Reservation (2-Step) or a Reservation Reserved Date (3-Step) in the PowerClerk. CCSE also manually updated project information into the Trigger Tracker once a project was updated or considered completed in the PowerClerk. In some instances, CCSE failed to manually record the correct CSI rating and/or step level split for projects split between CSI incentive step levels.

In addition, some of the residential and non-residential kW totals included in the PowerClerk for the years 2007 and 2008 did not reconcile with kW totals in the Trigger Tracker.

According to CCSE, the reason for this discrepancy is that the PowerClerk only reflects estimated kW amounts on all active and successfully completed projects while the Trigger Tracker reflects the net kW amounts after considering add-ins and withdrawals.

Moreover, the PBI amounts reflected in the PowerClerk did not reflect the actual incentive amounts that were paid, but only the estimated PBI incentive amounts when the incentive claim forms were processed. CCSE stated that the discrepancy is due to the current limitations of the PowerClerk where monthly PBI payments cannot be recorded and/or tracked.

Lastly, CCSE's Record Retention and Document Destruction Policy lacked a document retention policy for customer applications.

Preliminary Findings and Recommendations: At the audit exit meeting with CCSE, UAFCB recommended that CCSE's Record Retention and Document Destruction Policy be revised by including a retention policy for customer applications with a minimum requirement of at least seven years, comparable to its policy for the retention of financial records. In accordance with UAFCB's audit recommendations, CCSE revised its retention policy to require the retention of CSI records and documents for a period of seven years after final payment, unless longer retention is necessary for historical reference or to comply with contractual or legal requirements.

UAFCB recommended that CCSE implement additional procedures and controls during its manual upload process between the PowerClerk and the Trigger Tracker to ensure project information is accurately reflected in both database systems and avoid the misapplication of data. According to CCSE, Clean Power Research reprogrammed the PowerClerk in 2008 to include the split incentive functionality, thus allowing incentive amounts to be accurately calculated and reported in the PowerClerk. To further ensure data uniformity in both the PowerClerk and the Trigger Tracker, CCSE has also implemented an Automatic Upload feature in the PowerClerk which directly uploads confirmed reservation data into the Trigger Tracker database.

Lastly, the UAFCB recommended that the PowerClerk and the Trigger Tracker database systems be interfaced with each other to ensure transparency and accuracy of information on a timely manner. CCSE acknowledges that this issue is a statewide problem affecting all of the CSI program territories and has agreed to work with the other program administrators to request that Clean Power Research interface the two databases.

**Recommendations:**

1. CCSE should add and implement procedures and controls to ensure that CSI information is accurately reflected in both the PowerClerk and the Trigger Tracker.
2. The PowerClerk/Trigger Tracker interface issue should be reexamined during the next audit.

**Audit Goal 2:** Determine whether the program processes and controls for the CSI incentives are designed to prevent abuse and misapplication of program funds.

**Findings:** SDG&E and CCSE have adequate processes and controls at this time to prevent customer and employee abuse or the misapplication of program funds.

UAFCB found that customer applications were correctly applied to the appropriate Expected Performance Based Buydown (EPBB) or PBI sector and the correct incentive amount was appropriately applied and paid.

**Recommendations:** None.

**Audit Goal 3:** Ascertain whether both SDG&E and CCSE are complying with the CSI incentive step level structure, including the allocation and payment of steps, and that the expenditures are sufficiently documented in accordance with the program rules.

**Findings:** Both SDG&E and CCSE are in compliance with the CSI incentive step level structure, including the allocation and payment of steps and the project supporting documentation is sufficiently maintained in accordance with the program's rules.

UAFCB verified customer applications to ensure that they were assigned to the correct incentive sector and step level, and ascertained that the actual incentive amount paid was appropriately calculated. UAFCB found that customer applications were properly allocated to the EPBB or PBI sector, and the incentive payments were properly made.

**Recommendations:** None.

### **C. Program Expenditure Analysis and Testing**

**Audit Goal 1:** Test, on a sample basis, that the expenditures incurred are relevant to the CSI program and are properly supported.

**Findings:**

1. CCSE misclassified some of the CSI expenditures.
2. CCSE did not maintain sufficient travel expense documentation policy and procedures.
3. CCSE staff violated CCSE's document retention policy by shredding supporting travel expense documentation.

CCSE's documentation retention policy requires that supporting documents for expenses be maintained for seven years. CCSE's Corporate American Express invoices were maintained by CCSE's Executive Secretary; but the travel expense claims lacked supporting documentation for travel expenditures directly charged to CCSE's Corporate American Express card.

CCSE misclassified \$18,000 of 2007 and 2008 Administrative and Marketing/Outreach expenditures. CCSE recorded \$18,000 of inspection services provided by the Energy Inspectors Company as Administrative – Consulting Service Fees instead of to an Inspections expense account. Furthermore, UAFCB found CCSE misclassified and recorded charges for catering services totaling \$15,753 in 2007 and \$16,630 in 2008 to the Education/Training Workshops account instead of either to the Programs Business Meals or Catering account.

Preliminary Findings and Recommendations: At the audit exit meeting, UAFCB recommended that \$18,000 currently recorded and classified in the Consulting Service Fees expense account be reclassified and recorded to the Inspections expense account due to the nature and purpose of the charges. CCSE agreed and complied with UAFCB's recommendations and reclassified the \$18,000 currently recorded in the Consulting Service Fees expense account into a newly created Inspections expense account.

UAFCB also recommended that the catering expenses totaling \$15,753 for 2007 and \$16,630 for 2008 be reclassified and recorded to CCSE's Programs Business Meals or Catering expense account due to the nature and purpose of the charges. In accordance with UAFCB's recommendations, CCSE reclassified the \$15,753 for 2007 and \$16,630 for 2008 to its newly created Catering expense account.

In addition, UAFCB recommended that CCSE modify its current documentation procedures by having CCSE's accounting department retain all original invoices for its expenditures. Furthermore, the UAFCB recommended that CCSE revise its travel expense claim procedures to require that supporting documentation for all charges be included in each individual's travel expense claim. CCSE agreed to incorporate UAFCB's recommendations in its newly revised accounting manual once its audit of internal controls by Swenson Advisors is completed.

Lastly, regarding the destruction of supporting documentation for travel expenses, the UAFCB recommended that CCSE strictly enforce its Record Retention and Document Destruction policy and ensure that each staff member has knowledge of and adheres to the policy. CCSE provided the UAFCB with a copy of its revised Record Retention and Document Destruction policy, requiring that all employees first obtain authorization from the Controller and/or Executive Director prior to destroying any expense documentation.

**Recommendations:**

1. CCSE's revised accounting manual and internal controls in this area be reexamined in its next audit to ensure CCSE has implemented appropriate measures.
2. The implementation of CCSE's revised record retention policy should be reviewed in the next audit.

**Audit Goal 2:** Test, on a sample basis, that the incentive payments were made in accordance with the established program guidelines and parameters.

**Findings:**

1. SDG&E and CCSE processed and paid EPBB and PBI incentives in accordance with the CSI guidelines and parameters.
2. However, UAFCB found instances where CCSE did not accurately process customer applications in accordance with its own procedural manuals.
3. SDG&E reviewed and remitted incentive payments to CCSE in accordance with program guidelines and its contract with CCSE.

At its review of 113 EPBB and 37 PBI applications for 2007 and 2008, respectively, UAFCB found several instances where CCSE did not date-stamp customer applications and did not accurately input correct dates into the PowerClerk, as summarized in the following table.

**Table IV**  
**Summary - Inaccurate Customer Applications**

Description	EPBB	PBI	Totals
No Date Stamp	3	5	8
Inaccurate Reservation Request Review (RRR) Date	15	2	17
Inaccurate Incentive Claim Form (ICF) Date	3	3	6
Inaccurate RRR and ICF Date	<u>8</u>	<u>0</u>	<u>8</u>
<b>Total</b>	<b><u>29</u></b>	<b><u>10</u></b>	<b><u>39</u></b>

**Preliminary Findings and Recommendations:** At the exit meeting, the UAFCB recommended that CCSE implement additional controls and oversight measures for entering information into the PowerClerk to ensure compliance with established policies and procedures. Starting in 2010, CCSE has implemented the Application Upload feature to the PowerClerk. This feature allows applicants to complete CSI applications information and attach all supporting documentation online. In doing so, the PowerClerk is now capable of automatically date stamping and queuing complete applications for review to ensure date stamp entry and accuracy.

**Recommendations:**

CCSE's Application Upload feature should be reexamined in the next audit to ensure that applications are being date stamped and accurately processed in the PowerClerk.

**D. Program Oversight**

**Audit Goal 1:** Assess the adequacy of SDG&E's and CCSE's internal reporting system and management oversight on monitoring the goals and objectives of the CSI program.

**Findings:**

1. With the exception of revising its policies and procedures for the retention of documents and travel expense claims, CCSE had adequate management oversight in place for the monitoring of its CSI program.

2. With the exception of enhancing its procedures for the recording of CSI program expenditures, SDG&E had appropriate management oversight for its administrative oversight and monitoring of the CSI program.

CCSE utilizes various internal reports to monitor expenditures, to measure program performance, and to budget compliance. In addition, CCSE has currently contracted with Swenson Advisors to evaluate and improve its internal controls, accounting, reporting, and filing needs.

SDG&E prepared several internal management reports and demonstrated adequate management oversight of the CSI Program. SDG&E actively monitored the CSI budget, authorized payments, and ensured that CCSE is implementing the CSI program in accordance with program rules, Commission directives, and its contract, except as noted in the Program Accounting and Reporting task area of the Audit Findings section.

**Recommendation:** None.

## **VI. Comments on UAFCB's Draft Audit Report**

On September 30, 2010, the UAFCB submitted a copy of its draft audit report to both SDG&E and CCSE for their review and comment. UAFCB's draft audit report included Sections I through IV, as well as the UAFCB's draft audit findings and recommendations, as contained in Section V.

On October 14, 2010, SDG&E provided timely comments to UAFCB's draft audit report and CCSE forwarded an email indicating that it didn't have any comments. A copy of SDG&E's comments on UAFCB's draft report, in its entirety, is included in Appendix C.

SDG&E did not dispute any of UAFCB's audit findings included in its draft audit report. In addition, SDG&E agreed to conduct an internal review of its current procedures with financial accounting personnel to determine whether its existing controls over the recording of CSI charges should be enhanced to prevent overpayments and incorrect account usage.

SDG&E stated that it believes that its treatment of SGIP incentives paid in 2007 is consistent with the Commission's directives in OP 12 of D.06-12-033 which ordered SDG&E to apportion any unspent 2006 SGIP solar funds based on the pro rate collection of these funds from their gas and electric ratepayers. SDG&E asserts that the Commission did not address reserved (or committed) SGIP applications in D.06-12-033, nor did the Commission provide direction on how to process SGIP applications that existed in the SGIP database prior to 2007. However, SDG&E agreed to take any corrective measures if UAFCB determines that such treatment of SGIP payments are not appropriately applied in accordance with D.06-12-033.

Lastly, SDG&E expressed concern that in several areas of its draft report, UAFCB characterized SDG&E as having an administrative role.

## **VII. UAFCB Rebuttal**

Based on SDG&E's comments, UAFCB made changes to its report, as appropriate. In addition, UAFCB made minor edits throughout its report to improve clarity or to correct minor errors. Where UAFCB believes further discussion is warranted on an issue raised by SDG&E in its comments, UAFCB provides a brief clarification below.

UAFCB appreciates SDG&E's agreement to take any corrective measures if it is subsequently determined that its treatment of SGIP applications reserved/committed in 2006 and paid in 2007 are not applied in accordance with the Commission's directives in D.06-12-033. However, UAFCB disagrees with SDG&E's interpretation of D.06-12-033.

In D.06-12-033, the Commission indicated that, from year 2007, SGIP is to fund non-solar distributed generation projects and CSI is to fund solar PV and electric-displacing non-PV solar projects. In addition, in D.06-12-033, the Commission ordered SDG&E to move the unspent electric SGIP funding at December 31, 2006, for solar PV and electric-displacing non-PV solar projects from SGIP to CSI. UAFCB believes the Commission clearly intended that any SGIP incentives for SGIP solar PV and electric-displacing non-PV solar projects started before December 31, 2006 and paid thereafter should be paid with CSI funds.

## **Appendix A**

### **Background by Audit Task Area**

#### **A. Program Accounting and Reporting**

UAFCB reviewed and evaluated SDG&E and CCSE accounting systems and procedures used for capturing and recording CSI revenue and expenses.

During its examination of SDG&E's accounting system and procedures, UAFCB relied on its knowledge and understanding obtained during its recent audit of SDG&E's energy efficiency programs completed in September, 2009. UAFCB held an orientation meeting with SDG&E on October 27, 2009 and confirmed the accounting methods and regulatory accounts used by SDG&E for recording the CSI revenue and expenditures.

To ensure that SDG&E appropriately captured and recorded its CSI expenses, UAFCB reconciled the amounts paid as shown in SDG&E's records to the amounts received as reflected in CCSE's records. UAFCB also examined SDG&E's accounting records and processes to ensure that CSI refundable expenditures were appropriately excluded from its latest GRC, currently in effect. In addition, UAFCB reviewed SDG&E's accounting records to ensure that the CSI revenue was appropriately captured and recorded in its regulatory accounts in accordance with program guidelines and the Commission's directives.

SDG&E uses Sempra's company-wide Systems, Applications and Products in Data Processing Accounting System (SAP) to capture and record CSI revenues and expenditures. SDG&E also uses Sempra's company-wide Workforce Information Tracking System (WITS) to record employee labor charges related to its oversight over its CSI. SDG&E's WITS system interfaces with the SAP and SDG&E transfers and uploads WITS data into SAP on a bi-weekly basis.

For the posting and recording of expenditures, SDG&E uses two Internal Order numbers (I/O) in SAP that are specific to the CSI:

- 7023283 – CSI Administrative/Marketing/M Measurement and Evaluation (M&E)
- 7023284 – CSI Incentives

On a monthly basis, Sempra's Utility Accounting – Regulatory Reporting Department reviews the CSI expenses charged to its two CSI SAP I/Os and posts the charges to its appropriate CSI balancing accounts. SDG&E uses the California Solar Initiative Balancing Account (CSIBA) – Electric to track its authorized revenue requirement and actual expenditures for its CSI, including the CSI Solar Water Heating Pilot Program. Entries to the CSIBA include debits for CSI expenses and credits equaling one-twelfth of the current year CSI authorized budget. In addition, SDG&E debits or credits the balancing account for interest and transfers to or from the account.

When conducting its assessment of CCSE's accounting system and procedures, UAFCB obtained the necessary knowledge of CCSE's accounting and payroll systems, reviewed its procedures for calculating monthly labor charges and its procedures for capturing and recording CSI program



revenue and expenses. In addition, UAFCB reviewed CCSE's process for submitting invoices to SDG&E from the remittance of incentive payments and quarterly reimbursements for administrative, marketing and outreach expenses. UAFCB also analyzed CCSE's procedures for determining employee fringe benefits and overhead rates.

To ensure that CSI expenses were appropriately recorded in CCSE's accounting records, UAFCB reconciled the payments received and recorded in CCSE's records to the amounts paid by SDG&E. UAFCB also reconciled the expenditure amounts recorded in CCSE's accounting records to the amounts reported to the Commission's Energy Division. In reviewing CCSE labor charges, UAFCB judgmentally selected and tested administrative, marketing and outreach labor charges for the months of May and October to ensure that labor amounts were appropriately calculated and relevant to the CSI program.

CCSE uses Quickbooks Pro 2009 accounting system to capture and record its CSI program revenues and expenses. Using CCSE's company-wide chart of accounts, and the Quickbooks Job category feature, CCSE records the revenue and expenses associated with the CSI to the CSI Job category.

CCSE uses the Automated Data Processing, Inc.'s (ADP) payroll system to capture and record administrative and marketing/outreach labor charges related to the implementation of the CSI. CCSE tracks labor hours on individual employee timesheets and inputs the labor hours into its ADP payroll system. CCSE multiplies the accumulated labor hours for each employee by the employee's actual rate, times CCSE's fringe and overhead rates to determine charges. Once the bimonthly labor amounts are verified and approved by CCSE management, these amounts are recorded to the designated CSI administrative and marketing/outreach labor expense accounts.

At the end of each month, CCSE's accounting department produces a cost report detailing its monthly expenses, including labor. Once the report is complete, CCSE's accounting department submits it to each program manager for review. This cost report is approved by each program manager and is used as a basis to bill SDG&E for reimbursable charges on a quarterly basis.

## **B. Program Implementation, Processes and Controls**

In D.06-08-028, OP 1, the Commission ordered SDG&E to contract with CCSE (formerly San Diego Regional Energy Office (SDREO)) to administer the CSI program in SDG&E's service territory. In November 2006, CCSE and SDG&E signed a contract for CCSE to administer SDG&E's CSI commencing on January 1, 2007 and terminating on December 31, 2016.

As the program administrator for SDG&E's CSI program, CCSE is responsible for the implementation of all rules and responsibilities created for the CSI as defined in the CSI Program Handbook and Commission directives. The responsibilities of CCSE include, but are not limited to, the following:

- Developing program design and implementation;
- Developing, modifying and reproducing program forms and administrative procedures;
- Project review for all CSI targeted customer groups (Residential, Commercial, Government/Non-Profit);
- Payment processing for all payment types (EPBB and PBI);

- Hiring and managing contractor(s) to verify all installation of systems; and,
- Preparing and submitting regulatory reports for the program directly to the Commission and providing copies to SDG&E.

SDG&E provides administrative support and oversight for the CSI program by, among other things, establishing and maintaining adequate financial controls, disbursing payments to CCSE on a timely basis, and cooperating with CCSE and the CSI program contractors/subcontractors.

UAFCB closely examined the structure of CCSE's processes and controls used for the implementation of SDG&E's CSI. Areas examined by UAFCB included CCSE's computerized accounting system, organizational structure, inspection policy and procedures, document filing and retention policies, customer application processes and procedures, the customer incentive payment process, and other CSI program requirements established in the CSI Program Handbook and Commission directives.

During its assessment of CCSE's customer application processes and procedures, UAFCB judgmentally selected a total of 150 customer applications processed by CCSE during 2007 and 2008 for testing. For 2007, UAFCB judgmentally selected 70 out of 766 applications processed by CCSE, or 9.14%. For 2008, UAFCB selected 80 out of 1,236 applications processed, or 6.47%. The types of applications that UAFCB selected for testing included applications processed in incentive Step Levels 2, 3, 4 and 5. UAFCB also tested applications that were split between two or more step levels, applications cancelled and/or withdrawn and applications not yet applied to a particular incentive step level.

During its testing, UAFCB compared the customer information, CSI rating and total incentive amount calculated and paid included in each project file to the information included in the PowerClerk. UAFCB analyzed the customer applications to ensure that they were applied to the correct incentive sector step level and were installed by licensed contractors in accordance with the CSI Program Handbook and program guidelines. In addition, during its testing of the applications at the offices of CCSE, UAFCB verified whether CCSE was appropriately maintaining and storing customer applications at its facilities in accordance with its own policies and procedures.

CCSE maintained up to three database application systems during the years 2007 and 2008, designed to ensure that all project information was captured correctly and reported accurately. The three database applications used by CCSE included the: 1) Graphical User Interface (GUI), a Microsoft Access database developed by CCSE, 2) the PowerClerk, the statewide on-line application database and 3) The Trigger Tracker, also a statewide on-line application database.

At the commencement of the CSI program in January 2007, CCSE used its GUI to process customer applications, generate reports and track each project's status. In July 2007, the PowerClerk was introduced to all program administrators' implementing the CSI program. Between July 2007 and August 2008, CCSE entered project information into both its GUI and the PowerClerk and updated the status of each project in the GUI, the PowerClerk, and the Trigger Tracker. CCSE continued with this data entry process until all GUI data was transferred into the PowerClerk. CCSE manually input details for each project into the Trigger Tracker once a project had a Confirmed Reservation (a two-Step Process) or a Reservation Reserved (a three-Step Process) status:

### **Confirmed Reservation Two-Step Application Process:**

**Step 1:** The customer submits a signed copy of the reservation request form with all required documents including an executed contract with the system installer. Once received, CCSE reviews the application package for completeness and determines eligibility. If an application is found to require clarification, the CCSE requests additional information. Applicants have 20 calendar days to respond to the clarification request with the necessary information. CCSE does not reserve incentive funds until it receives all information and documentation required for the Reservation Request and the project is approved.

Once the project is approved, CCSE issues a confirmed reservation letter informing the customer that a specific incentive amount is reserved for the project and also establishes an expiration date.<sup>14</sup> The confirmation notice will also include an Incentive Payment Claim Form (ICF) for the customer to fill out. The system must be purchased, installed, and put into operation by the Reservation Expiration Date.

**Step 2:** After the solar system is installed and operational, the customer must submit the ICF and the required supporting documentation on or before the reservation expiration date. CCSE may conduct a field inspection. Once CCSE confirms the customer's eligibility, it sends a notification letter announcing payment.

### **Reservation Reserved Three-Step Application Process:**

**Step 1:** The same as the Step 1 in the two-step application process with the exception that once CCSE confirms that a package is complete, it sends a letter to the customer specifying a conditional reserved amount and the date that the proof of milestone completions is due, usually within 60 days of the conditional reservation. For Government, non-profit, and public entities, who issue RFPs for system purchases and installation, the proof of milestone completions is due within 240 days.

**Step 2:** The customer submits its proof of milestone completed with all required documents, including a signed program contract. CCSE reviews the documentation for completeness. Once approved, CCSE sends a confirmed reservation letter, which indicates the reserved dollar amount and the reservation expiration date.<sup>15</sup>

**Step 3:** The customer submits the ICF with all required documents on or before the reservation expiration date. CCSE reviews the claim for completeness and may conduct a field inspection. Once CCSE confirms the customer's eligibility, it sends a notification letter announcing payment.

CCSE verifies interconnection prior to any incentive payment.

### **C. Program Expenditure Analysis and Testing**

For the analysis and testing of SDG&E's CSI administered by CCSE during the years 2007 and 2008, UAFCB segregated its testing into three major categories: (1) administrative and

<sup>14</sup> The expiration date is usually 12 months for residential retrofits and up to 18 months for government, non-profits and public entities

<sup>15</sup> The expiration date is 12 months for retrofits and 18 months for new construction.

marketing/outreach expenses, (2) administrative and marketing/outreach labor, and (3) customer applications.

Administrative and Marketing/Outreach Expenses:

CCSE's accounting records included a total of \$199,917 in administrative expenses for 2007 and \$139,911 in 2008. For marketing/outreach expenses, CCSE's records reflected a total of \$238,492 in 2007 and \$273,736 in 2008. UAFCB judgmentally selected a few transactions from CCSE's Administrative and Marketing/Outreach expenses for testing to ensure their appropriateness and relevance to the CSI.

UAFCB selected and tested administrative expenditures totaling \$128,941 for 2007, representing approximately 65% of total administrative expenses. For 2008, UAFCB tested expenditures totaling \$49,011 of administrative expenses, representing approximately 35% of total administrative expense incurred. A detailed breakdown of the types and amounts of administrative expenditures selected for testing is shown in the following table.

**Table A-I  
 CCSE – Administrative Costs Subject to Testing**

Description	2007			2008		
	Amount	Amt. Tested	% Tested	Amount	Amt. Tested	% Tested
Contract Services	\$153,855	108,442	70.48%	\$98,382	\$43,253	43.96%
Education/Training Workshops	11,966	6,461	53.99%	0	0	0.00%
Legal Fees	3,890	1,025	26.35%	8,951	2,173	24.28%
Marketing and Outreach	2,618	2,000	76.39%	0	0	0.00%
Office Supplies/Postage	3,201	382	11.93%	3,022	554	18.33%
Other	2,021	69	3.41%	7,742	0	0.00%
Tools	8,197	7,708	94.03%	1,899	0	0.00%
Air Fare/Rail	7,675	2,144	27.93%	11,158	968	8.68%
Meals & Incidentals	4,416	231	5.23%	6,326	1,688	26.68%
Mileage	2,078	479	23.05%	2,431	375	15.43%
<b>Totals</b>	<b>\$199,917</b>	<b>\$128,941</b>	<b>64.50%</b>	<b>\$139,911</b>	<b>\$49,011</b>	<b>35.03%</b>

As shown in the table above, charges for contract services represented approximately 77% of total charges in 2007 and 71% in 2008. These contract service charges are mainly related to payments made to Clean Power Research, L.L.C. for the development of the PowerClerk CSI customer database tool and to Alternative Energy Systems Consultants, Inc. (AESC) for the development and maintenance of the Trigger Tracker database program. Contract service charges for both Clean Power Research and AESC totaled \$153,639 in 2007 and \$86,882 in 2008. Overall, CCSE's administrative charges decreased by \$60,006, or 30%, from 2007 to 2008.

UAFCB tested CCSE's Marketing/Outreach expenses totaling \$118,955 for 2007; which represented approximately 50% of total expenses incurred during 2007. For 2008, UAFCB tested transactions totaling \$137,144 of these expenses, which represented approximately 50% of total expenses incurred during 2008. A detailed summary of CCSE marketing/outreach expenditures types and amounts selected for testing is provided in the table below.

**Table A-II**  
**CCSE- Marketing/Outreach Expenditures Subject to Testing**

Description	2007			2008		
	Amount	Amt. Tested	% Tested	Amount	Amt. Tested	% Tested
Contract Services	\$171,551	\$76,951	44.86%	\$138,086	\$59,210	42.88%
Education/Training Workshops	49,859	37,545	75.30%	40,664	8,823	21.70%
Printing	5,492	0	0.00%	6,332	0	0.00%
Marketing and Outreach	9,140	4,459	48.79%	86,314	69,111	80.07%
Direct Mail	2,450	0	0.00%	0	0	0.00%
Video-Cost Share	0	0	0.00%	2,340	0	0.00%
<b>Totals</b>	<b>\$238,492</b>	<b>\$118,955</b>	<b>49.88%</b>	<b>\$273,736</b>	<b>\$137,144</b>	<b>50.10%</b>

Contract services, which included advertising and publication, accounted for roughly 72% and 50% of CCSE marketing/outreach expenditures in 2007 and 2008, respectively. Marketing/Outreach expenditures increased 13%, from \$238,492 in 2007 to \$273,736 in 2008 due to increases in workshops, training, and advertisements.

CSI Administrative and Marketing/Outreach Labor:

UAFCB also judgmentally selected and tested CCSE's Administrative and Marketing/Outreach labor charges. In 2007, CCSE employed 27 staff members for the implementation of the CSI program, incurring a total of \$879,949 in labor charges. In 2008, CCSE employed 30 staff members dedicated to the CSI program and incurred \$1,163,735 in labor charges:

**Table A-III**  
**CCSE Administrative and Marketing/Outreach Labor Charges – 2007 and 2008**

Description	2007	2008	Increase	
			\$	%
CCSE Dedicated Staff	27	30		
Administrative Labor Charges	\$706,500	\$937,374	230,874	33%
Marketing/Outreach Labor Charges	173,449	226,362	52,913	31%
<b>Total Labor Charges</b>	<b>\$879,949</b>	<b>\$1,163,735</b>	<b>283,786</b>	<b>32%</b>

Note: From January – May, 2007, CCSE recorded marketing charges to Administration Costs.

From 2007 to 2008, total CSI Administrative labor charges for CCSE increased by approximately 33%; Marketing/Outreach labor charges increased by 31%. Overall, CCSE labor charges for the implementation of the CSI Program increased by approximately 32% from 2007 to 2008. According to CCSE, the increase in the amount of labor charges for the implementation of its CSI Program was due to the hiring of additional staff, promotions and annual pay increases.

UAFCB judgmentally selected and verified Administrative and Marketing/Outreach Labor charges incurred for the months of May 2007, October 2007, May 2008, and October 2008, representing approximately 20% of combined administrative labor charges for the calendar years 2007 and 2008. UAFCB verified approximately 28% of Marketing/Outreach labor charges for the years 2007 and 2008. A detailed summary of administrative and Marketing/Outreach labor amounts tested during this audit is provided in the following tables.

**Table A-IV**  
**CCSE Administrative Labor Tested – 2007 and 2008**

Administrative Labor Tested					
Description	May	October	Amt. Selected	Yearly Total	% Tested
Program Year 2007	\$70,100	\$76,231	\$146,331	\$706,500	21%
Program Year 2008	<u>79,500</u>	<u>91,438</u>	<u>170,938</u>	\$937,374	18%
<b>Total</b>	<b><u>\$149,600</u></b>	<b><u>\$167,668</u></b>	<b><u>\$317,268</u></b>		

**Table A-V**  
**CCSE Marketing/Outreach Labor Tested – 2007 and 2008**

Marketing/Outreach Labor Tested					
Description	May	October	Amt. Selected	Yearly Total	% Tested
Program Year 2007	\$ 0	\$45,116	\$ 45,116	\$173,449	26%
Program Year 2008	<u>15,271</u>	<u>48,663</u>	<u>63,934</u>	\$226,362	28%
<b>Total</b>	<b><u>\$15,271</u></b>	<b><u>\$93,779</u></b>	<b><u>\$109,050</u></b>		

CSI Customer Applications:

CCSE processed a total of 766 CSI customer applications in 2007 and 1,236 in 2008, for a total of 2,002 customer applications. A breakdown of customer applications processed by CCSE by step level and customer category for the years 2007 and 2008 is provided in the following table.

**Table A-VI**  
**CCSE**  
**Detailed Summary of Customer Applications Processed – 2007 and 2008**

Description	EPBB				PBI				Total
	Res.	Comm.	Gov't	Non Profit	Res.	Comm.	Gov't	Non Profit	
<b><u>2007</u></b>									
Step 2	494	2	0	6	20	19	3	0	544
Step 3	47	8	0	4	0	7	2	3	71
Step 4	24	1	2	3	0	1	0	3	34
Split Steps	22	0	0	0	1	3	0	1	27
Cancelled	55	5	1	0	0	6	0	1	68
Withdrawn	3	9	0	1	0	4	0	1	18
Unknown	4	0	0	0	0	0	0	0	4
<b>Total - 2007</b>	<b><u>649</u></b>	<b><u>25</u></b>	<b><u>3</u></b>	<b><u>14</u></b>	<b><u>21</u></b>	<b><u>40</u></b>	<b><u>5</u></b>	<b><u>9</u></b>	<b><u>766</u></b>
<b><u>2008</u></b>									
Step 3	614	2	0	0	36	1	0	0	653
Step 4	237	20	2	4	0	13	9	4	289
Step 5	5	11	5	1	0	3	1	0	26
Split Steps	172	2	0	0	1	1	0	0	176
Cancelled	54	1	0	1	1	12	1	4	74
Withdrawn	10	0	0	0	0	4	3	1	18
Unknown	0	0	0	0	0	0	0	0	0
<b>Total - 2008</b>	<b><u>1,092</u></b>	<b><u>36</u></b>	<b><u>7</u></b>	<b><u>6</u></b>	<b><u>38</u></b>	<b><u>34</u></b>	<b><u>14</u></b>	<b><u>9</u></b>	<b><u>1,236</u></b>
<b>Grand Total</b>	<b><u>1,741</u></b>	<b><u>61</u></b>	<b><u>10</u></b>	<b><u>20</u></b>	<b><u>59</u></b>	<b><u>74</u></b>	<b><u>19</u></b>	<b><u>18</u></b>	<b><u>2,002</u></b>

As indicated in the above table, residential customer applications for the Step 2 EPBB incentive level totaled 494, or approximately 65%, of total applications processed during the year 2007. Overall, the Step 2 incentive level totaled 544, or approximately 71% of all customer applications processed in 2007.

For the year 2008, residential customer applications for the Step 3 incentive level totaled EPBB 614, or approximately 50%, of total applications processed. In total, customer applications processed for the Step 3 incentive level totaled 653, or 53%, of applications processed in 2008. Total customer applications processed for the Step 4 incentive level totaled 289, or 23%, of all customer applications processed in 2008, while applications split between two or more steps totaled 176, or approximately 14%, of applications processed in 2008.

UAFCB judgmentally selected a total of 150 customer applications for verification to ensure that applications were processed and paid in accordance with CSI guidelines and parameters. A breakdown of the types of customer applications selected for verification is provided in the following table.

**Table A-VII**  
**CCSE**  
**Summary – Customer Applications Selected for Testing**

Description	EPBB				PBI				Total
	Res.	Comm.	Gov't	Non Profit	Res.	Comm.	Gov't	Non Profit	
<b><u>2007</u></b>									
Step 2	14	1	0	2	2	3	1	0	23
Step 3	3	2	0	1	0	2	1	1	10
Step 4	2	1	1	1	0	1	0	1	7
Split Steps	9	0	0	0	0	2	0	1	12
Cancelled	9	1	1	0	0	1	0	0	12
Withdrawn	1	2	0	1	0	1	0	1	6
Unknown	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total - 2007	<u>38</u>	<u>7</u>	<u>2</u>	<u>5</u>	<u>2</u>	<u>10</u>	<u>2</u>	<u>4</u>	<u>70</u>
<b><u>2008</u></b>									
Step 3	12	1	0	0	3	0	0	0	16
Step 4	9	3	1	1	0	2	2	1	19
Step 5	2	2	2	0	0	2	0	0	8
Split Steps	13	2	0	0	1	0	0	0	16
Cancelled	8	1	0	0	0	3	0	2	14
Withdrawn	2	0	0	0	0	2	1	0	5
Unknown	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>
Total - 2008	<u>48</u>	<u>9</u>	<u>3</u>	<u>1</u>	<u>4</u>	<u>9</u>	<u>3</u>	<u>3</u>	<u>80</u>
<b>Grand Total</b>	<b><u>86</u></b>	<b><u>16</u></b>	<b><u>5</u></b>	<b><u>6</u></b>	<b><u>6</u></b>	<b><u>19</u></b>	<b><u>5</u></b>	<b><u>7</u></b>	<b><u>150</u></b>

For 2007, UAFCB selected a total of seventy (70) customer applications for verification, or approximately 9%, of total applications processed in 2007. For 2008, UAFCB selected a total of eighty (80) customer applications, or approximately 6.5%, of total applications processed in 2008.

Of the 70 customer applications selected for verification for 2007, UAFCB selected a total of 23, or 33%, in the Step 2 incentive level applications. In addition, UAFCB selected a total of twelve (12) customer applications cancelled, representing approximately 17% of total applications in 2007.

Of the eighty (80) customer applications selected for verification in 2008, UAFCB chose nineteen (19) applications, or 24%, in the Step 4 incentive level applications. UAFCB also selected sixteen (16), or 20%, of applications processed in the Step 3 incentive level. Sixteen (16) customer applications split between two or more steps, were also verified.

#### **D. Program Oversight**

CCSE's operations are under the guidance of its Executive Director whose primary function is to ensure that the CSI program implemented in SDG&E's service territory is properly managed and in compliance with program guidelines and Commission directives. Under CCSE's Executive Director is the Director of Programs, whose primary responsibility includes guiding and overseeing CCSE's distributed generation programs, including SDG&E's CSI, and assisting in policy and regulatory matters. Accounting and financial matters are handled by CCSE's Controller who



reports directly to CCSE's Executive Director and is responsible for managing the Accounting Department and preparing financial reports for all CCSE programs.

For implementing SDG&E's CSI, CCSE segregated its CSI Department into two units: Residential and Non-Residential. Each unit is managed by a CSI Program Manager, who reports directly to CCSE's Director of Programs. The CSI Program Managers' duties include managing staff and monitoring the day-to-day operations of their assigned unit within the CSI Department. For the administration and implementation of SDG&E's CSI, CCSE maintained 27 staff in 2007 and 30 staff in 2008.

CCSE monitors SDG&E's CSI Program by having its CSI Program Managers perform random reviews of CSI projects, incentive payments, and data entered into the PowerClerk and the Trigger Tracker databases to ensure data are correct, accurate, and being processed in accordance with program guidelines and Commission directives. CCSE's management uses weekly and monthly expenditure reports and status reports created from the PowerClerk and the Trigger Tracker to ensure that it is meeting the Commission's CSI goals and objectives.

During its fieldwork at the offices of CCSE in San Diego, California, UAFCB observed CCSE's operations and management structure for overseeing the implementation of SDG&E's CSI. UAFCB met with CCSE's Controller and ascertained knowledge regarding and copies of its internal budgets and expenditure reports prepared and submitted to management to ensure the CSI was meeting the Commission's goals and objectives. In addition, while performing its testing of administrative, marketing and outreach expenditures, UAFCB verified that the CSI charges were appropriately approved by management.

SDG&E's oversight over its CSI is limited to establishing and maintaining internal controls over financial reporting, including controls applicable to invoice approval, customer confidentiality and reporting, in compliance with applicable CSI rules and requirements as set forth by the Commission's rules and directives.

For authorizing payments to CCSE, SDG&E's Senior Market Advisor for the CSI program reviews and authorizes invoices for final approval by the Energy Programs Manager. If an individual invoice exceeds the \$500,000 approval level of the Energy Programs Manager, the Director of Customer Innovations reviews and approves the invoice.

SDG&E uses several internal reports for management review of the CSI program. On a monthly basis, management receives a monthly confirmation of the balancing account expenditures from Sempra's Regulatory Reporting Accounting department. In addition, quarterly functional reports reflecting authorized and year-to-date expenditures are provided to SDG&E's management.

## **Appendix B**

### **Program History and Applicable Commission Directives**

The California Public Utilities Commission (Commission) and the California Energy Commission (CEC) have collectively explored ways to promote solar and other renewable energy resources as environmentally sensitive technologies in California. In recognizing the benefits of solar technologies in California, the Commission, in Decision (D.) 01-01-073, adopted the Self-Generation Incentive Program (SGIP). This program, administered by Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E), and the San Diego Regional Energy Office (SDREO), provided monetary incentives for non-utility parties to install distributed generation, including solar photovoltaic (PV) technologies with a capacity of 30 kilowatts (kW) or more. In addition to the Commission's SGIP program, the CEC implemented the Emerging Renewables Program (ERP) in 2001 which provided incentives for solar PV projects of less than 30 kW.

In 2005, the Commission issued D.05-12-044 for continuing its support of solar PV technologies in California by increasing the funding for the SGIP by \$300 million for calendar year 2006. In addition, the Commission modified the existing solar incentive levels and ordered the Commission's Executive Director to direct its staff to propose a comprehensive report by December 15, 2005, detailing its recommendations for the development of a comprehensive solar program which is known as the California Solar Initiative (CSI).

In 2006, the Commission collaborated with the CEC to jointly create the CSI program, a ten-year, \$3.2 billion incentive program with the goal of ensuring that customers of California's investor-owned utilities install 3,000 MW of new solar facilities at their homes and businesses in California. In order to meet the 3,000 MW goal in California, the Commission, in D.06-01-024, approved initial policies and funding for the CSI program. In this decision, the Commission committed \$2.8 billion in incentives towards the installation of 2,600 MW of solar technologies derived from the distribution rates of PG&E, SCE, Southern California Gas, and SDG&E. The CEC portion of the program targeted 400 MW of solar installations in new home construction, using a budget of \$350 million derived from the renewable energy Public Goods Charge funds.

Following the adoption of D.06-01-024, the Commission opened Rulemaking (R.) 06-03-044 to develop program rules and policies for the CSI program. In this rulemaking, the Commission explored whether to adopt a performance-based incentive for PV facilities, whether to adjust incentives to account for federal tax credits, the proper incentive levels for solar technologies other than PV, and other issues regarding the structure and adjustment of these incentive payments. The Commission also considered the examination of the appropriate administrative structure for the implementation of the CSI, and the energy efficiency and metering requirements for the CSI projects.

In D.06-08-028, the Commission, among other things, adopted the CSI's incentive levels, administrative structure, and program budget through December 31, 2016.

On August 21, 2006, the Governor of California signed Senate Bill (SB) 1, which directed the Commission to implement the CSI program with specific requirements and budget limits set forth in the legislation. SB 1 directed CEC to establish eligibility criteria for solar energy systems receiving ratepayer funded incentives. The bill also required the Commission to adopt a performance based incentive program by January 1, 2008. Finally, SB 1 mandated that the Commission portion of the CSI program shall not exceed a total program cost of \$2.2 billion.

On December 14, 2006, following the passage of SB 1, in D.06-12-033, the Commission modified its earlier CSI decisions, D.06-01-024 and D.06-08-028, in order to conform its CSI program requirements with the CSI program mandates established by SB 1. In D.06-12-033, the Commission clarified the maximum project size that can receive the CSI program incentives, phased in performance-based incentives, established time-of-use tariffs, established interim energy efficiency requirements, and clarified that there will no longer be collection of revenues from natural gas ratepayers to fund the CSI program. Additionally, this decision modified budget allocations and megawatt (MW) goals and specified that solar technologies other than photovoltaic may receive incentives through the CSI program, if they could displace electric usage.

The following table summarizes the total CSI program budget, as modified in D.06-12-033:

**Table B-1**  
**Revised CSI Budget<sup>1</sup>**

<b>Budget Category</b>	<b>Budget (in millions)</b>
SB 1 CSI Budget	\$2,166.80
Less: Low Income Budget (10%)	216.68
RD&D Budget	50.00
SDREO Pilot Budget	3.00
Budget Balance	1897.12
Less: Administration Budget <sup>2</sup>	189.71
<b>Total CSI Budget for Direct Incentives</b>	<b><u>\$1,707.41</u></b>

Due to the Commission's elimination of the collection of revenue from natural gas customers for the CSI Program, in D.06-12-033, the Commission modified the annual revenue requirements for PG&E, SCE and SDG&E, which it again revised in D.08-12-004. A summary of the revised annual revenue requirements, as shown in D.08-12-004, are provided in the table below.

<sup>1</sup> D.06-12-033, Table 1, Page 28

<sup>2</sup> The administration budget of \$189.71 is based on 10% of the budget for mainstream solar incentives, and does not include the administrative costs for low income programs, RD&D, and the SDREO Pilot. Administrative costs for those programs shall be incorporated into their total budgets, which shall not exceed the figures in this table.

**Table B-II**  
**IOU Annual Revenue Requirements for CPUC Portion of CSI<sup>3</sup>**  
 (in millions)

Year	PG&E	SCE	SDG&E	Total
SGIP Transfer	\$ 0	\$105	\$ 37	\$ 142
2007	140	147	33	320
2008	140	147	33	320
2009	140	0	0	140
2010	105	110	25	240
2011	105	110	25	240
2012	105	110	25	240
2013	70	74	16	160
2014	70	74	16	160
2015	70	74	13	157
2016	2	45	0	48
<b>Total</b>	<b><u>\$947</u></b>	<b><u>\$996</u></b>	<b><u>\$223</u></b>	<b><u>\$2,166</u></b>
<b>Percent of Total</b>	<b><u>43.7%</u></b>	<b><u>46%</u></b>	<b><u>10.3%</u></b>	

**Table B-III**  
**Administrative and Evaluation Budgets by Utility<sup>4</sup>**

Utility	Administrative Budget
PG&E	\$ 83.0
SCE	87.2
SDG&E	19.5
<b>Total</b>	<b><u>\$189.7</u></b>

In D.06-12-033, the Commission also modified D.06-08-028 and its Appendix B, to revise the incentive limits and phased in performance-based incentives for the CSI program. These modified incentive amounts are shown in the following tables.

<sup>3</sup> Per the Commission revised the revenue requirements in D.08-03-008.

<sup>4</sup> The administrative budget is calculated as 10% of the overall CSI budget, net of the budgets for low-income incentives (\$216.68 million), Research Development and Demonstration (\$50 million), and the SDREO Pilot (\$3 million). Thus, the total administrative budget equals 10% of \$1,897 billion, or \$189.7 million (\$2.165B - \$217M - \$50M \* \$3M = \$1.897B \* 10% = \$1.897M). The administrative budget includes funding for evaluation, marketing and outreach, and general administrative functions.

**Table B-IV**  
**CSI MW Targets by Utility and Customer Class**

Step	MW in Step	PG&E (MW)		SCE (MW)		SDG&E (MW)	
		Res	Non-Res	Res	Non-Res	Res	Non-Res
1	50	--	--	--	--	--	--
2	70	10.1	20.5	10.6	21.6	2.4	4.8
3	100	14.4	29.3	15.2	30.8	3.4	6.9
4	130	18.7	38.1	19.7	40.1	4.4	9.0
5	160	23.1	46.8	24.3	49.3	5.4	11.0
6	190	27.4	55.6	28.8	58.6	6.5	13.1
7	215	31.0	62.9	32.6	66.3	7.3	14.8
8	250	36.1	73.2	38.0	77.1	8.5	17.3
9	285	41.1	83.4	43.3	87.8	9.7	19.7
10	350	<u>50.5</u>	<u>102.5</u>	<u>53.1</u>	<u>107.9</u>	<u>11.9</u>	<u>24.2</u>
<b>Total</b>		<b><u>764.8</u></b>		<b><u>805.0</u></b>		<b><u>180.3</u></b>	
<b>Percent</b>		<b>43.7%</b>		<b>46.0%</b>		<b>10.3%</b>	

**Table B-V**  
**Incentive Levels by MW Step (\$/watt)**

Step	MW in Step	Gov't/ Non-Profit	Res	Commercial
1	50	\$2.80	\$2.80	\$2.80
2	70	\$3.25	\$2.50	\$2.50
3	100	\$2.95	\$2.20	\$2.20
4	130	\$2.65	\$1.90	\$1.90
5	160	\$2.30	\$1.55	\$1.55
6	190	\$1.85	\$1.10	\$1.10
7	215	\$1.40	\$0.65	\$0.65
8	250	\$1.10	\$0.35	\$0.35
9	285	\$0.90	\$0.25	\$0.25
10	350	\$0.70	\$0.20	\$0.20

**Table B-VI**  
**Levelized PBI Monthly Payment Amounts at 8% Discount Rate**

MW Step	MW in Step	PBI Payments (per kWh)		
		Residential	Commercial	Government Non-Profit
1	50	n/a	n/a	n/a
2	70	\$0.39	\$0.39	\$0.50
3	100	\$0.34	\$0.34	\$0.46
4	130	\$0.26	\$0.26	\$0.37
5	160	\$0.22	\$0.22	\$0.32
6	190	\$0.15	\$0.15	\$0.26
7	215	\$0.09	\$0.09	\$0.19
8	250	\$0.05	\$0.05	\$0.15
9	285	\$0.03	\$0.03	\$0.12
10	350	\$0.03	\$0.03	\$0.10

**Table B-VII**  
**Maximum EPPB Payment Amounts**

MW Step	MW per step	EPBB Payments (per watt)		
		Residential	Commercial	Government/ Non-Profit
1	50	n/a	n/a	n/a
2	70	\$2.50	\$2.50	\$3.25
3	100	\$2.20	\$2.20	\$2.95
4	130	\$1.90	\$1.90	\$2.65
5	160	\$1.55	\$1.55	\$2.30
6	190	\$1.10	\$1.10	\$1.85
7	215	\$0.65	\$0.65	\$1.40
8	250	\$0.35	\$0.35	\$1.10
9	285	\$0.25	\$0.25	\$0.90
10	350	\$0.20	\$0.20	\$0.70

**Table B-VIII**  
**MW Allocations by Utility**

Incentive Step	MW in Step	PG&E	SCE	SDG&E
1	50	n/a	n/a	n/a
2	70	30.6	32.2	7.2
3	100	43.7	46.0	10.3
4	130	56.8	59.8	13.4
5	160	69.9	73.6	16.5
6	190	83.0	87.4	19.6
7	215	94.0	98.9	22.1
8	250	109.3	115.0	25.8
9	285	124.5	131.1	29.4
10	<u>350</u>	<u>153.0</u>	<u>161.0</u>	<u>36.1</u>
<b>Total</b>	<b><u>1750</u></b>	<b><u>764.8</u></b>	<b><u>805.0</u></b>	<b><u>180.3</u></b>
	<b>Percent</b>	<b>43.7%</b>	<b>46.0%</b>	<b>10.3%</b>

**Table B-IX**  
**CSI MW Goals by Customer Sector**

Customer Sector	MW	Percent
Residential MW	577.5	32%
Non-Residential MW	1,172.5	65%
2006 SGIP Program	<u>50</u>	<u>3%</u>
<b>Total MW</b>	<b><u>1,800</u></b>	<b><u>100%</u></b>

**Table B-X**  
**CSI Incentive Levels by Incentive and Customer Class**

Step	MW in Step	Gov't/ Non-Profit Per MW	Res Per MW	Commercial Per MW	Total \$ Estimated by Step (in millions)
1	50	n/a	n/a	n/a	n/a
2	70	\$3.25	\$2.50	\$2.50	\$ 186
3	100	\$2.95	\$2.20	\$2.20	235
4	130	\$2.65	\$1.90	\$1.90	267
5	160	\$2.30	\$1.55	\$1.55	272
6	190	\$1.85	\$1.10	\$1.10	237
7	215	\$1.40	\$0.65	\$0.65	172
8	250	\$1.10	\$0.35	\$0.35	125
9	285	\$0.90	\$0.25	\$0.25	108
10	350	\$0.70	\$0.20	\$0.20	<u>105</u>
				<b>Total</b>	<b><u>\$1,707</u></b>

In D.07-05-047, the Commission requires that each program administrator submit semi-annual expenses reports on all administrative activities to the Director of the Energy Division, with the first report due on July 15, 2007, and further reports due every six months thereafter. The

reports are required to separately delineate interim M&O from administrative expenses so that Energy Division can track the various categories of administrative expenses.

In addition, the Commission authorized each program administrator to spend no more than \$500,000 annually for interim marketing and outreach until further order of the Commission or unless the Energy Division approves an additional \$100,000. This \$500,000 annual limit is in addition to the 5% cap for CSI administrative expenses.

For marketing and outreach plans and activities, the Commission instructed program administrator's to conduct at least one training session per month directed at solar installers and to submit final versions of basic marketing and collateral materials to the Energy Division for approval.



## Appendix C

# SDG&E's/CCSE's Comments on UAFCB's Draft Audit Report



Joy C. Yamagat  
Regulatory Manager  
San Diego Gas and Electric Company  
8330 Century Park Court  
San Diego, CA 92123-1531

October 14, 2010

R.08-03-008  
CA Solar Initiatives Audit PY2007-2008

Mr. Kayode Kajopaiye  
Utility Audit, Finance and Compliance Branch  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102

and

Mr. Kevin Nakamura  
Utility Audit, Finance and Compliance Branch  
California Public Utilities Commission  
180 Promenade Circle, Suite 115  
Sacramento, CA 95834

**Re: SDG&E Comments on Draft Report Addressing the Compliance Audit of SDG&E's Role in the CSI Program for Calendar Years 2007 and 2008**

Dear Messrs. Kajopaiye and Nakamura:

San Diego Gas & Electric Company (SDG&E) has reviewed the draft report prepared, by the Utility Audit, Finance, and Compliance Branch (UAFCB), in response to the audit of SDG&E's limited role in the California Solar Initiative (CSI) program for calendar years 2007 and 2008. Pursuant to CPUC decisions, the CSI program is solely administered by the California Center for Sustainable Energy (CCSE) in SDG&E's service territory through a contract between SDG&E and CCSE. SDG&E acts in a limited role which is described in the comments that follow. SDG&E provides the following comments/corrections concerning its role in support of the Commission's CSI program in SDG&E's service territory for consideration and potential incorporation into the "final" version of the audit report and findings.

### **Section II. Audit Recommendations**

Page 3 - Audit Recommendation 2: This section recommends that SDG&E conduct an internal review of its procedures for the recording of CSI expenses and enhance its controls over the recording of CSI charges to prevent overpayments and incorrect account usage in the future. SDG&E will comply with this recommendation and review such procedures currently in place with financial accounting personnel to determine those changes which could be implemented to improve upon existing internal controls.

#### **Section IV. Compliance Audit**

Page 4 - Second paragraph under Section IV. Incorrectly identifies SDG&E as the CSI program administrator stating: "... CSI general market program, administered by SDG&E and implemented by CCSE..." CCSE is the program administrator. SDG&E's role is limited to establishing and maintaining internal controls over financial reporting including controls applicable to invoice approval, customer confidentiality, and reporting, in compliance with applicable CSI program rules and requirements as set forth by Commission rules and directives. As such, SDG&E has no direct role in the administration or implementation of the CSI general market program. It is important to note that SDG&E's role is correctly characterized in other sections of the audit report such as Section I, Section V.B., and Appendix B Section B.

#### **Section V. Audit Findings**

Page 9 – Second full paragraph states that: "SDG&E should explain why its treatment of its SGIP incentives paid in 2007 is not in violation of D.06-12-033, pages 32-34 and OP12." SDG&E believes that its treatment of incentives paid in 2007 is consistent with the direction given in OP12 of D.06-12-033 which ordered that: "PG&E and SDG&E shall apportion any unspent 2006 SGIP solar funds based on the pro rate collection of these funds from their gas and electric ratepayers..." The CPUC did not address reserved (or committed) SGIP applications in D.06-12-033, nor did the Commission provide additional direction on how to process incentive payments for such SGIP applications that existed in the SGIP database prior to 2007. SDG&E does not believe that its treatment of these accounts and/or incentive payments constitutes a violation of D.06-12-033 but is willing to take any corrective measures as the UAFCB determines appropriate.

#### **Appendix B. Background by Audit Task Area**

Page B-10 – Fourth full paragraph incorrectly states that: "SDG&E's oversight over the CSI Program is limited to monitoring the CSI budget, authorizing payments, and ensuring that CCSE is implementing the CSI program in accordance with the program rules, Commission directives, and its contract requirements." SDG&E role is limited to establishing and maintaining internal controls over financial reporting including controls applicable to invoice approval, customer confidentiality, and reporting, in compliance with applicable CSI program rules and requirements as set forth by Commission rules and directives. As such, SDG&E has no direct role in ensuring that CCSE implements the program in accordance with the program rules or Commission directives. It is important to note that SDG&E's role is correctly characterized in other sections of the audit report such as Section I, Section V.B., and Appendix B Section B.

Sincerely,



Joy C. Yamagata  
Regulatory Manager

cc: Steve Patrick – SDG&E  
Steve Jaffe – SDG&E  
Central Files

## **Appendix D**

### **Abbreviations and Acronyms**

ACR	Assigned Commissioner's Ruling
ADP	Automated Data Processing, Inc.
AESC	Alternative Energy Systems Consulting
AICPA	American Institute of Certified Public Accountants
ALJ	Administrative Law Judge
CCSE	California Center for Sustainable Energy
CEC	California Energy Commission
Commission	California Public Utilities Commission
CSI	California Solar Initiative
CSIBA	California Solar Initiative Balancing Account
D.	Decision
EPBB	Expected Performance Based Buydown
FERC	Federal Energy Regulatory Commission
GUI	Graphical User Interface
I/O	Internal Order
ICF	Incentive Payment Claim Form
kWh	Kilowatt hours
MASH	Multifamily Affordable Solar Housing Program
MW	Megawatts
OP	Ordering Paragraph
PBI	Performance Based Incentives

PG&E	Pacific Gas and Electric Company
PV	Photovoltaic
RD&D	Research Development and Demonstration
SAP	Systems, Applications and Products in Data Processing
SASH	Single-family Affordable Solar Homes
SB	Senate Bill
SCE	Southern California Edison Company
SDG&E	San Diego Gas & Electric Company
SDREO	San Diego Regional Energy Office
SGIP	Self Generation Incentive Program
SGPMA	Self Generation Program Memorandum Account
UAFCB	Utility Audit, Finance and Compliance Branch
WITS	Workforce Information Tracking System