



California Public Utilities Commission
Division of Water and Audits

**Compliance Audit
of the
California Solar Initiative Program
of
Pacific Gas and Electric Company**

**For the Years Ended
December 31, 2007 and 2008**

**Prepared by
Kayode Kajopaiye, CPA
Helen Vaughn**

November 5, 2010



Compliance Audit
of the
California Solar Initiative Program
of
Pacific Gas and Electric Company

For the Years Ended December 31, 2007 and 2008

Table of Contents

INDEPENDENT AUDIT OPINION	ii
I. EXECUTIVE SUMMARY	1
II. AUDIT RECOMMENDATIONS	3
III. INTRODUCTION	4
IV. COMPLIANCE AUDIT	5
A. AUDIT REQUIREMENTS	5
B. AUDIT PURPOSE AND SCOPE	5
C. AUDIT OBJECTIVES	6
D. AUDIT TASK AREAS	6
E. AUDITING STANDARDS APPLIED	7
F. AUDITING PROCEDURES APPLIED	7
G. AUDIT CHALLENGES	8
H. PRELIMINARY FINDINGS	8
V. AUDIT FINDINGS	8
A. PROGRAM ACCOUNTING AND REPORTING	8
B. PROGRAM STRUCTURE, PROCESSES AND CONTROLS	11
C. PROGRAM EXPENDITURE ANALYSIS AND TESTING	13
D. PROGRAM OVERSIGHT	16
VI. COMMENTS ON UAFCB'S DRAFT AUDIT REPORT	17
VII. UAFCB REBUTTAL	19
APPENDIX A	ABBREVIATIONS AND ACRONYMS
APPENDIX B	BACKGROUND BY AUDIT TASK AREA
APPENDIX C	PROGRAM HISTORY AND APPLICABLE COMMISSION DIRECTIVES
APPENDIX D	UTILITY COMMENTS



Compliance Audit
of the
California Solar Initiative Program
of
Pacific Gas and Electric Company
For the Years Ended December 31, 2007 and 2008

INDEPENDENT AUDIT OPINION

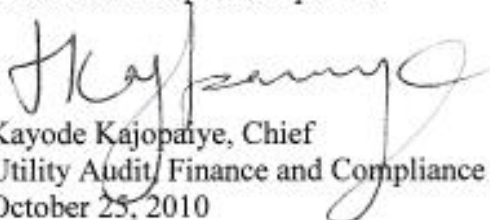
Pursuant to Commission Decision (D.) 06-08-028, Ordering Paragraph (OP) 24, the Assigned Commissioner's Ruling Establishing Program Evaluation Plan for the California Solar Initiative, dated July 29, 2008, Attachment A, Section 3.3.8 and D.06-01-024, page 8, the Division of Water and Audit's Utility Audit, Finance and Compliance Branch (UAFCB) conducted a regulatory compliance audit of Pacific Gas & Electric Company's (PG&E) ratepayer-funded California Solar Initiative general market programs (CSI) for calendar years 2007 and 2008.

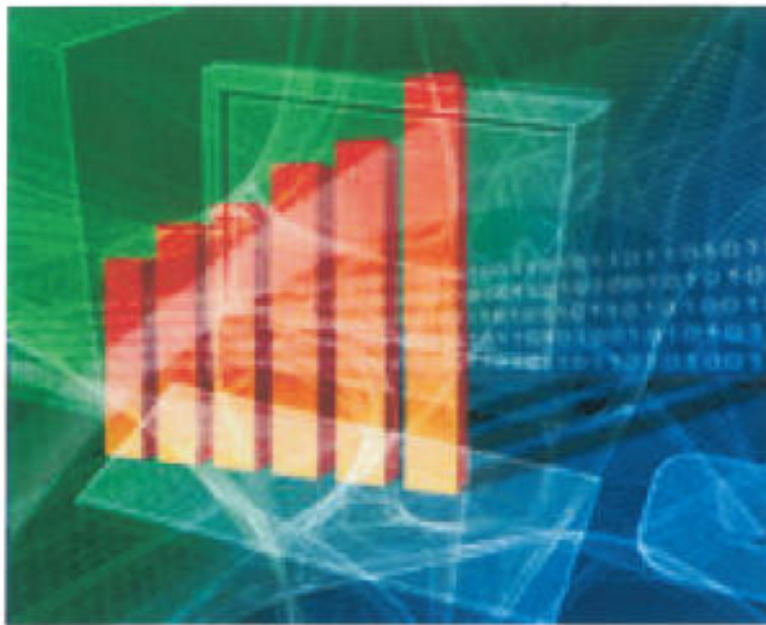
PG&E's management is responsible for compliance with the Commission's directives and program requirements applicable to the implementation and oversight of the CSI. A comprehensive summary of the Commission's directives and program requirements that apply to the CSI programs is included in Appendix B 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 PG&E's compliance with the requirements noted above and performing any other procedures as considered necessary in the circumstances. Except as discussed in the following paragraph, UAFCB believes that its audit provides a reasonable basis for an opinion. UAFCB does not provide a legal determination on PG&E's compliance with the specified requirements.

In the opinion of UAFCB, with the exception of PG&E's entries into the statewide database PowerClerk and possibly its data entries into the statewide database Trigger Tracker, PG&E complied, in all material respects, with the aforementioned requirements for the years ending December 31, 2007 and 2008. However, UAFCB indentified 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
October 25, 2010



Compliance Audit
of the
California Solar Initiative Program
of
Pacific Gas and Electric Company
For the Years Ended December 31, 2007 and 2008

I. Executive Summary¹

This report presents the results of the Utility Audit, Finance and Compliance Branch's (UAFCB) audit of Pacific Gas and Electric Company's (PG&E) 2007 and 2008 California Solar Initiative Program (CSI). UAFCB conducted this audit pursuant to Commission Decision (D.) 06-08-028, Ordering Paragraph (OP) 24, and the Assigned Commissioner's Ruling Establishing Program Evaluation Plan for the CSI, dated July 29, 2008.² 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 PG&E's CSI general market expenditures reported to the Commission and recovered in electric distribution rates;
- (2) The integrity of the controls for safeguarding the ratepayer-funded CSI general market delivery to the targeted customer groups;³
- (3) PG&E's compliance with the requirements established in the CSI Program Handbook, Commission directives, and its own policies and procedures; and
- (4) The adequacy of PG&E's program oversight.

Pursuant to D.06-08-028, OP 1, PG&E, as the program administrator, is responsible for the overall implementation and management of the CSI in PG&E's service territory. PG&E's Customer Care Solar and Customer Generation Group implemented its 2007 and 2008 CSI with 25 staff members, under the direction of a senior director. PG&E utilized additional supporting departments for the implementation of its CSI, such as its Metric and Support group to provide technical support and claim processing capabilities and its Information Systems Department to provide computer services.

In D.06-12-033, the Commission authorized a 10-year budget of \$2.2 billion in total for PG&E, Southern California Edison (SCE) and San Diego Gas & Electric Company's (SDG&E) CSI for years 2007 through 2016. The Commission also authorized a 10-year administrative budget of \$189.7 million for the same period.

PG&E's portion of the total authorized budget is \$947 million, or 43.7%, of which \$829 million is allocated to its general market segment. The balance, or \$118 million, is dedicated to fund the Low Income (LI) Program, including the Single Family Affordable Solar Homes (SASH) and the Multifamily Affordable Solar Housing (MASH) segments and Research Development and Demonstration (RD&D).

¹ Appendix D describes the abbreviations and acronyms used in this report.

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

³ The CSI targeted customer groups include residential, commercial and government/nonprofit.

For calendar years 2007 and 2008, the Commission authorized PG&E a total CSI budget of \$140 million per year. In 2007, PG&E spent \$21.9 million or 16% of its authorized CSI budget of \$140 million. In 2008, PG&E spent \$82.7 million, or approximately 59% of its authorized budgeted amount, not including the amount rolled over from 2007. A summary of PG&E's CSI program budget and expenditures is provided in the following table.

Table 1
Summary of PG&E's 2007 - 2008 Ratepayer-Funded CSI Program

PG&E's Budget	2007	2008
Amounts Brought Forward ⁴	\$ 0	\$118,095,589
Authorized Budgets per D.06-12-033	<u>140,000,000</u>	<u>140,000,000</u>
Available Spending Amounts	140,000,000	258,095,589
Actual Expenditures ^(a)	<u>21,904,411</u>	<u>82,749,920</u>
Amounts Carried Forward	<u>\$118,095,589</u>	<u>\$175,345,669</u>

Notes:

(a) Total incentives that PG&E paid in 2008 included \$16.5 M, or 21%, of incentives for the former Self Generation Incentive Program (SGIP). The amount of these SGIP incentives paid with CSI funds represent 21% of the total incentives PG&E paid in 2008. In 2007, \$50,493 was for CSI LI and RD&D. In 2008, \$20,273 was for CSI LI and RD&D.

During 2007 and 2008, PG&E incurred almost \$104.6 million for its CSI general market. Of that amount, it paid \$94.4 million in incentives for the same period. This amount includes \$16.4 million in incentives for its former SGIP in 2008.⁵ PG&E's total CSI general market and SGIP incentive expenditures increased from \$21.9 million in 2007 to \$82.7 million in 2008, a \$60.8 million or 278% increase.⁶ This increase is largely due to the significant expansion in approved program participation.

In conducting its audit, UAFCB drew its samples for testing from PG&E's general market administrative and incentive expenditures for each year. In addition, UAFCB assessed PG&E's compliance with the CSI program requirements established in the CSI Handbook and Commission directives and evaluated PG&E's policies and procedures and internal controls. UAFCB also conducted a review of certain expenditures for calendar years 2007 and 2008 to determine whether amounts were properly recorded in PG&E's records and regulatory accounts and correctly reported to the Commission.

UAFCB did not review any of the \$69 million of PG&E's 2007 and 2008 CSI expenditures reported to the Commission for its CSI LI and RD&D.

UAFCB discovered weaknesses in PG&E's processes for recording customer project information into the statewide database, the PowerClerk. PG&E failed to reconcile information between its accounting system, called the Systems, Applications and Products in Data Processing (SAP), and the PowerClerk. Consequently, amounts PG&E uploaded into the PowerClerk were incorrect and it failed to detect the errors. Lastly, PG&E failed to maintain adequate documentation to support some of the costs that it recorded in SAP.

⁴ Pursuant to D.06-12-033, as modified by D.08-12-004, PG&E did not have SGIP electric funds to transfer to its CSI.

⁵ See Appendix A, pages A-7 through A-8 and Tables A-I and A-II for additional information about PG&E's CSI incentives.

⁶ $\$82.7 \text{ M} - \$21.9 \text{ M} = \$60.8 \text{ M}$. $\$21.9 \text{ M} / \$60.8 \text{ M} = 278\%$

In July 2010, UAFCB met with PG&E and discussed UAFCB's preliminary audit findings and recommendations. In addition, PG&E provided comments on UAFCB's draft audit report, along with additional information. PG&E cooperatively agreed to and addressed some of UAFCB's findings and recommendations. The Audit Findings section of this report describes, among other things, all of UAFCB's audit findings and recommendations and what PG&E agreed to implement.

Due to time constraints, UAFCB did not verify the information that PG&E entered into the Trigger Tracker, test PG&E's process for the exclusion of CSI expenditures from its general rate cases, nor verify PG&E's documentation of inspection results.

II. Audit Recommendations

The following UAFCB recommendations remain outstanding:

1. By November 30, 2010, PG&E shall provide the Program Manager of UAFCB with the results of its reconciliation between its accounting system, the Systems, Applications and Products in Data Processing (SAP) and the PowerClerk for 2007 and 2008, as discussed in PG&E's comments on UAFCB's draft audit report and findings. (Refer to Section V.A., Audit Goal 1.)
2. To avoid the misapplication of data between the PowerClerk and the SAP data entries, PG&E should implement additional procedures and controls to ensure that information is accurately reflected in its SAP and the PowerClerk and the Trigger Tracker database systems. (Refer to Section V.A., Audit Goal 1.)
3. PG&E should reconcile its PowerClerk and SAP data entries at a minimum on a monthly basis until an automatic uploading system is implemented and thereafter, on a quarterly basis. (Refer to Section V.A., Audit Goal 1.)
4. PG&E shall send its monthly reconciliation to the Program Manager of UAFCB within 30 days after the end of each month until the automatic feature is implemented to upload data from SAP to PowerClerk. PG&E's first monthly reconciliation is due on November 30, 2010 and shall contain its reconciliation of its entries into SAP and the PowerClerk during October, 2010. The reconciliation needs to identify each variance, including the nature, the date the variance occurred and the amount of each variance. (Refer to Section V.A., Audit Goal 1.)
5. Future audits may include a test of the effectiveness of PG&E's procedures for preventing the duplication of CSI expenditures in its general rate cases. (Refer to Section V.A., Audit Goal 2.)
6. PG&E should develop checks and balances to ensure that all CSI information is accurately entered into both the PowerClerk and the Trigger Tracker. (Refer to Section V.B., Audit Goal 1.)
7. PG&E should reconcile information between the PowerClerk and Trigger Tracker on a monthly basis until an automatic feature is implemented that will not require the program administrators to make manual data entries into Trigger Tracker. (Refer to Section V.B., Audit Goal 1.)
8. When an automatic feature is implemented to automatically populate information from the PowerClerk into the Trigger Tracker, PG&E should relax its monthly reconciliations to occur on a quarterly basis. (Refer to Section V.B., Audit Goal 1.)

9. PG&E's entries into the Trigger Tracker should be included in a future audit. (Refer to Section V.B., Audit Goal 1.)
10. PG&E's inspection process should be verified in a future audit. (Refer to Section V.B., Audit Goal 2.)
11. PG&E's new policies and procedures to improve its documentation of training costs including its methodology for cost allocation for expenditures shared with another program should be evaluated in a future audit. (Refer to Section V.C., Audit Goal 1.)
12. PG&E's new policies and procedures for updating timesheets to agree with updated employee information in SAP and for obtaining proper approval signatures should be evaluated in a future audit. (Refer to Section V.C., Audit Goal 1.)
13. PG&E's new policies and procedures for receiving Energy Division's approval for any planned M&O activities should be evaluated in a future audit. (Refer to Section V.C., Audit Goal 1.)
14. PG&E should document its monthly manager meetings and any implemented changes resulting from those meetings. (Refer to Section V.D., Audit Goal 1.)
15. PG&E should modify its policies and procedures to require that monthly management meetings be documented and that any recommendations from those meetings are implemented and monitored. (Refer to Section V.D., Audit Goal 1.)
16. Until PG&E's information in PowerClerk is reliable, UAFCB cautions PG&E in relying on information produced from the PowerClerk to make management decisions about its CSI. (Refer to Section V.D., Audit Goal 1.)

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.⁷ 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 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 currently has an authorized 10-year budget of \$2.2 billion for the 2007 through 2016 period. 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 general market CSI with a goal of 1,750 MW and the LI with a goal of 190 MW. The LI 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).

In D.06-08-028, the Commission established further details for the implementation of the CSI, including, 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.

⁷ The Commission replaced two former solar incentive programs; the Emerging Renewable Program (ERP) and Self Generation Incentive Program (SGIP) with CSI.

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.⁸ 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 to its current \$2.2 billion, 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.

IV. Compliance Audit

In late 2009, the Commission's Energy Division requested that UAFCB perform a 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 its audit of PG&E's 2007 and 2008 general market CSI by submitting an audit engagement letter to PG&E, dated January 29, 2010. UAFCB concluded its fieldwork with PG&E on June 4, 2010.

A. Audit Requirements

An Assigned Commissioner's Ruling (ACR), dated July 29, 2008, addressed the establishment of an evaluation plan for the CSI.⁹ 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:¹⁰

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.

B. Audit Purpose and Scope

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

⁸ SB 1, Chapter 132, Statutes of 2006 (Murray).

⁹ See Assigned Commissioner's Ruling Establishing Program Evaluation Plan for the California Initiative, dated July 29, 2008.

¹⁰ *Ibid.*, Appendix A, Section 3.3.8.

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

1. Process Compliance – the compliance of PG&E's accounting systems, particularly its 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 PG&E's reporting to the Commission.
4. Oversight Adequacy - internal monitoring of program implementation to provide adequate oversight and support for the program.

C. Audit Objectives

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

1. Determine whether PG&E is following the CSI program policies and procedures pursuant to the CSI Program Handbook, related Commission directives and PG&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 the CSI expenditures are sufficient in producing reliable information to the Commission; and,
4. Ascertain and evaluate whether PG&E maintains 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 task areas and audit goals for each of the audit task areas as follows:

A. Program Accounting and Reporting:

- 1) Assess PG&E's accounting system and procedures related to its general market CSI and determine if the program expenditures recorded in PG&E's records and regulatory accounts reconcile with the amounts reported to the Commission.
- 2) Ascertain whether PG&E's CSI expenditures were duplicated for recovery in PG&E's General Rate Case (GRC) application.

B. Program Implementation, Processes and Controls:

- 1) Assess whether PG&E's general market CSI targeted customer groups are structured and implemented in accordance with prescribed program policies and procedures and the Commission's directives.
- 2) Determine whether PG&E's program processes and controls for its general market CSI incentives are designed to prevent abuse and misapplication of program funds.
- 3) Ascertain whether PG&E is complying with the CSI incentive step level structure, including the allocation between and the payment of steps, and that its processes 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 prescribed program guidelines and parameters.

D. Program Oversight:

- 1) Assess the adequacy of PG&E's internal reporting system and management oversight over the CSI when it monitors its progress towards meeting its CSI goals and objectives.

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 PG&E'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 PG&E'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 PG&E's regulatory personnel and establish audit logistics and protocols.

CSI Program Processes Review:

- Interview PG&E program personnel to gain information and an understanding of CSI general market program operations and processes, in connection with customer enrollment, program administration, and management oversight.
- Review PG&E'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 PG&E's accounting manuals and procedures concerning the proper recording of program revenue and expenditures.
- Evaluate PG&E'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 any 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 PG&E's CSI program processes and UAFCB's audit methodologies by Audit Task Area.

G. Audit Challenges

PG&E failed to accurately input data into the PowerClerk system. UAFCB found material differences between the incentive amounts PG&E recorded in its SAP and its reports to the Commission and those it recorded in the PowerClerk. In an attempt to reconcile and determine the root cause of these differences, UAFCB spent a considerable amount of time on PG&E's reconciliation attempts. Consequently, UAFCB could not devote as much time as it wanted on the other audit areas such as: Program Accounting and Reporting and Program Expenditure Analysis and Testing.

H. Preliminary Findings

UAFCB held an exit meeting with PG&E on July 12, 2010 to discuss UAFCB's preliminary audit findings. UAFCB met again with PG&E on July 23, 2010 to discuss PG&E's submitted responses to UAFCB's July 12, 2010 preliminary audit findings. PG&E provided additional responses to UAFCB's preliminary audit findings on July 28, 2010 and July 29, 2010. Where findings were still pending, UAFCB continued its review and analysis.

In future audits, among other things, UAFCB should include verifying the information PG&E entered into the Trigger Tracker, testing PG&E's process for GRC exclusion, and verifying the documentation of inspection results.

V. Audit Findings

A. Program Accounting and Reporting

Audit Goal 1: Assess PG&E's accounting system and procedures related to its general market CSI and determine if the program expenditures recorded in PG&E's records and regulatory accounts reconciled with the amounts reported to the Commission.

Findings:

1. UAFCB did not find any material weaknesses in PG&E's accounting system.
2. PG&E's recorded general market CSI expenditures in its accounting system reconcile with those it reported to the Commission.
3. UAFCB found significant differences in the paid incentives recorded in its accounting system and the PowerClerk.

The CSI expenditures recorded in PG&E's accounting system, the Systems, Applications and Products in Data Processing (SAP), agree with the amounts in the CSI reports it submitted to the Commission, with the exception of one immaterial entry. The ending balances in PG&E's balancing account and sub-accounts agree with the amounts it reported to the Commission. PG&E's monthly debit and credit entries for the CSI administrative and incentive expenditures,

authorized budget, earned interest, forfeited application fees, and forecasted PBI payments, were made in accordance with its Preliminary Statement filed with the Commission.

However, UAFCB found significant differences between PG&E's accounting system SAP and the statewide system PowerClerk for paid incentives in calendar years 2007 and 2008. UAFCB identified incentive payment variances between PG&E's SAP and the PowerClerk of \$6,952,912 in overstated incentives for its 2007 EPBB, \$1,234,386 in overstated incentives for its 2008 EPBB and \$4,040,470 in overstated incentives for its 2008 PBI.

PG&E did not have procedures or controls in place for detecting and correcting errors in a timely manner, such as regularly reconciling its SAP with the PowerClerk. During the audit, at UAFCB's request, PG&E attempted to reconcile the two systems. PG&E acknowledges that the discrepancies are largely due to manual entries it made into the PowerClerk.

UAFCB appreciated PG&E's efforts during the audit to reconcile the differences. However, a follow-up audit would be necessary to ascertain PG&E's efforts to UAFCB's satisfaction.

PG&E manually uploads CSI incentive payment information into the PowerClerk and kW information into the Trigger Tracker. Because the information in PowerClerk is one of the main tools to monitor the details of the CSI program and PG&E incorrectly uploaded information into this system, UAFCB has concerns about the reliability of the information included in both systems.

PG&E acknowledged that the three CSI program administrators are working with Clean Power Research to develop a feature to import information between the program administrator's accounting systems and the PowerClerk, along with a feature to import kW information between the PowerClerk and the Trigger Tracker. These features, once implemented, will eliminate future data entry errors between its accounting system and the PowerClerk and between the PowerClerk and the Trigger Tracker.

In the meantime, PG&E must correctly enter data into its SAP, the PowerClerk and the Trigger Tracker.

Preliminary Findings and Recommendations: In its comments on UAFCB's draft audit report and findings, PG&E asserts it was able to verify all incentive payments between SAP and the PowerClerk but for \$30,301.00 in 2007 and \$147,963.85 in 2008, and that it would continue to research the remaining differences. PG&E informed UAFCB that it and the other program administrators were working with the developers of PowerClerk to include an upload feature that would upload payment data from the program administrators' accounting systems into PowerClerk. PG&E stated that the upload feature is targeted to be completed by June of 2011.

During the exit meeting process and in a data response, PG&E indicated that, on a going forward basis, PG&E plans to reconcile the PowerClerk and its SAP on a quarterly basis. However, in its comments on UAFCB's draft audit report and findings, PG&E indicated that it is only considering reconciling its PowerClerk and SAP on a frequent r basis.

UAFCB is very concerned that PG&E stated that it will only consider incorporating procedures, such as reconciling the two systems on a frequent basis. PG&E needs to

immediately adopt and implement procedures to reconcile entries it makes into the PowerClerk with those entered into the SAP on a monthly basis. Since the PowerClerk and the Trigger Tracker are relied on by the public and the Energy Division in monitoring the CSI, PG&E needs to ensure that its entries to PowerClerk are accurate.

When the automatic upload feature is implemented between the SAP and the PowerClerk, PG&E could relax its reconciliations to be on a quarterly basis. With the magnitude of transactions and the number of its incentive payments, even after an upload process is implemented to upload payment information directly from PG&E's SAP to the PowerClerk, reconciliation should still be necessary to ensure the accuracy of these databases.

Recommendations:

1. By November 30, 2010, PG&E needs to provide the Program Manager of UAFCB with the results of its reconciliation between its SAP and the PowerClerk for 2007 and 2008, as discussed in PG&E's comments on UAFCB's draft audit report and findings.
2. To avoid the misapplication of data between the PowerClerk and the SAP data entries, PG&E should implement additional procedures and controls to ensure that information is accurately reflected in its SAP and the PowerClerk and the Trigger Tracker database systems.
3. PG&E should reconcile its PowerClerk and SAP data entries at a minimum of on a monthly basis until an automatic uploading system is implemented and thereafter, on a quarterly basis.
4. PG&E should send its monthly reconciliation to the Program Manager of UAFCB within 30 days after the end of each month until the automatic feature is implemented to upload data from the SAP to the PowerClerk. PG&E's first monthly reconciliation is due on November 30, 2010 on its reconciliation of its entries into SAP and PowerClerk during October, 2010. The reconciliation needs to identify each variance, including the nature, the date and the amount of each variance.

Audit Goal 2: Ascertain whether PG&E's CSI expenditures were duplicated for recovery in PG&E's General Rate Case (GRC).

Findings:

1. UAFCB did not find any material weaknesses in PG&E's procedures for preventing the duplication of CSI expenditures in its GRC.
2. UAFCB did not conduct a robust examination of this area.

UAFCB limited its review of whether PG&E duplicated its CSI program expenditures for recovery in its GRC to reviewing PG&E's controls in place to prevent duplication. According to PG&E, monthly reviews of costs are performed by the program managers on all CSI order numbers. In instances where fully funded GRC work is charged to CSI orders for non-CSI program related work, PG&E's Business Finance section initiates journal entries to reclassify those costs to the correct orders or Provider Cost Centers (PCCs).

UAFCB did not have any concerns with PG&E's procedures in this area. However, UAFCB did not have sufficient time to test the effectiveness of these processes and controls.

Recommendation: Future audits may include a test of the effectiveness of PG&E's procedures for preventing the duplication of CSI expenditures in its GRC.

B. Program Implementation, Processes and Controls

Audit Goal 1: Assess whether PG&E's general market CSI targeted market groups are structured and implemented in accordance with prescribed program policies and procedures and the Commission's directives.

Findings:

1. PG&E's overall policies and procedures for implementing its general market CSI to targeted customer groups are adequate and implemented in accordance with CSI guidelines and the Commission's directives.
2. UAFCB found weakness in PG&E's procedures for recording customer information in PowerClerk.
3. PG&E may have similar weaknesses in its processes and controls for data entry into the Trigger Tracker.

PG&E's general market CSI is adequately designed and structured, and generally implemented in accordance with the applicable statewide CSI Program Handbook and the Commission's directives. In addition to the statewide handbook, PG&E has its own internal CSI handbooks which clearly provide applicable policies and procedures for its CSI staff to effectively implement the program.

As with all statewide CSI program administrators, PG&E uses the PowerClerk and the Trigger Tracker database applications for managing its CSI. These two independent software systems do not directly interface with each other or with PG&E's SAP system. Consequently, in 2007 and 2008, PG&E manually entered program information relating to its paid incentives into the PowerClerk and project information into the Trigger Tracker. The latter is utilized for tracking available MW and to trigger step level changes.

As discussed in the Accounting and Reporting section above, UAFCB found large discrepancies in the recorded incentive payments between the SAP and the PowerClerk. Those discrepancies are due primarily to manual data entry errors in PowerClerk and PG&E's failure to put controls in place to detect such errors or discrepancies.

Due to time constraints, UAFCB was not able to evaluate PG&E's processes and controls for entering data into the Trigger Tracker or verify them into the Trigger Tracker. Because of the inadequacies in PG&E's PowerClerk data entry controls and processes and the magnitude of the data entry errors PG&E made when entering information into the PowerClerk, UAFCB is concerned that PG&E's processes and controls for the Trigger Tracker data entry may not be adequate.

Recommendations:

1. PG&E should develop checks and balances to ensure that all CSI information is accurately entered into both the PowerClerk and the Trigger Tracker.

2. PG&E should reconcile information between the PowerClerk and Trigger Tracker on a monthly basis until an automatic feature is implemented that will not require the program administrators to make manual data entries into Trigger Tracker.
3. When an automatic feature is implemented to automatically populate information from PowerClerk into Trigger Tracker, PG&E should relax its reconciliations to occur on a quarterly basis.
4. PG&E's entries into the Trigger Tracker should be included in a future audit.

Audit Goal 2: Determine whether PG&E's program processes and controls for its general market CSI incentives are designed to prevent abuse and the misapplication of program funds.

Findings:

1. With the exception of its processes and controls over the uploading of data into the PowerClerk and possibly into the Trigger Tracker, UAFCB did not find any material weaknesses in PG&E's processes and controls it uses, to prevent the abuse and misapplication of program funds.
2. Due to time constraints, UAFCB was not able to verify PG&E's inspection process.

For the most part, PG&E has adequate processes and controls in place to prevent customer and employee abuse of program funds. With the exception of its processes and controls for uploading data into the PowerClerk, PG&E documented its processes for processing customer incentive applications, inspection procedures, incentive payments, and other policies and procedures related to the implementation of its general market CSI.

UAFCB's verification of original customer files included, but was not limited to, assessing whether PG&E's files contained all documentation applicable to the type of incentive paid, including the completed applications, application fee documentation (if applicable), all required notifications documents, relevant inspections, correctly calculated incentives, compliance with applicable deadlines, and all relevant dates and signatures obtained. Overall, UAFCB finds that PG&E correctly applied customer applications and incentive payments to the appropriate incentive type, EPBB or PBI.

Recommendation: PG&E's inspection process should be verified in a future audit.

Audit Goal 3: Ascertain whether PG&E is complying with the CSI incentive step level structure, including the allocation between and the payment of steps, and, that its processes are sufficiently documented in accordance with program rules.

Findings:

1. UAFCB didn't find any material weaknesses in PG&E's compliance with the step level structure or its processes for the accounting of step levels and/or MW that change between confirmation and completion.

PG&E is complying with the general market CSI incentive step level structure, including the allocation between steps for customer incentives split between levels and the accounting for the amount of MW that change between confirmation and the completion of the project. During its review, UAFCB confirmed the step level change notification reported to the Commission for the final Step 4 Residential target MW by reviewing data from the Trigger Tracker that

supported the dropped MW applied to the initial Step 4 residential target MW. UAFCB found that the completed MW were correctly applied and reconciled with the MW reported to the Commission in PG&E's December 23, 2008 notification of issued and confirmed reservations to fill Step 4 of the incentive reduction schedule for Residential Projects.

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. PG&E did not maintain adequate policies and procedures with respect to documenting its CSI training and labor costs.
2. PG&E asserts that it developed and implemented policies and procedures to document its training costs and to ensure accurate timesheet reporting.
3. PG&E's new form to request Energy Division's approval allows Energy Division to address questionable proposed M&O expenditures immediately.

Some of PG&E's CSI program administrative expenditures were not sufficiently supported. UAFCB found the following exceptions:

1. UAFCB identified 4 transactions totaling \$6,939 of expenditures that PG&E stated were related to training which PG&E did not properly support:
 - a. \$4,600 in 2007 for employee training, charged to training;
 - b. \$750 in 2008 for employee training, charged to training; and
 - c. \$1,589 in 2008 for meal expense for training at its Stockton training center which PG&E recorded to M&O, of which \$739 was the allocated portion of a shared expense with a separate rate payer program.

Some of these transactions were for employee training and some were for training for its contractors. PG&E provided invoices and other documentation for all of the transactions, one from a hotel, two from restaurants for meals, one of a screen shot from its SAP system, and a flyer from a CALSEIA Annual Membership Luncheon showing that a table of 10 cost \$750.¹¹ However, PG&E didn't provide adequate documentation to support the invoices, i.e., the type of training, employee expense claims, who attended, and for training shared between programs, how the allocation was made. Consequently, UAFCB was unable to determine if the training and related meal expenses were relevant to the CSI program.

2. Out of 22 transactions it tested for labor, 11 from 2007 and 11 from 2008, UAFCB identified nine transactions in 2007 and four transactions in 2008, with discrepancies between the information PG&E recorded in SAP and the information on the time sheets that PG&E provided. Discrepancies included differences in hours, PCC numbers, order numbers, and pay rates. UAFCB also found instances where proper supervisor approvals on timesheets were missing. For five of the transactions, PG&E made overpayments totaling \$1,611.34, two in 2007 totaling \$656.34 and three in 2008 for \$955.00.

¹¹ PG&E stated that they support the CALSEIA as a member. CALSEIA is a non-profit solar industry organization that addresses solar policy issues in California.

According to PG&E, the differences result when an employee doesn't update his/her timesheet when he/she moves from one cost center to another. PG&E indicates that a different form is used to input such a change into SAP. PG&E asserts that its SAP reflects the correct information. PG&E indicates that the time sheets are used to enter employee hours into the Cross Application Time Sheets (CATS) system. The CATS is the system PG&E used to track employee hours which it uploaded into SAP. Although PG&E stated that SAP reflects the correct information and provided additional documentation showing fixed PCC rates in SAP for the period audited, the additional documentation did not support the payments reflected in SAP.

3. Out of the 11 M & O transactions it tested totaling \$339,023, UAFCB identified 3 sponsorship transactions totaling \$33,904 which were not approved by the Energy Division as allowable M & O expenditures before the costs were incurred:
 - a. Samples #47 and #51 totaling \$23,904; and
 - b. Sample #52, totaling \$10,000.

PG&E's July 28, 2010 response stated that when evaluating these opportunities in late 2007 and early 2008, it didn't have any instructions from the Energy Division to route sponsorships to for formal approval. In addition, PG&E stated that it updated Energy Division about its M&O expenses through its M&O semi-annual updates and expense reports. UAFCB did not find any evidence of coordinating with Energy Division until PG&E submitted its 2009 Interim M&O Plan for approval on December 15, 2009.

UAFCB wanted to expand its testing due to many of the discrepancies noted above but time and resources would not allow it

Preliminary Findings and Recommendations – Timesheet Processing: In its comments on UAFCB's draft audit report and findings, PG&E provided adequate support for two of the original seven timesheet-related transactions where UAFCB determined that PG&E made overpayments. UAFCB reduced the number of and the amount of the transactions that remain in dispute.

In its comments, PG&E stated that in 2009, it implemented policies and procedures to require that all employee information on the timesheet be updated with any changes that occur in the period and that all approval signatures are obtained for each timesheet. Since the amount of the payments in question are immaterial and PG&E addressed UAFCB's concerns with their new timesheet policies and procedures, UAFCB modified its finding.

Preliminary Findings and Recommendations – Training Cost Documentation: As discussed above, UAFCB found that PG&E was not maintaining adequate documentation for training costs. In its comments on UAFCB's draft report, PG&E states that it implemented additional procedures to improve its documentation of training costs including its methodology for allocating costs if training is shared by more than one program. Since the amount in question is immaterial and PG&E asserts it has implemented procedures to address UAFCB's concerns, UAFCB changed its finding in this area.

Preliminary Findings and Recommendations – M&O Sponsorship Approval: In its comments on UAFCB's draft report, PG&E asserts it obtained after-the-fact the approval from the Energy Division for the \$34,904 for the 2008 sponsorships when the Energy Division approved

PG&E's 2009 Interim M&O Plan. In addition, PG&E asserts that it implemented new policies and procedures to require a new form to procure Energy Division's approval for any M&O outreach expenditure. This is to ensure that all sponsorships are vetted through the appropriate PG&E management. PG&E provided a copy of its new form it is using to obtain Energy Division's approval for its M&O to avoid any confusion in the future.

While PG&E, in its 2009 M&O plan, discussed its pilot program of conducting sponsorships in 2008 and requested approval to conduct sponsorships in 2009, Energy Division did not explicitly approve the \$34,904 in 2008 M&O costs before or after-the-fact. However, because the Energy Division approved similar costs on a going forward basis, UAFCB believes that had PG&E requested Energy Division's preapproval for these 2008 costs, in all likelihood the Energy Division would have approved them.

In addition, PG&E has implement policies and procedures to ensure it will get preapproval for all M&O in the future before incurring the expense. For example, PG&E recently implemented an M&O Approval Request Form (MOARF) which requires Energy Division approval prior to any CSI M&O expenditure. UAFCB reviewed the MOARF and finds this approval process adequate. Consequently, UAFCB removed its finding that PG&E did not receive Energy Division's approval for \$33,904 in 2008 M&O costs for sponsorships in non-compliance with the Commission directives.

Recommendations:

1. PG&E's new policies and procedures to improve its documentation of training costs including its methodology for cost allocation for expenditures shared with another program should be evaluated in a future audit.
2. PG&E's new policies and procedures for updating timesheets to agree with updated employee information in SAP and for obtaining proper approval signatures should be evaluated in a future audit.
3. PG&E's new policies and procedures for receiving Energy Division's approval for any planned M&O activities should be evaluated in a future audit.

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

Findings:

1. PG&E paid an incentive to a customer that exceeded program limitations by \$192,652. UAFCB believes that the transaction complied with CSI general market program guidelines and parameters.

In 2008, when transitioning from the SGIP, PG&E paid an incentive to a customer that exceeded the confirmed reservation amount by \$192,652. SGIP requirements limit the amount of an incentive payment to the original reserved amount rather than the final calculated kW output. The \$192,652 payment was for one of several of the customer's stores that had confirmed reservations for specific dollar amounts. After receiving the commitments, the customer downsized 11 of its stores, which resulted in a greater amount of funding saved over the costs for the one that increased. PG&E provided an email from its management documenting approval for the increase in the one payment because it didn't exceed the total amount committed to the customer overall.

Recommendations: None.

D. Program Oversight

Audit Goal 1: Assess the adequacy of PG&E's internal reporting system and management oversight over the CSI program when it monitors the progress towards meeting its CSI goals and objectives.

Findings:

1. PG&E failed to document the details of its monthly CSI management meetings.
2. PG&E failed to document the implementation of recommendations resulting from its management meetings.
3. PG&E's management use graphics from PowerClerk to assist in monitoring its CSI and UAFCB found significant errors in PG&E's incentive entries into PowerClerk.

PG&E's program oversight consists of internal audits, manager monthly meetings to assess program progress by reviewing records obtained from the PowerClerk, and by preparing a monthly order report to review expenditures charged to CSI order numbers.¹²

During 2007 and 2008, PG&E conducted two internal audits on its CSI. On April 25, 2007, a start-up audit report was issued assessing the effectiveness of planned controls and procedures that were being developed by PG&E for its CSI. The audit found that PG&E had developed various procedures and had achieved planned milestones but needed to complete the development of procedures and controls pertaining to the integration of manual and automated processes with several of its organizations. On April 28, 2008, PG&E's Audit Department issued an audit report addressing PG&E's Integrated Processing Center (IPC). The report noted a high-risk weakness in PG&E's controls over CSI incentive approval and payment processing, stating that CSI and IPC had not coordinated procedures for processing incentive payments.

UAFCB found evidence that during 2007 and 2008, PG&E adequately addressed the items of the April 25, 2007 report, and responded to the April 28, 2008 audit with the completion of its CSI Program Integrated Processing Center Policies and Procedures Manual which UAFCB found to be adequate.

UAFCB also reviewed PG&E's monthly Order Reports and discussed its procedures for monthly meetings with PG&E's management. UAFCB found the Order Reports and monthly meetings to be useful program oversight tools. However, PG&E does not document the details of meetings, i.e. dates, attendance, discussions, and outcome, which could weaken management's controls to track the progress of plans or strategies discussed at and/or put in place after the meetings.

Since PG&E's management is using the graphics from PowerClerk at its management meetings as a tool for monitoring CSI, UAFCB is concerned about PG&E's management using incorrect information to assess its administration of its CSI.

¹² PG&E's monthly order reports are derived from its SAP.

Recommendations:

1. PG&E should document its monthly manager meetings and any implemented changes resulting from those meetings.
2. PG&E should modify its policies and procedures to require that monthly management meetings be documented and that any recommendations from those meetings are implemented and monitored.
3. Until PG&E's information in PowerClerk is reliable, UAFCB cautions PG&E in relying on information produced from the PowerClerk to make management decisions about its CSI.

VI. PG&E's Comments on UAFCB's Draft Audit Report

On October 8, 2010, the UAFCB submitted a copy of its draft audit report to PG&E for its review and comment. The draft audit report included Sections I through V, including UAFCB's draft audit findings and recommendations. UAFCB requested that PG&E provide its comments on the draft report by October 25, 2010.

PG&E provided timely comments to UAFCB's draft audit report on October 25, 2010. In its email dated October 25, 2010, conveying its comments on the draft report, PG&E requested that the names of the customers identified in Sections C, Program Expenditure Analysis and Testing Audit Goals 1 and 2 of the report be removed to maintain customer privacy.

UAFCB provides a brief summary below of PG&E's comments. UAFCB reordered PG&E's comments to correspond with the findings and recommendations in UAFCB's report and added references to the specific area in UAFCB's report that PG&E was referring to. UAFCB includes a copy of PG&E's comments in its entirety in Appendix C.

Section V.A., Audit Goal 1

Reconciliation of PowerClerk to SAP: PG&E asserts that it was able to reconcile both its 2007 and 2008 PowerClerk incentive payments to its SAP except for \$30,301.00 in 2007 and \$147,963.85 in 2008. PG&E states that "the differences were primarily due to manual entry errors and that the details of the errors were submitted to the UAFCB prior to the conclusion of the audit."

PG&E acknowledged that it intends to continue to research the remaining differences and upon completion will submit a copy to the UAFCB. PG&E states that it will consider incorporating procedures, such as reconciling PowerClerk to SAP on a frequent basis, to ensure that incentive information is entered into PowerClerk accurately. In addition, PG&E pointed out that it and the other program administrators are working with the developers of PowerClerk to include an upload feature that would take payment information from the program administrators' respective systems and upload that information directly into PowerClerk, minimizing the amount of manual entries. This upload feature is targeted to be completed by June of 2011.

Section V.C., Audit Goal 1

Documentation of Training: PG&E concurs with UAFCB's recommendation and has implemented additional procedures to improve its documentation of training costs, including

the methodology for allocating costs if training is shared by more than one program. In addition, PG&E provides an update to Energy Division on CSI training sessions and the number of attendees in the quarterly CSI Staff Progress Report.

Section V.C., Audit Goal 1

PG&E's Timesheet Policies and Procedures: PG&E stated that in 2009, it implemented policies and procedures to require supervisor review and approval of all timecards. The supervisor's review includes ensuring that all employee information on the timecards is updated with any changes that occur during the period.

PG&E disagrees with UAFCB's assertion of labor overpayments totaling \$1,691.82. PG&E states that it previously provided documentation to support the labor hours and costs recorded in SAP. In addition, in its comments, PG&E provided a table addressing each of the seven anomalies noted in the UAFCB Draft Audit Report.

Section V.C., Audit Goal 1

Marketing and Outreach Sponsorships: PG&E claims that the only direction it received regarding its 2008 M&O stemmed from Ordering Paragraph 6 of Decision 07-05-047, which states:

Following Energy Division approval of interim marketing and outreach plans, program administrators shall send final versions of basic marketing and collateral materials, in the form of program brochures, fact sheets, and general customer education kits to the Director of the Energy Division when ready for review. The materials should be patterned after materials on the "GoSolarCalifornia" website. The materials must, whenever possible, reference the program administrator's role in the CSI program, energy efficiency audit requirements, and the GoSolarCalifornia website. Energy Division will review the proposed materials, in consultation with the assigned Commissioner, and expeditiously notify the program administrator whether the materials are approved or require modification.

PG&E states that it provided Energy Division with final versions of all basic marketing and collateral materials, and updated the Energy Division on both sponsorship opportunities, through consultation with the Energy Division in 2007 and 2008. Furthermore, PG&E claims that it received approval from Energy Division after the fact, by way of Energy Division approving its 2009 Interim M&O Plan.¹³ PG&E explained that in its 2009 plan, it explicitly underscored the understanding that sponsorships didn't need to be specifically outlined in the Annual Plan.

In addition, PG&E stated that it implemented a process to eliminate confusion regarding allowable expenditures. PG&E stated that it now requires an internal approval process to ensure all sponsorships are properly vetted through the appropriate PG&E leadership and are

¹³ 2009 California Solar Initiative Interim Marketing and Outreach Plan filed December 15, 2008.

aligned with the Commissions goals. Lastly, PG&E stated it now requests approval from Energy Division prior to any M&O expenditures, using its MOARF.

PG&E requests that the UAFCB revise its finding to allow the \$33,904 in M&O costs for sponsorships.

VII. UAFCB Rebuttal

Based on PG&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. PG&E did not respond to all of UAFCB's findings and recommendations. For the findings that PG&E didn't address, UAFCB assumes that PG&E is in agreement with UAFCB's findings. However, without explicit assurance that it agrees with all of UAFCB's recommendations, UAFCB considers the recommendations PG&E didn't provide comments on as outstanding. Where UAFCB believes further discussion is warranted on PG&E's comments, UAFCB provides a brief clarification below.

Section V.A., Audit Goal 1

Reconciliation of PowerClerk to SAP: UAFCB concurs with PG&E that a great deal of time and effort went into reconciling the PowerClerk to its SAP. UAFCB appreciates that PG&E will continue to research the remaining differences and has pledged to provide a copy of the completed reconciliation to UAFCB.

However, UAFCB is concerned that PG&E stated that it will only consider incorporating procedures, i.e., reconciling the two systems on a frequent basis. PG&E needs to immediately adopt and implement procedures to reconcile entries PG&E makes into PowerClerk with those entered into SAP on a monthly basis. If the automatic upload feature is implemented between SAP and PowerClerk, PG&E could relax its reconciliations to be on a quarterly basis.

Section V.C., Audit Goal 1

Documentation of Training: UAFCB appreciates the steps PG&E has taken to improve procedures for documenting cost for training including providing a methodology for allocating cost shared by more than one program. PG&E should provide UAFCB with a copy of its updated procedures.

Section V.C., Audit Goal 1

PG&E's Timesheet Policies and Procedures: UAFCB appreciates that in 2009 PG&E implemented policies and procedures to require supervisor review and approval of timecards, including ensuring that all employee information on the timecards is updated with any changes that occur during the period. UAFCB also appreciates PG&E submitting the table with its comments regarding PG&E's dispute of UAFCB's assertion of labor overpayments of \$1,691.82.

After reviewing PG&E's comments and a further review of the documents PG&E provided, UAFCB maintains its finding for all but 2 of the labor charges and determined that the overcharges that UAFCB is unable to sign off on total \$1,611.34. However, PG&E implemented policies and procedures in 2009 that should address the deficiency and the amount is immaterial.

3. Marketing and Outreach Sponsorships (Refer to Section V.C., Audit Goal 1)

UAFCB appreciates that PG&E implemented a M&O approval request process to eliminate confusion in the future regarding allowable M&O expenditures. UAFCB reviewed PG&E's new MOARF form which requires Energy Division approval prior to any M&O expenditure. UAFCB finds this approval process adequate. It allows Energy Division to address questionable expenditures immediately.

UAFCB will make the appropriate changes to the report to allow the \$33,904 expenditure in M&O costs for sponsorships in 2008.

Appendix A

Background by Audit Task Area

A. Program Accounting and Reporting

For the program years 2007 and 2008, UAFCB examined PG&E's accounting system and procedures related to its general market CSI targeted customer groups to ascertain or assess whether the expenditures recorded in its accounting records were correctly reported to the Commission.

PG&E uses the Systems, Applications and Products in Data Processing Accounting System (SAP) company-wide, including the capturing and recording its CSI expenditures. To track costs between its gas and electric services, PG&E utilizes two types of cost centers in SAP:

- Provider Cost Center (PCC), which represents groups of employees performing work in the organization and
- Receiver Cost Center (RCC), which represents the company's facilities, assets, products and services.

The service provided by a PCC to an RCC is referred to as activity type. An activity type can represent an action, a service performed or the usage of an asset. PG&E designated the CSI Program as a RCC.

PG&E codes all of its transactions by using Internal Order (I/O) numbers. PG&E created specific expense I/Os unique to the CSI program. PG&E records CSI program costs in SAP using its CSI I/O numbers that identify the program and cost element numbers. The I/O and cost element numbers describe the cost type, i.e. labor, incentives, contracts, etc. At SAP's month-end closing, by the identifying I/O numbers (program number) and cost element numbers (type of cost), PG&E records all charges to its CSI program in its balancing account.

PG&E's Marketing Decision Support System (MDSS) is a support service which provides information for several of PG&E's departments. Primary users are PG&E's Customer Energy Efficiency Department (CEE) and its Account Services Department (AS). The systems in MDSS that support the need of CEE are grouped in 3 categories: Business Process, Non-Web Applications, and Web Applications. Within the MDSS applications for CEE, the CSI program participation data are entered, such as customer enrollment and solar installation information. These are automatically uploaded to SAP for issuing incentive checks to participating vendors and customers.

The balancing account PG&E uses to track its authorized revenue requirement and actual expenditures for its CSI programs is the California Solar Initiative Balancing Account (CSIBA). Entries to the CSIBA include monthly debits equaling all CSI costs as required in PG&E's California Solar Initiative Balancing Account Preliminary Statement including administration costs and EPBB incentive payments, and credits equaling one-twelfth of the current year CSI authorized budget. In addition, PG&E debits or credits the account, as appropriate, for interest

and transfers to or from the account and quarterly debits for the forecasted 5-year PBI payments for completed PBI projects.

The CSIBA also contains a sub-account called the Performance-Based Incentive Subaccount (PBIS). The PBIS tracks on a quarterly basis, an amount equal to the expected five year PBI for completed solar projects against the monthly payments to customers for actual solar energy output. This account tracks the amount of funding that will pay customers who opted into PBI and that will receive their incentives over a five-year period.

Entries to the PBIS sub-account include monthly debits for PBI incentives paid to customers for actual solar energy output, and a debit or credit, as appropriate, for interest or transfers to or from the account, and on a quarterly basis, a credit entry equal to the forecasted five-year payments for completed projects. This credit entry in the PBIS should be equal to the forecasted 5 year PBI debit entry to the CSIBA.

B. Program Implementation, Processes and Controls

PG&E tracks its customer applications in PowerClerk for application review, approval, and incentive payments, with letters generated through this system.¹⁴ For tracking MW goals, PG&E uses the statewide CSI program Trigger Tracker.¹⁵ The Trigger Tracker helps manage the adjusting incentives rates based on the expected fulfillment of MW goal of each step level.

To implement its CSI program, PG&E utilizes its own employees as well as outside contractors. The outside contractors that PG&E used during the audit period include:¹⁶

1. Alternative Energy Systems Consulting (AESC), which assists with electric load review,
2. kW Engineering and EMCOR Energy Services, which provide post-field inspections,
3. Energy Solutions (ES), which assists in creating specifications for new functionalities for the statewide database PowerClerk,
4. Clean Power Research, which owns the PowerClerk and implements any new functionalities that are needed into the PowerClerk, and
5. ITRON, which assists in the CSI RD&D program.

PG&E leverages a variety of marketing and outreach channels to solicit customers, including PG&E's web site, online and Direct Mail marketing campaigns, regular industry emails, informational materials such as pamphlets and flyers, an online newsletter, trainings, events and conferences.

Customers can request to enroll into the program by submitting a signed reservation request form and all applicable documents. Customers can complete the application form through the PowerClerk website or the PG&E CSI website. For all projects over 10 kW, except residential projects, an application fee of 1% of the requested incentive amount is required (for SGIP projects, the fee is .5%). If the fee is not submitted with the reservation request, PG&E will

¹⁴ See <https://csi.powerclerk.com/default.aspx>.

¹⁵ See (<http://www.csi-trigger.com>).

¹⁶ The three program administrators share the contracts for Energy Solutions, Clean Power Research, and ITRON.

invoice the customer. The customer has 30 days to submit the fee to activate the reservation request. Failure to submit the fee within the 30 days results in cancellation of the reservation request application. The collected fees are deposited in an account that is separate from the CSI Balancing Account. Upon verification of the installed CSI project and initial incentive payment, the customer will receive a full refund of the application fee. No interest is paid on any refunded application fees.

Once a reservation is confirmed and the project is either cancelled or withdrawn by the applicant, or rejected by PG&E for failure to meet proof of milestone or expiration date requirements, the application fee is forfeited and allocated to the CSI budget. The funds are transferred to the CSI Balancing Account.

Throughout the 2007-2008 period, PG&E utilized two application processes; a two-step process and a three-step process.

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, PG&E reviews the application package for completeness and determines eligibility. If an application is found to require clarification, PG&E requests additional information. Applicants have 20 calendar days to respond to the clarification request with the necessary information. PG&E 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, PG&E issues a confirmed reservation letter informing the customer that a specific incentive amount is reserved for the project and also it establishes an expiration date.¹⁷ 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. PG&E may conduct a field inspection. Once PG&E confirms the customer's eligibility, it sends a notification letter to the customer indicating that it approved 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 PG&E 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

¹⁷ The expiration date is usually 12 months for residential retrofits and up to 18 months for government, non-profits and public entities

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 milestones completed with all required documents, including a signed program contract. PG&E reviews the documentation for completeness. Once approved, PG&E sends a confirmed reservation letter, which indicates the reserved dollar amount and the reservation expiration date.¹⁸

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

Prior to any incentive payment, PG&E's CSI program managers verify that the system has approval to operate through its interconnection department. Once PG&E's interconnection department receives an interconnection application from the customer, PG&E enters the customer's information in its E-Net Online System (ENOS) to confirm the customer's information. PG&E's local Engineering Department reviews the customer's information and conducts a technical analysis of the circuit and the customer's new/upgraded system. PG&E also reviews the local city/county final building permit to confirm that the system passed all local permitting processes. PG&E notifies its metering team, where the system is installed, that the project has passed the permitting processes; that all applicable documents were received and that the project is ready for a bi-directional meter to be installed. PG&E confirms completion in ENOS by entering the Permission to Operate (PTO) date, and PG&E generates and sends a PTO letter to the customer.

Upon completion and when the information is entered into ENOS, the CSI Program Manager will have access to ENOS, be able to confirm the PTO date and print out a copy of the PTO letter for the customer file. PG&E will not issue a payment until verification of PTO is completed.

Inspections:

PG&E only performs post-inspections after the system has been interconnected and final documentation has been submitted. PG&E requires a post-inspection to verify that a project is installed as prescribed in the ICF and the Final EPBB Calculator.¹⁹ The Commission does not require any pre-inspections for EPBB or PBI and PG&E does not perform them.

For projects less than 50 kW, applicants, or installers submitting applications on behalf of its customers, will have a minimum of a one-in-seven chance that their submitted ICF will be selected for an inspection. For projects 50 kW and larger (PBI), field inspections may be required at the sole discretion of the program administrator.

¹⁸ The expiration date is 12 months for retrofits and 18 months for new construction.

¹⁹ PG&E uses the EBBT calculator to develop the present valued incentive payment to the EBBT customer and defines the customer system's characteristics and output.

If a project is selected for field inspection, PG&E sends the necessary documentation to one of the third-party inspection contractors, (kW Engineering or EMCOR). The inspector will then schedule the inspection. The inspector will verify the equipment, tilt, azimuth, shading, standoff height, and, whether the system is operational and submit the inspection results to PG&E. If the system passes the inspection, PG&E will approve and pay the project based on the submitted ICF. If the system fails, the inspection the applicant is notified of the reason for the inspection failure. Reasons for failures can be for material or immaterial mechanical failure and/or material or immaterial compliance failure. Immaterial mechanical or compliance failures that have no impact on the expected performance of the system can be corrected in 60 days. For material failures due to gross negligence or intentional submission of inaccurate system information will result in the responsible party to be immediately prohibited from participating in the program for one year.

Incentive Payment Approval:

The steps PG&E uses for approving incentive payments for both EPBB and PBI projects are listed below. After the completion of these steps, PG&E maintains specific procedures for disbursing funds and updating the project as completed in PowerClerk, including whether the project requires EPBB Payments, PBI Manual Payment, or PBI Automated-Payments.

- Receive the ICF and other required documents.
- Verify information such as installed system components, payee information, and customer signatures.
- Verify the system is interconnected with PG&E's electric grid.
- Send request for inspection, if selected, and wait for inspection results.
- Create utility Virtual Meter and Channel ID's (PBI projects only).
- Update the PowerClerk and mark the application "Pending Payment."
- Notify the Applicant that project is approved for payment.

Incentive Payment Disbursement:

PG&E's steps for disbursing incentive payments include the following:

For EPBB Payments:

- PG&E exports a "Pending Payment" report from the PowerClerk on a daily basis, and then approves and submits the payment request to the Payment Processing Team.
- Payment Processing Team will enter the project into the payment system.
- Payment system creates a payment and produces a payment report.
- CSI Application Processing Member will enter check information and update application status in PowerClerk to 'Completed'.

PG&E disburses PBI payments in 60 monthly payments, utilizing either a manual or an automated payment system. PG&E repeats the steps described below for each payment cycle. PG&E updates the payment status in PowerClerk as "Completed" upon completion of the 60th payment.

For PBI Manual-Payment Projects:

- Production Data is received from the Performance Data Provider (PDP) on a monthly basis.
- CSI Product Project Manager validates reported Production Data to be within the estimated production tolerance and enters the data into the PowerClerk.
- PG&E exports 'Pending Payment' report from the PowerClerk twice a month (one for each Payment Cycle) and submits payment request to the Payment Processing Team.²⁰
- Payment Processing Team will enter the project into the Payment System.
- Payment System creates payment and produces a payment report.
- CSI Application Processing Member will enter check information into the PowerClerk.
- Update application status to "PBI in Payment."

For PBI Automated-Payment Projects:

- PG&E exports report of new automated PBI projects in Pending Payment on a weekly basis.
- Sends report of newly approved automated PBI projects to the Payment Processing Team.
- Payment Processing Team creates a master 'Payment Template' for each project, which will be used for each payment.
- Production Data is received and validated by PG&E's SolarHist database.
- Payment System extracts the Production Data from SolarHist.
- A payment template is created from PG&E's master template.
- Production Data is populated in the master template.
- Payment System creates payment and produces a payment report.
- CSI team will enter check information into the PowerClerk.
- PG&E updates application status to "PBI in Payment."

PG&E's implementation of its CSI program is reasonably designed and structured, including its processes and controls.

C. Program Expenditure Analysis and Testing

PG&E's accounting records indicate that PG&E's general market CSI expenses were \$21,853,918 for Year 2007 and \$82,729,647 for Year 2008. The following table shows total CSI program expenses by major cost category and the percentage of each category to total cost for Years 2007 and 2008, as well as the aggregate figures of both years. The table also shows the percentage changes from 2007 to 2008.

²⁰ PG&E utilizes a staggered payment system.

Table A-I
Comparison of Program Years by Cost Category

Expense	2007		2008		Cost Changes		
	Costs	% of Total Cost	Costs	% of Total Cost	Percentage Change from 2007 to 2008	Total 2007 & 2008 Costs	% of Total 2007 & 2008 Costs
Application Process	\$ 2,480,925	11.3%	\$ 2,436,372	2.9%	-1.77%	\$ 4,917,297	4.7%
Inspections	240,597	1.1%	1,042,831	1.2%	+ 333.4%	1,283,248	1.2%
Program Mgt	628,972	2.9%	2,491,776	3.0%	+ 296.8%	3,120,748	3.0%
M & O	257,357	1.2%	699,608	0.9%	+ 171.8%	956,965	0.9%
Total Admin	3,607,851	16.5%	6,670,587	8.1%	+ 84.9%	10,278,438	9.8%
Incentives (a) (b)	18,246,067	83.3%	76,059,060	91.9%	+316.8%	94,305,127	90.1%
Total General Market	21,853,918	99.8%	82,729,647	99.9%	+278.5%	104,583,565	99.9%
Other CSI Programs	50,493	0.2%	20,273	0.1%	-59.8%	70,766	0.1%
Total CSI	\$21,904,411	100%	\$82,749,920	100%	+277.8%	\$104,654,331	100%

Notes:

- (a) UAFCB corrected PG&E's 2007 reporting of \$1,000 of M&O costs reported in incentives. PG&E's error is due to it using an incorrect cost element description in its SAP. Minor differences between the amounts of incentives in Table B-I and B-II are due to rounding differences.
- (b) Of the \$76,059,059 that PG&E paid in incentives in 2008, \$16,465,241, or 21%, were for the former SGIP.

UAFCB sampled incentive payments and administration costs, including M&O. UAFCB tested a total of \$2.7 million for Year 2007 and \$15.7 million for Year 2008, representing approximately 12% and 19%, respectively, of the total general market expenditures for those years.

Incentive Expenses:

For its general market CSI, PG&E processed a total of 1,685 customer applications in 2007 and 6,186 in 2008, a total of 7,871 customer applications.²¹ A breakdown of customer applications processed by customer type, incentive type, and amount paid for the years 2007 and 2008 is provided in the following table.

²¹ 35, or less than 1%, of the projects that PG&E paid incentives to in 2008 were for the former SGIP.

Table A-II
Summary of Customer Applications Processed – 2007 and 2008^(a)

Customer Type	Incentive Type	No. of Transactions	Total Paid
Residential	EBPP	1638	\$16,354,205
Residential	PBI	2	258
Commercial	EBPP	29	1,326,367
Government	EBPP	7	285,251
Non-Profit	EBPP	9	279,985
Total 2007		<u>1,685</u>	<u>18,246,066</u>
Residential	EBPP	5272	47,646,545
Residential	PBI	341	153,762
Commercial ^(b)	EPBB	196	20,812,605
Commercial	PBI	285	4,347,529
Government	EBPP	22	1,118,525
Government	PBI	16	540,172
Non-Profit	EBPP	45	1,424,634
Non-Profit	PBI	9	15,287
Total 2008^(c)		<u>6,186</u>	<u>76,059,059</u>
Total 2007-2008		<u>7,871</u>	<u>\$94,305,125</u>

Notes:

- (a) Source: SAP.
- (b) 35, or 17%, of the 196 commercial EPBB recipients in 2008 were SGIP.
- (c) 35, or less than 1% of the CSI incentive recipients in 2008 were SGIP. However, \$16,465,241 or 21% of the 2008 incentives were for SGIP.

In 2007, EPBB Residential and Commercial customers represented 99% of total customer applications and 97% of the total amount that PG&E paid for incentives. The remaining 1% and 3%, respectively, represent Government and Non-Profit EBPP customers, and Residential PBI customers.

In 2008, EPBB Residential and Commercial customers represented 88% of total customer applications and 90% of total dollars paid for incentives. The remaining 12% and 10%, respectively, represent Government, Non-Profit and SGIP EBPP and PBI customers, and Residential and Commercial PBI customers.²²

To ascertain whether incentives and customer applications were processed, recorded, and paid in accordance with set program guidelines and parameters, UAFCB made a non-statistical selection of fifty-one (51) customer applications for testing. Of the 51 samples, 25 are from calendar year 2007, evenly represented by Residential, Commercial and Non-Profit/Government applications totaling \$1,939,806, or 11%, of the total incentives PG&E paid. A total of 26 are from calendar year 2008, largely represented by Commercial EPBB applicants and totaling \$15,009,665, or 20%, of total incentives paid. Of the 26, 20 or 77% of the sample are from the

²² PG&E paid SGIP recipients \$16,465,241, or 21%, of the \$76,059,059 it paid in incentives in 2008.

former SGIP, representing \$14,407,062 or 96% of the total amount sampled. The following table provides details of the customer composition that UAFCB selected for testing.

Table A-III
Summary - Customer Applications Selected for Testing

Year	EPBB				PBI				Total
	Res.	Comm.	Gov't	Non-Profit	Res.	Comm.	Gov't	Non-Profit	
2007	9	9	4	3	0	0	0	0	25
2008	0	19	0	0	0	2	5	0	26
Total	9	28	4	3	0	2	5	0	51

CSI Administrative Expenses (including Marketing/Outreach):

PG&E incurred general market administrative expenses totaling \$3,607,851 in Year 2007 and \$6,670,587 in Year 2008, of which \$257,357 and \$699,608, respectively, represented Marketing/Outreach (M&O) expenditures. The following table shows administrative expenditures by major categories, as well as the percentages of each major category to total General Market Administrative expenditures for years 2007 and 2008.

Table A-IV
2007-2008 CSI General Market Administrative Expenditures by Major Categories

Cost Category	Amount 2007	% of Total	Amount 2008	% of Total
Application Processing (Labor & Direct)	\$2,480,925	68.8%	\$2,436,372	36.5%
Inspections	240,597	6.7%	1,042,831	15.6%
Program Management (Labor & Direct)	628,972	17.4%	2,491,776	37.4%
Marketing & Outreach	<u>257,357</u>	<u>7.1%</u>	<u>699,608</u>	<u>10.5%</u>
Total General Market Admin	<u>\$3,607,851</u>	<u>100%</u>	<u>\$6,670,587</u>	<u>100%</u>

To ascertain whether administrative expenditures were relevant to the program, sufficiently supported, and properly recorded, UAFCB made a non-statistical selection of 59 transactions, including from M&O costs, for testing. UAFCB selected 25 from calendar year 2007, totaling \$711,332, or 19.7%, of total administrative expenditures, and 31 from calendar year 2008, totaling \$866,949, or 13%, of total administrative costs. UAFCB's sample selection was largely representative of the administrative cost elements.

D. Program Oversight

In addition to its consultants and contractors, PG&E assigned the following 29 employees to implement its CSI program:

- Two staff in CSI administration,
- Nine for CSI application processing,
- Three for CSI payment processing,
- Seven as CSI application project managers,
- Four as CSI product project managers,
- One as a program manager,
- One as a business analyst,

- One as a processing supervisor, and
- One as a product supervisor.

Besides the CSI statewide manual, PG&E has its own written procedures detailing the roles of all staff.

Along with utilizing the statewide data bases, the PowerClerk and the Trigger Tracker, to monitor its CSI programs, PG&E conducts regular management meetings to assure proper program control and participation, appropriate record keeping, expenditure management against the program budgets, including administrations costs, current incentive payments, and funds to support the five-year PBI incentives liability. PG&E's management also prepares and evaluates its internal monthly CSI Order Reports, which detail all CSI expenditures by month and year.

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 program by \$300 million for calendar year 2006. In addition, the decision 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 of PV facilities, whether to adjust incentives to account for federal tax credits, the proper incentives 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 program, and the energy efficiency and metering requirements for the CSI projects.

In D.06-08-028, the Commission, among other things, adopted the CSI program 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, the Commission, in D.06-12-033, modified its earlier CSI decisions, D.06-01-024 and D.06-08-028, 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 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 revenue 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 by D.06-12-033:

Table B-1
Revised CSI Budget²³

Budget Category	Budget (in millions)
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 ²⁴	189.71
Total CSI Budget for Direct Incentives	<u>\$1,707.41</u>

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 shown in the following table.

²³ D.06-12-033, Table 1, Page 28

²⁴ 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 CSI²⁵
 (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	<u>2</u>	<u>45</u>	<u>0</u>	<u>48</u>
Total	<u>\$947</u>	<u>\$996</u>	<u>\$223</u>	<u>\$2,166</u>
Percent of Total	43.7%	46%	10.3%	

Table B-III
Administrative and Evaluation Budgets by Utility²⁶

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

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

²⁵ Per the Commission's revised revenue requirements in D.08-03-008.

²⁶ 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% = \$189.7M). 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>
Total Percent		<u>764.8</u> 43.7%		<u>805.0</u> 46.0%		<u>180.3</u> 10.3%	

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	350	153.0	161.0	36.1
Total	1750	764.8	805.0	180.3
Percent of Total		43.7%	46.0%	10.3%

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	50	3%
Total MW	1,800	100%

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	105
				Total	\$1,707

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.

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.

In addition, the Commission instructed program administrators to conduct at least one training session per month directed at solar installers and to submit final versions of their basic marketing and collateral materials to the Energy Division for approval.

Appendix C PG&E's Comments on UAFCB's Draft Audit Report



Pacific Gas and Electric Company
77 Beale Street
P.O. Box 770000
San Francisco, CA 94177

October 25, 2010

Mr. Kayode Kajopaiye – Branch Chief
Utility Audit, Finance and Compliance Branch
California Public Utilities Commission
505 Van Ness Avenue, 3rd Floor
San Francisco, CA 94102

Re: Pacific Gas and Electric Company's Response to the CPUC Draft Audit Report for the California Solar Initiative (CSI) Program for the Years Ended December 31, 2007 and 2008

Dear Mr. Kajopaiye:

Pacific Gas and Electric Company provides the following responses to the Utility Audit Finance and Compliance Branch's (UAFCB) Draft Audit Report as requested in Section VI, Comments on UAFCB's Draft Audit Report, of the CSI Program for the Years Ended December 31, 2007 and 2008. The audit report dated September 27, 2010, was issued on October 11, 2010, and requested that PG&E provide a response by within in 10 business days.

PG&E has reviewed the audit report and provides responses to the following UAFCB findings:

Audit Finding 1 Reconciliation of PowerClerk to SAP

Recommendation: PG&E should complete its reconciliation of the identified differences between what PG&E recorded in PG&E's accounting system SAP and what it recorded in PowerClerk. These differences include \$6,952,912 for PG&E's Expected Performance Based Buydown (EPBB) paid incentives for 2007 and \$1,234,386 in EPBB and \$4,040,470 in Performance Based Incentives (PBI) for 2008. Upon completion of its reconciliation, PG&E should provide the UAFCB with the results, preferably for each quarter in 2007 and 2008.

PG&E's Response: PG&E would like to clarify that while the following amounts were noted in the UAFCB draft audit report, \$6,952,912 for PG&E's EPBB paid incentives for 2007 and \$1,234,386 in EPBB and \$4,040,470 in PBI for 2008, PG&E has put a great deal of time and effort into reconciling PowerClerk to SAP and identified all but \$117,662.85 of the differences, \$30,301.00 for 2007 and

\$147,963.85 for 2008. The differences were due primarily to manual entry errors. The reconciliation and details of the errors were submitted to the UAFCB prior to the conclusion of the audit. PG&E intends to continue to research the remaining small differences and upon completion of the 2007 and 2008 reconciliation, we will submit a copy to the UAFCB. At the same time, PG&E will consider incorporating procedures, such as reconciling PowerClerk to SAP on a frequent basis, to ensure that incentive information is entered into PowerClerk accurately. In addition, PG&E and the other Program Administrators are working with the developers of PowerClerk to include an upload feature that would take payment information from the program administration respective systems and upload that information into PowerClerk, minimizing the amount of manual entries. This upload feature is targeted to be completed by June of 2011.

Audit Finding 2

PG&E's Policies and Procedures on Timesheets

Recommendation: PG&E should revise its policies and procedures to require that all employee information on the timesheet is updated with any changes that occur in the period and that all approval signatures are obtained for each timesheet.

PG&E's Response: In 2009, PG&E implemented policies and procedures to require supervisor review and approval of all timecards. The supervisor's review includes ensuring that all employee information on the timecards is updated with any changes that occur during the period.

PG&E does not agree with the auditor's assertion of labor overpayments totaling \$1,691.82. PG&E previously provided documentation to support the labor hours and costs recorded in SAP. The table below summarizes our comments concerning each of the seven anomalies that were noted in the USFCB Draft Audit Report.

Audit Sample Number	PG&E Reference Number	Additional Comments
13	BT4	Employee's hours recorded in SAP for 10/17/07 do not agree with employee's timecard. PG&E maintains the hours in SAP are correct.
14	BT5	<p>PCC standard rates provided in data request #2 are average PCC rates for the quarter and are not reflective of the PCC rate for this individual.</p> <p>Sample #14 reflects labor hours incurred for June 2007. The applicable PCC standard rate is \$121.62, and not \$116.59, which is the average standard rate for the quarter.</p> <p>\$121.62 x 8 hours = \$972.96, which is the amount charged to the CSI order. There is no \$40.24 overpayment.</p>
15	BT6	Same explanation as sample #14.
16	BT7	<p>The amount recorded in SAP reflects the appropriate PCC Rate for the amount of hours worked by employee on behalf of the CSI Program. While the manual excel timecard displayed an incorrect PCC rate, these rates vary over time and are not the governing factor used by the supervisor in approving time worked on a specific program.</p> <p>\$121.62 x 8 hours = \$972.96 is the correct charge, therefore, there is no overpayment of \$221.76.</p>
37	BT17	<p>Employee's PCC 13861 during October 2008. Standard rate for pcc 13861 for October 2008 was \$114.54.</p> <p>\$114.54 x 192 hours = \$21,991.68, which is amount that's recorded in SAP.</p>
38	BT18	<p>Employee PCC 13861 rate during July 2008 was \$107.43.</p> <p>\$107.43 x 125 hours = \$13,428.75, which is amount that's recorded in SAP.</p>
54	BT31	<p>The amount recorded in SAP reflects the appropriate PCC Rate for the amount of hours worked by employee on behalf of the CSI Program. While the manual excel timecard displayed an incorrect PCC rate, these rates vary over time and are not the governing factor used by the supervisor in approving time worked on a specific program.</p> <p>Employee's manual Excel timecard reflected an incorrect pcc of 13700. Employee was in pcc 13727 during February 2008, as evidenced by SAP report that's attached. Standard rate for pcc 13727 for February 2008 was \$164.40.</p> <p>\$164.40 x 7 hours = \$1,150.80, which is amount that's recorded in SAP.</p>

Audit Finding 3
Marketing and Outreach Sponsorships

Recommendation: \$33,904 of PG&E's 2008 Marketing and Outreach costs should be disallowed.

PG&E's Response: At the time of making these expenditures, the only direction PG&E received from Energy Division stemmed from Ordering Paragraph 6 of Decision 07-05-047, which stated 'Following Energy Division approval of interim marketing and outreach plans, program administrators shall send final versions of basic marketing and collateral materials, in the form of program brochures, fact sheets, and general customer education kits to the Director of the Energy Division when ready for review. The materials should be patterned after materials on the "GoSolarCalifornia" website. The materials must, whenever possible, reference the program administrator's role in the CSI program, energy efficiency audit requirements, and the GoSolarCalifornia website. Energy Division will review the proposed materials, in consultation with the assigned Commissioner, and expeditiously notify the program administrator whether the materials are approved or require modification.'

In compliance with this direction, PG&E provided Energy Division with final versions of all basic marketing and collateral materials, and updated the Energy Division on both sponsorship opportunities, through the Marketing & Outreach (M&O) semi-annual plans¹ and through consultation with the Energy Division in 2007 and 2008.

Furthermore, in the 2009 Interim M&O Plan which was subsequently approved, PG&E explicitly underscored the understanding that sponsorships didn't need to be specifically outlined in the Annual Plan.

For Example, after discussing a successful presence at solar trade shows, PG&E stated:

However, no funds were earmarked for this [solar trade shows] in 2008 or in any previous marketing plans. The Program Administrators and the Energy Division are already planning a presence for 2009 events to build on past successes. In order to make sure this effort is supported, PG&E requests approval to earmark funds for this purpose.

Both Outside Lands and the Rivercats sponsorships provided a unique opportunity to reach thousands of customers with CSI messaging over three full days. PG&E offered several solar basics classes and engaged hundreds of potential customers -- not only on the value of solar but on the value of solar as part of an integrated energy management approach. Additionally, these opportunities, afforded a unique platform to reach the PG&E customers who might not otherwise receive solar information.

¹ 2009 California Solar Initiative Interim Marketing and Outreach Plan filed December 15, 2008.

October 25, 2010

PG&E has continued to work extensively with Energy Division staff to implement marketing and outreach approval request process to eliminate any confusion regarding allowable expenditures. This process now allows PG&E to request an M&O approval request form (MOARF) from the Energy Division prior to any marketing and outreach expenditure to be paid by the CSI program. (Attachment A) Additionally, PG&E has recently implemented an internal approval process to ensure all sponsorships are properly vetted through the appropriate PG&E leadership and align with the Commissions goal for increased integration between Demand Side Management Programs, such as, Energy Efficiency, Demand Response and Low Income Programs.

Therefore, PG&E respectfully requests that the UAFCB revise their finding to allow \$33,904 in M&O costs for sponsorships.

Audit Finding 4
Documentation of Training

Recommendation: PG&E should document all training costs, for employees and for marketing and outreach staff, with dates, types of training, attendance, and, when the cost is shared between more than one program, the methodology it employed for allocating costs.

PG&E's Response: PG&E continues to provide extensive training through webinars and onsite classes hosted at the Pacific Energy Center, and throughout the service territory to engage potential customers to "go solar." PG&E concurs with the recommendation and has implemented additional procedures to improve documentation of training costs including the methodology for allocating costs if training is shared by more than one program. In addition, PG&E provides an update to Energy Division on CSI training sessions and the number of attendees in the quarterly CSI Staff Progress Report.

If you have any questions regarding these responses, please contact Mardi Walton, Senior Regulatory Analyst at (415) 972-5607, or mewr@pge.com.

Sincerely,

/S/
Eileen Cotroneo
Manager, Customer Demand Side Management
Energy Proceeding Department

Appendix D Abbreviations and Acronyms

ACR	Assigned Commissioner's Ruling
AESC	Alternative Energy Systems Consulting
AICPA	American Institute of Certified Public Accountants
ALJ	Administrative Law Judge
AS	Account Services Department
CATS	Cross Application Time Sheets
CCSE	California Center for Sustainable Energy
CEC	California Energy Commission
CEE	Customer Energy Efficiency Department
Commission	California Public Utilities Commission
CSIBA	California Solar Initiative Balancing Account
CSI	California Solar Initiative Program
D.	Decision
ENOS	E-Net Online System
EPBB	Expected Performance Based Buydown
ES	Energy Solutions
FERC	Federal Energy Regulatory Commission
I/O	Internal Order
ICF	Incentive Payment Claim Form
kWh	Kilowatt Hours
LI	CSI Low Income Program
MASH	Multifamily Affordable Solar Housing Program

MDSS	Marketing Decision Support
MW	Megawatts
OP	Ordering Paragraph
PBI	Performance Based Incentive
PBIS	Performance Based Incentive Balancing Subaccount
PCC	Provider Cost Center
PBI	Performance Based Incentives
PG&E	Pacific Gas and Electric Company
PTO	Permission to Operate
PV	Photovoltaic
RD&D	Research Development and Demonstration Program
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
SGIP	Self Generation Incentive Program
UAFCB	Utility Audit, Finance and Compliance Branch