California Public Utilities Commission

Utility Audit, Finance and Compliance Branch

Compliance Examination
of the
Public Purpose Program Regulatory Accounts
of
Pacific Gas & Electric Company

For the Years Ended
December 31, 2015 and 2016

December 15, 2017

Acknowledgement
The following Commission staff contributed to the completion of this report
Kayode Kajopaiye, Raymond Yin and KieuChinh Tran

December 15, 2017

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Compliance Examination Report

Mr. Vincent Davis
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Pacific Gas & Electric Company (PG&E)
245 Market Street, N6G
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Compliance Examination Report of PG&E's 2015 and 2016 Public Purpose Program Regulatory Accounts

Dear Mr. Davis:

Pursuant to Public Utilities Code (PUC) Sections (§§) 314 (a) and 314.5, and Commission Decision (D.) 09-09-047, Ordering Paragraph (OP) 14, the Utility Audit, Finance and Compliance Branch (UAFCB) of the California Public Utilities Commission (Commission) conducted a regulatory compliance examination of the Public Purpose Program (PPP) regulatory accounts of Pacific Gas and Electric Company (PG&E). The intent of PUC § 314.5 is to ensure utilities' books and records are periodically inspected and audited for regulatory and tax purposes.

The purpose of the examination was to determine whether PG&E complied with the requirements established in the Commission directives and PG&E's internal policies and procedures with regard to the PPP regulatory accounts. The results of this report are based on our review performed on the period covering January 1, 2015 through December 31, 2016.

Results Summary

In general, PG&E complied with the requirements established in the Commission directives and PG&E's internal policies and procedures with regard to its PPP regulatory accounts. However, UAFCB identified two areas as described in the following paragraph that require immediate attention of the Commission and PG&E.

Observations Needed to be Addressed Immediately by PG&E and the Commission:

UAFCB identified the following two areas that need to be addressed immediately by the Commission and PG&E. Detailed discussions of these observations are described in the Summary of Observations and Recommendations in Section II of this report.

1. Observation 5 – PG&E did not have separate reports to support the allocation of California Alternate Rates for Energy (CARE) revenue for CARE and non-CARE ratepayers.
2. Observation 8 – PG&E consistently collected unneeded funding from the PPP, resulting in many PPP regulatory accounts carrying excessive balances during the past 10 years as shown in Appendix B of this report. As of December 31, 2016, the total net balance of

over-collection on those PPP regulatory accounts is approximately more than $734 million.

Scope and Methodology

To determine PG&E's compliance with the requirements established in the Commission directives and its internal policies and procedures with regard to the PPP regulatory accounts, UAFCB performed the following:

1. Reviewed applicable Commission directives and PG&E's internal policies and procedures.
2. Interviewed key personnel at PG&E to gain an understanding of the accounting and reporting processes related to the PPP regulatory accounts.
3. Verified whether the approved PPP rates were properly billed and the PPP revenues received were accounted for in Program Years 2015 and 2016 in compliance with Commission directives.
4. Verified whether the PPP program expenditures drawn from those regulatory accounts were properly recorded.[1]
5. Evaluated whether the over-collection and under-collection of program funds were properly resolved at the end of each program year under examination in accordance with Commission directives.

This report is intended solely for the information and use of management of PG&E and the Commission and is not intended to be and should not be used by anyone other than the specified parties.

We appreciate the assistance and cooperation of PG&E staff during the examination. If you have any questions regarding this report, please contact K.C. Tran at Kieuchinh.Tran@cpuc.ca.gov.

/s/ Raymond Yin

Raymond Yin,
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Utility Audit, Finance and Compliance Branch

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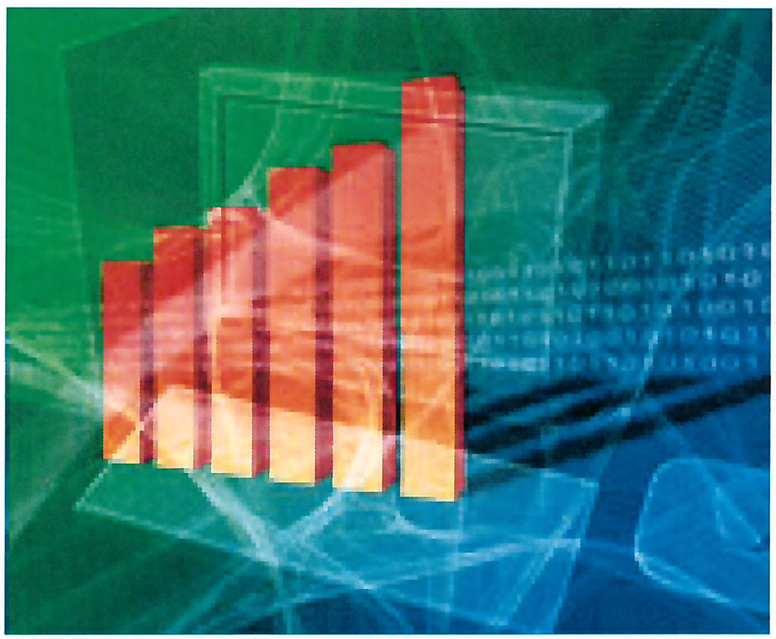
KieuChinh Tran, UAFCB
Peter Skala, Deputy Director, Energy Division

[1] Due to scope limitation, UAFCB did not verify the reliability of the PPP program expenditures in this examination because they will be reviewed in separate examinations.



December 15, 2017

I. EXECUTIVE SUMMARY

The Utility Audit, Finance and Compliance Branch (UAFCB) of the California Public Utilities Commission (Commission) examined the Public Purpose Program (PPP) regulatory accounts of Pacific Gas and Electric Company (PG&E) for the period of January 1, 2015 through December 31, 2016, or Program Years (PYs) 2015 and 2016.

The purpose of the regulatory compliance review was to determine whether PG&E properly billed, collected, recorded and reported PPP revenues of its regulatory accounts in accordance with Public Utilities Code (PUC) Sections (§§) 381 and 399.8(b)1, and applicable Commission directives including, but not limited to, Commission Decisions (D.) 12-11-015, D.04-08-010, and D.03-12-062.[2] UAFCB also reviewed if PG&E properly reflected the PPP program expenditures[3] drawn from its PPP regulatory accounts. Specifically, UAFCB's examination included: (1) verifying whether the approved PPP rates were properly billed, and if the PPP revenues received were accounted for in Program Years 2015 and 2016 in compliance with Commission directives; (2) evaluating whether PG&E's internal control over its PPP billing, accounting and recording process to ensure proper safeguard of ratepayer funds; (3) verifying whether the PPP program expenditures[2] drawn from those regulatory accounts were properly recorded; and, (4) evaluating whether the over-collection and under-collection of program funds are properly resolved at the end of each year under examination in accordance with Commission directives.

UAFCB examined twenty-six (26) regulatory accounts used by PG&E to track its PPP activities. Of these twenty-six (26) PPP regulatory accounts, fourteen (14) accounts are for electric and twelve (12) for gas. A detailed description and purpose of each PPP regulatory account are included in Appendix A of this report.

A summary of UAFCB's observations and recommendations resulting from the regulatory compliance review is included in Section II of this report. A detailed summary of UAFCB's analysis and findings is included in Section IV of this report.

On November 21, 2017, UAFCB provided a draft of its observations and recommendations to PG&E for comment. On December 5, 2017, PG&E provided its comments. UAFCB summarized those comments, including UAFCB's rebuttals to those comments, in Section II. Where appropriate, UAFCB modified its observations and recommendations. PG&E's response in its entirety is provided in Appendix C.

II. SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

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[2] Among other things, D.12-11-015 authorized the 2013 and 2014 EE programs and budgets; D.04-08-010 implemented Assembly Bill 1002 establishing that the gas PPP be first remitted to the California Board of Equalization before the funds can be used for the programs; and D.03-12-062 ordered the utilities to establish one-way balancing accounts to track EE costs and revenue.

[3] Due to scope limitation, UAFCB did not verify the reliability of the PPP program expenditures in this examination because they will be reviewed in separate examinations.

Observation 1: PG&E's internal controls for billing, accounting and recording of its PPP regulatory accounts were adequately designed to record and report its PPP activities in compliance with the requirements of the Commission. PG&E's internal controls over the billing and accounting of its regulatory accounts for PPP activities during PYs 2015 and 2016 seemed adequate.

Recommendation: None.

Observation 2: PG&E demonstrated compliance with PUC §§ 581, 582, and 584 respecting the reported PPP regulatory accounts in PYs 2015 and 2016. PG&E complied with the Commission's directives with respect to the monitoring and reporting its PPP regulatory accounts.

Recommendation: None.

Observation 3: PG&E's PPP revenue recorded in the PPP regulatory accounts were properly accounted for in PYs 2015 and 2016. The PPP revenues were properly allocated and recorded in the PPP regulatory accounts. PG&E complied with the regulatory requirements specified in its preliminary statements for the PPP accounts.

Recommendation: None.

Observation 4: Except for Observation 5 below, PG&E's PPP regulatory accounts were properly recorded and accounted for as authorized in their applicable preliminary statements. PG&E properly recorded and allocated its PPP revenues to the appropriate PPP regulatory accounts approved by the Commission in PYs 2015 and 2016.

Recommendation: None.

Observation 5: PG&E failed to demonstrate compliance with PUC §§ 581, 582, and 584 respecting the total PPP revenue allocated to its electric California Alternate Rates for Energy (CARE) during PYs 2015 and 2016. A reconciliation of PPP revenue allocated to the CARE accounts disclosed a variance of over $5 million per year for PYs 2015 and 2016. PG&E asserted that the variances between UAFCB's recalculation and its recorded amounts were due to the usage for CARE customers, which should be excluded from the computation. However, PG&E did not have reports to identify the usage of CARE and non-CARE customers and could not provide supporting documentation for the discrepancies.

PG&E's Comments: PG&E asserts that it has procedures in place to accurately identify revenue amounts allocated to CARE and non-CARE customers. PG&E's billing system automatically identifies the relevant CARE and non-CARE usage at the individual service agreement (SA) level, calculates the associated billed revenue and performs the allocation to the applicable regulatory balancing accounts. PG&E provided an explanation that the report used by the auditor to calculate the amount allocated to the CARE balancing account did not break out the usage into CARE and non-CARE categories and as such is not applicable to this type of calculation. Additionally, the auditor walked through and sample tested PG&E's billing system to gain comfort that the calculation of the billed revenue performed by the system is accurate. Since no exceptions were found that means that the billing system is calculating the billed revenue correctly.

Rebuttal: This observation is for the revenue allocation of the PPP regulatory accounts, not for the billing system. UAFCB recomputed revenue collected from PG&E's customers and used the methodology provided by PG&E's staff to verify revenue amount allocated to applicable regulatory accounts. UAFCB found material discrepancies because the CARE balancing account did not break down the usage between CARE and non-CARE categories in PG&E's systems.

Recommendation: PUC §§ 581, 582, and 584 require Utilities to provide complete and accurate data to the Commission. PG&E should establish policies and procedures to improve its reporting systems by developing reports that could clearly identify revenue amounts allocated to CARE and non-CARE customers.

Observation 6: PG&E demonstrated compliance with PUC §§ 381 and 399.8(b)1, and applicable Commission directives with respect to billing PPP charges using proper PPP rates for its authorized PPP regulatory accounts. PG&E properly billed its PPP charges to its customers using the Commission-approved PPP rates specified in its tariffs for PYs 2015 and 2016.

Recommendation: None.

Observation 7: PG&E properly computed interest on the month-end balances of the PPP regulatory accounts by using the criteria specified in PG&E's preliminary statements. The interest rates used by PG&E to calculate interest agreed with the 90-day commercial paper rates required by the preliminary statements.

Recommendation: None.

Observation 8: PG&E consistently collected unneeded funds from the PPP rates, resulting in several PPP regulatory accounts carrying excessive over-collections or under-spent authorized budget balances in the past 10 years. Appendix B of this report presents the year-end balances of those PPP regulatory accounts from 2007, or inception of the programs, to 2016. As of December 31, 2016, the total net balance of those PPP regulatory accounts resulted in over-collection of approximately $734 million. Appendix B demonstrates a consistent pattern of material over-collection in aggregate of these PPP regulatory accounts. Technically, these accounts should be balanced or carry small balances at the end of each program year. In addition, UAFCB noted that the PPP budgets were significantly higher than the actual PPP expenditures.

PG&E's Comments: PG&E asserts that there are a number of reasons why balancing accounts can be over or under collected not related to budget. For two-way balancing accounts, PG&E forecasts its sales volume for the upcoming year as well as including an over/under-collections from the previous year in order to calculate the rate to be charged in the following year. Therefore, the account balance will fluctuate due to forecasted differences as a result of a variety of factors including, but not limited to, seasonality, severe weather impacts, and customer demand changes. None of these are related to program budgets. For one-way accounts, an underspent position is not the result of overfunding authorized for PG&E's PPP programs. There are several different factors that can contribute to an underspent position including timing of spend and program cycle end date. With respect to PPP programs and projects specifically, the Commission consistently addresses what appropriate avenues may be utilized regarding unspent, uncommitted funds. PG&E consistently works with the Commission on the return of unspent funds to customers in timely manner. The following advice letter filings illustrate the most recent treatment of unspent, uncommitted funds with the PPP programs:

- PG&E's 2018 Energy Efficiency Annual Budget Advice Letter in Compliance with Decision 15-10-028, Ordering Paragraph 4 (AL 3881-G/5137-E and supplemental)
- Energy Saving Assistance/California Alternate Rates for Energy Conforming Advice Letter per Decision (D.) 16-11-022 (AL 3830-G/5043-E and supplemental)

Rebuttal: As shown in Appendix B, PG&E consistently carried significant over-collected balances in its PPP regulatory accounts over the past ten years. The Commission should address this pattern and provide only the necessary funding to the Public Purpose Programs.

Recommendation: The Commission should address the over-collection issue by substantially reducing the PPP budget to reduce the burden on PG&E's ratepayers while providing only necessary funding for those programs. The Commission should also establish clear guidelines that require all the energy utilities to return unspent funds to their ratepayers through customer bill credits, providing budget transparency.

Observation 9: PG&E's internal policies and procedures respecting its billing practices and processes were adequately designed to meet the requirements of the Commission. PG&E established adequate internal controls to ensure that approved PPP rates were appropriately implemented and its customers were billed accurately. PG&E complied with the Commission's directives and its internal policies and procedures in PYs 2015 and 2016.

Observation 10: PG&E demonstrated compliance with PUC §§ 381 and 399.8(b)1, and applicable Commission directives with respect to recording PPP expenditures in its PPP regulatory accounts. UFACB only performed a limited review of PG&E's recording of PPP expenditures.[4]

Recommendation: None.

III. OBJECTIVE, SCOPE, AUTHORITY, AND TESTING

[4] Due to scope limitation, UAFCB did not verify the reliability of the PPP program expenditures in this examination because they were and will be reviewed in separate examinations.

A. Examination Objective

UAFCB's overall objective was to determine whether PG&E properly captured and accounted for the PPP revenue and program activities in its Commission-approved electric and gas regulatory accounts for PYs 2015 and 2016. UAFCB's examination included: (1) verifying whether the authorized PPP funding amounts were properly billed, and if the PPP revenue received were regulatory accounted for PYs 2015 and 2016 in compliance with Commission directives; (2) evaluating whether PG&E's internal control over its PPP billing, accounting and recording process to ensure proper safeguard of ratepayer funds; (3) verifying whether the PPP program expenditures[5] drawn from those regulatory accounts were properly recorded; (4) evaluating whether the over-collection and under-collection of program funds were properly resolved at the end of each year under examination and in accordance with Commission directives.

UAFCB did not verify the reliability of the PPP expenditures recorded in the PPP regulatory accounts for PYs 2015 and 2016 because those expenditures will be reviewed in separate examinations.

B. Examination Scope

The examination scope includes limited review of samples of customer billing statements, accounting records, and documentation associated with PG&E's PPP regulatory accounts for PYs 2015 and 2016.

C. Authority

Pursuant to PUC § 314(a), the Commission may, at any time, inspect the accounts, books, papers, and documents of any public utility. PUC § 314.5 requires the Commission to inspect and audit the books and records of electrical, gas, heat, telegraph, telephone, and water corporations for regulatory and tax purposes (a) at least once in every three years in the case of corporations serving over 1,000 customers, and (b) at least once in every five years in the case of corporations serving 1,000 or fewer customers. In D.09-09-047, Ordering Paragraph (OP) 14, the Commission directs that *"Commission staff shall conduct a full audit of the utilities' administrative and other costs..."* associated with the energy efficiency (EE) programs. In Resolutions E-4693 and E-4748, the Commission directs that *"Balances in balancing accounts authorized for recovery in rates shall be subject to future audit, verification and adjustment."*

D. Methodology and Testing

To determine PG&E's compliance with the requirements established in the Commission directives and PG&E's internal policies and procedures with regard to the PPP regulatory accounts, we performed the following:

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[5] Due to scope limitation, UAFCB did not verify the reliability of the PPP program expenditures in this examination because they will be reviewed in separate examinations.

1. Reviewed applicable Commission directives and PG&E's internal policies and procedures.
2. Interviewed key personnel at PG&E to gain an understanding of its accounting and reporting processes related to the PPP regulatory accounts.
3. Verified whether the approved PPP rates were properly billed and the PPP revenues received were accounted for in Program Years 2015 and 2016 in compliance with Commission directives.
4. Verified whether the PPP program expenditures drawn from those regulatory accounts were properly recorded.[6]
5. Evaluated whether the over-collection and under-collection of program funds were properly resolved at the end of each year under examination in accordance with Commission directives.

[6] Due to scope limitation, UAFCB did not verify the reliability of the PPP program expenditures in this examination because they will be reviewed in separate examinations.

IV. SUMMARY OF EXAMINATION FINDINGS

A. Introduction

Pursuant to PUC § 381, PG&E is required to identify a separate rate component to collect the revenue used to fund programs that enhance system reliability, such as cost-effective energy efficiency and conservation activities, public interest research and development, and new and emerging renewable energy resources. Pursuant to PUC § 399.8(b)1, every customer is required to pay a non-by passable systems benefit charge to fund energy efficiency, renewable energy, and research, development and demonstration. Decision 05-01-055 authorized investor-owned utilities to administer energy efficiency funds with Commission oversight.

Before setting up a regulatory account, PG&E must file and receive Commission approval of a Preliminary Statement that details the purpose of the regulatory account and the types of costs and/or revenue that are to be tracked in the account for Commission approval.[7] Preliminary Statements also detail the specific accounting procedures that PG&E must perform to record transactions in the regulatory accounts.

PG&E recovers its Commission-authorized PPP funding requirement through a PPP tariff rate that is applied to each customer's billing based on the type of customer class and the number of units of gas and electricity consumed.[8] The bundled PPP tariff rate for PG&E is determined based on Commission-authorized funding amounts to recover the costs of the PPP such as the EE Program, Energy Savings Assistance Program (ESAP), California Alternative Rates for Energy (CARE) Program, Electric Program Investment Charge (EPIC), and any other PPP the utilities provide. Periodically, the Commission establishes new PPP rates for PG&E to fund PPP based on projected program costs and past over- or under-collections. Once the rates and any new tariff changes are approved by the Commission, PG&E reflects the rate changes in its Preliminary Statements and tariffs. The approved PPP tariff rate is then applied on a customer's bill separately from other amounts billed.

The mechanism used by PG&E to monitor the collection of its PPP revenue requirement (RRQ or budget) and track specific types of costs charged against such revenue requirements or actual revenue collected is through the use of PPP regulatory accounts, which may be authorized to be one-way or two-way regulatory account. A one-way regulatory account either matches expenditures with a spending target or recorded revenue with a revenue target; both examples are capped with limitations on program expenditure recovery.[9] Often, one-way regulatory accounts limit recovery to the lower of actual expenditures or the amount authorized; shareholders are at risk for amounts spent over authorized amounts. Sometimes, balances from one regulatory account may roll up into another balancing account. A two-way regulatory account often compares revenue and expenses or actual revenue to authorized revenue and allows over-collections to be refunded and under-collections to be recoverable through rates. A two-way

[7] A utility maintains, among other things, approved Preliminary Statements in its tariff books.
[8] Utilities are authorized to consolidate the rates to recover the cost of each PPP by a bundled PPP rate that is applied to customers' bills.
[9] See Resource an Encyclopedia of Energy Utility Terms, by PG&E, Second Addition, p. 39.

regulatory account does not provide for a limit or cap on expenditures.[10] In general, the balance in a two-way regulatory account can either be over- or under-collected depending on the difference between the different types of amounts being tracked in the balancing account. Unless approved otherwise, PPP regulatory accounts accumulate interest periodically at a rate equal to one-twelfth of the interest rate on three-month commercial paper rate.[11]

PUC §§ 890-900 and D.04-08-010 require utilities to implement updated gas PPP surcharge rates each January 1 through an advice letter filing by October 31 of the preceding year. Gas Public Purpose Programs fall into three main categories: energy efficiency and low income energy efficiency; the subsidy for California Alternative Rate for Energy (CARE); and the California Energy Commission's gas public interest research and development program. Costs associated with these programs are determined in various Commission proceedings.

Effective January 1, 2001, PUC § 890, et. seq, require the PPP rate collected by the gas utilities as a surcharge to be remitted to the California Board of Equalization (BOE)[12]. Among other Commission directives regarding the gas surcharges and the BOE, in D.04-08-010, the Commission determined how amounts held in the Gas Consumption Surcharge Fund (GCSF) are to be distributed to utilities and other entities and how often the distributions are to be conducted. On October 8, 2004, the Energy Division distributed a letter detailing new procedures for the gas utilities to follow in order to recover the surcharge funds remitted to the BOE. The BOE retains an amount from the surcharges remitted for its administrative costs and provides interest for the time the surcharges resided in the GCSF. In addition, the BOE collects surcharges from interstate pipeline customers, which it provides to the utilities to assist in funding the PPP.

Pursuant to OP 2 of D.03-04-027 in Application (A.) 02-11-031, PG&E is required to file an AL by October 1st of each year to revise its electric PPP rates effective January 1st of the following year. PG&E implements its electric PPP rates each year, effective January 1st, through its Consolidated Filing to Implement January 1st Electric Rates. The revisions to electric PPP rates are based on currently authorized annual revenue requirements and updates to the electric PPP regulatory account amortizations.

Pursuant to OP 22 of D.04-08-010, in Rulemaking (R.) 02-10-001, PG&E is required to file an AL by October 31st of each year to update its gas surcharge rates to fund the PPPs, as authorized by Assembly Bill (AB) 1002. AB 1002 directs the Commission to establish a gas surcharge annually to fund certain natural gas related PPP projects such as low-income customer assistance, energy efficiency (EE), and research and development (R&D). Revenues collected from the surcharge are remitted to the BOE and ultimately appropriated back to utilities or other entities designated by the Commission to administer PPPs.

On August 19, 2004, the Commission issued D.04-08-010 that addressed both the Phase 1 implementation issues on the gas surcharge rulemaking and Phase 2 administration of public purpose R&D. Pursuant to OP 10, PG&E uses the surcharge formula adopted in the decision for calculating the gas PPP surcharge rates. PG&E uses information provided by the Commission's

[10] Ibid, pp. 38-39.
[11] Ibid, pp. 37-38.
[12] BOE changed its name to the California Department of Tax and Fee Administration on July 1, 2017.

Energy Division for calculating the gas surcharge rates as it relates to (1) the Commission and BOE's administrative costs, (2) PG&E's portion of the statewide R&D budget, and (3) the assumption that PG&E's non-exempt interstate pipeline gas volumes are zero. PG&E uses the billed gas volumes to calculate the gas surcharge rates for the customer classes adopted in PG&E's Triennial Cost Allocation Proceeding (TCAP) per D.14-06-007, effective July 1, 2014..

PG&E updates its PPP rate levels to reflect the most current Commission-adopted revenue requirements in its annual year-end revenue requirement and rate consolidation ALs. The authorized revenue requirements for electric in the PYs 2015 and 2016 PPP include funding established by Commission decisions for Self-Generation Incentive Program (SGIP) Demand Response Operations (DREBA Operations), California Solar Initiative (CSIBA), PPP Revenue Adjustment Mechanism - PGC legacy (PPPRAM), Procurement EE Revenue Adjustment Mechanism (PEERAM) and Electric Program Investment Charge (EPICRAM), California Alternate Rates for Energy (CARE), and Demand Response Incentives (DREBA).

The authorized revenue requirements for gas in the PYs 2015 and 2016 PPP include funding established by Commission decisions for Self-Generation Incentive Program (SGIP), EE Gas Surcharge (PPP-EE), Low Income/ESAP Gas Surcharge (PPP-LIEE), Research Development and Demonstration Gas Surcharge (PPP-RDD), and California Alternate Rates for Energy - Gas CARE (CARE).

PG&E collected PPP rate revenue from its ratepayers on a volumetric basis (i.e., based on kilowatt-hours or kWh for electricity and therms for natural gas) and by customer class such as residential, commercial, industrial, agricultural and street lighting, etc. PG&E allocated the total PPP revenue to the PPP regulatory accounts based on predetermined PPP rate components in the preliminary statements approved by the Commission. Rate changes outlined in PG&E's AL filings become effective on January 1st of the following year and are reflected in PG&E's Preliminary Statements and tariffs when approved by the Commission. The PPP surcharge or fee amount is a distinct line item on a customer bill.

B. PPP Authorized Budgets and Expenditures

PG&E filed multiple ALs to update its PPP revenue requirements and rates for both gas and electric for PYs 2015 and 2016. Table 1 shows a summary of PG&E's total revenue requirements for both electric and gas PPP for PYs 2015 and 2016: Table 2 shows a summary of PG&E's reported PPP expenditures for both electric and gas for PYs 2015 and 2016.

Table 1
Summary of 2015 and 2016 PPP Authorized Revenue Requirements

Public Purpose Programs	2015	2016
ELECTRIC PPP		
Self-Generation Incentive Program	$29,635,893	$29,635,893
Demand Response Operations	55,792,583	60,593,968
California Solar Initiative	94,000,000	102,316,000
PPP Revenue Adjustment Mechanism - PGC legacy	217,095,173	217,176,797
Procurement EE Revenue Adjustment Mechanism	237,366,195	243,198,728
Electric Program Investment Charge	85,143,568	86,145,526
California Alternate Rates for Energy	12,945,574	12,945,868
Demand Response Incentives	2,152,565	2,152,565
Subtotal – Electric PPP	**$734,131,551**	**$754,165,346**
GAS PPP		
Self-Generation Incentive Program	$6,505,440	$6,505,440
EE Gas Surcharge	77,414,079	78,768,407
Low Income/ESAP Gas Surcharge	68,866,146	68,906,737
Research Development and Demonstration Gas Surcharge	10,900,033	11,133,155
California Alternate Rates for Energy - Gas CARE	3,001,018	3,001,018
Subtotal – Gas PPP	**$166,689,717**	**$168,314,758**
Total PPP Revenue Requirement	**$900,281,268**	**$922,480,103**

Table 2
Summary of 2015 and 2016 Reported PPP Expenditures[13]

Public Purpose Programs	2015	2016
ELECTRIC PPP		
Energy Low Income/Energy Savings Assistance Program	$65,073,071	$59,067,328
Procurement Energy Efficiency Program[14]	N/A	325,728,754
Procurement Energy Efficiency Program (non-current)	359,615,631	$10,738,458
Electric Program Investment Change (EPICBA)	117,729,376	137,851,616
Statewide Marketing, Education & Outreach (ME&O)	11,279,568	11,531,355
Self-Generation Incentive Program	26,428,994	26,166,579
Demand Response Operations	36,072,893	40,901,487
California Solar Initiative	10,989,680	14,520,532
California Alternate Rates for Energy	11,472,656	9,918,293
Demand Response Incentives	2,764,827	1,286,720
Subtotal – Electric PPP	**$641,426,696**	**$637,711,122**
GAS PPP		
Low Income/Energy Savings Assistance Program	$60,525,615	$45,415,482
PPP Energy Efficiency Program	N/A	71,187,956
PPP Energy Efficiency Program -Non current	78,912,785	2,357,222
Statewide Marketing Education and Outreach	1,263,274	1,274,948
Self-Generation Incentive Program	5,801,486	5,743,883
California Alternate Rates for Energy - Gas CARE	2,663,128	2,297,889
Subtotal – Gas PPP	**$149,166,288**	**$128,277,381**
Total Recorded PPP Expenditures	**$790,592,984**	**$765,988,503**

[13] These data represent PG&E's reported PPP expenditures (including reclassifications and adjustments) withdrawn from the PPP regulatory accounts for PYs 2015 and 2016. Due to scope limitation, UAFCB did not verify the reliability of the PPP program expenditures in this examination because they will be reviewed in separate examinations.
[14] Two-way balancing accounts that do not record expenditures.

C. PG&E's Public Purpose Program Regulatory Accounts

PG&E maintained twenty-six (26) regulatory accounts to capture its PPP activities during PYs 2015 and 2016. Of these twenty-six (26) PPP regulatory accounts, fourteen (14) accounts are for electric and twelve (12) for gas. These PPP regulatory accounts are listed below:

ELECTRIC REGULATORY ACCOUNTS	Acronym
Energy Low Income/Energy Savings Assistance Program	PPPLIBA
Procurement Energy Efficiency Program	PEEBA
Electric Program Investment Change	EPICBA
Statewide Marketing Education and Outreach	SWMEOBA
Self-Generation Incentive Program	SGIP
Demand Response Operations	DREBA Operations
California Solar Initiative	CSIBA
PPP Revenue Adjustment Mechanism - PGC legacy	PPPRAM
Procurement EE Revenue Adjustment Mechanism	PEERAM
Electric Program Investment Charge	EPICRAM
Incentive Award Balancing Account	CEE
California Alternate Rates for Energy	CARE
Demand Response Incentives	DREBA
On-Bill Financing	OBFBA

GAS REGULATORY ACCOUNTS	Acronym
Low Income/Energy Savings Assistance Program	PPPLIBA
PPP Energy Efficiency Program	PPPEEBA
Statewide Marketing Education and Outreach	SWMEOBA
Self-Generation Incentive Program	SGIP
EE Gas Surcharge	PPP-EE
Low Income/ESAP Gas Surcharge	PPP-LIEE
Research Development and Demonstration Gas Surcharge	PPP-RDD
Incentive Award Balancing Account	CEE Incentive
California Alternate Rates for Energy - Gas CARE	CARE
On-Bill Financing	OBFBA
PPP Gas Surcharge Memo Account	PPP-MA
Research Development and Demonstration Regulatory Liability	PPP-RDD

A detailed description and the purpose of each PPP regulatory accounts are included in Appendix A of this report.

D. Significant Findings:

Excessive Over-collection of PPP Regulatory Accounts

PG&E consistently collected unneeded funding through PPP rates resulting in many PPP regulatory accounts carrying excessive balances during the past 10 years. Appendix B presents the year-end balances of the accounts from 2007 or inception of the programs to 2016. As of

December 31, 2016, the total net balance of those PPP regulatory accounts shows an over-collection of over approximately $734 million. These over-collection balances represent monies collected from and funded by PG&E's ratepayers. Many of these material over-collections or underspent-authorized budgets have accumulated and carried forward during the past 10 years. These accounts should carry minimum balances by the end of every program year. Appendix B demonstrates a consistent pattern of material over-collection in aggregate of the PPP regulatory accounts. The Energy Low Income/Energy Savings Assistance Program (PPLIBA) program currently has the highest over-collection balance among all PPP regulatory accounts, with the accumulated balance of approximately $150 million as of December 31, 2016. In response to UACFB's inquires, PG&E has provided its plans to address the over collected or underspent amounts regarding its PPP funds.

UAFCB reviewed the Commission directives and PG&E's treatments of over-collections or under-spent authorized budgets of the PPP regulatory accounts during the examination period. PG&E has provided explanation of the balances on the PPP regulatory accounts as of December 31, 2016 as follows:

PPP Regulatory Accounts	Over-collection/Under-collection Explanation
ELECTRIC REGULATORY ACCOUNTS	
PPPLIBA – One-Way Account[15]	The credit balance of approximately $150 million in this one-way account represents an underspent position. Only actual incurred expenses are recorded to the balancing account. Committed, but unspent funds are not recorded in the balancing account, but are tracked through internal tracking and budget spreadsheets. As such, these "large" credit balances consist of both committed, but unspent funds and uncommitted, unspent funds. Committed, but unspent funds have been earmarked to be spent for the program in the future. Uncommitted, unspent funds have not been earmarked to be spent for the program. PG&E files advice letters per the direction of the applicable CPUC decision for the program to ask for the Commission's approval to regarding the disposition of uncommitted, unspent funds. For example, they could be returned to customers through the AET/AGT process, used to offset current program cycle budget, carried over to the current program cycle budget, or used to fund programs incremental to the original authorized budget. OP 138 of D.16-11-022 directs the IOUs to "utilize all current 2009-2015 accumulated ESA Carry-Over Funds to offset collections that would otherwise have been required in this program cycle (2017-2020). These funds shall not be returned to ratepayers. AL 3830-G/5043-E and its supplemental, which are pending the Commission's approval, details the carry-over funds and how PG&E proposes to use them.
PEEBA One-Way	PG&E will be addressing the disposition of any unspent, uncommitted EE funds from 2016 in its 2018 EE Annual Budget Advice Letter (ABAL) to be filed on

[15] A one-way account tracks actual expenditures to program budget.

PPP Regulatory Accounts	Over-collection/Under-collection Explanation
Account	September 1, 2017.
PEEBA One-Way Account	Advice Letters 3718-G/4852-E, 3752-G-B/4905-E-B, 3753-G-D/4901-E-D provided a discussion of prior years' unspent funds some of which were returned to customers and some were shifted to other program cycles.
EPICBA One-Way Account	Per D.13-11-025 (OP38 and 39 on page 142), funds that remain unspent at the end of investment plan cycles will be moved forward into the next investment plan cycle for inclusion in subsequent investment plan budgets. At the conclusion of the second investment plan cycle, if any funds approved for the first investment plan cycle are uncommitted or unencumbered will be credited against the approved budget for the third investment plan cycle.
SWMEOBA One-Way Account	This account is underspent and PG&E is silent on its planned treatment.
SGIP One-Way Account	Account balance is generally due to timing of applications and completion of projects which is when incentives are paid.
DEBRA Operations One-Way Account	At the end of each program cycle, PG&E will determine the amount of uncommitted, unspent funds to be returned to customers through the AET process. Advice Letter 4696-E-A discuss the transfer in 2016. PG&E is planning to refund the unspent fund for 2016 in 2018 AET filing which is in progress.
CISBA One-Way Account	Account balance is generally due to timing of applications and completion of projects which is when incentives are paid.
PPPRAM Two-Way[16] Account	The "large" credit balance in this two-way account represents an over collected position. The Annual Electric True-up (AET) and the Annual Gas True-up (AGT) are the mechanisms by which rates are set for the upcoming year. Any over or under collection of the two-way balancing accounts at the end of Year 1 is included in the rate making process for Year 2. Rates for balancing accounts with an over collection would be lowered in the coming year. As such customer collections for Year 2 would be lower than the RRQ for Year 2 to "return" the over collection from Year 1 to customers.
PEERAM Two-Way Account	This account is over-collected and PG&E is silent on its planned treatment.
EPICRAM Two-Way	This account is under-collected.

[16] In general, a two-way balancing account tracks RRQ to revenue or surcharges.

PPP Regulatory Accounts	Over-collection/Under-collection Explanation
Account	
CEE Two-Way[17] Account	This account is under-collected.
CARE Two-Way Account[18]	This account is under-collected.
DEBRA Two-Way Account	PG&E maintains an immaterial over collected balance in this fund.
OBFBA Other	The account tracks funds available for loaning and credit enhancements against those funds used for that purpose. The account should be in a credit position as PG&E would not loan out more money than it was authorized by the Commission for those purposes.
GAS REGULATORY ACCOUNTS	
PPPLIBA One-Way Account	OP 138 of D.16-11-022 directs the IOUs to "utilize all current 2009-2015 accumulated ESA Carry-Over Funds to offset collections that would otherwise have been required in this program cycle (2017-2020). These funds shall not be returned to ratepayers. AL 3830-G/5043-E and its supplemental, which are pending the Commission's approval, details the carry-over funds and how PG&E proposes to use them.
PPPEEBA One-Way Account	OP 138 of D.16-11-022 directs the IOUs to "utilize all current 2009-2015 accumulated ESA Carry-Over Funds to offset collections that would otherwise have been required in this program cycle [2017-2020]. These funds shall not be returned to ratepayers. AL 3830-G/5043-E and its supplemental, which are pending the Commission's approval, details the carry-over funds and how PG&E proposes to use them.
SWMEOBA One-Way Account	This account is underspent and PG&E is silent on its planned treatment.
SGIP One-Way Account	Account balance is generally due to timing of applications and completion of projects which is when incentives are paid.
PPP-EE Two-Way Account	This account is under-collected.

[17]This account tracks the authorized award against customer collections.
[18] This account tracks shortfall and administrative costs to revenue.

PPP Regulatory Accounts	Over-collection/Under-collection Explanation
PPP-LIEE Two-Way Account	This account is under-collected.
PPP-RRD Two-Way Account	This account is under-collected.
CEE Two-Way[19] Account	This account is under-collected.
CARE Two-Way Account[20]	The "large" credit balance in this two-way account represents an over collected position. The Annual Electric True-up (AET) and the Annual Gas True-up (AGT) are the mechanisms by which rates are set for the upcoming year. Any over or under collection of the two-way balancing accounts at the end of Year 1 is included in the rate making process for Year 2. Rates for balancing accounts with an over collection would be lowered in the coming year. As such customer collections for Year 2 would be lower than the RRQ for Year 2 to "return" the over collection from Year 1 to customers.
OBFBA Other	The account tracks funds available for loaning and credit enhancements against those funds used for that purpose. The account should be in a credit position as PG&E would not loan out more money than it was authorized by the Commission for those purposes.
PPP-MA Other	This account records and tracks remittances and refunds from BOE.
PPP-RDD Other	This account records and tracks remittances from BOE for PPP-RDD to Program Budget.

UAFCB also observed that the Commission had increased the program budgets through rate increases for the PPP programs despite that they carried significant high balances. UAFCB recommends that the Commission should carefully review the PPP expenditure and budget requests, and unspent year-end balances in the PPP regulatory accounts before approving PPP budgets. The over-budgeting raises serious concerns that PG&E collected unnecessary PPP funds from its ratepayers.

Discrepancies of PPP Revenue Allocation to the CARE Program

UAFCB found that a reconciliation of PPP revenue allocated to the CARE accounts disclosed a variance of approximately $5.1 million for the selected month of PYs 2015 and 2016. PG&E asserted that the variances between UAFCB's recalculation and its recorded amounts were due to

[19] This account tracks the authorized award against customer collections.
[20] This account tracks shortfall and administrative costs to revenue.

the usage for CARE customers that should be excluded from the computation. However, PG&E did not have reports to identify the usage by CARE and non-CARE customers, and could not provide supporting documentation for the discrepancies.

E. PPP Billing Rates and PPP Revenue Recording Testing

PPP Billing Rates
To review the accuracy of the electric PPP rates billed by PG&E, UAFCB randomly selected PG&E's electric billing data of December 2015 and April 2016 by type of customer class to verify if the electric PPP rates used for the billing statements agreed with those on the related tariffs. The aggregated PPP charges in the two sets of sample are $236,400 in 2015 and $4,002,280 in 2016. UAFCB recalculated the PPP revenue amounts of the selected billing statements by multiplying the electric usage with the PPP rates for a customer class. UAFCB's review disclosed that PG&E applied proper PPP rates authorized by the Commission to its customers for PYs 2015 and 2016. The PPP charges on the sample customer billing statements were proper.

To review the accuracy of the gas PPP rates billed by PG&E, UAFCB randomly selected PG&E's gas billing data of March 2015 and October 2016 by type of customer class to verify if the gas PPP rates used for the billing statements agreed with those on the related tariffs. The aggregated PPP charges in the two sets of sample are $146,783 in 2015 and $913,149 in 2016. UAFCB recalculated the PPP revenue amounts of the selected billing statements by multiplying the gas usage with the PPP rates for a customer class. UAFCB's review disclosed that PG&E applied proper PPP rates authorized by the Commission to its customers for PYs 2015 and 2016. The PPP charges on the sample customer billing statements were proper.

Furthermore, UAFCB performed a limited review of PG&E's internal control over the implementation of PPP billing rates and their updates. Our review disclosed that PG&E had adequate internal control in place for implementing PPP billing rates and their updates. PG&E complied with the requirements specified in the Commission-approved tariffs.

PPP Revenue Recording
To review the PPP revenue recording, UAFCB evaluated the internal control over PPP tracking, allocating and recording by interviewing PG&E's employees and obtaining flowcharts of the revenue allocation processes.

PG&E uses an Enterprise Resource Planning (ERP) application to identify and capture PPP revenues collected through PPP rates. PG&E's customers are billed based on actual electric usages multiplied by the aggregate PPP rates, which is the sum of all of the individual PPP rates approved in various filings with the Commission. Customer bills are generated automatically by the billing system.

<u>Electric Regulatory Accounts:</u>
The ERP accounting system interfaces with the billing system and automatically allocates actual billed revenues to appropriate PPP regulatory accounts 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 monthly reports along with other adjustments and accruals to record gross revenues to the PPP regulatory accounts.

UAFCB judgmentally selected one month for each program year to test actual billing revenue allocated to selected PPP regulatory accounts that tracked the differences between PG&E's authorized revenue requirement (ARQ) related to the public purpose program and the actual customer billing totals for each customer class.

A summary of selected PG&E electric PPP regulatory accounts tested for PYs 2015 and 2016 is presented in Table 3 below.

Table 3
Summary of PPP Regulatory Accounts Selected for Testing

PPP Regulatory Account	Months Selected for Testing	
	September 2015	December 2016
CARE	$44,464,269	$42,220,400
EPIC	8,103,962	6,899,817
PEERAM	23,081,997	18,622,869
PPP Residual	18,950,512	15,840,237
Totals	**$94,600,740**	**$83,583,323**

The amounts in Table 3 are the total billings amounts allocated to appropriate regulatory accounts for the months of September 2015 and December 2016. UAFCB independently recalculated the allocated revenue amounts using the authorized component rates in Preliminary Statement I. Except for the discrepancies of the allocation of billing revenue to the CARE regulatory accounts, it appears that PG&E properly allocated electric and gas PPP billing revenues to the regulatory accounts using the Commission-approved component rates (i.e., 82% allocated to electric and 18% allocated to gas) for PYs 2015 and 2016.

Gas Regulatory Accounts:

The billing system is set up to calculate the gas surcharges by rate components. The recording of PPP gas surcharges is different from the recording of PPP electric revenue in that PG&E does not record PPP gas surcharges as its revenues. As gas surcharges are billed daily to customers, revenues are recorded directly to the associated PPP regulatory accounts in its ERP accounting system. 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 the monthly billed surcharges from the reporting system to the amounts in the PPP regulatory accounts.

UAFCB selected a quarter from each program year to test actual billings allocated to selected PPP regulatory accounts that tracked the differences between PG&E's RRQ related to the PPP and the actual customer billings. They are EE, LIEE, RDD and CARE regulatory accounts.

A summary of selected PG&E PPP gas regulatory accounts tested for PYs 2015 and 2016 is presented in Table 4 as follows:

Table 4
Summary of Gas PPP Regulatory Accounts Selected for Testing

PPP Regulatory Account	Months Selected for Testing	
	Quarter 1 of 2015	Quarter 4 of 2016
EE	$7,509,812	$ 12,425,671
LIEE	6,473,609	10,562,008
RDD	902,586	1,262,016
CARE	7,718,371	9,337,034
Totals	**$22,604,379**	**$33,586,729**

The amounts in the table are the total gas billing amounts allocated to appropriate PPP regulatory accounts for the first quarter of 2015 and the fourth quarter of 2016. UAFCB independently recalculated the allocated revenue amounts using the detailed component rates in documentation provided by PG&E

Our testing disclosed that the recorded PPP revenues on the above accounts were properly allocated in the appropriate PPP balancing accounts. UAFCB concludes that the revenues in PG&E's regulatory accounts were properly recorded and reported in PYs 2105 and 2016.

Appendix A

Description of PG&E's Public Purpose Program (PPP) Regulatory Accounts

UAFCB reviewed the preliminary statements of the PPP regulatory accounts established by PG&E for Program Years (PYs) 2015 and 2016. Below are the general descriptions for each regulatory account.

ELECTRIC REGULATORY ACCOUNTS:

1. **Electric Public Purpose Program Low-Income Balancing Account" (PPPLIBA)**
   Decisions (D) 11-12-035 and D.11-12-038 established this account to track the electric portion of PG&E's Energy Savings Assistance Program(ESAP) expenditures against the Electric public goods charge (PGC) portion of ESA program funding.

2. **Procurement Energy Efficiency Balancing Account (PEEBA)**
   D.03-12-062 established this one-way balancing account to track the procurement portion of PG&E's Energy Efficiency (EE) expenditures. D.11-12-038 authorized the use of PEEBA to track the electric portion of authorized EE program funding. This is an interest bearing account.[21]

3. **Electric Program Investment Charge Balancing Account (EPICBA)**
   D.15-09-01 established this one-way balancing account to track the actual program expenses and remittances to the authorized EPIC Program budgets. This is an interest bearing account.

4. **Statewide Marketing, Education, and Outreach Balancing Account – Electric (SWMEOBA-E)**
   D.16-09-020 established the electric SWMEOBA-E to track the difference between the actual recorded statewide ME&O expenses, either administered by PG&E or other entities (e.g., a third party implementer), as authorized by the Commission. Tracking of local marketing expenses for demand-side management activities (EE, Demand Response, Distributed Generation, ESAP, etc.) will remain in the appropriate electric expenditure balancing accounts. This is an interest bearing account.

5. **Self-Generation Incentive Program (SGIP)**
   D.06-12-033 established the SGPMA to track authorized SGIP budgets compared to costs incurred by PG&E for implementing the self-generation program authorized in various Commission decisions.[22] Qualifying technologies and incentives are determined by the Commission. The self-generation program budget (including any forfeited SGIP application fees) are allocated between electric and gas customers to reflect the current allocation of energy efficiency programs.

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[21] An entry equal to interest on the average balance at the beginning of the month and the balance after the above entries are made, 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, H.15, or its successor.

[22] Commission Decisions include D.01-03-073, D.01-07-028, D.01-09-012, D.02-02-026, D.04-12-045, D.05-12-044, D.06-01-024 and D.06-12-033.

6. **Demand Response Expenditures Balancing Account (DREBA)**
   D.09-08-027 established the DREBA to track the authorized demand response program budget compared to costs incurred by PG&E to implement and administer PG&E's authorized demand response programs, including interest. Actual costs to operate the programs include Operating and Maintenance (O&M) expenses including customer incentives, Administrative and General (A&G) expenses and capital-related revenue requirements incurred to develop and implement, or in reasonable anticipation of implementing authorized demand response programs.

7. **California Solar Initiative Balancing Account (CSIBA)**
   Decisions 06-01-024, D.06-08-028, D.06-12-033 and others adopted by the Commission authorize the establishment of the electric CSIBA to track the annual authorized CSI program budget against costs incurred by PG&E to implement and administer the CSI program. Pursuant to D.06-01-024, annual expenditures may be greater or less than the annual authorized revenue requirement. In these instances, PG&E will carry forward the balance into the following year through the end of the program cycle. Qualifying technologies and incentives are determined by the Commission. This is an interest bearing account.

8. **Public Purpose Programs Revenue Adjustment Mechanism (PPPRAM)**
   D.15-09-001 established the PPPRAM 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 goods charge "legacy" portion of EE programs pursuant to D.11-12-038 and the electric portion of ESAP, formerly known as Low-Income Energy Efficiency (LIEE) programs. This is an interest bearing account.

9. **Procurement Energy Efficiency Revenue Adjustment Mechanism (PEERAM)**
   D.03-12-062 and D.11-12-038 established the PEERAM balancing account to ensure the collection of PG&E's procurement energy efficiency revenues. The PEERAM tracks the procurement portion of actual revenue against the procurement portion of the authorized EE revenue requirement. This is an interest bearing account.

10. **Electric Program Investment Charge Revenue Adjustment Mechanism (EPICRAM)**
    D.15-09-001 established the EPICRAM to record authorized revenue requirements, and to assure recovery of those amounts related to the Electric Program Investment Charge (EPIC) and the New Solar Homes Partnership (NSHP) Programs. Per D.13-11-025, PG&E also applies sharing mechanisms for: 1) after-tax proceeds from the conversion of warrants and the gain-on-sale of Intellectual Property (IP), and 2) after-tax net revenues related to financial benefits of IP that was developed under investor-owned utility contracts with EPIC funds. This is an interest bearing account.

11. **Incentive Award Balancing Account**
    D.11-12-035, and D.11-12-038 established the Customer Energy Efficiency Adjustment (CEEA) to: 1) reflect in rates any incentives earned under the Customer Energy Efficiency (CEE) incentive mechanism; and 2) to track the electric portion of ESAP, formerly LIEE, program expenditures against the Electric portion of ESAP funding. The CEEA consists of

the two subaccounts, one of them is the "Customer Energy Efficiency Incentive Account" (CEEIA), purpose is to record amounts to be reflected in rates for any incentives earned or penalties incurred by PG&E under the CEE incentive mechanism.

12. California Alternate Rates for Energy Account (CARE)
D.89-07-062 and D.89-09-044 established the CARE balancing account to record the CARE Program revenue shortfall associated with the Low Income Ratepayer Assistance program. This account was also established by the expansion of the Low-Income Ratepayer Assistance (LIRA) Program authorized by D.92-04-024. This account also records the CARE Program administrative costs, pursuant to Public Utilities Code (PUC) Section (§) 739.1(b). Also, the LIRA was renamed to CARE. This is an interest bearing account.

13. Demand Response Incentive Award Balancing Account
D.09-08-027 established the DREBA to track the authorized demand response program budget compared to costs incurred by PG&E to implement and administer PG&E's authorized demand response programs. Actual costs to operate the programs include O&M, including customer incentives, and A&G expenses and capital-related revenue requirements incurred to develop and implement, or in reasonable anticipation of implementing authorized demand response programs. The DREBA consists of two sub-accounts: The "Incentives Sub-account" is a two-way balancing account that records PG&E's authorized event based participation incentives budget compared to costs incurred for payment of incentives to participating customers. Disposition of the balance in this sub-account is annually through the Annual Electric True-up (AET) process or other filing as authorized.

14. On-Bill Financing Balancing Account (OBFBA)
D.09-09-047, and applicable tariffs established the OBFBA to record the electric portion of authorized revolving loan pool net of default, and to track loan amounts and loan repayment activities under PG&E's On-Bill Financing (OBF) program. The OBF loans are subject to the availability of funds and any increase to the revolving loan pool is covered by the fund-shifting or budget augmentation rules specified in D.09-09-047 or subsequent Commission authorization. Pursuant to D.09-09-047, the amounts recorded in this account will not be included in the calculation of PG&E's EE program cost effectiveness. This is an interest bearing account.

GAS REGULATORY ACCOUNTS:

15. Gas Public Purpose Program Low-Income Balancing Account" (PPPLIBA)
D.09-09-047 established the PPPLIBA to track the gas portion of the LIEE program expenditures against the gas surcharge portion of LIEE program funding.

16. Gas Public Purpose Program Gas Low-Income Balancing Account (PPPLIBA)
PPPLIBA tracks the gas portion of LIEE program expenditures against the gas PPP surcharge portion of LIEE program funding. This account is a subaccount of the CEEA balancing account.

17. Statewide Marketing, Education, and Outreach Balancing Account – Gas (SWMEOBA-G)

D.16-09-020 established the SWMEOBA-G to track the difference between the actual recorded statewide ME&O expenses, either administered by PG&E or other entities (e.g., a third party implementer), as authorized by the Commission. Tracking of local marketing expenses for demand-side management activities (EE, Demand Response, Distributed Generation, ESAP, etc.) will remain in the appropriate gas expenditure balancing accounts. This is an interest bearing account.

18. Self-Generation Program Memorandum Account (SGPMA)

Various Commission decisions[23] established the SGPMA to track authorized SGIP budgets compared to costs incurred by PG&E for implementing the self-generation program. Qualifying technologies and incentives are determined by the Commission. The self-generation program budget (including any forfeited SGIP application fees) are allocated between electric and gas customers to reflect the current allocation of EE programs. This is an interest bearing account.

19. Public Purpose Program Surcharge – Energy Efficiency (PPP-EE)

D.04-08-010 established the PPP-EE to record the gas EE PPP funding authorized by the Commission, the billed surcharge amounts that recover the authorized funding from eligible customers, and other amounts received from the State of California Gas Consumption Surcharge Fund (Fund). Pursuant to D.04-08-010, Franchise Fees and Uncollectible (FF&U) accounts expense are not included in the gas PPP surcharges. The balance in this account will be incorporated into the gas PPP surcharge advice letter filing per D.04-08-010. This is an interest bearing account.

20. Public Purpose Program Surcharge – Low Income Energy Efficiency (PPP-LIEE)

D.17-05-013 establishes the PPP-LIEE to record the gas PPP LIEE funding authorized by the Commission, the billed surcharge amounts that recover the authorized funding from eligible customers, and other amounts received from the State of California Gas Consumption Surcharge Fund (Fund). Pursuant to D.04-08-010, Revenue Fees and Uncollectible (RF&U) accounts expense are not included in gas PPP surcharges. The balance in this account will be incorporated into the gas PPP surcharge advice letter filing per D.04-08-010. This is an interest bearing account.

21. Public Purpose Program Surcharge – Research, Development, and Demonstration (PPP-RDD)

D.04-08-010 establishes the PPP-RDD to record the gas research, development and demonstration (RD&D) funding authorized by the Commission and the billed surcharge amounts that recover the authorized funding from eligible customers. This account also recovers PG&E's allocation of the annual State Board of Equalization (BOE) and the Commission administrative costs authorized by the Commission. Pursuant to D.04-08-010, RF&U accounts expenses are not included in gas PPP surcharges. The balance in this

[23] Commission Decisions include D.01-03-073, D.01-07-028, D.01-09-012, D.02-02-026, D.04-12-045, D.05-12-044, D.06-01-024, and D.06-12-033.

account is incorporated into the gas PPP surcharge advice letter filing per D.04-08-010. This is an interest bearing account.

22. Incentive Award Balancing Account
D.09-09-047 established the CEEA to: 1) reflect in rates any incentives earned under the CEE incentive mechanism; 2) to track the gas portion of PG&E's EE program expenses against the gas Public Purpose Program (PPP) surcharge portion of authorized EE program funding; and 3) to track the gas portion of LIEE program expenditures against the gas PPP surcharge portion of LIEE program funding. The CEEA consists of the following three subaccounts, including the "Customer Energy Efficiency Incentive Account" (CEEIA) purpose is to record amounts to be reflected in rates for any incentives earned or penalties incurred by PG&E under the CEE incentive mechanism.

23. California Alternate Rates for Energy Account (PPP-CARE)
D.89-07-062 and D.89-09-044, as well as the expansion of the LIRA Program authorized by D.92-04-024 established the PPP-CARE balancing account to record the CARE shortfall associated with the LIRA Program This account also records the CARE Program administrative costs, pursuant to PUC § 739.1 (b). The program was revised in D.94-12-049 and the name changed to CARE. The projected CARE shortfall and administrative expenses authorized by the Commission are recovered through the billed surcharges that recover the authorized expenses, and other amounts received from the State of California Gas Consumption Surcharge Fund (Fund). Pursuant to D.04-08-010, RF&U account expenses are not included in gas PPP surcharges. The balance in this account will be incorporated in the gas PPP surcharge advice letter filing per D.04-08-010. This is an interest bearing account.

24. On-Bill Financial Balancing Account (OBFBA)
D.09-09-047, and applicable tariffs establishes the OBFBA to record the gas portion of the authorized revolving loan pool net of default, and to track loan amounts and loan repayment activities under PG&E's OBF program. The OBF loans are subject to the availability of funds and any increase to the revolving loan pool is covered by the fund-shifting or budget augmentation rules specified in D.09-09-047 or subsequent Commission authorization. Pursuant to D.09-09-047, the amounts recorded in this account are not included in the calculation of PG&E's EE program cost effectiveness. This is an interest bearing account.

25. Public Purpose Program Surcharge Memorandum Account (PPP-MA)
D.04-08-010 established the PPP-MA to track gas PPP surcharges billed to customers and remitted to BOE and the gas surcharge amounts subsequently received by PG&E from the Gas Consumption Surcharge Fund (Fund). Pursuant to PUC §§ 892 and 892.1, PG&E remits quarterly to BOE gas PPP surcharges received customers. D.04-08-010 requires all funds remitted to BOE be returned to PG&E in a timely manner, except for RD&D funds, the BOE and the Commission's administrative costs, and deductions for any refunds issued by BOE. All amounts from the Fund that are returned to PG&E, including remittances to BOE from interstate pipelines and other third parties resided within PG&E's service territory are recorded in this account and transferred to the appropriate PPP balancing account (Accounting Procedure 6.d.). This is an interest bearing account.

26. Research, Development and Demonstration (PPP-RDD)

D.04-08-010 establishes the PPP-RDD to record the gas RD&D funding authorized by the Commission and the billed surcharge amounts to recover the authorized funding from eligible customers. This account also recovers PG&E's allocation of the annual State BOE and the Commission's administrative costs authorized by the Commission. Pursuant to D.04-08-010, FF&U account expenses are not included in gas PPP surcharges. The balance in this account is incorporated into the gas PPP surcharge advice letter filing per D.04-08-010. This is an interest bearing account.

Appendix B

Summary of PG&E's PPP Regulatory Account Balances from Program Years 2007 through 2016

Item No.	Regulatory Accounts	PG&E's Reported PPP Account Balances[1] as of									
		12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016
	ELECTRIC REGULATORY ACCOUNTS										
1	PPPLIBA	($7,615,325)	($13,997,829)	($18,875,655)	($29,057,816)	($40,282,701)	($62,508,242)	($71,528,149)	($89,728,340)	($113,949,003)	($149,948,594)
2	PEEBA[2,4]	0	0	0	0	0	0	0	0	0	(22,235,149)
3	PEEBA - Non-Current[4]	(73,678,598)	(30,005,576)	(57,352,175)	(79,058,380)	(103,649,619)	(174,212,177)	(113,853,390)	(132,755,493)	(94,844,117)	(45,936,663)
4	PPPEEBA[3]	(129,321,945)	(87,208,608)	(43,383,959)	(52,469,907)	(63,362,882)	0	0	0	0	0
5	EPICBA	0	0	0	0	0	(66,443,690)	(140,892,837)	(205,845,586)	(173,516,004)	(121,450,086)
6	SWMEOBA	0	0	0	0	0	0	(104,241)	(4,915,148)	(3,751,319)	(4,901,512)
7	SGIP	0	0	0	0	(88,670,321)	(116,963,845)	(131,031,790)	(140,116,977)	(143,666,286)	(147,980,895)
8	DREBA Operations	0	0	0	0	(45,588,254)	(64,530,521)	(60,779,041)	(87,514,861)	(104,102,784)	(53,728,878)
9	CSIBA	(158,600,878)	(182,537,837)	(208,624,631)	(149,784,267)	(129,539,436)	(101,861,758)	(58,653,076)	(50,437,331)	(67,768,490)	(110,751,099)
10	PPPRAM	(15,996,548)	(262,518,303)	(5,342,537)	953,082	2,546,142	(7,089,457)	(18,303,519)	(11,001,583)	(17,225,720)	(9,623,156)
11	PEERAM	227,813	(10,098,730)	4,069,110	(2,352,829)	8,536,093	5,965,888	(12,569,380)	17,672,250	848,491	(24,212,280)
12	EPICRAM	0	0	0	0	0	1,335,227	1,942,794	2,418,856	3,488,110	3,502,881
13	CEE	(870,568)	34,630,458	30,416,852	23,530,743	22,153,349	19,058,092	19,690,761	32,436,995	24,455,107	17,363,645
14	CARE	33,139,596	(49,288,353)	64,845,660	149,566,785	69,806,390	(5,356,030)	(42,035,315)	(13,662,404)	36,296,276	17,754,684
15	DREBA	(23,597,686)	(25,582,248)	(26,417,793)	(39,978,709)	0	(23,135,745)	(2,569,536)	(4,963,989)	611,671	(869,259)
16	OBFBA	0	0	0	(15,189,552)	(14,672,170)	(8,527,058)	(26,825,378)	(18,586,616)	(32,761,191)	(39,231,831)
	Total - Electric	**($376,314,140)**	**($626,607,026)**	**($260,665,127)**	**($193,840,850)**	**($382,723,407)**	**($604,269,315)**	**($657,512,098)**	**($707,000,227)**	**($685,885,257)**	**($692,248,192)**
	GAS REGULATORY ACCOUNTS										
17	PPPLIBA	$2,291,601	$5,651,790	($5,931,025)	($2,740,384)	($1,595,142)	($6,937,024)	($2,918,861)	($5,924,672)	($11,067,375)	($33,092,948)
18	PPPEEBA[2,5]	0	0	0	0	0	0	0	0	0	(5,191,567)
19	PPPEEBA - Non-current[5]	(21,752,688)	(8,366,046)	(16,812,567)	(23,693,987)	(32,333,243)	(34,023,646)	(24,795,984)	(28,838,254)	(20,964,203)	(10,229,431)
20	SWMEOBA	0	0	0	0	0	0	(18,930)	(1,684,304)	(685,972)	(814,555)
21	SGIP	0	0	0	0	(14,980,771)	(21,182,751)	(24,265,293)	(26,255,142)	(27,027,689)	(27,952,542)
22	PPP-EE	1,832,236	5,936,559	7,998,044	16,037,600	1,095,756	4,195,129	11,836,194	20,442,217	22,589,014	2,891,186
23	PPP-LIEE	5,873,629	3,362,369	8,111,186	3,686,946	518,177	(2,781,996)	4,937,604	15,087,134	17,566,376	8,729,346
24	PPP-RDD	(146,233)	27,703	520,564	258,466	(84,846)	(43,096)	194,283	934,548	1,188,555	683,039
25	CEE Incentive	(1,093,632)	6,892,873	4,874,421	5,659,497	3,959,212	3,849,226	3,982,876	7,319,885	1,436,366	2,313,792
26	CARE	(11,158,840)	1,266,711	(17,020,997)	(13,609,399)	628,244	(22,448,524)	(21,550,432)	(28,882,015)	(25,593,830)	(14,267,997)
27	OBFBA	0	0	0	(3,334,202)	(3,220,630)	(1,871,703)	(5,888,407)	(4,079,899)	(7,191,390)	(8,611,775)
28	PPP-MA	23,734,405	30,887,647	5,025,592	5,005,780	47,431,728	5,245,410	5,603,158	6,074,458	42,680,941	47,168,268
29	PPP-RDD	0	0	0	(3,398,110)	(2,970,470)	(2,768,734)	(3,241,685)	(3,746,228)	(4,373,014)	(3,940,388)
	Total - Gas	**($419,523)**	**$45,659,606**	**($13,234,784)**	**($16,127,792)**	**($1,551,984)**	**($78,767,709)**	**($56,125,478)**	**($49,552,272)**	**($11,442,220)**	**($42,315,571)**
	Grand Total	**($376,733,663)**	**($580,947,421)**	**($273,899,911)**	**($209,968,642)**	**($384,275,392)**	**($683,037,024)**	**($713,637,577)**	**($756,552,499)**	**($697,327,478)**	**($734,563,763)**

Notes: 1) Negative balances denote over-collection and positive balances denote under-collection.
2) Account opened in 2016.
3) Balance transferred to PEEBA - Non Current in 2012. This account is not part of the current audit.
4) & 5) In January 2016, the Utility created a current PEEBA (Electric) and PPPEEBA (Gas) to classify the 2016 and forward rolling portfolio. The program is managed annually and the budget has been authorized and will be evaluated on an annual basis as required in the Decision 15-10-028.

December 15, 2017

Appendix C

PG&E's Comments

Pacific Gas and Electric Company

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December 5, 2017

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

Subject: Pacific Gas and Electric Company's Response to the CPUC's Draft Compliance Examination Report of the Public Purpose Program Regulatory Accounts of Pacific Gas & Electric Company for the Years Ended December 31, 2015 and 2016

On November 21, 2017, the Utility Audit, Finance and Compliance Branch (UAFCB) issued its draft Compliance Examination of the Public Purpose Program Regulatory Accounts of Pacific Gas & Electric Company for the Years Ended December 31, 2015 and 2016.

PG&E appreciates the UAFCB's efforts and collaboration to support the continuous improvements of PPP regulatory accounting procedures. PG&E would like to provide the UAFCB with responses to observations 5 and 8.

A. Observation 5 – CARE Revenue

Observation 5: PG&E failed to demonstrate compliance with PUC §§ 581, 582, and 584 respecting the total PPP revenue allocated to its electric California Alternate Rates for Energy (CARE) during PYs 2015 and 2016. A reconciliation of PPP revenue allocated to the CARE accounts disclosed a variance of over $5 million per year for PYs 2015 and 2016. PG&E asserted that the variances between UAFCB's recalculation and its recorded amounts were due to the usage for CARE customers, which should be excluded from the computation. However, PG&E did not have reports to identify the usage of CARE and non-CARE customers and could not provide supporting documentation for the discrepancies.

Recommendation: PUC §§ 581, 582, and 584 require Utilities to provide complete and accurate data to the Commission. PG&E should establish policies and procedures to improve its reporting systems by developing reports that could clearly identify revenue amounts allocated to CARE and non-CARE customers.

Response:

PG&E has procedures in place to accurately identify revenue amounts allocated to CARE and non-CARE customers. First, PG&E's billing system automatically identifies the relevant CARE and non-CARE usage at the individual service agreement (SA) level, calculates the associated billed revenue and performs the allocation to the applicable regulatory balancing accounts.

In data responses to this audit, PG&E provided an explanation that the report used by the auditor to calculate the amount allocated to the CARE balancing account did not break out the usage into CARE and non-CARE categories and as such is not applicable to this type of calculation. (See, e.g., Atch01_Aud047-DR-007_Credit Balances_Q04, submitted on August 30, 2017). Additionally, the auditor walked through and sample tested PG&E's billing system See, e.g.) to gain comfort that the calculation of the billed revenue performed by the system is accurate (See, e.g DivWaterandAudits_044_DR004). Since no exceptions were found that means that the billing system is calculating the billed revenue correctly.

B. Observation 8 – Over-collection

Observation 8: PG&E consistently collected unneeded funds from the PPP rates, resulting in several PPP regulatory accounts carrying excessive over-collections or under-spent authorized budget balances in the past 10 years. Appendix B of this report presents the year-end balances of those PPP regulatory accounts from 2007, or inception of the programs, to 2016. As of December 31, 2016, the total net balance of those PPP regulatory accounts resulted in over-collection of approximately $734 million. Appendix B demonstrates a consistent pattern of material over-collection in aggregate of these PPP regulatory accounts. Technically, these accounts should be balanced or carried small balances by the end of every program year. In addition, UAFCB noted that the PPP budgets were significantly higher than the actual PPP expenditures.

Recommendation: The Commission should address the over-collection issue by substantially reducing the PPP budget to reduce the burden on PG&E's ratepayers while providing only necessary funding for those programs. The Commission should also establish clear guidelines to require all the energy utilities to return unspent funds to their ratepayers through customer bill credits, providing budget transparency.

Response:

1. Addressing Over-Collection Issues

PG&E disagrees with the recommendation that the Commission should substantially reduce PPP budgets to address over or under-collection issues. There are a number of reasons why balancing accounts can be over or under collected not related to budget.

For example, for two-way balancing accounts, PG&E forecasts its sales volume for the upcoming year as well as including an over/under-collections from the previous year in order to calculate the rate to be charged in the following year. Therefore, the account balance will fluctuate due to forecasted differences as a result of a variety of factors including, but not limited to, seasonality, severe weather impacts, and customer demand changes. None of these are related to program budgets.

For one-way accounts, an underspent position is not the result of overfunding authorized for PG&E's PPP programs. There are several different factors that can contribute to an underspent position including timing of spend and program cycle end date. For example, PG&E does not recognize costs in the one-way balancing accounts until those costs are incurred. Therefore, an underspent position can be the result of remaining funds that are committed but are not yet incurred. Regarding the program cycle end date, the total underspent position as of December 31, 2015 and December 31, 2016, respectively, does not always represent the end of a program cycle. Underspent balances can be the result of spending that may still occur in the current year for a prior program cycle. PPP projects are not typically short-term projects and take time to realize benefits, therefore, spending can continue on these projects beyond the end of the program cycle.

For example, in Energy Efficiency, the Commission recently transitioned from three-year program cycles to a 10-year "Rolling Portfolio" to balance the program investments made with the amount of time it takes for results to materialize. In Decision 14-10-046, the Commission recognized that balancing accounts contain tens or hundreds of millions of dollars that are "committed" to projects that extend past the end of prior portfolio cycles, and that accounting procedures for energy efficiency would need to be modified. However, the Commission concluded that consumers are protected through the use of existing balancing account mechanisms.[1]

2. The Commission has Established Guidelines for Returning Unspent Funds to Customers

In 2005, the CPUC initiated the Annual Electric True-Up proceeding[2] and the Annual Gas True-Up proceeding[3] to reconcile the difference and to return over-collections or recover under-collections from customers. PPP over and under collections are addressed annually through the AET and AGT.

With respect to PPP programs and projects specifically, the Commission consistently addresses what appropriate avenues may be utilized regarding unspent, uncommitted funds. PG&E consistently works with the Commission on the return of unspent funds to customers in timely manner. The following advice letter filings illustrate the most recent treatment of unspent, uncommitted funds with the PPP programs:

- PG&E's 2018 Energy Efficiency Annual Budget Advice Letter in Compliance with Decision 15-10-028, Ordering Paragraph 4 (AL 3881-G/5137-E and supplemental)
- Energy Saving Assistance/California Alternate Rates for Energy Conforming Advice Letter per Decision (D.) 16-11-022 (AL 3830-G/5043-E and supplemental)

[1] D.14-10-046, pp. 1-2.

Conclusion

This concludes PG&E's response to the UAFCB's Draft Compliance Examination Report of the Public Purpose Program Regulatory Accounts of Pacific Gas & Electric Company for the Years Ended December 31, 2015 and 2016. 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
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Customer Energy Solutions

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