

Memorandum

Date: May 31, 2013

To: Edward Randolph
Director, Energy Division

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

Subject: Interim Financial, Management and Regulatory Compliance Examination of San Diego Gas & Electric Company's Energy Savings Assistance Program For the Period January 1, 2009 through December 31, 2010



Except for the issues discussed below, San Diego Gas & Electric Company (SDG&E) demonstrated to a reasonable degree its compliance with Commission directives respecting the 2009 and 2010 Energy Savings Assistance Program (ESAP¹) transactions examined by the Utility Audit, Finance and Compliance Branch (UAFCB). UAFCB conducted the Financial, Management and Regulatory Compliance Examination of SDG&E's ESAP. This examination was limited in scope and does not provide full assurance as to SDG&E's compliance. UAFCB's examination included the Electric Appliances and General Administration cost categories, internal controls, and reporting.

A. Summary of Examination Observations and Recommendations

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

Observation 1: SDG&E failed to demonstrate compliance with Commission directives, including the statewide Policy and Procedures (P&P) Manual. SDG&E identified \$1.2 million of ineligible gas and electric measures that it provided to customers from 2007 through 2011. Consequently, SDG&E provided documentation to UAFCB showing that it transferred \$1.2 million shareholders' money to the ESAP regulatory accounts.

Recommendation: If SDG&E chooses to provide ESAP to ineligible customers or ineligible measures to ESAP participants, SDG&E's shareholders should directly pay for these measures at the time of deployment to eliminate the risk that these will be paid by ESAP funds. SDG&E should submit corrected annual reports to Energy Division, if it has not already done so. UAFCB should review this area in future ESAP audits or examinations.

Observation 2: SDG&E failed to demonstrate compliance with its procurement policy and best accounting practices. In 2009 and 2010, SDG&E failed to update its contract with its contractor program administrator for fee revisions before paying for the fee increases totaling \$246,602 and \$142,534, respectively.

Recommendation: SDG&E should enforce its existing procurement policy and procedures. Furthermore, SDG&E should develop policy and procedures for the 'change

¹ ESAP was previously known as the Low Income Energy Efficiency Program (LIEE).

controls' in its HEAT database system to prevent unauthorized changes or changes that lack proper supporting documentation.

Observation 3: SDG&E failed to demonstrate compliance with the Commission directives, including the P&P Manual. In program year 2009, SDG&E provided a Centralized Air Conditioner replacement costing \$3,490 to a customer who resided in climate zone 10, an area considered infeasible for this measure.

Recommendation: SDG&E should strengthen its internal controls relevant to its ESAP processes and activities to ensure compliance with the P&P Manual.

Observation 4: SDG&E failed to demonstrate compliance with the Commission's ESAP reporting requirements and Public Utilities Code § 584 when erroneously reported fund shifted from Gas Appliances to Electric Appliances in its 2009 ESAP report. A change to the ESAP annual reporting templates could enhance the usefulness of the annual reports.

Recommendation: SD&E needs to improve its internal processes and ensure that its annual reports contain accurate information with reference to the Commission authority allowing the fund shifting. Energy Division should amend its reporting requirements for the LIEE Table 19 Annual Report template by changing the title of the last column to "Commission Authority."

Observation 5: UAFCB did not find any material exceptions when it reviewed the ESAP General Administration non-labor costs it sampled. The tested transactions were in compliance with applicable contract terms, reasonable, and relevant to ESAP.

Recommendation: None.

Observation 6: UAFCB did not find any material exceptions when it reviewed SDG&E's ESAP fund shifting.

Recommendation: None.

UAFCB provided a copy of its analysis, observations, and recommendations of the examination to SDG&E for comment. UAFCB summarized SDG&E's comments, including its rebuttal to those comments, in Appendix A. SDG&E's response is included in Appendix D of this memo in its entirety.

B. Examination Process

Based on consultation with the Energy Division, UAFCB's prior experience in examining SDG&E's program, and the results of UAFCB's risk assessment, UAFCB focused its examination on the areas mentioned above and evaluated compliance with Commission directives and the established LIEE Policy and Procedures (P&P) Manual, dated August 2010.² Additional details regarding UAFCB's examination processes and procedures are found in Appendix B and some pertinent information about SDG&E's ESAP is found in Appendix C.

C. Conclusion

² Commission directives used to measure compliance included, but were not limited to, Decisions 08-11-031 and 10-12-002.

Except for the items discussed above, SDG&E demonstrated compliance with Commission directives regarding the areas that the UAFCB examined.

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

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Appendix A Analysis and Findings

A.1 Introduction

Except for the deficiencies described below, San Diego Gas & Electric Company (SDG&E) demonstrated to a reasonable degree compliance with Commission directives respecting the 2009 and 2010 Energy Savings Assistance Program (ESAP) transactions examined by the Utility Audit, Finance and Compliance Branch (UAFCB).¹ UAFCB's examination included Electric appliance, Administration cost categories, internal controls and reporting. The directives that the UAFCB used to test compliance included, but were not limited to, Decision (D.) 08-11-031, D.10-12-002 and the Low Income Energy Efficiency Policy and Procedures (P&P) Manual. UAFCB's scope and methodology used for this examination are described in Appendix B, Examination Elements.

On November 8, 2012 the UAFCB provided a copy of its analysis, observations, recommendations and its summary of SDG&E's 2009 and 2010 ESAP to SDG&E for comment. On November 26, 2013 SDG&E provided its comments in response to UAFCB's observations and recommendations. UAFCB includes a summary of SDG&E's comments and UAFCB's rebuttal to those comments in this appendix, and SDG&E's comments in their entirety in Appendix D.

A.2 Electric Appliances

Observation 1: SDG&E failed to demonstrate compliance with Commission directives, including the P&P Manual. Beginning in 2007 through 2011, SDG&E provided \$1.2 million of ineligible gas and electric measures to some of its ESAP customers and also ineligible customers. In June of 2012, SDG&E's shareholders reimbursed its ESAP for the ESAP provided to ineligible customers and for ineligible measures provided to ESAP participants.²

In the following table, UAFCB provides a summary of the costs associated with the ineligible deployment, plus accrued interest.

**Table A-1
 Ineligible ESAP Measure Costs and Accrued Interest
 January 1, 2007 through December 31, 2011**

| Description | Electric | Gas | Total |
|--------------------------------|---------------------------|-------------------------|---------------------------|
| Total Ineligible Measure Costs | \$1,026,186 | \$177,245 | \$1,203,431 |
| Interest | <u>15,565</u> | <u>226</u> | <u>15,791</u> |
| Total | <u>\$1,041,751</u> | <u>\$177,471</u> | <u>\$1,219,222</u> |

Criteria: Measures provided to customers must be in compliance with the P&P Manual with respect to, among other things, refrigerator age, climate zone requirements and customer income levels.

¹Also known as the Low Income Energy Efficiency Program or LIEE.

² During the audit exit conference held on October 9, 2012, SDG&E informed UAFCB that in June 2012 it had settled the said balance with shareholder funds. On October 19, 2012, SDG&E provided a written explanation and a copy of its accounting entries identifying appropriate entries that it made to its gas and electric regulatory revenue accounts.

Condition: SDG&E indicated that it provided ESAP to some customers who exceeded the income guidelines and installed ineligible measures for some of its ESAP customers in violation of applicable provisions of the P&P Manual.³ UAFCB provides details about the types of costs associated with the provision of these measures in the following table.

Table A-2
Ineligible ESAP Measures and Accrued Interest
Affected Period: January 2007 - December 2011

| Electric | | Gas | |
|---------------------------|-----------------------|-----------------------------|---------------------|
| Measure | Amount | Measure | Amount |
| Assessment | \$ 597.50 | Air Sealing/Envelope Repair | \$ 3,372.67 |
| Central A/C Replacement | 235,285.00 | Assessment | 597.50 |
| Exterior Hardwire Fixture | 221.35 | Attic Insulation | 905.85 |
| In-Home Education | 252.10 | Contractor/Permit Fee | 1,441.13 |
| Interior Hardwire Fixture | 1,142.65 | Duct Sealing & Repair | 87.55 |
| LED Night Lights | 152.45 | Furnace Clean & Tune | 165,068.00 |
| Lighting (CFLs) | 1,049.10 | Furnace Repair | 170.25 |
| Microwaves | 90.00 | Gas App. Inspection Service | 728.00 |
| Outreach & Assessment | 1,046.24 | Heating Repair/Replace | 1,400.00 |
| Refrigerator | 764,797.87 | In-Home Education | 252.10 |
| Refrigerator Grounding | 15,112.02 | Outreach & Assessment | 1,046.24 |
| Refrigerator Repair | 5,288.15 | Standing Pilot Change Out | 325.00 |
| Touchiere Lamps | 1,151.41 | Thermostatic Shower Valves | 93.50 |
| Subtotal | \$1,026,185.84 | Water Heating Conservation | 1,757.64 |
| Interest-Electric | 15,565.00 | Subtotal | \$177,245.43 |
| Total | \$1,041,751.84 | Interest-Gas | 226.00 |
| | | Total | \$177,471.43 |

Cause: The following include some of the reasons why SDG&E provided the ineligible measures to its customers during the course of the affected period:

- 1) SDG&E replaced refrigerators manufactured from 1993 to 1995 which were beyond the 1992 cut-off year. SDG&E believes that Section 1 of the P&P manual allowed for flexibility to make this exception.
- 2) SDG&E provided Central A/C replacement in climate zone 10, which was not feasible per Section 7.3.21 of the P&P Manual. When SDG&E included a request to allow Central AC Replacement in climate zone 10 in its Petition to Modify D.08-11-031 on May 14, 2010, SDG&E had already made modifications to the HEAT database to accommodate installation of this measure not anticipating that D.10-12-002 would not adopt this measure.
- 3) SDG&E's internal policy allowed for customers with income \$500 (or less) over the income guidelines to enroll in the program and receive measures. SDG&E believed that Section 1 of the P&P manual allowed for flexibility to make this exception.
- 4) In 2010, SDG&E provided the Furnace, Clean and Tune measure to multi-family dwellings, although the measure was only authorized for single family and mobile home dwellings. SDG&E believed that there was a high probability that the measure would be authorized based on its request to include it in the program. However, the Commission did not adopt SDG&E's request.

³ UAFCB asked SDG&E about its request for a new measure in 2009 that the Commission denied and SDG&E volunteered the information about the 2007 through 2011 deployment of ineligible measures and program.

Effect: ESAP funds improperly used to provide ineligible measures to ESAP customers or to provide ESAP to ineligible customers reduce the number of qualified ESAP participants able to receive the program.

SDG&E Comments: SDG&E generally agrees with UAFCB's recommendation that it should adhere to Commission directives or ensure that shareholders provide funds for any ineligible measures. However, SDG&E asserts that there may be instances where it may be appropriate to charge certain costs to the program on a case by case basis. For example, SDG&E cited the expenditure flexibility for minor home repairs pursuant to Section 6.3 and 6.4 of P&P Manual.

Rebuttal: Legitimate minor home repairs provided pursuant to P&P Manual Sections 6.3 and 6.4 are not at issue.

Recommendation: SDG&E should adhere to the Commission's directives or ensure that shareholders provide funds for any ineligible measures that are provided to its ESAP customers or for ESAP that is provided to customers who are over the income guidelines. To minimize the risk of these costs being charged to ESAP, SDG&E shareholders should pay for the ineligible measures or program provided to ineligible customers at the time of deployment. SDG&E should submit corrected annual reports to Energy Division, if it has not already done so. UAFCB should review this area in future ESAP audits or examinations.

Observation 2: SDG&E failed to demonstrate compliance with its Procurement Policy when it failed to update certain contracts for fee increases.

Criteria: According to SDG&E's procurement policy, all contracts must be processed through an approved Supply Management program or authorized by Supply Management and/or Legal.

Condition: SDG&E changed the services fees for the refrigerator measure in its HEAT database system without proper supporting documentation. In addition, SDG&E paid its contractor for increases in fees for refrigerator installation and grounding without requiring and implementing a contract amendment.

In 2009, SDG&E failed to update the refrigerator fees in the contract compensation schedule of its RHA contract (#5660011542) before paying for the installed measures; these undocumented fee increases totaled \$246,602 (invoice # RHA-021109-2).

Also, in 2010, SDG&E failed to update its RHA contract (#5660017430) to include the refrigerator and refrigerator grounding fees before paying for the installed measures. These undocumented additional measures in 2010 totaled \$73,611 (invoice # RHA-020810-52) and \$68,923 (invoice # RHA-0210110-51).

SDG&E acknowledged that this was an oversight on its part. In both cases, SDG&E could not provide any contract amendments in support of the changes made in its HEAT database system.

Cause: Internal Control weakness in the HEAT database system allowed SDG&E employees to make changes in the service fees for refrigerators or add refrigerator and refrigerator grounding measures without proper supporting documentation. Internal Control weaknesses in its contractor invoice and payment processes contributed to the errors and allowed the fee increases to be paid without proper supporting documentation.

Effect: The ability to change service fees in the HEAT database system without proper supporting documentation could put SDG&E at risk for over paying on invoices.

SDG&E Comments: SDG&E did not comment on this issue.

Recommendation: SDG&E should enforce its existing procurement policy and procedures. Furthermore, SDG&E should develop policy and procedures on the 'change controls' in its HEAT database system to prevent unauthorized changes or changes that lack supporting documentation or contract amendment.

Observation 3: SDG&E failed to demonstrate compliance with the P&P Manual, Section 7.3.21, when it replaced a central air conditioner in a customer dwelling that was located in an unfeasible climate zone.

Criteria: Section 7.3.21, "Other Policies" of the P&P Manual states: "Central air conditioner replacements will be offered only in Title 24 climate zones 14 and 15 and other climate zones as reflected in Table 5-1." Table 5-1 does not include climate zone 10 for Central AC replacements.

Condition: In program year 2009, SDG&E provided a Centralized Air Conditioner replacement to a customer (#480206) residing in climate zone 10, an area not feasible for that measure to be installed. The cost of the subject measure charged to the ESAP program was \$3,490.

Cause: The notation on the customer's HEAT profile, the replaced measure was for the health, safety, and comfort of an elderly customer.

Effect: SDG&E improperly charged the ESAP \$3,490 for installing the unfeasible measure.

SDG&E Comments: SDG&E agrees with UAFCB's recommendation and pointed out that this central air conditioner was reflected in the ineligible measures that are included in Table A-1. Consequently SDG&E removed the cost for this central air conditioner from the ESAP and reimbursed the program for the \$3,490.

Rebuttal: UAFCB modified its recommendation to reflect that the utility reimbursed ESAP for this incident.

Recommendation: SDG&E should strengthen its internal controls relevant to its ESAP processes and activities to ensure compliance with the P&P Manual.

A.3 Reporting

Observation 4: SDG&E failed to demonstrate compliance with Public Utilities Code § 584, when it erroneously reported a \$71,715 fund shift from Gas Appliances to Electric Appliances in its 2009 LIEE annual report that didn't occur. A change to the ESAP annual reporting templates could enhance the usefulness of the annual reports.

Criteria: Section 584 requires utilities to provide reports to the Commission as specified by the Commission. Good internal processes would ensure that these reports are accurate.

Condition: In Table 19 of its 2009 LIEE Annual Report, SDG&E reported shifting \$71,715 from LIEE Gas Appliances to Electric Appliances. Based on supporting documentation that UAFCB reviewed, SDG&E actually shifted those funds from Gas Appliances to Outreach and Assessment and not between gas and electric departments.

The purpose of Table 19 is to summarize the utility's fund shifting activities during the program year. The reporting template requires the utilities to note the Advice Letter Number relevant to the fund shifting. However, to improve this template, the title of the last column of the table should be changed to Commission Authority. This will better describe what is needed in that column in that not all fund shifting is approved through the advice letter process.

Effect: Inaccurate data reporting lessens the usefulness and the reliability of the report.

SDG&E Comments: SDG&E concedes that it inadvertently provided inaccurate data in Table 19 of its 2009 Annual Report, misstating the description of the fund shift. SDG&E provided a revised Table 19 with its comments to UAFCB to correct the error. Instead of reporting a shift from Gas Appliances to Electric appliances, it now reports a shift of \$71,715 from Gas Appliances to Outreach and Assessment. Because the error was minor and SDG&E reported the correct amount, it requested that UAFCB strike its observation that SDG&E did not comply with PU Code § 584 from the final report.

Rebuttal: Although SDG&E did not misstate the amount of funds that it shifted, accurate descriptions of the fund shifting are important.

Recommendation: SDG&E should strengthen its internal processes to ensure that its Annual Reports are correct before it submits them and it should ensure that it supports any fund shifting in its annual reports with reference to the Commission authority allowing for the fund shifting. Energy Division should modify the template for LIEE Table 19 of the Annual Report by changing the title of the last column to Commission Authority. SDG&E should submit a corrected annual report to Energy Division, reflecting the changes to LIEE Table 19.

A.4 General Administration Costs

Observation 5: UAFCB did not find any material exceptions when it reviewed the ESAP General Administration non-labor costs it sampled. Transactions tested were found to be in compliance with applicable contract agreements, reasonable, and relevant to ESAP.

Criteria: UAFCB used the following criteria to examine SDG&E's ESAP General Administration costs: (1) authorized budget for the ESAP General Administration costs for the budget years 2009 and 2010, \$2,002,097 and \$1,898,167, respectively;⁴(2) the applicable fund shifting provision in D.10-10-008; and (3) the standard that expenses paid by SDG&E to contracted consultants and vendors should be reasonable, relevant to ESAP, and agree with the terms of its contracts.

Condition: Expenses tested were relevant to the program, in compliance with the terms of the contracts (if applicable), and recorded in the appropriate cost elements.

SDG&E Comments: SDG&E did not comment on UAFCB's observation.

Recommendation: None

A.5 Fund Shifting

Observation 6: UAFCB did not find any material exceptions when it reviewed SDG&E's ESAP fund shifting.

Criteria: In D.08-11-031, Ordering Paragraph (OP) 85, the Commission, among other things, addressed LIEE fund shifting. The Commission allowed certain types of fund shifting within certain parameters without the utilities having to secure additional authority, such as between the 2009-2011 budget cycle and a future budget cycle.

Condition: With respect to the fund shifting transactions that UAFCB examined, SDG&E performed fund shifting in accordance with the revised guidelines and rules set forth in D.08-11-031.

SDG&E Comments: UAFCB did not include this observation along with its draft observations it provided to SDG&E for comment.

Recommendation: None.

⁴See Decision 08-11-031, Attachment C.

Appendix C Program Compendium

C.1 Introduction

On November 6, 2008, the California Public Utilities Commission (Commission) issued Decision (D.) 08-11-031 which, among other things, authorized San Diego Gas & Electric Company (SDG&E) a total budget of approximately \$62.7 million in ratepayer funds to administer and implement its Energy Savings Assistance Program (ESAP) for the 2009-2011 program budget-cycle. Subsequently, the Commission modified D.08-11-031 by D.09-06-026 D.09-10-029 and also issued D.09-10-012, which additionally provided guidance on 2009-2011 budget cycle.

C.2 ESAP Funding Components

Based on Attachment C to D.08-11-031, of the authorized \$62.7 million budget for the 2009-2011 program cycle, \$53 million or 84.7% was earmarked for energy efficiency measures and \$5.9 million or 9.4% for General Administration. The remaining \$3.7 million or 5.9% was allocated among the following five cost categories: 1) Inspections; 2) Marketing; 3) Measurement and Evaluation; 4) Regulatory Compliance; and 5) CPUC Energy Division. In the following table, UAFCB shows the amount carried forward, authorized budget, funds available for spending and actual expenditures for SDG&E during budget years 2009 and 2010.

**Table C-1
 Summary of Ratepayer-Funded ESAP Program
 Examination Period - January 1, 2009 thru December 31, 2010**

| Description | Electric | Gas | Total |
|--------------------------------|----------------------------|----------------------------|----------------------------|
| Carryover from Prior Years | \$ 0 | \$ 53,289 | \$ 53,289 |
| Total 2009 Authorized Budget | <u>11,165,553</u> | <u>10,018,455</u> | <u>21,184,008</u> |
| Total Funds Available for 2009 | 11,165,553 | 10,071,744 | 21,237,297 |
| Total 2009 Expenses | <u>(7,292,139)</u> | <u>(8,908,264)</u> | <u>(16,200,403)</u> |
| Carryover to 2010 | 3,873,414 | 1,163,480 | 5,036,894 |
| Total 2010 Authorized Budget | <u>11,428,987</u> | <u>9,755,022</u> | <u>21,184,009</u> |
| Total Funds Available for 2010 | 15,302,401 | 10,918,502 | 26,220,903 |
| Total 2010 Expenses | <u>(7,354,310)</u> | <u>(11,536,212)</u> | <u>(18,890,522)</u> |
| Carryover to 2011 | \$ <u>7,948,091</u> | \$ <u>(617,710)</u> | \$ <u>7,330,381</u> |

C.3 Electric Appliance Cost Category

In D.08-11-031, the Commission authorized a cumulative budget of \$15.9 million for Electric Appliances for program years 2009 and 2010. For years 2009 and 2010, expenses incurred in the Electric Appliance subcategory were for the installation and/or replacement of appliances and other electric measures provided by ESAP contractors and purchased materials that SDG&E made for the program. SDG&E spent only about 50% to 60% of its authorized budget for Electric Appliances. In the following table, UAFCB provides a summary of the budgets and actual expenditures for the period examined by UAFCB.

Table C-2
Budget and Expense Summary—Electric Appliances
Examination Period –January 1, 2009 through December 31, 2010

| Electric Appliance Measures | 2009 | 2010 |
|------------------------------------|---------------------------|---------------------------|
| Approved Program Amount | \$7,724,611 | \$8,190,025 |
| Less: Expenses-ESAP Contractors | 4,786,453 | 4,317,931 |
| Other (Non-labor/Non-Measures) | 4,370 | 0 |
| Total Electric Appliance Measures | <u>4,790,823</u> | <u>4,317,931</u> |
| Amount Spent Under Budget | <u>\$2,933,788</u> | <u>\$3,872,094</u> |
| % of Expenses to Budget | <u>62.0%</u> | <u>52.7%</u> |

In the following table, UAFCB provides itemized expenses and percentage by types of measures for the Electric Appliance program for budget years 2009 and 2010.

Table C-3
Electric Appliance Expenses by Measure
Examination Period - January 1, 2009 thru December 31, 2010

| Electric Appliance Measures | 2009 | | 2010 | |
|-------------------------------------|---------------------------|--------------------|---------------------------|--------------------|
| | Amount | % to Total | Amount | % to Total |
| Lighting Measures: | | | | |
| Compact Fluorescent Lamps | \$ 771,591 | 16% | \$ 700,215 | 16% |
| Interior Hardwire CFL Fixtures | 701,145 | 15% | 684,377 | 16% |
| LED Night Light | 76,097 | 2% | 152,695 | 4% |
| Porch Light Purchase & Install | 128,440 | 3% | 157,495 | 4% |
| Touchiere Lamp | <u>512,989</u> | <u>11%</u> | <u>700,019</u> | <u>16%</u> |
| Sub-Total - Lighting | 2,190,263 | 46% | 2,394,801 | 55% |
| AC Tune Up | 4,400 | 0% | 5,000 | 0% |
| Attic Insulation-Electric | 0 | 0% | 8,357 | 0% |
| Central AC | 10,840 | 0% | 0 | 0% |
| Clothes Washer-Electric | 0 | 0% | 30,747 | 1% |
| Evaporative Cooler Cover | 10,460 | 0% | 13,926 | 0% |
| Microwave | 22,260 | 0% | 64,260 | 1% |
| Refrigerator | 2,136,056 | 45% | 1,344,434 | 31% |
| Refrigerator Grounding | 51,420 | 1% | 11,187 | 0% |
| Refrigerator Repair | 0 | 0% | 2,274 | 0% |
| Room Air Conditioner | 359,954 | 8% | 453,806 | 10% |
| Water Heater-Electric | 800 | 0% | 0 | 0% |
| Total Program Before Adj. | <u>\$4,786,453</u> | <u>100%</u> | <u>\$4,328,791</u> | <u>100%</u> |
| Non-Labor Exp (Purch. Mat.) | 4,370 | | 0 | |
| Manual Adjustment-2011 ¹ | 0 | | (10,860) | |
| Adjusted Total Program | <u>\$4,790,823</u> | | <u>\$4,317,931</u> | |

Based on the above data, more than 95% of the electric appliance expenses were incurred for lighting, refrigerator and room air conditioners. Of the approximately \$4.8 million spent for electric appliance measures in 2009, \$2.2 million (or 45.8%) went to lighting, \$2.1 million (or 44.6%) to refrigerators, and approximately \$360,000 (or 7.5%) to room air conditioner measures. In 2010, SDG&E increased its lighting measures to \$2.4 million, or 55.3% of the total recorded electric appliances of \$4.3 million. The utility spent \$1.3 million or 31.1% on refrigerators and approximately \$454,000 or 10.5% on room air conditioners.

¹Journal entry correction for PY 2010.

C.4 General Administration Cost Category

In D.08-11-031, the Commission authorized a cumulative budget of \$3.9 million for SDG&E's ESAP General Administration for program years 2009 and 2010. SDG&E recorded all costs of the program administration to the General Administration cost category. SDG&E spent only 68% and 75% of its authorized budget in 2009 and 2010, respectively. In the following table, UAFCB summarizes the budget for and the actual expenditures in the General Administration category.

Table C-4
Budget and Expense Summary-General Administration Expenditures
Examination Period - January 1, 2009 thru December 31, 2010

| General Administration | 2009 | 2010 |
|--------------------------------|--------------------------|--------------------------|
| Budget | \$2,002,097 | \$1,898,167 |
| Less: Expenses | <u>1,362,684</u> | <u>1,430,776</u> |
| Underspent Amount | \$ <u>639,413</u> | \$ <u>467,391</u> |
| % of Expenses to Budget | <u>68.1%</u> | <u>75.4%</u> |

Beginning in program year 2009, the SDG&E Customer Assistance Department, under the Customer Solutions Division, began the internal administration of SDG&E's ESAP. Previously, SDG&E contracted out the administration function to Richard Heath & Associates (RHA). According to SDG&E, due to its implementation of its Workflow Automation System, called Heat Energy Assistance Tracking (HEAT) System, in 2005, it now has the capability to implement business controls, to directly manage the ESAP contractors, and to maintain the customer database. Further, the HEAT database system allows SDG&E to streamline program delivery, increase customer service, and meet the Commission's reporting requirements.

During program years 2009 and 2010, there were three management and nine staff positions in SDG&E's Customer Assistance Department dedicated to ESAP. Management duties included overseeing day-to-day operations, customer assistance, and acting as liaison to contractors. Staff duties included marketing and outreach development, budget management, invoice review and processing, field related customer services and contractor supports.

SDG&E classified its General Administration costs into two overall categories, labor and non-labor. Labor expenses included salaries, taxes, pensions, and benefits paid to SDG&E management and staff administering the ESAP. Non-labor expenses included employee travel and payments to contractors and vendors for consultation, materials and other services. About 56% and 63% of the General Administration expenses in 2009 and 2010, respectively, were for management salaries.

Within the labor and non-labor classifications, SDG&E used approximately 80 to 90 cost elements to record expenses in the General Administration category. UAFCB grouped together related cost elements in labor and non-labor and summarized the costs by major cost type in the following table.

Table C-5
General Administration Cost Summary
Examination Period - January 1, 2009 thru December 31, 2010

| General Administration | 2009 | | 2010 | |
|---------------------------------|---------------------------|--------------------|---------------------------|--------------------|
| | Amount | % of Total | Amount | % of Total |
| <u>Admin-Labor</u> | | | | |
| Salaries-Management | \$ 647,064 | 47% | \$ 759,965 | 53% |
| Salaries-Clerical | 122,639 | 9% | 136,099 | 10% |
| Salaries-Temp | 620 | 0% | 3,595 | 0% |
| Taxes, Pensions & Benefits | 225,185 | 17% | 258,157 | 18% |
| Shared Svcs/Affiliated Billings | 25,030 | 2% | 18,878 | 1% |
| Sub-Total Admin-Labor | <u>1,020,538</u> | <u>75%</u> | <u>1,176,693</u> | <u>82%</u> |
| <u>Admin-Non-Labor</u> | | | | |
| Employee Travel | 38,250 | 3% | 38,663 | 3% |
| Materials | 27,643 | 2% | 15,893 | 1% |
| Services | 64,379 | 5% | 38,243 | 3% |
| Consulting/Contract Labor | 118,009 | 9% | 93,599 | 7% |
| Market Research | 21,674 | 2% | 0 | 0% |
| Telecommunications | 10,555 | 1% | 20,408 | 1% |
| Miscellaneous | 1,798 | 0% | (2,592) | 0% |
| A&G-Real Prop Rental | 59,839 | 4% | 49,870 | 3% |
| Subtotal Admin-Non-Labor | <u>342,146</u> | <u>25%</u> | <u>254,083</u> | <u>18%</u> |
| Total General Admin | <u>\$1,362,684</u> | <u>100%</u> | <u>\$1,430,776</u> | <u>100%</u> |

C.5 Fund Shifting

In 2009, SDG&E shifted approximately \$1.2 million of unspent funds in Gas Appliances to Gas Weatherization and Gas Outreach and Assessment to offset \$1,043,786 and \$143,430 in overspending. In addition, SDG&E shifted \$143,430 from Electric Appliances to offset an overspending in its Electric Outreach and Assessment.

SDG&E carried back over \$700,000 of its 2011 Weatherization budget to partially offset its 2010 overspending of \$1.9 million in the same category. This had a zero net effect on the 2009-2011 overall budget-cycle.

Appendix D



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November 21, 2012

Bernard Ayanruoh – Program and Project Supervisor
Utility, Audit, Finance and Compliance Branch
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: SDG&E Comments on Utility, Audit, Finance and Compliance Branch Interim Examination Report on Energy Savings Assistance Program for Program Years 2009 and 2010

Dear Mr. Ayanruoh:

San Diego Gas & Electric Company (SDG&E) has reviewed the Interim Examination Report (Report) prepared by the Utility, Audit, Finance and Compliance Branch in response to the review of SDG&E's Energy Savings Assistance (ESA) program for 2009 and 2010. SDG&E provides the following comments/corrections.

1. In the Introduction section on page 1, line 5 of the Report, should be revised to correct an error in the referenced decision number. It states D.08-11-036, but it should be corrected to D.08-11-031 which is the CPUC decision that authorized the 2009-2011 Low Income Applications.
2. In Table A-2 at page 2, it should be revised to correct a misspelling of a measure name. It shows the measure name as "Touchier Lamps", but it should be corrected as "Torchiere" Lamps.
3. In response to the Recommendation section under Observation 1, SDG&E generally agrees with the recommendation, however there may be instances where it may be appropriate to charge certain costs to the program and therefore those costs should be reviewed on a case by case basis.¹
4. In response to the Recommendation section under Observation 3, SDG&E agrees with the recommendation and also confirms the cost for the Central A/C in the amount of \$3,490 was removed from the ESA program and was included in the ineligible ESA Program measure costs reflected in Table A-1 at page 1 of the Report.
5. In response to Observation 4, SDG&E concedes that it inadvertently provided inaccurate data in Table 19 of SDG&E's 2009 Annual Report. In Table 19, SDG&E reported its 2008 fund shifting activities, including the actual dollar amounts shifted and a description of the specific fund shifts. SDG&E accurately reported that it shifted \$71,715 from Gas Appliances to Outreach and Assessment, which is the amount reflected in cell C9, the "Total Shifted" column,

¹ For example: The *Joint Ruling of Assigned Commissioner and Administrative Law Judge Approving the California Statewide Low Income Energy Efficiency Policy and Procedures Manual* issued 8/30/2010, authorized IOUs expenditure flexibility in Minor Home Repairs under Section 6.3 and Section 6.4.

in the table. However, SDG&E inadvertently misstated the "description" of the fund shift, reflected in cell G9. In the attachment, SDG&E revised Table 19 to correct cell G9 and provide the accurate description of the fund shift. Also the column and cell reference heading have been provided in Table 19.

When reviewing the revised Table 19, please note that cell G12 accurately reflects SDG&E's fund shift which shifted \$71,715 from Gas Appliances to Outreach and Assessment and in addition shifted \$71,715 from Electric Appliances to Outreach and Assessment totaling \$143,306. SDG&E did not shift in funds from the gas department to the electric department or vice versa. If SDG&E had discovered this inadvertent error earlier, SDG&E would have expeditiously remedied it.

In its Annual Report, SDG&E made every effort to provide the Commission accurate data regarding ESA program activities. For this reason and because the error identified in Table 19 was minor and unintentional, SDG&E respectfully requests that the report finding that SDG&E did not comply with PU Code 584 be stricken from the Final Report.

6. The Electric Appliance Cost Category at page 6 under the Program Compendium section, the reference to D.09-06-026, in line 1, is in reference to the 3 Measure Minimum Rule and does not address program budgets for SDG&E. SDG&E believes this Decision reference should be removed as it is not applicable to the ESA Program cost categories or authorized budget.
7. Table C-3 at page 7 should be revised to correct a misspelling of a measure name. It shows the measure name as "Touchier" Lamps, but it should be corrected as "Torchiere" Lamps.
8. In the General Administration Cost Category at page 8, line 1, the reference to D.09-06-026 should be removed. See response 6. above for explanation.

If you have any questions, please do not hesitate to contact me.

Sincerely,

/signed

Joy C. Yamagata

Regulatory Manager

cc: F. Ly – CPUC
G. Robles – CPUC
K. Hassan – SDG&E
Central Files

| | A | B | C | D | E | F | G | H | I |
|----|---|------------------|----------------------------|------------------------------------|---|-------------------|---|----------------------|---|
| | PY Low Income Energy Efficiency Annual Report | | | | | | | | |
| | LIEE Table 19 | | | | | | | | |
| | LIEE Fund Shifting | | | | | | | | |
| | San Diego Gas & Electric | | | | | | | | |
| | REVISED 11/16/2012 | | | | | | | | |
| | Program Year 2009 | Total Authorized | Total Shifted ¹ | % of Authorized Total ¹ | Carried Forward/Carried Back ² | Tot/From Year | Tot/From Category-Subcategory | Advice Letter Number | |
| | | ex. \$x,xxx.xx | (\$x,xxx) | % | Carried Forward | From 2008 | From In-Home Energy Education | G-xxxx | |
| 6 | LIEE Program: | \$ 2,495,401 | (\$1,115,501.04) | 5% | N/A | From 2009 to 2009 | \$1,043,786 from Gas Appliances to Weatherization and \$71,715 from Gas Appliances to Electric Appliances- Outreach & Assessment. | | |
| 7 | Energy Efficiency - Gas Appliances | \$ 7,724,611 | (\$71,715.13) | 0% | N/A | From 2009 to 2009 | \$71,715 from Electric Appliances to Outreach & Assessment | | |
| 8 | - Electric Appliances | \$ 4,081,115 | \$ 1,043,785.91 | 5% | N/A | From 2009 to 2009 | \$1,043,786 from Gas Appliances to Weatherization Outreach & Assessment | | |
| 9 | - Weatherization Outreach and Assessment | \$ 2,193,828 | \$ 143,305.26 | 1% | N/A | From 2009 to 2009 | \$71,715 from Gas Appliances to Outreach & Assessment | | |
| 10 | - In Home Energy Education | \$ 1,431,670 | \$ - | 0% | N/A | N/A | | | |
| 11 | - Education Workshops | \$ - | \$ - | 0% | N/A | N/A | | | |
| 12 | - Pilot | \$ 7,678 | \$ - | 0% | N/A | N/A | | | |
| 13 | Energy Efficiency TOTAL | \$ 17,935,303 | \$ - | 0% | N/A | N/A | | | |
| 14 | Training Center | \$ - | \$ - | 0% | N/A | N/A | | | |
| 15 | Inspectors | \$ 56,948 | \$ - | 0% | \$ 17,175 | N/A | | | |
| 16 | Marketing | \$ 757,469 | \$ - | 0% | \$ 260,840 | N/A | | | |
| 17 | M&E Studies | \$ 113,804 | \$ - | 0% | \$ 83,645 | N/A | | | |
| 18 | Regulatory Compliance | \$ 271,439 | \$ - | 0% | \$ 123,384 | N/A | | | |
| 19 | General Administration | \$ 2,002,097 | \$ - | 0% | \$ 639,413 | N/A | | | |
| 20 | CPUC Energy Division | \$ 44,948 | \$ - | 0% | \$ 26,407 | N/A | | | |
| 21 | TOTAL PROGRAM COSTS | \$ 21,184,008 | \$ - | 0% | \$ - | N/A | | | |

¹ Based on total authorized LIEE Program costs.
² Not Applicable. SDG&E used 2009 program funds.