



# Memorandum

**Date:** June 30, 2016

**To:** Tim Sullivan  
Executive Director, Public Utilities Commission

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

**Subject:** Financial, Management, Regulatory, and Compliance Examination Report on Pacific Gas and Electric Company's (PG&E's) Energy Efficiency (EE) Programs For the Period January 1, 2014 through December 31, 2014

A handwritten signature in black ink, appearing to be "Kajopaiye".

The Utility Audit, Finance and Compliance Branch (UAFCB) examined Pacific Gas and Electric Company's (PG&E) financial, management, regulatory, and compliance areas of the Energy Efficiency (EE) Program for program year (PY) 2014. Except for the matters discussed in Observations 2, 4, 7, 11, 15, 18, and 22 below, PG&E demonstrated compliance with the Commission's directives respecting the areas of its 2014 EE programs examined. However, UAFCB found that PG&E overstated its 2014 recorded expenditures used for calculating the Management Fee Incentive awards for Code and Standards (C&S) and Non-Resource (NR) Programs, resulting in overstatement of \$256,566 (\$21,109 and \$235,457, respectively) as indicated in Observations 4 and 7. In addition, PG&E also overstated the EE expenditures used for calculating its 2014 Resource Program Savings Incentives by a total of \$727,687 (\$578,902 and \$148,785, respectively) as specified in Observations 16 and 19. The Energy Division (ED) should not include these amounts in the calculations of the incentive awards for these program areas. The details of these and other observations are provided in the memo and Appendix A.

UAFCB conducted this examination pursuant to Ordering Paragraph (OP) 17 of Decision (D.) 13-09-023.<sup>1</sup> The examination was limited to: (1) Reconciliation of Total EE Portfolio Costs to Reported Amounts; (2) Codes and Standards (C&S) Program; (3) Non-Resource (NR) Program; (4) EE Program Administrative Costs of PG&E and Non-PG&E; (5) EE Balancing Accounts; (6) Statewide Commercial Calculated Incentive (CCI) Program; (7) Statewide Industrial Calculated Incentive (ICI) Program; (8) Fund Shifting; and (9) Follow-up on Prior UAFCB's Observations and Recommendations and PG&E Internal Audit (IA) Recommendations.

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<sup>1</sup> 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."

PG&E's management is responsible for ensuring accurate reporting of EE program data and information to the Commission in compliance with applicable laws and administrative requirements.

#### **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.

##### **Reconciliation of Total EE Portfolio Costs to Reported Amounts**

**Observation 1: PG&E demonstrated compliance with Public Utility (PU) code §§ 581, 582 and 584 respecting the total reported EE portfolio program costs.<sup>2</sup>** The total EE portfolio program expenditures recorded and reported in PY 2014, excluding Non-Utility Program<sup>3</sup> and Evaluation, Measurement and Verification (EM&V) costs, amounted to \$356,465,284. A reconciliation of the total EE portfolio program expenditures reported in EEStats,<sup>4</sup> including the Annual Report (Table 3), Quarterly reports and Monthly reports, to PG&E's accounting records disclosed no exceptions.

Of the total portfolio amount indicated above, PG&E reported total resource program costs of \$306,138,099 for PY 2014, of which \$41,780,869 was for administrative costs. After other adjustments of \$10,378,393, PG&E reported \$274,735,623 as program costs (excluding administrative costs) in its Advice Letter (AL) for the 2014 Efficiency Savings and Performance Incentive (ESPI).

**Recommendation:** None.

**Observation 2: PG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the required reports.** PG&E filed its Monthly, Quarterly, and Annual reports timely as required by the Commission. However, the Energy Division (ED) reporting templates in EEStats do not provide for annual figures of EE expenditures.

**Recommendation:** ED should modify the Monthly, Quarterly, and Annual Report templates to facilitate annual reconciliation of EE program costs. UAFCB has made the same recommendation in its prior examination reports on EE Program.

##### **Codes and Standards (C&S) Program**

**Observation 3: Except for Observation 4 below, PG&E demonstrated compliance with PU code §§ 581, 582 and 584 respecting the reported C&S program costs.** The \$7,590,686 reported in the December 2014 year-to-date EEStats Monthly Report, the 4<sup>th</sup> Quarter Report, and the Annual Report reconciled to PG&E's accounting records.

**Recommendation:** None.

<sup>2</sup> All statutory references are to the Public Utilities Code unless stated otherwise.

<sup>3</sup> PG&E's Non-Utility Program includes San Francisco Bay Area Regional Energy Network (BayREN) and Marin Clean Energy (MCE) programs.

<sup>4</sup> The California Energy Efficiency Statistics (EEStats) – a repository of utility-submitted reports to the Commission.

**Observation 4: PG&E failed to demonstrate compliance with PU code §§ 581, 582 and 584, including PG&E's established accrual policy and procedures.** PG&E incorrectly included \$243,383 in PY 2014 the C&S program expenditures belonging to PY 2013. The amount was charged to the Direct Implementation cost category of the program

PG&E provided comments and submitted additional supporting documents in response to UAFCB's draft report. UAFCB determines that \$21,109 recorded in PY 2014 was for services provided in PY 2013.

**Recommendation:** PG&E has since filed AL 3606-G/4659-E<sup>5</sup> to claim its C&S Program Management Incentive award for PY 2014. ED should reduce the C&S Program Management Incentive award by \$2,533 ( $\$21,109 \times 12$ ) when PG&E's true-up AL is processed.

**Observation 5: PG&E's internal policy and procedures for implementing its C&S programs were adequately designed to meet the Commission's directives in PY 2014.** PG&E was in compliance with its internal C&S Program Implementation Plan (PIP).

**Recommendation:** None.

#### **Non-Recourse (NR) Program**

**Observation 6: Except for Observation 7 below, PG&E demonstrated compliance with PU code §§ 581, 582 and 584 respecting the reported NR program costs.** The \$32,679,453 reported in the December year-to-date EEStats Monthly Report, the 4<sup>th</sup> Quarter Report, and the Annual Report reconciled to PG&E's accounting records.

**Recommendation:** None.

**Observation 7: PG&E failed to demonstrate compliance with PU code §§ 581, 582 and 584, including PG&E's established accrual policy and procedures.** PG&E incorrectly included \$605,358 in PY 2014 the NR program expenditures belonging to PY 2013. The amount was charged to the Direct Implementation cost category of the program.

In addition, UAFCB found deficiencies with PG&E's internal control on the invoice review and approval process.

PG&E provided comments and submitted additional supporting documents in response to UAFCB's draft report. UAFCB determines that \$235,457 recorded in PY 2014 was for services provided in PY 2013.

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<sup>5</sup> In Table 3 on Page 4 of AL 3606-G/4659-E, PG&E claimed \$7,279,208 C&S program costs, excluding administrative costs, for PY 2014. This amount reconciled with the \$7,279,210 total C&S program costs per PG&E's accounting records, with a \$2 rounding variance.

**Recommendation:** PG&E has since filed AL 3606-G/4659-E<sup>6</sup> to claim its NR Program Management Incentive award for PY 2014. ED should reduce the NR Program Management Incentive award by \$7,064 ( $\$235,457 * 3\%$ ), when PG&E's true-up AL is processed.

PG&E should adhere to accrual basis of accounting when recording and reporting its EE Program expenditures. In addition, PG&E should adhere to its invoice approval procedures and properly document its approval process.

**Observation 8: PG&E demonstrated compliance with the EE Policy Manual (R.09-11-014), Version 5, July 2013,<sup>7</sup> and its internal policies and procedures for the NR programs.** PG&E did have the necessary policies and procedures in place to control and monitor its accounting practices including the recording and reporting of NR program costs.

**Recommendation:** None.

**Observation 9: The criteria used by PG&E for designating EE programs as Resource and Non-Resource were in compliance with Commission directives.** PG&E applied the definition contained in the EE Policy Manual when determining whether an EE program is classified as Resource or Non-Resource.

**Recommendation:** None.

#### **EE Program Administrative Costs of PG&E and Non-PG&E**

**Observation 10: Except for Observation 11 below, PG&E demonstrated compliance with PU code §§ 581, 582 and 584 respecting its reported administrative costs for PYs 2013 and 2014.** The \$37,937,770 for PY 2013 and \$40,517,001 for PY 2014 included in the EEStats 4<sup>th</sup> Quarter Report and the Annual Report for PYs 2013 and 2014, respectively, reconciled to PG&E's accounting records.

**PG&E also demonstrated compliance with PU code §§ 581, 582 and 584 respecting the reported Non-PG&E EE administrative costs for PYs 2013 and 2014.** The \$5,553,330 for PY 2013 and \$5,971,645 for PY 2014 included in the EEStats 4<sup>th</sup> Quarter Report and the Annual Report for PYs 2013 and 2014, respectively, reconciled to PG&E's accounting records.

**Recommendation:** None.

**Observation 11: PG&E failed to demonstrate compliance with PU code §§ 581, 582 and 584, including PG&E's established accrual policy and procedures respecting its administrative costs.** PG&E incorrectly recorded \$22,338 in PY 2014 that should have been recorded in PY 2013. Similarly, PG&E incorrectly recorded \$71,063 in PY 2013 that should have been recorded in PY 2012.

<sup>6</sup> In Table 2 on Page 3 of AL 3606-G/4659-E, PG&E claimed \$29,554,687 NR program costs, excluding administrative costs, for PY 2014. This amount reconciled with the total NR program costs per PG&E's accounting records without exceptions.

<sup>7</sup> The EE Policy Manual mentioned in this report all refer to this version.

PG&E incorrectly recorded \$517,186 of Non-PG&E administrative costs in PY 2014 that should have been recorded in PY 2013. In addition, UAFCB found some deficiencies in PG&E's internal control procedures on invoice review and approval.

PG&E provided comments and submitted additional supporting documents in response to UAFCB's draft report. UAFCB now determines that \$4,950 recorded in PY 2013 and \$22,338 recorded in PY 2014 was for services provided in PYs 2012 and 2013, respectively. As for the Non-PG&E administrative costs, UAFCB determines that \$82,829 recorded in PY 2014 was for services provided in 2013.

**Recommendation:** UAFCB does not recommend any adjustments because the \$4,950 is immaterial and the \$22,338 and \$82,829 are subject to hard and soft cap of 10% at the end of the budget cycle or 2015. However, PG&E should adhere to accrual basis of accounting when recording and reporting its EE Program expenditures, including annual administrative costs. Also, PG&E should enhance its internal control over invoice approval and strengthen its record retention to preserve audit evidence.

#### **EE Balancing Accounts**

**Observation 12:** PG&E demonstrated compliance with PU code §§ 381, 399.8 (b) 1 and other applicable Commission's directives respecting the authorized EE balancing accounts. A review of PG&E's approved Preliminary Statement for the electric Procurement Energy Efficiency Balancing Account (PEEBA), the electric Procurement Energy Efficiency Revenue Adjustment Mechanism (PEERAM), the electric Public Purpose Programs Revenue Adjustment Mechanism (PPPRAM), the gas Public Purpose Program Energy Efficiency Balancing Account (PPPEEBA) and the gas Public Purpose Program Surcharge Energy Efficiency (PPP-EE) for PY 2014 disclosed no exceptions.

**Recommendation:** None.

**Observation 13:** PG&E's internal policy and procedures for the billing and collecting of Public Purpose Program (PPP) revenues were adequately designed to meet the Commission's approved tariff requirements. PG&E's policies and procedures in place to control and monitor its accounting practices for recording and reporting of PPP revenues to the applicable EE balancing accounts in accordance with Commission's approved tariff requirements seemed adequate for PY 2014.

**Recommendation:** None.

#### **Statewide Commercial Calculated Incentive (CCI) Program**

**Observation 14:** Except for Observation 15 below, PG&E demonstrated compliance with PU code §§581, 582 and 584 respecting the reported CCI program costs. The \$21,821,912 reported in the December 2014 year-to-date EESStats Monthly Report, the 4<sup>th</sup> Quarter Report, and the Annual Report reconciled to PG&E's accounting records.

**Recommendation:** None

**Observation 15:** PG&E failed to demonstrate compliance with PU code §§581, 582 and 584, including PG&E's established accrual policy and procedures. PG&E incorrectly

included \$753,503 in PY 2014 the CCI program expenditures belonging to PY 2013. The amount was charged to the Direct Implementation cost category of the program. This amount represents 3.5% of the total CCI program expenses in PY 2014. In addition, UAFCB found some deficiencies in PG&E's internal control procedures on invoice and customer project application's review and approval processes.

PG&E provided comments and submitted additional supporting documents in response to UAFCB's draft report. UAFCB determines that \$578,902 recorded in PY 2014 was for services provided in PY 2013.

**Recommendation:** ED should exclude \$578,902 from 2014 Resource Program expenditures when determining PG&E's PY 2014 EE Resource Saving Incentive award. In addition, PG&E should adhere to accrual basis of accounting when recording and reporting its EE Program expenditures. PG&E should strengthen its review and approval processes on contractor invoices and customer's project applications.

**Observation 16: PG&E's internal policy and procedures to implement the CCI Program were adequately designed to meet Commission directives.** PG&E was in compliance with its internal CCI Program Implementation Plan (PIP).

**Recommendation:** None.

#### **Statewide Industrial Calculated Incentive (ICI) Program**

**Observation 17: Except for Observation 18 below, PG&E demonstrated compliance with PU code §§581, 582 and 584 respecting the reported ICI program costs.** The \$7,906,427 reported in the December 2014 year-to-date EEstats Monthly Report, the 4<sup>th</sup> Quarter Report, and the Annual Report reconciled to PG&E's accounting records.

**Recommendation:** None.

**Observation 18: PG&E failed to demonstrate compliance with PU code §§581, 582 and 584, including PG&E's established accrual policy and procedures.** PG&E incorrectly included \$126,260 in PY 2014 the ICI program expenditures belonging to PY 2013. In addition, PG&E improperly classified \$22,525 of the ICI program costs in PY 2014. These amounts were charged to the Direct Implementation cost category of ICI Program

**Recommendation:** ED should exclude \$148,785 from 2014 Resource Program expenditures when determining PG&E's PY 2014 EE Resource Saving Incentive award. PG&E should adhere to accrual basis of accounting when recording and reporting its EE Program expenditures.

**Observation 19: PG&E's internal policy and procedures to implement its ICI program were adequately designed to meet Commission directives.** PG&E was in compliance with its internal ICI PIP.

**Recommendation:** None.

**Fund Shifting:**

**Observation 20: PG&E demonstrated compliance with PU code §§ 581, 582 and 584, the EE Policy Manual, and its internal policies and procedures respecting the fund shifting activities in PY 2014.** PG&E made two fund shifts that exceeded the annual threshold specified in Appendix C of the EE Policy Manual, but was only required to file an AL on one of them. PG&E was in compliance with the Commission's fund shifting requirements by timely filing AL 3478-G/4435-E on June 4, 2014. On June 13, 2014, the AL was approved.

**Recommendation:** None.

**Follow-up on Prior UAFCB's Observations and Recommendations and PG&E Internal Audit (IA) Reports**

**Observation 21: PG&E addressed and implemented UAFCB's audit recommendations specified in UAFCB's Audit Memo Reports for the 2011-2012 and 2013 EE Program examinations, except for the two pending issues.**

- 1) Discuss with ED about developing uniform reporting requirements for all the EEStats reports (annual, quarterly, and monthly) to enable Investor-Owned Utilities (IOUs) report their EE program data consistently.
- 2) Clarify with ED about the computation of the 20% minimum funding requirement for competitively bid third party contracts.

**Recommendation:** PG&E should follow up with ED on resolving the pending recommendations.

**Observation 22: The Internal Audits (IA) Report dated September 30, 2014 (File #:14-049) found that, first, PG&E's Customer Energy Solutions' (CES') controls over Quality Assurance (QA) process for Purchase Orders (POs) charging multiple funding sources needed strengthening. Also, PG&E should enhance its internal controls over management's review of multi-funded contracts and approval of payments. On September 8, 2015, PG&E's IA Department fully completed the engagement after the CES Management took corrective action to implement the IA's recommendations.**

**Recommendation:** None.

**B. Examination Process**

UAFCB focused its examination on the areas mentioned above, 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. Pertinent information about PG&E's EE is found in Appendix B.

UAFCB conducted its examination in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA), and, accordingly, included examining on a test basis, evidence supporting 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.

On May 31, 2016, UAFCB provided a draft of its analysis, observations and recommendations to PG&E for comment. On June 7, 2016, PG&E provided its comments. UAFCB summarized those comments, including UAFCB's rebuttals to those comments, in Appendix A. Where appropriate, UAFCB modified its observations and recommendations. PG&E's response in its entirety is provided in Appendix C.

### **C. Conclusion**

Except for the items the UAFCB took exceptions to above, PG&E demonstrated compliance with Commission directives respecting its EE Program for PY 2014.

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**

The Utility Audit, Finance and Compliance Branch (UAFCB) examined Pacific Gas and Electric Company's (PG&E) financial, management, regulatory, and compliance areas of the Energy Efficiency (EE) Programs for program year (PY) 2014. Except for Observations 2, 4, 7, 11, 15, 18 and 22 below, PG&E demonstrated compliance with Commission directives respecting the areas of its Energy Efficiency (EE) programs that the UAFCB examined for PY 2014.

This examination memo report addresses the financial, management, regulatory, and compliance aspects of EE Program for PY 2014. UAFCB's examination covered the following areas:

1. Reconciliation of Total EE Portfolio Costs to Reported Amounts
2. Codes and Standards (C&S) Program
3. Non-Resource (NR) Program
4. EE Program Administrative Costs of PG&E and Non-PG&E
5. EE Balancing Accounts
6. Statewide Commercial Calculated Incentive (CCI) Program
7. Statewide Industrial Calculated Incentive (ICI) Program
8. Fund Shifting
9. Follow-up on Prior UAFCB's Observations and Recommendations and PG&E's Internal Audit (IA) Report Recommendation.

On May 31, 2016, UAFCB provided a draft of its analysis, observations and recommendations to PG&E for comment. On June 7, 2016, PG&E provided its comments. UAFCB summarized those comments, including UAFCB's rebuttals to those comments, in Appendix A. Where appropriate, UAFCB modified its observations and recommendations. PG&E's response in its entirety is provided in Appendix C.

#### **A.2 Reconciliation of Total EE Portfolio Costs to Reported Amounts**

**Observation 1: PG&E demonstrated compliance with Public Utility (PU) code §§ 581, 582 and 584 respecting the total reported EE portfolio program costs.**<sup>1</sup> The total EE portfolio program expenditures recorded and reported in PY 2014, excluding Non-Utility Program<sup>2</sup> and Evaluation, Measurement and Verification (EM&V) costs, amounted to \$356,465,284. A reconciliation of the total EE portfolio program expenditures reported in EEStats,<sup>3</sup> including the Annual Report (Table 3), quarterly reports and monthly reports, to PG&E's accounting records disclosed no exceptions.

Of the total portfolio amount indicated above, PG&E reported total resource program costs of \$306,138,099 for PY 2014, of which \$41,780,869 was for administrative costs. After other adjustments of \$10,378,393, PG&E reported \$274,735,623 of total resource program costs

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<sup>1</sup> All statutory references are to the Public Utilities Code unless stated otherwise.

<sup>2</sup> PG&E's Non-Utility Program includes San Francisco Bay Area Regional Energy Network (BayREN) and Marin Clean Energy (MCE) programs.

<sup>3</sup> The California Energy Efficiency Statistics (EEStats) – a repository of utility-submitted reports to the Commission.

(excluding administrative costs) in its Advice Letter (AL) for the 2014 Efficiency Savings and Performance Incentive (ESPI).

**Criteria:** Sections 581, 582 and 584 require that the utility provide complete and accurate data to the Commission.

**Condition:** The \$356,465,284 total EE portfolio program expenditures reported in EEStats for PY 2014 reconciled to PG&E's accounting records.

**Recommendation:** None.

**Observation 2: PG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the required reports.** PG&E filed its monthly, quarterly, and annual reports timely as required by the Commission. However, the Energy Division (ED) reporting templates in EEStats do not provide for annual figures of EE expenditures.

**Criteria:** The EE Policy Manual (R.09-11-014), Version 5, July 2013,<sup>4</sup> Appendix D (1) (b) provides, in part, that the due date for monthly reports is the first day of the month 30 days following the month of the report, and the due date for quarterly reports is the first day of the month 60 days following the quarter of the report.<sup>5</sup> ED also developed reporting templates for the use of utilities filing monthly, quarterly, and annual reports.

**Condition:** PG&E filed the required reports timely with the Commission. PG&E and other utilities continued to report cumulative expenses by the budget cycle instead of annual expenses, in addition to the year to date numbers.

**Cause:** ED has not changed the reporting templates to reflect the yearly figures.

**Effect:** The lack of annual figures poses reconciliation problem for the UAFCB.

**PG&E Comments:** PG&E will continue to work with the ED staff and other Investor-Owned Utilities (IOUs) in developing reports for the EE programs.

**Rebuttal:** None.

**Recommendation:** ED should modify the Monthly, Quarterly, and Annual Report templates to facilitate annual reconciliation of EE program costs. UAFCB has made the same recommendation in its prior examination reports on EE Program.

### A.3 Codes and Standards (C&S) Program

**Observation 3: Except for Observation 4 below, PG&E demonstrated compliance with PU code §§ 581, 582 and 584 respecting the reported C&S program costs.** The \$7,590,686 reported in the December 2014 year-to-date EEStats Monthly Report, the 4<sup>th</sup> Quarter Report, and the Annual Report reconciled to PG&E's accounting records.

<sup>4</sup> The EE Policy Manual mentioned in this report all refer to this version.

<sup>5</sup> On July 29, 2013, Energy Division issued a Memorandum to IOUs in regards to the "2013-2014 Energy Efficiency Program Reporting Timeline and Guidance – Version 2." In essence, the Memo sets forth the report filing requirements for program years 2013-2014.

**Criteria:** Sections 581, 582 and 584 require that the utility provide complete and accurate data to the Commission.

**Condition:** The \$7,590,686 C&S program expenditures reported in the December 2014 year-to-date EEstats Monthly Report, the 4<sup>th</sup> Quarter Report, and the Annual Report reconciled to PG&E's accounting records. The \$7,590,686 breakdown is as follows:

<b>Cost Category</b>	<b>Amount</b>
Administrative	\$ 311,476
Marketing	(484)
Direct Implementation	<u>7,279,694</u>
<b>Totals</b>	<b><u>\$7,590,686</u></b>

UAFCB's review and judgmental sample testing of these numbers disclosed no exceptions.

**Recommendation:** None

**Observation 4: PG&E failed to demonstrate compliance with PU code §§ 581, 582 and 584, including PG&E's established accrual policy and procedures.** PG&E incorrectly included \$243,383 in PY 2014 the C&S program expenditures belonging to PY 2013. The amount was charged to the Direct Implementation cost category of the program

PG&E provided comments and submitted additional supporting documents in response to UAFCB's draft report. UAFCB determines that \$21,109 recorded in PY 2014 was for services provided in PY 2013.

**Criteria:** Sections 581, 582 and 584 require that the utility provide complete and accurate data to the Commission.

**Condition:** UAFCB's review and testing disclosed two samples totaling \$243,383 for services provided in PY 2013 but PG&E incorrectly reported and charged to PY 2014.

**Cause:** When internal controls are not adequately enforced in combination with lack of proper training and supervision of employees, recording and reporting errors can occur.

**Effect:** PG&E over-reported the C&S program costs by \$243,383.

**PG&E Comments:** PG&E recommends no adjustment to its 2014 ESPI claiming that the expenditures related to this observation were properly accrued for in 2013. PG&E was able to find evidence of the 2013 accruals for the samples related to this observation. Also, PG&E adheres to Generally Accepted Accounting Principles (GAAP) and will continue to provide periodic accrual training for its employees.

**Rebuttal:** After reviewing the additional supporting documents submitted by PG&E, UAFCB determined that \$21,109 recorded in PY 2014 was for services provided in PY 2013. PG&E's C&S Program Management Incentive award in AL 3606-G/4659-E should be reduced by \$2,533 (\$21,109 \*12%).

**Recommendation:** PG&E has since filed AL 3606-G/4659-E<sup>6</sup> to claim its C&S Program Management Incentive award for PY 2014. ED should reduce the C&S Program Management Incentive award by \$2,533 (\$21,109 \*12) when PG&E's true-up AL is processed.

**Observation 5: PG&E's internal policy and procedures for implementing its C&S programs were adequately designed to meet the Commission's directives in PY 2014.** PG&E was in compliance with its internal C&S Program Implementation Plan (PIP).

**Criteria:** PG&E used its C&S PIP as the guiding document for implementing the C&S programs.

**Condition:** PG&E's C&S PIP was reasonably adequate for implementing its C&S programs in accordance with Commission directives.

**Recommendation:** None.

#### A.4 Non-Resource (NR) Program

**Observation 6: Except for Observation 7 below, PG&E demonstrated compliance with PU code §§ 581, 582 and 584 respecting the reported NR program costs.** The \$32,679,453 reported in the December year-to-date EEStats Monthly Report, the 4<sup>th</sup> Quarter Report, and the Annual Report reconciled to PG&E's accounting records.

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

**Condition:** The \$32,679,453 reported in its December 2014 year-to-date EEStats Monthly Report, the 4<sup>th</sup> Quarter Report, and the Annual Report reconciled to PG&E's accounting records. The \$32,679,453 breakdown is as follows:

Cost Category	Amount
Administrative	\$3,597,555
Marketing	1,586,031
Direct Implementation	<u>27,495,867</u>
<b>Totals</b>	<b><u>\$32,679,453</u></b>

UAFCB's review and sample testing of these numbers disclosed no exceptions.

**Recommendation:** None.

**Observation 7: PG&E failed to demonstrate compliance with PU code §§ 581, 582 and 584, including PG&E's established accrual policy and procedures.** PG&E incorrectly included \$605,358 in PY 2014 the NR program expenditures belonging to PY 2013. The amount was charged to the Direct Implementation cost category of the program.

<sup>6</sup> In Table 3 on Page 4 of AL 3606-G/4659-E, PG&E claimed \$7,279,208 C&S program costs, excluding administrative costs, for PY 2014. This amount reconciled with the \$7,279,210 total C&S program costs per PG&E's accounting records, with a \$2 rounding variance.

In addition, UAFCB found deficiencies with PG&E's internal control on the invoice review and approval process.

PG&E provided comments and submitted additional supporting documents in response to UAFCB's draft report. UAFCB determines that \$235,457 recorded in PY 2014 was for services provided in PY 2013.

**Criteria:** Sections 581, 582 and 584 require that the utility provide complete and accurate data to the Commission.

**Condition:** UAFCB's review and testing disclosed four invoices totaling \$605,358 for services provided in PY 2013 but incorrectly reported and charged to PY 2014.

In addition, UAFCB's review and testing disclosed a sample in which PG&E did not complete the relevant ("Customer Energy Solutions") Invoice Review Checklist but approved a \$15,000 payment by email instead.

**Cause:** When internal controls are not adequately enforced in combination with lack of proper training and supervision of employees, recording and reporting errors can occur.

**Effect:** PG&E over-reported its NR program costs by \$605,358.

**PG&E Comments:** PG&E recommends an adjustment of \$6,139 ( $\$204,634.48 * 0.03$ ) to its 2014 ESPI claim. PG&E was able to find evidence of the 2013 accruals for 3 of the 4 samples related to this observation. In addition, PG&E agrees with the UAFCB's recommendation that it should continue efforts to ensure adherence to its invoice approval procedures.

**Rebuttal:** After reviewing the additional supporting documents submitted by PG&E, UAFCB determined that a total of \$235,457 recorded in PY 2014 was for services provided in PY 2013. PG&E's NR Program Management Incentive award in AL 3606-G/4659-E should be reduced by \$7,064 ( $\$235,457 * 3\%$ ).

**Recommendation:** PG&E has since filed AL 3606-G/4659-E<sup>7</sup> to claim its NR Program Management Incentive award for PY 2014. ED should reduce the NR Program Management Incentive award by \$7,064 ( $\$235,457 * 3\%$ ) when PG&E's true-up AL is processed.

PG&E should adhere to accrual basis of accounting when recording and reporting its EE Program expenditures. In addition, PG&E should adhere to its invoice approval procedures and properly document its approval process.

**Observation 8: PG&E demonstrated compliance with the EE Policy Manual and its internal policies and procedures for the NR programs.** PG&E had the necessary policies and

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<sup>7</sup> In Table 2 on Page 3 of AL 3606-G/4659-E, PG&E claimed \$29,554,687 NR program costs, excluding administrative costs, for PY 2014. This amount reconciled with the total NR program costs per PG&E's accounting records without exceptions.

procedures in place to control and monitor its accounting practices including the recording and reporting of NR program costs.

**Criteria:** The EE Policy Manual defines the NR Program.<sup>8</sup> PG&E's internal accounting policies and procedures provide guidance for recording and reporting the NR program costs.

**Condition:** PG&E did have the necessary policies and procedures in place to control and monitor its accounting practices including the recording and reporting of NR program costs. PG&E complied with the guiding documents.

**Recommendation:** None.

**Observation 9: The criteria used by PG&E for designating EE programs as Resource and Non-Resource were in compliance with Commission directives.** PG&E applied the definition contained in the EE Policy Manual when determining whether an EE program is classified as Resource or Non-Resource.

**Criteria:** The EE Policy Manual defines Non-Resource Program 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:** PG&E classified its EE programs as Non-Resource per the definition in the Commission's EE Policy Manual.

**Recommendation:** None.

## **A.5 EE Program Administrative Costs of PG&E and Non-PG&E**

**Observation 10: Except for Observation 11 below, PG&E demonstrated compliance with PU code §§ 581, 582 and 584 respecting its reported administrative costs for PYs 2013 and 2014.** The \$37,937,770 for PY 2013 and \$40,517,001 for PY 2014 included in the EEStats 4<sup>th</sup> Quarter Report and the Annual Report for PYs 2013 and 2014, respectively, reconciled to PG&E's accounting records.

**Criteria:** Sections 581, 582 and 584 require that the utility provide complete and accurate data to the Commission.

**Condition:** Including the BayREN Program (there were no administrative costs reported for the MCE Program), the totals of \$37,937,770 for PY 2013 and \$40,517,001 for PY 2014 reported in the EEStats 4<sup>th</sup> Quarter Report and the Annual Report reconciled to recorded amounts in PG&E's accounting records. The breakdowns of \$37,937,770 for PY 2013 and \$40,517,001 for PY 2014 are as follows:

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<sup>8</sup> EE Policy Manual, p.57.

<b>Cost Type- PG&amp;E's</b>	<b>PY 2013</b>	<b>PY 2014</b>	<b>Total</b>
PG&E Admin for Core	\$22,926,859	\$25,112,894	\$48,039,753
PG&E Admin Supporting TP	8,759,125	8,708,469	17,467,594
PG&E Admin Supporting LGP	6,246,793	6,690,831	12,937,624
BayREN	4,993	4,807	9,800
<b>Totals</b>	<b><u>\$37,937,770</u></b>	<b><u>\$40,517,001</u></b>	<b><u>\$78,454,771</u></b>

**PG&E also demonstrated compliance with PU code §§ 581, 582 and 584 respecting the reported Non-PG&E EE administrative costs for PYs 2013 and 2014.** The \$5,553,330 for PY 2013 and \$5,971,645 for PY 2014 included in the EEStats 4<sup>th</sup> Quarter Report and the Annual Report for PYs 2013 and 2014, respectively, reconciled to PG&E's accounting records.

**Criteria:** Same as above.

**Condition:** Including the BayREN Program (there were no administrative costs reported for the MCE Program), the totals of \$5,553,330 for PY 2013 and \$5,971,645 for PY 2014 reported in the EEStats 4<sup>th</sup> Quarter Report and the Annual Report reconciled to recorded amounts in PG&E's accounting records. The breakdowns of \$5,553,330 for PY 2013 and \$5,971,645 for PY 2014 are as follows:

<b>Cost Type-Non-PG&amp;E</b>	<b>PY 2013</b>	<b>PY 2014</b>	<b>Total</b>
Third Party Administrative	\$2,562,328	\$2,954,278	\$5,516,606
Local Government Partnership Admin,	2,487,930	2,223,428	4,711,358
BayREN	503,072	793,939	1,297,011
<b>Totals</b>	<b><u>\$5,553,330</u></b>	<b><u>\$5,971,645</u></b>	<b><u>\$11,524,975</u></b>

UAFCB's review and judgmental sample testing of both PG&E's and Non-PG&E administrative costs disclosed no exceptions.

**Recommendation:** None.

**Observation 11: PG&E failed to demonstrate compliance with PU code §§ 581, 582 and 584, including PG&E's established accrual policy and procedures respecting its administrative costs.** PG&E incorrectly recorded \$22,338 in PY 2014 that should have been recorded in PY 2013. Similarly, PG&E incorrectly recorded \$71,063 in PY 2013 that should have been recorded in PY 2012.

PG&E incorrectly recorded \$517,186 of Non-PG&E administrative costs in PY 2014 that should have been recorded in PY 2013. In addition, UAFCB found some deficiencies in PG&E's internal control procedures on invoice review and approval.

PG&E provided comments and submitted additional supporting documents in response to UAFCB's draft report. UAFCB now determines that \$4,950 recorded in PY 2013 and \$22,338 recorded in PY 2014 was for services provided in PYs 2012 and 2013, respectively. As for the Non-PG&E administrative costs, UAFCB determines that \$82,829 recorded in PY 2014 was for services provided in 2013.

**Criteria:** Sections 581, 582 and 584 require that the utility provide complete and accurate data to the Commission.

**Condition:** UAFCB's review and testing of PG&E's administrative costs disclosed one sample for \$22,338 for services provided in 2013 but charged to PY 2014. In addition, UAFCB found two samples of \$71,063 that were for services provided in PY 2012 but were incorrectly charged to PY 2013. In addition, UAFCB found 12 samples that did not have proper approvals for payments.

UAFCB's review and testing of non-PG&E's administrative costs disclosed eight samples of \$517,186 for services provided in 2013 but incorrectly charged to PY 2014.

**Cause:** When internal controls are not adequately enforced in combination with lack of proper training and supervision of employees, recording and reporting errors can occur.

**Effect:** PG&E's administrative costs for 2014 and 2013 were over-reported by \$22,338 and \$48,725 (the net effect of the understated of \$22,338 and the overstated of \$71,063), respectively.

For Non-PG&E EE administrative costs, PG&E overstated the 2014 amount by \$517,186, while it understated the 2013 by the same amount.

**PG&E Comments:** PG&E recommends no adjustment to its ESPI claims because the ESPI calculations already exclude administrative expenditures per OP 3 of D.13-09-023.

For PG&E's EE administrative costs, PG&E was able to find evidence of 2012 accruals for the two samples related to this observation. For Non-PG&E EE administrative costs, PG&E was able to find evidence for 2013 accruals for 7 of the 8 samples related to this observation.

With regards to the UAFCB recommendation that PG&E adhere to accrual basis of accounting, PG&E follows GAAP accounting and will continue to provide periodic accrual training for its employees. Also, PG&E agrees with the UAFCB's recommendation that it should strengthen its record retention procedures to preserve audit evidence and enhance its internal control over invoice approval.

**Rebuttal:** After reviewing the additional supporting documents submitted by PG&E for its EE administrative costs, UAFCB determined that a total of \$4,950 recorded in PY 2013 was for services provided in PY 2012, and \$22,338 recorded in PY 2014 was for services provided in PY 2013.

For Non-PG&E EE administrative costs, UAFCB determined that a total of \$82,829 recorded in PY 2014 was for services provided in 2013.

UAFCB concurred with PG&E that PG&E had excluded the administrative costs in its ESPI claims.

**Recommendation:** UAFCB does not recommend any adjustments because the \$4,950 is immaterial and the \$22,338 and \$82,829 are subject to hard and soft cap of



**10% at the end of the budget cycle or 2015.** However, PG&E should adhere to accrual basis of accounting when recording and reporting its EE Program expenditures, including annual administrative costs. Also, PG&E should enhance its internal control over invoice approval and strengthen its record retention to preserve audit evidence.

## **A.6 EE Balancing Accounts**

**Observation 12: PG&E demonstrated compliance with PU code §§ 381, 399.8 (b) 1 and other applicable the Commission's directives respecting the authorized EE balancing accounts.** A review of PG&E's approved Preliminary Statement for the electric Procurement Energy Efficiency Balancing Account (PEEBA), the electric Procurement Energy Efficiency Revenue Adjustment Mechanism (PEERAM), the electric Public Purpose Programs Revenue Adjustment Mechanism (PPPRAM), the gas Public Purpose Program Energy Efficiency Balancing Account (PPPEEBA) and the gas Public Purpose Program Surcharge Energy Efficiency (PPP-EE) for PY 2014 disclosed no exceptions.

**Criteria:** Section 381 and 399.8 (b) 1 require that the utility establish a separate rate component to collect funds that must be spent to deliver EE benefits to ratepayers in the service territory. The funds are to be collected and recorded in approved balancing accounts.

**Condition:** PG&E collected and recorded the authorized funding amounts in the EE balancing accounts in a manner to reflect the program authorized budgets and projected revenue requirement for PY 2014 in accordance with the approved Preliminary Statements and other Commission directives.

**Recommendation:** None.

**Observation 13: PG&E's internal policy and procedures for the billing and collecting of Public Purpose Program (PPP) revenues were adequately designed to meet the Commission's approved tariff requirements.** PG&E's policies and procedures in place to control and monitor its accounting practices for recording and reporting of PPP revenues to the applicable EE balancing accounts in accordance with the Commission approved tariff requirements appeared adequate for PY 2014.

**Criteria:** The Commission approved AL 4278-E and AL 3426-G, which among other things, requested approval of electric rates and gas PPP surcharge rates, respectively, applicable to PY 2014 and authorized budgets for PYs 2013 and 2014.

**Condition:** UAFCB performed a limited review and testing of PPP revenues collected and recorded in the EE balancing accounts and found no material exceptions.

**Recommendation:** None.

## **A.7 Statewide Commercial Calculated Incentive (CCI) Program**

**Observation 14: Except for Observation 15 below, PG&E demonstrated compliance with PU code §§581, 582 and 584 respecting the reported CCI program costs.** The \$21,821,912

reported in the December 2014 year-to-date EEstats Monthly Report, the 4<sup>th</sup> Quarter Report, and the Annual Report reconciled to PG&E's accounting records.

**Criteria:** Sections 581, 582 and 584 require that the utility provide complete and accurate data to the Commission.

**Condition:** The \$21,821,912 CCI program expenditures reported in its December 2014 year-to-date EEstats Monthly Report, the 4<sup>th</sup> Quarter Report, and the Annual Report reconciled to PG&E's accounting records. The \$21,821,912 breakdown is as follows:

<b>Cost Category</b>	<b>Amount</b>
Administrative	\$3,515,736
Marketing	282,663
Direct Implementation	<u>18,023,513</u>
<b>Totals</b>	<b><u>\$21,821,912</u></b>

UAFCB's review and judgmental sample testing of these numbers disclosed no exceptions.

**Recommendation:** None.

**Observation 15: PG&E failed to demonstrate compliance with PU code §§581, 582 and 584, including PG&E's established accrual policy and procedures.** PG&E incorrectly included \$753,503 in PY 2014 the CCI program expenditures belonging to PY 2013. The amount was charged to the Direct Implementation cost category of the program. This amount represents 3.5% of the total CCI program expenses in PY 2014. In addition, UAFCB found some deficiencies in PG&E's internal control procedures on invoice and customer project application's review and approval processes.

PG&E provided comments and submitted additional supporting documents in response to UAFCB's draft report. UAFCB determines that \$578,902 recorded in PY 2014 was for services provided in PY 2013.

**Criteria:** Sections 581, 582 and 584 require that the utility provide complete and accurate data to the Commission.

**Condition:** UAFCB's review and testing disclosed eight samples amounting to \$753,503 for services that should have been charged to PY 2013 but were incorrectly reported and charged to PY 2014.

In addition, UAFCB's review and testing disclosed two samples in which PG&E's review and approval of an invoice and customer project application were not diligent.

**Cause:** When internal controls are not adequately enforced in combination with lack of proper training and supervision of employees, recording and reporting errors can occur.

**Effect:** PG&E over-reported its CCI program costs by \$753,503.

**PG&E Comments:** PG&E recommends a reduction of \$482,368 in Resource Program expenditures used in the 2014 ESPI calculation resulting in a reduction of \$7,670 ( $\$482,368 * 0.03 * 0.53$ ) to PG&E's incentive award. PG&E properly accrued for 4 of the 8 samples related to this observation. PG&E adheres to GAAP accounting and will continue to provide periodic accrual training for its employees. In addition, PG&E agrees with the UAFCB's recommendation to strengthen its review and approval process on contractor's invoices and customer's project applications.

**Rebuttal:** After reviewing the additional supporting documents submitted by PG&E, UAFCB determined that a total of \$578,902 recorded in 2014 was for services provided in 2013. This resulted in a reduction of incentive award by \$9,205 ( $\$578,902 * 3\% * 53\%$ ).

**Recommendation:** ED should exclude \$578,902 from 2014 Resource Program Expenditures when determining PG&E's PY 2014 EE Resource Saving Incentive award. PG&E should adhere to accrual basis of accounting when recording and reporting its EE Program expenditures. In addition, PG&E should strengthen its review and approval process on contractor invoices and customer's project applications.

**Observation 16: PG&E's internal policy and procedures to implement the CCI Program were adequately designed to meet Commission directives.** PG&E was in compliance with its internal CCI Program Implementation Plan (PIP).

**Criteria:** PG&E used its CCI PIP as the guiding document for implementing the CCI Program.

**Condition:** PG&E's internal policies and procedural manuals for the CCI Program were reasonably adequate for implementing the program in accordance with Commission directives.

**Recommendation:** None.

## **A.8 Statewide Industrial Calculated Incentive (ICI) Program**

**Observation 17: Except for Observation 18 below, PG&E demonstrated compliance with PU code §§581, 582 and 584 respecting the reported ICI Program costs.** The \$7,906,427 reported in the December 2014 year-to-date EEStats Monthly Report, the 4<sup>th</sup> Quarter Report, and the Annual Report reconciled to PG&E's accounting records.

**Criteria:** Sections 581, 582 and 584 require that the utility provide complete and accurate data to the Commission.

**Condition:** The \$7,906,427 ICI program expenditures reported in its December 2014 year-to-date EEStats Monthly Report, the 4<sup>th</sup> Quarter Report, and the Annual Report reconciled to PG&E's accounting records. The breakdown of \$7,906,427 is as follows:

<b>Cost Category</b>	<b>Amount</b>
Administrative	\$ 1,823,079
Marketing	465,362
Direct Implementation	<u>5,617,986</u>
<b>Totals</b>	<b><u>\$7,906,427</u></b>

UAFCB's review and judgmental sample testing of these numbers disclosed no exceptions.

**Recommendation:** None.

**Observation 18: PG&E failed to demonstrate compliance with PU code §§581, 582 and 584, including PG&E's established accrual policy and procedures.** PG&E incorrectly included \$126,260 in PY 2014 the ICI program expenditures belonging to PY 2013. In addition, PG&E improperly classified \$22,525 of the ICI program costs in PY 2014. These amounts were charged to the Direct Implementation cost category of ICI Program

**Criteria:** Sections 581, 582 and 584 require that the utility provide complete and accurate data to the Commission.

**Condition:** UAFCB's review and testing disclosed three invoices amounting to \$126,260 for services that should have been charged to PY 2013 but were incorrectly reported and charged to PY 2014.

In addition, UAFCB's review and testing disclosed a paid invoice of \$22,525 was improperly reported as ICI program costs in PY 2014, and the reversing journal entry was made in PY 2015.

**Cause:** When internal controls are not adequately enforced in combination with lack of proper training and supervision of employees, recording and reporting errors can occur.

**Effect:** PG&E over-reported its ICI program costs by \$148,785 (\$126,260 + \$22,525).

**PG&E Comments:** PG&E agrees with the UAFCB's recommendation to reduce Resource Program Expenditures used in its 2014 ESPI calculation in the amount of \$148,785 resulting in a reduction of \$2,366 ( $\$148,785 * 0.03 * 0.53$ ) to PG&E's incentive award. With regards to the UAFCB's recommendation that PG&E adhere to accrual basis of accounting, PG&E follows GAAP accounting and will continue to provide periodic accrual training for its employees.

**Rebuttal:** None.

**Recommendation:** ED should exclude \$148,785 from 2014 Resource Program expenditures when determining PG&E's PY 2014 EE Resource Saving Incentive award. PG&E should adhere to accrual basis of accounting when recording and reporting its EE Program expenditures.

**Observation 19: PG&E's internal policy and procedures to implement its ICI Program were adequately designed to meet Commission directives.** PG&E was in compliance with its internal ICI PIP.

**Criteria:** PG&E used its ICI PIP as the guiding document for implementing the ICI Program.

**Condition:** PG&E's internal policies and procedural manuals for the ICI Program were reasonably designed and adequate for implementing the program in accordance with Commission directives.

**Recommendation:** None.

## **A.9 Fund Shifting**

**Observation 20: PG&E demonstrated compliance with PU code §§ 581, 582 and 584, the EE Policy Manual, and its internal policies and procedures respecting the fund shifting activities in PY 2014.** PG&E made two fund shifts that exceeded the annual threshold specified in Appendix C of the EE Policy Manual, but was only required to file an AL on one of them. PG&E was in compliance with the Commission's fund shifting requirements by timely filing AL 3478-G/4435-E on June 4, 2014. On June 13, 2014, the AL was approved.

**Criteria:** Sections 581, 582 and 584 require that the utility provide complete and accurate data to the Commission. Appendix C of the EE Policy Manual specifies the Commission's adopted fund shifting rules.

**Condition:** PG&E complied with the fund shifting rules concerning EE program categories and annual thresholds specified in the EE Policy Manual by timely filing AL 3478-G/4435-E on June 4, 2014, and obtaining the Commission's approval on June 13, 2014, for this fund shift.

**Recommendation:** None.

## **A.10 Follow-up on Prior UAFCB's Observations and Recommendations and PG&E's Internal Audit (IA) Report Recommendation**

**Observation 21: PG&E addressed and implemented UAFCB's audit recommendations specified in UAFCB's Audit Memo Reports for the 2011-2012 and 2013 EE program examinations, except for the two pending issues.**

**Criteria:** Pursuant to UAFCB's examination report, PG&E was required, among other things, to:

- 1) Discuss with ED about developing uniform reporting requirements for all the EEStats reports (annual, quarterly, and monthly) to enable IOUs report their EE programs' data consistently.

- 2) Clarify with ED about the computation of the 20% minimum funding requirement for competitively bid third party contracts.

**Condition:** PG&E was able to address all of UAFCB's recommendations identified in its prior examination reports on PY's 2011-2012 and 2013, except for the two pending issues discussed above.

**Cause:** ED has not taken any actions on the outstanding issues.

**Effect:** Without actions from ED, outstanding issues remain unresolved.

**PG&E Comments:** PG&E will continue to work with the ED staff and other IOUs in developing reports for the EE Program and will again seek clarification for the 20% minimum funding requirement for competitively bid third party contracts.

**Rebuttal:** None.

**Recommendation:** PG&E should follow up with ED on resolving the pending recommendations.

**Observation 22: The IA Report dated September 30, 2014 (File #:14-049) found that, first, PG&E's Customer Energy Solutions' (CES') controls over Quality Assurance (QA) process for Purchase Orders (POs) charging multiple funding sources needed strengthening. Also, PG&E should enhance its internal controls over management's review of multi-funded contracts and approval of payments. On September 8, 2015, PG&E's IA Department fully completed the engagement after the CES Management took corrective action to implement the IA's recommendations.**

**Criteria:** PG&E's IA report noted certain deficiencies in PG&E's internal controls over QA process for POs charging multiple funding sources and approval processes of invoices. The IA report recommended that,

- a) To detect and resolve errors more timely, increase the scope of the annual QA to include a review of the prior year's costs and implement two additional cycle tests each year.
- b) Enhance the sampling strategy to define the sample size and include a judgmental sample for large dollar POs and a random sample for the remaining population of Pos.
- c) Communicate testing results to all responsible stakeholders, emphasizing where the first level review needs to be enhanced.
- d) Develop a follow-up process with stakeholders to ensure that corrective actions are identified and completed.
- e) Establish a record retention policy to ensure that the testing results and communication are documented and retained for a reasonable period of time,

protected, retrievable when requested, and appropriately disposed when no longer required.

**Condition:** On September 8, 2015, PG&E's IA department fully completed the engagement after CES management took corrective actions to implement the IA's recommendations.

**Cause:** Inadequate operational standards and procedures combined with insufficient management controls contributed to the noted deficiencies.

**Effect:** The IA considered these issues to represent medium risk.

**Recommendation:** None.

## 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 Pacific Gas and Electric Company (PG&E) a total budget of \$823.1<sup>1</sup> million in ratepayer funds to administer and implement the Energy Efficiency (EE) programs for Program Years (PYs) 2013 and 2014. This amount, including \$33.9 million in the Evaluation Measurement and Verification (EM&V) budget, represents approximately 43.3% of the total \$1.9 billion EE program budget for the four major energy Investor-Owned Utilities (IOUs) for the same period. The total authorized budget also includes the approved budgets of \$26.5 million for the San Francisco Bay Area Regional Energy Networks (BayREN) and \$4 million for the Marin Clean Energy (MCE) for PYs 2013 and 2014. The decision set energy savings goals, established cost-effectiveness requirements, and required the IOUs to offset their unspent and uncommitted EE program funding from pre-2013 program years against 2013-2014 EE budget cycle revenue requirements.<sup>2</sup> In D.13-09-044 dated September 19, 2013, the Commission denied funding of \$3.8 million for BayREN's Single Family Loan Loss Reserve Pilot Program.<sup>3</sup>

Due to the need of additional funding for BayREN Program, PG&E shifted \$3.3 million from Multifamily Energy Efficiency Rebates Program to the BayREN Program by filing Advice Letter (AL) 3478-G/4435-E, resulting in a final budget of \$26 million for the BayREN Program. In addition, in D.14-08-032 dated August 14, 2014, the Commission approved the Partial Settlement Agreement of PG&E's 2014 General Rate Case (GRC) and authorized PG&E to reallocate employee benefit burdens amount of \$19.9 million to its Customer Programs in PY 2014.<sup>4</sup> Therefore, PG&E's 2013-2014 EE program cycle overall budget was increased by \$16.1 million (the net effect of the decreased amount of \$3.8 million and the increased amount of \$19.9 million), having a total of \$839.2 million for PYs 2013 and 2014.

On October 16, 2014, the Commission issued D.14-10-046 which, among other things, extended the 2013-2014 EE program cycle for an additional year to 2013-2015. The decision authorized PG&E a total budget of \$430.1 million, including \$17.2 million in EM&V budget, in ratepayer funds to administer and implement the EE programs for PY 2015. This represents about 44.7% of the approximate total \$962 million in EE program budget for all four IOUs for the same period.

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<sup>1</sup> Amount does not include the \$22 million budget for the Statewide ME&O Program, which was approved in a separate Commission decision (D.13-12-038 dated December 19, 2013), because the ME&O budget period does not correspond with the 2013-2015 EE program cycle. Of the \$22 million ME&O budget, \$12,129,620 was allocated to the EE program for 2014-2015.

<sup>2</sup> D.12-11-015, Ordering Paragraphs (OPs) 38 and 40, at page (p.) 140. PG&E's unspent and uncommitted EE program funding was \$68.3 million as identified on Table 9, p.94 of D.12-11-015.

<sup>3</sup> D.13-09-044, OP 23 at p.123.

<sup>4</sup> OP 39 of D.14-08-032 states, in part, that "... costs associated with applicable employee benefits that are currently allocated to Distribution and recovered in the General Rate Case (GRC) revenue requirement shall be reallocated to Customer Programs and the balancing accounts attributable to the Customer Programs as prescribed in Appendix F-3. This reallocation reduces the GRC revenue requirement by \$27 million and increases the revenue requirement for the Customer Programs in an equal amount." Of that \$27 million reallocation, \$19,928,000 was reallocated to the EE programs.



## B.2 EE Funding Components

Of the \$839.2 million authorized budget for PYs 2013 and 2014, \$804.9 million is to administer and implement PG&E's EE program and the remaining \$34.3 million is dedicated to fund the EM&V Program. Excluding the EM&V expenditures, PG&E spent a combined \$702.1 million in PYs 2013 and 2014, or \$102.8 million less than its total authorized budget for the same periods.

A summary detailing PG&E's ratepayer funded total authorized EE portfolio budget against actual expenditures for PYs 2013 and 2014 by major program area is provided in Table B-1 below.

**Table B-1**  
**Summary of PG&E's Ratepayer Funded EE Program**  
**For the Period Ending: January 1, 2013 – December 31, 2014**

Program Area	Authorized Budget Including Fund Shift	Reported Expenditures			%
		2013	2014	Total	
Statewide Resource Programs	\$325,236,226	\$143,389,650	\$161,798,825	\$305,188,475	
Other Resource Programs	311,553,475	128,836,041	144,339,274	273,175,315	
Non-Resource Programs	92,521,140	28,020,063	32,679,453	60,699,516	
Codes & Standards	13,533,463	5,891,638	7,590,686	13,482,324	
On-Bill Financing Loan Pool	32,000,000	9,728,311	10,057,047	19,785,358	
BayREN	26,043,450	8,574,475	17,142,081	25,716,556	
MCE	4,015,205	2,509,503	1,505,702	4,015,205	
<b>Total All Programs</b>	<b>\$804,902,959</b>	<b>\$326,949,681</b>	<b>\$375,113,068</b>	<b>\$702,062,749</b>	<b>87.22%</b>
EM&V	34,282,807	1,664,012	6,395,468	8,059,480	
<b>Grand Total</b>	<b>\$839,185,766</b>	<b>\$328,613,693</b>	<b>\$381,508,536</b>	<b>\$710,122,229</b>	<b>84.62%</b>

UAFCB describes the background information of the areas it examined from Sections B-3 through B-10. Section B-11 contains prior examination report follow-up responses, including PG&E's internal audit findings related to the EE programs during the examination period.

## B.3 Reconciliation of Total EE Portfolio Cost to Reported Amounts

PG&E uses SAP software to manage its database and a unique internal ordering system to allocate and capture EE program expenditures for specific EE programs. Costs applicable solely to a specific EE program are directly charged to that EE program. Other costs applicable to EE programs including overhead costs and EE other program costs are allocated among EE programs using the internal ordering system.

PG&E reported all EE portfolio expenses in Table 3 of the Annual Report. The Annual Report includes all EE portfolio costs under six delivery channels – Core, Third Party (TP), Local Government Partnership (LGP), Non-utility Programs,<sup>5</sup> EM&V, and On-Bill Financing (OBF) Loan Pool. Except for the EM&V and OBF Loan Pool, each delivery channel has four or five general cost categories: (1) Administrative-IOU Support; (2) Administrative-Implementer; (3) Marketing; (4) Rebates/Incentives/Direct Install; and (5) Direct Implementation (DI). A summary of PG&E's reported EE portfolio expenditures broken down by the delivery channels and cost categories are presented in Table B-2.

<sup>5</sup> PG&E's Non-utility programs include BayREN and MCE programs.

**Table B-2**  
**Summary of PG&E's Reported EE Portfolio Expenditures – PY 2014**  
**(Including Non-IOU, EM&V, and OBF Loan Pool)**

Expense Types	Reported Amounts	%
<b><u>Core Programs:</u></b>		
Administrative – PG&E Support	\$25,112,894	6.6
Marketing	15,343,252	4.0
Rebates/Incentives/Direct Install	85,061,389	22.3
Direct Implementation	<u>66,799,052</u>	<u>17.5</u>
Subtotal	<u>192,316,587</u>	<u>50.4</u>
<b><u>TP Programs:</u></b>		
Administrative – Implementer	\$2,954,278	0.8
Administrative – PG&E Support	8,708,469	2.3
Marketing	3,294,701	0.9
Rebates/Incentives/Direct Install	28,755,953	7.5
Direct Implementation	<u>35,933,869</u>	<u>9.4</u>
Subtotal	<u>79,647,270</u>	<u>20.9</u>
<b><u>LGP Programs:</u></b>		
Administrative – Implementer	\$2,223,428	0.6
Administrative – PG&E Support	6,690,831	1.8
Marketing	1,742,851	0.4
Rebates/Incentives/Direct Install	34,204,281	8.9
Direct Implementation	<u>29,582,989</u>	<u>7.8</u>
Subtotal	<u>74,444,380</u>	<u>19.5</u>
<b><u>BayREN &amp; MCE:</u></b>		
Administrative – Implementer	793,939	0.2
Administrative – PG&E Support	4,807	0.0
Marketing <sup>6</sup>	2,039,225	0.5
Direct Implementation	<u>15,809,812</u>	<u>4.2</u>
Subtotal	<u>18,647,783</u>	<u>4.9</u>
<b><u>EM&amp;V:</u></b>		
EM&V IOU	2,998,052	0.8
EM&V Joint Staff	<u>3,397,416</u>	<u>0.9</u>
Subtotal	<u>6,395,468</u>	<u>1.7</u>
<b>OBF Loan Pool</b>	10,057,047	2.6
<b>Total</b>	<b><u>\$381,508,535</u></b>	<b><u>100.00</u></b>

#### **B.4 Codes and Standards (C&S) Program**

Statewide C&S Program saves energy by: (1) Influencing standards and code-setting bodies (such as the California Energy Commission) to strengthen EE regulations; (2) Improving compliance with existing codes and standards; (3) Assisting local governments to develop

<sup>6</sup> For presentation purposes, a rounding adjustment of \$1 was made to the reported amounts.

ordinances that exceed statewide minimum requirements; and (4) coordinating with other programs and entities to support the state's ambitious policy goals.<sup>7</sup>

The primary mission of the C&S Program 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 EE regulations. The C&S Program also seeks to influence the United States Department of Energy (USDOE) in setting national energy policy that impacts California.

PG&E's C&S Program consists of five subprograms: 1) Building Codes Advocacy, 2) Appliance Standards Advocacy, 3) Compliance Improvement, 4) Reach Codes, and 5) Planning and Coordination.

PG&E's approved total C&S program compliance budget for PYs 2013 and 2014 is \$12.8 million, which includes \$12.5 million approved by the Commission's Energy Division (ED) on September 17, 2013, in Compliance Filing AL 3356-G/4176-E, plus \$0.3 million from 2014 EE benefit burdens amount of \$19.9 million. Due to the need of additional funding for the C&S programs, PG&E shifted an additional \$700,000 into C&S programs in PY 2014, resulting in PG&E's total C&S program compliance budget of \$13,533,463. Even though the fund shift amount of \$700,000 has exceeded the annual fund shift threshold of \$65,852, no AL filing is required per Appendix C of The EE Policy Manual (R.09-11-014), Version 5, July 2013,<sup>8</sup> because this fund shifting increased the C&S program budget. PG&E has \$575,000 funding carried over from the 2010-2012 EE cycle, resulting in a total budget for the C&S program of \$14,108,463 for PYs 2013 and 2014.

A summary of approved C&S program budget for PYs 2013 and 2014 by subprogram and the proportion to total budget is presented in Table B-3.

**Table B-3**  
**Summary of PG&E's C&S Program Budget for PYs 2013 and 2014**

<b>Program Name</b>	<b>PYs 2013 and 2014 Approved Budget</b>	<b>% to Total C&amp;S Budget</b>
Building Codes Advocacy	\$5,839,057	45.5%
Appliance Standards Advocacy	3,691,233	28.8%
Compliance Improvement	1,327,004	10.3%
Reach Codes	374,325	2.9%
Planning and Coordination	1,601,844	12.5%
<b>Subtotal</b>	<b>\$12,833,463</b>	<b>100%</b>
Fund Shift in 2014	700,000	
<b>C&amp;S Program Compliance Budget</b>	<b>\$13,533,463</b>	
2010-2012 Carryover Budget	575,000	
<b>Grand Total</b>	<b>\$14,108,463</b>	

<sup>7</sup> 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/>

<sup>8</sup> The EE Policy Manual mentioned in this report all refer to this version.

PG&E spent a total of \$14,028,347, including the 2010-2012 carryover implementation of \$546,022, in PYs 2013 and 2014. This amount represents about 99.4%, or \$80,116 less than, its total authorized C&S program budget of \$14,108,463.

For PY 2014, PG&E's reported C&S program cost is \$7,590,686 or approximately 56.1% of the approved total C&S program compliance budget of \$13,533,463 for PYs 2013 and 2014. A detailed summary of PG&E reported C&S program costs by subprogram and cost category for PY 2014 is presented in Table B-4.

**Table B-4**  
**Summary of PG&E's Reported C&S Program Costs – PY 2014**

Program Name	Admin.	Mktg.	DI	Reported Total
Building Codes Advocacy	\$145,368	(\$484)	\$1,184,177	\$1,329,061
Appliance Standards Advocacy	76,365	0	2,054,606	2,130,971
Compliance Improvement	41,277	0	3,024,405	3,065,682
Reach Codes	8,681	0	122,778	131,459
Planning and Coordination	39,785	0	893,728	933,513
<b>Total Reported – PY 2014</b>	<b><u>\$311,476</u></b>	<b><u>(\$484)</u></b>	<b><u>\$7,279,694</u></b>	<b><u>\$7,590,686</u></b>

Pursuant to Ordering Paragraphs (Ops) 4 and 6 of D.13-09-023, PG&E filed AL 3606-G/4659-E on June 30, 2015, requesting the C&S program incentive award for PY 2014 in the form of a management fee equal to 12% of approved C&S program expenditures, not to exceed authorized expenditures, but excluding administrative costs. PG&E requested \$873,505 for PY 2014. A summary detailing PG&E's calculation of the C&S Program Management Fee requested for PY 2014 and the audited result is presented below.

Total C&S program expenditures excluding administrative costs	\$7,279,208
Multiplied by 12%	12%
<b>C&amp;S Program Management Incentive Award – PY2014</b>	<b><u>\$873,505</u></b>
UAFCB Adjustment (\$21,109 * 12%)	(2,533)
<b>Audited C&amp;S Program Management Incentive Award – PY 2014</b>	<b><u>\$870,972</u></b>

## B.5 Non-Resource (NR) Program

The NR Program represents 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 Program in themselves do not provide direct energy savings and only have costs, making them not cost-effective on their own.<sup>9</sup>

Currently, there are no specific criteria for determining whether a particular EE program is to be classified as Resource or NR. For PG&E, it classified its EE program as NR based on the definition contained in the EE Policy Manual,<sup>10</sup> which defines NR Program 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."

<sup>9</sup> D.13-09-023, Findings of Fact 10, pp.88-89.

<sup>10</sup> EE Policy Manual, p.57.

In 2014, PG&E identified 39 EE programs as active NR programs with recorded charges totaling \$32,679,453. A detailed summary of PG&E reported NR program expenditures by programs and cost category for PY 2014 is presented in Table B-5.

**Table B-5**  
**Summary of PG&E's Reported Non-Resource Program Expenditures – PY 2014**

Program Name	Admin.	Mktg.	DI	Reported Total
Commercial Continuous Energy Improvement	\$97,957	\$72,987	\$278,142	\$449,086
Industrial Continuous Energy Improvement	135,572	24,669	195,802	356,043
Agricultural Continuous Energy Improvement	86,032	17,214	170,555	273,801
Lighting Market Transformation	44,845	5,065	209,723	259,633
Technology Development Support	98,497	8,329	376,375	483,201
Technology Assessments	301,012	56,444	2,277,836	2,635,292
Technology Introduction Support	131,591	53,696	1,169,513	1,354,800
Centergies	413,582	119	8,615,085	9,028,786
Connections	23,807	281	2,038,555	2,062,643
Strategic Planning	156,603	0	376,580	533,183
Statewide DSM Coordination & Integration	303,420	(72)	210,656	514,004
On-Bill Financing (OBF) <sup>11</sup>	377,507	858,416	1,814,234	3,050,157
Third-Party Financing	34,177	356,580	(16,102)	374,655
New Financing Offerings	266,920	(109,979)	1,394,851	1,551,792
Ozone Laundry Energy Efficiency <sup>12</sup>	35,568	2,089	60,118	97,775
ICF BESO	40,094	13,646	270,340	324,080
Waypoint Connect	140,168	15,068	307,688	462,924
SEI Energize Schools	80,170	23,914	418,972	523,056
Builder Energy Code Training	187,558	26,137	200,729	414,424
Green Building Technical Support Services	159,559	26,484	316,511	502,554
California Community Colleges <sup>13</sup>	668	0	14,118	14,786
Local Government Energy Action Resources <sup>13</sup>	208,084	0	2,605,347	2,813,431
Strategic Energy Resources	270,496	134,944	1,209,239	1,614,679
Association of Monterey Bay Area Governments <sup>13</sup>	0	0	155,033	155,033
East Bay <sup>13</sup>	3,586	0	325,183	328,769
Fresno <sup>13</sup>	0	0	193	193
Kern <sup>13</sup>	0	0	104,586	104,586
Madera <sup>13</sup>	0	0	146	146
Marin County <sup>13</sup>	0	0	160,870	160,870
Mendocino County <sup>13</sup>	0	0	55,889	55,889
Napa County <sup>13</sup>	0	0	68,982	68,982
Redwood Coast <sup>13</sup>	23	0	397,603	397,626
San Luis Obispo County <sup>13</sup>	0	0	188,156	188,156
San Mateo County <sup>13</sup>	6	0	174,904	174,910
Santa Barbara <sup>13</sup>	0	0	29,224	29,224
Sierra Nevada <sup>13</sup>	9	0	525,452	525,461
Sonoma County <sup>13</sup>	0	0	78,978	78,978
Silicon Valley <sup>13</sup>	44	0	135,569	135,613
San Francisco <sup>13</sup>	0	0	580,232	580,232
<b>Total NR Programs Expenditure – PY 2014</b>	<b><u>\$3,597,555</u></b>	<b><u>\$1,586,031</u></b>	<b><u>\$27,495,867</u></b>	<b><u>\$32,679,453</u></b>
Assessments	\$0	\$0	\$406,313	\$406,313
Scaled Field Placement	0	0	54,595	54,595
Demonstration/Showcasing	0	0	11,881	11,881
<b>Total Pre-2013 Carryover NR Program Costs</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$472,789</u></b>	<b><u>\$472,789</u></b>
<b>Grand Total</b>	<b><u>\$3,597,555</u></b>	<b><u>\$1,586,031</u></b>	<b><u>\$27,968,656</u></b>	<b><u>\$33,152,242</u></b>

Pursuant to OPs 4 and 6 of D.13-09-023, PG&E filed AL 3606-G/4659-E on June 30, 2015, requesting the NR program incentive award for PY 2014 in the form of a management fee equal

<sup>11</sup> In its 2014 4<sup>th</sup> Quarter EEStats Report, PG&E reported \$5,978,508 for 2013-2014 OBF Program and \$19,785,357 for OBF Loan Pool, whereas it reported the combined amount totaling \$25,763,865 as 2013-2014 OBF Program in the December 2014 Monthly EEStats Report. PG&E reported \$2,928,351 OBF program costs for Year 2013; therefore, the total OBF program cost was \$3,050,157 for Year 2014 (\$5,978,508 – 2,928,351 = \$3,050,157).

<sup>12</sup> ED approved PG&E's AL 3356-G/4176-E on September 17, 2013. In that approval letter, ED directed PG&E to include non-incentive expenditures in NR programs for the 2013-14 Supplemental filing.

<sup>13</sup> NR program costs for Government Partnership were itemized by sub-programs and counted as Target Exempt. These costs were not directly connected to achieving measurable energy savings for the partnership but were for the costs associated with marketing, education and outreach, technical assistance, climate planning, and other longer term strategic planning activities.

to 3% of approved NR program expenditures, not to exceed authorized expenditures, but excluding administrative costs. PG&E requested \$886,641 for PY 2014. A summary detailing PG&E's calculation of the NR Program Management Fee requested for PY 2014 and the audited result is presented below.

Total NR program expenditures excluding administrative costs	\$29,554,687
Multiplied by 3%	3%
<b>NR Program Management Incentive Award – PY2014</b>	<b>\$886,641</b>
UAFCB Adjustment (\$235,457 * 3%)	<b>(7,064)</b>
<b>Audited NR Program Management Incentive Award – PY 2014</b>	<b>\$879,577</b>

## B.6 EE Program Administrative Costs of PG&E and Non-PG&E

PG&E identifies and captures the EE program administrative costs in the SAP Enterprise Resource Planning (ERP) system. Some administrative costs can be charged directly to the administrative cost target, while others flow through an allocation process by "Allocation Order" before reaching the administrative cost target. Still in other cases, overheads can be directly charged or allocated to specific cost categories, such as marketing and implementation target orders, with subsequent reclassification to the Administrative Cost category for reporting purposes.

Specifically, PG&E's administrative costs are accounted for in four different delivery channels – CORE Programs, TP Programs, LGP Programs, and BayREN & MCE programs. Per the general ledger, administrative costs under each delivery channel are grouped as "IOU Support" under CORE or as "IOU Support" and "Implementer" under both TP and LGP. Under TP and LGP, administrative costs recorded as "IOU Support" represent administrative costs that PG&E incurred in connection to TP and LGP's EE activities.

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..."<sup>14</sup> Also, TP and LGP administrative costs target is set at 10% of the total TP and LGP's direct costs.<sup>15</sup> Because the actual percentages of administrative costs as a percentage of total EE budget are to be computed based on the entire EE program cycle, UAFCB did not determine whether or not PG&E is in compliance with administrative costs cap and target requirements in PY 2014 EE examination. Rather, the computation is deferred to UAFCB's examination for PY 2015, when the 2013-2015 EE program cycle ends. Summaries detailing PG&E's administrative costs for PG&E, TP, LGP, BayREN, and MCE programs reported for PYs 2013 and 2014 are presented in Table B-6 and Table B-7.

<sup>14</sup> D.09-09-047, OP 13, pp.368-369.

<sup>15</sup> D.09-09-047, p.63.

**Table B-6**  
**Summary of PG&E's Reported Administrative Costs – PG&E Portion**

Admin. Costs – PG&E Portion	Admin. Costs – PG&E		
	2013	2014	Reported Total
Core	\$22,926,859	\$25,112,894	\$48,039,753
LGP	6,246,793	6,690,831	12,937,624
TP	<u>8,759,125</u>	<u>8,708,469</u>	<u>17,467,594</u>
Subtotal	15,005,918	15,399,300	30,405,218
BayREN	4,993	4,807	9,800
MCE	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal	4,993	4,807	9,800
<b>Grand Total</b>	<b><u>\$37,937,770</u></b>	<b><u>\$40,517,001</u></b>	<b><u>\$78,454,771</u></b>

**Table B-7**  
**Summary of PG&E's Reported Administrative Costs – Non-PG&E Portion**

Admin. Costs - Non-PG&E	Admin. Costs – Non-PG&E		
	2013	2014	Reported Total
LGP	\$2,487,930	\$2,223,428	\$4,711,358
TP	<u>2,562,328</u>	<u>2,954,278</u>	<u>5,516,606</u>
Subtotal – Non-PG&E	5,050,258	5,177,706	10,227,964
BayREN	503,072	793,939	1,297,011
MCE	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal – Non-Utility	503,072	793,939	1,297,011
<b>Grand Total</b>	<b><u>\$5,553,330</u></b>	<b><u>\$5,971,645</u></b>	<b><u>\$11,524,975</u></b>

## B.7 Balancing Accounts

PG&E sells and delivers electric and natural gas to its customers. It also administers public purpose programs, primarily related to customer EE programs. PG&E maintains separate gas and electric EE balancing accounts as part of its approved tariffs. The primary purpose of regulatory balancing account is to track (1) the differences between authorized revenue requirement and actual customer billings, and (2) the differences between incurred costs and customer billings.

As a regulated entity, PG&E collects rates from customers to recover revenue requirements that have been authorized by the CPUC based on the company's costs of service. For the EE balancing accounts, PG&E sets rates to recover its authorized funding through billed revenues on the electric side and billed surcharges on the gas side. Both of the gas and electric portion of amounts recorded in these accounts are based on the forecasted net benefits of the portfolio approved by the Commission. D.12-11-015 authorized PG&E to recover in rates the 2013-2014 revenue requirements and approved the allocation of expenditures and authorized funding



between gas and electric customers based on the net benefits factor of 82% (electric) and 18% (gas).<sup>16</sup>

PG&E determined and recorded its revenues or surcharges, expenses and interests for every balancing account by the establishment of two different account types as authorized, one-way and two-way balancing accounts.

The one-way balancing account tracks the differences between actual costs and budgets associated with authorized programs. If actual costs fall below the budgets, PG&E records liabilities and the unspent funds are "refunded" to ratepayers. On the other hand, PG&E is not allowed to recover the excess amount when actual costs exceed the budget. Therefore, any over-spending is paid by PG&E's shareholders rather than its ratepayers.

The two-way balancing account tracks the differences between authorized revenue requirement (RRQ)<sup>17</sup> and actual customer billed revenues on electric accounts, and the billed surcharge on gas customers.<sup>18</sup> If billed revenues/surcharges are less than the associated revenue requirement (under-collection), PG&E will record Accounts Receivable representing amounts owed by customers. If billed revenues/surcharges are greater than the associated revenue requirement (over-collection), PG&E will record Accounts Payable representing amounts returning to customers. Future rates are adjusted to refund the over-collection to customers. Under or over collections of EE balancing accounts are based on recorded information through September and are forecasted through the end of the year.

PG&E utilizes the Annual Electric True-up (AET) process to consolidate revenue requirements that have been authorized by the end of a given year by the Commission for recovery, and to amortize balances in regulatory accounts. On August 30, 2013, PG&E filed an AL 4278-E to address electric revenues and rates to be effective January 1, 2014. In that AL, PG&E forecasted a decrease in CPUC jurisdictional revenue requirement of \$888.5 million. Of the \$888.5 million revenue reduction, \$62.1 million was from Public Purpose Program (PPP) revenue requirements, which included amortization of balances recorded in the Public Purpose Program Revenue Adjustment Mechanism (PPPRAM), the California Alternate Rates for Energy (CARE), and the Procurement Energy Efficiency Revenue Adjustment Mechanism (PEERAM).

For reporting purposes, PG&E uses an Enterprise Resource Planning (ERP) application to identify and capture EE revenues collected through customer billings. Each customer has a unique account number with its service agreement (SA). Customers are billed based on actual electric or gas usages multiplied by the aggregate PPP rates, which include electric and gas surcharge rates approved by the Commission in various PG&E's Preliminary Statements.

For electric, the system automatically allocates actual billed revenues to the appropriate balancing account by customer class on a daily basis. That data then feeds into a storage warehouse, which stores monthly summary reports of EE balancing accounts. PG&E uses these

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<sup>16</sup> PG&E's Compliance AL 3356-G/4176-E, p.9.

<sup>17</sup> For electric, Revenue Requirement (RRQ's) is equal to the authorized budgets plus allowance for Franchise Fees and Uncollectable (FF&U).

<sup>18</sup> The gas PPP surcharge rates do not include a factor for franchise fees and uncollectible accounts expense in accordance with D.04-08-010,

monthly reports along with other adjustments and accruals to record gross revenues to the EE balancing accounts.

For gas, the system is set up to calculate the gas surcharges by components. As EE gas surcharges are billed daily, revenues are recorded automatically to the EE balancing accounts. That data then feeds into the reporting system, stores into a storage warehouse, and produces monthly summary reports. On a quarterly basis, PG&E staff reconciles each month's billed surcharges to the EE balancing accounts.

**(1) Electric Balancing Accounts**

Customer billed revenues are collected and automatically allocated to various balancing accounts. The electric data posts the billed revenues to PG&E's SAP system, which produces monthly summary reports and records revenues to the balancing accounts. Unbilled revenue represents the estimated revenue for the remaining days of the month not yet billed. It is accrued monthly and reversed in the following month. PG&E calculates interest for each EE balancing account at a rate equal to one-twelve the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release.

A summary showing PG&E's ending balances of the electric EE balancing accounts as of December 31, 2014, is presented in Table B-8.

**Table B-8  
Electric EE Balancing Accounts  
As of December 31, 2014**

Description	Amount
Electric Procurement Energy Efficiency Balancing Account (PEEBA)—Over-collection.	(\$132,755,501)
Electric Procurement Energy Efficiency Revenue Adjustment Mechanism (PEERAM)—Under-collection	\$17,672,250
Electric Public Purpose Programs Revenue Adjustment Mechanism (PPPRAM)—Over-collection	(\$11,001,582)

PG&E administers the electric EE balancing accounts shown in Table B-8 above for PY 2014.

- a. The Electric Procurement Energy Efficiency Balancing Account (PPEBA) is a one-way balancing account<sup>19</sup> established to track the electric procurement portion of PG&E's EE expenditures against the electric portion of authorized EE program funding, including interest.<sup>20</sup> The PEEBA balance of around \$132.8 million represents the accumulated differences between actual costs and authorized budget on December 31, 2014. This negative amount denotes a liability or an over-collection when actual costs were less than budgeted amount. This amount should be credited or refunded to ratepayers through lower rates or used to augment future program cycles, as directed by the Commission in the future.
- b. The Electric Procurement Energy Efficiency Revenue Adjustment Mechanism (PEERAM)<sup>21</sup> is a two-way balancing account established to ensure the collection of

<sup>19</sup> D.03-12-062, pp.69-70

<sup>20</sup> Preliminary Statement DI

<sup>21</sup> D.03-12-062 and as clarified in D.11-12-038

PG&E's procurement energy efficiency revenues. It tracks the procurement portion of revenues against the procurement portion of the authorized revenue requirement.<sup>22</sup> The PEERAM balance of \$17.7 million represents the accumulated difference between recoverable costs and customer billings for procurement energy efficiency revenues. PG&E records a receivable when billed revenues are less than the associated revenue requirement.

- c. The Electric Public Purpose Program Revenue Adjustment Mechanism (PPPRAM) is a two-way balancing account established to record certain authorized PPP revenue requirements and to assure full recovery of those amounts. The PPP revenue requirements recovered through this account are the electric Public Good Charge (PGC) portion of the EE program<sup>23</sup> and the electric portion of Energy Savings Assistance (ESA) program, formerly Low-Income Energy Efficiency (LIEE) programs.<sup>24</sup> The PPPRAM balance of \$11.1 million represents the accumulated difference between recoverable costs of certain authorized PPP and customer billings. PG&E records a liability when billed revenues are greater than the associated revenue requirement.

For PY 2014, UAFCB could not obtain customer billing data for the individual balancing account to test electric revenue because PG&E's detailed customer billing records are only retained for a limited time period in accordance with its record retention and processing policies. As a result, the detailed customer billing records for PY 2014 have been purged and are no longer available. Due to the unavailability of detailed customer billing records, UAFCB could not and did not perform substantive testing of electric billed revenues for the EE balancing accounts for PY 2014. As an alternative to performing substantive testing of the electric billed revenues, UAFCB reviewed the accuracy of the three aforementioned electric EE balancing accounts, while determining that PG&E had the necessary policies and procedures in place to control and monitor its accounting practices including the recording and reporting of EE balancing accounts. UAFCB plans to perform a substantive testing of the EE balancing accounts for PY 2015 in its next audit.

## **(2) Gas Balancing Accounts**

PG&E's billing system is set up to calculate the gas surcharge by component. Gas surcharges are recorded directly to the applicable gas balancing accounts as billed. Unbilled revenue is an estimate of revenue for the remaining days of the month not billed yet. It is accrued monthly and reversed in the following month. PG&E calculates interest for each EE balancing account at a rate equal to one-twelfth the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release. Franchise Fees and Uncollectable (FF&U) is not recovered on gas PPP surcharges.

A summary showing PG&E's ending balances of the gas EE balancing accounts as of December 31, 2014, is presented in Table B-9.

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<sup>22</sup> Preliminary Statement Part EF

<sup>23</sup> D.11-13-038

<sup>24</sup> Preliminary Statement Part DA

**Table B-9  
Gas EE Balancing Accounts  
As of December 31, 2014**

Description	Amount
Gas Public Purpose Program Energy Efficiency Balancing Account (PPPEEBA)—Over-collection	(\$28,838,256)
Gas Public Purpose Program Surcharge - Energy Efficiency (PPP-EE)—Under-collection	\$20,442,216

PG&E administers the gas EE balancing accounts shown in Table B-9 above for PY 2014.

- a. The Gas Public Purpose Program Energy Efficiency Balancing Account (PPPEEBA)<sup>25</sup> is a one-way balancing account established to track the gas portion of PG&E's EE program expenditures against the gas PPP surcharge portion of authorized EE program funding, including interest.<sup>26</sup> The PPPEEBA balance of \$28.8 million represents the accumulated differences between actual costs and authorized budget at December 31, 2014. This negative amount denotes a liability or an over-collection when actual costs were less than budgeted amount. This amount should be credited or refunded to ratepayers through lower rates or used to augment future program cycles, as directed by the Commission in the future.
- b. The Gas Public Purpose Surcharge - Energy Efficiency-Gas (PPP-EE) is a two-way balancing account established to record the gas EE PPP funding authorized by the Commission. The billed surcharge amounts recover the authorized funding from eligible customers, and other amounts received from the State of California Gas Consumption Surcharged Fund. FF&U expenses are not part of the gas PPP surcharges.<sup>27, 28</sup> The PPP-EE balance of \$20.4 million represents the accumulated difference between the billed revenues and the associated revenue requirement at December 31, 2014. PG&E records a receivable when billed revenues are less than the associated revenue requirement.

For PY 2014, substantive tests of limited transactions were performed to verify rate components charged in PG&E's customer accounts to PPP-EE surcharge rates set forth in the "Gas Schedule G-PPPS"<sup>29</sup> as applicable. Upon reviewing the rate schedules in the related Preliminary Statements and ALs, UAFCB determined that PG&E properly applied the gas PPP surcharge rates to its customers for natural gas utility services during PY 2014.

## **B.8 Statewide Commercial Calculated Incentive (CCI) Program**

The Statewide CCI Program provides customers technical and calculation assistance, as well as incentives based on calculated savings, to influence the design and installation of energy efficient equipment, operational measures and systems in both retrofit and added load applications.

The CCI Program is utilized for projects where a rebate is not available through the Statewide Deemed Program, where project conditions require customized calculations to provide the most

<sup>25</sup> D.97-12-103, OP 13

<sup>26</sup> Preliminary Statement Part Y

<sup>27</sup> D.04-08-010

<sup>28</sup> Preliminary Statement Part BA

<sup>29</sup> Advice Letter 3426-G

accurate savings estimates, or where a project has interactive effects that are best captured through whole building or whole system modeling. Because calculated savings estimates are based on actual customer operating conditions, pre-inspections (for retrofit projects) and post-inspections are typically required as part of each utility's project documentation.<sup>30</sup>

The combination of technical support and the availability and commitment of approved utility incentive funds is an essential driver to overcome key customer barriers, including lack of technical resources and lack of capital for energy efficiency projects. Depending on whether a project is a retrofit or added load project, and on whether Title 24 is triggered for a particular project, different baselines are applied to capture appropriate project savings. For retrofit and retro-commissioning projects, incentives are capped at 50% of the total project costs, and for added load projects, incentives are capped at 50% of the incremental project cost.<sup>30</sup>

PG&E's original CCI program compliance budget for PYs 2013 and 2014 is \$38.3 million, which includes \$36.4 million authorized budget for the CCI program,<sup>31</sup> plus \$1.9 million from PG&E's 2014 EE benefit burdens. Due to the need of additional funding for the CCI Program, PG&E shifted an additional \$1,685,377 into CCI program in PY 2014, resulting in a total CCI program compliance budget of \$39,955,365. Because the fund shift amount of \$1,685,377 did not exceed the annual fund shift threshold of \$9,642,889, no AL filing is required per Appendix C of the EE Policy Manual. PG&E has \$14,576,452 funding carried over from the 2010-2012 EE cycle, resulting in a total budget for the CCI program of \$54,531,817 for PYs 2013 and 2014.

A summary of the approved CCI program budget by cost type for PYs 2013 and 2014 is presented in Table B-10.

**Table B-10**  
**Summary of PG&E's CCI Program Budget for PYs 2013 and 2014**

Description	Budget
Total Administrative Cost	\$2,983,988
Total Marketing and Outreach	4,543,267
Total Direct Implementation (Customer Services)	22,452,688
Total Direct Implementation (Incentives and Rebates)	<u>6,384,763</u>
<b>Subtotal</b>	<b>\$36,364,706</b>
2014 EE Benefit Burdens	<u>1,905,282</u>
<b>Original CCI Program Compliance Budget</b>	<b><u>\$38,269,988</u></b>
Fund Shift in 2014	1,685,377
<b>Total CCI Program Compliance Budget</b>	<b><u>\$39,955,365</u></b>
2010-2012 Carryover Funding	14,576,452
<b>Grand Total – CCI Program Budget</b>	<b><u>\$54,531,817</u></b>

In PYs 2013 and 2014, PG&E spent a total of \$51,885,078 for the CCI Program, including \$10,880,233 carryover implementation from the 2010-2012 funding. The \$51,885,078 represents about 95.1%, or \$2,646,739 less than, its total CCI program budget of \$54,531,817.

For PY 2014, PG&E's reported CCI program cost is \$21,821,912 or approximately 54.6% of the total CCI program compliance budget of \$39,955,365 for PYs 2013 and 2014. A detailed summary of PG&E's reported CCI program costs by cost category are presented in Table B-11.

<sup>30</sup> PG&E's 2013-2014 EE Portfolio PIP – Commercial Program, pp.54-55.

<sup>31</sup> PG&E's 2013-2014 EE Portfolio PIP – Commercial Program, Table 1.

**Table B-11**  
**Summary of PG&E's Reported CCI Program Costs – PY 2014**

<b>Cost Category</b>	<b>Reported Amount</b>	<b>%</b>
Administrative	\$3,515,736	16.1%
Marketing	282,663	1.3%
Direct Implementation	18,023,513	81.6%
<b>Total Reported CCI Program Cost – PY 2014</b>	<b><u>\$21,821,912</u></b>	<b><u>100.0%</u></b>

## **B.9 Statewide Industrial Calculated Incentive (ICI) Program**

The purpose of the Statewide ICI Program is to provide services to improve the energy efficiency of industrial facilities in California, including financial incentives based on calculated energy savings. The energy savings are calculated for measures installed as recommended by comprehensive technical and design assistance for customized projects. Integrated projects are encouraged to combine energy efficiency and demand response. Eligible projects include new construction, retrofit, and retro-commissioning.<sup>32</sup>

The ICI Program is part of a suite of programs within the Statewide Industrial EE Program. The Calculated Incentives Program is utilized for projects where: (a) a rebate is not available through the statewide Deemed Energy Savings Program, (b) customized calculations provide the most accurate savings estimates, or (c) interactive effects between measures are best captured through whole building or whole system modeling.<sup>32</sup>

PG&E's original ICI program compliance budget for PYs 2013 and 2014 is \$26.5 million, which includes \$25.4 million authorized budget for the ICI Program,<sup>33</sup> plus \$1.1 million from PG&E's 2014 EE benefit burdens. However, PG&E shifted \$2,803,317 out from ICI Program in PY 2014 to meet the needs of other EE programs, resulting in a total ICI Program compliance budget of \$23,740,634. Because the fund shift amount of \$2,803,317 equals the annual fund shift threshold, no AL filing is required per Appendix C of the EE Policy Manual. PG&E has \$8,867,908 funding carried over from the 2010-2012 EE cycle, resulting in a total budget for the ICI Program of \$32,608,545 for PYs 2013 and 2014.

A summary of the approved ICI program budget by cost category for PYs 2013 and 2014 is presented in Table B-12.

<sup>32</sup> PG&E's 2013-2014 EE Portfolio PIP – Industrial Program, p.47.

<sup>33</sup> PG&E's 2013-2014 EE Portfolio PIP – Commercial Program, Table 1.

**Table B-12**  
**Summary of PG&E's ICI Program Budget for PYs 2013 and 2014**

Description	Budget
Total Administrative Cost	\$1,468,712
Total Marketing and Outreach	2,170,720
Total Direct Implementation (Customer Services)	10,477,177
Total Direct Implementation (Incentives and Rebates)	<u>11,282,092</u>
<b>Subtotal</b>	<b>25,398,702</b>
2014 EE Benefit Burdens	<u>1,145,252</u>
<b>Original ICI Program Compliance Budget</b>	<b><u>\$26,543,954</u></b>
Fund Shift in 2014	<u>(2,803,317)</u>
<b>Total ICI Program Compliance Budget</b>	<b>\$23,740,637</b>
2010-2012 Carryover Funding	<u>8,867,908</u>
<b>Grand Total – CCI Program Budget</b>	<b><u>\$32,608,545</u></b>

In PYs 2013 and 2014, PG&E spent a total of \$22,806,898 for the ICI Program, including \$7,197,395 carryover implementation from the 2010-2012 funding. The \$22,806,898 represents about 69.9%, or \$9,801,647 less than, its total ICI program budget of \$32,608,545.

For PY 2014, PG&E's reported ICI program cost is \$7,906,427 or approximately 33.3% of the total ICI program compliance budget of \$23,740,637 for PYs 2013 and 2014. A detailed summary of PG&E's reported ICI program costs by cost category is presented in Table B-13.

**Table B-13**  
**Summary of PG&E's Reported ICI Program Costs – PY 2014**

Cost Category	Reported Amount	%
Administrative	\$1,823,079	23.1%
Marketing	465,362	5.9%
Direct Implementation <sup>34</sup>	<u>5,617,986</u>	<u>71.0%</u>
<b>Total ICI Program Expenditure – PY 2014</b>	<b><u>\$7,906,427</u></b>	<b><u>100.0%</u></b>

## **B.10 Fund Shifting**

Per D.12-11-015<sup>35</sup> and the EE Policy Manual,<sup>36</sup> the existing fund shifting rules shall be applied to the following categories of programs for PG&E:

- 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

<sup>34</sup> PG&E reported \$5,617,986 in its EEstats reports. UAFCB removed \$148,785 from the 2014 reported ICI costs to correct a PG&E recording error, resulting in the audited amount of \$5,469,201.

<sup>35</sup> OP 20 of D.12-11-015, pp.135-136.

<sup>36</sup> EE Policy Manual, "Fund Shifting Rules," pp.10-11; and Appendix C, pp.64-66.

- 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) Programs;
- 2) Emerging Technology (ET) program; and,
- 3) Marketing Education & Outreach (ME&O) program.

For competitively bid TP Programs, AL is also required if allocation to these programs falls below 20% of total portfolio funding.<sup>37</sup>

### **B.11 Follow-up on Prior UAFCB's Observations and Recommendations and PG&E's Internal Audit (IA) Report Recommendations**

UAFCB performed a follow-up examination on each finding and recommendation included in its prior report entitled "*Financial, Management and Regulatory Compliance Examination Report on Pacific Gas & Electric Company's (PG&E's) Energy Efficiency (EE) Programs for the Period January 1, 2013 through December 31, 2013,*" issued on June 30, 2015. The observations and recommendations in the report addressed the following subjects:

- a) Variances between annual, quarterly, and monthly EEStats reports.
- b) C&S program costs – UAFCB found deficiencies in: (1) internal control on invoice review, approval and payment process; (2) record retention; and, (3) Master Contract Agreement (MSA) with the Regents of the University of California (UC).
- c) TP program costs – PG&E reclassified \$149,810 from the TP Programs to the CORE Programs at year end and reflected such adjustment only in its 2013 Annual EEStats Report and not in the Q4 2013 Quarterly EEStats Report and December 2013 Monthly EEStats Report. Additionally, UAFCB found that \$394,913 TP program expenditures for 2012 were not properly accrued but were incorrectly recorded and reported as TP program expenditures for 2013.
- d) PG&E's compliance with the Commission's requirement regarding the 20% minimum funding requirement for competitively bid third party programs was inconclusive, due to lack of clear guidelines from the Commission.

For further details on the above items, see Appendix A Pages A-14.

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<sup>37</sup> EE Policy Manual, Appendix C, pp.64-65.



PG&E provided the following internal audit report to UAFCB during the 2014 EE examination:

- a) File #: 14-049 – Customer Energy Solutions' (CES) Quality Assurance Process for Purchase Orders Charging Multiple Funding Sources, dated on 09/30/2014.

PG&E also provided UAFCB with management's corrective actions on IA's findings and recommendations that contained in the internal audit report listed above. The report was reviewed by UAFCB and its observation is included in Appendix A of this report.

## Appendix C PG&E's Comments



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June 7, 2016

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**Subject: Pacific Gas and Electric Company's Response to the CPUC's Draft Financial, Management, and Regulatory Compliance Examination Report on PG&E's Energy Efficiency Programs for the period January 1, 2014 through December 31, 2014**

On May 31, 2016, the Utility Audit, Finance and Compliance Branch (UAFCB) issued its draft Financial, Management, and Regulatory Compliance Report (Draft Report) on Pacific Gas and Electric Company's (PG&E) 2014 Energy Efficiency (EE) Program. This Draft Report addresses EE regulatory and compliance areas for January 1, 2014 through December 31, 2014, including financial regulatory reporting requirements.

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 observations 2, 4, 7, 11, 12, 15, 18, and 21. PG&E also proposes corrections to certain sections of Appendix B - Program Compendium.

### Summary

- In Observation 2 and 21, UAFCB recommends PG&E to follow up with the California Public Utilities Commission (CPUC) Energy Division (ED) on developing uniform reporting requirements for all the EEStats reports (annual, quarterly, and monthly) and clarifying the computation of the 20% minimum funding requirement for competitively bid third party contracts. PG&E will continue to work with the ED staff and other Investor-Owned Utilities (IOUs) in developing reports for the EE program and will again seek clarification for the 20% minimum funding requirement for competitively bid third party contracts.
- In Observation 4, the UAFCB recommends the Commission's ED reduce the Codes and Standards Management Fee incentive award by \$29,206 (\$243,383\*12%) for expenditures reported in 2014 related to 2013 services. PG&E recommends no adjustment to its 2014 Efficiency Savings and Performance Incentive (ESPI) claim because the expenditures related to this observation were properly accrued for in 2013. PG&E was able to find evidence

of 2013 accruals for the samples related to this observation. Also, PG&E adheres to accrual basis of accounting, a requirement of Generally Accepted Accounting Principles (GAAP) and will continue to provide periodic accrual training for its employees.

- In Observation 7, the UAFCB recommends the Commission's ED reduce the Non-Resource Management Fee incentive award by \$18,161 (\$605,358\*.03) when PG&E's true-up Advice Letter is processed. PG&E recommends an adjustment of \$6,139 (\$204,634.48\*.03) to its 2014 ESPI claim. PG&E was able to find evidence of 2013 accruals for 3 of the 4 samples related to this observation. In addition, PG&E agrees with the UAFCB's recommendation that it should continue efforts to ensure adherence to its invoice approval procedures.
- In Observation 11, the UAFCB recommends the Commission's ED reduce the Resource Savings Program Costs award to PG&E for PY's 2014 and 2013 by \$22,338 and \$48,725 (the net result of the increase of \$22,338 and the decrease of \$71,063), respectively, in its calculations. PG&E recommends no adjustment to its ESPI claims because the ESPI calculations already exclude administrative expenditures per Ordering Paragraph (OP) 3 of Decision (D.) 13-09-023. With regards to the UAFCB recommendation that PG&E adhere to accrual basis of accounting, PG&E follows GAAP accounting and will continue to provide periodic accrual training for its employees. Also, PG&E agrees with the UAFCB's recommendation that it should strengthen its record retention procedures to preserve audit evidence and enhance its internal control over invoice approval.
- In Observation 12, the UAFCB recommends the Commission's ED reduce the Resource Savings Program Costs award to PG&E for PY's 2014 by \$517,186 in its calculations and should increase the same amount for PY2013. PG&E recommends no adjustment to its ESPI claims because the ESPI calculations already exclude administrative expenditures per OP 3 of Decision 13-09-023. With regards to the UAFCB's recommendation that PG&E adhere to accrual basis of accounting when recording and reporting, PG&E follows GAAP accounting and will continue to provide periodic accrual training for its employees. PG&E was able to find evidence of 2013 accruals for 7 of the 8 samples related to this observation.
- In Observation 15, the UAFCB recommends the Commission's ED exclude \$753,503 from the reported 2014 Commercial Calculated Incentive (CCI) Program expenditures before calculating PG&E's Resource Program Savings Incentives. PG&E recommends a reduction of \$482,368 in Resource Program Expenditures used in the 2014 ESPI calculation resulting in a reduction of \$7,670 (\$482,368\*.03\*.53) to PG&E's incentive award. PG&E properly accrued for 4 of the 8 samples related to this observation. PG&E adheres to GAAP accounting and will continue to provide periodic accrual training for its employees. In addition, PG&E agrees with the UAFCB's recommendation to strengthen its review and approval process on contractor's invoices and customer's project applications.
- In Observation 18, the UAFCB recommends the Commission's ED exclude \$148,785 (the combined effect of the overstate of \$126,260 and \$22,525) from

the reported 2014 Industrial Calculated Incentive (ICI) Program expenditures before calculating PG&E's Resource Program Savings Incentives. PG&E agrees with the UAFCB's recommendation to reduce Resource Program Expenditures used in its 2014 ESPI calculation in the amount of \$148,785 resulting in a reduction of \$2,366 ( $\$148,785 \cdot 0.03 \cdot 53$ ) to PG&E's incentive award. With regards to the UAFCB's recommendation that PG&E adhere to accrual basis of accounting, PG&E follows GAAP accounting and will continue to provide periodic accrual training for its employees.

Refer to the following attachment for a summary of the accrual details:

- 2014 EE Audit Draft Response - Accrual Summary - CONF.xlsx

**Reconciliation of EE Program Portfolio Costs to Reported Amounts:**

**Observation 2:** The Quarterly and Monthly EESStats Reports filed by PG&E did not include a column that separately identified the 2014 PY costs. Instead, the 2013 and 2014 program costs were combined together and only the cumulative amounts for both years were reported in the EESStats reports.

**Recommendation:** ED should modify the quarterly and monthly EESStats report templates to accommodate the Investor-Owned Utilities (IOUs) to report the annual and cumulative EE program costs separately in all EESStats reports.

**Response:** PG&E will continue to work with the ED staff and other IOUs in developing reports for the EE program.

**Codes and Standards (C&S) Programs:**

**Observation 4:** PG&E failed to demonstrate compliance with PU code 581, 582 and 584 respecting certain amounts sampled for verification. PG&E incorrectly included in the 2014 C&S program costs \$243,383 incurred for services provided in 2013. The inaccurate accounting resulted primarily because PG&E did not adhere to accrual basis of accounting for recording and reporting of its EE expenditures.

**Recommendation:** PG&E has since filed Advise Letter (AL) 3606-G/4659-E to claim its Management Fee incentive award for 2014. The Commission's ED should reduce the C&S Management Fee incentive award by \$29,206 ( $\$243,383 \cdot 12\%$ ) when PG&E's true-up AL is processed.

**Response:** PG&E recommends no adjustment to its 2014 Efficiency Savings and ESPI claim because the expenditures related to this observation were properly accrued for in 2013. PG&E was able to find evidence of 2013 accruals for the samples related to this observation. Also, PG&E adheres to GAAP accounting and will continue to provide periodic accrual training for its employees.

Refer to the following files for supporting accrual documents:

- Observation 4 - DR-004\_Q01\_Sample 1\_Atch 01-Accrual Support - CONF.pdf
- Observation 4 - DR-004\_Q01\_Sample 1\_Atch 02-Accrual Support - CONF.pdf
- Observation 4 - DR-004\_Q01\_Sample 1\_Atch 02-Accrual Support - CONF.pdf

- Observation 4 - DR-004\_Q01\_Sample 16\_Atch 01-Accrual Support - CONF.pdf
- Observation 4 - DR-004\_Q01\_Sample 16\_Atch 02-Accrual Support - CONF.pdf

**Non-Resource (NR) Programs:**

**Observation 7:** PG&E failed to demonstrate compliance with PU code 581, 582 and 584 respecting certain NR amounts sampled for verification. PG&E incorrectly included in the 2014 NR program costs \$605,358 incurred for services provided in 2013. The inaccurate accounting resulted primarily because PG&E did not adhere to accrual basis of accounting for recording and reporting of its EE expenditures. In addition, UAFCB found PG&E's deficiencies in internal control on invoice review and approval.

**Recommendation:** PG&E has since filed Advise Letter (AL) 3606-G/4659-E to claim its Management Fee incentive award for 2014. The Commission's ED should reduce the NR Management Fee incentive award by \$18,161 ( $\$605,358 \times .03$ ) when PG&E's true-up AL is processed. In addition, PG&E should adhere to its invoice approval procedures and properly document its approval process.

**Response:** PG&E recommends an adjustment of \$6,139 ( $\$204,634.48 \times .03$ ) to its 2014 Efficiency Savings and Performance Incentive (ESPI) claim. PG&E was able to find evidence of 2013 accruals for 3 of the 4 samples related to this observation.

Refer to the following files for supporting accrual documents:

- Observation 7 - DR-005\_Q01\_Sample 12\_Atch 01-Accrual Support - CONF.pdf
- Observation 7 - DR-005\_Q01\_Sample 12\_Atch 02-Accrual Support - CONF.pdf
- Observation 7 - DR-005\_Q01\_Sample 13\_Atch 01-Accrual Support - CONF.pdf
- Observation 7 - DR-005\_Q01\_Sample 75\_Atch 01-Accrual Support - CONF.pdf
- Observation 7 - DR-005\_Q01\_Sample 75\_Atch 02-Accrual Support - CONF.pdf

In addition, PG&E agrees with the UAFCB's recommendation that it should continue efforts to ensure adherence to its invoice approval procedures.

**EE Administrative Costs (2013-2014):**

**Observation 11:** PG&E failed to demonstrate compliance with PU code 581, 582 and 584 respecting the reported IOU EE Administrative cost for PY's 2013 and 2014. PG&E incorrectly included in the 2014 recorded EE program costs \$22,338 IOU Administrative cost incurred for services rendered in 2013. Similarly, PG&E incorrectly included in the 2013 recorded EE program costs \$71,063 IOU Administrative cost incurred for services rendered in 2012. The inaccurate accounting resulted primarily because PG&E did not adhere to accrual basis of accounting for recording and reporting of its EE expenditures. In addition, UAFCB found PG&E's deficiencies in internal control on invoice review and approval.

**Recommendation:** PG&E should adhere to accrual basis of accounting when recording and reporting its EE program expenditures. This will ensure that program costs are booked to the appropriate accounting period and allow for a more accurate Administrative cost cap requirement analysis at the end of the budget cycle. Also PG&E should enhance its internal control over invoice approval and strengthen its record retention to preserve audit evidence.

**Response:** PG&E recommends no adjustment to its ESPI claims because the ESPI calculations already exclude administrative expenditures per OP 3 of D.13-09-023. With regards to the UAFCB recommendation that PG&E adhere to accrual basis of accounting, PG&E follows GAAP accounting and will continue to provide periodic accrual training for its employees. Also, PG&E agrees with the UAFCB's recommendation that it should strengthen its record retention procedures to preserve audit evidence and enhance its internal control over invoice approval.

**Observation 12:** PG&E failed to demonstrate compliance with PU code 581, 582 and 584 respecting the reported Non-IOU EE Administrative cost for PY's 2013 and 2014. PG&E incorrectly included in PY 2014 Non-IOU Administrative cost of \$517,186 incurred for services provided in 2013. The inaccurate accounting resulted primarily because PG&E did not adhere to accrual basis of accounting for recording and reporting of its EE expenditures.

**Recommendation:** PG&E should adhere to accrual basis of accounting when recording and reporting its EE program expenditures. This will ensure that program costs are booked to the appropriate accounting period and allow for a more accurate Administrative cost cap requirement analysis at the end of the budget cycle.

**Response:** PG&E recommends no adjustment to its ESPI claims because the ESPI calculations already exclude administrative expenditures per OP 3 of D.13-09-023. PG&E was able to find evidence of 2013 accruals for 7 of the 8 samples related to this observation.

Refer to the following files for supporting accrual documents:

- Observation 12 - DR-007\_Q01\_Sample 15\_Atch 01-Accrual Support - CONF.pdf
- Observation 12 - DR-007\_Q01\_Sample 15\_Atch 02-Accrual Support - CONF.pdf
- Observation 12 - DR-008\_Q01\_Sample 1\_Atch 01-Accrual Support - CONF.pdf
- Observation 12 - DR-008\_Q01\_Sample 7 and 8\_Atch 01-Accrual Support - CONF.pdf
- Observation 12 - DR-008\_Q01\_Sample 10 and 11\_Atch 01-Accrual Support - CONF.pdf
- Observation 12 - DR-008\_Q01\_Sample 10 and 11\_Atch 01-Accrual Support - CONF.pdf
- Observation 12- DR-008\_Q01\_Samples 1,7,10,13\_Atch 02-Accrual Support - CONF.pdf

With regards to the UAFCB recommendation that PG&E adhere to accrual basis of accounting, PG&E follows GAAP accounting and will continue to provide periodic accrual training for its employees.

**Commercial Calculated Incentive (CCI) Programs:**

**Observation 15:** PG&E failed to demonstrate compliance with PU code 581, 582 and 584 respecting certain CCI Program costs sampled for verification. PG&E incorrectly included in the 2014 recorded CCI program costs \$753,503 incurred for services provided in 2013. The inaccurate accounting resulted primarily because PG&E did not adhere to accrual basis of accounting for recording and reporting of its EE expenditures. In addition, UAFCB found PG&E's deficiencies in internal control on invoice review and customer project application's review and approval.

**Recommendation:** PG&E should adhere to accrual basis of accounting when recording and reporting its EE program expenditures. ED should exclude the \$753,503 from the reported 2014 CCI Program expenditures before calculating PG&E's Resource

Program Savings Incentives. Furthermore, PG&E should strengthen its review and approval process on contractor's invoices and customer's project applications.

**Response:** PG&E recommends a reduction of \$482,368 in Resource Program Expenditures used in the 2014 ESPI calculation resulting in a reduction of \$7,670 ( $\$482,368 \times .03 \times .53$ ) to PG&E's incentive award. PG&E properly accrued for 4 of the 8 samples related to this observation.

Refer to the following files for supporting accrual documents:

- Observation 15 - DR-012\_Q01\_Sample 10,11,15,16\_Atch 01-Accrual Support - CONF.pdf
- Observation 15 - DR-012\_Q01\_Sample 10,11,15,16\_Atch 02-Accrual Support - CONF.pdf

PG&E adheres to GAAP accounting and will continue to provide periodic accrual training for its employees. In addition, PG&E agrees with the UAFCB's recommendation to strengthen its review and approval process on contractor's invoices and customer's project applications.

**Industrial Calculated Incentive (CCI) Programs:**

**Observation 18:** PG&E failed to demonstrate compliance with PU code 581, 582 and 584 respecting certain ICI Program costs sampled for verification. UAFCB found a paid invoice of \$22,525 was improperly reported as ICI Program costs in the 2014 EEStats Reports. Additionally, PG&E incorrectly included in the 2014 recorded ICI program costs \$126,260 incurred for services provided in 2013.

**Recommendation:** ED should exclude the \$148,785 (the combined effect of the overstated of \$126,260 and \$22,525) from the reported 2014 ICI Program expenditures before calculating PG&E's Resource Program Savings Incentives. Also, PG&E should adhere to accrual basis of accounting when recording and reporting its EE program expenditures.

**Response:** PG&E agrees with the UAFCB's recommendation to reduce Resource Program Expenditures used in its 2014 ESPI calculation in the amount of \$148,785 resulting in a reduction of \$2,366 ( $\$148,785 \times .03 \times .53$ ) to PG&E's incentive award. With regards to the UAFCB's recommendation that PG&E adhere to accrual basis of accounting, PG&E follows GAAP accounting and will continue to provide periodic accrual training for its employees.

**A. Proposed Corrections to Appendix B, Program Compendium**

PG&E would like to propose the following corrections to Appendix B.

**Table B-1**

To properly present PG&E's available EE funds as of December 31, 2014 from the 2010-2012 and 2013-2015 cycles, Table B-1 should be modified as follows:

1. Include the EM&V and non-carryover expenditures and budgets of the entire 2010-2012 program cycle (lines 5, 6 & 13).
2. Modified line 1 to reflect the corrected authorized 2015 budget (refer to D.15-01-002).

3. Add lines 7 & 8 to reflect budget reductions and transfers out of EE balancing account.
4. Update lines 10 & 11 to reflect expenditures reported in the EE Annual Reports that equal amounts recorded in the balancing accounts (PG&E recognizes the reason for ED's adjustments to these amounts).
5. Total on line 14 excludes approximately \$1.1 million of interest accrued on the balancing account balances (as noted in parenthesis).

Sections B.1 Introduction and B.2 EE Funding Components should be updated as necessary where amounts are referenced from Table B-1.

**Proposed Revised Table B-1**  
**Summary of PG&E's Ratepayer Funded EE Programs Fund Balance at 12/31/2014**  
**(Including BayREN, MCE and EM&V Programs and Excluding ME&O)**

Line No.	Description	Amount
1	2015 EE program budget per D.14-10-046 (as corrected in D.15-01-002), includes \$10M funding for OBF loans	\$ 430,110,441
2	2013-2014 Authorized EE Portfolio Budget per D.13-09-046, includes \$32M funding for OBF loans	823,082,766
3	Budget Reduction per OP 23 of D.13-09-044	(3,825,000)
4	2014 EE Benefit Burdens Amount	19,928,000
5	2010-2012 Authorized EE Portfolio Budget per D.09-09-047, includes \$18.5M funding for OBF loans	1,338,000,000
6	2010-2012 Total Expenditures from 2010 through 2012; & post-2012 expenditures excluded from lines 12 & 13)	(1,191,427,956)
7	2010-2012 Funds Transferred to Statewide ME&O as authorized in D.13-12-038 (p. 62)	(13,529,447)
8	2010-2012 Budget Reduction per Compliance AL 3541-G-C/4550-E-C, approved on July 21, 2015	(8,673,540)
9	<b>EE Program Budget for 2013-2016</b>	<b>1,393,666,264</b>
10	2013 EE Program Expenditures per Table 3 of the EE Annual Report	(328,613,694)
11	2014 EE Program Expenditures per Table 3 of the EE Annual Report	(381,508,535)
12	2010-2012 Carryover Expenditures during 2013 and 2014 per Table 3.1 of the EE Annual Report	(58,131,862)
13	2010-2012 EM&V Expenditures during 2013 and 2014 reported on Table 3.1	(26,045,009)
14	<b>EE Program Funding Available for PY 2016 (excludes approx. \$1.1 million of accrued interest)</b>	<b>\$ 599,366,164</b>

**Table B-2**

Based on PG&E's analysis of the UAFCB's recommendations, Table B-2 should be modified to reflect PG&E's responses to Observations 4,7,12 and 15.

**Table B-3**

Table B-3 C&S budget should be increased to reflect a \$700,000 fund shift from the 2nd Quarter of 2014. Total C&S budget should be \$28,868,711.

**Table B-4**

Based on PG&E's analysis of UAFCB's recommendations, Table B-4 should be modified to reflect PG&E's response to Observation 4.

**Tables B-6 and B-7**

Based on PG&E's analysis of UAFCB's recommendations, Table B-6 and B-7 should be modified to reflect PG&E's response to Observation 12.

**Table B-8**

Table B-8 incorrectly presents the balance of Electric PEERAM as \$30,241,630. Table B-8 should be updated to reflect the correct Electric PEERAM balance of \$17,672,250. The reference to this amount on page B-11 should be updated.



Below is a screenshot of the PEERAM balancing account balance as of 12/31/2014:

Procurement Energy Efficiency Rev. Adj. Mechanism : Local Currency Bal											
Line Items	Other bus.area...										
Acct	1823144	CoCde	PGZ1	Year	2014	BusAr	*	Curr.	*	Display in	USD
Period	Debit	Credit	DC bal.	Account balance							
C/f bal.						12,569,380.32-					
1	18,507,186.36	17,379,083.05	1,128,103.31	11,441,277.01-							
2	18,507,186.36	14,192,703.42	4,314,482.94	7,126,794.07-							
3	18,507,186.36	15,394,683.20	3,112,503.16	4,014,290.91-							
4	18,507,186.36	15,790,623.67	2,716,562.69	1,297,728.22-							
5	18,507,186.36	17,910,415.07	596,771.29	700,956.93-							
6	18,507,186.36	18,722,431.71	215,245.35-	916,202.28-							
7	18,507,186.36	21,148,800.48	2,641,614.12-	3,557,816.40-							
8	29,857,890.17	20,244,648.12	9,613,242.05	6,055,425.65							
9	19,903,845.15	18,920,220.98	983,624.17	7,039,049.82							
10	19,903,924.12	17,682,719.76	2,221,204.36	9,260,258.18							
11	19,904,204.27	15,401,623.10	4,502,581.17	13,762,835.35							
12	19,904,554.75	15,995,140.33	3,909,414.42	17,672,249.77							
13	0.00	0.00	0.00	"							
14	0.00	0.00	0.00	"							
15	0.00	0.00	0.00	"							
16	0.00	0.00	0.00	"							
***	239,024,722.98	208,783,092.89	30,241,630.09	17,672,249.77							

**Table B-10**

Table B-10 CCI program budget should be increased to reflect a \$1,685,377 fund shift from the 4th Quarter of 2014. Total CCI program budget for 2013-2015 should be \$65,087,879. Total budget including 2010-2012 carryover funding should be \$80,706,650.

**Table B-11**

Based on PG&E's analysis of UAFCB's recommendations, Table B-11 should be modified to reflect PG&E's response to Observation 15.

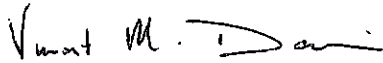
**Table B-12**

Table B-12 ICI program budget should be reduced to reflect a \$9,594,134 fund shift from various quarters of 2014 and 2015. Total CCI program budget for 2013-2015 should be \$25,662,105. Total budget including 2010-2012 carryover funding should be \$36,599,500.

**Conclusion**

This concludes PG&E's response to the UAFCB's Draft Report on PG&E's EE Program for period January 1, 2014 through December 31, 2014. 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 Solutions

cc: Bernard Ayanruoh, Division of Water and Audits  
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