



California Public Utilities Commission
Division of Water and Audits

Compliance Audit

California Solar Initiative Program

**Southern California Edison Company
(U-0338-E)**

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

SCE requested confidential treatment under General Order 66-C of data it submitted for the audit. The Commission has neither granted nor denied their request.

**Prepared by
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December 23, 2010

**Compliance Audit
of the
California Solar Initiative Program
of
Southern California Edison
For the Years Ended December 31, 2007 and 2008**

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**Compliance Audit of the
California Solar Initiative Program of
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For the Years Ended December 31, 2007 and 2008

INDEPENDENT AUDIT OPINION¹

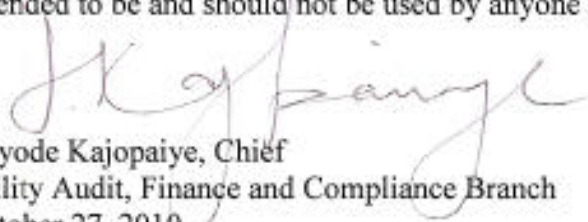
Pursuant to Commission Decision (D.) 06-08-028, Ordering Paragraph (OP) 24, the Assigned Commissioner's Ruling Establishing Program Evaluation Plan for the California Solar Initiative, dated July 29, 2008, Attachment A, Section 3.3.8 and D.06-01-024, page 8, the Division of Water and Audit's Utility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

SCE'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 SCE'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 SCE's compliance with the specified requirements.

In the opinion of UAFCB, with the exception of the lack of a unique identifying number or project description on the EPBB calculator printouts, the manual input of data between the PowerClerk and the Trigger Tracker, a lack of organization of customer files, failure to date stamp applications, a lack of a regular reconciliation between its accounting system and the PowerClerk, improperly recording and reporting application fee refunds and consulting fees as incentives, overstating its program expenditures, inadequate language in SCE's contracts with its CSI customers for requiring access for SCE's inspectors to the rooftops of its CSI customers and permitting its inspectors to rely on estimated information when customers deny inspection access, SCE complied, in all material respects, with the aforementioned requirements for the years ending December 31, 2007 and 2008. UAFCB identified some instances where SCE's policies and procedures for the administration and implementation of its CSI and its oversight should be strengthened to ensure that reporting of project information and expenditures are in accordance with the Commission's directives and reporting requirements.

This report is intended for use by the California Public Utilities Commission and SCE. 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 27, 2010

¹SCE requested confidential treatment under General Order 66-C of data it submitted for the audit. The Commission has neither granted nor denied their request.

Compliance Audit of the California Solar Initiative Program of Southern California Edison 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 Southern California Edison Company's (SCE) California Solar Initiative General Market program (CSI) for calendar year 2007 and 2008.² The UAFCB conducted this audit pursuant to Commission Decision (D.) 06-08-028, Ordering Paragraph (OP) 24, the Assigned Commissioner's Ruling Establishing Program Evaluation plan for the CSI dated July 29, 2008³ and D.06-01-024, page 8. The UAFCB conducted the audit at the request of the Commission's Energy Division (ED).

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

- (1) The reliability and authenticity of the CSI expenditures reported to the Commission and those recovered in electric distribution rates;
- (2) The integrity of the controls for safeguarding ratepayer funded CSI general market customer target groups;⁴
- (3) The assurance level of SCE's compliance with Commission directives, its own policies and procedures; and
- (4) The adequacy of SCE's program oversight.

SCE manages the deployment of its CSI in its Customer Service Business Unit (CSBU), which is also responsible for the operations of SCE's energy efficiency programs. Under the CSBU, the Customer Programs & Services Division (CP&S) assures that the energy efficiency and CSI programs are properly managed and are in compliance with the Commission's directives. Within the CP&S, the CSI Program and Operations Department manages the implementation, administration and operation of the CSI programs. As of December 31, 2008, SCE indicated it employed 29 people in implementing its CSI program, not including its consultants and contract workers. Ten of the 29 employees are fully allocated to the CSI program.

In D.06-12-033, the Commission authorized a combined budget of almost \$2.2 billion for the CSI programs of SCE, Pacific Gas & Electric (PG&E), and San Diego Gas & Electric (SDG&E). In D.06-12-033, the Commission allocated \$ 189.7 million of the CSI budget to be

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

² The UAFCB did not audit the Multifamily Affordable Solar Housing Program nor the Single Family Affordable Solar Homes Program.

³ See Attachment A, Section 3.38 of the Assigned Commissioner's Ruling Establishing Program Evaluation Plan for the CSI, dated Jul 29, 2008.

⁴ The CSI customer target groups include residential, commercial, government and nonprofit entities.

spent on administration. SCE's portion of the total authorized budget is the largest, \$996 million or 46%.

For calendar years 2007 and 2008, the Commission allocated SCE a total CSI budget of \$147 million per year. In addition, in D.06-08-028, the Commission authorized SCE to transfer \$104.6 million from its Self Generation Incentive Program (SGIP) to its CSI in 2007.⁵ Over the two-year audit period, SCE spent \$58 million of its \$294 million authorized CSI budget. SCE spent almost 87% of the \$58 million in 2008. Not including the SGIP incentives, SCE incurred \$45 million or 15% of \$294 million. In the following table, UAFCB provides a summary of SCE's budget and expenditures over the two program years.

Table I
SCE CSI's Program Budget and Expenditures 2007 – 2008
 (000's)

Category	2007	2008
Amounts Brought Forward	\$ 0	\$252,879
Transfer from SGIP	104,595	0
Authorized Budgets	147,000	147,000
Interest	9,060	5,915
Available Spending Amounts	260,655	405,794
Less: CSI Expenditures ⁶	7,768	37,690
SGIP	0	12,292
Amounts Carried Forward	\$252,879	\$355,812

In conducting its audit of SCE's CSI for calendar years 2007 and 2008, UAFCB judgmentally selected samples for testing from SCE's general market incentive applications and expenditures. UAFCB also tested SCE's 2007 and 2008 CSI administrative and marketing expenditures. In addition, the UAFCB assessed SCE's compliance with CSI program requirements established in the CSI Handbook and Commission directives.

UAFCB found areas of weakness in SCE's internal controls and its policies and processes which require attention. These include: lack of a unique identifying number or project description on the EPBB calculator printouts, manual input of data between the PowerClerk and the Trigger Tracker, a lack of organization of customer files, failure to date stamp applications, a lack of a regular reconciliation between its accounting system and the PowerClerk, improperly recording and reporting application fee refunds and consulting fees as incentives, overstating its program expenditures, inadequate language in SCE's contracts with its CSI customers for requiring access for SCE's inspectors to the rooftops of its CSI customers and permitting its inspectors to rely on estimated information when customers deny inspection access.

⁵ With the establishment of the CSI program, the Commission redirected the solar portion of the SGIP budget to the CSI program. Beginning in 2007, the Commission consolidated its implementation of all solar incentives into the CSI program.

⁶ These amounts are net of customer application fee refunds which SCE incorrectly recorded and reported as incentive payments and included in program costs; \$4,311 in 2007 and \$459,508 in 2008. These errors did not materially affect the amounts that SCE charged to the program.

On July 30, 2010, UAFCB met with SCE and discussed UAFCB's preliminary audit findings. SCE was in agreement with UAFCB's observations and recommendations. On October 27, 2010, UAFCB provided a copy of its draft report to SCE for comment, including UAFCB's draft findings and recommendations. In its timely comments, SCE cooperatively agreed to address most of UAFCB's draft findings and recommendations and provided additional data for UAFCB to review. In addition, in its comments on UAFCB's draft audit report, SCE stated that it implemented some of UAFCB's recommendations.

II. Audit Recommendations

The Audit Findings Section of this report, Section V., describes, among other things, all of UAFCB's audit findings and recommendations, along with what SCE agreed to implement as a result of UAFCB's preliminary findings and recommendations.

The following UAFCB recommendations remain outstanding:

1. SCE's monthly reconciliations and related processes and controls should be reviewed during the next audit to ensure that any variances are well documented, fully supported and justify the amounts reported to the Commission's Energy Division. (Refer to Section V.A, Audit Goal 1.)
2. SCE's correcting entries for any discrepancies that SCE finds during its reconciliations should be reviewed in the next audit. (Refer to Section V.A, Audit Goal 1.)
3. A unique project identifier or specific project description should be input in the EPBB Calculator and this should be visible on the printouts. (Refer to Section V.B, Audit Goal 1.)
4. Inputting CSI program data from the PowerClerk to the Trigger Tracker should be automated. (Refer to Section V.B, Audit Goal 1.)
5. The PowerClerk/Trigger Tracker interface issue and the EPBB Calculator printout issue should be reexamined during the next audit. (Refer to Section V.B, Audit Goal 1.)
6. SCE's development and implementation of controls to organize its CSI customer files and to include a file index and date-stamp appropriate documents should be reviewed in the next audit. (Refer to Section V.B, Audit Goal 2.)
7. SCE should improve its contracting and inspection processes to require customers provide rooftop access for inspections as part of the payment qualification process, unless the inspector cannot access the rooftop for safety reasons as defined in the CSI Program Policies & Procedures. (Refer to Section V.B, Audit Goal 2.)
8. If a customer refuses to provide rooftop access to an inspector, and it is otherwise safe for the inspector to access the roof, then that customer should be disqualified from receiving an incentive payment. (Refer to Section V.B, Audit Goal 2.)
9. SCE needs to ensure that only authorized incentive payments are recorded as incentive payments. (Refer to Section V.C, Audit Goal 2.)

III. Introduction

The CSI is a solar rebate program for California residents who decide to install solar systems and are customers of PG&E, SCE and SDG&E.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 program is funded by electric rate payers through the electric distribution rates of PG&E, SCE and SDG&E.

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

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

Initially, 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, 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 the third-party financial audit of the CSI program covering the first two calendar years, 2007 and 2008. The UAFCB and Energy Division finalized the audit plans on December 14 through 22, 2009.

UAFCB began its audit of SCE's 2007 and 2008 CSI general market program with an engagement letter to SCE, dated December 23, 2009. UAFCB concluded its field work on July 27, 2010.

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

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

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 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 (PAs) 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 by PAs.

B. Audit Scope and Purpose

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

The scope of UAFCB's audit addressed SCE'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 SCE'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 SCE's reporting to the Commission.
4. Oversight Adequacy - internal monitoring of program implementation provides adequate oversight and support for the program.

C. Audit Objectives

UAFCB developed four (4) audit objectives designed to meet the overall CSI audit purpose and scope:

1. Determine whether SCE is following specific CSI program policies and procedures pursuant to the CSI Program Handbook, related Commission directives and SCE's policies and procedures to support full compliance with CSI requirements;
2. Assess and evaluate administrative and accounting controls in place to protect the ratepayer-funded CSI customer target groups ;

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.

3. Determine whether SCE's accounting system and methods for capturing CSI expenditures are sufficient in producing reliable information to the Commission;
and
4. Ascertain and evaluate whether SCE exercises sufficient management and oversight to meet the program's goals and objectives.

D. Audit Task Areas and Goals

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

A. Program Accounting and Reporting:

- 1) Assess SCE's accounting system and procedures related to its CSI and determine if the expenditures recorded in its records and regulatory accounts were correctly reported to the Commission.
- 2) Ascertain whether SCE's CSI program expenditures were duplicated for recovery in SCE's general rate increase (GRC) request.

B. Program Implementation, Processes and Controls:

- 1) Assess whether SCE's CSI is structured, and implemented in accordance with set program policies and procedures and Commission directives.
- 2) Determine whether the program processes and controls for the CSI incentives are designed to prevent abuse and misapplication of program funds.
- 3) Determine whether SCE is complying with the CSI incentive step level structure, including allocation and accounting of steps, and that its expenditures are sufficiently documented in accordance with the program rules.

C. Program Expenditure Analysis and Testing:

- 1) Test, on a sample basis that the expenses incurred are relevant to the program and sufficiently supported in a responsible manner.
- 2) Test, on a sample basis that the incentive paid are in accordance with set program guidelines and parameters.

D. Program Oversight:

- 1) Assess the adequacy of SCE's internal reporting system and management oversight of the CSI program to monitor its 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 SCE's compliance with Commission directives and performing such other procedures as considered necessary in the circumstances.

Auditing Procedures Applied

UAFCB procedures and testing included the following general steps:

Pre-audit Procedures:

- Become familiar with SCE's CSI, e.g. type of programs, program processes and operations.
- Review pertinent Commission decisions, resolutions, and applicable rules, regulations and program manuals.
- Contact SCE's regulatory personnel to set up current audit logistics and protocols.

CSI Program Processes Review:

- Interview SCE's program personnel to gain information and an understanding of its CSI operations and processes, in connection with customer enrollment, program administration, and management oversight.
- Review SCE'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 and allowances.

Other Procedures:

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

In Appendix B, by Audit Task Area, UAFCB describes SCE's program processes and provides additional details regarding UAFCB's auditing practices.

F. Preliminary Findings

UAFCB held an audit exit meeting with SCE on July 30, 2010 to discuss UAFCB's preliminary audit findings. SCE provided responses to UAFCB's preliminary audit findings on the same day. As described further in Section V. of this report, SCE agreed to UAFCB's preliminary findings and recommendations. Where findings were still pending, UAFCB continued its review and analysis.

V. Audit Findings

A. Program Accounting and Reporting

Audit Goal 1: Assess SCE's accounting system and procedures related to its CSI and determine if the expenditures recorded in its records and regulatory accounts were correctly reported to the Commission.

Findings:

1. UAFCB did not find any material weaknesses in SCE's accounting system.
2. SCE's recorded CSI program expenditures in its accounting system reconcile with those it reported to the Commission.
3. SCE overstated its 2007 and 2008 program costs and incentive payments in its accounting system and in its reports to the Commission by recording and reporting customer application fee refunds as incentive payments; \$4,311 in 2007 and \$459,508 in 2008. SCE's misapplication of these customer application fee refunds overstates both its incentive payments and total program costs.
4. SCE overstated its 2008 incentive payments in its accounting system and in its reports to the Commission by recording and reporting \$165,433 of consulting fees as incentive payments. SCE's misapplication of these consulting fees does not overstate SCE's total CSI program costs.
5. SCE corrected these 2007 and 2008 accounting errors in 2009 and 2010 by posting reclassification entries.
6. SCE did not reconcile its Power Clerk and General Ledger incentive payments on a regular basis.

Up to June 31, 2008, SCE used its Corporate Accounting and Reporting System (CARS). Thereafter, SCE used the Systems, Applications and Products in Data Processing accounting system (SAP) to record its CSI expenses. On a monthly basis, SCE posted journal entries to its regulatory CSI balancing accounts. UAFCB did not discover any material weakness in SCE's accounting records and its reports to the Commission.

However, SCE was not reconciling information it entered into the statewide system PowerClerk with its SAP. Such a practice undermines the reliability of the incentive payment information in PowerClerk. Without conducting these reconciliations, SCE is at risk of making payments in error and not detecting them in a timely manner and submitting incorrect reports to the Commission.

In addition, in 2007 and 2008, SCE incorrectly recorded and reported customer application fee refunds and some consulting fees as incentive payments. SCE incorrectly recorded and reported \$4,311 of application fee refunds as incentive payments in 2007 and \$459,508 in 2008. In addition, SCE incorrectly recorded and reported \$165,925 of consulting fees as incentive payments in 2008. UAFCB discusses these issues further in Section V.C., Audit Goal 2.

Preliminary Findings and Recommendations: In its preliminary findings, UAFCB recommended that SCE regularly reconcile its SAP with the PowerClerk and the Trigger

Tracker. SCE agreed to do regular reconciliations. In its comments on UAFCB's draft audit report, SCE stated that it is now completing monthly reconciliations between the PowerClerk and its General Ledger. SCE asserts that if it notes any discrepancies, it is recording a correcting entry in a timely manner.

Recommendations:

1. SCE's monthly reconciliations and related processes and controls should be reviewed during the next audit to ensure that any variances are well documented, fully supported and justify the amounts reported to the Commission's Energy Division.
2. SCE's correcting entries for any discrepancies that SCE finds during its reconciliations should be reviewed in the next audit.

Audit Goal 2: Ascertain whether SCE's CSI expenditures were duplicated for recovery in SCE's general rate increase (GRC) request.

Findings:

1. SCE did not seek duplicate recovery of its CSI costs in its 2009 GRC.

In its GRC workpapers for test year 2009, SCE removed recorded costs associated with its CSI program and did not use its CSI expenses to forecast expenses in its GRC.

Recommendations: None.

B. Program Implementation, Processes and Controls

Audit Goal 1: Assess whether SCE's CSI general market program is designed, structured and implemented in accordance with set program polices and procedures and the Commission's directives.

Findings:

1. SCE's 2007 and 2008 CSI general market program design, structure and implementation were generally based on the CSI handbook and Commission guidelines.
2. Manual input of data into and between the PowerClerk and the Trigger Tracker results in an increased potential for errors in both systems.
3. SCE did not manually include a unique project identifier or description on its EPBB Calculator printouts for its customer files, increasing the potential for incentive payment errors.

The EPBB Calculator is an online tool for computing the proper incentive payment based on the reasonable expected performance of a particular solar system. When compiling its EPBB documentation for its customer program/project files, SCE did not include a unique project identifier or descriptions for readily recognizing the associated specific project.

Due to the lack of a unique project identifier, the EPBB calculator printout is potentially prone to being erroneously associated with another customer's application. Since SCE does not conduct inspections on all EPBB projects, it would be difficult for SCE to catch this mistake. This may result in erroneous payments, especially, for the projects which are not inspected.

The CSI program uses several programs in its operation. This includes the PowerClerk, which is used to manage and track applications, and the Trigger Tracker, which is used to manage the outstanding MW remaining in a given step. These two programs operate independently. The input of CSI program data into the Trigger Tracker system from the Power Clerk is done manually.

Manual input into and from the PowerClerk to the Trigger Tracker not only creates potential for clerical errors in both systems but also delays the update of outstanding MWs in the Trigger Tracker system. SCE indicated that the resolution of these issues would be beneficial to the program.

Preliminary Findings and Recommendations In its preliminary findings, the UAFCB recommended that the EPBB calculator should be modified to include a unique project identifier or description of the project visible on the EPBB calculator printouts. SCE responded that this is a statewide problem that should be corrected. In its comments on UAFCB's draft report, SCE stated that it, with other program administrators will propose changes to enhance the EPBB calculator. SCE further asserts that these enhancements should eliminate the need for EPBB Calculator printouts that could become associated with the wrong CSI project. In the interim, SCE indicated that it will handwrite a unique project identifier on each EPBB Calculator printout.

Recommendations:

1. A unique project identifier or specific project description should be input in the EPBB Calculator and this should be visible on the printouts.
2. Inputting CSI program data from the PowerClerk to the Trigger Tracker should be automated.
3. The PowerClerk/Trigger Tracker interface issue and the EPBB Calculator printout issue should be reexamined during the next audit.

Audit Goal 2: Determine whether program processes and controls for the CSI general market incentives were designed to prevent abuse and misappropriation of program funds.

Findings:

1. SCE did not properly organize its customer files.
2. SCE did not always date stamp applications and incentive claim forms.
3. In some instances, customer CSI participants denied access to inspectors to the installed CSI solar equipment.
4. Except for 1., 2. and 3. directly above and not requiring employees to manually identify the specific project on the EPBB printouts, SCE has adequate processes and controls for the CSI general market program to prevent customer and employee abuse or the misapplication of program funds.

UAFCB reviewed various processes used by SCE in managing the CSI program. These ranged from the application process and MW tracking processes up to the payment process. Documents reviewed by UAFCB included but were not limited to, CSI organizational chart, accounting organizational chart, both the three-step and two-step application process flow

charts, CSI organizational control matrixes, Sarbanes Oxley Control Process documentation, and SCE's payment process as stipulated in the SCE's Managers Energy Efficiency Handbook.

However, SCE did not maintain appropriate controls over its customer files. Although the relevant documents were included in the customer files, the documents were disorganized and out of order. Lack of order made it difficult and time consuming for the UAFCB to check the completeness of documentation for each file and this could also contribute to some documents being lost or misplaced.

In some instances, applications were not date stamped as required by the CSI Handbook to enable the tracking and monitoring of deadlines. Appropriate date stamping would ensure that applications are equitably allocated on a first come first-served basis. This is more critical at or near a step change-over, when SCE would need to determine which applications receive a lower incentive rate.

SCE stamped some applications on the cover letter instead of the application or reservation request itself. This date stamping was insufficient as the cover letter is not a required document, appropriate stamping should have been on the reservation request itself. Cover letters could be easily misplaced without affecting the application status and process of the applicant.

SCE contracts out its inspections of completed solar system installations. SCE uses two firms, Alternate Energy Systems Consultants (AESE) and kW Engineering, for conducting inspections. The CSI Handbook states that system owners should provide access to the program administrator or its contractor to inspect and photograph the project.

One of the inspectors from AESE revealed that some homeowners refused to provide SCE's inspectors access to the roof tops where the installed solar systems were located. Consequently, SCE's inspectors were unable to perform the relevant inspections in these instances, such as photographing, measuring tilt angles, and etc, except on an indirect basis. While indirect verification is approved for instances where safety prevents access to the roof, it is not approved for use when a customer refuses access to the inspector.

UAFCB reviewed a CSI contract between SCE and its customer. UAFCB found that there was a lack of clear language in the contract about the need for the unrestricted access of inspectors.

Preliminary Findings and Recommendations: SCE should organize the contents of its customer files to ensure that all Commission required documents are in a systematic order. A file index should be included in front of each file.

Date stamping should be done on a program-required document, including the application or reservation request, instead of the cover letter. The stamp should be in a clear and consistent position. All incentive claim forms must be date and time stamped to enable the tracking of submission and processing deadlines and the fair allocation of applications between steps.

SCE should improve its inspection contract language to require unrestricted inspection access to customer projects by its contract inspectors. If a customer fails to grant access to an SCE inspector, the customer's project should not qualify for the incentive payment.

SCE agreed to these findings and recommendations. SCE indicated that it would enhance the date stamping procedures and provide organized files to the Commission in future audits. SCE agreed to review its contract language regarding inspections and roof top access.

In its comments on UAFCB's draft audit report, SCE stated that beginning in December 2010, it will ensure the date stamp is imprinted in a consistent fashion and that it will develop a revised application file index for each of the application phases that is consistent with the format in PowerClerk.

However, SCE said that when its post-installation inspectors are denied rooftop access by the customer, they perform an indirect verification similar to that used when the inspector can not access the rooftop for safety reasons and documents that they performed an indirect verification in the report. SCE did not indicate that it would revise its contract language to require the customer to provide rooftop access to its inspectors nor did SCE agree that a refusal to an inspector for rooftop access would result in an incentive payment disqualification.

The CSI Program Policies & Procedures, Appendix C permits indirect verification in instances when the inspector does not deem accessing the roof as safe for the following reasons:

- [T]he roof is too steep, too slippery, too fragile, too wet, too hot, etc.
- [P]art of the roof could easily be damaged during the inspection.
- The inspector does not have a safe way to get up (i.e. ladder is damaged, not adequate).
- The weather makes the conditions unsafe, such as lightning, strong wind, rain, etc.

However, the CSI Program Policies & Procedures does not provide that inspectors may do an indirect verification just because the customer will not allow the inspector to have access to the roof. Consequently, by allowing customers to refuse access to the inspectors, SCE is not in compliance with the CSI Program Policies & Procedures.

Recommendations:

1. SCE's development and implementation of controls to organize its CSI customer files and to include a file index and date-stamp appropriate documents should be reviewed in the next audit.
2. SCE should improve its contracting and inspection processes to require customers provide rooftop access for inspections as part of the payment qualification process, unless the inspector cannot access the rooftop for safety reasons as defined in the CSI Program Policies & Procedures.
3. If a customer refuses to provide rooftop access to an inspector, and it is otherwise safe for the inspector to access the roof, then that customer should be disqualified from receiving an incentive payment.

Audit Goal 3: Determine whether SCE is complying with the CSI incentive step level structure, including allocation and accounting of steps, and that the expenditures are sufficiently documented in accordance with the program rules.

Findings:

1. SCE is in compliance with the CSI general market incentive step level structure, including the allocation to and accounting for steps.
2. SCE's expenditures are sufficiently documented in accordance with the program's rules.

UAFCB reviewed the allocation of MW at the following three cut-off dates; step-two residential at May 16, 2008, step-two non-residential at March 6, 2007 and step-three non-residential at June 8, 2007. UAFCB examined the last 50 applications allocated at the cut-off dates for compliance with the program cut off requirements. UAFCB did not find any exceptions.

Recommendations: None

C. Program Expenditure Analysis and Testing

Audit Goal 1: Test, on a sample basis, that the administrative and marketing expenses SCE incurred are relevant to the program and sufficiently supported in a reasonable manner.

Findings:

1. The administrative and marketing expenses that UAFCB reviewed were relevant to the program and sufficiently supported.

UAFCB tested 8% and 2% of SCE's 2007 administrative and marketing expenses respectively and 6% and 1% of the same categories for 2008. UAFCB examined the sufficiency of supporting documents attached and scrutinized the relevancy and reasonableness of expenses. UAFCB did not find any exceptions.

Recommendations: None.

Audit Goal 2: Test, on a sample basis, whether SCE's incentive payments were made in accordance with set program guidelines and parameters.

Findings:

1. With the exception of instances where SCE might have paid incentives when customers denied rooftop access to SCE's inspectors, SCE made the incentive payments in accordance with set program guidelines and parameters.
2. SCE overstated its 2007 and 2008 CSI incentive payments by \$4,311 and \$625,433, respectively.
3. In 2007 and 2008, SCE incorrectly included customer application fee refunds of \$4,311 and \$459,508, respectively, in its CSI program expenditures as incentive payments.
4. SCE incorrectly recorded \$165,925 of consulting fees in 2008 as incentive payments.

Initially, SCE's data lacked sufficient detail for UAFCB to complete its audit. SCE's data did not contain a field or code to enable UAFCB to determine what types of transactions were contained in the data.

With its comments on UAFCB's draft audit report, SCE provided data sufficient for UAFCB to complete its audit. Along with the data, SCE explained that in 2007 and 2008, it incorrectly recorded customer application fee refunds and some consulting fees as incentive payments.

SCE collects application fees in the form of a deposit from customers applying for CSI incentives and records those fees in its Accounts Payable. When customers complete their projects, SCE returns the application fees to them. SCE stated that it has the obligation to return the customer application fee once a project is completed and thus considers the fee to be a liability. SCE stated that it does not include the fees in its balancing account until the fee has been forfeited. SCE's procedures up to this point are correct.

SCE cannot claim the customer application fee refunds as an expense when it returns these deposits to its customers. Because SCE incorrectly included the deposit refunds as incentive payments, it overstated both its incentive payments and its program expenditures in both 2007 and 2008.

By incorrectly recording some consulting fees as incentives, SCE overstated its incentive payments. However, SCE did not overstate its total program expenditures in this instance.

The following table summarizes the amounts SCE recorded as CSI incentive payments.

Table II
Amounts SCE Recorded and Reported As Incentive Payments in 2007 and 2008

Year	Acct. System	Correctly Recorded		Incorrectly Recorded		Total
		CSI Incentives	SGIP Incentives	Appl. Fee Refunds	Consulting Fees	
2007	CARS	\$5,054,218	\$ 0	\$ 4,311	\$ 0	\$ 5,058,529
Total 2007		\$5,054,218	\$ 0	\$ 4,311	\$ 0	\$ 5,058,529
2008	CARS	\$13,139,972	\$ 0	\$ 30,463	\$ 0	\$13,170,435
2008	SAP	18,380,553	12,292,138	429,045	165,925	31,267,664
Total 2008		\$31,520,527	\$12,292,138	\$459,508	\$165,925	\$44,438,099

SCE asserts that it posted journal entries in 2009 and 2010 reclassifying the application fee refunds and consulting fees that it incorrectly recorded as incentive payments in 2007 and 2008.

SCE stated that it does not include CSI customer application fees in its balancing account to offset CSI program expenditures until a customer is required to forfeit the application fee. Customers forfeit their application fees if they do not complete their project.

SCE asserted that the SGIP incentive payments were in conformance with D.06-12-033.

Recommendations:

1. SCE needs to ensure that only authorized incentive payments are recorded as incentive payments.

D. Program Oversight

Audit Goal 1: Assess the adequacy of SCE's internal reporting system and management oversight of the CSI program to monitor the goals and objectives of its CSI program.

Findings:

1. With the exception of not requiring the use of a project identifier on its EPBB Calculator printouts, not requiring the proper organization of customer files, not requiring the use of a date stamp on appropriate documents, allowing the improper recording and reporting of its customer application fee refunds and certain consulting fees and its lax contracting practices and inspection processes regarding customers who refuse rooftop access to SCE's inspectors, SCE maintained adequate management oversight over its CSI program.

SCE developed a variety of internal reports which it uses in managing its CSI program. These include high level strategic management tools like the Balanced Scorecard, Utility Management Committee (UMC) and Operating Company (OPCO) reports, and operational reports like monthly management reports, expenditure reports, CSI transactional reports, quarterly program administrative and marketing reports. UAFCB reviewed samples of these reports and deemed them useful for SCE management to monitor the goals and objectives of the CSI program.

SCE's internal auditing also plays a pivotal role in monitoring and appraising systems and performance. SCE provided UAFCB with an internal audit report addressing its CSI. UAFCB reviewed the audit report. SCE's internal auditors concluded that SCE met the standards of the Commission's CSI guidelines.

Recommendations: None.

VI. SCE's Comments on UAFCB's Draft Audit Report

On October 27, 2010, the UAFCB submitted a copy of its draft audit report to SCE for its review and comment. The draft audit report included Sections I through IV, as well as the UAFCB's draft audit findings and recommendations, as contained in Section V.

SCE provided timely comments to UAFCB's draft audit report on November 10, 2010. SCE requests that data it submitted with Attachment D of its comments be treated as confidential information, per Public Utilities Code Section 583 and General Order 66-C. UAFCB includes a copy of SCE's comments to UAFCB's draft report, in their entirety in Appendix C, without the Attachments. UAFCB did not include the data SCE included with the Attachments, including data for Attachment D, due to the size limitation. The Commission has neither granted nor denied SCE's request for confidential treatment of the data it provided.

SCE provided comments to clarify its position, along with actions it has taken or will take to address some of UAFCB's findings. SCE did not disagree with any of UAFCB's audit findings included in the draft audit report, with one exception. SCE did not agree to modify its contracting practices, its inspection policies and incentive payment processes for instances when a customer refuses rooftop access to SCE's inspectors.

UAFCB provides a brief summary of SCE's comments below, with references to the pertinent section of UAFCB's report.

Section V.A., Audit Goal 1

Reconciliation of PowerClerk to General Ledger: SCE asserts that it completed the reconciliation of incentive payments between the CSI statewide data base PowerClerk and SCE's General Ledger for years 2007 and 2008. In addition, SCE claims that it has performed and completed monthly reconciliations between the PowerClerk and its General Ledger through the current period and if any discrepancy was noted, it recorded a correcting entry in a timely manner.

Section V.A., Audit Goal 2

2009 GRC Workpapers: SCE provided copies of its 2009 GRC Workpapers supporting its adjustments to remove the recorded CSI program costs.

Section V. B., Audit Goal 1

EPBB Calculator printouts: SCE stated that, in collaboration with the Commission's Energy Division and other CSI Program Administrators, it is seeking to directly incorporate the EPBB calculator into PowerClerk in order to eliminate the need for a printout that could become associated with an incorrect project. In the meantime, SCE stated that it will hand write a unique project identifier or application number on each EPBB calculator printout.

Section V. B., Audit Goal 2

The PowerClerk and Trigger Tracker Integration: SCE stated that it will forward UAFCB's recommendation to automate the interface between the PoweClerk and Trigger Tracker to the Commission's Energy Division.

Section V. B., Audit Goal 2

Customer File Organization & Indexing: SCE stated that it kept its customer files in a systematic order corresponding to the timeline of when customer documents were due for submittal to SCE. SCE indicated that, effective December 1, 2010, CSI program rules require electronic submittals from all customers. Consequently, SCE stated that it will develop a revised application file index consistent with the format in PowerClerk and ensure that date stamps are imprinted in a consistent position on its customers' applications.

Section V. B., Audit Goal 2

Inspector Access: SCE asserts that in circumstances where a rooftop is deemed unsafe or otherwise unavailable, it requires its inspectors perform an indirect verification from the ground or a ladder per CSI Program Policies & Procedures, Appendix C, CSI Inspection Protocol, IX. Safety Protocol, part C.

Section V. C., Audit Goal 2

Incentive Information: With its comments, SCE provided incentive transaction detail for 2007 and 2008, including an identifying field. According to this data, SCE recorded \$5,054,218 in CSI incentives and \$4,311 in application fee refunds as CSI incentives in 2007. For 2008, SCE recorded \$31,520,527 in CSI incentives, \$12,292,138 in SGIP incentives, \$459,508 in application fee refunds, and \$165,925 in consulting fees as CSI incentives.

Along with acknowledging that it incorrectly recorded \$165,925 in consulting fees as incentive payments in 2008, SCE acknowledged that it also incorrectly recorded CSI application fee refunds of \$4,311 in 2007 and \$459,508 in 2008 as incentive payments. According to SCE, it made correcting reclassification journal entries for these errors.

SCE also provided information describing its accounting process for recording CSI application fees and explained its treatment of application fees and ultimately the criteria for it to be recorded in its regulatory balancing account.

VII. UAFCB Rebuttal

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

Section V.A., Audit Goal 1

Reconciliation of PowerClerk to General ledger: UAFCB appreciates that SCE performed the reconciliation of incentive payments between the PowerClerk and its General Ledger for the years ended 2007 and 2008, and through the current period. UAFCB reserves the right to follow up on these reconciliations in subsequent audits.

Section V.A., Audit Goal 2

2009 GRC Workpapers: UAFCB reviewed the 2009 GRC documents submitted by SCE as requested and is satisfied that SCE CSI expenditures were not duplicated for recovery in SCE's GRC

Section V. B., Audit Goal 1

EPBB Calculator printouts: UAFCB also appreciates SCE's efforts to collaborate with the Commission's Energy Division and other CSI Program Administrators to seek ways to directly incorporate the EPBB calculator into PowerClerk in order to eliminate the need for a printout. UAFCB also appreciates SCE's agreement to hand write a unique project identifier and/or application number on each EPBB calculator printout.

However, UAFCB feels that it is important that a unique project identifier such as an application number field be integrated into the EPBB calculator printout in order to minimize the risk of using the incorrect EPBB calculator printout when calculating the final EPBB incentive payments. As indicated the report, the final EPBB calculator printout is used to determine the final EPBB incentive amounts paid to customers. By using an incorrect EPBB calculator printout when calculating the final EPBB incentive payment, SCE could make an erroneous payment that may not be realized for some time. This is especially so when SCE makes only one payment on EPBB projects which are not inspected.

Section V. B., Audit Goal 1

The PowerClerk and Trigger Tracker Integration: UAFCB concurs with SCE and reconfirms its recommendation to create an interface between the CSI database systems, the PowerClerk and Trigger Tracker.

Section V. B., Audit Goal 2

Customer File Organization & Indexing: UAFCB notes SCE's commitment to improve its customer file process by the inclusion of a file index. UAFCB will follow up on SCE's revised customer file process and organization during subsequent audits.

Section V. B., Audit Goal 2

Inspector Access: SCE is not in compliance with the CSI Program Policies & Procedures.

Section V. C., Audit Goal 2

Incentive Payments: UAFCB appreciates that SCE confirmed that it incorrectly recorded application fee refunds and some consulting fees as incentive payments.

Appendix A Background by Audit Task Areas

A. Program Accounting and Reporting

SCE's Finance and Accounting Department is headed by its Chief Financial Officer (CFO)/ Senior Vice President, assisted by a treasurer, controller and several managers. SCE's accounting department plays a leading role in budget development and control, designing and implementing the appropriate accounting methods, and validating that costs are appropriately charged to the right accounts.

Prior to July 1, 2008, SCE's Corporate Accounting & Reporting System (CARS) and its companion system, Financial Data Warehouse, were the data source for all costs. SCE housed its budgets and recorded extracts in a data-mart established for its Customer Service Business Unit (CSBU), which included various tables and allowed various reporting combinations. SCE generated management performance reports on its budgets from the information in its data-mart using Data Security Standard (DSS) web applications. SCE's budget reports included plan vs. actual variance reports as well as line item reports.

On July 1, 2008 SCE changed its accounting system to the Systems, Applications and Products in Data Processing Accounting System (SAP). SCE indicated that the change to SAP was necessary to improve its accounting, reporting and other information.

SCE designed charts of accounts for both CARS and SAP to satisfy specific program requirements which include tracking and controlling the unique program costs. In addition SCE indicated that it complies with the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts.

CARS

According to SCE, under the CARS system, SCE created a specific account code to tract all costs related to CSI program, 095.196, including both incremental and non-incremental costs from the program.¹ SCE used the following functional cost codes to track incremental and reportable costs:

- 2840- Outside Contractors and Consultants
- 2841- Residential Incentives
- 2842- Small Commercial Incentives
- 2843- Large Commercial and Industrial Incentives
- 2847- Administrative Costs
- 2848- Measurement and Evaluation

SCE posted these coded costs to trial balance account 910.010. Expenses in the above functions were included in the balancing account along with the authorized revenues on a monthly basis.

SCE recorded non-incremental administrative costs as program costs in CARS Account 2845, but didn't include them in the balancing account for recovery since it recovered them through its general rate case.

¹ SCE's CSI incremental costs include those

SAP

Within its SAP, SCE established Internal Order Numbers (I/O) to record incremental and non-incremental costs assigned to its CSI profit center and to ensure that the costs are included in the balancing account. Below are SCE's CSI I/Os:

- 600481- Cal Solar Initiative Incremental
- 600545- Regulatory Affairs – Cal Solar – 095.196
- 600546- Mash-CSI Group- (Not active until Nov'08)
- 601263- CA Solar Initiative p9069 Non-Incremental
- 601765- SFLI-CSI Group- (Not active until Feb 2009)
- 602220- CA Solar Initiative- CCO
- 600535- Regulatory Support – CSI Pro Ops

SCE aggregates its CSI expenditures using cost elements, the lowest transaction detail in SAP. Each cost element is manually identified and aggregated by cost category (e.g. administration costs, marketing and outreach costs, and direct implementation costs). These cost elements are also aggregated and recorded in the General Ledger which eventually flows to SCE's Base Revenue Requirement Balancing Account (BRRBA) which includes the CSI balancing Account.

SCE's SAP contains all the recorded cost information with the exception of the budget. Cost Planning Network (CPN3) is the source of the budget information and according to SCE, it manually creates reports from its CPN3.

SCE's Budget Cost Control Section provides monthly reports to the Program Management Team for review. This information is summarized in a comparative format of budget versus actual for review by management and reporting to CPUC. UAFCB auditors were provided with some copies of these reports for substantiation.

B. Program Implementation, Processes and Controls

The UAFCB reviewed and tested a variety of SCE's program processes and controls which SCE put in place to manage and control the CSI program, including SCE's controls and processes for application reservation requests, incentive claim requests, payments, installations and inspections.

UAFCB performed a walk through of SCE's document and process flow for both the two-step and three-step application processes. The two-step application was for applicants with small systems under 10 kW, including all residential retrofits and all retrofit and new non-residential projects. The three-step application process was for all non-residential retrofit and new non-residential projects with equal or more than 10 kW.

UAFCB reviewed SCE's megawatt (MW) reservation process and obtained a list of MW cross over dates and tested the allocation of applications to ensure that applications were appropriately allocated on a first-come first-served basis.

UAFCB examined various payments made with CSI funds. These included incentive payments and vendor payments for various services and activities. Supporting documents for the incentive payments included signed applications, printouts of the EPBB calculation sheets, system description sheets, proof of electricity service, energy efficiency audit reports, executed agreements of system purchase, executed agreements of system installation, incentive claim

forms, final project cost affidavits, final project break down sheets, verifications of meter eligibility, verifications of performance monitoring, authorizations to interconnect, application fees, certificates of tax exemption status, and third-party payee forms. For vendors and contractors, SCE requires that the following documents be maintained: purchase orders, accompanying orders, work authorizations, invoices for authorization and any other compliance requirements according to the agreement and CSI program requirements.

UAFCB reviewed SCE's controls for the processing of invoices, which included a flow chart and Sarbanes Oxley Control Process documentation for SCE's invoice receipts, verifications, payments and check printing. UAFCB also reviewed SCE's co-funding requirements and agreements. In addition, UAFCB reviewed the following policies and procedures manuals: 1) the 2007 and 2008 CSI Handbook, and (2) the Industrial Energy Efficiency Policies and Procedures Manual. Lastly, UAFCB reviewed SCE CSI customer contracts.

To implement its CSI program, SCE used its existing SGIP administrative infrastructure. In addition, SCE utilized several outside contractors:

1. Alternative Energy Systems Consulting (AESC), and kW Engineering, as technical reviewers responsible for applications and paperwork, communicating results of technical review and performing random or mandatory inspections. The scope of work of these consultants included:
 - Review all paperwork and forms associated with an application at each stage of the program.
 - Draft conditional reservation request evaluation and other letters as required.
 - Verify information and prepare the conditional reservation support document.
 - Conduct final site inspections and verify report of equipment and performance requirements.
 - Review final documents to ensure accuracy and compliance with program handbooks' application and approval process.
 - Provide engineering and technical support in evaluating eligible technologies brought before the working groups.
 - Conduct technical reviews of all forms and documents as required
 - Schedule and conduct both random and mandatory site inspections of installed CSI equipment sites as required.
 - Provide application data as needed by the program administrator this may include system tilt and azimuth information.
 - Adjust and improve the processing system, based on changing program requirements or requests from the Program administrator.
2. Applied Metering Technologies (AMT), for conducting PBI meter inspections. AMT provides inspections of installed PBI meters and ensures that the meter installations and specifications are in compliance with the CSI program requirements. PBI inspections include the physical inspection of the unit, the completion of solar sub-meter inspection form, and photographing the meter and the connection to the service line.
3. Energy Solutions (ES), which assisted in creating specifications for the statewide database PowerClerk,
4. Clean Power Research, which owns the PowerClerk and implements any new functionalities that are needed into PowerClerk, and
5. ITRON, which assists in the CSI RD&D program.

The contracts for Energy Solutions, Clean Power Research, and ITRON are shared amongst the three statewide CSI program administrators.

SCE leverages a variety of marketing and outreach channels to solicit customers, including SCE'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 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 SCE CSI website.

Throughout the 2007-2008 period, SCE utilized two application processes; a two-step process and a three-step process as mandated by the CSI Handbook.

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, SCE reviews the application package for completeness and determines eligibility. If an application is found to require clarification, SCE requests additional information. Applicants have 20 calendar days to respond to the clarification request with the necessary information. SCE 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, SCE issues a confirmed reservation letter informing the customer that a specific incentive amount is reserved for the project and establishes an expiration date.² 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. SCE may conduct a field inspection. Once SCE confirms the customer's eligibility, it sends a notification letter with notification of payment.

Reservation Reserved Three-Step Application Process:

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

Step 2: The customer submits its proof of milestones completed with all required documents, including a signed program contract. SCE reviews the documentation for

² The expiration date is usually 12 months for residential retrofits and up to 18 months for government, non-profits and public entities

completeness. Once approved, SCE sends a confirmed reservation letter, which indicates the reserved dollar amount and the reservation expiration date.³

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

Payment Processing: SCE has a team responsible for processing CSI incentives payments for both the EPBB and PBI customers.

SCE verifies installations and creates payment request forms; batches for payments up to \$50,000 or special payment requests for payments over \$50,000. Additional forms include the SOX cover memo and a request for approved payee if the payment is over \$500,000. SCE requires that all of these documents be approved by authorized personnel.

SCE's payment team verifies all CSI incentive applications to ensure that they meet the criteria for payment as stipulated in the CSI Hand book and SCE's Customer Service Bureau Finance unit payment guidelines.

After obtaining necessary approved signatures, the payment team enters the payment information in the statewide PowerClerk and the Access database and submits the payment request to SCE's Customer Services Bureau Finance Unit for further processing.

Prior to any incentive payment, SCE's CSI program managers verify that the system has approval to operate by verifying the proof of interconnection documentation submitted by the customer.

Inspections: Two types of inspections are performed by SCE on the CSI projects: site inspections and PBI meter inspections. SCE requires PBI meter inspections for all PBI projects. Site inspections are mandatory for both EPBB and PBI projects with a system size between 30 kW and 100 kW. For other system sizes, SCE inspects 1 in 7. In addition, SCE requires a site inspection for all relocated equipment.

SCE performs post inspections, after the system has been interconnected and the final documentation has been submitted. A post inspection is necessary to verify that a project is installed as prescribed in the Incentive Claim Form (ICF) and the Final EPBB Calculator.⁴ Pre-inspections are not required for EPBB or for PBI projects.

If a project is selected for field inspection, SCE sends the necessary documentation to one of the third-party inspection contractors, kW Engineering or AESC. The inspector will verify the equipment, tilt, azimuth, shading, standoff height and that the system is operational. At the conclusion of the inspection, the inspector will submit the inspection results to SCE. If the system passes the inspection, SCE will approve and pay the project based on the submitted ICF.

If the system fails the inspection, SCE notifies the applicant of the reason for the inspection failure. Reasons for failures can be for material or immaterial mechanical failure and/or

³ The expiration date is 12 months for retrofits and 18 months for new construction.

⁴ SCE uses the EPBB calculator to develop the present valued incentive payment to the EPBB customer and defines the customer system's characteristics and output.

material or immaterial compliance failure. Immaterial mechanical or compliance failures that do not impact 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, SCE will prohibit the responsible party from participating in the program for one year.

C. Program Expenditure Analysis and Testing

According to its accounting system and its reports to the Commission, of its authorized budget of \$147 million for each year, SCE spent 5.3% and 34.3% for 2007 and 2008, respectively. Excluding the SGIP and application fee refunds, SCE spent 25.6% of its authorized budget of \$147 million for 2008 and only 5% of its authorized budget for 2007.

Table A-I
CSI Expenditures 2007 and 2008^a

Payment Category	2007		2008	
	Amount	%	Amount	%
Incentives	\$5,054,218	65	\$31,520,527	63
SGIP/Fee Refunds	0	0	12,292,138	25
Administration	2,497,616	32	5,986,150	12
Marketing & Out Reach	215,984	3	183,476	0
Totals	\$7,767,818	100	\$49,982,291	100

Notes:

(a) UAFCB removed amounts that SCE incorrectly recorded. SCE incorrectly included \$4,311 and \$469,508 of application fee refunds as incentives payments in 2007 and 2008, respectively. In addition, SCE incorrectly included \$165,925 of consulting fees as incentive payments in 2008.

According to SCE, it processed 1,700 and 2,975 applications during 2007 and 2008, respectively, representing an increase in applications in 2008 of 75%. Residential applicants constituted the largest groups, as shown in the following table.

Table A-II
New Applications Submitted in 2007 & 2008

Months	2007			2008		
	Res	Non Res	Total	Res	Non Res	Total
Jan	6	19	25	144	46	190
Feb	22	30	52	164	22	186
March	54	21	75	168	10	178
April	101	17	118	269	19	288
May	144	65	209	215	15	230
June	155	19	174	188	10	198
July	154	17	171	302	16	318
August	135	9	144	319	17	336
Sept	151	14	165	276	19	295
Oct	180	14	194	280	12	292
Nov	168	24	192	201	18	219
Dec	164	17	181	233	12	245
Total	1,434	266	1,700	2,759	216	2,975

In 2007, SCE paid 92% of incentives for level 2 EPBB, while in 2008 SCE paid 52% of incentives for Step 2 EPBB and PBI combined, as shown in the tables below.

TABLE A-III
Customer Applications Processed in 2007 by Step Level

Incentive Step	2007		
	Number of Projects	Incentive Paid	Amount Paid / Total
2	366	\$4,698,708	92.9%
2 and 3	8	78,422	1.6%
3	4	58,744	1.2%
3 and 4	1	12,492	0.2%
3 and 5	1	197,199	3.9%
4	<u>2</u>	<u>12,964</u>	<u>0.2%</u>
Total	<u>382</u>	<u>\$5,058,529</u>	<u>100.0%</u>

TABLE A-IV
Customer Applications Processed in 2008 by Step Level

Incentive Step	2008						
	EPBB		PBI		Total		
	Number of Projects	Incentive Paid	Number of Projects	Incentive Paid	Number of Projects	Incentive Paid	Amount Paid / Total
2	1,119	\$13,060,749	434	\$3,374,959	1,553	\$16,435,708	53.0%
2 and 3	241	2,885,416	42	670,782	283	3,556,198	11.1%
2 and 5	1	19,067	0	0	1	19,067	0.1%
3	545	5,268,972	131	2,900,074	676	8,169,046	25.5%
3 and 4	2	14,056	0	0	2	14,056	0.0%
4	35	1,130,949	53	778,457	88	1,909,406	6.0%
4 and 5	7	572,781	6	81,578	13	654,359	2.0%
5	<u>24</u>	<u>474,375</u>	<u>13</u>	<u>288,312</u>	<u>37</u>	<u>762,687</u>	<u>2.3%</u>
Total	<u>1,974</u>	<u>\$23,426,365</u>	<u>679</u>	<u>\$8,094,162</u>	<u>2,653</u>	<u>\$31,520,527</u>	<u>100.0%</u>

SCE's residential customer sector constituted 94% and 67 % of payments for 2007 and 2008 respectively, as shown in the table below. SCE attributes the increase in overall program participation to its marketing and outreach activities.

Table A-V
Incentive Payments by Customer Target Group
2007 and 2008

Target Group	2007		2008				Total	
	EPBB	%	EPBB	PBI	Total	%	Incentives	%
Res.	\$4,754,505	94	\$20,879,891	\$ 109,129	\$20,989,020	67	\$25,743,525	71
Comm.	262,516	5	1,658,898	7,599,075	9,257,973	29	9,520,489	26
Govt.	0	0	402,310	385,958	788,268	3	788,268	2
Non-Prof.	<u>41,508</u>	<u>1</u>	<u>485,266</u>	<u>0</u>	<u>485,266</u>	<u>1</u>	<u>526,774</u>	<u>1</u>
Total	<u>\$5,058,529</u>	<u>100</u>	<u>\$23,426,365</u>	<u>\$8,094,162</u>	<u>\$31,520,527</u>	<u>100</u>	<u>\$36,579,056</u>	<u>100</u>

For both 2007 and 2008, UAFCB judgmentally selected samples for testing. UAFCB considered the value, relative risk and representativeness of the items. The sampled population constituted all payments that SCE made with CSI funds during the audit period.

UAFCB selected a sample of 32% and 42% of SCE's 2007 and 2008 expenditures, respectively. The following tables present an overview of UAFCB's sample selection for each year by type of expenditure.

Table A-VI
2007 CSI Expenditures Selected for Testing

Expenditure Category	Population			Sample Tested		
	# of Transactions	Amount	% of Total	# of Transactions	Amount	% of Total \$Population
Incentives	382	\$5,058,529	65	79	\$1,682,663	33
Admin.	1,111	2,497,616	32	10	635,633	25
M&O	44	215,984	3	4	137,930	64
Total	1,537	\$7,772,129	100	93	\$2,456,226	32

Table A-VII
2008 CSI Expenditures Selected for Testing

Expenditure Category	Population			Sample Tested		
	# of Transactions	Amount	% of Total	# of Transactions	Amount	% of Total \$Pop.
Incentives & Other ^(a)	2,801	\$44,272,174	88	73	\$17,627,572	40
Admin.	8,221	5,986,150	12	82	3,160,393	53
M&O	97	183,476	0	14	161,240	88
Total	11,119	\$50,441,800	100	169	\$20,949,205	42

Notes:

(a) When SCE provided its transaction data to UAFCB, it didn't provide a field to enable UAFCB to differentiate CSI incentives, SGIP incentives and application fee refunds from each other.

CSI Administration and Marketing/Outreach Expenses Analysis and Sample Selection

SCE's authorized administrative budget for the ten-year period is \$87.2 million or approximately \$8.7 million annually. The Commission authorized \$5 million for SCE's marketing and outreach for the ten-year period, with an annual cap of \$500,000.

In 2007, SCE spent about 29% of the yearly allocation of its administration budget, while in 2008 it spent over 69% of the budget. SCE claims that its administrative costs are attributed to CSI initial implementation costs, statewide database and development costs.

A summary of UAFCB's sample selection for SCE's administrative and market and outreach costs are shown in the following tables.

Table A-VIII
Administrative Costs Subject to Testing

Category	2007			2008		
	Total Expense.	Amount Tested	%	Total Expense.	Amount Tested	%
Contractors/Tech Support	\$2,165,857	\$359,032	17	\$5,068,074	\$2,402,253	47
CSI Data Base	182,582	176,057	96	640,555	274,521	43
Others	<u>149,177</u>	<u>100,544</u>	67	<u>277,521</u>	<u>123,665</u>	45
Total	\$2,497,616	\$635,633	25	\$5,986,150	\$2,800,439	47

Table A-IX
Marketing Expenditures Subject to Testing

Category	2007			2008		
	Total Expense.	Amount Tested	%	Total Expense.	Amount Tested	%
Training & Conf.	\$ 7,074	\$ 0	0	\$ 46,997	\$ 46,240	98
Direct Mail	85,464	85,464	100	83,291	65,000	78
Bill Insert	40,104	25,620	64	0	0	0
Printed Mat.	<u>83,342</u>	<u>26,846</u>	32	<u>53,188</u>	<u>50,000</u>	94
Total	\$215,984	\$137,930	64	\$183,476	\$161,240	88

D. Program Oversight

SCE manages its CSI within its CSBU, under the oversight of a Senior Vice President. Within the CSBU is SCE's Customer Programs & Services Division (CP&S) led by a Vice President, under whom is the Director of Energy Efficiency, followed by the Manager of Program Operations and the manager of the Customer Solar Group. The Manager of the Customer Solar Group has the primary function of ensuring that the CSI program is properly managed and in compliance with the Commission's directives. Reporting to the Manager of the Customer Solar Group are the managers from Solar Customer Solutions, Operations, NEM/Interconnection and Program and Process.

SCE's CSI program is supported by organizations within the CSBU such as; (1) the Business Customer Division, which oversees Customer Outreach, Energy Centers, Engineering Support and Audits; (2) Customer Experience Management, which oversees Marketing; (3) Processing, which oversees Program Support and (4) CSBU Finance, which provides financial support services.

As of December 31, 2008, SCE had 29 people working on the operations of its CSI program, excluding consultants and contract workers. Of these, 10 were 100% dedicated to CSI program activities, 13 had over 75% of their time allocated to the CSI program activities and the remaining six spent between 15% and 50% on CSI activities.

SCE monitors its CSI programs using various internal reports and tools that it designed to assure proper program control and participation and appropriate record keeping. It also monitors the use of its program funds against its approved budget. SCE's management uses the following reports to monitor its CSI:

1. **Balanced Scorecard** - SCE used this tool to track CSI program performance relative to divisional achievement goals. SCE provided summary copies of its Balanced

Scorecards for both 2007 and 2008. According to SCE, the Balanced Scorecards were useful in CSI program management and oversight.

2. **Utility Management Committee (UMC) and Operating Company (OPCO) Reports** - These reports provide high level monthly program statistics to SCE's senior management on the status of completion of CSI applications for both the residential and non-residential customers. UMC is comprised of the senior officers of SCE, while OPCO is comprised of Edison International (EIX) officers. SCE provided copies of these reports to UAFCB.
3. **Monthly Management Reports** - On a monthly basis, SCE produces reports which show daily, weekly and monthly processing goals and activities. Specific activities tracked include: submittal information, such as requests for reservations, proofs of project advancement, incentive claim forms and dropout rates. These reports also provide a comparison of CSI deployment among the utilities. SCE conducts a comprehensive trends and statistical analysis on various aspects of the CSI program. SCE provided UAFCB with samples of these reports; CSI Goals Version 14A and B.
4. **Expenditure reports** - SCE's Budget and Cost Control Section provides budget to actual financial reports to its CSI management. These reports help its CSI management keep track of costs and closely monitor expenditures.
5. **CSI Transactional Reports** - SCE produces detailed monthly transactional reports, which provide the program manager with an update on the status of the program's costs. A copy of this report was provided to UAFCB.
6. **Quarterly Program administrative and Marketing Expense Reports** - The CPUC mandates the production of these reports which it uses to monitor the utilities' administrative and marketing costs. SCE also uses them for monitoring and reporting purposes.
7. **Internal Audit Department** - SCE's internal audit department provides support in monitoring and appraising SCE's systems and performance. For the period under review, SCE provided the UAFCB with its internal audit report addressing SCE's implementation of the CSI program. SCE's internal auditors concluded that SCE met the standards of the Commission's CSI guidelines.

Appendix B

Program History and Applicable Commission Directives

The California Public Utilities Commission (Commission) and the California Energy Commission (CEC) have continuously 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 Renewable Program (ERP) in 2001 which provided incentives for solar PV projects of less than 30 kW.

In 2005, in D.05-12-044, the Commission continued its support of solar PV technologies in California by increasing the funding for the SGIP program by \$300 million for 2006. In addition, the Commission ordered the modification of existing solar incentive levels and directed the Commission's Executive Director to direct Commission staff to propose a comprehensive report by December 15, 2005 detailing its recommendations for the development of a comprehensive solar program that would come to be known as the "California Solar Initiative (CSI)."

In 2006, the Commission collaborated with the CEC to jointly create the CSI, 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. 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 Company (SCG), 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 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. 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, and energy efficiency and metering requirements for the CSI projects.

In D.06-08-028, the Commission, among other things, adopted the CSI incentive levels, administrative structure, and program budget through December 31, 2016. A complete copy of this decision can be obtained from the CPUC website at the following address <http://www.cpuc.ca.gov/PUC/documents/>.

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

On December 14, 2006, in D.06-12-033, following the passage of SB 1, the Commission modified its earlier CSI decisions, D.06-01-024 and D.06-08-028, in order to conform the CSI program to the mandates established in SB 1. In D.06-12-033, the Commission clarified the maximum project size that can receive 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 revenues from natural gas ratepayers to fund CSI. Additionally, the Commission also modified budget allocations and megawatt (MW) goals and specified that solar technologies other than photovoltaic may receive incentives through CSI, if they displace electric usage.

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

**Table B-1
 Ten Year Revised CSI Budget¹**

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 ²	189.71
Total CSI Budget for Direct Incentives	<u>\$1,707.41</u>

In D.06-12-033, due to the Commission's elimination of the collections of revenue from natural gas customers for the CSI Program, the Commission modified the annual revenue requirements for PG&E, SCE and SDG&E. The revised annual revenue requirements are provided below and they are also included in Appendix A of D.06-12-033.

¹ D.06-12-033, Table 1, Page 28

² The administration budget of \$189.7 million 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. The Commission ordered that administrative costs for those programs be incorporated into the total budget, which shall not exceed the figures in this table.

Table B-II
IOU Annual Revenue Requirements for CPUC Portion of CSI
(in millions)

Year	PG&E	SCE	SDG&E	Total
2007	\$140	\$147	\$33	\$320
2008	140	\$147	\$33	\$320
2009	140	\$147	\$33	\$320
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	\$16	\$160
2016	<u>2</u>	<u>2</u>	<u>1</u>	<u>5</u>
Total	<u>\$946</u>	<u>\$996</u>	<u>\$223</u>	<u>\$2,165</u>
Percent of Total	<u>43.7%</u>	<u>46%</u>	<u>10.3%</u>	

Table B-III
Administrative and Evaluation Budgets by Utility³

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. These modified incentive amounts are shown in the following tables.

³ 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. The administrative budget includes funding for evaluations, 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	50.5	102.5	53.1	107.9	11.9	24.2
Total		<u>764.8</u>		<u>805.0</u>		<u>180.3</u>	
Percent		43.7%		46.0%		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	MWs in Step	PG&E	SCE	SDG&E
1	50	n/a	n/a	n/a
2	70	30.6	32.2	7.2
3	100	43.7	46.0	10.3
4	130	56.8	59.8	13.4
5	160	69.9	73.6	16.5
6	190	83.0	87.4	19.6
7	215	94.0	98.9	22.1
8	250	109.3	115.0	25.8
9	285	124.5	131.1	29.4
10	<u>350</u>	<u>153.0</u>	<u>161.0</u>	<u>36.1</u>
Total	<u>1750</u>	<u>764.8</u>	<u>805.0</u>	<u>180.3</u>
	Percent	<u>43.7%</u>	<u>46.0%</u>	<u>10.3%</u>

Table B-IX
CSI MW Goals by Customer Sector

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

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	<u>\$1,707</u>

In D.07-05-047, the Commission requires that each program administrator submit semi-annual expense reports on all administrative activities to the Director of the Energy Division, with the first report due July 15, 2007, and further reports due every six months thereafter. The reports are required to separately delineate interim M&O from administrative expenses so that Energy Division can track the various categories of administrative expenses.

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

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

Appendix C



Gene Rodrigues,
Director of Energy Efficiency

November 10, 2010

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



Dear Mr. Kajopaiye:

Southern California Edison Company (SCE) appreciates the opportunity to review and provide comments on the Utility Audit, Finance and Compliance Branch's (UAFCB) Draft Report *Compliance Audit of the California Solar Initiative Program of Southern California Edison For the Years Ended December 31, 2007 and 2008* (Draft Report). In summary, the UAFCB's overall draft conclusions show that there were no material weaknesses in SCE's accounting system, recorded California Solar Initiative (CSI) program expenditures reconciled to those reported to the Commission and CSI expenditures reviewed were relevant to the program and sufficiently supported.

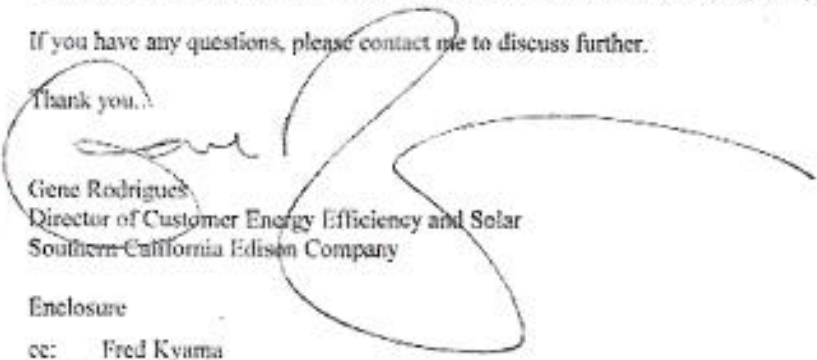
To clarify SCE's position and avoid any potential misinterpretation of findings in the Draft Report, SCE provides its response to the findings and recommendations included in the Draft Report (please see attached pages).

Consistent with other audits, SCE will provide the Commission with comprehensive responses to each of the recommendations and findings that are included in the Final Report and offer the appropriate corrective actions.

SCE appreciates the opportunity to continuously improve its administration and operation of the CSI program and more importantly, help achieve the envisioned CSI program goals.

If you have any questions, please contact me to discuss further.

Thank you.


Gene Rodrigues
Director of Customer Energy Efficiency and Solar
Southern California Edison Company

Enclosure

cc: Fred Kyama
6042 Irwindale Avenue
Suite A
Irwindale, CA 91702
(626) 633-3133

Mr. Kajopaiye
November 10, 2010
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California Solar Initiative (CSI) Audit Recommendations Response
For the Years Ended December 31, 2007 and 2008

CPUC Draft Report

Section II. Audit Recommendations

On Pages 3 and 9 of the Report, the UAFCB provides SCE the opportunity to respond to the following outstanding recommendations:

1. SCE needs to provide its incentive information data to UAFCB, with a field identifying each transaction as a CSI Incentive, SGIP incentive or an Application Fee Refund so that the UAFCB may determine the amount for each category.
2. SCE needs to explain why it included application fee refunds as CSI expenses.
3. SCE needs to provide information to the UAFCB demonstrating where it records customer application fees and explain why it doesn't include them in the balancing account to offset other CSI program expenditures.

SCE's response:

SCE has responded to the three outstanding recommendations through the attached data request entitled "Data Request Set 2007-2008 CSI Audit-CPUC-SCE-019." Please see Attachment D for a copy of the data request set submitted to the Commission.

Section V. Audit Findings

(A) Program Accounting and Reporting

Audit Goal 1:

Assess SCE's accounting system and procedures related to its CSI and determine if the expenditures recorded in its records and regulatory accounts were correctly reported to the Commission.

Finding:

UAFCB found that PowerClerk and General Ledger incentive payments were not reconciled on a regular basis.

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CPUC Audit Recommendation:

SCE's reconciliations and related processes and controls should be reviewed during the next audit to ensure that any variances are well documented, fully supported and justify the amounts reported to the Commission's Energy Division.

SCE's Response:

Pursuant to the UAFCB's recommendation during the audit, SCE completed the reconciliation of incentive payments between the CSI statewide database PowerClerk and SCE's General Ledger (for the years ended 2007 and 2008). SCE began performing monthly reconciliations between PowerClerk and SCE's General Ledger and has completed these reconciliations through the current period. If any discrepancy is noted during these reviews, a correcting entry is recorded in a timely manner.

Audit Goal 2:

Ascertain whether SCE's CSI expenditures were duplicated for recovery in SCE's general rate increase (GRC) request.

Finding:

UAFCB reviewed SCE's GRC workpapers provided for its 2006 GRC test year and concluded that SCE's explanations are reasonable. However, UAFCB didn't receive 2009 GRC workpapers to determine how CSI expenditures were excluded.

CPUC Audit Recommendation:

- 1. SCE should provide 2009 GRC workpapers to show how the CSI approved budget expenditures were treated.*

SCE's Response:

SCE is providing, in Attachment A, the 2009 GRC Workpapers supporting the adjustments to remove the recorded costs associated with the CSI Program.

SCE's 2009 GRC was developed based on the 2006 recorded year. The 2009 GRC Workpapers in Attachment A show that all 2006 recorded costs in SCE's balancing and memorandum accounts are removed because these are funded through separate ratemaking mechanism. Consequently, SCE did not include any forecast for 2007 and 2008 associated with these balancing and memorandum accounts in the 2009 GRC.

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Although the CSI Program did not start until January 1, 2007, the CPUC, in D.05-12-044 and reaffirmed in D.06-01-024, authorized SCE to set up a subaccount within the Self-Generation Program Incremental Cost Memorandum Account (SGPICMA) to track the costs associated with the policy development phase of the CSI Program in 2006. SCE recorded a total of \$55,282 of incremental administration CSI Program costs in the 2006 Solar Self-Generation Incentive Component subaccount of the SGPICMA. Attachment B is provided to show the details of this SGPICMA subaccount. The CPUC, through D.06-08-028, authorized SCE to create a CSI balancing account and transfer any unused SGIP funds associated with solar projects as of December 31, 2006, to the CSI Balancing account beginning January 1, 2007.

As evidenced in the 2009 GRC Workpapers, the 2006 recorded costs in the SGPICMA are included in the adjustments made to remove and exclude SCE's balancing and memorandum accounts from the calculation of SCE's 2009 GRC.

(B) Program Implementation, Processes and Controls

Audit Goal 1:

Assess whether SCE's CSI general market program is designed, structured and implemented in accordance with set program policies and procedures and the Commission's directives.

Finding:

SCE did not manually include a unique project identifier or description on its EPBB Calculator printouts for its customer files, increasing the potential for incentive payment errors.

CPUC Audit Recommendations (V.B.1a):

- 1. A unique project identifier or specific project description should be input in the EPBB Calculator and this should be visible on the printouts.*
- 2. Alternatively, SCE should handwrite a unique project identifier on each EPBB Calculator printout corresponding to the associated project.*

SCE's Response:

In D.06-08-028, the Commission ordered the CSI Program Administrators to collectively issue a single solicitation for a technical expert or experts to provide a single design factor protocol and develop an initial estimation tool. As such, the CSI Program Administrators, through a competitive bid process, contracted with AESC Inc. to develop a statewide incentive calculator known as the "EPBB Calculator." Under the direction of the Commission's Energy Division and through consultations with the CSI Program Administrators, and other CSI stakeholders, AESC designed the EPBB Calculator to meet the criteria specified by the Commission in D. 06-08-028.

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Since the development and early implementation of the EPBB Calculator in 2007 and 2008, numerous modifications or enhancements have been made that were mostly driven by conformance with the Commission's orders or decisions and CSI Program Handbook changes. Modifications and enhancements made to the EPBB Calculator in December 2008 included the addition of a "Project Name" field to help identify and associate an EPBB Calculator print out to a specific CSI project.

SCE, in collaboration with the Commission's Energy Division and the other CSI Program Administrators, is seeking ways to further enhance the EPBB Calculator, including a proposal to directly incorporate the EPBB Calculator into PowerClerk, thereby eliminating the need for a print out that may become associated with the wrong CSI project. To the extent that an additional "unique identifier" is needed, SCE will recommend to the Commission's Energy Division, the other CSI Program Administrators, and AESC to further refine the EPBB Calculator. In the interim, as recommended by the UAFCB, SCE will handwrite a unique project identifier, such as the application number associated with the project, on each EPBB Calculator printout.

CPUC Audit Recommendations (V.B.1b):

3. *Inputting CSI program data from the PowerClerk to the Trigger Tracker should be automated.*
4. *The PowerClerk / Trigger Tracker interface issue and the EPBB Calculator printout issue should be reexamined during the next audit.*

SCE's Response:

SCE appreciates the recommendation to integrate PowerClerk into Trigger Tracker. Similar to the EPBB Calculator, PowerClerk and Trigger Tracker are statewide tools developed under the Commission's direction with input from the Commission's Energy Division, CSI Program Administrators, and CSI stakeholders. Therefore, SCE cannot unilaterally implement such recommendation. Thus, SCE will recommend to the Commission's Energy Division and the other CSI program Administrators to automate the interface between PowerClerk and Trigger Tracker to minimize the potential for errors and delays.

Audit Goal 2:

Determine whether program processes and controls for the CSI general market incentives were designed to prevent abuse and misappropriation of program funds.

CPUC Audit Recommendations (2a):

1. *SCE did not properly organize its customer files.*
2. *SCE did not always date stamp applications and incentive claim forms.*

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SCE's Response:

Although a file index was not included, the customer application files were kept in a systematic order that mirrored the timeline of when customer documents were due for submittal to SCE. SCE currently has an application file index that has been used for customer project files that were reviewed by third party technical reviewers; however, the file naming convention is not always consistent with those used on our customer documents submitted via PowerClerk. Beginning December 1, 2010, CSI Program rules require that all new customer submittals and re-submittals for CSI Application documents be submitted electronically into PowerClerk. These documents will then follow a standard application file format (i.e., order and naming convention). We will develop a revised application file index for each of the application phases (e.g., Reservation Request, Proof of Project Milestone/Advancement, Incentive Claim Form, etc.) that is consistent with the format in Powerclerk, and will set up all application files/documents according to these indices. The new Application File index will be the same format for all reviewed Application files, regardless of whether they were processed by SCE internal processors, or by our external third party processors.

To assist the CPUC in its review of documents, beginning December 2010, SCE will ensure the date stamp is imprinted in a consistent position.

CPUC Audit Recommendations (2b):

3. *In some instances, customer CSI participants denied access to inspectors to the installed CSI solar equipment.*
4. *At this time, except for (audit recommendations) 1, 2, and 3, directly above, and not requiring employees to manually identify the specific project on the EPBB printouts, SCE has adequate processes and controls for the CSI general market program to prevent customer and employee abuse or the misapplication of program funds.*

SCE's Response:

During the month of April 2010, the CPUC auditor accompanied SCE's third party inspector during the "final" inspection of a host customer's program application. The inspector performed the inspection at the site, including accessing the rooftop. During a discussion with the auditor, the inspector also mentioned that there are infrequent occasions where they cannot access the rooftop, for safety or other reasons.

Per standard SCE inspection protocol, the installation contractor takes initial measurements from the ground. Subsequently, direct inspections are conducted on the rooftop by the inspector. If rooftop access is deemed unsafe by the inspector, or otherwise unavailable, per statewide CSI Program rules, the inspector may perform indirect verifications without accessing the roof. These indirect verification methods include:

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- visual panel counts, from the ground or from a ladder
- measurement or visual estimation of array tilt, from the ground or from a ladder
- measurement or visual estimation of array azimuth, from the ground or from a ladder
- measurement or visual estimate of array standoff, from the ground or from a ladder.

This approach is per the CSI Program Policies & Procedures, Appendix C. CSI inspection protocol, "IX. Safety Protocol, part C : *If the inspector is unable to complete the inspection safely, he or she will work with the applicant and/or host customer to determine as best possible the most appropriate values for the inspection.*

To ensure that the installations are inspected appropriately, a detailed "Field Verification Inspection Summary Form" and a "PV System Inspection Form" are completed and submitted with each inspection. These two forms include all relevant installation details reviewed during the inspection. If the roof can not be accessed, the steps performed, via indirect verification, are documented under the "problems/discrepancies" area and in the "notes/comments" sections.

Conclusion

SCE appreciates the opportunity to comment on the Draft Report. We believe that such collaboration fosters a productive working relationship between SCE and the CPUC. If you have any questions, please do not hesitate to contact us to discuss further.

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
CARS	Corporate Accounting and Reporting System
CEC	California Energy Commission
Commission	California Public Utilities Commission
CPN3	Cost Planning Network
CSBU	Customer Service Business Unit
CSI	California Solar Initiative
DSS	Data Security Standard Web Application
EPBB	Expected Performance Based Buydown
ICF	Incentive Claim Form
M&O	Marketing and Outreach
MASH	Multifamily Affordable Solar Housing Program
MW	Megawatt
OPCO	Operating Company
PA	Program Administrator
PBI	Performance Based Incentives
PV	Photovoltaic
RD&D	Research Development and Demonstration
RRF	Reservation Request Form

SASH	Single-family Affordable Solar Homes
SAP	Systems, Applications and Products in Data Processing Accounting System
SGIP	Self Generation Incentive Program
UAFCB	Utility Audit, Finance and Compliance Branch
UMC	Utility Management Committee