

Memorandum

Date: June 30, 2015

To: Michelle Cook
Deputy Executive Director for Administration and Budget

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

Subject: Financial, Management, Regulatory, and Compliance Examination Report on Southern California Edison Company's (SCE's) Energy Efficiency (EE) Program For the Period January 1, 2013 through December 31, 2013

SCE took several corrective actions because of the reporting and recording deficiencies noted in prior examinations except for the third party (TP) contractor pre-determined allocation factors issue for determining the charges to the Commission's three major cost categories. The Utility Audit, Finance and Compliance Branch (UAFCB), of the Commission's Division of Water and Audits, and SCE differ on this issue and the matter is before the Commission.

Except for some minor errors and other matters discussed in observations 4, 13, 14, 15 and 16, SCE demonstrated compliance with Commission directives respecting the areas of its Energy Efficiency (EE) program examined by the UAFCB for program year (PY) 2013. UAFCB however, found a reported cost that SCE should not have its Codes and Standards (C&S) Management Fee calculated on. SCE agrees to make the adjustment in the 2014 filing request for its incentive awards.

UAFCB conducted this examination pursuant to Ordering Paragraph (OP) 17 of Decision (D.) 13-09-023.¹ This examination was limited to the following specific EE program areas: (1) Reconciliation of EE Program Portfolio Costs to Reported Amounts; (2) Codes and Standards (C&S) Programs; (3) Non-Resource (NR) Programs; (4) Local Government Partnerships - San Gabriel Valley Energy Wise Partnership Program; (5) Third Party (TP) EE Program Contracts; (6) Plug Load and Appliances (PLA) Program; (7) Fund Shifting; and (8) Follow-up on Prior UAFCB's Examination and SCE's Internal Audit Recommendations.

SCE's management is responsible for ensuring accurate reporting of energy efficiency program data and information to the Commission in compliance with applicable laws and administrative requirements.

A. Summary of Examination, Observations, and Recommendation

¹ In D.13-09-023, on pages 78 and 82, 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 Ordering Paragraph (OP) 17, the Commission ordered that "In order to verify Codes and Standards and Non-Resource program expenditures for the purposes of awarding these management fees, we will rely upon public versions of the Commission's Utility, Audit, Finance and Compliance Branch reports. Upon completion, the Commission's Utility, Audit, Finance and Compliance Branch shall serve on the service list in this proceeding (or its successor) a notice of availability of the public copy of its audit report detailing its review of annual expenditures for the 2013 and 2014 Energy Efficiency programmatic activity."

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.

Reconciliation of EE Program Portfolio Costs to Reported Amounts

Observation 1: SCE demonstrated compliance with Public Utility (PU) code §§ 581 and 584 respecting the total portfolio costs.² Despite some immaterial reporting errors due to manual extraction of reported expenditures to the Commission, the total EE expenditures reconciled to recorded expenses. SCE had adequate oversight over recorded and reported EE program costs because errors were caught and corrected timely. The total SCE EE portfolio program expenditures recorded and reported in PY 2013, excluding Evaluation, Measurement and Verification (EM&V) costs, amounted to \$189,262,700.

Recommendation: None.

Observation 2: SCE continued to strengthen the internal controls over the recording and reporting of the EE programs costs as recommended by the UAFCB in its prior examination report.³ SCE provided the UAFCB with its Internal Controls Plan on November 24, 2014, January 30, 2015, and April 30, 2015 that described actions taken by SCE for improving its internal controls environment to help minimize recording and reporting errors and improve the reporting process of SCE's EE transactions.

Recommendation: UAFCB appreciates SCE's efforts in strengthening its internal controls for recording and reporting its EE program costs and recommends that SCE continue to monitor and vigorously enforce its revised internal controls to prevent any future misreporting and/or misclassification of EE program costs.

Codes and Standards (C&S) Programs

Observation 3: With the exception of Observation 4 below, SCE demonstrated compliance with PU code §§ 581 and 584 respecting the reported C&S program costs. The \$3,273,462 reported in the December 2013 year-to-date Monthly EEStats report reconciled to the total amount recorded in the accounting records.

Recommendation: None.

Observation 4: SCE overpaid a vendor by \$20,197 using incorrect labor billing rate contrary to the signed agreement. SCE reported and paid incorrect amount to a vendor from April through November 2013 by using incorrect labor rates. As a result, the C&S program expenditures were over-recorded and reported by \$20,197.

Recommendation: SCE should remove \$2,424 incentive award from its request for the C&S Management Fee in a future incentive claim filing.

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

³ Financial, Management, Regulatory, and Compliance Examination Report on Southern California Edison Company's (SCE's) Energy Efficiency (EE) Program for the Period January 1, 2011 through December 31, 2012, dated August 26, 2014.

Observation 5: SCE's internal policy and procedures for implementing the C&S programs were adequately designed to meet Commission directives in PY 2013. SCE was in compliance with the Program Procedures Manual V6.0 for the C&S programs.

Recommendation: None.

Non-Resource (NR) Programs

Observation 6: SCE demonstrated compliance with §§ 581 and 584 respecting the reported NR program costs. The \$14,634,315 reported in the December 2013 year-to-date Monthly EEStats report reconciled to the total amount recorded in the accounting records.

Recommendation: There is no need for the Energy Division to adjust the incentive award approved by Advice Letter (AL) 3106-E in Resolution E-4700.

Observation 7: SCE demonstrated compliance with General Order (GO 28) and the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts (USOA) respecting the NR program costs. Of the \$2,662,558 NR costs verified by the UAFCB, it found that SCE adequately preserved the records, memoranda, and documentation to support the expenses.

Recommendation: None.

Observation 8: The criteria used by SCE for designating EE programs as Resource and Non-Resource were in conformance with Commission directives. SCE applied the definition contained in the Energy Efficiency Policy Manual, Version 5, dated July 2013, when determining whether an EE program is classified as Resource or Non-Resource program.

Recommendation: None.

Local Government Partnerships - San Gabriel Valley Energy Wise Partnership (SGVEWP) Program

Observation 9: SCE demonstrated compliance with §§ 581 and 584 respecting the SGVEWP Program. The \$510,050 reported in the December 2013 year-to-date Monthly EEStats report reconciled to the total amount recorded in the accounting records.

Recommendation: None.

Observation 10: SCE demonstrated compliance with GO 28 and the FERC USOA respecting the SGVEWP program costs. Of the \$179,935 SGVEWP program costs verified by the UAFCB, it found that SCE adequately preserved the records, memoranda, and documentation to support the expenses.

Recommendation: None.

Observation 11: SCE's internal policy and procedures to implement the Local Government Partnership programs, including the SGVEWP program, were adequately designed to meet Commission directives. SCE was in compliance with the Partnership Policies and Procedural Manual, Version 2.1, in implementing the SGVEWP program.

Recommendation: None.

Third Party (TP) EE Program Contracts

Observation 12: With the exceptions noted in Observations 13 14, 15, and 16 below, SCE demonstrated compliance with §§ 581 and 584 respecting its TP EE program contracts. The \$18,718,376 reported in the December 2013 year-to-date Monthly EEStats report reconciled to the total amount recorded in the accounting records.

Recommendation: None.

Observation 13: SCE continued to demonstrate non-compliance with GO 28 and the FERC USAO as noted in Observation 14. UAFCB limited its testing to \$3,531,688 of the TP EE program costs to confirm that SCE continued to allocate TP contractor invoices based on pre-determined allocation factors to the Commission's three major cost categories.

Recommendation: SCE should implement whatever decision issued by the Commission regarding the disposition of the matter of TP contractor pre-determined allocation factors of invoices being used to determine the amount to charge to the Commission's three major cost categories.

Observation 14: SCE did not demonstrate compliance with §§ 581 and 584 by not tracking the actual TP program contract costs as expected by the Commission. SCE continued to allow its TP contractors to allocate invoiced amounts to the three cost categories based on pre-determined allocation factors instead of requiring them to track and report actual costs by the Commission's three major cost categories.

Recommendation: Since the matter of fixed priced or performance contract pre-allocation factors issue is currently before the Commission in Application A.12-07-001, the UAFCB recommends that SCE take any appropriate action once the Commission resolves the matter.

Observation 15: UAFCB discovered that there is a lack of clear guidance on how to determine whether or not SCE has met the Commission's requirement on the 20% minimum funding for competitively solicited bid requirement for TP programs. SCE determined its compliance with this requirement by including Core/Statewide programs, including its REN budget, and excluding Administrative costs and the Marketing, Education, and Outreach (ME&O) budget from the calculation of the 20% TP competitive solicited bid requirement. SCE claimed in Advice Letter (AL) 2836-E, Table 3.4, that the budget for competitively solicited bid TP programs was 23% of the total 2013-2014 EE portfolio budget. If SCE were to remove Core/Statewide programs and the REN budget from the calculation in AL 2836-E, Table 3.4, its budget for the competitively solicited bid TP programs would be reduced to 13% as opposed to 23%.

Recommendation: UAFCB recommends that the Commission clarify the 20% minimum funding requirement for TP competitively solicited bids and provide specific instructions to avoid ambiguity. UAFCB plans to work with the Commission's Energy Division (ED) on this matter.

Observation 16: In evaluating SCE's compliance with the 20% minimum funding requirement for competitively bid TP contracts, the UAFCB contacted the ED and it provided the following computation formula to UAFCB:

Numerator = The total contract dollar amount, including incentives, of all competitively bid third party programs, including the funding set aside to conduct competitive solicitations throughout the program cycle.

Denominator = the total authorized energy efficiency program budget, including EM&V budget, but excluding REN/CCA budgets. The third party value (numerator in formula) is the summation of the contract amount, including incentives, of all competitively bid third party programs, including the funding set aside to conduct competitive solicitations throughout the program cycle.

UAFCB found it challenging in computing the numerator using ED's directive because there are no set criteria to determine the total contract dollar amount for a particular contract in an EE cycle if that contract's duration is not completely within the EE budget cycle.

Recommendation: The Commission should clarify the 20% minimum funding requirement for competitively bid TP contracts and provide specific instructions on this matter to all Investor-Owned Utilities (IOUs) to avoid ambiguity. UAFCB recommends that the Commission should consider modifying the requirement and require the IOUs to use actual expenditures on competitively bid TP EE program contracts for the EE cycle in computing the numerator for simplicity. UAFCB plans to work with the Commission's ED to resolve this matter.

Plug Load and Appliances (PLA) Program

Observation 17: SCE demonstrated compliance with §§ 581 and 584 respecting the reported PLA program costs. The \$11,501,794 reported in the December 2013 year-to-date Monthly EEStats report reconciled to the total amount recorded in the accounting records.

Recommendation: None.

Observation 18: SCE demonstrated compliance with GO 28 and the FERC USOA. Of the \$1,716,863 PLA program costs verified by the UAFCB, it found that SCE adequately preserved the records, memoranda, and documentation to support the expenses. .

Recommendation: None.

Observation 19: SCE's internal policy and procedures to implement the PLA subprograms- the Appliance Recycling Program (ARP) and the Home Energy Efficiency Rebate (HEER) Program were adequately designed to meet Commission directives. SCE was in compliance with the Policies and Procedural Manual, Version 4.0, and HEER Policies and Procedural Manual, Version 5.1, for implementing the ARP and HEER programs, respectively.

Recommendation: None.

Fund Shifting

Observation 20: SCE demonstrated compliance with the Energy Efficiency Policy Manual respecting its fund shifting activities unlike in prior examinations conducted by the UAFCB. SCE's EE program fund shifts did not exceed the annual thresholds specified in Appendix C of the Energy Efficiency Policy Manual (Version 5), dated July 2013. SCE complied with the Commission's Fund Shifting requirements by avoiding errors made in the past.

Recommendation: None.

Observation 21: SCE continued to strengthen its internal controls over the reporting of its EE fund shifting activities as recommended by the UAFCB in its prior examination report.⁴ SCE improved in reporting its fund shifting activities to the Commission.

Recommendation: UAFCB appreciates SCE's efforts in strengthening its internal controls for reporting the EE fund shift activities and recommends that SCE continue to monitor and vigorously enforce the revised internal controls to prevent any future misreporting of EE fund shift activities.

Follow-up on Prior Audit Observations and Recommendations of UAFCB and SCE's Internal Audit Report Recommendations

Observation 22: SCE addressed and implemented the UAFCB's audit recommendations specified in its Audit Memo Report for the 2011-2012 EE Program examination, except for the following:

- For Observations 1 & 2, SCE continued to disagree with the UAFCB's finding regarding the labor cost process for recording labor charges to the EE program and thus did not implement any changes.
- For Observations 4 & 7, SCE is awaiting the results of the Commission's decision to SCE's motion filed in A.12-07-001 on fixed price contract pre-allocation factors issue before the Commission.
- For Observations 14 through 18, SCE anticipates completing training on fund shifting activities by the end of Quarter 2 of 2015.

Recommendation: UAFCB recommends that SCE continue to provide the UAFCB the results of its corrective actions for the items not yet fully completed in order to facilitate the UAFCB's examination of PY 2014.

Observation 23: SCE's Audit Services Department plans to perform audits in 2015 based on UAFCB's prior examination recommendations. SCE's Audit Services Department anticipates performing a review of the year-end accrual process and the On-Bill Financing (OBF) program procedures in 2015.

Recommendation: UAFCB recommends that SCE provide the UAFCB the results of its internal audits on SCE's year-end accrual process and OBF program procedures once completed in order to facilitate the UAFCB's examination of PY 2014.

B. Examination Process

UAFCB focused its examination on the areas mentioned in this memo based on consultation with the Commission's Energy Division (ED), its prior experience in examining SCE's EE programs, and the results of its risk assessment. Pertinent information about SCE's EE program is found in Appendix B.

⁴ Financial, Management, Regulatory, and Compliance Examination Report on Southern California Edison Company's (SCE's) Energy Efficiency (EE) Program for the Period January 1, 2011 through December 31, 2012, dated August 26, 2014.

On June 11, 2015, SCE provided the UAFCB its comments on the draft report provided to it on June 1, 2015. UAFCB summarized SCE's comments, including UAFCB's rebuttal to those comments in Appendix A. UAFCB made changes in its report where appropriate to reflect its satisfaction with the additional information provided by SCE. SCE's comments are included in Appendix C in its entirety to this report.

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

C. Conclusion

Except for the items discussed above, SCE 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 Observations 4, 13, 14, 15 and 16 discussed below, Southern California Edison Company (SCE) 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 year (PY) 2013.

This report addresses EE financial, management, regulatory, and compliance areas pertaining to PY 2013. UAFCB's examination was limited to the following specific areas of EE programs of interest to Energy Division and UAFCB:

1. Reconciliation of EE Program Portfolio Costs to Reported Amounts;
2. Codes and Standards (C&S) Programs;
3. Non-Resource (NR) Programs;
4. Third Party (TP) EE Program Contracts;
5. Fund Shifting;
6. Local Government Partnerships (LGP) - San Gabriel Energy Wise Partnership (SGVEW) Program;
7. Plug Load and Appliance (PLA) Program; and
8. Follow-up on Prior UAFCB's observations and recommendations and SCE's Internal Audit Reports

On June 1, 2015, the UAFCB submitted a copy of its draft report to SCE for review and comment. The draft report included UAFCB's observations and recommendations for the specific areas reviewed during the examination. SCE provided its comments on June 11, 2015. UAFCB includes a summary of SCE's comments and UAFCB's rebuttal to them in Appendix A. SCE's comments are included in Appendix C in its entirety to this report.

A.2 Reconciliation of EE Program Portfolio Costs to Reported Amounts

Observation 1: SCE demonstrated compliance with Public Utility (PU) code §§ 581 and 584 respecting its total portfolio costs. Despite some immaterial reporting errors due to manual extraction of reported expenditures to the Commission, the total EE expenditures reconciled to recorded expenses. SCE had adequate oversight over recorded and reported EE program costs because errors were caught and corrected timely. The total SCE EE portfolio program expenditures recorded and reported in PY 2013, excluding Evaluation, Measurement and Verification (EM&V) costs, amounted to \$189,262,700.

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

Condition: Despite some immaterial reporting errors due to manual extraction of reported expenditures to the Commission, the total EE portfolio expenditures reported for PY 2013 reconciled to recorded expenses in the accounting records. SCE had adequate

oversight over recorded and reported EE program costs because errors were caught and corrected timely.

Recommendation: None.

Observation 2: SCE continued to strengthen its internal controls over the recording and reporting of its EE programs costs as recommended by the UAFCB in its prior examination report.¹ SCE provided the UAFCB with its Internal Controls Plan on November 24, 2014, January 30, 2015, and April 30, 2015 that described actions taken by SCE for improving its internal controls environment to help minimize recording and reporting errors and improve the reporting process of SCE's EE transactions.

Criteria: As indicated in Observation 23 of its prior examination report on SCE's EE program for years 2011 and 2012, the UAFCB recommended that SCE strengthen its internal controls for recording and reporting its EE programs to prevent future misreporting and misclassification of EE costs, and provide UAFCB a copy of the revised internal controls.

Condition: On November 24, 2014, SCE provided the UAFCB with its initial Internal Controls Plan which described its plan for implementing the UAFCB's recommendations to strengthen its internal controls for recording and reporting the EE program costs. SCE subsequently provided the UAFCB with updated Revised Internal Controls Plan on January 30, 2015 and April 30, 2015 which the UAFCB reviewed during this examination.

Cause: Prior examination observations and/or findings led to the actions now being taken by SCE to correct internal control deficiencies.

Effect: Minimum and immaterial recording and reporting errors were found during the examination of PY 2013 because errors were caught and corrected in a timely manner.

Recommendation: UAFCB appreciates SCE's efforts in strengthening the internal controls for recording and reporting the EE program costs and recommends that SCE continue to monitor and vigorously enforce its revised internal controls to prevent any future misreporting and/or misclassification of EE program costs.

A.3 Codes and Standards (C&S) Programs

Observation 3: With exception to Observation 4 below, SCE demonstrated compliance with PU code §§ 581 and 584 respecting the reported C&S program costs. The \$3,273,462 reported in the December 2013 year-to-date Monthly EEStats report reconciled to the total amount recorded in the accounting records.

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

¹ Financial, Management, Regulatory, and Compliance Examination Report on Southern California Edison Company's (SCE's) Energy Efficiency (EE) Program for the Period January 1, 2011 through December 31, 2012, dated August 26, 2014.

Condition: The total \$3,273,462 C&S program expenditures reported in the December 2013 year-to-date Monthly EEStats report reconciled to recorded amounts in the accounting records. The breakdown of \$3,273,462 is as follows: \$493,085 was charged to the Administrative cost category, \$2,270 to the Marketing cost category, and \$2,778,107 to the Direct Implementation cost category.

Recommendation: None.

Observation 4: SCE overpaid a vendor by \$20,197 using incorrect labor billing rate contrary to the signed agreement. SCE reported and paid incorrect amount to a vendor from April through November 2013 by using incorrect labor rates. As a result, the C&S program expenditures were over-recorded and reported by \$20,197.

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

Condition: SCE reported and paid invoices of a vendor from April through November 2013 that contained the application of incorrect labor billing rates contrary to the signed agreement.

Cause: Internal controls that are not enforced can cause recording and reporting errors. Employees who are not properly trained and supervised can also contribute to recording and reporting errors.

Effect: SCE over-recorded and reported the C&S program costs by \$20,197.

SCE Comments: On June 9, 2015, SCE received a refund in the amount of \$20,197 from its vendor for the overpayment resulting from the use of incorrect billing labor rates from April through November 2013. SCE plans to credit back the \$20,197 refund payment to its Procurement Energy Efficiency Balancing Account (PEEBA) and reduce its 2014 C&S Management Fee incentive by \$2,424 in a future Advice Letter filing for its 2014 EE Program earnings claim.

Rebuttal: None.

Recommendation: SCE should remove \$2,424 incentive award from its request for the C&S Management Fee incentive claim in a future filing.

Observation 5: SCE's internal policy and procedures for implementing its C&S programs were adequately designed to meet Commission directives in PY 2013. SCE was in compliance with the Program Procedures Manual V6.0 for its C&S programs.

Criteria: SCE's internal C&S Program Procedures Manual V6.0 specifies policies and procedures for implementing the C&S programs for years 2013-2014.

Condition: SCE's C&S Program Procedures Manual V6.0 seemed adequate for implementing the C&S programs in accordance with Commission directives.

Recommendation: None.

A.4 Non-Resource (NR) Programs

Observation 6: SCE demonstrated compliance with §§ 581 and 584 respecting the reported NR program costs. The \$14,634,310 reported in the December year-to-date Monthly EEStats report reconciled to the total amount recorded in the accounting records.

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

Condition: The total \$14,634,310 NR program expenditures reported in the December 2013 year-to-date Monthly EEStats report reconciled to recorded amounts in the accounting records. The breakdown of \$14,634,310 is as follows: \$2,586,787 recorded to the Administrative cost category, \$413,153 to the Marketing cost category, and \$11,634,370 to the Direct Implementation cost category.

SCE Comments: SCE indicated that the Commission's Energy Division accepted SCE's Non-Resource Management Fee incentive amount of \$361,426 for PY 2013 by Advice Letter (AL) 3106-E in Resolution E-4700.

Rebuttal: None.

Recommendation: There is no need for the Energy Division to adjust the incentive award approved by AL 3106-E in Resolution E-4700.

Observation 7: SCE demonstrated compliance with GO 28 and the FERC USOA respecting the NR program costs. Of the \$2,662,558 NR program costs verified by the UAFCB, it found that SCE adequately preserved the records, memoranda, and documentation to support the expenses.

Criteria: The FERC USOA and GO 28 require that the utilities preserve all records, memoranda, and papers supporting each and every entry so that this Commission may readily examine the same at its convenience.

Condition: The UAFCB did not find any material exceptions during its examination of NR program expenditures selected for verification. The documentation reviewed and examined adequately supported the amounts recorded and paid by SCE.

Recommendation: None.

Observation 8: The criteria used by SCE for designating EE programs as Resource and Non-Resource were in conformance with Commission directives. SCE applied the definition contained in the Energy Efficiency Policy Manual, Version 5, dated July 2013, when determining whether an EE program is classified as a Resource or Non-Resource program.

Criteria: The Energy Efficiency Policy Manual, Version 5, dated July 2013, defines Non-Resource programs as “Energy efficiency programs that do not directly procure energy resources that can be counted, such as marketing, outreach and education, workforce education and training, and emerging technologies.”

Condition: SCE classified the EE programs as NR per the definition in the Commission’s Energy Efficiency Policy Manual.

Recommendation: None.

A.5 Local Government Partnerships - San Gabriel Valley Energy Wise Program Partnership (SGVEWP) Program

Observation 9: SCE demonstrated compliance with §§ 581 and 584 respecting the SGVEWP Program. The \$510,050 reported in the December 2013 year-to-date Monthly EESStats report reconciled to the total amount recorded in the accounting records.

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

Condition: The total \$510,050 SGVEWP program expenditures reported in the December 2013 year-to-date Monthly EESStats report reconciled to recorded amounts in the accounting records. The breakdown of \$510,050 is as follows: \$83,637 charged to the Administrative cost category, \$28,617 to the Marketing cost category, and \$397,797 to the Direct Implementation cost category.

Recommendation: None.

Observation 10: SCE demonstrated compliance with GO 28 and the FERC USOA respecting the SGVEWP program costs. Of the \$179,935 SGVEWP program costs verified by the UAFCB, it found that SCE adequately preserved the records, memoranda, and documentation to support the expenses.

Criteria: The FERC USOA and GO 28 require that the utilities preserve all records, memoranda, and papers supporting each and every entry so that this Commission may readily examine the same at its convenience.

Condition: UAFCB did not find any material exceptions during the examination of SGVEWP program expenditures selected for verification. The documentation reviewed and examined adequately supported the amounts recorded and paid by SCE.

Recommendation: None.

Observation 11: SCE’s internal policy and procedures to implement the Local Government Partnership programs, including the SGVEWP program, were adequately designed to meet Commission directives. SCE was in compliance with the Partnership Policies and Procedural Manual, Version 2.1, in implementing the SGVEWP program.

Criteria: SCE's internal Partnership Policies and Procedural Manual, Version 2.1, specifies policies and procedures for implementing SCE's Institutional and Government Partnership programs for program years 2013-2014.

Condition: The Partnership Policies and Procedural Manual, Version 2.1, seemed reasonably adequate for implementing the SGVEWP program in accordance with Commission directives.

Recommendation: None.

A.6 Third Party (TP) EE Program Contracts

Observation 12: With exception to Observation 13, 14, 15, and 16 below, SCE demonstrated compliance with §§ 581 and 584 respecting its TP EE program, contracts. The \$18,718,376 reported in the December 2013 year-to-date Monthly EEStats report reconciled to the total amount recorded in the accounting records.

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

Condition: The total \$18,718,376 TP program expenditures reported in the December 2013 year-to-date Monthly EEStats report reconciled to recorded amounts in the accounting records. The breakdown of \$18,718,376 is as follows: \$4,662,697 charged to the Administrative cost category, \$928,926 to the Marketing cost category, and \$13,126,753 to the Direct Implementation cost category.

Recommendation: None.

Observation 13: SCE continued to demonstrated non-compliance with GO 28 and the FERC USOA as noted in Observation 14. UAFCB limited its testing to \$3,531,688 of the TP costs to confirm that SCE continued to allocate TP contractor invoices based on pre-determined allocation factors to the three major cost categories.

Criteria: The FERC USOA and GO 28 require that the utilities preserve all records, memoranda, and papers supporting each and every entry so that this Commission may readily examine the same at its convenience.

Condition: SCE continued to pay TP contractor invoices based on pre-determined allocation factors as noted in prior examinations of the UAFCB.

Recommendation: SCE should implement whatever decision issued by the Commission regarding the disposition of the matter of TP contractors pre-determined allocation factors of invoices to determine the amount to charge to the Commission's three major cost categories.

Observation 14: SCE did not demonstrate compliance with §§ 581 and 584 by not tracking the actual TP contract costs as expected by the Commission. SCE continued to allow its TP

contractors to allocate invoiced amounts to the three cost categories based on pre-determined allocation factors instead of requiring them to track and report actual costs by the Commission's three major cost categories.

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

Condition: SCE continued to allow invoiced amounts from the TP contractors with fixed price or performance contracts to be distributed between direct implementation, administration, and marketing by predetermined allocation factors as it did in PY 2011 and 2012.

Cause: SCE continued to allow its TP contractors to allocate invoiced amounts to the three cost categories instead of requiring them to track and invoice the actual costs to SCE using the three major cost categories prescribed by the Commission.

Effect: SCE recorded and reported data to the Commission that were likely misclassified and less than accurate. Allowing contractors to allocate or estimate actual charges for each cost category may result in misclassified/understated/overstated cost category amounts. This defeats the purpose of the soft cap or target established by the Commission for TP administrative costs and allows SCE to pre-determine the outcome.

Recommendation: Since the matter of fixed price or performance contract pre-allocation factors issue is currently before the Commission in Application A.12-07-001, the UAFCB recommends that SCE take any appropriate action once the Commission resolves the matter.

Observation 15: UAFCB discovered that there is a lack of clear guidance on how to determine whether or not SCE has met the Commission's requirement on the 20% minimum funding for competitively solicited bid requirement for TP programs. SCE determined its compliance with this requirement by including Core/Statewide programs, including its REN budget, and excluding Administrative costs and the Marketing, Education, and Outreach (ME&O) budget from the calculation of the 20% TP competitive solicited bid requirement. SCE claimed in Advice Letter (AL) 2836-E, Table 3.4, that the budget for competitively solicited bid TP programs was 23% of the total 2013-2014 EE portfolio budget. If SCE were to remove Core/Statewide programs and the REN budget from the calculation used in AL 2836-E, Table 3.4, its budget for the competitively solicited bid TP programs would be reduced to 13% as opposed to 23%.

Criteria: D.05-01-055 adopted the 20% minimum funding requirement which required the IOUs to identify at least 20% of their portfolio budget to competitively bid third-party implementers.² D.12-11-055 further clarified that the third party requirement for 20% of the portfolio to be competitively bid is 20% of the total portfolio budget, including EM&V costs.³ Additionally, D.12-11-015 points out that San Diego Gas and Electric Company (SDG&E) should not include activities as third party that are actually part of its

² D.05-01-055 at pages 91-96.

³ D.12-011-015 at page 82, paragraph 1.

statewide program delivery in the computation of the 20% minimum funding requirement unless the program is selected through a third party solicitation.⁴

Condition: SCE determined its compliance with the 20% minimum funding requirement for competitively bid TP programs based on the EE program budget on Table 3.4, Appendix D of AL 2836-E-D, approved by the Commission's ED on September 5, 2013. In Table 3.4, SCE reflected that its budget for competitively solicited bid TP programs was \$157.15 million or 23% of its total EE portfolio budget of \$694.20 million. In its calculation, SCE included all competitively bid programs, including TP, Partnerships and Core/Statewide programs. Additionally, SCE included its REN budget and excluded the Administrative costs and the Marketing, Education and Outreach (ME&O) budget in the calculation for determining its compliance with the 20% minimum funding requirement for competitively solicited bid programs.

Cause: The Commission's EE program decisions and the EE Policy Manual do not provide explicit and clear instructions on how to calculate the 20% minimum funding requirement for competitively bid TP programs. There is no clear guidance on whether SCE should include Core/Statewide programs and its REN budget when determining its compliance with the 20% requirement. Additionally, there is no clear guidance on whether SCE should exclude the Administrative costs and the ME&O budget from the calculation in meeting the 20% minimum funding requirement.

Effect: UAFCB is unable to determine whether SCE is in compliance with the 20% TP program funding requirement.

Recommendation: UAFCB recommends that the Commission clarify the 20% minimum funding requirement for TP competitively solicited bids and provide specific instructions to avoid ambiguity. UAFCB plans to work with the Commission's ED on this matter.

Observation 16: In evaluating SCE's compliance with the 20% minimum funding requirement for competitively bid TP contracts, the UAFCB contacted the ED and it provided the following computation formula to UAFCB:

Numerator = The total contract dollar amount, including incentives, of all competitively bid third party programs, including the funding set aside to conduct competitive solicitations throughout the program cycle.

Denominator = the total authorized energy efficiency program budget, including EM&V budget, but excluding REN/CCA budgets. The third party value (numerator in formula) is the summation of the contract amount, including incentives, of all competitively bid third party programs, including the funding set aside to conduct competitive solicitations throughout the program cycle.

UAFCB found it challenging in computing the numerator using ED's directive because there are no set criteria to determine the total contract dollar amount for a particular

⁴ D.12-011-015 at page 82, paragraphs 2 and 3.

contract in an EE cycle if that contract's duration is not completely within the EE budget cycle.

Recommendation: The Commission should clarify the 20% minimum funding requirement for competitively bid third party contracts and provide specific instructions on this matter to all Investor-Owned Utilities (IOUs) to avoid ambiguity. UAFCB recommends that the Commission should consider modifying the requirement and require the IOUs to use actual expenditures on competitively bid TP EE program contracts for the EE cycle in computing the numerator for simplicity. UAFCB plans to work with the Commission's ED on this matter.

A.7 Plug Load and Appliances (PLA) Program

Observation 17: SCE demonstrated compliance with §§ 581 and 584 respecting the reported PLA program costs. The \$11,501,794 reported in the December 2013 year-to-date Monthly EEStats report reconciled to the total amount recorded in the accounting records.

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

Condition: The total \$11,501,794 PLA program expenditures reported in the December 2013 year-to-date Monthly EEStats report reconciled to recorded amounts in the accounting records. The breakdown of \$11,501,794 is as follows: \$378,901 recorded to the Administrative cost category, \$1,574,948 to the Marketing cost category, and \$9,547,945 to the Direct Implementation cost category.

Recommendation: None.

Observation 18: SCE demonstrated compliance with GO 28 and the FERC USOA respecting PLA program costs. Of the \$1,716,863 PLA program costs verified by the UAFCB, it found that SCE adequately preserved the records, memoranda, and documentation to support the expenses.

Criteria: The FERC USOA and GO 28 require that the utilities preserve all records, memoranda, and papers supporting each and every entry so that this Commission may readily examine the same at its convenience.

Condition: UAFCB did not find any material exceptions during the examination of PLA program expenditures selected for verification. The documentation reviewed and examined adequately supported the amounts recorded and paid by SCE.

Recommendation: None.

Observation 19: SCE's internal policy and procedures to implement PLA subprograms-the Appliance Recycling Program (ARP) and the Home Energy Efficiency Rebate (HEER) Program were adequately designed to meet Commission directives. SCE was in compliance with the Policies and Procedural Manual, Version 4.0, and HEER Policies and Procedural Manual, Version 5.1, for implementing the ARP and HEER programs, respectively.

Criteria: SCE's internal ARP Policies and Procedural Manual, Version 4.0, and HEER Policies and Procedural Manual, Version 5.1, both specify policies and procedures for implementing the ARP and HEER programs, respectively.

Condition: SCE's internal PLA program policies and procedural manuals for subprograms ARP and HEER seemed adequate for implementing the programs in accordance with Commission directives.

Recommendation: None.

A.8 Fund Shifting

Observation 20: SCE demonstrated compliance with the Energy Efficiency Policy Manual respecting its fund shifting activities unlike in prior examinations conducted by the UAFCB. SCE's EE program fund shifts did not exceed the annual thresholds specified in Appendix C of the Energy Efficiency Policy Manual (Version 5), dated July 2013. SCE complied with Commission's Fund Shifting requirements by avoiding errors made in the past.

Criteria: Sections 581 and 584 require that the utility provide complete and accurate data to the Commission. The Energy Efficiency Policy Manual, Version 5, dated July 2013, Appendix C, specifies the Commission's adopted fund shifting rules.

Condition: SCE's Quarter 4 fund shift report for 2013 showed executed funds shifts among program categories and within the same program categories totaling \$16,800,000 for PY 2013.

Recommendation: None.

Observation 21: SCE continued to strengthen its internal controls over the reporting of its EE fund shifting activities as recommended by the UAFCB in its prior examination report.⁵ SCE improved in reporting its fund shifting activities to the Commission.

Criteria: As indicated by the UAFCB in Observations 14 through 18 of its prior examination report on SCE's EE program for years 2011 and 2012, the UAFCB recommended that SCE strengthen its fund shifting policies and procedures to ensure compliance with Commission directives and exercise due diligence to ensure that its reports are accurate before submitting them to the Commission and posting them to EEStats.

Condition: In its Revised Internal Controls Plan provided to the UAFCB on April 30, 2015, SCE provided a copy of its enhanced EE fund shift and reporting procedures effective March 15, 2015. In addition, SCE developed a revised fund shift request form

⁵ Financial, Management, Regulatory, and Compliance Examination Report on Southern California Edison Company's (SCE's) Energy Efficiency (EE) Program for the Period January 1, 2011 through December 31, 2012, dated August 26, 2014.

and plans to provide refresher training by the end of Quarter 2 of 2015 to reinforce fund shifting review activities before they are reported.

Recommendation: UAFCB appreciates SCE's efforts in strengthening its internal controls for reporting the EE fund shift activities and recommends that SCE continue to monitor and vigorously enforce the revised internal controls to prevent any future misreporting of EE fund shift activities.

A.9 Follow-up on Prior Examination Observations and Recommendations of UAFCB and SCE's Internal Audit Report Recommendations

Observation 22: SCE addressed and implemented the UAFCB's audit recommendations specified in the Examination Memo Report for the 2011-2012 EE Program examination, except for the following:

- For Observations 1 & 2, SCE continued to disagree with the UAFCB's finding regarding the labor cost process for recording labor charges to the EE program and thus did not implement any changes.
- For Observations 4 & 7, SCE is awaiting the results of the Commission's decision to SCE's motion filed in A.12-07-001 on fixed price contract pre-allocation factors issue before the Commission.
- For Observations 14 through 18, SCE anticipates completing training on fund shifting activities by the end of Quarter 2 of 2015.

Criteria: Pursuant to UAFCB's examination report, SCE is required, among other things, to:⁶

- 1) Strengthen its policies and procedures to ensure compliance with Commission directives.
- 2) Strengthen its internal controls for recording and reporting its EE programs to prevent future misreporting and misclassifications of its EE costs.

Condition: Despite the magnitude and the number of discrepancies identified in prior UAFCB's examination reports on program years 2011-2012, SCE was able to address almost all of UAFCB's recommendations. Items pending completion are the following:

- Disagreement over EE Administrative Costs;
- Disagreement over pre-determined allocation factors being used by TP contractors of SCE to determine the charges to the Commission's three major cost categories; and
- Training to reinforce fund shifting review activities before they are reported to the CPUC, as well as monitoring activities after they are reported.

⁶ *Financial, Management, Regulatory, and Compliance Examination Report on Southern California Edison Company's (SCE's) Energy Efficiency (EE) Program For the Period January 1, 2011 through December 31, 2012, issued August 26, 2014.*

Cause: SCE disagrees with UAFCB's finding and thus did not implement any changes. SCE and UAFCB are awaiting the decision of the Commission on the pre-determined allocation factors for recording and reporting invoices issued by TP contractors.

SCE plans to complete training by the second quarter in 2015 on fund shifting activities to its affected employees.

Effect: UAFCB will not be satisfied until these matters are finally resolved.

Recommendation: UAFCB recommends that SCE continue to provide the UAFCB the results of its corrective actions for the items not yet fully completed in order to facilitate the UAFCB's examination of PY 2014.

Observation 23: SCE's Audit Services Department plans to perform audits in 2015 based on UAFCB's prior examination recommendations. SCE's Audit Services Department anticipates performing a review of the year-end accrual process and the On-Bill Financing (OBF) program procedures in 2015.

Criteria: UAFCB recommended in prior examination reports that SCE Audit Services Department review accrual process and the EE OBF program procedures.

Condition: According to SCE, its Audit Services Department included the review of year-end accruals and the OBF program in its 2015 annual risk assessment to determine the feasibility of including these items in the annual audit plan.

SCE Comments: SCE indicated that the Audit Services Department has already performed an internal audit of its year-end accruals process and the OBF program procedures during 2015 and will provide the UAFCB with copies of these audit reports in the next quarterly Internal Controls Plan to be submitted on July 30, 2015.

Rebuttal: None

Recommendation: UAFCB recommends that SCE provide the UAFCB the results of its internal audits on SCE's year-end accrual process and its OBF program procedures once completed in order to facilitate the UAFCB's examination of PY 2014.

Appendix B Program Compendium

B.1 Introduction

On November 8, 2012, the California Public Utilities Commission (Commission) issued Decision (D.) 12-11-015 which, among other things, authorized Southern California Edison Company (SCE) a total budget of \$694.2 million in ratepayer funds to administer and implement its Energy Efficiency (EE) programs for the years 2013-2014. This represents about 37% of the total \$1.9 billion EE program budget for all Investor-Owned Utilities (IOUs) for the 2013 - 2014 EE budget cycle. In addition, this decision also approved programs and budgets for two regional energy networks (RENs) and one community choice aggregator (CCA), set energy savings goals, established cost-effectiveness requirements, and required the IOUs to allocate unspent funds from previous program cycles towards their 2013-2014 budgets.

B.2 EE Funding Components

Of the \$694.2 million authorized portfolio budget for program cycle 2013-2014, \$665.5 million of the funds is to administer and implement SCE's EE programs and the remaining \$28.7 million is dedicated to fund the Evaluation, Measurement and Verification (EM&V) portion of the program portfolio. For program year (PY) 2013, excluding the EM&V budget, SCE was authorized a budget totaling \$327.1 million to administer and implement its EE programs.¹ In 2013, SCE spent \$189.3 million or 57.8% of its total authorized portfolio budget for 2013. Table B-1 provides a summary of the EE fund balance as of December 31, 2013.

**Table B-1
Summary of Ratepayer Funded EE Programs, Excluding EM&V
For the Period Ending: January 1, 2013 – December 31, 2013**

Description	Amount
Authorized Budget per D.12-11-015	\$665,544,966
2013 Actual EE Program Expenditures	<u>189,262,700</u>
Amount Available for 2014	<u>\$473,282,266</u>

UAFCB describes the background information of the areas it examined from B-3 to B-9. B-10 contains prior examination report follow-up responses, including SCE's internal audit findings related to the EE programs during the examination period.

B.3 Reconciliation of EE Program Portfolio Costs to Reported Amounts

SCE uses the System Application and Products (SAP) Enterprise Resource Planning (ERP) Solutions software to manage its database and uses a unique internal ordering system to allocate and capture energy efficiency (EE) program expenditures for specific EE programs. Costs applicable solely to a specific EE program are directly charged to the program. Other costs for EE programs, including overhead costs and other EE program costs are allocated among the programs using the internal ordering system.

¹ SCE's Compliance Advice Letter 2836-E, filed January 14, 2013 and approved by the Commission on September 5, 2013 contained SCE's approved budget for program year 2013 in Appendix D, Table 4.1.

SCE reported all EE portfolio expenses in Table 3 of the Annual Report. The Annual Report includes all EE portfolio costs by the Commission's three major cost categories – Administrative, Marketing, and Direct Implementation. A summary of EE portfolio expenditures, excluding EM&V, by major cost category and related percentages for PY 2013 is presented in Table B-2 below.

Table B-2
Summary of EE Portfolio Expenditures – 2013
(Excluding EM&V)

Cost Category	Amount	%
Administrative	\$ 17,011,811	9%
Marketing/Advertising/Outreach	6,827,061	4%
Direct Implementation	<u>165,423,828</u>	<u>87%</u>
Total	<u>\$189,262,700</u>	<u>100%</u>

B.4 Codes and Standards (C&S) Programs

The Statewide C&S Program saves energy by: 1) Influencing standards and code-setting bodies (such as the California Energy Commission) to strengthen energy efficiency regulations, 2) Improving compliance with existing codes and standards, 3) Assisting local governments to develop ordinances that exceed statewide minimum requirements, and 4) Coordinating with other programs and entities to support the state's ambitious policy goals.²

The primary mission of the C&S programs is on advocacy and compliance improvement activities that extend to virtually all buildings and potentially any appliance in California. These C&S activities mainly focus on California Title 20 and Title 24, Part 6 enhancements. The C&S program requires advocacy activities to improve building and appliance efficiency regulations. The principal audience is the California Energy Commission (CEC) which conducts periodic rulemakings, usually on a three-year cycle (for building regulations), to update building and appliance energy efficiency regulations. The C&S program also seeks to influence the United States Department of Energy (DOE) in setting national energy policy that impacts California.

At SCE, the C&S program consists of five subprograms: 1) Building Codes and Compliance Advocacy, 2) Appliance Standards Advocacy, 3) Compliance Improvement, 4) Reach Codes, and 5) Planning and Coordination.

The total C&S program budget for the 2013-2014 EE program cycle is \$11.76 million approved by the Commission's Energy Division on September 5, 2013 in Compliance Filing Advice Letter 2836-E. A summary of the approved C&S program budget for the 2013-2014 EE program cycle by subprogram and related percentages is provided in the table that follows.

² Fact Sheet, "Statewide Codes and Standards Program (2013-2014)," March 2013, p. 1, Codes and Standards Support at <http://www.cpuc.ca.gov/PUC/energy/Energy+Efficiency/>

Table B-3
SCE 2013-2014 C&S Program Budget

C&S Program Name	2013-2014 Approved Budget	% to Total C&S Budget
Building Codes and Compliance Advocacy	\$ 3,421,521	29%
Appliance Standards Advocacy	3,421,521	29%
Compliance Improvement	1,603,839	14%
Reach Codes	1,069,224	9%
Planning and Coordination	<u>2,245,373</u>	<u>19%</u>
Total 2013-2014 C&S Budget	<u>\$11,761,478</u>	<u>100%</u>

SCE spent a total of \$3,273,462, or approximately 28% of its approved C&S program budget for the 2013-2014 EE program cycle. A detailed summary of the C&S program charges recorded by subprogram, cost category and related percentages for PY 2013 is provided in the table below.

Table B-4
SCE C&S Program Expenditures - 2013

Program Name	Admin.	Mktg.	DI	Total	%
Building Codes and Compliance Advocacy	\$121,351		\$1,073,690	\$1,195,041	37%
Appliance Standards Advocacy	129,893		493,444	623,337	19%
Compliance Improvement	76,171		1,030,004	1,106,175	34%
Reach Codes	63,796		56,332	120,128	4%
Planning and Coordination	<u>101,875</u>	<u>2,270</u>	<u>124,637</u>	<u>228,781</u>	<u>7%</u>
Total	<u>\$493,086</u>	<u>\$2,270</u>	<u>\$2,778,107</u>	<u>\$3,273,462</u>	<u>100%</u>

Per Commission D.13-09-023, OP 4, SCE filed Advice Letter (AL) 3106-E on September 25, 2013 requesting, the C&S programs incentive award for PY 2013 in the form of a management fee equal to 12% of approved C&S program expenditures, not to exceed authorized expenditures, and excluding administrative costs. SCE requested a C&S Management Fee incentive amount of \$333,645. A summary detailing SCE's calculation of the C&S Management Fee is provided in the table below.

Table B-5
C&S Management Fee Calculation - 2013

Description	Amount
Total C&S Program Expenditures	\$3,273,462
Less: C&S Administrative Costs	<u>493,086</u>
Subtotal	\$2,780,376
Multiplied by 12%	<u>12%</u>
C&S Management Fee – PY2013	<u>\$ 333,645</u>

B.5 Non-Resource (NR) Programs

The NR programs represent energy efficiency (EE) activities that do not focus on displacement of supply-side resources at the time they are implemented, but may lead to displacement over a

longer-term, or may enhance program participation overall. The NR programs in themselves do not provide direct energy savings and only have costs, making them not cost-effective on their own.³

Currently, there are no specific criteria for determining whether a particular EE program is classified as Resource or NR EE program for each IOU. SCE classified its EE programs as NR based on the definition contained in the Energy Efficiency Policy Manual, Version 5, dated July 2013. This defines the NR Programs as "Energy efficiency programs that do not directly procure energy resources that can be counted, such as marketing, outreach and education, workforce education and training, and emerging technologies."

In 2013, SCE identified 17 EE programs as NR with recorded charges totaling \$14.63 million. A detailed summary of NR EE program charges recorded by program and cost category for PY 2013 is provided in the table below.

Table B-5
SCE NR Program Expenditures - 2013

Program Name	Admin.	Mktg.	DI	Total
Commercial Energy Advisor Program	\$ 162,154	\$61,134	\$ 1,588,845	\$ 1,812,133
Industrial Energy Advisor Program	66,811	120	528,270	595,200
Industrial Continuous Energy Improv.	32,783	39	117,028	149,850
Agriculture Continuous Energy Improv.		355	19,841	20,197
IDSMS – CEES	51,991		209,499	261,490
Technology Development Support	219,254	3	1,407,334	1,626,591
Technology Assessments	201,683		827,272	1,028,955
Technology Introduction Support	247,439	150	526,701	774,290
WE&T Centergies	445,286	109,955	4,281,669	4,836,911
WE&T Planning – CEES	7,067		21,158	28,226
IDSMS – Pilot for Food Processing	91,514	117,912	1,810	211,236
Energy Leader Strategic Support	62,957	14,533	389,530	467,021
Local Gov't Strategic Planning	670,701	4,820	413,119	1,088,640
Cool Planet	74,918	47,764	72,659	195,342
Sustainable Communities	159,085	55,343	312,813	527,241
Commercial Cont. Energy Improv.	55,479	1,025	805,887	862,392
Lighting Market Transformation	37,665	-	110,935	148,600
Total Non-Resource Programs	<u>\$2,586,787</u>	<u>\$413,153</u>	<u>\$11,634,370</u>	<u>\$14,634,315</u>

Per Commission D.13-09-023, OP 4, SCE filed Advice Letter (AL) 3106-E on September 25, 2013 requesting the NR programs incentive award for PY 2013 in the form of a management fee equal to 3% of approved NR program expenditures, not to exceed the authorized expenditures, and excluding administrative costs. SCE requested a NR Management Fee incentive amount of \$361,426. A summary detailing SCE's calculation of the NR Management Fee incentive amount for PY 2013 is provided in table B-6.

³ D.13-19-023, Findings of Fact 10, p. 88

**Table B-6
 NR Management Fee Calculation – PY 2013**

Description	Amount
Total Non-Resource Program Expenditures	\$14,634,315
Less: Non-Resource Program Administrative Costs	<u>2,586,787</u>
Subtotal	\$12,047,525
Multiplied by 3%	<u>3%</u>
Non-Resource (NR) Management Fee – PY2013	<u>\$ 361,426</u>

B.6 Local Government Partnerships (LGP) - San Gabriel Valley Energy Wise Partnership (SGVEWP) Program

The SGVEWP program is a partnership between SCE and the San Gabriel Valley Council of Governments (SGVCOG). The partnership seeks opportunities for improving energy efficiency in the 29 cities of the San Gabriel Valley by offering customized incentives for municipal projects, conducting energy efficiency training and outreach events, and providing support for long-term goals such as climate action planning, code compliance, reach codes, and other strategic plan initiatives.

In 2013, SCE spent \$510,050 on the SGVEWP program. Of this amount, \$397,797 or 78% of the charges were recorded in the Direct Implementation cost category. A detailed summary of charges by cost category and their related percentages is provided in the table below.

**Table B-7
 SGVEWP Program Expenses – Program Year 2013**

Cost Category	Amount	%
Administrative	\$ 83,636	16.4%
Marketing	28,617	5.6%
Direct Implementation	<u>397,797</u>	<u>78.0%</u>
Total 2013 Expenditures	<u>\$510,050</u>	<u>100.0%</u>

B.7 Third Party EE Program Contracts

SCE uses contractors to assist in administering and implementing the various EE programs, including the TP EE programs. SCE utilizes Purchase Orders (PO) to procure materials and services with contractors for its business operations, including the EE program. A PO is a written authorization to a vendor/contractor to provide materials or services to SCE based on terms and conditions agreed upon by the two parties. PO agreements for materials and services procured by SCE for its EE programs included, but not limited to, consulting services, employee training, data collection services, computer services, postage, etc.

To assist in administering and implementing its EE programs for the 2013-2014 EE funding cycle, SCE secured agreements with 23 individual contractors through the competitive bid process which resulted in the issuance of 40 PO agreements.

In 2013, SCE reported charges totaling \$18.72 million for the TP EE programs in the December 2013 year-to-date Monthly EEstats Report. Of this amount, \$13.13 million or 70% of the charges were recorded in the Direct Implementation cost category. A detailed summary of the charges by program, cost category, and their percentages is provided in the table below.

Table B-8
Total TP Program Costs by Cost Category - 2013

Program Name	Admin.	Mktg.	DI	Total	%
Comp. Manufactures Homes	\$ 344,452	\$140,595	\$ 3,355,491	\$ 3,840,538	21%
Cool Planet	74,918	47,764	72,659	195,341	1%
Healthcare EE Program	244,378	117,954	617,554	979,886	5%
Data Center EE Program	235,325	71,429	318,177	624,934	3%
Lodging EE Program	256,174	107,520	686,094	1,049,788	6%
Food & Kindred Products	312,282	27,012	1,245,829	1,585,123	8%
Primary & Fabric. Metals	268,839	21,952	951,299	1,242,090	7%
Nonmetallic Min. & Products	267,132	94,862	1,974,040	2,336,034	12%
Comp. Chemical Products	360,921	21,560	641,317	1,023,798	5%
Comp. Petroleum Refining	216,264	52,366	557,212	825,842	4%
Oil Production	382,684	70,593	1,365,339	1,818,616	10%
Refinery EE Program	294,510	67,356	245,167	607,033	3%
Cool Schools	300,270	32,453	257,615	590,338	3%
Comm. Utility Bldg. Efficiency	212,949	3	286,235	499,187	3%
EE for Entertainment Ctrs.	126,458	2	25,349	151,809	1%
School EE Program	416,226	8	175,941	292,175	3%
Sustainable Communities	159,085	55,343	312,813	527,241	3%
IDEEA365 Program	189,408	10	35,139	224,557	1%
Enhanced Retro Comm.	422	144	3,483	4,049	0%
Total	<u>\$4,662,697</u>	<u>\$928,926</u>	<u>\$13,126,753</u>	<u>\$18,718,376</u>	<u>100%</u>

The total TP EE program contractor expenditures, excluding SCE labor and SCE non-labor charges, amounted to \$11.93 million for PY 2013. A summary of TP EE program contractor expenditures, excluding SCE labor and SCE non-labor, by program, cost category, and the related percentage is presented in Table B-9.

Table B-9
TP Contractor Costs by Program and Cost Category - 2013

Program Name	Admin.	Marketing	DI	Total	%
Comp. Manufactures Homes	\$ 99,339	\$139,075	\$3,134,227	\$3,372,641	28%
Cool Planet	28,815	47,460	71,550	147,825	1%
Healthcare EE Program	83,192	116,748	499,151	699,091	6%
Data Center EE Program	50,754	71,067	221,972	343,793	3%
Lodging EE Program	99,661	106,422	369,593	575,676	5%
Food & Kindred Products	40,678	26,788	924,669	992,135	8%
Primary & Fabric. Metals	32,984	21,721	749,792	804,497	7%
Nonmetallic Min. & Products	94,173	94,176	1,695,121	1,883,637	16%
Comp. Chemical Products	156,446	21,334	533,338	711,118	6%
Comp. Petroleum Refining	115,642	51,830	347,982	515,454	4%
Oil Production	203,930	69,986	590,186	864,102	7%
Refinery EE Program	61,771	66,570	187,233	315,574	3%
Cool Schools	161,454	32,121	231,761	425,336	4%
Comm. Utility Bldg. Efficiency	-	-	88,082	88,082	1%
EE for Entertainment Ctrs.	-	-	-	-	0%
School EE Program	-	-	-	-	0%
Sustainable Communities	-	-	197,403	197,403	2%
IDEEA365 Program	-	-	-	-	0%
Enhanced Retro Commissioning	-	-	-	-	0%
Total	<u>\$1,228,839</u>	<u>\$865,295</u>	<u>\$9,842,060</u>	<u>\$11,936,194</u>	<u>100%</u>

For administering and implementing the TP EE programs in PY 2013, SCE secured agreements with 19 individual contractors through the competitive bid process. Of the 19 individual PO agreements, 14 were Fixed Unit Price contracts, three Hybrid contracts, and two Time and Materials contracts. A summary of TP EE program contractor costs by contract type and cost category is provided in the following table.

Table B-10
TP Contractor Costs by Contract Type and Cost Category

Description	Fixed Unit Price	Hybrid	Time & Materials	Total
Administration	\$ 1,100,363	\$ 99,661	\$ 28,815	\$ 1,228,839
Marketing	711,413	106,422	47,460	865,295
Direct Implementation	<u>9,203,514</u>	<u>369,593</u>	<u>268,953</u>	<u>9,842,060</u>
Total	<u>\$11,015,290</u>	<u>\$575,676</u>	<u>\$345,228</u>	<u>\$11,936,194</u>

In D.05-01-055, the Commission adopted the 20% minimum funding requirement which required the IOUs to identify at least 20% of their portfolio budget to competitively bid TP implementers.⁴ In D.12-11-055, the Commission clarified that the TP requirement for 20% of the portfolio to be competitively bid is 20% of the total portfolio budget, including EM&V

⁴ D.05-01-055 at pages 91-96.

costs.⁵ Additionally, D.12-11-015 points out that San Diego Gas and Electric Company (SDG&E) should not include activities as third party that are actually part of its statewide program delivery in the computation of the 20% minimum funding requirement unless the program is selected through a third party solicitation.⁶

For 2013, SCE determined its compliance with the 20% minimum funding requirement for competitively bid TP programs of the EE program budget based on Table 3.4, Appendix D of Advice Letter (AL) 2836-E-D. This was approved by the Commission's Energy Division on September 5, 2013. In Table 3.4, SCE reflected that its budget for competitively solicited bid TP programs for PY's 2013-2014 was \$157.15 million, or 23% of its total EE portfolio budget of \$694.20 million. In its calculation, SCE included all competitively solicited bid programs, including the TP, Partnerships and Core/Statewide programs. Additionally, SCE included the Regional Energy Network (REN) budget and excluded the Administrative costs and the Marketing, Education and Outreach (ME&O) budget in the calculation for determining its compliance with the 20% minimum funding requirement for competitively solicited bid TP programs.

The Commission's EE program decisions and the EE Policy Manual do not provide explicit and clear instructions on how to calculate the 20% minimum funding requirement for competitively bid TP programs. There is no clear guidance and/or Commission directive that specifies for SCE include Core/Statewide programs and its REN budget in determining its compliance with the 20% minimum funding requirement. In addition, there is no specific guidance and/or Commission directive that stipulate that SCE exclude the Administrative costs and the ME&O budget from the calculation of the 20% minimum funding requirement for TP bids competitively solicited.

B.8 Plug Load and Appliance (PLA) Program

The PLA Program includes the former Home Energy Efficiency Rebate (HEER), Business Consumer Electronics (BCE), and Appliance Recycling (ARP) programs. The PLA Program encourages the adoption of energy-efficient choices when purchasing and installing qualified high efficiency appliances and recycling inefficient refrigerators and freezers by offering rebates and incentives to customers.

Residential end-use customers who purchase qualified high efficiency appliances in SCE's service territory can claim rebates from SCE through a mail-in or online rebate application process. Customers can receive a Point of Sale (POS) discount right at the register during their purchase at participating retail locations to cover some of the incremental costs of purchasing qualified high efficiency appliances.

The PLA Program also offers an incentive to prevent the continued use of inefficient, working refrigerators and freezers by taking the units out of homes and business, then recycling those using Responsible Appliance Disposal (RAD) standards. SCE employs vendors to schedule appointments, pickup, dismantle and recycle units, and pay incentives to customers.

⁵ D.12-011-015 at page 82, paragraph 1.

⁶ D.12-011-015 at page 82, paragraphs 2 and 3.

SCE spent \$11.50 million in expenditures during PY 2013 on the PLA programs. Of this amount, \$5.35 million or 48 % was related to the implementation of ARP and \$6.15 million or 52% pertained to the implementation of the HEER program. SCE did not record any costs to its BCE Program in 2013 since the program was deemed to be no longer cost effective for incentives. A summary of PLA Program expenditures by sub-program, cost category and the related percentage is provided in the table below.

Table B-11
Summary of SCE PLA Program Expenses – 2013

Cost Category	ARP	HEER	Total PLA	%
Administrative	\$ 247,345	\$ 131,556	\$ 378,901	3%
Marketing/Advert./Outreach	802,844	772,104	1,574,948	14%
Direct Implementation	<u>4,300,230</u>	<u>5,247,715</u>	<u>9,547,945</u>	<u>83%</u>
Total	<u>\$5,350,419</u>	<u>\$6,151,375</u>	<u>\$11,501,794</u>	<u>100%</u>

B.9 Fund Shifting

Per Decision (D.) 12-11-015, Opinion Paragraph (OP) 10, the existing fund shifting rules⁷ are to be applied to the following categories of programs for the IOUs:⁸

- a. Statewide residential
- b. Statewide commercial
- c. Statewide agricultural
- d. Statewide industrial
- e. Statewide lighting
- f. Statewide codes and standards
- g. Statewide emerging technologies
- h. Statewide workforce, education, and training
- i. Statewide marketing, education, and outreach
- j. Statewide integrated demand-side management
- k. Statewide financing
- l. Third party programs (competitively bid)
- m. Local government partnerships
- n. Other

Generally, fund shifts among the fourteen program categories exceeding 15% require a filing of an AL with the Commission. However, there are a few exceptions where a filing of an AL is required when fund shifts would reduce the following statewide programs by more than 1% of their respective budget levels:

- 1) Codes & Standards (C&S) program;
- 2) Emerging Technology (ET) program; and

⁷ This is made in reference to fund shifting rules in D.09-09-047, OP 43(b) and Ruling (R.) 09-11-014, "Assigned Commissioner's Ruling Clarifying Fund Shifting Rules and Reporting Requirements," dated December 22, 2011.

⁸ D.12-11-015, OP 20, pp. 135-136

3) Marketing Education & Outreach (ME&O) program

SCE executed a total of nine (9) fund shifts totaling \$16,800,000 that included shifts among program categories and within the same program categories.

B.10 Follow-up on Prior Examination Observations and Recommendations of UAFCB and SCE's Internal Audit Report Recommendations

UAFCB performed a follow-up examination on each observation and recommendation included in its prior report entitled, *Financial, Management, Regulatory, and Compliance Examination Report on Southern California Edison Company's (SCE's) Energy Efficiency (EE) Program for the Period January 1, 2011 through December 31, 2012*, issued on August 26, 2014.⁹

In response to the UAFCB's examination report, SCE developed a Revised Internal Controls Plan detailing its plan for implementing the recommendations to strengthen its internal controls for recording and reporting the EE program costs and improving the overall administration and operation of the EE programs. SCE provided the initial Revised Internal Controls Plan to the UAFCB on November 24, 2014, and then subsequently provided quarterly updates on January 30, 2015 and April 30, 2015. SCE indicated that it will continue to submit quarterly updates to the UAFCB until all corrective actions are complete.

UAFCB reviewed SCE's Revised Internal Controls Plan and supporting documentation provided on November 24, 2014, January 30, 2015, and April 30, 2015, and found that SCE was able to adequately address most of the recommendations identified in the UAFCB's prior examination report. Prior UAFCB observations and recommendations pending corrective action by SCE include the following:

- **Observation 1: SCE did not demonstrate compliance with Public Utility (PU) code §§ 314(a), 581 and 584, General Order (GO) 28, and the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts (USOA).** SCE did not produce adequate source documentation to support the sampled labor costs.

Recommendation: SCE should improve its labor cost process for recording labor charges to EE programs or implement other accounting methods that would allow the UAFCB to effectively verify each amount listed as a labor costs.

SCE Revised Internal Controls Plan: SCE disagrees with UAFCB's conclusion and has not implemented any changes based on UAFCB's recommendation.

UAFCB Follow-Up Response: UAFCB will address this matter with SCE during the 2014 EE examination to determine whether the labor cost process for recording labor charges to EE programs is adequate and acceptable.

⁹ Refer to Southern California Edison Company's 2011-2012 Energy Efficiency Program Examination Report that is available in its entirety at the following link:
http://www.cpuc.ca.gov/PUC/Water/Available+Documents/Downloadable+Reports/Utility_Audit_Finance_and_Compliance_Reports.htm

- **Observation 2: SCE did not demonstrate compliance with PU code §§ 314(a), 581 and 584, GO 28, and the USOA.** Of the Distributive Cost Center (DCC) charges of \$360,242 sampled by UAFCB, \$126,385 was allocated using DCC allocation factors. SCE reported the \$126,385 or 35% of the total sample as actual LGP administrative expenses. However, the \$126,385 reported DCC charges also include estimated labor charges.

Recommendation: SCE should strengthen its policies and procedures that would ensure that each amount listed as cost for each specific cost center is based on actual cost and can be readily examined and verified by the Commission.

SCE Revised Internal Controls Plan: SCE disagrees with UAFCB's conclusion and did not implement any changes based on UAFCB's recommendation.

UAFCB Follow-Up Response: The UAFCB will address this matter with SCE during the 2014 EE examination to determine whether SCE's labor cost process for recording labor charges to EE programs is adequate and acceptable.

- **Observation 4: SCE did not demonstrate compliance with PU code §§ 581 and 584, GO 28 and the USOA.** Of the \$1,260,276 TP administrative costs that the UAFCB sampled, 53% or \$675,528 were either inaccurate or were not adequately substantiated by supporting documents.

Recommendation: Since the matter of fixed price contract pre-allocation of charges is currently before the Commission, this matter should be decided by it with input from the UAFCB and SCE. A Commission hearing may be needed to resolve the issue.

SCE Revised Internal Controls Plan: SCE plans to take an appropriate corrective action once the Commission makes a decision on this matter in A.12-07-011.

UAFCB Follow-Up Response: The UAFCB will also address this matter once the Commission makes a decision on it in A.12-07-011.

- **Observation 7: SCE did not demonstrate compliance with PU code §§ 581 and 584, GO 28 and the USOA.** Out of the \$47 million of direct implementation contract costs that the UAFDB selected, 46% or \$21.5 million were either inaccurate or not adequately substantiated by supporting documents and were likely misclassified.

Recommendation: Since the matter of fixed price contract pre-allocation of charges is currently before the Commission, this matter should be decided by it with input from the UAFCB and SCE. A Commission hearing may be needed to resolve the issue.

SCE Revised Internal Controls Plan: SCE plans to take an appropriate corrective action once the Commission makes a decision on this matter in A.12-07-011.

UAFCB Follow-Up Response: The UAFCB will also address this matter once the Commission makes a decision on it in A.12-07-011.

- **Observation 14: SCE failed to demonstrate compliance with OP 43(b) of D.09-09-047.** SCE shifted \$4.8 million into the OBF without filing and advice letter with the Commission as required by it. In addition, SCE incorrectly reported \$4.8 million shifted as funds authorized when authorization was not granted by the Commission.

Recommendation: SCE should strengthen its policies and procedures in place to ensure compliance with Commission directives.

SCE Revised Internal Controls Plan: SCE enhanced its EE Fund Shift and Reporting procedures and revised its Fund Shift Request Form.

SCE's CP&S organization is developing a refresher training to reinforce fund shifting review activities before they are reported, as well as monitoring activities after they are reported. SCE plans to complete this training by the 2nd quarter in 2015.

UAFCB Follow-Up Response: The UAFCB will continue to monitor SCE's progress until all corrective actions are complete.

- **Observation 15: SCE failed to demonstrate compliance with PU code §§ 581 and 584.** In its first quarter 2012 EEGA Report, SCE incorrectly reported that Resolution E-4474 authorized fund shifts totaling \$29,000,000.

Recommendation: SCE should exercise due diligence to ensure that its reports are accurate before submitting them to the Commission and posting them to EEGA.

SCE Revised Internal Controls Plan: SCE enhanced its EE Fund Shift and Reporting procedures and revised the Fund Shift Request Form.

SCE's CP&S organization is developing a refresher training to reinforce fund shifting review activities before they are reported, as well as monitoring activities after they are reported. SCE plans to complete this training by the 2nd quarter 2015.

UAFCB Follow-Up Response: The UAFCB will continue to monitor SCE's progress until all corrective actions are complete.

- **Observation 16: SCE failed to demonstrate compliance with Resolution E-4474 and PU code §§ 581 and 584.** In its second quarter fund shift report for 2012, SCE reported

a fund shift of \$14.8 million from the Commercial Deemed Incentive sub-program to the Industrial Calculated Incentive sub-program instead of reporting the \$14.8 million from the Industrial Calculated Incentive sub-program to the Commercial Deemed Incentive sub-program as provide by Resolution E-4774.

Recommendation: SCE should exercise due diligence to ensure that its reports are accurate before submitting them to the Commission and posting them to EEGA.

SCE Revised Internal Controls Plan: SCE enhanced the EE Fund Shift and Reporting procedures and revised the Fund Shift Request Form.

SCE's CP&S organization is developing a refresher training to reinforce fund shifting review activities before they are reported, as well as monitoring activities after they are reported. SCE plans to complete this training by the 2nd quarter 2015.

UAFCB Follow-Up Response: The UAFCB will continue to monitor SCE's progress until all corrective actions are complete.

- **Observation 17: SCE failed to demonstrate compliance with PU code §§ 581 and 584.** SCE reported a negative balance of (\$2,822,212) in its Commercial Utility Building Efficiency (CUBE) program during the second and third quarter 2012 without filing an advice letter.

Recommendation: SCE should ensure that its reports filed with the Commission are not inaccurate and misleading.

SCE Revised Internal Controls Plan: SCE enhanced the EE Fund Shift and Reporting procedures and revised the Fund Shift Request Form.

SCE's CP&S organization is developing a refresher training to reinforce fund shifting review activities before they are reported, as well as monitoring activities after they are reported. SCE plans to complete this training by the 2nd quarter in 2015.

UAFCB Follow-Up Response: The UAFCB will continue to monitor SCE's progress until all corrective actions are complete.

- **Observation 18: SCE failed to demonstrate compliance with PU code §§ 581 and 584.** During the second and third quarter of 2012, SCE incorrectly reported a total fund shift of \$6,661,492, which was previously authorized and it already shifted in 2011.

Recommendation: SCE should exercise due diligence to ensure that its reports are accurate before submitting them to the Commission and posting them to EEGA.

SCE Revised Internal Controls Plan: SCE enhanced the EE Fund Shift and Reporting procedures and revised the Fund Shift Request Form.

SCE's CP&S organization is developing a refresher training to reinforce fund shifting review activities before they are reported, as well as monitoring activities after they are reported. SCE plans to complete this training by the 2nd quarter in 2015.

UAFCB Follow-Up Response: The UAFCB will continue to monitor SCE's progress until all corrective actions are complete.

SCE's Internal Audit Recommendations

In addition, the UAFCB requested that SCE provide a copy of any internal audit reports that were issued affecting the EE program activities for the 2013 audit period and related management responses.

In response, SCE identified internal audit report Y13-51008 – 2013 Energy Efficiency Savings Validation – Phase 1 that affected its EE program activities for the 2013 audit period. In this internal audit report dated December 4, 2013 SCE's Audit Services Department concluded the following:

- The calculated energy savings selected during the audit period complied with CPUC program guidelines and company policies.
- The CPUC reports filed and the year-to-date Key Performance Indicator (KPI) results were accurately stated.

SCE indicated that no management response was required.

In its Revised Internal Controls Plan provided to the UAFCB on January 30, 2015, SCE indicated that its Audit Services Department included the following review areas in the 2015 annual risk assessment to determine feasibility of including them in the annual audit plan:

- Year-end accruals – review the year-end accrual process implemented to address concerns raised by the UAFCB in its prior examination report.
- On-Bill Financing – review the billing process and related procedures governing the On-Bill Financing Program accounts during 2014.

Appendix C SCE Comments



Marc L. Ulrich, Ph.D.
Vice President
Customer Programs and Services

June 11, 2015

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

Dear Mr. Kajopaiye:

Southern California Edison Company (SCE) appreciates the opportunity to review and provide clarifying comments on the draft *Financial, Management, Regulatory, and Compliance Examination Report on Southern California Edison Company's (SCE's) Energy Efficiency (EE) Program For the Period January 1, 2013 through December 31, 2013* (Draft Report), issued by the California Public Utilities Commission's (Commission) Division of Water and Audits' Utility Audit, Finance and Compliance Branch (UAFCB) on June 1, 2015.

Overall, we have very few comments on the Draft Report. As shown in the attachment, the comments are intended to provide additional information related to three of the observations in the Draft Report. In addition, we appreciate that the UAFCB has recognized our efforts to strengthen our internal controls for recording and reporting EE program costs as well as our efforts to continuously improve the overall administration and operation of our EE programs. We are committed to continuous improvement and take the feedback we receive from these audits seriously.

If you have any questions about SCE's comments, or would like to set up a meeting to discuss the information provided, please contact Michael Unland at 626-302-6638.

Thank you.

A handwritten signature in blue ink, appearing to read "Marc L. Ulrich", is written over a horizontal line.

Marc L. Ulrich, Ph.D.
Vice President, Customer Programs and Services

Attachment

cc: Bernard Ayanruoh, Division of Water and Audits
Rami Kahlon, Director, Division of Water and Audits
Kevin Nakamura, Division of Water and Audits
Kristine Du, Division of Water and Audits
Ed Randolph, Energy Division
Peter Skala, Energy Division
Cynthia Walker, Energy Division

Southern California Edison's Comments to the Draft Report In UAFCB's Audit of SCE's Energy Efficiency Programs for the Year Ended December 31, 2013

The following are SCE's comments on the Draft Report prepared by the UAFCB in its audit of SCE's 2013 Energy Efficiency Programs. Overall, SCE believes that the Draft Report accurately reflects the information that SCE provided to the auditors during the audit. Thus, these comments only address those observations and recommendations where SCE has updated information to provide.

1. Codes and Standards Programs: Draft Observation 4

Draft Observation 4: *SCE overpaid a vendor by a total amount \$20,197 for using incorrect labor billing rate contrary to the signed agreement. SCE reported and paid incorrect amount to a vendor from April through November 2013 by using incorrect labor rates. As a result, C&S program expenditures were over-recorded and reported by \$20,197.*

Draft Recommendation 4: *The Commission's Energy Division should reduce SCE's C&S Management Fee incentive amount of \$333,645 requested in Advice Letter 3106-E by \$2,424 for program year 2013.*

As stated in response to data request SCE-15 (Amendment), SCE has been working with the vendor to receive a refund of the \$20,197 overpayment resulting from the use of incorrect billing rates. On June 9, 2015, SCE received a repayment of the \$20,197 from the vendor. This repayment will be credited back to the Procurement Energy Efficiency Balancing Account (PEEBA). In addition, SCE plans to adjust the 2014 Management Fee incentive amount by a reduction of \$2,424 in the pending Advice Letter, scheduled to be filed on June 30, 2015, requesting Commission approval for the 2014 EE Program earnings claim.

2. Non-Resource Programs: Draft Observation 6

Draft Observation 6: *SCE demonstrated compliance with §§581 and 584 respecting Non-Resource programs. The total Non-Resource program costs of \$14,634,315 for the December 2013 year-to-date Monthly EEStats report reconciled to the costs recorded in the accounting records.*

Draft Recommendation 6: *The Commission's Energy Division should accept SCE's Non-Resource Management Fee incentive amount of \$361,426 requested in Advice Letter 3106-E for program year 2013.*

The Commission's Energy Division accepted SCE's Non-Resource Management Fee incentive amount of \$361,426 for program year 2013 as requested in Advice Letter 3106-E, and approved this request in Resolution E-4700 on December 18, 2014.

3. Internal Audits: Draft Observation 23

Draft Observation 23: *SCE's Audit Services Department plans to perform audits in 2015 based on UAFCB's prior audit recommendations. SCE's Audit Services Department anticipates on performing a review of SCE's year-end accrual process and its On-Bill Financing (OBF) program procedures in year 2015.*

Draft Recommendation 23: *UAFCB recommends that SCE provide the UAFCB the results of its internal audits on SCE's year-end accrual process and OBF program procedures once completed in order to facilitate UAFCB's examination on PY 2014.*

The results of SCE's internal audits are as follows:

Year-End Accrual Process – During 2015, SCE's Audit Services Department (ASD) performed an internal audit of the 2014 Energy Efficiency Balancing Account Expenditures Process. The audit scope included a review of Q4 2014 and Q1 2015 CPUC audit responses to address internal control processes over accruals and a review of year-end 2014 accrual transactions for selected programs and verification that actual payments were made in 2015 for sampled accrual transactions. ASD's independent assessment found balancing account expenditures generally complied with CPUC program guidelines and SCE program policies and procedures.

OBF Program Procedures – During 2015, ASD performed an internal audit of OBF program procedures for the period of July 1, 2013 through December 31, 2014. The audit scope included the OBF application process, including customer eligibility; past-due OBF account management process; calculations of loan payment schedules and its billing profiles in CSS (Customer Service System); and the Monthly OBF financial reconciliation process. ASD's independent assessment found that OBF processes adhere to company policies and procedures.

SCE will provide copies of these audit reports to the UAFCB in our next quarterly update to our Internal Controls Plan to be submitted by July 30, 2015.