



Memorandum

Date: June 27, 2014

To: Michelle Cook
Deputy Executive Director, Operations and Budget

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

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

A handwritten signature in black ink, appearing to be "Kajopaiye", written over the name of the sender in the "From" field.

Except for the matters discussed below, PG&E demonstrated compliance with Commission directives respecting its Energy Efficiency (EE) areas examined by the Utility Audit, Finance and Compliance Branch (UAFCB) for program years 2011 and 2012. For the limited transactions that the UAFCB reviewed, it found a reported cost that PG&E should not have its incentives calculated on. In determining the 2012 incentive amount, the Commission should first remove the On Bill Financing (OBF) revolving loan pool receivables of \$7,521,956 from PG&E's direct implementation expenses before calculation the incentive.

UAFCB conducted this examination pursuant to Decision (D.) 12-12-032.¹ Based on consultation with the Energy Division (ED) and UAFCB's prior experience, this examination was limited in scope and included some of PG&E's 2011 and 2012 EE program specific areas. For program year 2012: (1) On-Bill Financing program (OBF); (2) Administrative costs; (3) Multi-Family Energy Efficiency Rebate program (MFEER); and (4) EE Contracts. For program years 2011 and 2012: (1) Fund Shifting, (2) EE Balancing Accounts, (3) PG&E's Internal Audit Reports on EE programs, and (4) Follow-up on Prior UAFCB's Examination recommendations.

A. Summary of Examination, Observations, and Recommendations

The following is a brief summary of UAFCB's observations and recommendations resulting from its examination. A detailed description of UAFCB's analysis and observations is included in Appendix A.

Observation 1: PG&E did not purposely fail to demonstrate compliance with Public Utility (PU) code §§ 581 and 584.² PG&E under-reported its administrative costs in its 2012 Annual Report by \$11,759,697, with corresponding over-reporting of its third party (3P) and local government partnership (LGP) administrative expenses by \$6,949,773 and \$4,809,924 respectively as it did in its 2011 Annual Report.

¹ In D.12-12-032, on page 40, the Commission discussed that it anticipates relying on public versions of UAFCB's examination reports when determining the amount of each utility's incentives. In Conclusion of Law (COL) No. 9, the Commission indicated that upon completion, UAFCB shall serve a notice of availability of its report on the service list in R.12-01-005, or its successor.

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

Recommendation: This issue is moot. UAFCB supports the reporting requirement between PG&E and the Energy Division on this specific matter that the 3P and LGP administrative expenses incurred by PG&E should be recorded as a line item with the delivery channel (3P and LGP) in the future..

Observation 2: PG&E failed to demonstrate compliance with PU code § 451. In its 2012 Annual Report, PG&E overstated its Direct Implementation (DI) expenditures by \$7,521,956 because OBF loan pool receivables were incorrectly recorded as DI costs.

Recommendation: In determining the 2012 EE incentive award amount, the Commission's ED should ensure that PG&E removes the OBF loan pool receivables balance of \$7,521,956 from its 2012 EE incentive award calculation. If PG&E wants to report its loan pool receivables in the expenditure category, it should report the amount as a credit or a reduction to the total expenses. In consultation with the UAFCB, ED should revisit this matter with PG&E.

Observation 3: PG&E demonstrated compliance with OP 13(a) of D.09-09-047 which capped the IOUs Administrative Costs at 10%. However, PG&E used its total actual expenditures as the denominator when calculating its 10% cap for the 2010-2012 program cycle rather than the prescribed adopted total EE budget amount.

Recommendation: PG&E should use the authorized EE portfolio budget amount, not the actual EE portfolio expenditures to determine the 10% cap calculation in compliance with the decision of the Commission.

Observation 4: PG&E failed to demonstrate compliance with PU code §§ 581 and 584, and the Commission's guidelines on allowable cost categories. PG&E pays its third party (3P) performance based contractors based on cost allocations determined by budgeted amounts for the cost categories. PG&E allocates the invoiced amount based on energy savings to the three major cost categories, administration, marketing, and direct implementation based on budgeted allocation factors developed by the contractors instead of the actual costs incurred in each cost category. If this practice continues, it would defeat the purpose of establishing cost targets for administrative costs for 3P programs.

Recommendation: In consultation with the UAFCB, the Energy Division should meet with PG&E and discuss its allocation practices to determine whether its method of allocating invoiced amounts is acceptable to the Commission.

Observation 5: PG&E was inconsistent in applying customer account numbers to signed OBF Loan Agreements. PG&E mistakenly included the incorrect customer account number on several signed OBF loan agreements. .

Recommendation: PG&E should increase its management oversight and controls when reviewing and approving OBF contracts to ensure that the contract contains correct customer information. No later than 90 days after publishing this report, PG&E should provide the UAFCB with a summary of the steps it has taken to resolve this issue.

Observation 6: PG&E failed to demonstrate compliance with PU code §§ 581 and 584. PG&E improperly reported different amounts for its OBF program costs in its monthly reports when compared to its annual report.

Recommendation: PG&E should increase its management oversight and controls to ensure that all of its reports are accurate and tie to each other before submitting them to the Commission and posting them to EEGA. No later than 90 days after publishing this report, PG&E should provide the UAFCB with a summary of the steps it has taken to resolve this matter.

Observation 7: UAFCB did not find any significant exceptions during its examination of selected sample of the MFEER rebates. PG&E maintained adequate supporting documentation for the rebates selected for substantive testing.

Recommendation: None

Observation 8: PG&E failed to demonstrate compliance with OP 43(b) of D.09-09-047, in that PG&E accounted for its fund shift activities on a non-annual cumulative, transaction-by-transaction basis.

Recommendation: UAFCB recommends that PG&E and UAFCB should discuss this matter further after the report is published since there is no dollar impact. This would benefit future review of fund shifting rules compliance by the UAFCB.

Observation 9: PG&E failed to demonstrate compliance with PU code §§ 581 and 584. PG&E failed to include the amounts shifted in the 2012 4th Quarter Report and the December 2012 monthly report.

Recommendation: PG&E should reconcile all data and ensure that all of its reports are accurate and tie to each other before submitting them to the Commission and posting them to EEGA.

Observation 10: UAFCB did not find any significant exceptions during its examination of PG&E's EE balancing accounts.

Recommendation: None.

Observation 11: In PG&E's Internal Audit report, dated February 15, 2013, UAFCB noted an issue concerning the validation of the appropriateness of EE cost allocation that has not been fully resolved by PG&E's management. PG&E's Customer Energy Solutions management has yet to conduct an annual quality assurance assessment to verify that appropriate documentation is available to validate the appropriateness of allocations for the 2013 period.

Recommendation: UAFCB recommends that PG&E should provide the UAFCB the results of the required assessment to validate the appropriateness of allocations for the 2013 period including the approval by the Internal Audit Department (IA) by July 31, 2014. Our review of this matter should facilitate the UAFCB's examination for 2013.

Observation 12: PG&E demonstrated compliance with the UAFCB's recommendations from its prior two examinations.

Recommendation: None.

B. Examination Process

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

UAFCB provided a copy of its, observations, analysis, and recommendations to PG&E for review and comment. UAFCB summarized PG&E's comments, including UAFCB's rebuttal to those comments in Appendix A. PG&E's comments are included in Attachment A in its entirety to this report.

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

C. Conclusion

Except for the items discussed above, PG&E demonstrated compliance with Commission directives respecting its EE program in the limited areas the UAFCB examined.

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

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Appendix A Analysis and Findings

A.1 Introduction

Except for the matters discussed below, Pacific Gas and Electric Company (PG&E) demonstrated compliance with Commission directives respecting the areas of its Energy Efficiency (EE) program that the Utility Audit, Finance and Compliance Branch (UAFCB) examined for program years 2011 and 2012.

UAFCB's examination was limited in scope and included PG&E's 2011 and 2012 EE specific areas of EE programs of concern to the Energy Division and UAFCB. They are as follows:

1. PG&E Statewide (Investor Owned Utility, IOU), Third Party (3P), and Local Government Partnership (LGP) Administrative Costs - 2012;
2. EE Contracts - 2012;
3. On-Bill Financing (OBF) – 2012;
4. Multi-Family Energy Efficiency Rebates (MFEER) – 2012;
5. Fund Shifting – 2011 and 2012;
6. EE Portfolio Balancing Accounts – 2011 and 2012;
7. PG&E's Internal Audit Reports – 2011 and 2012; and
8. Follow-up on Prior Year UAFCB Examinations – 2010 and 2011.

This report addresses EE regulatory and compliance areas for program years 2011 and 2012, including financial regulatory reporting requirements pertaining to program year 2012. This report excludes any financial compliance matters that pertain to PG&E's EE for program year 2011 since the UAFCB previously addressed such area in an examination report issued on September 19, 2013.¹

On June 9, 2014, the UAFCB submitted a copy of its draft report to PG&E for review and comment. The draft report included UAFCB's observations and recommendations for the specific areas reviewed during the examination. PG&E provided its comments on June 20, 2014. UAFCB includes a summary of PG&E's comments and UAFCB's rebuttal to them in Appendix A. PG&E's comments are included in Attachment A in its entirety to this report.

A.2 Administrative Costs

Observation 1: PG&E did not purposely fail to demonstrate compliance with Public Utility (PU) code §§ 581 and 584.² PG&E under-reported its administrative costs in its 2012 Annual Report by \$11,759,697, with corresponding over-reporting of its third party (3P) and local government partnership (LGP) administrative expenses by \$6,949,773 and \$4,809,924 respectively as it did in its 2011 Annual Report.

¹ Refer to Energy Efficiency Program (EE) Financial Compliance Examination Report of Pacific Gas and Electric Company (PG&E) For the Period January 1 through December 31, 2011 that is available at the following link: <http://www.cpuc.ca.gov/PUC/Water/Available+Documents/Downloadable+Reports/Financial+Compliance+Audit+Reports+for+EE+Programs.htm>

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

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

Condition: Comparing the recorded data to the Annual Report's data, the Annual Report under reported PG&E's administrative costs by \$11,759,697 with corresponding over-reporting in 3P and LGP administrative costs by \$6,949,773 and \$4,809,924, respectively.

Cause: PG&E reported administrative expenses under the 3P and LGP delivery channels to agree with the grouping of the authorized budget.

Effect: The current reporting methodology under each of the three delivery channels does not provide a structure to reflect the true IOU administrative cost information.

PG&E's Comments: PG&E agrees with UAFCB's recommended changes to reporting Third Party (3P) and Local Government Partnership (LGP) administrative expenses as a separate line item within the respective 3P and LGP delivery channels. However, PG&E requests that this observation be revised to read "PG&E demonstrated compliance with Public Utilities Code Sections 581 and 584" on the basis that PG&E had correctly included and reported these 3P and LGP in the proper delivery channels.

Rebuttal: UAFCB modifies its observation to reflect PG&E's concern but left most of it unchanged since the correction is prospective. .

Recommendation: This issue is moot. UAFCB supports the reporting requirement between PG&E and the Energy Division on this specific matter that the 3P and LGP administrative expenses incurred by PG&E should be recorded as a line item with the delivery channel (3P and LGP) in the future..

Observation 2: PG&E failed to demonstrate compliance with Public Utility Code §451. In its 2012 Annual Report, PG&E overstated its Direct Implementation (DI) expenditures by \$7,521,956 because OBF loan pool receivables were incorrectly recorded as DI costs.

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

Condition: PG&E's 2012 accounting records show that a total balance of \$7,521,956 in OBF loan pool receivables were accounted for and reported as DI expenses.

Cause: According to PG&E, the OBF loan pool receivables were reported as DI costs because the OBF revolving loan pool was part of the authorized EE budget and that the loan receivables were incurred for purposes of direct implementation.

Effect: Reporting the OBF loan pool receivables as DI expenses misrepresents and overstates DI costs since the loans are to be repaid. The reporting error resulted in overstating the DI costs by \$7,521,956.

PG&E's Comments: PG&E agrees to remove the \$7,521,956 On-Bill Financing (OBF) loan pool receivables balance from its 2012 EE incentive award Advice Letter filing in June 2014. It disagrees with UAFCB's observation and requests that Observation 2 be revised to read "PG&E demonstrated compliance with PU Code § 451" in that reporting OBF loan pool receivables as part of Direct Implementation costs was consistent with the EE 2010-12 authorized budget. For future annual reporting, PG&E has proposed an alternative reporting of this OBF component.

Rebuttal: UAFCB respectfully disagrees. Accounting and reporting the OBF loan pool receivables as an item of expenditure is not a reasonable and acceptable option.

Recommendation: In determining the 2012 EE incentive award amount, the Commission's ED should ensure that PG&E removes the OBF loan pool receivables balance of \$7,521,956 from its 2012 EE incentive award calculation. If PG&E wants to report its loan pool receivables in the expenditure category, it should report the amount as a credit or a reduction to the total expenses. In consultation with the UAFCB, ED should revisit this matter with PG&E.

Observation 3: PG&E demonstrated compliance with OP 13(a) of D.09-09-047 which capped the IOUs Administrative Costs at 10%. However, PG&E used its total actual expenditures as the denominator when calculating its 10% cap for the 2010-2012 program cycle rather than the prescribed adopted total EE budget amount.

Criteria: Ordering Paragraph (OP.) 13(a) of the Decision (D.)09-09-047 states that the IOU administrative costs for EE programs, excluding the 3P and LGP budgets, are limited to 10% of the total EE budgets.³

Condition: PG&E utilized its actual EE portfolio expenditure as the denominator⁴ in determining its 10% cap rather than the required EE authorized budget amount. UAFCB determined that PG&E's cap, excluding 3P/LGP, is 7.50% for the 2010-2012 EE program budget cycle.

Cause: Though PG&E does not oppose the UAFCB's recommended methodology, "it is PG&E's understanding that the caps and target performance is based on actual expenditures."⁵

Effect: Using the actual program expenditures as the denominator in calculating the 10% administrative cap would not be in compliance with the requirement of the Commission.

PG&E's Comments: PG&E agrees with UAFCB's recommendation to use the authorized EE portfolio budget amount in the denominator in determining its [IOU] administrative costs [10 % cap] calculation.

Rebuttal: None.

³ UAFCB's interpretation of the 'budget' to be the 'adopted or authorized budgets'

⁴ Per data response to DR-003, Q4 and per the UAFCB's corroboration with the 3rd quarter 2011 information filing.

⁵ PG&E's response, dated March 3, 2014, to the UAFCB's tentative audit exceptions/notes.

Recommendation: PG&E should use the adopted EE portfolio budget amount as the denominator when calculating its administrative cost cap of 10%.

A.3 Energy Efficiency Contracts

Observation 4: PG&E failed to demonstrate compliance with PU code §§ 581 and 584, and the Commission's guidelines on allowable cost categories. PG&E pays its third party (3P) performance based contractors based on cost allocations determined by budgeted amounts for the cost categories. PG&E allocates the invoiced amount based on energy savings to the three major cost categories, administration, marketing, and direct implementation based on budgeted allocation factors developed by the contractors instead of the actual costs incurred in each cost category. If this practice continues, it would defeat the purpose of establishing cost targets for administrative costs for 3P programs.

Criteria: Sections 581 and 584 require that the utility provide complete and accurate data to the Commission. Administrative Law Judge (ALJ) Ruling in Rulemaking (R.) R.01-08-028, Appendix -Allowable Costs provides list of approved allowable costs by cost category that demonstrates that the Commission would not want these cost categories to be commingled or misclassified.

Condition: During testing, UAFCB found that the invoices by energy savings from performance based contractors contained charges segregated and charged to the three Commission approved cost categories (i.e., administrative, marketing and direct implementation) using by task budget based predetermined allocations instead of by actual costs incurred for work performed under each cost category. PG&E asserts that the contractors developed them based on budgeted amounts. These are predetermined at the beginning of the contract period and are not trued up or adjusted based on actual experience.

Cause: By allowing performance based contractors to allocate invoiced amount to the three major cost categories may not reflect the actual cost or amount to charge to the cost categories.

Effect: PG&E recorded and reported data to the Commission that are likely misclassified and inaccurate. Allowing vendors to allocate or estimate actual charges for each cost category may result in misclassified costs. It also defeats the purpose of the cap and targets established by the Commission.

PG&E's Comments: PG&E asserts that it has complied with the Commission's guidelines on allowable cost categories and supports Southern California Edison Company's (SCE's) request to the Commission for clarification regarding the allocation method used to report administrative, marketing and direct implementation costs for performance-based contracts as filed in its response on June 3, 2014 to SCE's Motion in A.12-07-011.

However, given the UAFCB's recommendation, PG&E agrees to discuss this matter further with the Energy Division Staff, other IOUs, and possibly 3P program implementers to verify if it is appropriate for the utilities to continue to utilize a contract-

based allocation methodology to report performance-based payments by cost category to the Commission.

Rebuttal: UAFCB position would not change until the Commission decides otherwise.

Recommendation: : In consultation with the UAFCB, the Energy Division should meet with PG&E and discuss its allocation practices to determine whether its method of allocating invoiced amounts is acceptable to the Commission.

Observation 5: PG&E was inconsistent in applying customer account numbers to signed OBF Loan Agreements. PG&E mistakenly included the incorrect customer account number on several signed OBF loan agreements.

Criteria: PG&E's Enrollment and Incentive Management (E&IM) Policy and Procedures Manual for On-Bill Financing Loan Processing Procedure provides steps for processing OBF loan applications, including the completion of OBF loan agreements.

Condition: Ten percent (10%) of the sampled OBF customer files reviewed, PG&E incorrectly included the customers electric account number instead of the customers primary account number on the signed OBF loan agreements.

Cause: PG&E indicated that it mistakenly included the customers electric account number instead of the customer's primary account number on the signed OBF loan agreement.

Effect: Including the incorrect account number on signed loan agreements could lead to loan repayment processing errors, misplaced contract documentation, and potential loan collection problems should the customer default on the rate payer funded loan.

PG&E's Comments: PG&E agrees to enhance its loan processing procedures by including both the customer's primary account number (Account Number) and the Service Agreement Identification number on OBF loan agreements. In addition to the Account number and Service Agreement Identification number, PG&E also agrees to include the customer's Federal Tax Identification number on all OBF contracts.

In addition, PG&E indicated that it has already taken steps to improve the accuracy of including the Account Number and Service Agreement Identification on its customer loan agreements and, within 90 days of this report, will provide the UAFCB with a summary of these steps.

Rebuttal: None

Recommendation: PG&E should increase its management oversight and controls when reviewing and approving OBF contracts to ensure that the contract contains correct customer information. No later than 90 days after publishing this report, PG&E should provide the UAFCB with a summary of the steps it has taken to resolve this issue.

Observation 6: PG&E failed to demonstrate compliance with PU code §§ 581 and 584. PG&E improperly reported different amounts for its OBF costs in its monthly reports when compared to its annual report.

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

Condition: For the months of January, May and October, 2012, PG&E misrepresented its OBF costs by a net amount totaling \$396,064.94.

Cause: According to PG&E, the reasons for the inaccurate reporting of OBF costs in the months of January, May, and October, 2012 were due to the following:

- Accrued interest inadvertently netted against OBF loan activity totaling (\$2,081.65) for the month of January 2012 that reduced balance reported in monthly EEGA report.
- Accrued interest inadvertently netted against OBF loan activity totaling (\$2,801.18) for the month of May 2012 that reduced balance reported in monthly EEGA report.
- Over reported the October 2012 OBF amount by \$400,947.77 by inadvertently including its September 2012 OBF loan amount in the October 2012 amount.

Effect: PG&E's reported data to the Commission that was misstated and inaccurate.

PG&E's Comments: PG&E indicated that it has already taken steps to improve the accuracy of its monthly reporting process and, within 90 days of this report, will provide the UAFCB with a summary of these steps.

Rebuttal: None

Recommendation: PG&E should increase its management oversight and controls to ensure that all of its reports are accurate and tie to each other before submitting them to the Commission and posting them to EEGA. No later than 90 days after publishing this report, PG&E should provide the UAFCB with a summary of the steps it has taken to resolve this matter.

A.4 Multi-Family Energy Efficiency Rebate (MFEER)

Observation 7: UAFCB did not find any significant exceptions during its examination of selected sample of the MFEER rebates. PG&E maintained adequate supporting documentation for the rebates selected for substantive testing.

Criteria: In PG&E's Enrollment and Incentive Management Policy and Procedure Manual, dated September 14, 2011, it specifies the eligibility requirements in order to participate and receive rebates in its MFEER program. Among the requirements are the following:

- Any measure must be installed, fully operational, and properly commissioned prior to the application submittal phase or the measure may be deemed ineligible by PG&E for rebates.
- Any customer applying for a rebate must provide proof of purchase, supporting documentation and other materials as deemed relevant by PG&E.

Condition: The customers' files that the UAFCB examined contained all the necessary documentation, customers met program eligibility requirements, and rebates were appropriately approved and recorded to PG&E's accounting records. UAFCB did not find any exceptions.

PG&E's Comments: None.

Recommendation: None.

A.5 Fund Shifting

Observation 8: PG&E failed to demonstrate compliance with OP 43(b) of D.09-09-047, in that PG&E accounted for its fund shift activities during the 2010-2012 EE program cycle on a non-cumulative, transaction-by-transaction basis.

Criteria: OP 43(b), D.09-09-047 provides that IOUs "shall file an Advice Letter for shifts of funds of more than 15% per annum ... for the entire portfolio cycle." The referenced provisions are further clarified in the Assigned Commissioner's Ruling in Rulemaking (R.)09-11-014. The Ruling clarifies the 15% rule.

Condition: PG&E accounted for its fund shift activities on a non-cumulative, transaction-by-transaction basis. UAFCB's recalculation on an annual cumulative basis shows that PG&E's accounting for its fund shift activities were not in compliance. For example, for program years 2010 and 2011, PG&E filed two Advice Letters to shift funds between various programs which included EE programs within Residential, Industrial, Third Party, Government, Agricultural, New Construction and Integrated System Demand Management (ISDM). Because PG&E failed to account for the fund shifting on an annual cumulative basis during both years, the respective Advice Letter (AL.) 3235-G-A/3901-E-A filed in 2010 and AL3309-G/4068-E filed in 2011 were not in compliance.

Cause: PG&E accounted for its fund shift activities on a non-annual-cumulative basis.

Effect: Accounting for a fund shift activity on a non-annual-cumulative basis may create conditions whereby no advice letter filing would be required for a certain activity, while an advice letter would have been required for the same activity if the activity had been accounted for on an annual cumulative basis. PG&E would have filed more advice letters than it did.

PG&E's Comments: PG&E asserts that the UAFCB misinterprets the funding shifting rules that require PG&E to file an advice letter for its cumulative annual fund shifts rather than filing an advice letter to request authority to shift funds between programs in excess of the 15% per annum threshold for most programs. PG&E has reviewed the auditor's

working papers associated with this observation and determined that the UAFCB auditor relied on a number of inaccurate assumptions related to PG&E's fund shift activities in 2010-2012. On that basis, PG&E contends that it has fully complied with the fund shifting rules applicable to the 2010-2012 portfolio cycle reflected in D.09-09-047, the Assigned Commissioner's Ruling Clarifying Fund Shifting Rules and Reporting Requirements, dated December 22, 2011, in R.09-11-014, and the Energy Efficiency Policy Manual Version 5.0, Appendix C, page 64.

PG&E requests that Observation 8 be revised to state that PG&E demonstrated compliance with the Commission's fund-shifting guidelines in OP 43(b) of D.09-09-047.

Rebuttal: Applying the UAFCB's position on funds shift accounting to the given facts, the amount identified as shifted in the Statewide Residential EE program should have been (\$28,109,331) [or (\$13,709,331) + (\$14,400,000)], as opposed to (\$14,400,000). Similarly for 2011, the amount identified as shifted as part of AL3309-G/4068-E in the Statewide Residential EE should have been (\$24,709,331) [or (\$13,709,331) + (\$11,000,000)], as opposed to (\$11,000,000). UACB is open to a further discussion of this matter with PG&E after the report is published to resolve the differences of interpretations of the rules.

Recommendation: UAFCB recommends that PG&E and UAFCB should discuss this matter further after the report is published since there is no dollar impact. This would benefit future review of fund shifting rules compliance by the UAFCB.

Observation 9: PG&E failed to demonstrate compliance with PU code §§581 and 584. PG&E failed to include the amounts shifted in the 2012 4th Quarter Report and the December 2012 monthly report.

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

Condition: In its December 2012 monthly report and its 4th Quarter Fund Shifting Report posted to EEGA on June 3, 2013, PG&E misrepresented the Revised Budget amounts for numerous EE programs since it failed to account for all of the amounts shifted during the 4th Quarter of 2012.

Cause: According to PG&E, the amounts shifted among EE programs in the 4th Quarter of 2012 was inadvertently excluded from the 2010-2012 Revised Budget amounts reported in its December 2012 monthly report and its 4th Quarter Fund Shifting Report posted to EEGA on June 3, 2013.

Effect: PG&E reported data to the Commission that was misstated and inaccurate.

PG&E's Comments: PG&E agrees to revise its December 2012 monthly report and its 4th Quarter Fund Shift Report to reflect the cumulative 2012 fund shift.

Rebuttal: None

Recommendation: PG&E should review and reconcile all data and ensure that all of its reports are accurate and tie to each other before submitting them to the Commission and posting them to EEGA.

A.6 EE Portfolio Balancing Accounts

Observation 10: UAFCB did not find any material exception during its examination of PG&E's EE balancing accounts for program years 2011 and 2012.

Criteria: PG&E's balancing account's entries must follow approved tariff language and calculations.

Condition: UAFCB found no material exceptions in the recorded balances and transactions in PG&E's EE balancing accounts as of and for the periods ending December 31, 2011 and 2012 for the following balancing accounts:

- Procurement Energy Efficiency Balancing Account (PEEBA)
- Public Purpose Program Energy Efficiency – Gas (PPPEEBA-Gas)
- Public Purpose Program Energy Efficiency – Electric (PPPEEBA-Electric)⁶
- Public Purpose Program Revenue Adjustment Mechanism (PPPRAM)
- Procurement Energy Efficiency Revenue Adjustment Mechanism (PEERAM)
- Gas Public Purpose Program Surcharges-EE (PPP-EE)

PG&E's Comments: PG&E did not provide a comment to UAFCB's observation.

Recommendation: None.

A.7 PG&E's Internal Audit Reports

Observation 11: In PG&E's Internal Audit report, dated February 15, 2013 (File #: 13-018), UAFCB noted an issue concerning the validation of the appropriateness of EE cost allocation that has not been fully resolved by PG&E's management. PG&E's Customer Energy Solutions (CES) management has yet to conduct an annual quality assurance assessment to verify that appropriate documentation is available to validate the appropriateness of allocations for the 2013 period.

Criteria: PG&E's Customer Energy Solutions (CES) management's action plan was to conduct an annual quality assurance assessment to verify that appropriate documentation is available to validate the appropriateness of the allocation. The estimated completed date was to be June 30, 2013. This matter is yet to be resolved.

Condition: PG&E's Internal Audit noted that there is no formal requirement to maintain supporting documentation or evidence of approval around cost allocation for contracts that support multiple programs.

⁶ PPPEEBA-Electric had expired on December 31, 2011, and has since been consolidated in the PEEBA, effective January 1, 2012, by means of AL3976-E in pursuant to D.11-12-038. The remaining PPPEEBA-Electric's balance at December 31, 2011, was transferred to the PEEBA.

Cause: According to PG&E, due to recent organizational changes within Customer Energy Solutions, the annual quality assessment for the 2013 period is to be performed no later than June 30, 2014.

Effect: A lack of quality assurance validation could proportionately allocate cost to other programs to their disadvantage.

PG&E's Comments: PG&E agrees to provide the UAFCB with evidence of its results of the 2013 annual quality assessment of purchase orders that allocate to multiple funding sources by July 31, 2014.

Rebuttal: None

Recommendation: : UAFCB recommends that PG&E should provide the UAFCB the results of the required assessment to validate the appropriateness of allocations for the 2013 period including the approval by the Internal Audit Department (IA) by July 31, 2014. Our review of this matter should facilitate the UAFCB's examination for 2013.

A.8 Follow-up on Prior UAFCB's Examinations

Observation 12: PG&E demonstrated compliance with UAFCB's recommendations from its prior two examinations.

Criteria: According to the examination report⁷ issued on September 19, 2013, PG&E is required to do the following:

1. Report its administrative expenses in support of TP's and LGP's EE activities as either two separate line items under the IOU delivery channel or as a separate line item under the respective TP and LGP delivery channels in their Annual Report to the Commission;
2. Remove \$664,297 in OBF loan pool receivables recorded as DI expenses from their 2011 EE incentive award request; and
3. Provide the UAFCB with a detailed explanation of its labor allocation methodology and process for determining its labor-related benefit burdens.

Condition: PG&E complied with UAFCB's recommendations by taking the following corrective actions:

1. In its September 12, 2013 comments to UAFCB's 2011 EE draft report, PG&E agreed to a modification of the Annual Report format and recommended that additional Administrative-IOU line items be included within the 3P and LGP delivery channels. In addition, PG&E discussed with the Commission's ED to address revisions to its Annual report format. In an ED memo dated May 6, 2014,

⁷ Energy Efficiency Program (EE) Financial Compliance Examination Report of Pacific Gas and Electric Company (PG&E) For the Period January 1 through December 31, 2011.

ED determined that PG&E has correctly modified its Annual Report format as evidenced in Table 3 of PG&E's 2013 Annual Report.

2. On September 30, 2013, PG&E filed Advice Letter (AL) 3419-G/4291-E for its 2011 EE Incentive Award. In this advice letter, PG&E requested an incentive award amount totaling \$21,561,992, which included the removal of \$664,297 in OBF loan receivables from its 2011 EE incentive award calculation. The Commission's ED approved AL 3419-G/4291-E on December 5, 2013 in Resolution G-3491.
3. PG&E provided UAFCB with a detailed explanation of its labor cost allocation methodology and processes pertaining to the determination of its labor-related benefit burdens during conference calls, data request responses, and on-site meetings at the offices of PG&E on October 8, 2013, January 9, 2014, and March 20, 2014.

PG&E's Comments: None.

Recommendation: None.

Appendix B Program Compendium

B.1 Introduction

On September 24, 2009, the California Public Utilities Commission (Commission) issued Decision (D.) 09-09-047 which, among other things, authorized a total budget of \$1.338 billion in ratepayer funds to administer and implement its Energy Efficiency (EE) programs for the 2010-2012 program cycle. In addition, in this decision, the Commission also set energy savings goals, established cost-effectiveness requirements, placed a cap of 10 percent on utility administrative costs, authorized types of programs, and set targets for certain program administrative costs.

B.2 EE Funding Components

Of the \$1.338 billion authorized budget, \$1.284 billion of the funds is to administer and implement PG&E's EE programs and the remaining \$54.0 million is dedicated to fund the Evaluation, Measurement and Verification (EM&V) portion of the program portfolio. For the 2010-2012 EE program cycle, excluding EM&V expenses, PG&E reported expenditures totaling \$1.169 billion, or 91.0% of its total authorized budget. A summary showing PG&E's total authorized budget for the 2010-2012 program cycle, excluding EM&V, less total reported expenditures for programs years 2010 through 2012 is provided in the table below.

**Table B-1
Summary of Ratepayer Funded EE Programs (Excluding EM&V)
For the Period Ending: January 1, 2010 - December 31, 2012**

Description	Amount
Total PY 2010-2012 Authorized Budget	\$1,284,480,000
2010 Actual EE Expenditures	(370,371,323)
2011 Actual EE Expenditures	(380,276,840)
2012 Actual EE Expenditures	<u>(418,706,251)</u>
Amount Available to Carry Forward to 2013	<u>\$ 115,125,586</u>

B.3 Administrative Costs

PG&E identifies and captures its EE program administrative costs in its SAP Enterprise Resource Planning (ERP) system or general ledger. Specifically, administrative costs are accounted for in three different ways or the delivery channels, PG&E's programs named CORE programs, 3P programs and LGP programs. How these costs are distributed or charged to the programs can be found in UAFCB's report on 2011 EE activities dated September 19, 2013.

Pursuant to D.09-09-047, "Administrative costs for utility energy efficiency program (excluding third party and/or local government partnership budgets) are limited to 10% of total energy efficiency budgets..." And according to D.09-09-047, page 63, Third Party (3P) and Local Government Partnership (LGP) administrative cost target is set at 10% of the total 3P/LGP's direct costs. A summary detailing PG&E's IOU, 3P, and LGP reported administrative costs for

program years 2010 through 2012, along with amounts and percentages spent relative to the total authorized budget, is provided in the table below.

Table B-2
EE Administrative Cost Cap and Expenditures
Examination Period: January 1, 2010 - December 31, 2012

Expense Type	2010	2011	2012	Total	% to Total Budget	% Cap	%Target
PG&E Admin. Exp.	\$13,364,956	\$14,258,317	\$24,793,530	\$ 52,416,803	4.1%	10%	
3P Admin. Exp.	13,721,783	11,390,943	12,641,164	37,753,890	2.9%		10%
LGP Admin. Exp.	5,567,874	5,079,227	7,516,975	18,164,076	1.4%		10%
Totals	<u>\$32,654,613</u>	<u>\$30,728,487</u>	<u>\$44,951,669</u>	<u>\$108,334,769</u>			

B.4 Energy Efficiency Contracts

PG&E utilizes contracts with Third Party (3P) contractors to assist in administering and implementing various EE programs. PG&E enters into agreements with contractors who provide various services and products in support of PG&E's in-house managed EE programs. Services and/or products provided by Core program contractors include, but are not limited to, supply of computer/parts, consulting services, electrical equipment, postage, employee training, and software licenses, etc. PG&E also enters into LGP agreements to help develop and implement energy efficient management plans.

PG&E commonly utilizes two types of contract structures for implementing its EE programs: Master Service Agreements (MSA's) and Stand Alone Contract. Master Service Agreements have multiple Contract Work Authorizations (CWA)/Purchase Orders (PO) for services and/or materials under a primary agreement. A Stand Alone Contract only has one PO under the agreement for services and/or materials. Under each type of contract structure, PG&E allows several types of payment terms – Time and Materials, Performance Based, Lump Sum, and Hybrid or combination of these payment types.

In 2012, PG&E entered into agreements with more than 320 contractors valued at approximately \$179 million. Of the over 320 contractor agreements utilized by PG&E in 2012, approximately 127 were structured as Master Service Agreements and about 200 were structured as Stand Alone Contracts. Under the MSA contract structure, the types of payment terms included about 8 Hybrid, 17 Lump Sum and 102 Time & Material (T&M). For Stand Alone Contracts, payments types included approximately 122 T&M, 29 Hybrid, 37 Lump Sum, and 12 Performance Based. Of the \$179 million paid by PG&E to its EE contractors in 2012, approximately \$90 million, or 50% was paid as T&M payments, \$47 million or 26% as Hybrid/Both, \$27 million or 16% as Performance Based, and \$15 million or 8% as Lump Sum.

A summary of PG&E's EE contractor costs for program year 2012 by payment type and cost category is provided in the following table.

Table B-3
Contractor Costs by Payment Type
January 1, 2012 through December 31, 2012

Description	T&M	Lump Sum	Performance Based	Hybrid	Total	%
Administration	\$ 4,051,113	\$ 204,412	\$ 5,059,464	\$ 3,418,653	\$ 12,733,642	7%
Marketing	19,774,424	1,949,372	2,638,787	3,159,750	27,522,333	16%
Direct Imp.	61,748,354	12,768,260	19,658,509	40,075,590	134,250,713	75%
EM&V	4,139,356	52,953	-	-	4,192,309	2%
Total	\$89,713,247	\$14,974,997	\$27,356,760	\$46,653,993	\$178,698,997	100%

A summary of PG&E's EE contractor costs for program year 2012 by program type and cost category is provided in the following table.

Table B-4
Contractor Costs by Contractor Type
January 1, 2012 through December 31, 2012

Description	TP	Core	LGP	Allocate	Total	%
Administration	\$ 6,638,010	\$ 543,939	\$ 2,607,936	\$ 2,943,757	\$ 12,733,642	7%
Marketing	4,327,812	15,768,302	1,980,908	5,445,310	27,522,332	16%
Direct Imp.	38,697,730	65,273,800	18,893,402	11,385,781	134,250,713	75%
EM&V	-	4,192,310	-	-	4,192,310	2%
Total	\$49,663,552	\$85,778,351	\$23,482,246	\$19,774,848	\$178,698,997	100%

B.5 On Bill Financing

PG&E's OBF program offers zero-interest financing to facilitate the purchase and installation of qualified energy efficiency retrofit measures to non-residential customers who might not otherwise be able to act given the various constraints which include capital, administration, time burdens and other deterrents involved in obtaining traditional project financing. Eligible entities include Institution and Non-Institution customers such as commercial, industrial, and agricultural and tax-payer funded customers. Only energy efficiency measures which qualify for rebates and/or incentives in PG&E's portfolio qualify for the OBF program.

PG&E's OBF budget for the 2010-2012 EE program cycle is \$27.85 million with adjustments set forth in Commission D.09-09-047. The budget provides for operating expenses of \$9.35 million and a revolving fund loan pool of \$18.50 million funded through EE electric procurement and public goods charge revenues and gas Public Purpose Program (PPP) surcharges per the Commission's approval of Advice Letter No 3065-G-A/3652-E-A.

PG&E's OBF underwriting guidelines include verification of customer's project cost; project eligibility for other EE rebate/ incentive program(s); and customer's utility bill payment history. The OBF loan process included calculation of project's energy savings; post-installation inspection and project cost adjustments; calculation of loan term, loan amount (net of rebate/incentives), and monthly loan payment.

In D.09-09-047, OP 40, the Commission sets a loan cap of \$100,000 for commercial loans with loan terms of up to five years, or may extend beyond five, but not to exceed the Expected Useful Life (EUL) of the bundle efficiency measures proposed, whichever is lower. Institutional customers may be granted loans of up to a total of \$1 million with a maximum term of 10 years per facility to capture large savings and when all other terms are met. As for the treatment of delinquent OBF loans, the OBF billing is tied to PG&E'S utility billing system wherein an outstanding bill which remains unpaid for more than 145 days will be considered in default and will be written off to Bad Debt. However, according to PG&E, similar procedures as those used in pursuing regular defaulted energy bills will be used to pursue any defaulting OBF loan customers.

B.6 Multi-Family Energy Efficiency Rebates

The Multi-Family Energy Efficiency Rebate Program (MFEER) encourages the adoption of energy-efficient choices when purchasing and installing qualified household appliances. PG&E promotes energy efficiency to residential customers using educational materials about energy efficiency options and by providing incentives in the form of rebates. For its MFEER program, PG&E targets residential customers who are either owners or renters of multi-family homes, townhomes, condominiums and mobile homes.

Residential customers who purchase EE qualified household appliances in PG&E's service territory can claim rebates from PG&E through a mail-in rebate application process.

PG&E incurred charges totaling \$3.94 million for program year 2011 and \$4.60 million in 2012 for its MFEER program. Of these amounts, 69.2% of expenditures were for rebates recorded in the Direct Implementation cost category. A detailed summary of PG&E's 2011 and 2012 MFEER charges by cost category, cost type and their percentages to the combined MFEER amount for program years 2011 and 2012 is provided in the tables below.

Table B-5
MFEER Expenses - Program Years 2011 and 2012

Expenditures	2011	2012	Combined Amount	% of Combined MFEER Costs
Admin				
Admin-Labor	\$ 292,941	\$ 597,332	\$ 890,273	10.4%
Admin-Non Labor	89,402	113,560	202,962	2.4%
Sub-Total Admin	\$ 382,343	\$ 710,892	\$1,093,235	12.8%
Marketing				
Marketing-Labor	\$ 44,786	\$ 38,141	\$ 82,927	1.0%
Marketing-Non Labor	18,833	92,919	111,752	1.3%
Sub-Total Marketing	\$ 63,619	\$ 131,060	\$ 194,679	2.3%
Direct Implementation (DI)				
DI-Labor	\$ 313,196	\$ 798,138	\$1,111,334	13.0%
DI-Non Labor	13,028	218,814	231,842	2.7%
DI Incentives (Rebates)	3,168,339	2,745,780	5,914,119	69.2%
Subtotal DI	\$3,494,563	\$3,762,732	\$7,257,295	84.9%
Total Expenditures	\$3,940,525	\$4,604,684	\$8,545,209	100.0%

In the following table, UAFCB provides a summary of PG&E's 2011 and 2012 MFEER rebate payments by type of appliances and measures installed.

Table B-6
MFEER Rebate Payments – Program Years 2011 and 2012

Measure/Appliance Description	2011	2012	Combined Total
Hi Efficient Windows – New Tech – U-FAC	\$ 85,534	\$ 146,863	\$ 232,397
Wall Insulation Vintage to R-13	27,680	65,927	93,607
Hi Efficiency Clothes Washer – Coin-Op Laundry	12,450	35,950	48,400
Cool Roof Low Slope	5,152	64,925	70,077
Cool Roof Steep Slope	-	12,300	12,300
Hi Efficiency Dishwashers	37,530	64,570	102,100
Shower Heads – Low Flow	466,770	432,224	898,994
Commercial Pool Heaters	1,032	1,500	2,532
Central Sys. NG Water Heaters/Space Heating	11,500	59,500	71,000
Hi Efficient Water Heater – Electric	930	960	1,890
Room A/C – Energy Star	2,100	5,250	7,350
Ducted Evap. Cooler with PR Damper	600	-	600
Central Sys. NG Boilers	22,500	42,000	64,500
Central Sys. Space Heating	4,500	4,500	9,000
Hi Efficient Water Heater – NG	3,040	19,710	22,750
Ceiling (Attic) Insulation Vintage to R-38	18,219	29,665	47,884
Gas Furnaces	23,250	4,050	27,300
Interior Lighting – Time Clock	-	36	36
Photocell Lighting	40	349	389
Occupancy Sensor	380	17,750	18,130
LED Exit Signs	38,219	51,415	89,634
Reflectors	28,135	31,574	59,709
Energy Star Ceiling Fan with CFL Lamps	-	4,000	4,000
MF – T-12 De-lamping	2,034	3,924	5,958
MF – Interior Pin-Based Hardwire Fixtures	794,650	499,750	1,294,400
MF – Outdoor Pin-Based Hardwire Fixtures	484,640	362,050	846,690
MF – T-5 or T-8 Interior Lamps w/Electric Ballasts	1,096,054	776,163	1,872,217
Refrigerator Bottom Freezer without Ice	-	6,075	6,075
Efficient Variable Speed Pool Pump & Motor	1,400	2,800	4,200
Total MFEER Rebates	<u>\$3,168,339</u>	<u>\$2,745,780</u>	<u>\$5,914,119</u>

B.7 Fund Shifting

In Decision (D.) 09-09-47, Ordering Paragraph (OP) 43(b), IOUs are required to file an Advice Letter for shifts of funds of more than 15% per annum within and between any of the twelve statewide energy efficiency programs, third-party programs, or governmental programs for the entire portfolio cycle. The twelve state programs are identified on pp.104 and 105 of the D.09-09-047 as: 1) Residential, 2) Commercial, 3) Industrial, 4) Agricultural, 5) New Construction, 6) Lighting Market Transformation, 7) Heating, Ventilation and Air Conditioning (HVAC), 8) Codes and Standards (C&S), 9) Emerging Technologies (ET), 10) Workforce Education and Training, 11) Marketing Education and Outreach (ME&O), and 12) Demand Side Management Coordination and Integration (IDSM). Also, in Rulemaking 09-11-014 “Assigned Commissioner’s Ruling Clarifying Fund Shifting Rules and Reporting Requirements” dated

December 22, 2011, it states that the utilities shall comply with the energy efficiency fund-shifting rules reflected in Attachment A of the Ruling that explains in detail the fund shifting requirements.

An exception to the 15% rule is made for fund shifts in categories C&S, ET and ME&O. In Attachment A of R.09-11-014, the IOUs are required to file an Advice Letter for fund shifts that would reduce any of the programs by more than 1% of budgeted levels among programs within these categories or among the three categories. Furthermore on page 2, it states that, "the fund shifting changes adopted in D.09-09-047 are not intended to change Section II, Rule 11 of the Energy Efficiency Policy Manual (version 4) as applied to EM&V and ME&O, nor change the fund shifting rules for C&S and Emerging Technologies programs."

B.8 EE Portfolio Balancing Accounts

PG&E maintains separate gas and electric energy efficiency (EE) balancing accounts in its preliminary statements as part of its approved tariffs. According to Advice Letter 3065-G-A&B/3562-E-A&B approved by the Commission's Energy Division on October 21, 2010, it authorized PG&E to split amounts between gas and electric, 18% and 82% respectively, based on PG&E's forecasted net benefits of the portfolio.

Balances in the expense tracking balancing accounts [e.g., the Procurement Energy Efficiency Balancing Account (PEEBA)] represent unspent funds and are tracked by program cycle. Prior cycle unspent funds may be used to reduce future rates or augment current or future program cycle funding, upon approval by the Commission. Interest is accrued and recorded monthly for all balancing accounts based.

a) EE expenditures are tracked by order number in the general ledger (SAP). All EE orders are linked together by a unique receiver cost center (RCC), and all costs associated with these EE orders are compiled and recorded in the balancing accounts monthly. The authorized funding levels are obtained from the applicable decision/RAD.

1) Procurement Energy Efficiency Balancing Account (PEEBA) – PEEBA is a means to track the electric procurement portion of EE expenditures against the electric procurement portion of authorized EE program funding, including any accrued interest thereof.

2) Public Purpose Program Energy Efficiency-Gas (PPPEEBA-Gas) – PPPEEBA-Gas is a means to track the gas portion of the EE program expenses against the gas surcharge portion of authorized EE program funding, including any accrued interest thereof.

3) Public Purpose Program Energy Efficiency Balancing Account – Electric (PPPEEBA-E)¹ - Prior to January 1, 2012, PPPEEBA-E was established to track the electric Public Good Charge (PGC) portion of the EE program expenses against the electric PGC portion of authorized EE program funding, including any accrued interest thereof.

b) PG&E maintains separate recovery balancing accounts to record its authorized EE funding against electric billed revenues and gas surcharges. The authorized EE funding includes

¹ PPPEEBA-E had expired on December 31, 2011, and the remaining account's ending balance was transferred to PEEBA effective January 1, 2012, by means of AL 3976-E pursuant to D.11-12-038.

an allowance for franchise fees and uncollectible accounts expenses (FF&U) on electric revenue. Interest is recorded on all of these balances in a similar manner as applied to their expense tracking balancing account counterparts.

For recovery/revenue balancing accounts, Energy Accounting receives the billed electric revenues and gas surcharges from the billing system reports. The authorized funding levels are obtained from the applicable decision/RAD.

- 1) Public Purpose Program Revenue Adjustment Mechanism (PPPRAM)
- 2) Procurement Energy Efficiency Revenue Adjustment Mechanism (PEERAM)
- 3) Gas Public Purpose Program Surcharges – EE (PPP-EE)

c) The OBFBA represents the amount of revolving loan pool funds available for lending to qualified customers at zero interest rate and the amount is split between electric and gas at 82% and 18% respectively. The following are the established balancing accounts:

1. On Bill Financing Balancing Account –Electric (OBFBA- E)
2. On Bill Financing Balancing Account – Gas (OBFBA-Gas)

B.9 PG&E's Internal Audit Reports

PG&E provided copies of its internal audit reports that pertained to the utilities EE program activities for the 2011-2012 audit periods and also provided related management responses thereto.

PG&E identified five internal audit reports that affected its EE program activities for the 2011-2012 audit periods. The internal audit reports provided to the UAFCB included the following:

1. File #: 12-004 - Review of [REDACTED] Invoice Billing Controls, dated January 11, 2012.
2. File #: 12-017 - Audit of Customer Energy Solutions Program Inspections, dated February 13, 2012.
3. File #: 12-051 - Audit of Customer Energy Solutions Project Office Contracts, dated July 31, 2012.
4. File #: 13-017 - Audit of the OBF Program, dated February 15, 2013.
5. File #: 13-018 - Audit of 2010-2012 EE Program Costs, dated February 15, 2013.

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

B.10 Follow-up on Prior UAFCB's Examinations

UAFCB performed a follow-up examination on each observation and recommendation included in its prior reports entitled, *Interim Financial, Management and Regulatory Compliance Examination of Pacific Gas & Electric Company's Energy Efficiency (EE) Programs for the Year Ended December 31, 2010*, which was issued on June 4, 2012, and *Energy Efficiency Program (EE) Financial Compliance Examination Report of Pacific Gas and Electric Company (PG&E) For the Period January 1 through December 31, 2011*, issued on September 19, 2013.

For the examination of PG&E's EE for, 2010, there were no recommendations to follow-up. For the examination of PG&E's EE for 2011, see Appendix A.



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June 20, 2014

Kayode Kajopaiye – Branch Manager
Utility Audit, Finance and Compliance Branch
California Public Utilities Commission
505 Van Ness Avenue, 3rd Floor
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Subject: PG&E's Response to the CPUC's Draft Financial, Management, and Regulatory Compliance Examination Report on Pacific Gas & Electric Company's 2011-2012 Energy Efficiency Program

On June 9, 2014, the Utility Audit, Finance and Compliance Branch (UAFCB) issued its draft examination report on PG&E's implementation of its 2011-2012 Energy Efficiency (EE) Program (Draft Report). This Draft Report addresses EE regulatory and compliance areas for program years 2011 and 2012, including financial regulatory reporting requirements for program year 2012. This report excludes financial compliance matters pertaining to program year 2011 as the UAFCB issued a separate report on September 19, 2013¹.

PG&E appreciates the UAFCB's efforts and collaboration to support the continuous improvements of EE program administration. PG&E would like to provide the UAFCB with responses to select observations and propose modifications to the Draft Report.

A. Observation 1

Observation 1: PG&E failed to demonstrate compliance with Public Utility (PU) code §§ 581 and 584. PG&E under-reported its administrative costs in its 2012 Annual Report by \$11,759,697, with corresponding over-reporting of its third party (3P) and local government partnership (LGP) administrative expenses by \$6,949,773 and \$4,809,924 respectively as it did in its 2011 Annual Report.

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

Condition: Comparing the recorded data to the Annual Report's data, the Annual Report under reported PG&E's administrative costs by \$11,759,697 with

¹ PG&E's 2011 EE Financial Compliance Audit Report: http://www.cpuc.ca.gov/NR/rdonlyres/7CA012CB-799D-484C-BE16-E46146CA8A0A/0/PGE_EE_Financial_Comp_Report.pdf

corresponding over-reporting in 3P and LGP administrative costs by \$6,949,773 and \$4,809,924, respectively.

Cause: PG&E reported administrative expenses under the 3P and LGP delivery channels to agree with the grouping of the authorized budget.

Effect: The current reporting methodology under each of the three delivery channels does not provide a structure to reflect the true IOU administrative cost information.

Recommendation: PG&E's administrative expenses in connection with 3P and LGP activities should be grouped and reported under PG&E's delivery channel or Core. However, if PG&E wants to report such administrative expenses under the respective 3P and LGP channels, then it should be reported as a separate line item under each delivery channel. This approach has been recently adopted by the Energy Division with PG&E.

Response:

PG&E agrees with UAFCB's reporting modifications to report 3P and LGP administrative expenses as a separate line item within the respective 3P and LGP delivery channels. PG&E requests that Observation 1 be revised to state that PG&E demonstrated compliance with Public Utilities (PU) Code Sections (§§) 581 and 584. PG&E's proposed improvement in the CPUC's template for annual reporting of 3P and GP program administrative expenditures should not be interpreted as an acknowledgement that PG&E is out of compliance with PU Code §§ 581 and 584. PG&E provided accurate information in its 2011 and 2012 Annual Reports, and modified Table 3 to provide additional clarity in its 2013 Annual Report. This modified table was adopted by the Commission (see attached Energy Division's memo dated May 6, 2014).

The purpose of Table 3 of the Energy Efficiency Annual Report is to report expenditures by delivery channel (Core, 3P and GP). PG&E accurately reported its administrative costs within each delivery channel. The amount that the UAFCB claims is underreported in the Core channel is in fact properly reported within the respective 3P and GP channels. These expenditures were incurred by PG&E in support of the 3P and GP programs, and are properly included in those delivery channels. These expenditures are not included in the Core channel as the costs were not incurred to support the Core programs.

B. Observation 2

Observation 2: PG&E failed to demonstrate compliance with PU code § 451. In its 2012 Annual Report, PG&E overstated its Direct Implementation (DI) expenditures by \$7,521,956 because OBF loan pool receivables were incorrectly recorded as DI costs.

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

Condition: PG&E's 2012 accounting records show that a total balance of \$7,521,956 in OBF loan pool receivables were accounted for and reported as DI expenses.

Cause: According to PG&E, the OBF loan pool receivables were reported as DI costs because the OBF revolving loan pool was part of the authorized EE budget and that the loan receivables were incurred for purposes of direct implementation.

Effect: Reporting the OBF loan pool receivables as DI expenses misrepresents and overstates DI costs since the loans are to be repaid. The reporting error resulted in overstating the DI costs by \$7,521,956.

Recommendation: In determining the 2012 EE incentive award amount, the Commission's ED should remove the OBF loan pool receivables balance of \$7,521,956 from PG&E's DI expenses.

Response:

PG&E requests that Observation 2 be revised to state that PG&E demonstrated compliance with PU Code² § 451. PG&E's proposed improvement in the CPUC's template for annual reporting of OBF loan pool should not be interpreted as an acknowledgement that PG&E is out of compliance with PU Code § 451. PG&E provided accurate information in its 2011 and 2012 Annual Reports, and modified Table 3 to provide additional clarity in its 2013 Annual Report. This modified table was adopted by the Commission (see attached Energy Division's memo dated May 6, 2014).

The inclusion of \$7,521,956 of On-Bill Financing (OBF) loan pool as part of direct implementation is consistent with the authorized 2010-12 budget that approved the loan pool as part of the direct implementation budget.³ PG&E determined it was appropriate to report the actual loan pool balance with direct implementation in its 2012 EE Annual Report to maintain consistency in comparison to the authorized budget.

In regards to the recommendation that PG&E remove the OBF loan pool receivable balance from its 2012 EE incentive award, PG&E will make that adjustment in its Advice Letter (AL) requesting the approval of PG&E's 2012 EE incentive award that will be filed by June 30, 2014. PG&E removed the OBF loan pool in the calculation of the 2011 EE incentive, as filed in AL 3419-G/4291-E on September 30, 2013 and approved in Resolution G-3491.

² All further statutory references are to the California Public Utilities Code.

³ Refer to PG&E's AL 3065-G-A/3562-E-A filed on June 30, 2010, and approved on October 21, 2010.

C. Observation 3

Observation 3: PG&E demonstrated compliance with OP 13(a) of D.09-09-047 with respect to the 10% cap and target of its administrative costs, but failed to demonstrate compliance in its 10% cap calculation, in that PG&E utilized the actual costs as the denominator, rather than the prescribed authorized EE budget amount. PG&E, however, did not exceed the 10% cap.

Criteria: Ordering Paragraph (OP.) 13(a) of the Decision (D.)09-09-047 states that the IOU administrative costs for EE programs, excluding the 3P and LGP budgets, are limited to 10% of the total EE budgets.

Condition: PG&E utilized its actual EE portfolio expenditure as the denominator in determining its 10% cap rather than the required EE authorized budget amount. UAFCB determined that PG&E's cap, excluding 3P/LGP, is 7.50% for the 2010-2012 EE program budget cycle.

Cause: Though PG&E does not oppose the UAFCB's recommended methodology, "it is PG&E's understanding that the caps and target performance is based on actual expenditures."

Effect: Using the actual program expenditures as the denominator in calculating the 10% administrative cap would not be in compliance with the requirement of the Commission.

Recommendation: PG&E should use the authorized EE portfolio budget amount, not the actual EE portfolio expenditures to determine the 10% cap in compliance with the decision of the Commission.

Response:

PG&E agrees with UAFCB's recommendation to use the authorized EE portfolio budget amount in the denominator of its administrative costs calculation. PG&E is partnering with Energy Division Staff to advocate the proposed calculation method. The topic is scheduled for discussion between Staff and the IOUs on June 24, 2014 at the Reporting Project Coordination Group Meeting.

PG&E requests that Observation 3 be revised to state that PG&E demonstrated compliance with both the 10% cap and target of its administrative costs and the 10% cap calculation.

D. Observation 4

Observation 4: PG&E failed to demonstrate compliance with PU code §§ 581 and 584, and the Commission's guidelines on allowable cost categories. PG&E pays its third party (3P) performance based contractors based on energy savings. However, PG&E allocates the invoiced amount to the three major cost categories, administration, marketing, and direct implementation based on budgeted allocation factors developed

by the contractors instead of the actual costs incurred in each cost category. If this practice continues, it would defeat the purpose of establishing cost targets for administrative costs for 3P programs.

Criteria: Sections 581 and 584 require that the utility provide complete and accurate data to the Commission. Administrative Law Judge (ALJ) Ruling in Rulemaking (R.) R.01-08-028, Appendix -Allowable Costs provides list of approved allowable costs by cost category that demonstrates that the Commission would not want these cost categories to be commingled or misclassified.

Condition: During testing, UAFCB found that the invoices by energy savings from performance based contractors contained charges segregated and charged to the three Commission approved cost categories (i.e., administrative, marketing and direct implementation) using by task budget based predetermined allocations instead of by actual costs incurred for work performed under each cost category. PG&E asserts that the contractors developed based on budgeted amounts. These are predetermined at the beginning at the beginning of the contract period and are not trued up or adjusted based on actual experience.

Cause: By allowing performance based contractors to allocate invoiced amount to the three major cost categories may not reflect the actual cost or amount to charge to the cost categories.

Effect: PG&E recorded and reported data to the Commission that are likely misclassified and inaccurate. Allowing vendors to allocate or estimate actual charges for each cost category may result in misclassified costs. It also defeats the purpose of the cap and targets established by the Commission.

Recommendation: The Energy Division should meet with PG&E and discuss its allocation and accounting contracting practices to determine whether this method of allocating invoiced amounts is acceptable to the Commission.

Response:

PG&E requests that Observation 4 be revised to state that PG&E complied with PU Code §§ 581 and 584, as PG&E complied with the Commission's guidelines on allowable cost categories. Given the UAFCB's recommendation, PG&E welcomes the opportunity to discuss this matter further with Energy Division Staff, other IOUs, and possibly the 3P program implementers to verify that it is appropriate for the utilities to continue to utilize a contract-based allocation methodology to report performance based payments by cost category to the Commission and retain the focus of these contracts on delivering energy savings as intended.

This issue is addressed in a Motion filed by Southern California Edison Company (SCE) on May 19, 2014 in A.12-07-001, et.al. PG&E's response to the Motion filed on June 3, 2014, are attached. As discussed in PG&E's response, PG&E uses both time and

materials contracts and performance-based contracts for EE programs, including Third Party (3P) and Governments Partnerships (GP) programs, depending on the circumstances. The performance-based contracts are a good value for utility ratepayers as PG&E only pays for verified energy savings actually delivered by the contractor.

Performance-based contracts are an efficient and practical way to assure cost effective delivery of programs that focus on the delivery of energy savings or measures; the use of these types of contracts was recently supported by the Commission in Decision 12-05-015.

E. Observation 5

Observation 5: PG&E failed to demonstrate consistency when applying customer account numbers to signed OBF Loan Agreements. PG&E mistakenly included the incorrect customer account number on several signed OBF loan agreements.

Criteria: PG&E's Enrollment and Incentive Management (E&IM) Policy and Procedures Manual for On-Bill Financing Loan Processing Procedure provides steps for processing OBF loan applications, including the completion of OBF loan agreements.

Condition: Ten percent (10%) of the sampled OBF customer files reviewed, PG&E incorrectly included the customers electric account number instead of the customers primary account number on the signed OBF loan agreements.

Cause: PG&E indicated that it mistakenly included the customers electric account number instead of the customer's primary account number on the signed OBF loan agreement.

Effect: Including the incorrect account number on signed loan agreements could lead to loan repayment processing errors, misplaced contract documentation, and potential loan collection problems should the customer default on the rate payer funded loan.

Recommendation: PG&E should enhance its OBF loan processing procedures to ensure that the correct customer account number is applied consistently to all signed OBF loan agreements. Within 90 days from the date of this report, PG&E should provide the UAFCB with a summary of the steps is has taken to resolve this issue.

Response:

PG&E agrees that OBF loan agreements (Loan Agreements) should include both the customer's primary account number (Account Number) and the Service Agreement Identification number. In addition to the Account Number and Service Agreement Identification, all contracts also include the customer's Federal Tax Identification number.

Utilizing these unique identifiers, PG&E can properly monitor customer accounts, process loan repayments and manage any loan collection problems or potential defaults.

PG&E has taken steps to improve the accuracy of the Account Number and Service Agreement Identification on its customer loan agreements and, within 90 days of the final report, will provide a summary of these steps.

F. Observation 6

Observation 6: PG&E failed to demonstrate compliance with PU code §§ 581 and 584. PG&E improperly reported different amounts for its OBF costs in its monthly reports when compared to its annual report.

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

Condition: For the months of January, May and October, 2012, PG&E misrepresented its OBF costs by a net amount totaling \$396,064.94.

Cause: According to PG&E, the reasons for the inaccurate reporting of OBF costs in the months of January, May, and October, 2012 were due to the following:

- Accrued interest inadvertently netted against OBF loan activity totaling (\$2,081.65) for the month of January 2012 that reduced balance reported in monthly EEGA report.
- Accrued interest inadvertently netted against OBF loan activity totaling (\$2,801.18) for the month of May 2012 that reduced balance reported in monthly EEGA report.
- Over reported the October 2012 OBF amount by \$400,947.77 by inadvertently including its September 2012 OBF loan amount in the October 2012 amount.

Effect: PG&E's reported data to the Commission that was misstated and inaccurate.

Recommendation: PG&E should increase its management oversight and controls to ensure that all of its reports are accurate and tie to each other before submitting them to the Commission and posting them to EEGA. Within 90 days from the date of this report, PG&E should provide the UAFCB with a summary of the steps is has taken to resolve this matter.

Response:

PG&E has taken steps to improve the accuracy of its monthly reporting process and, within 90 days of the final report, will provide a summary of these steps.

G. Observation 8

Observation 8: PG&E failed to demonstrate compliance with OP 43(b) of D.09-09-047, in that PG&E accounted for its fund shift activities on a non-annual cumulative, transaction-by-transaction basis.

Criteria: OP 43(b), D.09-09-047 provides that IOUs "shall file an Advice Letter for shifts of funds of more than 15% per annum ... for the entire portfolio cycle." The referenced provisions are further clarified in the Assigned Commissioner's Ruling in Rulemaking (R.)09-11-014. The Ruling clarifies the 15% rule.

Condition: PG&E accounted for its fund shift activities on a non-cumulative, transaction-by-transaction basis. UAFCB's recalculation on an annual cumulative basis shows that PG&E's accounting for its fund shift activities were not in compliance. For example, for program years 2010 and 2011, PG&E filed two Advice Letters to shift funds between various programs which included EE programs within Residential, Industrial, Third Party, Government, Agricultural, New Construction and Integrated System Demand Management (ISDM). Because PG&E failed to account for the fund shifting on an annual cumulative basis during both years, the respective Advice Letter (AL.) 3235- G-A/3901-E-A filed in 2010 and AL3309-G/4068-E filed in 2011 were not in compliance.

Cause: PG&E accounted for its fund shift activities on a non-annual-cumulative basis.

Effect: Accounting for a fund shift activity on a non-annual-cumulative basis may create conditions whereby no advice letter filing would be required for a certain activity, while an advice letter would have been required for same activity had said activity been accounted for on an annual cumulative basis. PG&E would have filed more advice letters than it did.

Recommendation: PG&E should comply with the directives of the Commission on fund shifting in the future.

Response:

PG&E requests that Observation 8 be revised to state that PG&E demonstrated compliance with the Commission's fund-shifting guidelines in OP 43(b) of D.09-09-047.

UAFCB appears to interpret the funding shifting rules to require PG&E to file an advice letter for its cumulative annual fund shift request, rather than file advice letters to request authority to shift funds between programs in excess of the annual threshold that for most programs is 15% per annum. On that basis, UAFCB finds that PG&E had failed to comply with the directives of the Commission on fund shifting, claiming that PG&E accounted for fund-shift activity on a non-annual cumulative basis. The fund shift rules that apply to the 2010-2012 portfolio cycle were most recently documented in the Energy Efficiency Policy Manual Version 5.0, Appendix C, p. 64, reflecting Decision 09-09-047 and the Assigned Commissioner's Ruling Clarifying Fund Shifting Rules and Reporting Requirements, dated December 22, 2011, in R.09-11-014.

PG&E has fully complied with the requirement to file an advice letter to exceed the annual threshold, and with one exception for 2012 (addressed below), has accurately reported its annual fund shifting activities. (Also see PG&E's response to Observation 9.)

PG&E has reviewed the auditor's workpaper associated with Observation 8 and found a number of inaccurate assumptions related to PG&E's reported fund shifting activity in 2010-2012.

For 2010, PG&E accurately reported funds shifted in its Fourth Quarter 2010 Energy Efficiency Fund Shift Report submitted on July 22, 2011. No advice letter was required since the annual amounts shifted did not exceed the per annum threshold for any programs. The auditor's workpaper incorrectly shows PG&E's 2011 fund shift request approved in AL 3235-G&G-A/3901-E&E-A as part of a 2010 annual cumulative shift.

For 2011, PG&E filed AL 3235-G/3901-E on September 12, 2011, and filed subsequent supplemental AL 3235-G-A/3901-E-A on January 13, 2012. This advice letter, approved by the Energy Division in a disposition letter dated February 14, 2012, requested to shift funds in 2011 above the annual threshold. After the advice letter was approved, PG&E reported the total funds shifted in 2011, equal to the allowable annual threshold plus the funds shifted above the threshold approved by the Commission, in its revised Fourth Quarter 2011 Energy Efficiency Fund Shift Report submitted on September 4, 2012. In fact, the disposition letter states that the Energy Division is in concurrence that PG&E's fund shifting request complies with adopted fund shifting rules. As stated above, the auditor's workpaper incorrectly shows this approved 2011 fund shift in 2010 and incorrectly shows the 2012 fund shift approved AL 3309-G/4068-E in 2011.

For 2012, PG&E filed AL 3309-G/4068-E on June 20, 2012, requested approval to shift funds for 2012 above the allowable annual threshold. This advice letter was approved on February 20, 2012. After the advice letter was approved, PG&E reported these fund shifts in its Second Quarter 2012 Energy Efficiency Fund Shift Report submitted on September 4, 2012. The fund shifts approved in this advice letter are incorrectly shown on the auditor's workpaper in 2011. PG&E also shifted funds within the annual threshold that it inadvertently excluded from its Fourth Quarter 2012 Energy Efficiency Fund Shift Report. As noted in PG&E's response to DWA_AUD_Oral012, dated April 14, 2014, regarding the Multifamily Energy Efficiency Rebate program review, PG&E will revise its Fourth Quarter 2012 Energy Efficiency Fund Shift Report to reflect the cumulative 2012 fund shifts that equal the allowable annual threshold plus the fund-shift above the threshold filed and approved in AL 3309-G/4068-E.

H. Observation 9

Observation 9: PG&E failed to demonstrate compliance with PU code §§ 581 and 584. PG&E failed to include the amounts shifted in the 2012 4th Quarter Report and the December 2012 monthly report.

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

Condition: In its December 2012 monthly report and its 4th Quarter Fund Shifting Report posted to EEGA on June 3, 2013, PG&E misrepresented the Revised Budget amounts for numerous EE programs since it failed to account for all of the amounts shifted during the 4th Quarter of 2012.

Cause: According to PG&E, the amounts shifted among EE programs in the 4th Quarter of 2012 was inadvertently excluded from the 2010-2012 Revised Budget amounts reported in its December 2012 monthly report and its 4th Quarter Fund Shifting Report posted to EEGA on June 3, 2013.

Effect: PG&E reported data to the Commission that was misstated and inaccurate.

Recommendation: PG&E should review and reconcile all data and ensure that all of its reports are accurate and tie to each other before submitting them to the Commission and posting them to EEGA.

Response:

As PG&E previously noted in data response DWA_AUD_Oral012, dated April 14, 2014, the fund shift amounts were inadvertently excluded from the 2010-2012 Program Revised Budget shown on PG&E's 4th quarter 2012 report posted at "eestats.cpuc.ca.gov" on June 3, 2013.

PG&E will revise its December 2012 Monthly Report and Fourth Quarter 2012 Energy Efficiency Fund Shift Report to reflect the cumulative 2012 fund shift. These revisions have no effect on actual reported expenditures that were audited.

I. Observation 11

Observation 11: In PG&E's Internal Audit report, dated February 15, 2013, UAFCB noted an issue concerning the validation of the appropriateness of EE cost allocation that has not been fully resolved by PG&E's management. PG&E's Customer Energy Solutions management has yet to conduct an annual quality assurance assessment to verify that appropriate documentation is available to validate the appropriateness of allocations for the 2013 period.

Criteria: PG&E's Customer Energy Solutions (CES) management's action plan was to conduct an annual quality assurance assessment to verify that appropriate documentation is available to validate the appropriateness of the allocation. The

estimated completed date was to be June 30, 2013. This matter is yet to be resolved.

Condition: PG&E's Internal Audit noted that there is no formal requirement to maintain supporting documentation or evidence of approval around cost allocation for contracts that support multiple programs.

Cause: According to PG&E, due to recent organizational changes within Customer Energy Solutions, the annual quality assessment for the 2013 period is to be performed no later than June 30, 2014.

Effect: A lack of quality assurance validation could proportionately allocate cost to other programs to their disadvantage.

Recommendation: UAFCB recommends that PG&E provide UAFCB evidence of its results by July 31, 2014, of management's actions to resolve this issue on how CES conducts its annual quality assessment in order to verify that appropriate documentation is available to validate appropriateness of allocations.

Response:

PG&E will provide UAFCB with evidence of its results of the 2013 annual quality assessment of purchase orders that allocate to multiple funding sources by July 31, 2014.

J. Proposed Corrections to Appendix B, Program Compendium

Section B.3 Administrative Costs

Table B-2: PG&E proposes that 4.1% in column "% to Total Budget" be revised to 6.1%.

The 4.1% in column "% to Total Budget" does not accurately compare against with the 10% cap. There is an additional \$29,646k of IOU-related administrative costs embedded in the 3P and LGP costs that should be included with the \$52,417k of IOU administrative costs. Total IOU administrative costs of \$82,063k calculate out to 6.1% when divided into the authorized 2010-2012 EE budget of \$1.338 billion.

Section B.4 Energy Efficiency Contracts

To better illustrate the number of contracts, consider using the number of agreements (1,309) rather than solely focusing on the number of contractors. In creating a pivot table using Payment Type and Purchase Document (of the 2012 contract data provided in DR-026 Supp01), results provide another breakdown of the over 1,300 agreements (1,309 actual) that PG&E entered into with the 336 contractors in 2012. PG&E proposes the following revisions to the text on page B-3 and Table B-3:

"In 2012, PG&E entered into over 1,300 agreements with 336 contractors valued at approximately \$179 million. Of the 336 contractors utilized by PG&E in 2012, 214 contractors had agreements structured as Master Service Agreements (MSA) and 251 contractors had agreements structured as Stand Alone Contracts (some contractors entered into contracts under both the MSA and Stand Alone Contract structure). Under the MSA contract structure, the types of payment terms included 136 contractors with Time and Materials (T&M), one contractor with Performance Based, 24 contractors with Lump Sum and 53 contractors with Hybrid. For Stand Alone contracts, payments types included 137 contractors with T&M, 17 contractors with Performance Based, 41 contractors with Lump Sum and 56 contractors with Hybrid payments.

Of the 1,309 agreements, 936 were MSAs and 373 were Stand Alone Contracts. For MSAs, there were 803 T&M, one Performance Based, 47 Lump Sum and 85 Hybrid. For Stand Alone Contracts, there were 229 T&M, 22 Performance Based, 54 Lump Sum and 68 Hybrid.

Of the \$179 million paid by PG&E to its EE contractors in 2012, approximately \$88 million, or 49% was paid as T&M payments, \$27 million or 15% as Performance Based, \$15 million or 8% as Lump Sum, and \$49 million or 27% as Hybrid."

Table B-3 Revised
Contractor Costs by Payment Type
January 1, 2012 through December 31, 2012

Description	T&M	Lump Sum	Performance	Hybrid	Total	%
Administration	\$4,009,995	\$204,412	\$5,059,464	\$3,459,770	\$12,733,642	7%
Marketing	\$19,199,684	\$1,949,372	\$2,638,787	\$3,734,490	\$27,522,333	16%
Implementation	\$60,313,865	\$12,768,261	\$19,658,509	\$41,510,079	\$134,250,713	75%
EM&V	\$4,092,692	\$52,953	\$-	\$46,864	\$4,192,309	2%
Total	\$87,616,236	\$14,974,998	\$27,356,761	\$48,751,003	\$178,698,997	100%

Section B.5 On Bill Financing

Revise the operating expense shown on page B-3 to \$9.35 million.

Section B.6 Multi-Family Energy Efficiency Rebates

Revise the "Ducted Evap. Cooler with PR Damper" and the "Total MFEER Rebates" lines in Table B-6 to read as follow:

	2011	2012	Combined Total
Ducted Evap. Cooler with PR Damper	600	0	600
Total MFEER Rebates	\$3,168,339	\$2,745,780	\$5,914,119

Section B.8 EE Portfolio Balancing Accounts

PG&E proposes that UAFCB strike the word "based" on page B-7 from sentence:
"Interest is accrued and recorded monthly for all balancing accounts based."

K. Conclusion

This concludes PG&E's response to the UAFCB's draft examination report on PG&E's 2011-2012 Energy Efficiency (EE) Program. We appreciate the work the UAFCB has put into this audit. If you have any additional questions or concerns, please feel free to contact me.

Thank you,



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

cc: Bernard Ayanrouh
Kevin Nakamura
Frederick Ly
Beth Chia
Simon Baker
Renee Samson
Andrew Yip
Steven Malnight

Attachments 1 and 2

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



May 6, 2014

MEMORANDUM

TO: Division of Water and Audits, CPUC; Mona Dzvova, Energy Division

CC: Megan Dewey, Michael Berger, PG&E

FROM: Amy Reardon, Energy Division

RE: **Energy Efficiency Program (EE) Financial Compliance Examination Report of Pacific Gas and Electric Company (PG&E) For the Period January 1 through December 31, 2011**

This memorandum identifies the results of a meeting between PG&E staff and Energy Division regarding the outcomes of the Utility Audit, Finance and Compliance Branch (UAFCB) recommendations for financial reporting of administrative expenses based upon the above-referenced audit.

The UAFCB Audit Report, issued September 2013, identifies areas in which PG&E had failed to appropriately report administrative expenses related to Local Government Partnerships, Third-party Programs and lending activity related to On-bill Finance programs. The Report recommended that, going forward, PG&E should report these expenses as separate line items under the program channels to which they were incurred.

In addition to a telephone conversation between myself and the PG&E management responsible for financial reporting, I reviewed the 2013 Annual Reports for PG&E and have determined that PG&E is now reporting these expenses in accordance with the UAFCB Report recommendations. This is evidenced in Table 3 of PG&E's 2013 Annual Report report, [which is accessible via this link](#) or in Figure 1, below. Please refer to lines 23, 31 and 50 (column C.)

Line 23 of PG&E's filed report (in yellow highlights, Fig.1) identifies that PG&E has correctly listed a line item for Third-Party IOU administrative costs; line 31 identifies that PG&E has correctly listed a line item for Government Partnership IOU administrative costs; and line 50 identifies that PG&E has correctly reported On-bill Finance loan pool activity.

PG&E's Response to the CPUC's Draft Financial, Management, and Regulatory
Compliance Examination Report on PG&E's 2011-2012 Energy Efficiency Program
ATTACHMENT 1

Figure 1: Table 3 of PG&E's 2013 Annual Report, Showing new line items for administrative and OBF expenses.

Table 3: 2013-14 Expenditures (1)

Summary of Portfolio Expenditures	Adopted Program Budget	Total Annual Expenditures	Percentage of Portfolio Budget	Percentage of Total Annual Expenditures
Total 2013-14 EE Program Expenditures				
Administrative-Implementer	64,055,289	5,553,329	0.7%	1.8%
Administrative-IOU Support		37,937,772	5.0%	12.0%
Marketing	42,299,727	12,459,319	1.7%	3.9%
Rebates/Incentives/Direct Install (2)	338,813,048	119,980,376	15.9%	37.8%
Direct Implementation	308,182,392	141,290,575	18.8%	44.5%
	\$	\$		
Total EE Program Expenditures	753,350,455	317,221,372	42.1%	100.0%
Core Programs				
Administrative-IOU Support	24,546,879	22,926,859	3.0%	7.2%
Marketing	30,924,186	6,129,567	0.8%	1.9%
Rebates/Incentives/Direct Install	209,145,867	69,370,128	9.2%	21.9%
Direct Implementation	148,032,617	70,492,289	9.4%	22.2%
	\$	\$		
Sub total	412,649,548	168,918,844	22.4%	53.2%
3P Programs				
Administrative-Implementer		2,562,328	0.3%	0.8%
Administrative-IOU Support	17,743,229	8,759,125	1.2%	2.8%
Marketing	1,970,763	2,659,904	0.4%	0.8%
Rebates/Incentives/Direct Install	74,196,198	28,326,704	3.8%	8.9%
Direct Implementation	80,559,253	34,082,741	4.5%	10.7%
	\$	\$		
Sub total	174,469,443	76,390,803	10.1%	24.1%
LGP Programs				
Administrative-Implementer		2,487,930	0.3%	0.8%
Administrative-IOU Support	21,765,181	6,246,793	0.8%	2.0%

PG&E's Response to the CPUC's Draft Financial, Management, and Regulatory
Compliance Examination Report on PG&E's 2011-2012 Energy Efficiency Program
ATTACHMENT 1

Marketing	9,404,778	2,580,335	0.3%	0.8%
Rebates/Incentives/Direct Install	55,470,983	22,283,544	3.0%	7.0%
Direct Implementation	52,832,567	27,229,145	3.6%	8.6%
	\$	\$		
Sub total	139,473,509	60,827,746	8.1%	19.2%
Non-IOU Programs (3)				
Administrative-Implementer	-	503,072	0.1%	0.2%
Administrative-IOU Support	-	4,993	0.0%	0.0%
Marketing	-	1,089,513	0.1%	0.3%
Direct Implementation	26,757,955	9,486,400	1.3%	3.0%
	\$	\$		
Sub total	26,757,955	11,083,978	1.5%	3.5%
EM&V				
EM&V IOU	9,323,526	1,637,778	4.8%	98.4%
EM&V Joint Staff	24,583,785	26,234	0.1%	1.6%
	\$	\$		
Total EM&V Expenditures	33,907,311	1,664,012	4.9%	100.0%
	\$			
On-Bill Financing Loan Pool (4)	32,000,000	9,728,311	30.4%	100.0%
	\$	\$		
GRAND TOTALS	819,257,766	328,613,694	40.1%	100.0%

(1) The format of Table 3 has been modified from previous Annual Reports to conform with the Commission's 2011 EE audit report recommendation and to show BayREN and MCE expenditures under "Non-IOU Programs".

(2) "Rebates/Incentives/Direct Install" include expenditures accrued but not paid as of December 31, 2013.

(3) Non-IOU programs represent PG&E's payments to BayREN and MCE.

(4) Expenditures include loans issued and repaid.

PG&E's Response to the CPUC's Draft Financial, Management, and Regulatory
Compliance Examination Report on PG&E's 2011-2012 Energy Efficiency Program
ATTACHMENT 2

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application of Pacific Gas and Electric
Company for Approval of 2013-2014 Energy
Efficiency Programs and Budget (U39M).

And Related Matters.

Application 12-07-001
(Filed: July 2, 2012)

Application 12-07-002
Application 12-07-003
Application 12-07-004

**RESPONSE OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 M) TO
SOUTHERN CALIFORNIA EDISON COMPANY'S MOTION FOR CLARIFICATION
PURSUANT TO ORDERING PARAGRAPH #49 OF D.12-11-015**

CHONDA J. NWAMU
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PACIFIC GAS AND ELECTRIC COMPANY

Dated: June 3, 2014.

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application of Pacific Gas and Electric
Company for Approval of 2013-2014 Energy
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**RESPONSE OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 M) TO
SOUTHERN CALIFORNIA EDISON COMPANY'S MOTION FOR CLARIFICATION
PURSUANT TO ORDERING PARAGRAPH #49 OF D.12-11-015**

I. INTRODUCTION

Pursuant to California Public Utilities Commission Rules of Practice and Procedure, Rule 11.1, Pacific Gas and Electric Company (PG&E) responds to Southern California Edison Company's (SCE's) May 19, 2014 *Motion for Clarification pursuant to Ordering Paragraph (OP) 49 of Decision (D.) 12-11-015* (Motion).

PG&E agrees that third-party, performance-based or pay-for-performance contracts (referred to as fixed price by the Utility Audit, Finance and Compliance Branch (UAFCB) in SCE's 2011 audit report) are a valuable Energy Efficiency (EE) resource and the Commission should either: (1) exempt EE fixed price (performance-based) contracts from requirements to track costs as administrative, marketing, and direct implementation; or (2) provide clear approval to continue the current cost allocation practices used to assign performance based payments to these cost categories. (Motion, p. 9.)

II. DISCUSSION

PG&E supports SCE's request for clarification regarding the allocation method used to report administrative, marketing and direct implementation costs for performance-based

PG&E's Response to the CPUC's Draft Financial, Management, and Regulatory
Compliance Examination Report on PG&E's 2011-2012 Energy Efficiency Program
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contracts. PG&E uses both time and materials contracts and performance-based contracts for EE programs, including Third Party (3P) and Governments Partnerships (GP) programs, depending on the circumstances. The performance-based contracts are a good value for utility ratepayers as PG&E only pays for verified energy savings actually delivered by the contractor.^{1/} Performance-based contracts are an efficient and practical way to assure cost effective delivery of programs that focus on the delivery of energy savings or measures and, as SCE notes, the use of these types of contracts was recently supported by the Commission in Decision 12-05-015.^{2/}

Estimating the expenditures attributable to administration, marketing and direct implementation at the time the contracts are negotiated is a reasonable way to track such costs for reporting purposes. As SCE describes, PG&E similarly negotiates the terms of performance-based contracts, including the deliverables and budget, with each program implementer. The final administrative, marketing and direct implementation (cost category) budgets for the performance portion of the contracts are detailed in the executed contracts (along with any deliverables that will be paid on a time and material basis). The resulting percentages by cost category, as outlined in the contracts, are used to report the performance based payments made under these contracts to the various cost categories. PG&E pays the implementer based on the terms of the contract and records the performance payment expenses to administration, marketing and direct implementation based on the pre-determined allocation. The breakdown of the contractor budgets by cost type is consistent with the Energy Efficiency Policy Manual.^{3/}

PG&E supports SCE's request for the Commission to verify that it is appropriate for the utilities to continue to utilize a contract-based allocation methodology to report performance based payments by cost category to the Commission and retain the focus of these contracts on delivering energy savings as intended.

-
- 1/ PG&E reviews and approves contractor invoices and also verifies the contractors' savings claims.
2/ Motion, p. 5.
3/ Energy Efficiency Policy Manual, Ver. 5, Appendix F, p. 87.

III. CONCLUSION

For the reasons described above and in SCE's Motion, PG&E supports SCE's request for clarification that the utilities' practice of reporting performance-based payments to the administrative, marketing and direct implementation cost categories in the contracts is reasonable.

Respectfully submitted,

CHONDA J. NWAMU
MARY A. GANDESBERY

By: /s/ Mary A. Gandesbery
MARY A. GANDESBERY

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Attorneys for
PACIFIC GAS AND ELECTRIC COMPANY

Dated: June 3, 2014