

Memorandum



Date: July 31, 2017

To: Timothy J. Sullivan
Executive Director

From: Public Utilities Commission—
San Francisco

Kayode Kajopaiye, Chief
Utility Audit, Finance and Compliance
Branch

A handwritten signature in black ink, appearing to be "Kajopaiye", written over the typed name.

Subject: Financial, Management, Regulatory, and Compliance Examination Report on Pacific Gas and Electric Company's (PG&E's) Energy Efficiency (EE) Program For the period January 1, 2015 through December 31, 2015

The Utility Audit, Finance and Compliance Branch (UAFCB) examined Pacific Gas and Electric Company's (PG&E's) financial, management, regulatory, and compliance areas of the Energy Efficiency (EE) program for program year (PY) 2015. Except for matters discussed in Observations (Obs.) 6, 8, 9, 15, 18, 19, 23, 26, 29, and 32 below, PG&E demonstrated compliance with Commission directives respecting the areas examined. However, UAFCB found that PG&E overstated its 2015 recorded expenditures used for calculating the Management Fee Incentive awards for Codes & Standards (C&S) and Non-Resource Programs by a total of \$3,965,292 (\$816,953, \$438,493 and \$2,709,846, respectively) as indicated in Obs. 15, 18, and 19. In addition, PG&E also overstated the EE expenditures used for calculating its 2015 Resource Programs Savings Incentives by a total of \$895,319 (\$591,327, \$122,816, \$29,691, and \$151,485, respectively) as reflected in Obs. 23, 26, 29, and 32. The Energy Division (ED) should not include \$4,860,611 in the calculation of the incentive awards for these programs in PY 2015. UAFCB is concerned that there is no clear guidance from the Commission for the calculation of the administrative cost cap requirement based on the EE program portfolio budget. There are different interpretations and applications of its decision in practice by the utilities. The details of UAFCB's observations and recommendations are provided in Appendix A.

UAFCB conducted this examination pursuant to Ordering Paragraph (OP) 17 of Decision (D.) 13-09-023.¹ The scope of the EE examination includes: (1) Total EE Program Year (PY) 2015 Cost Reconciliation; (2) 2013-2015 EE Program Cycle Investor Owned Utility (IOU) Administrative Costs; (3) 2013-2015 EE Program Cycle Non-IOU Administrative Costs; (4) 2013-2015 Amounts Spent, Committed, Unspent and Uncommitted; (5) Codes and Standards (C&S) Program and Subprograms – 2015; (6) Non-Resource (NR) Program and Subprograms - 2015; (7) Energy Upgrade California (EUC) Program – 2015; (8) Commercial Deemed Incentive Program – 2015; (9) Industrial EE

¹ D.13-09-023, OP No. 17, p. 98, provides "In order to verify Codes and Standards and Non-Resource program expenditures for the purposes of awarding these management fees, we will rely upon public versions of the Commission's Utility Audit, Finance and Compliance Branch reports. Upon completion, the Commission's Utility, Audit, Finance and Compliance Branch shall serve on the service list in this proceeding (or its successor) a notice of availability of the public copy of its audit report detailing its review of annual expenditures for 2013 and 2014 Energy Efficiency programmatic activity." D.14-10-046, Findings of Fact No. 29, p. 152, provides that "The "budgets" we approve here reflect each PA's authorized expenditures for 2015 programs (including funds PAs may "commit" in 2015, to be paid out in subsequent years). Since we are generally treating 2015 as a third year 2013-2015 cycle, it is as if 2015 amounts were added to the budgets we authorized in D.12-11-015.

Program and Subprograms – 2015; (10) Agricultural EE Program and Subprograms – 2015; (11) Local Government Partnership (LGP) Program and Subprograms – 2015; and (12) Follow-up on Prior UAFCB's Observations and Recommendations and PG&E's Internal Audit (IA) Recommendations.

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

A. Summary of Examination, Observations, and Recommendations

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

Total EE Program Year (PY) 2015 Cost Reconciliation

Observation 1: PG&E demonstrated compliance with Public Utility (PU) code §§ 581, 582, and 584 respecting the total reported EE portfolio program costs in PY 2015.² The total expenditures recorded and reported in PY 2015, excluding Evaluation, Measurement and Verification (EM&V) and Statewide Marketing, Education and Outreach (ME&O) costs, amounted to \$422,369,856.³ A reconciliation of this amount reported in the California Energy Efficiency Statistics (EEStats)⁴ web portal, including the Annual Report (Table 3), Quarterly reports and Monthly reports, to PG&E's accounting records disclosed no material exceptions.

Recommendation: None.

Observation 2: PG&E's compliance with PU code §§ 581, 582, and 584 respecting the timely filing of required EE program reports could not be ascertained in this examination. PG&E filed its Monthly, Quarterly and Annual reports as required by the Commission. However, UAFCB was unable to validate the timeliness of these filings due to Energy Division's (ED's) practice of informally granting extension requests to file or re-file reports (Monthly Report, Quarterly Report, and/or Annual Report) without maintaining any form of documentation and/or records.

Recommendation: ED should approve extension requests by a letter to the utility so that the reporting requirements can be verified by the UAFCB when it conducts its examination. A standard approval letter can be the solution instead of email or approval by telephone.

2013-2015 EE Program Cycle IOU Administrative Costs

Observation 3: PG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the total reported EE Program IOU administrative costs for the 2013-2015 program cycle. PG&E's total administrative expenditures recorded and reported amounted to \$124,456,530. A reconciliation of this amount reported in EEStats, including the Annual Reports (Table 3) and Quarterly reports, to PG&E's accounting records disclosed no material exceptions.

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

³ Refer to Appendix B, Table B-2 for a detailed breakdown of PG&E's EE portfolio program costs in PY2015.

⁴ The California Energy Efficiency Statistics (EEStats) is a repository of utility-submitted reports to the Commission.

Recommendation: None.

Observation 4: PG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 IOU administrative amounts sampled for verification. UAFCB verified \$653,677 expended as administrative costs in PY 2015 and found no material exceptions.

Recommendation: None.

Observation 5: PG&E's internal policies and procedures for the tracking and recording of EE Program IOU administrative costs were adequately designed to meet Commission directives. PG&E's policies and procedures in place to control and monitor its accounting practices for recording and reporting its administrative costs in accordance with Commission directives seemed adequate.

Recommendation: None.

Observation 6: PG&E's compliance with Commission Decision (D.) 09-09-047, Ordering Paragraph (OP) 13 and other applicable Commission directives respecting the 10% IOU administrative cost cap for the 2013-2015 EE program cycle could not be ascertained in this examination due to unspecified inputs for the calculation by the Commission. PG&E reported its administrative cost cap at 8.6% because it included in the denominator of the calculation the Local Government Partnership (LGP) and Third Party (TP) budget amounts and excluded the Bay Area Regional Energy Network (BayREN) budget amount. UAFCB's determination of PG&E's cost cap for the same period disclosed more than 10% because it included the BayREN budget amount and excluded the LGP and TP budget amounts. UAFCB's calculation produced 14.5%⁵ cost cap based on PG&E's total EE program budget for the 2013-2015 program cycle and 12.0% based on PG&E's EE program operating expenses for the same period.

Recommendation: UAFCB recommends that the Commission clarify the 10% administrative cost cap requirement and provide specific instructions to avoid ambiguity. If the Commission agrees with the UAFCB's method, UAFCB recommends that administrative expense amount in excess of the 10% cap be refunded to ratepayers.

2013-2015 EE Program Cycle Non-IOU Administrative Costs

Observation 7: Except for Observations 8 and 9 below, PG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the total reported EE Program Non-IOU administrative costs for the 2013-2015 program cycle. The total recorded and reported amounted to \$14,850,228. A reconciliation of this amount reported in EEStats, including the Annual Report (Table 3) and Quarterly reports, to PG&E's accounting records disclosed no material exceptions.⁶

Recommendation: None.

⁵ UAFCB's calculation in the draft report of 13.2% has been revised to 14.5% due to the addition of the WE&T budget of \$38,800,091 to the denominator.

⁶ Refer to Appendix B, Table B-4 for a detailed breakdown of PG&E's total EE program Non-IOU administrative costs for the 2013-2015 EE program cycle.

Observation 8: PG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including PG&E's established accrual policy and procedures. PG&E incorrectly included \$18,540 in 2015 PY the Non-IOU administrative expenditures belonging to 2014 PY.

Recommendation: PG&E should adhere to its own accrual basis of accounting in recording and reporting EE expenditures and ensure that EE Non-IOU administrative costs are properly booked to allow for an accurate cost target calculation at the end of each program cycle.

Observation 9: PG&E failed to demonstrate compliance with General Order (GO) 28 and the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts (USOA) respecting its Non-IOU administrative costs. The contract value on several signed Purchase Order (PO) agreements provided by PG&E to substantiate recorded transactions contained inaccurate contract term amounts. The overstatement is insignificant but the occurrence is an indication of lack of sufficient oversight.

Recommendation: PG&E should ensure that the provisions in signed PO agreements and Amendments are accurately recorded in order to reduce the risk of any types of errors. PG&E should strengthen its oversight over the existing contracting process.

Observation 10: PG&E's internal policies and procedures for the tracking and recording of EE Program Non-IOU administrative costs were adequately designed to meet Commission directives in PY 2015. PG&E's policies and procedures in place to control and monitor its accounting practices for the recording and reporting of Non-IOU administrative costs in accordance with Commission directives seemed adequate.

Recommendation: None.

Observation 11: PG&E demonstrated compliance with Commission D.09-09-047 and other applicable Commission directives respecting the 10% administrative cost target for the 2013-2015 program cycle. PG&E reported an administrative cost target of 3.0%. UAFCB's calculation produced an administrative cost target of 8.0% based on PG&E's combined TP and LGP Non-IOU administrative operating expenses for the same period. PG&E and UAFCB differ in their calculations as explained in Appendix A.

Recommendation: The Commission should clarify which method is appropriate.

Amount Spent, Committed and Unspent/Uncommitted 2013 - 2015

Observation 12: PG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the total EE portfolio amounts reported as spent, committed, and unspent/uncommitted for the 2013-2015 program cycle. The total recorded and reported as spent, committed, and unspent/uncommitted amounted to \$1,146,688,490, \$82,478,271, and \$40,129,447, respectively. A reconciliation of these amounts reported in EEStats to PG&E's accounting records for the 2013-2015 program cycle disclosed no material exceptions.

Recommendation: None.

Observation 13: PG&E's internal policies and procedures for the tracking and recording of EE portfolio expenditure amounts spent, committed, and unspent/uncommitted were

adequately designed to meet Commission directives during the 2013-2015 program cycle. PG&E had the necessary internal policies and procedures in place to account for the EE portfolio amounts to ensure compliance with Commission directives.

Recommendation: None.

Codes and Standards (C&S) Program and Subprograms – 2015

Observation 14: Except for Observation 15 below, PG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported C&S program costs in PY 2015. The \$12,781,513 reported in the December 2015 year-to-date Monthly EEStats report, Q4 2015 Quarterly EEStats report and in Advice Letter (AL) 3755-G-A/4908-E-A reconciled to PG&E's accounting records.

Recommendation: None.

Observation 15: PG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including PG&E's established accrual policy and procedures. PG&E incorrectly included a total of \$816,953 in expenditures not belonging to 2015 PY. The amount was charged to the Direct Implementation cost category.

Recommendation: PG&E has since filed AL 3755-G-A/4908-E-A to claim its C&S Management Fee incentive award for PY 2015. The Commission's ED should deduct \$816,953 from the 2015 C&S expenditures when PG&E's 2015 ex-post Energy Savings and Performance Incentive (ESPI) true-up AL is processed. In addition, PG&E should adhere to accrual basis of accounting when recording and reporting its EE Program expenditures.

Observation 16: PG&E's internal policy and procedures for implementing the C&S program were adequately designed to meet Commission directives in PY 2015. PG&E was in compliance with its internal C&S Program Implementation Plan (PIP) and Customer Energy Solutions (CES) C&S Standard Manual.

Recommendation: None.

Non-Resource (NR) Program and Subprograms - 2015

Observation 17: Except for Observations 18 and 19 below, PG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported Non-resource (NR) Program costs in PY 2015. The \$41,663,278 reported in the December 2015 year-to-date Monthly EEStats report, Q4 2015 Quarterly EEStats report and in AL 3755-G-A/4908-E-A reconciled to PG&E's accounting records.

Recommendation: None.

Observation 18: PG&E failed to demonstrate compliance with PU code §§ 581, 582 and 584, including PG&E's established accrual policy and procedures. PG&E incorrectly included \$442,558 not belonging to 2015 PY.

Recommendation: PG&E has since filed AL 3755-G-A/4908-E-A to claim its NR Program Management Fee incentive award for PY 2015. The Commission's ED should deduct \$438,493 from the 2015 NR expenditures when PG&E's 2015 ex-post ESPI true-up AL is processed. In addition, PG&E should adhere to accrual basis of accounting when recording and reporting its EE program expenditures.

Observation 19: PG&E failed to demonstrate compliance with Commission D.13-09-023, OP 3.D. respecting the calculation of the NR Management Fee. PG&E incorrectly included an additional \$2,709,846 of 2015 PY expenditures in the calculation of its NR Program Management Fee. PG&E included costs that exceeded the authorized expenditure amount of six NR programs in its calculation of the NR Program Management Fee incentive award for 2015 PY.

Recommendation: PG&E has since filed AL 3755-G-A/4908-E-A to claim its NR Program Management Fee incentive award for PY 2015. The Commission's ED should reduce the NR Program Management Fee incentive award by \$2,709,846 when PG&E's true-up AL is processed.

Observation 20: PG&E's internal policies and procedures for implementing the NR programs were adequately designed to meet Commission directives in PY 2015. PG&E was in compliance with its internal PIPs for all NR programs.

Recommendation: None.

Observation 21: The criteria used by PG&E for designating EE programs as Resource and Non-Resource were in compliance with the Commission's directives. PG&E applied the definition contained in the EE Policy Manual (R.09-11-014), Version 5, July 2013, when determining whether an EE program is classified as Resource or Non-Resource.

Recommendation: None.

Energy Upgrade California (EUC) Program - 2015

Observation 22: Except for Observation 23 below, PG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported EUC program costs in PY 2015. The total recorded and reported amounted to \$20,967,951. A reconciliation of this amount reported in the December 2015 year-to-date Monthly EEStats report, Q4 2015 Quarterly EEStats report and in AL 3755-G-A/4908-E-A to PG&E's accounting records disclosed no material exceptions.

Recommendation: None.

Observation 23: PG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including PG&E's established accrual policy and procedures. PG&E incorrectly included \$593,868 not belonging to 2015 PY. PG&E incorrectly recorded \$2,541 to the Administrative cost category, \$57,532 to the Marketing cost category, and \$533,795 to the Direct Implementation cost category.

Recommendation: PG&E has since filed AL 3755-G-A/4908-E-A to claim its Resource Programs Savings Incentives award for PY 2015. The Commission's ED should deduct \$591,327 from the 2015 EUC expenditures when PG&E's 2015 ex-post ESPI true-up AL is processed.

Observation 24: PG&E's internal policies and procedures for implementing the Residential EUC program were adequately designed to meet Commission directives in PY 2015. PG&E was in compliance with its internal Residential PIP and Multifamily Upgrade Customer Handbook.

Recommendation: None.

Statewide Commercial Deemed Incentives (CDI) Program – 2015

Observation 25: Except for Observation 26 below, PG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported CDI Program costs in PY 2015. The total CDI program expenditures recorded and reported in PY 2015 amounted to \$23,786,932. A reconciliation of this amount reported in the December 2015 year-to-date Monthly EEStats report, Q4 2015 Quarterly EEStats report and in AL 3755-G-A/4908-E-A to PG&E's accounting records disclosed no material exceptions.

Recommendation: None.

Observation 26: PG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including PG&E's established accrual policy and procedures. PG&E incorrectly included \$126,618 not belonging to 2015 PY. Specifically, PG&E overstated the Administrative cost category and Marketing cost category by \$3,802 and \$122,816, respectively.

Recommendation: PG&E has since filed AL 3755-G-A/4908-E-A to claim its Resource Programs Savings Incentives for PY 2015. The Commission's ED should deduct \$122,816 from the 2015 CDI program expenditures when PG&E's 2015 ex-post ESPI true-up AL is processed.

Observation 27: PG&E's internal policies and procedures to implement its CDI Program were adequately designed to meet the Commission's directives in PY 2015. PG&E was in compliance with its internal Commercial PIP and 2013-2015 Statewide Commercial Energy Efficiency Business Rebates Manual.

Recommendation: None.

Industrial EE Program and Subprograms - 2015

Observation 28: Except for Observation 29 below, PG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported Industrial EE program costs in PY 2015. The total recorded and reported amounted to \$12,571,310. A reconciliation of this amount reported in the December 2015 year-to-date Monthly EEStats report, Q4 2015 Quarterly EEStats report and in AL 3755-G-A/4908-E-A to PG&E's accounting records disclosed no material exceptions.

Recommendation: None.

Observation 29: PG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including PG&E's established accrual policy and procedures. PG&E incorrectly included \$51,743 not belonging to 2015 PY. In addition, UAFCB found some deficiencies in PG&E's internal controls when determining its incentive payment calculation.

Recommendation: PG&E has since filed AL 3755-G-A/4908-E-A to claim its Resource Programs Savings Incentives for PY 2015. The Commission's ED should deduct \$29,691 from the 2015 Industrial EE Program expenditures when PG&E's 2015 ex-post ESPI true-up AL is processed.

Observation 30: PG&E's internal policies and procedures to implement its Industrial EE Program were adequately designed to meet the Commission's directives in PY 2015. PG&E was in compliance with its internal Industrial PIP, 2013-15 Statewide Customized Offering Procedures Manual for Business, 2013-14 Statewide Retrocommissioning Policy and Procedures Manual, and PG&E's Industrial Deemed Incentives Rebate Catalogs.

Recommendation: None.

Agricultural EE Program and Subprograms - 2015

Observation 31: Except of Observation 32 below, PG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported Agricultural EE Program costs in PY 2015. The total recorded and reported amounted to \$18,553,570. A reconciliation of this amount reported in the December 2015 year-to-date Monthly report, Q4 2015 Quarterly EESStats reports and in AL 3755-G-A/4908-E-A to PG&E's accounting records disclosed no material exceptions.

Recommendation: None.

Observation 32: PG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including PG&E's established accrual policy and procedures. PG&E incorrectly included \$155,139 not belonging to 2015 PY. In addition, UAFCB found some deficiencies in PG&E's internal controls on its incentive payment calculation.

Recommendation: PG&E has since filed AL 3755-G-A/4908-E-A to claim its Resource Programs Savings Incentives for PY 2015. The Commission's ED should deduct \$151,485 from the 2015 Agricultural EE Program expenditures when PG&E's 2015 ex-post ESPI true-up AL is processed.

Observation 33: PG&E's internal policies and procedures to implement its Agricultural EE Program were adequately designed to meet the Commission's directives in PY 2015. PG&E was in compliance with its internal Agricultural PIP, 2013-15 Statewide Customized Offering Procedures Manual for Business, 2013-14 Statewide Retrocommissioning Policy and Procedures Manual, PG&E's Agricultural Deemed Incentives Rebate Catalogs, and PG&E's Advanced Pumping Efficiency Program Policy and Procedures Manual.

Recommendation: None.

Local Government Partnership (LGP) Program and Subprograms - 2015

Observation 34: PG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported LGP Program costs in PY 2015. The total recorded and reported amounted to \$68,224,688. A reconciliation of this amount reported in EESStats, including the December 2015 year-to-date Monthly report and Quarterly reports, to PG&E's accounting records disclosed no material exceptions.

Recommendation: None.

Observation 35: PG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting certain PY LGP Program amounts sampled for verification. UAFCB verified \$7,431,188 expended on the LGP Program and found no material exceptions.

Recommendation: None.

Observation 36: PG&E's internal policies and procedures to implement its LGP Program were adequately designed to meet the Commission's directives in PY 2015. PG&E was in compliance with its internal PIPs for all LGP programs.

Recommendation: None.

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

Observation 37: PG&E addressed and implemented all of UAFCB's audit recommendations specified in UAFCB's Audit Memo Report for the 2014 EE Program examination.

Recommendation: None.

Observation 38: PG&E identified internal audit report #16-020 – Customized Retrofit Program that related to the EE program activities for the PY 2015 examination period. In internal audit report #16-020, dated January 29, 2016, PG&E's Internal Audit (IA) Department conducted a review of the controls for managing the 2013-2015 Statewide Customized Retrofit program.

Recommendation: PG&E management addressed and corrected the issues raised by IA Department in internal audit report # 16-020 by September 2016.

UAFCB appreciates PG&E's efforts in strengthening its internal controls for its EE program and recommends that PG&E continue to monitor and improve them in order to prevent any future deficiencies.

B. Examination Process

UAFCB developed the scope of its examination based on consultation with the Energy Division, UAFCB's prior experience in examining PG&E's EE program, and the results of UAFCB's risk assessment. Pertinent information about PG&E's EE programs can be found in Appendix B.

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

On June 7, 2017, UAFCB provided a draft of its analysis, observations and recommendations to both PG&E and the Commission's Energy Division (ED) for comment. PG&E and ED provided their comments to UAFCB's draft on June 22, 2017 and July 3, 2017, respectively. UAFCB summarized

PG&E's and ED's comments, including UAFCB's rebuttal to those comments, in Appendix A. Where appropriate, UAFCB modified its observations and recommendations based on PG&E's and ED's comments. PG&E's response in its entirety is provided in Appendix C.

C. Conclusion

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

No later than 30 days from the date of this report, PG&E should provide to the management of the UAFCB its corrective action plan on the matters discussed above where applicable.

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

cc: Maryam Ebke, CPUC, Deputy Executive Director
Pete Skala, CPUC, Energy Division, Deputy Director
Robert Strauss, CPUC, Energy Division
Barbara Owens, Executive Division
Kevin Nakamura, UAFCB
Kristine Du, UAFCB
Bixia Ye, UAFCB

Appendix A Analysis and Findings

A.1 Introduction

The Utility Audit, Finance and Compliance Branch (UAFCB) examined Pacific Gas and Electric Company's (PG&E's) financial, management, regulatory, and compliance areas of Energy Efficiency (EE) Programs for program year (PY) 2015. Except for Observations (Obs.) 6, 8, 9, 15, 18, 19, 23, 26, 29, and 32 below, PG&E demonstrated compliance with Commission directives respecting the areas of its EE programs that the UAFCB examined for PY 2015.

This examination memo report addresses the financial, management, regulatory, and compliance aspects of EE Program for PY 2015. UAFCB's examination covered the following areas:

- (1) Total EE Program Year (PY) 2015 Cost Reconciliation
- (2) 2013-2015 EE Program Cycle Investor Owned Utility (IOU) Administrative Costs
- (3) 2013-2015 EE Program Cycle Non-IOU Administrative Costs
- (4) 2013-2015 Amounts Spent, Committed, and Unspent/Uncommitted
- (5) Codes and Standards Program and Subprograms – 2015
- (6) Non-Resource (NR) Program and Subprograms – 2015
- (7) Energy Upgrade California (EUC) Program – 2015
- (8) Commercial Deemed Incentives Program – 2015
- (9) Industrial EE Program and Subprograms – 2015
- (10) Agricultural EE Program and Subprograms – 2015
- (11) Local Government Partnership (LGP) Program and Subprograms – 2015
- (12) Follow-up on Prior UAFCB's Observations and Recommendations and PG&E's Internal Audit (IA) Recommendations

On June 7, 2017, UAFCB provided a draft of its analysis, observations and recommendations to both PG&E and the Commission's Energy Division (ED) for comment. PG&E and ED provided their comments to UAFCB's draft on June 22, 2017 and July 3, 2017, respectively. UAFCB summarized PG&E's and ED's comments, including UAFCB's rebuttal to those comments, in Appendix A. Where appropriate, UAFCB modified its observations and recommendations based on PG&E's and ED's comments. PG&E's response in its entirety is provided in Appendix C.

A.2 Total EE Program Year (PY) 2015 Cost Reconciliation

Observation 1: PG&E demonstrated compliance with Public Utility (PU) code §§ 581, 582, and 584 respecting the total reported EE portfolio program costs in PY 2015.¹ The total expenditures recorded and reported in PY 2015, excluding Evaluation, Measurement and Verification (EM&V) and Statewide Marketing, Education and Outreach (ME&O) costs, amounted to \$422,369,856.² A reconciliation of this amount reported in the California Energy Efficiency Statistics (EESTats)³ web portal, including the Annual Report (Table 3), Quarterly reports and Monthly reports, to PG&E's accounting records disclosed no material exceptions.

¹ All statutory references are to the Public Utilities Code unless stated otherwise.

² Refer to Appendix B, Table B-2 for a detailed breakdown of PG&E's EE portfolio program costs in PY2015.

³ The California Energy Efficiency Statistics (EESTats) is a repository of utility-submitted reports to the Commission.

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

Condition: The \$422,369,856 reconciled to PG&E's accounting records.

Recommendation: None.

Observation 2: PG&E's compliance with PU code §§ 581, 582, and 584 respecting the timely filing of required EE program reports could not be ascertained in this examination. PG&E filed its Monthly, Quarterly and Annual reports as required by the Commission. However, UAFCB was unable to validate the timeliness of these filings due to Energy Division's (ED's) practice of informally granting extension requests to file or re-file reports (Monthly Report, Quarterly Report, and/or Annual Report) without maintaining any form of documentation and/or records.

Criteria: Sections 581, 582, and 584 require that the utility provide complete and accurate data to the Commission. The EE Policy Manual (R.09-11-014), Version 5, July 2013, Appendix D (1) (b) provides, in part, that the due date for monthly reports is the first day of the month 30 days following the month of the report, and the due date for the quarterly reports is the first day of the month 60 days following the quarter of the report. The due date for the filing of the annual report is May 1st of the year following the reporting year.⁴

Condition: During this examination, UAFCB found that ED had a practice of informally granting the utilities' extension requests to file or re-file their reports (Monthly Report, Quarterly Report, or Annual Report) without maintaining adequate supporting documentation and/or records. However, despite not having a formal report filing tracking system in place during this examination, ED asserted to the UAFCB that "no reports were filed late without [its] knowledge." Because there was no formal report filing tracking system in place during this examination period, UAFCB was unable to validate the timeliness of PG&E's report filings in EESStats for PY 2015.

Cause: ED granted the utilities extension requests to file or re-file reports (Monthly Report, Quarterly Report, or Annual Report) informally, either through a telephone or electronic email correspondence, without maintaining adequate supporting evidence.

Effect: UAFCB was unable to ascertain whether or not PG&E fully complied with the reporting requirements as required by the Commission.

Recommendation: ED should approve extension requests by a letter to the utility so that the reporting requirements can be verified by the UAFCB when it conducts its examination. A standard approval letter can be the solution instead of email or approval by telephone.

⁴ Energy Division Memorandum to all Investor Owned Utilities, Regional Networks, and Community Choice Aggregators, dated July 29, 2013.

A.3 2013-2015 EE Program Cycle Investor Owned Utility (IOU) Administrative Costs

Observation 3: PG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the total reported for its EE Program administrative costs for the 2013-2015 program cycle. PG&E's total administrative expenditures recorded and reported amounted to \$124,456,530. A reconciliation of this amount reported in EEstats, including the Annual Reports (Table 3) and Quarterly reports, to PG&E's accounting records disclosed no material exceptions.⁵

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

Condition: The \$124,456,530 reconciled to PG&E's accounting records. The breakdown is as follows:

Program Year	Amount
2013	\$ 37,932,778
2014	40,512,195
2015	<u>46,011,557</u>
Total	<u>\$124,456,530</u>

Recommendation: None.

Observation 4: PG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 IOU administrative cost amounts sampled for verification. UAFCB verified \$653,677 expended as administrative costs in PY 2015 and found no material exceptions.

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

Condition: UAFCB's review and testing disclosed no material exceptions.

Recommendation: None.

Observation 5: PG&E's internal policies and procedures for the tracking and recording of EE Program IOU administrative costs were adequately designed to meet Commission directives. PG&E's policies and procedures in place to control and monitor its accounting practices for recording and reporting its administrative costs in accordance with Commission directives seemed adequate.

Criteria: Did PG&E maintain policies and procedures for the proper recording of administrative costs associated with the delivery of its EE programs, including but not limited to, Customer Energy Solutions (CES) Accruals Standard Manual, CES Cost

⁵ Refer to Appendix B, Table B-3 for a detailed breakdown of PG&E's total EE program IOU administrative costs for the 2013-2015 EE program cycle.

Monitoring Standard Manual, CES Cost Allocation Standard Manual, and Energy Efficiency Operations Invoice Review Procedure Manual in compliance with Commission directives?

Condition: PG&E's internal policies and procedures appeared adequate for accounting and reporting of PG&E's administrative costs in accordance with Commission directives in PY 2015.

Recommendation: None.

Observation 6: PG&E's compliance with Commission Decision (D.) 09-09-047, Ordering Paragraph (OP) 13 and other applicable Commission directives respecting the 10% IOU administrative cost cap for the 2013-2015 EE program cycle could not be ascertained in this examination due to unspecified inputs for the calculation by the Commission. PG&E reported its administrative cost cap at 8.6% because it included in the denominator of the calculation the Local Government Partnership (LGP) and Third Party (TP) budget amounts and excluded the Bay Area Regional Energy Network (BayREN) budget amount. UAFCB's determination of PG&E's cost cap for the same period disclosed more than 10% because it included the BayREN budget amount and excluded the LGP and TP budget amounts. UAFCB's calculation produced 14.5%⁶ cost cap based on PG&E's total EE program budget for the program cycle and 12.0% based on PG&E's EE program operating expenses for the same period.

Criteria: D.09-09-047 imposed a 10% administrative cost cap in order to ensure that IOU administrative costs are reasonable and limited to those overhead and labor costs that are truly required to implement quality EE programs and to ensure that ratepayer funds are used to the greatest degree possible for the programs themselves. Specifically, in D.09-09-047, OP 13(a), the Commission ordered that "Administrative Costs for utility energy efficiency programs (excluding third party and/or local government partnership budgets) are limited to 10% of total energy efficiency budgets..."

Condition: PG&E calculated the 10% administrative cost cap at 8.6% for the 2013-2015 program cycle. PG&E used the following for its calculation:

$$10\% \text{ Admin. Cost Cap} = \frac{\text{IOU Admin. Expenditures (excluding TP + LGP + target exempt)}}{\text{Total EE Portfolio Budget + ME\&O Budgets - REN\MCE Budgets}}$$

UAFCB re-calculated PG&E's administrative cost cap amount for the same period under two methodologies: budget methodology and cost methodology.

UAFCB Budget Methodology - Under this methodology, PG&E's administrative cost cap amount equates to 14.5% of the total EE portfolio budget for the 2013-2015 program cycle. UAFCB's budget methodology is provided in next page.

⁶ UAFCB's calculation in the draft report of 13.2% has been revised to 14.5% due to the addition of the WE&T budget of \$38,800,091 to the denominator.

$$10\% \text{ Admin. Cost Cap} = \frac{\text{IOU Admin. Costs} + \text{IOU Admin. Costs in support of TP \& LGP}}{\text{Total EE Portfolio Budget}^7 - \text{LGP Budget} - \text{TP Budget}}$$

UAFCB Cost Methodology - Under this methodology, PG&E's administrative cost cap amount equates to 12.0% of the total EE portfolio operating costs for the 2013-2015 program cycle. UAFCB's cost methodology is provided below.

$$10\% \text{ Admin. Cost Cap} = \frac{\text{IOU Admin. Costs} + \text{IOU Admin. Costs in support of TP \& LGP}}{\text{Total EE Portfolio Costs}^8}$$

Cause: The Commission's EE program decisions and the EE Policy Manual do not provide explicit and clear instructions on how to calculate the 10% IOU administrative cost cap. There is not clear guidance on the types of costs to include in the numerator or denominator when determining the 10% IOU administrative cost cap amount. Additionally, there is no specific formula to use when calculating the IOU administrative cost cap amount.

Effect: UAFCB was unable to determine whether PG&E was in compliance with the 10% administrative cost cap for the 2013-2015 program cycle.

PG&E Comments: PG&E respectfully disagrees with UAFCB that its IOU administrative costs in 2015 exceeded the 10% cost cap. PG&E asserts that its calculation of the percentage of the 10% cap attributable to its administrative costs is correct based on established and approved practices adopted by the Commission though the EE Policy Manual, ED's reporting template, and its approval of IOU administrative costs during previous review periods.

PG&E asserts that the premise for the difference between the formulas' proposed by the UAFCB and that adopted by the Commission is due to the amounts included in the denominator when calculating the 10% administrative cost cap.

PG&E asserts that UAFCB's calculation (Budget Methodology) does not conform to the EE Policy Manual that clearly states that the denominator should be the "Total Energy Budgets." According to PG&E, this would exclude the Non-Utility budgets of BayREN and MCE, and include the LGP and TP program budgets since they are included in the total portfolio.

Furthermore, PG&E asserts that it is unclear of UAFCB's rationale for using actual expenditures (Cost Methodology) as a basis for its formula since the Commission's denominator is based on total energy efficiency budget, subject to certain exclusions, and not on actual expenditures.

⁷ Total EE portfolio represents the entire EE Portfolio budgets including EM&V, ME&O, and REN/MCE budget amounts for the 2013-2015 program cycle.

⁸ Total EE portfolio cost amount represents entire EE Portfolio costs less LGP Direct costs, TP Direct costs, EM&V costs, ME&O costs, and REN/MCE costs.

In conclusion, PG&E asserts that the UAFCB created two methods for calculating PG&E's administrative cost cap but have no Commission authority for either method. PG&E claims that there is no ambiguity in the formula adopted by the Commission and that the Commission should not find that PG&E failed to comply with the requirements. PG&E also requests that the UAFCB refrain from using "failed" in its observation since there is no objective basis by which to measure compliance.

PG&E also requests that the UAFCB withdraw its suggestion that the IOU cost guidelines be revised and be applied retroactively. Instead, PG&E requests that the Commission conclude that PG&E demonstrated compliance with D.09-09-047 with respect to the 10% IOU administrative cost cap for the 2013-2015 EE program cycle and that the Commission should review proposals to revise the existing budget category limits in Rulemaking 13-11-015, consistent with the Scoping Memo issued in that proceeding, rather than in connection with Audit Reports, which should determine compliance with existing rules

ED Comments: ED recommends that the UAFCB recalculate its administrative cost cap amount as prescribed in the Energy Efficiency Policy Manual, version 5, pages 87-93 and modify the recommendation, if necessary. The Energy Efficiency Policy Manual, pages 87-93, provides that administrative costs include overhead, labor, human resource support and travel and conference fees but specifically excludes, among other things, administrative costs for third party programs and government partnerships.

Rebuttal: UAFCB disagrees with PG&E that the denominator in its "Budget Methodology" calculation does not conform to the EE Policy Manual. The "Total Energy Efficiency Budget" denominator amount in UAFCB's calculation follows the EE Policy Manual, page 87, which states that "Administrative costs for utility energy efficiency programs (excluding third party and/or local government partnership budgets) are limited to 10% of total energy efficiency budgets." This statement is also reiterated in D.09-09-047, OP 13.a. PG&E and UAFCB differ in the definition of total portfolio budget. Therefore, Commission guidance is needed on this matter.

UAFCB included the cost methodology in its report for consideration by the Commission as an alternative method.

Response: UAFCB acknowledged ED's recommendation and reviewed the EE policy manual and found that its calculation of the 10% cost cap appears to be correctly interpreted based on the language in the EE Policy Manual.

Recommendation: UAFCB recommends that the Commission clarify the 10% administrative cost cap requirement and provide specific instructions to avoid ambiguity. If the Commission agrees with the UAFCB's method, UAFCB recommends that administrative expense amount in excess of the 10% cap be refunded to ratepayers.

A.4 2013-2015 EE Program Cycle Non-IOU Administrative Costs

Observation 7: Except for Observations 8 and 9 below, PG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the total reported EE Program Non-IOU administrative costs for the 2013-2015 program cycle. The total recorded and reported amounted to \$14,850,228. A reconciliation of this amount reported in EESStats, including the Annual Report (Table 3) and Quarterly reports, to PG&E's accounting records disclosed no material exceptions.⁹

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

Condition: The \$14,850,228 reconciled to PG&E's accounting records. The breakdown is as follows:

Program Year	Amount
2013	\$ 4,945,532
2014	5,282,432
2015	<u>4,622,264</u>
Total	\$14,850,228

Recommendation: None.

Observation 8: PG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including PG&E's established accrual policy and procedures. PG&E incorrectly included \$18,540 in 2015 PY the Non-IOU administrative expenditures belonging to 2014 PY.

Criteria: Sections 581, 582, and 584 require that the utility provide complete and accurate data to the Commission. PG&E's accounting accrual policy requires that PG&E record costs when a liability has been incurred and can be reasonably estimated. Expenses must be accrued when a material or service has been delivered, which often occurs before an invoice has been received.

Condition: UAFCB's review and testing disclosed two invoices for \$2,605 and \$15,935 for services provided in PY 2014 but incorrectly reported and charged to PY 2015.

Cause: The vendor invoices in question were not timely submitted to PG&E for its PY 2014 year-end accrual process.

Effect: PG&E over-reported its Non-IOU administrative costs by \$18,540 in PY 2015.

PG&E Comments: PG&E asserts that the UAFCB recommendation should not impact its Energy Savings and Performance Incentive (ESPI) since these expenditures are administrative costs. In addition, PG&E asserts that it adheres to Generally Accepted Accounting Principles (GAAP) and will continue to provide periodic accrual training for its employees.

⁹ Refer to Appendix B, Table B-4 for a detailed breakdown of PG&E's total EE program Non-IOU administrative costs for the 2013-2015 EE program cycle.

Rebuttal: None.

Recommendation: PG&E should adhere to its own accrual basis of accounting in recording and reporting EE expenditures and ensure that EE Non-IOU administrative costs are properly booked to allow for an accurate cost target calculation at the end of each program cycle.

Observation 9: PG&E failed to demonstrate compliance with General Order (GO) 28 and the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts (USOA) respecting its Non-IOU administrative costs. The contract value on several signed Purchase Order (PO) agreements provided by PG&E to substantiate recorded transactions contained inaccurate contract term amounts. The overstatement is insignificant but the occurrence is an indication of lack of sufficient oversight.

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

Condition: PG&E failed to maintain updated contract provisions to signed agreements with several of its vendors resulting in the overstatement or understatement of total signed contract amounts.

Cause: PG&E incorrectly recorded the agreement value in several Amendments to PO agreements which caused ensuing Amendments to the POs to be inaccurately stated.

Effect: The agreed values of several signed PO agreements were either overstated or understated by an insignificant amount but the occurrences could have been prevented if there was sufficient oversight in place.

PG&E Comments: PG&E asserts that it will strengthen and provide better oversight of its existing contracting process.

Rebuttal: None.

Recommendation: PG&E should ensure that the provisions in signed PO agreements and Amendments are accurately recorded in order to reduce the risk of any types of errors. PG&E should strengthen its oversight over the existing contracting process.

Observation 10: PG&E's internal policies and procedures for the tracking and recording of EE Program Non-IOU administrative costs were adequately designed to meet Commission directives in PY 2015. PG&E's policies and procedures in place to control and monitor its accounting practices for the recording and reporting of Non-IOU administrative costs in accordance with Commission directives seemed adequate.

Criteria: Did PG&E maintain policies and procedures for the proper recording of administrative associated with the delivery of its EE programs, including but not

limited to, CES Accruals Standard Manual, CES Cost Monitoring Standard Manual, CES Cost Allocation Standard Manual, and Energy Efficiency Operations Invoice Review Procedure Manual in compliance with Commission directives?

Condition: PG&E's internal policies and procedures appeared adequate for the accounting and reporting of Non-IOU administrative costs in accordance with Commission directives in PY 2015.

Recommendation: None.

Observation 11: PG&E demonstrated compliance with Commission D.09-09-047 and other applicable Commission directives respecting the 10% administrative cost target for the 2013-2015 program cycle. PG&E reported an administrative cost target of 3.0%. UAFCB's calculations produced an administrative cost target of 8.0% based on PG&E's combined TP and LGP Non-IOU administrative operating expenses for the same period.

Criteria: Per D.09-09-047, page 63, "... we [the Commission] direct the utilities [IOUs] to seek to achieve a 10% administrative cost target for third party and local government partnership direct costs (i.e., separate from utility costs to administer these programs)..."

Condition: PG&E determined its compliance with the 10% administrative cost target based on the following calculation:

$$10\% \text{ Non - IOU Cost Target} = \frac{\text{TP \& LGP Administrative Expenditures (excluding IOU + target exempt)}}{2013 - 2015 \text{ TP \& LGP Budgets}}$$

PG&E's calculation came to 3.0% and UAFCB's calculation came to 8.0% because the UAFCB included actual LGP and TP program costs in the denominator of its calculation and the method is provided below:

$$10\% \text{ Non - IOU Cost Target} = \frac{\text{TP \& LGP Non - IOU Administrative Costs}}{\text{Total TP and LGP Program Costs}}$$

PG&E Comments: PG&E contends that the denominator is consistent with the EE Policy Manual, Appendix F, page 93, which states:

"The IOUs shall seek to achieve a 10% administrative cost target for third party and government partnership direct costs (i.e., separate from utility costs to administer these programs). The cost target is 10% of third party and government partnership budget, rather than 10% of the total energy efficiency portfolio (as with the utility administrative cost cap)."

Recommendation: The Commission should clarify which method is appropriate.

A.5 2013-2015 Amounts Spent, Committed, and Unspent/Uncommitted

Observation 12: PG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the total EE portfolio amounts reported as spent, committed, and unspent/uncommitted for the 2013-2015 program cycle. The total recorded and reported as

spent, committed, and unspent/uncommitted amounted to \$1,146,688,490, \$82,478,271, and \$40,129,447, respectively. A reconciliation of these amounts reported in EEStats to PG&E's accounting records for the 2013-2015 program cycle disclosed no material exceptions.¹⁰

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

Condition: UAFCB reconciled the reported EE program portfolio amounts spent, committed, and unspent/uncommitted to PG&E's accounting records for the 2013-2015 program cycle and found no material exceptions.

PG&E Comments: PG&E requests that Table B-1 be revised since the UAFCB omitted the Workforce, Education and Training (WE&T) budget and expenditure amounts from the table.

Response: After reviewing the additional supporting documentation submitted by PG&E, UAFCB determined that the WE&T budget and expenditure amounts of \$38,800,091 and \$36,452,451, respectively, were inadvertently excluded from Table B-1 in Appendix B. UAFCB incorporated the WE&T budget and expenditure amounts into the Non-Resource Program category of Table B-1 and have revised the amounts recorded and reported as spent, committed, and unspent/uncommitted by PG&E.

Recommendation: None.

Observation 13: PG&E's internal policies and procedures for the tracking and recording of EE portfolio expenditure amounts spent, committed, and unspent/uncommitted were adequately designed to meet Commission directives during the 2013-2015 program cycle. PG&E had the necessary internal policies and procedures in place to account for the EE portfolio amounts to ensure compliance with Commission directives.

Criteria: Did PG&E have the necessary policies and procedures in place to control and monitor its accounting practices including the recording and reporting of EE portfolio expenditure amounts spent, committed, and unspent/uncommitted in compliance with Commission directives?

Condition: PG&E's established internal policies and procedures seemed adequate for the accounting and reporting of EE portfolio program amounts as spent, committed, and unspent/uncommitted.

Recommendation: None.

A.6 Codes and Standards (C&S) Program and Subprograms - 2015

¹⁰ Refer to Appendix B, Table B-1 for a detailed presentation of PG&E's authorized budget, amount spent, amount committed, and amount unspent/uncommitted for the 2013-2015 program cycle.

Observation 14: Except for Observation 15 below, PG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported C&S program costs in PY 2015. The \$12,781,513 reported in the December 2015 year-to-date Monthly EEStats report, Q4 2015 Quarterly EEStats report and in Advice Letter (AL) 3755-G-A/4908-E-A reconciled to PG&E's accounting records.

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

Condition: The \$12,781,513 reconciled to PG&E's accounting records. The breakdown is as follows:

Cost Category	Amount
Administrative	\$ 582,127
Marketing	(890)
Direct Implementation	<u>12,200,276</u>
Totals	<u>\$12,781,513</u>

Recommendation: None.

Observation 15: PG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including PG&E's established accrual policy and procedures. PG&E incorrectly included a total of \$816,953 in expenditures not belonging to 2015 PY. The amount was charged to the Direct Implementation cost category.

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

Condition: UAFCB's review and testing disclosed several transactions in which services were provided in PY 2014 but incorrectly reported and charged to PY 2015. In addition, UAFCB found sample transactions in which the estimated accrual amount differed from the actual billing amount, resulting in an over or understatement of PY 2015 C&S expenditures. A breakdown of the total \$816,953 incorrectly reported and charged to PY 2015 by program is provided in the table below.

Program Description	Amount
Appliance Standards Advocacy	\$ 819,644
Building Codes Advocacy	(2,032)
Compliance Improvement	<u>(659)</u>
Total	<u>\$816,9553</u>

In its May 17, 2017 response to UAFCB's tentative examination findings provided to PG&E during the exit conference held on May 9, 2017, PG&E acknowledged and accepted the above findings.

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

Effect: PG&E over-reported the C&S Program costs by \$816,953 in PY 2015.

PG&E Comments: PG&E agrees with UAFCB's recommendation to reduce its C&S Management Fee incentive award. In addition, PG&E asserted that it follows GAAP and will continue to provide periodic accrual training for its employees.

ED Comments: ED requested that the language in the UAFCB's recommendation be changed so that ED can calculate the actual earnings reduction in the resolution. In addition, ED requests clarification on the meaning of UAFCB's statement "When internal controls are not adequately enforced in combination with lack of proper training and supervision of employees, recording and reporting errors can occur." included in the "Cause" section of this observation.

Response: In regards to ED's comments, UAFCB agrees with ED to revise the language in its recommendation since it does not change the C&S expenditure amount that PG&E incorrectly included in 2015 PY. For clarification purposes, UAFCB's statement in the "Cause" section of this observation means that when internal policies and procedures are not adequately enforced by PG&E or followed by employee, along with lack of proper training and supervision of employees, recording and reporting errors can occur.

Recommendation: PG&E has since filed AL 3755-G-A/4908-E-A to claim its C&S Management Fee incentive award for PY 2015. The Commission's ED should deduct \$816,953 from the 2015 C&S expenditures when PG&E's 2015 ex-post ESPI true-up AL is processed. In addition, PG&E should adhere to accrual basis of accounting when recording and reporting its EE Program expenditures.

Observation 16: PG&E's internal policies and procedures for implementing the C&S program were adequately designed to meet Commission directives in PY 2015. PG&E was in compliance with its internal C&S Program Implementation Plan (PIP) and CES C&S Standard Manual.

Criteria: PG&E used its C&S PIP and CES C&S Standard Manual as the guiding documents for implementing the C&S programs.

Condition: PG&E's C&S PIP and CES C&S Standard Manual seemed adequate for the implementation of the C&S programs in accordance with Commission directives in PY 2015.

Recommendation: None.

A.7 Non-Resource (NR) Program and Subprograms - 2015

Observation 17: Except Observations 18 and 19 below, PG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported Non-resource (NR) Program costs in PY 2015. The \$41,663,278 reported in the December 2015 year-to-date Monthly EEStats report, Q4 2015 Quarterly EEStats report and in AL 3755-G-A/4908-E-A reconciled to PG&E's accounting records.

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

Condition: The \$41,663,278 reconciled to PG&E's accounting records. The breakdown is as follows:

Cost Category	Amount
Administrative	\$ 2,703,910
Marketing	1,889,254
Direct Implementation	37,070,114
Totals	<u>\$41,663,278</u>

Recommendation: None.

Observation 18: PG&E failed to demonstrate compliance with PU code §§ 581, 582 and 584, including PG&E's established accrual policy and procedures. PG&E incorrectly included \$442,558 not belonging to 2015 PY.

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

Condition: UAFCB's review and testing disclosed several samples in which PG&E incorrectly recorded administrative costs that caused PG&E to understate the Administrative cost category by \$1,046 in PY 2015. UAFCB also found that PG&E incorrectly recorded transactions that caused PG&E to overstate PY 2015 NR Marketing and Direct Implementation costs by \$2,379 and \$441,225, respectively. PG&E also included (\$5,111) in NR program costs in PY 2015 that related to three TP programs that were closed at the end of PY 2014 and beginning of PY 2015 that should be removed from the NR Management Fee incentive award calculation for 2015 PY. Furthermore, UAFCB found deficiencies with PG&E's internal controls which caused PG&E to incorrectly record and report costs to the proper EE programs and cost categories. A breakdown of the total \$442,558 of NR expenditures incorrectly reported and charged to 2015 PY by program and cost category is provided in the table below.

Program Description	Admin.	Mktg.	DI	Total
Waypoint Connect	\$ 0	\$2,379	\$ 0	\$ 2,379
Commercial Continuous Improvement	0	0	36,269	36,269
Technology Introduction Support	0	0	6,988	6,988
Technology Development Support	0	0	17,344	17,344
WE&T - Centergies	0	0	83,962	83,962
WE&T - Connections	0	0	5,021	5,021
Strategic Planning	0	0	8,517	8,517
Strategic Energy Resources	(1,046)	0	249,995	248,949
Industrial Continuous Improvement	0	0	11,609	11,609
Agricultural Continuous Improvement	0	0	21,520	21,520
Totals	<u>\$(1,046)</u>	<u>\$2,379</u>	<u>\$441,225</u>	<u>\$442,558</u>

In its May 17, 2017 response to UAFCB's tentative examination findings provided to PG&E during the exit conference held on May 9, 2017, PG&E acknowledged and accepted the above findings.

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

Effect: PG&E over-reported the NR Program costs by \$442,558 in PY 2015.

PG&E Comments: PG&E agrees with UAFCB's recommendation to reduce its NR Management Fee incentive award. In addition, PG&E asserted that it adheres to the accrual basis of accounting when recording and reporting its EE program expenditures. PG&E also asserts that it follows GAAP and will continue to provide periodic accrual training for its employees.

ED Comments: ED requested that the language in the UAFCB's recommendation be changed so that ED can calculate the actual earnings reduction in the resolution. In addition, ED requests clarification on the meaning of UAFCB's statement "When internal controls are not adequately enforced in combination with lack of proper training and supervision of employees, recording and reporting errors can occur." included in the "Cause" section of this observation.

Response: In regards to ED's comments, UAFCB agrees with ED to revise the language in its recommendation since it does not change the C&S expenditure amount that PG&E incorrectly included in 2015 PY. For clarification purposes, UAFCB's statement in the "Cause" section of this observation means that when internal policies and procedures are not adequately enforced by PG&E or followed by employee, along with lack of proper training and supervision of employees, recording and reporting errors can occur.

Recommendation: PG&E has since filed AL 3755-G-A/4908-E-A to claim its NR Program Management Fee incentive award for PY 2015. The Commission's ED should deduct \$438,493 (\$2,379 + \$441,225 - \$5,111) from the 2015 NR expenditures when

PG&E's 2015 ex-post ESPI true-up AL is processed. In addition, PG&E should adhere to accrual basis of accounting when recording and reporting its EE program expenditures.

Observation 19: PG&E failed to demonstrate compliance with Commission D.13-09-023, OP 3.D. respecting the calculation of the NR Program Management Fee. PG&E incorrectly included an additional \$2,709,846 of 2015 PY expenditures in the calculation of its NR Program Management Fee. PG&E included costs that exceeded the authorized expenditure amount of six NR programs in its calculation of the NR Program Management Fee incentive award for 2015 PY.

Criteria: D.13-09-023, OP 3.D., page 95, states that "...a management fee shall be paid equal to 3% of non-resource program expenditures, not to exceed authorized expenditures for these programs exclusive of administrative costs." In addition, in Resolution E-4807, page 11, issued on December 16, 2016, it states the following:

"In the decision authorizing the 2015 EE program budgets, the Commission raised several significant accounting issues and, while the Commission deferred most of the issues to the next phase of the proceeding, it explicitly clarified that the Commission considers "Authorized Expenditures" to be the "Budget" approved in D.14-10-046. Therefore, consistent with Commission's order, the 2015 program budgets authorized in D.14-10-046 were considered the maximum acceptable expenditures for the purposes of ESPI award calculations. Therefore, any expenditure beyond the authorized budgets was not considered eligible for award calculations."

Furthermore, in Resolution E-4807, page 20, it states the following:

"Moreover, PG&E's 2015 expenditures on the non-resource programs exceed the 2015 authorized budget for non-resource programs. As discussed earlier IOU shareholder incentives are awarded based on adopted budgets rather than expenditures shifted mid-cycle. For the purposes of ESPI award calculations, the expenditures are adjusted and capped based on the 2015 authorized budgets."

Condition: PG&E used expenditures that exceeded the authorized budget amounts for six NR programs when calculating its NR Program Management for PY 2015. These NR subprograms should only have the incentive awards capped at their authorized budget amount. Thus, PG&E's 2015 NR Management Fee should be reduced further by \$81,295. A detailed breakdown of the reduction amounts by program is provided in the table below.

Program Description	Amount
Commercial Continuous Improvement	\$ 558,276
Industrial Continuous Improvement	197,317
Technology Development Support	759,027
Technology Assessments	217,600
Technology Introduction Support	937,274
Waypoint Connect	40,352
Total	\$2,709,846
Multiplied by NR Management Fee	3%
Total NR Management Fee Adjustment	\$ <u>81,295</u>

In its May 17, 2017 response to UAFCB's tentative examination findings provided to PG&E during the exit conference held on May 9, 2017, PG&E indicated that it respectfully disagrees with UAFCB's interpretation of the language in Resolution E-4807 that it is applicable to the subprogram level.

Cause: PG&E failed to comply with Commission directives in D.13-09-023, OP 3.D when calculating its NR Program Management Fee for PY 2015.

Effect: PG&E over-reported the NR Program costs by \$2,709,846 when calculating its NR Management Fee for PY 2015.

PG&E Comments: PG&E respectively disagrees with UAFCB's recommendation to reduce NR expenditures by \$2,709,846 when calculating its NR Management Fee for PY 2015. As previously asserted in the May 9, 2017 Exit Conference and in its comments to UAFCB's draft examination report, PG&E contends that:

- a) Resolution E-4807, page 11, makes reference to "program" budgets; not "subprogram" budgets. Hence, PG&E asserts that the UAFCB misinterprets the language in Resolution E-4807 that the authorized budget amounts apply to the subprogram program level.
- b) It manages its EE program budgets based on a 3-year cycle basis since the Commission clarified in D.14-10-046 that 2015 should be treated for accounting purposes as the third year of the 2013-2015 program cycle.
- c) Its Quarterly Funds Shifting Report indicates how PG&E manages its spending (and fund shifts) against its Operating Budget. The Operating Budget represents PG&E's authorized funding which includes 2015 annual funding plus unspent funds from 2013 and 2014. In other words, the Operating Budget represents funds authorized and available to be spent in the current calendar year within the same cycle.
- d) The UAFCB incorrectly based its recommendation by comparing one-year of spending (2015) versus one-year (2015) authorized budget by subprogram based on its interpretation of the language in Resolution E-4807 and D.14-10-046.

ED Comments: ED requested that the language in the UAFCB's recommendation be changed so that ED can calculate the actual earnings reduction in the resolution.

Rebuttal: UAFCB respectively disagrees with PG&E that it misinterprets the language in Resolution E-4807 and D.14-10-046 and incorrectly based its recommendation by comparing one-year of spending versus one-year budget. As previously quoted above from Resolution E-4807, page 11, "...the Commission considers "Authorized Expenditures" to be the "Budgets" approved in D.14.10.46 Therefore, consistent with Commission's order, the 2015 program budgets, authorized in D.14.10.046 were considered the maximum acceptable expenditures for the purposes of ESPI award

calculations. Therefore, any expenditure beyond the authorized budgets was not considered eligible for award calculations.”

Furthermore, D.13-09-023, OP 3.D, page 95, provides that “...a management fee shall be paid equal to 3% of non-resource program expenditures, not to exceed authorized expenditures for these programs exclusive of administrative costs.”

In addition, UAFCB concludes that it correctly interprets the language in Resolution E-4807 that the maximum acceptable expenditures for purposes of the ESPI award calculation is capped at the authorized subprogram budget amounts. In D.14-10-046, OP 16, it required PG&E to file a Tier 2 AL to reflect budget adjustments adopted in this decision. PG&E subsequently filed its adjusted 2015 budget amounts in AL 3541-G-C/4550-E-C that was adopted by the Commission's ED effective January 1, 2015. In Appendix B of approved AL 3541-G-C/4550-E-C, it listed PG&E's final authorized budget amounts for each individual subprogram. Therefore, UAFCB believes that the 2015 authorized budget amounts approved in D.14-10-046 and in AL 3541-G-C/4550-E-C, excluding any fund shifts, should be applied when determining the incentive award cap amount for each program. UAFCB believes that funds shifted to NR programs from resource programs should also not be considered when determining the incentive award cap for each program. For example, the Commercial and Industrial Continuous Energy Improvement, and Waypoint Connect NR programs all obtained the additional funds from resource programs which increased the budget amounts.

Recommendation: PG&E has since filed AL 3755-G-A/4908-E-A to claim its NR Program Management Fee incentive award for PY 2015. The Commission's ED should reduce the NR Program Management Fee incentive award by \$2,709,846 when PG&E's true-up AL is processed.

Observation 20: PG&E's internal policies and procedures for implementing the NR programs were adequately designed to meet Commission directives in PY 2015. PG&E was in compliance with the internal PIPs for all NR programs.

Criteria: Did PG&E refer to its NR PIPs as the guiding documents for implementing the NR programs in accordance with Commission directives?

Condition: PG&E's NR program PIPs seemed adequate for implementing the NR programs in accordance with Commission directives in PY 2015.

Recommendation: None.

Observation 21: The criteria used by PG&E for designating EE programs as Resource and Non-Resource were in compliance with the Commission's directives. PG&E applied the definition contained in the EE Policy Manual (R.09-11-014), Version 5, July 2013, when determining whether an EE program is classified as Resource or Non-Resource.

Criteria: Did PG&E refer to the EE Policy Manual in determining whether an EE program is a Resource or Non-Resource Program in accordance with Commission directives?

Condition: PG&E classified its EE programs as Non-Resource per the definition in the Commission's EE Policy Manual.

Recommendation: None.

A.8 Energy Upgrade California (EUC) Program - 2015

Observation 22: Except for Observation 23 below, PG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported EUC program costs in PY 2015. The total recorded and reported amounted to \$20,967,951. A reconciliation of this amount reported in the December 2015 year-to-date Monthly EEStats report, Q4 2015 Quarterly EEStats report and in AL 3755-G-A/4908-E-A to PG&E's accounting records disclosed no material exceptions.

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

Condition: The \$20,967,951 reconciled to PG&E's accounting records. The breakdown is as follows:

Cost Category	Amount
Administrative	\$ 1,215,123
Marketing	2,220,442
Direct Implementation	17,532,386
Totals	<u>\$20,967,951</u>

Recommendation: None.

Observation 23: PG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including PG&E's established accrual policy and procedures. PG&E incorrectly included \$593,868 not belonging to 2015 PY. PG&E incorrectly recorded \$2,541 to the Administrative cost category, \$57,532 to the Marketing cost category, and \$533,795 to the Direct Implementation cost category.

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

Condition: UAFCB's review and testing disclosed several transactions for services incorrectly recorded and reported in 2015 PY. In addition, UAFCB found several samples in which the estimated accrual amount differed from the actual billing amount, resulting in an over or understatement of 2015 PY EUC program expenditures. A breakdown of \$593,868 by cost category is provided in the table below.

Program Description	Amount
Administrative	\$ 2,541
Marketing	57,532
Direct Implementation	<u>533,795</u>
Total	<u>\$593,868</u>

In its May 17, 2017 response to UAFCB's tentative examination findings provided to PG&E during the exit conference held on May 9, 2017, PG&E acknowledged and accepted the above findings.

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

Effect: PG&E over-reported the EUC program costs by \$593,868 in PY 2015.

PG&E Comments: PG&E agrees with UAFCB's recommendation to reduce its Resource Savings Incentive award (EAR Process Performance) but respectively disagrees with UAFCB's calculation and recommends that its incentive award calculation be based on D.13-09-023, Attachment 5.

ED Comments: ED requested that the language in the UAFCB's recommendation be changed so that ED can calculate the actual earnings reduction in the resolution. In addition, ED requests clarification on the meaning of UAFCB's statement "When internal controls are not adequately enforced in combination with lack of proper training and supervision of employees, recording and reporting errors can occur." included in the "Cause" section of this observation.

Response: UAFCB agrees with PG&E that its Resource Savings Incentive award be calculated based on D.13-09-23, Attachment 5. In addition, UAFCB agrees with ED to revise the language in its recommendation so that ED can calculate the actual earnings reduction in the resolution. In addressing ED's request for clarification on the statement included in the "Cause" section of this observation, UAFCB means that when internal policies and procedures are not adequately enforced by PG&E or followed by employee, along with lack of proper training and supervision of employees, recording and reporting errors can occur.

Recommendation: PG&E has since filed AL 3755-G-A/4908-E-A to claim its Resource Program Savings Incentives for PY 2015. The Commission's ED should deduct \$591,327 (\$533,795 + \$57,532) from the 2015 EUC expenditures when PG&E's 2015 ex-post ESPI true-up AL is processed.

Observation 24: PG&E's internal policies and procedures for implementing the Residential EUC program were adequately designed to meet Commission directives in PY 2015. PG&E was in compliance with its internal Residential PIP and Multifamily Upgrade Customer Handbook.

Criteria: Did PG&E use its Residential PIP and Multifamily Upgrade Customer Handbook as the guiding documents for implementing the Residential EUC program in order to comply with Commission directives?

Condition: PG&E's internal policies and procedural manuals for the EUC program were reasonably adequate for implementing the program in accordance with Commission directives in PY 2015.

Recommendation: None.

A.9 Statewide Commercial Deemed Incentives (CDI) Program – 2015

Observation 25: Except for Observation 26 below, PG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported CDI Program costs in PY 2015. The total recorded and reported amounted to \$23,786,932. A reconciliation of this amount reported in the December 2015 year-to-date Monthly EESStats report, Q4 2015 Quarterly EESStats report and in AL 3755-G-A/4908-E-A to PG&E's accounting records disclosed no material exceptions.

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

Condition: The \$23,786,932 reconciled to PG&E's accounting records. The breakdown is as follows:

Cost Category	Amount
Administrative	\$ 2,510,802
Marketing	4,084,353
Direct Implementation	<u>17,191,777</u>
Totals	<u>\$23,786,932</u>

Recommendation: None.

Observation 26: PG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including PG&E's established accrual policy and procedures. PG&E incorrectly included \$126,618 not belonging to 2015 PY. Specifically, PG&E overstated the Administrative cost category and Marketing cost category by \$3,802 and \$122,816, respectively.

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

Condition: UAFCB's review and testing disclosed one transaction totaling \$52,500 for services provided in PY 2016 but incorrectly recorded and reported in PY 2015. In addition, UAFCB found a few sample transactions in which the estimated accrual amounts differed from the actual billing amounts, resulting in an overstatement of \$74,118. Of this amount, \$3,802 was charged to the Administrative cost category and \$70,316 to the Marketing cost category.

In its May 17, 2017 response to UAFCB's tentative examination findings provided to PG&E during the exit conference held on May 9, 2017, PG&E acknowledged and accepted the above findings.

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

Effect: PG&E over-reported the CDI Program costs by \$126,618 in PY 2015.

PG&E Comments: PG&E agrees with UAFCB's recommendation to reduce its Resource Savings Incentive award (EAR Process Performance) but respectively disagrees with UAFCB's calculation and recommends that its incentive award calculation be based on D.13-09-023, Attachment 5.

ED Comments: ED requested that the language in the UAFCB's recommendation be changed so that ED can calculate the actual earnings reduction in the resolution. In addition, ED requests clarification on the meaning of UAFCB's statement "When internal controls are not adequately enforced in combination with lack of proper training and supervision of employees, recording and reporting errors can occur." included in the "Cause" section of this observation.

Response: UAFCB agrees with PG&E that its Resource Savings Incentive award be calculated based on D.13-09-23, Attachment 5. In addition, UAFCB agrees with ED to revise the language in its recommendation so that ED can calculate the actual earnings reduction in the resolution. In addressing ED's request for clarification on the statement included in the "Cause" section of this observation, UAFCB means that when internal policies and procedures are not adequately enforced by PG&E or followed by employee, along with lack of proper training and supervision of employees, recording and reporting errors can occur.

Recommendation: PG&E has since filed AL 3755-G-A/4908-E-A to claim its Resource Program Savings Incentives for PY 2015. The Commission's ED should deduct \$122,816 (\$52,500 + \$70,316) from the 2015 CDI program expenditures when PG&E's 2015 ex-post ESPI true-up AL is processed.

Observation 27: PG&E's internal policies and procedures to implement its CDI Program were adequately designed to meet the Commission's directives in PY 2015. PG&E was in compliance with its internal Commercial PIP and 2013-2015 Statewide Commercial Energy Efficiency Business Rebates Manual.

Criteria: Did PG&E use its Commercial PIP and 2013-2015 Statewide Commercial Energy Efficiency Business Rebates Manual as the guiding documents for implementing the CDI Program in accordance with Commission directives?

Condition: PG&E's internal policies and procedural manuals for the CDI Program were reasonably adequate for implementing the program in accordance with the Commission's directives in PY 2015.

Recommendation: None.

A.10 Industrial EE Program and Subprograms – 2015

Observation 28: Except for Observation 29 below, PG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported Industrial EE program costs in PY 2015. The total recorded and reported amounted to \$12,571,310. A reconciliation of this amount reported in the December 2015 year-to-date Monthly EEStats report, Q4 2015 Quarterly EEStats report and in AL 3755-G-A/4908-E-A to PG&E's accounting records disclosed no material exceptions.

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

Condition: The \$12,571,310 reconciled to PG&E's accounting records. The breakdown is as follows:

Cost Category	Amount
Administrative	\$ 2,294,319
Marketing	1,337,764
Direct Implementation	<u>8,939,227</u>
Totals	<u>\$12,571,310</u>

Recommendation: None.

Observation 29: PG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including PG&E's established accrual policy and procedures. PG&E incorrectly included \$51,743 not belonging to 2015 PY. In addition, UAFCB found some deficiencies in PG&E's internal controls when determining its incentive payment calculation.

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

Condition: UAFCB's review and testing disclosed two (2) transactions amounting to \$18,874 for services that should have been charged to PY 2014 but were incorrectly reported and charged to PY 2015. Since these two transactions related to NR Direct Implementation costs, UAFCB applied the exception amount in **Observation 18**.

UAFCB also found several transactions where the estimated accrual amounts differed from the actual billing amounts, resulting in \$14,423 overstatement. In addition, UAFCB discovered an invoice related to the Industrial Calculated Incentives subprogram where which PG&E used the incorrect incentive rate when it approved and paid the incentive amount.

A breakdown of the \$51,743 incorrectly reported and charged to 2015 PY by program and cost category is provided in the table below.

Program Description	Admin.	Mktg.	DI	Total
Industrial Continuous Energy Improvement ¹¹	\$ 0	\$ 0	\$18,874	\$18,874
Industrial Calculated Incentives	3,178	0	18,446	21,624
Industrial Energy Advisor	0	4,764	6,481	11,245
Totals	<u>\$3,178</u>	<u>\$4,764</u>	<u>\$43,801</u>	<u>\$51,743</u>

In its May 17, 2017 response to UAFCB's tentative examination findings provided to PG&E during the exit conference held on May 9, 2017, PG&E acknowledged and accepted the above findings.

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

Effect: PG&E over-reported the Industrial EE Program costs by \$51,743 in PY 2015.

PG&E Comments: PG&E agrees with UAFCB's recommendation to reduce its Resource Savings Incentive award (EAR Process Performance) but respectively disagrees with UAFCB's calculation and recommends that its incentive award calculation be based on D.13-09-023, Attachment 5.

ED Comments: ED requested that the language in the UAFCB's recommendation be changed so that ED can calculate the actual earnings reduction in the resolution. In addition, ED requests clarification on the meaning of UAFCB's statement "When internal controls are not adequately enforced in combination with lack of proper training and supervision of employees, recording and reporting errors can occur." included in the "Cause" section of this observation.

Response: UAFCB agrees with PG&E that its Resource Savings Incentive award be calculated based on D.13-09-23, Attachment 5. In addition, UAFCB agrees with ED to revise the language in its recommendation so that ED can calculate the actual earnings reduction in the resolution. In addressing ED's request for clarification on the statement included in the "Cause" section of this observation, UAFCB means that when internal policies and procedures are not adequately enforced by PG&E or followed by employee, along with lack of proper training and supervision of employees, recording and reporting errors can occur.

Recommendation: PG&E has since filed AL 3755-G-A/4908-E-A to claim its Resource Program Savings Incentives for PY 2015. The Commission's ED should deduct \$29,691 (\$4,764 + \$43,801 - \$18,874) from the 2015 Industrial EE Program expenditures when PG&E's 2015 ex-post ESPI true-up AL is processed.

Observation 30: PG&E's internal policies and procedures to implement its Industrial EE Program were adequately designed to meet the Commission's directives in PY 2015. PG&E was in compliance with its internal Industrial PIP, 2013-15 Statewide Customized Offering

¹¹ UAFCB accounted for this exception amount in Observation 18 since finding related to NR Direct Implementation costs.

Procedures Manual for Business, 2013-14 Statewide Retrocommissioning Policy and Procedures Manual, and PG&E's Industrial Deemed Incentives Rebate Catalogs.

Criteria: Did PG&E use its Industrial PIP, 2013-15 Statewide Customized Offering Procedures Manual for Business, 2013-14 Statewide Retrocommissioning Policy and Procedures Manual, and PG&E's Industrial Deemed Incentives Rebate Catalogs for implementing the Industrial EE Program in accordance with Commission directives?

Condition: PG&E's internal policies and procedural manuals for the Industrial EE Program were reasonably adequate for implementing the program in accordance with the Commission's directives in PY 2015.

Recommendation: None.

A.11 Agricultural EE Program and Subprograms - 2015

Observation 31: Except for Observation 32 below, PG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported Agricultural EE Program costs in PY 2015. The total recorded and reported amounted to \$18,553,570. A reconciliation of this amount reported in the December 2015 year-to-date Monthly EEStats report, Q4 2015 Quarterly EEStats report and in AL 3755-G-A/4908-E-A to PG&E's accounting records disclosed no material exceptions.

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

Condition: The \$18,553,570 reconciled to PG&E's accounting records. The breakdown is as follows:

Cost Category	Amount
Administrative	\$ 2,475,441
Marketing	980,952
Direct Implementation	15,097,177
Totals	<u>\$18,553,570</u>

Recommendation: None.

Observation 32: PG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including PG&E's established accrual policy and procedures. PG&E incorrectly included \$155,139 not belonging to 2015 PY. In addition, UAFCB found some deficiencies in PG&E's internal controls when determining its incentive payment calculation.

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

Condition: UAFCB's review and testing disclosed two (2) transactions amounting to \$87,792 for services that should have been charged to PY 2014 Direct Implementation

costs but were incorrectly reported and charged to PY 2015 Direct Implementation costs. UAFCB also found several transactions where the estimated accrual amounts differed from the actual billing amounts, resulting in \$355,519 understatement. In addition, UAFCB discovered an invoice related to the Agricultural Calculated Incentives subprogram where PG&E incorrectly applied the 50% incentive payment cap to the entire project instead of to each product. This caused PG&E to overstate PY 2015 expenditures by \$61,861. UAFCB also identified an invoice related to the Agricultural Calculated Incentives subprogram where PG&E used the incorrect incentive rate when it approved and paid the incentive amount. This caused PG&E to overstate its recorded and reported amount by an additional \$1,005 in PY 2015.

Furthermore, UAFCB discovered an invoice related to the Agricultural Calculated Incentive subprogram that ED determined the project was unqualified for an incentive payment. This caused PG&E to overstate its recorded and reported amount by \$360,000 in PY 2015.

A breakdown of the \$155,139 incorrectly reported and charged to 2015 PY by program and cost category is provided in the table below.

Program Description	Admin.	Mktg.	DI	Total
Agricultural Continuous Energy Improv. ¹²	\$ 0	\$ 0	\$ 7,188	\$ 7,188
Agricultural Calculated Incentives	0	0	137,129	137,129
Agricultural Energy Advisor	(3,534)	7,308	7,048	10,822
Totals	\$(3,534)	\$7,308	\$151,365	\$155,139

In its May 17, 2017 response to UAFCB's tentative examination findings provided to PG&E during the exit conference held on May 9, 2017, PG&E acknowledged and accepted the above findings.

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

Effect: PG&E over-reported the Agricultural EE Program costs by \$155,139 in PY 2015.

PG&E Comments: PG&E agrees with UAFCB's recommendation to reduce its Resource Savings Incentive award (EAR Process Performance) but respectively disagrees with UAFCB's calculation and recommends that its incentive award calculation be based on D.13-09-023, Attachment 5.

ED Comments: ED requested that the language in the UAFCB's recommendation be changed so that ED can calculate the actual earnings reduction in the resolution. In addition, ED requests clarification on the meaning of UAFCB's statement "When internal controls are not adequately enforced in combination with lack of proper training and

¹² UAFCB accounted for this exception amount in Observation 18 since finding related to NR Direct Implementation costs.

supervision of employees, recording and reporting errors can occur.” included in the “Cause” section of this observation.

Response: UAFCB agrees with PG&E that its Resource Savings Incentive award be calculated based on D.13-09-23, Attachment 5. In addition, UAFCB agrees with ED to revise the language in its recommendation so that ED can calculate the actual earnings reduction in the resolution. In addressing ED's request for clarification on the statement included in the “Cause” section of this observation, UAFCB means that when internal policies and procedures are not adequately enforced by PG&E or followed by employee, along with lack of proper training and supervision of employees, recording and reporting errors can occur.

Recommendation: PG&E has since filed AL 3755-G-A/4908-E-A to claim its Resource Program Savings Incentives for PY 2015. The Commission's ED should deduct \$151,485 (\$7,308 + \$151,365 - \$7,188) from the 2015 Agricultural EE Program expenditures when PG&E's 2015 ex-post ESPI true-up AL is processed.

Observation 33: PG&E's internal policy and procedures to implement its Agricultural EE Program was adequately designed to meet the Commission's directives in PY 2015. PG&E was in compliance with its internal Agricultural PIP, 2013-15 Statewide Customized Offering Procedures Manual for Business, 2013-14 Statewide Retrocommissioning Policy and Procedures Manual, PG&E's Agricultural Deemed Incentives Rebate Catalogs, and PG&E's Advanced Pumping Efficiency Program Policy and Procedures Manual.

Criteria: Did PG&E use its Agricultural PIP, 2013-15 Statewide Customized Offering Procedures Manual for Business, 2013-14 Statewide Retrocommissioning Policy and Procedures Manual, PG&E's Agricultural Deemed Incentives Rebate Catalogs, and PG&E's Advanced Pumping Efficiency Program (APEP) Policy and Procedures Manual for implementing the Agricultural EE Program in accordance with Commission directives?

Condition: PG&E's internal policies and procedural manuals for the Agricultural EE Program were reasonably adequate for implementing the programs in accordance with the Commission's directives in PY 2015.

Recommendation: None.

A.12 Local Government Partnership (LGP) Program and Subprograms – 2015

Observation 34: PG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the reported LGP Program costs in PY 2015. The total recorded and reported amounted to \$68,224,688. A reconciliation of this amount reported in EEStats, including the December 2015 year-to-date Monthly report and Q4 2015 Quarterly report, to PG&E's accounting records disclosed no material exceptions.

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

Condition: The \$68,224,688 reconciled to PG&E's accounting records. The breakdown is as follows:

Cost Category	Amount
Administrative	\$11,945,433
Marketing	2,698,012
Direct Implementation	53,581,243
Totals	<u>\$68,224,688</u>

Recommendation: None.

Observation 35: PG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting certain PY 2015 LGP Program amounts sampled for verification. UAFCB verified \$7,431,188 expended on the LGP Program and found no material exceptions.

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

Condition: UAFCB's review and testing disclosed no material exceptions.

Recommendation: None.

Observation 36: PG&E's internal policy and procedures to implement its LGP Program were adequately designed to meet the Commission's directives in PY 2015. PG&E was in compliance with the internal PIPs for all LGP programs.

Criteria: Did PG&E use its LGP PIPs as the guiding documents for implementing the LGP programs in accordance with Commission directives?

Condition: PG&E's LGP program PIPs are reasonably adequate for implementing its LGP Program in accordance with Commission directives in PY 2015.

Recommendation: None.

A.13 Follow-up on Prior UAFCB's Observations and Recommendations and PG&E's Internal Audit (IA) Recommendations

Observation 37: PG&E addressed and implemented all of UAFCB's audit recommendations specified in UAFCB's Audit Memo Report for the 2014 EE Program examination.

Criteria: Pursuant to UAFCB's examination report, PG&E was required, among others things to:¹³

- 1) Reduce its C&S Management Fee incentive award for PY 2014 by \$2,533 in its following AL true-up filing.
- 2) Reduce its NR Management Fee incentive award for PY 2014 by \$7,064 in its following AL true-up filing.
- 3) Enhance its internal control over invoice approval and strengthen its record retention to preserve audit evidence.
- 4) Reduce its Resource Program Savings incentive award by \$727,687 in its following AL true-up filing.

Condition: PG&E addressed and complied with all of UAFCB's recommendations identified in its prior examination report on PY 2014.

Recommendation: None.

Observation 38: PG&E identified internal audit report #16-020 – Customized Retrofit Program that related to the EE program activities for the PY 2015 examination period. In internal audit report #16-020, dated January 29, 2016, PG&E's Internal Audit (IA) Department conducted a review of the controls for managing the 2013-2015 Statewide Customized Retrofit program.

Criteria: In internal audit report #16-020, PG&E's IA Department concluded the following:

- The need to establish a standardized methodology and defined criteria for the calculation of the annual energy savings and incentive payments.
- The need to design user roles in the Energy Insight (EI) system to align with business processes and enforce segregation of duties (SOD).

Condition: PG&E provided the UAFCB with a status update and supporting documentation on management's corrective actions in implementing the findings and recommendations in internal audit report #16-020.

PG&E Comments: PG&E clarified that its IA Department did conduct an audit on the Customized Retrofit program related to the EE program activities for the PY 2015 examination period.

¹³ *Financial, Management, Regulatory, and Compliance Examination Report on Pacific Gas and Electric Company's (PG&E's) Energy Efficiency (EE) Program For the Period January 1, 2014 through December 31, 2014*, issued June 30, 2016.

Response UAFCB acknowledges that PG&E's IA Department conducted an audit of the Customized Retrofit program for period 2013-2015 and has modified its observation and recommendation based on PG&E's comments to UAFCB's draft report.

Recommendation: PG&E management addressed and corrected the issues raised by IA Department in internal audit report #16-020 by September 2016.

UAFCB appreciates PG&E's efforts in strengthening its internal controls for its EE program and recommends that PG&E continue to monitor and improve its internal controls in order to prevent any future deficiencies.

Appendix B Program Compendium

B.1 Introduction

On November 8, 2012, the California Public Utilities Commission (Commission) issued Decision (D.) 12-11-015 which, among other things, authorized Pacific Gas and Electric Company (PG&E) a total budget of \$823.1¹ million in ratepayer funds to administer and implement the Energy Efficiency (EE) programs for Program Years (PYs) 2013 and 2014. This amount, includes \$33.9 million for the Evaluation Measurement and Verification (EM&V) budget and represents approximately 43.3% of the total \$1.9 billion EE program budget for the four major energy Investor-Owned Utilities (IOUs) for the same period. The total authorized budget also includes the approved budgets of \$26.5 million for the San Francisco Bay Area Regional Energy Networks (BayREN) and \$4 million for the Marin Clean Energy (MCE) for PYs 2013 and 2014. The decision set energy savings goals, established cost-effectiveness requirements, and required the IOUs to offset their unspent and uncommitted EE program funding from pre-2013 program years against 2013-2014 EE budget cycle revenue requirements.² In D.13-09-044 dated September 19, 2013, the Commission denied funding of \$3.8 million for BayREN's Single Family Loan Loss Reserve Pilot Program.³

Due to the need of additional funding for BayREN Program, PG&E shifted \$3.3 million from Multifamily Energy Efficiency Rebates Program to the BayREN Program by filing Advice Letter (AL) 3478-G/4435-E, resulting in a final budget of \$26 million for the BayREN Program. In addition, in D.14-08-032 dated August 14, 2014, the Commission approved the Partial Settlement Agreement of PG&E's 2014 General Rate Case (GRC) and authorized PG&E to reallocate employee benefit burdens amount of \$19.9 million to its Customer Programs in PY 2014.⁴ Therefore, PG&E's 2013-2014 EE program cycle overall budget was increased by \$16.1 million (the net effect of the decreased amount of \$3.8 million and the increased amount of \$19.9 million), to a total of \$839.2 million.

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

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

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

³ D.13-09-044, OP 23 at p.123.

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

B.2 EE Funding Components

Of the \$1.230.5 billion authorized portfolio budget for program years 2013-2015, \$1.179 billion is to administer and implement PG&E's EE programs and the remaining \$51 million is dedicated to fund the EM&V Program. Excluding the EM&V expenditures, PG&E spent a combined \$1.088 billion in the 2013-2015 program cycle, or \$91 million less than its authorized budget for the same period.

A summary detailing PG&E's ratepayer funded total authorized EE portfolio budget, actual expenditures, amount unspent, and amount committed for the 2013-2015 program cycle is provided in Table B-1 below.

Table B-1
Authorized Budget and Other Components (Excluding ME&O)
Budget Cycle 2013-2015

Programs	Budget	Spent	Unspent	Committed	Unspent/Uncommitted
	1	2	3 = 1 - 2	4	5 = 3 - 4
Resource (Statewide)	\$ 531,000,943	\$ 528,772,448	\$ 2,228,495	\$56,269,988	\$(54,041,493)
Other Resource (TP&LGP)	457,125,258	413,683,881	43,441,377	26,208,283	17,233,094
Non-Resource	<u>180,366,860</u>	<u>137,716,969</u>	<u>42,649,891</u>	<u>0</u>	<u>42,649,891</u>
Subtotal	\$1,168,493,061	\$1,080,173,298	\$ 88,319,763	\$82,478,271	\$ 5,841,492
REN	43,880,450	40,119,565	3,760,885	0	3,760,885
MCH	<u>5,435,472</u>	<u>4,139,744</u>	<u>1,295,728</u>	<u>0</u>	<u>1,295,728</u>
Subtotal	\$ 49,315,922	\$ 44,259,309	\$ 5,056,613	\$ 0	\$ 5,056,613
Total before EM&V	\$1,217,808,983	\$1,124,432,607	\$ 93,376,376	\$82,478,271	\$ 10,898,105
EM&V	<u>51,487,225</u>	<u>22,255,883</u>	<u>29,231,342</u>	<u>0</u>	<u>29,231,342</u>
Grand Total	<u>\$1,269,296,208</u>	<u>\$1,146,688,490</u>	<u>\$122,607,718</u>	<u>\$82,478,271</u>	<u>\$ 40,129,447</u>

UAFCB describes below the background information of the areas it examined from B.3 to B.13. Section B.14 contains prior examination report follow-up responses, including PG&E's Internal Audit findings related to the EE programs during the examination period.

B.3 Total EE Program Year (PY) 2015 Cost Reconciliation

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

PG&E reported EE portfolio expenditures on Table 3, Annual Report of EE programs. The Annual Report includes all EE portfolio costs under six delivery channels -- CORE, Third Party (TP), Local Government Partnership (LGP), Non-utility Programs, EM&V, and On-Bill Financing (OBF) Loan Pool. Except for the EM&V and OBF Loan Pool, each delivery channel has four or five general cost categories: (1) Administrative-IOU Support; (2) Administrative-Implementer; (3) Marketing; (4) Rebates/Incentives/Direct Install; and (5) Direct Implementation (DI). Table B-2 provides a summary of EE portfolio expenditures for program year (PY) 2015.

**Table B-2
 EE Portfolio Expenses (Excluding EM&V and ME&O)
 Program Year (PY) 2015**

Program	Administrative	Marketing	Direct Implementation	Total
	1	2	3	4 = 1 to 3
Statewide Program:				
Residential	\$ 5,651,852	\$11,071,744	\$ 67,261,206	\$ 83,984,802
Commercial	10,414,531	9,157,619	65,225,227	84,797,377
Agricultural	2,475,441	980,951	15,097,177	18,553,570
Industrial	2,294,319	1,337,764	8,939,227	12,571,309
Lighting	1,810,087	740,206	9,331,808	11,882,102
Codes & Standards	582,127	(890)	12,200,276	12,781,513
Emerging Tech	388,484	274,865	7,333,679	7,997,027
WE&T	738,796	35,114	10,079,201	10,853,110
IDSMS	(211,735)	2,388,881	4,607,608	6,784,754
Financing	1,404,462	0	0	1,404,462
Others - OBF Loans	0	0	6,532,126	6,532,126
Subtotal - Statewide	\$25,548,363	\$25,986,254	\$206,607,536	\$258,142,154
LGP Programs:				
LGP	2,641,728	2,698,012	53,581,243	58,920,983
LGP-IOU	9,303,705	0	0	9,303,705
Subtotal - LGP	\$11,945,433	\$ 2,698,012	\$ 53,581,243	\$ 68,224,688
TP Programs:				
TP	1,980,536	5,507,763	62,635,758	70,124,057
TP-IOU	11,351,411	0	0	11,351,411
Subtotal - TP	\$13,331,947	\$ 5,507,763	\$ 62,635,758	\$ 81,475,467
Non-Utility:				
Bay REN	787,589	868,828	12,746,591	14,403,008
MCE	0	0	124,539	124,539
Subtotal - Non-Utility	\$ 787,589	\$ 868,828	\$ 12,871,130	\$ 14,527,547
Grand Total	\$51,613,333	\$35,060,857	\$335,695,667	\$422,369,856

B.4 2013-2015 EE Program Cycle IOU Administrative Costs

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

Specifically, PG&E's administrative costs are accounted for in four different delivery channels -- CORE programs, TP programs, LGP programs, and BayREN & MCE programs. Per the general ledger, administrative costs under each delivery channel are grouped as "IOU Support" under CORE or as "IOU Support" and "Implementer" under both TP and LGP. Under TP and LGP,

administrative costs recorded as "IOU Support" represent administrative costs that PG&E incurred in connection to TP and LGP's EE activities.

Pursuant to D.09-09-047, "Administrative costs for utility energy efficiency program (excluding third party and/or local government partnership budgets) are limited to 10% of total energy efficiency budgets..." And according to D.09-09-047, page 63, TP and LGP administrative cost target is set at 10% of the total TP/LGP's direct costs. A summary detailing PG&E's IOU, TP, and LGP reported administrative costs for the 2013-2015 program cycle by program category is provided in Table B-3 below.

**Table B-3
EE Program Administrative Costs (Excluding EM&V & ME&O)
Budget Cycle 2013-2015**

Program Description	Budget	IOU Administrative Cost			Total
		2013	2014	2015	
	1	2	3	4	5 = 2 to 4
Statewide Programs:					
Residential	\$ 178,560,850	\$ 3,892,327	\$ 4,267,555	\$ 5,651,852	\$ 13,811,734
Commercial	202,159,831	10,030,016	9,516,238	10,414,531	29,960,785
Agricultural	55,095,650	3,084,960	2,267,857	2,475,441	7,828,258
Industrial	47,879,827	3,255,365	2,288,829	2,294,319	7,838,513
Lighting	34,993,780	1,801,773	3,039,212	1,810,087	6,651,072
C& S	28,168,711	142,046	311,477	582,127	1,035,650
Emerging Tech	18,543,451	371,030	531,100	388,484	1,290,614
WE&T	36,922,791	641,488	593,992	738,796	1,974,276
IDSM	2,103,757	177,870	303,420	(211,735)	269,555
Financing	89,137,427	967,144	678,604	1,404,462	3,050,210
Subtotal - Statewide	\$ 693,566,075	\$24,364,019	\$23,798,284	\$25,548,364	\$73,261,015
LG Programs:					
LG		2,487,930	2,223,428	2,641,728	7,353,086
LG-IOU	214,380,582	6,261,112	6,676,512	9,303,705	22,241,329
Subtotal - LGP	\$ 214,380,582	\$ 8,749,042	\$ 8,899,940	\$11,945,433	\$ 29,594,415
TP Programs:					
TP		2,457,602	3,194,184	1,980,536	7,632,322
TP-IOU	269,047,102	8,830,869	8,636,725	11,486,591	28,954,185
Subtotal - TP	\$ 269,047,102	\$11,288,471	\$11,830,909	\$13,467,127	\$ 36,451,327
Non-Utility:					
REN		503,072	793,939	787,589	2,084,600
REN-IOU	35,579,750	4,993	4,807		9,800
MCE	5,235,472	0	0	0	0
Subtotal - Non-Utility	\$ 40,815,222	\$508,065	\$798,746	\$787,589	\$ 2,094,400
Grand Total	\$1,217,808,981	\$44,909,597	\$45,327,879	\$51,748,513	\$141,401,157

B.5 2013-2015 EE Program Cycle Non-IOU Administrative Costs

According to D.09-09-047, OP 13(a), "Administrative costs for utility energy efficiency programs (excluding third party and/or local government partnership budgets) are limited to 10% of total energy efficiency budgets..." Also, per D.09-09-047, page 63, "... we [the Commission] direct the utilities to seek to achieve a 10% administrative cost target for third party and local government partnership direct costs (i.e., separate from utility costs to administer these programs)..."

PG&E classified costs as administrative according to its established list of Allowable Costs, which provides, among other types of costs, a detailed listing of all allowable administrative costs applicable to the EE program. Only types of costs listed on the schedule are claimable and reportable for ratepayer funded EE program activities, and any changes to the schedule need approval from the Commission's Energy Division. Generally, administrative costs consist of labor costs of management and clerical, costs of Human Resource Supports and Development, such as labor benefits, payroll taxes, pension, and employee travel expenses

A summary of PG&E's EE program Non-IOU administrative costs for the 2013-2015 program cycle is provided in Table B-4.

**Table B-4
 EE Program Non-IOU Administrative Costs (Excluding EM&V)
 Program Cycle 2013-2015**

Program Description	Direct Cost	Non-IOU Administrative Cost			Total 5 = 2 to 4
		2013	2014	2015	
	1	2	3	4	
LGP	\$173,902,401	\$2,487,930	\$2,223,428	\$2,641,728	\$ 7,353,086
TP	200,927,033	2,457,602	3,059,004	1,980,536	7,497,142
Grand Total	<u>\$374,829,434</u>	<u>\$4,945,532</u>	<u>\$5,282,432</u>	<u>\$4,622,264</u>	<u>\$14,850,228</u>

B.6 Amounts Spent, Committed, and Unspent/Uncommitted 2013-2015

Commitments are accounting and budgeting mechanism that the company utilizes to identify, track, and set aside potential future spending of its various EE programs that are unpaid and not accrued obligations to its customers, contractors, and other third parties. Commitments are predictable future spending and include (1) records of signed agreements or applications and (2) advance reservations for program services. Payment on commitments is always conditional on fund availability and future events, such as the performance of agreed-upon work. Commitments are tracked periodically (e.g., monthly) by program management staff and are subject to changes due to changes in operational conditions, which may include changes in scope of work, cancellation, new commitments added, invoices/payments made against previous commitments, etc.

For informational disclosure purposes, Commitment is one of the two data elements within the Unspent component, with the other being the Unspent and Uncommitted. Commitments, as well as the Adjusted Authorized Budget and Amount Spent, is an important data component in order to accurately determine the Unspent and Uncommitted Amount. For detailed data disclosure, refer to Table B-1 of this Appendix.

PG&E's committed funds are presented in the "Total Incentive Commitments (Inception-to-Date)" column T of its December 2015 Monthly Energy Efficiency Program Report. The committed funds represent agreed upon, but unpaid incentives to customers for projects as of 12/31/2015. Any unpaid incentives for projects that have been installed and operational at the end of a month will be accrued, and reflected in program expenditures. Table B-1 provides a summary of amount spent, committed, and unspent/uncommitted of EE program year cycle 2013-2015. Authorized budget in Table B-1 excludes funding for SW-EM&O program. The funding for SW-EM&O was authorized in D.13-12-038 on 12-27-2013.

B.7 Codes and Standards (C&S) Program and Subprograms - 2015

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

ordinances that exceed statewide minimum requirements; and (4) coordinating with other programs and entities to support the state's ambitious policy goals.⁵

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

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

PG&E's approved total C&S program compliance budget for PYs 2013 and 2014 is \$12.8 million, which includes \$12.5 million approved by the Commission's Energy Division (ED) on September 17, 2013, in Compliance Filing AL 3356-G/4176-E, plus \$0.3 million from 2014 EE benefit burdens amount of \$19.9 million. Due to the need of additional funding for the C&S programs, PG&E shifted an additional \$700,000 into C&S programs in PY 2014, resulting in PG&E's total C&S program compliance budget of \$13,533,463. Although the fund shift amount of \$700,000 exceeded the annual fund shift threshold of \$65,852, no AL filing is required per Appendix C of The EE Policy Manual (R.09-11-014), Version 5, July 2013,⁶ because this fund shifting increased the C&S program budget. PG&E has \$575,000 funding carried over from the 2010-2012 EE cycle, resulting in a total budget for the C&S program of \$14,108,463 for PYs 2013 and 2014.

PG&E's approved total C&S program authorized budget for PY 2015 is \$8.585 million. However, because of anticipated higher expenditure for its C&S program, PG&E shifted \$6.75 million from the Industrial program budget to the C&S program budget, which resulted in a total C&S program authorized budget of \$15.335 million for 2015 as approved in AL 3541-G-C/4550-E-C.

Therefore, PG&E's total C&S program authorized budget for 2013-2015 EE program cycle is \$28.135 million and its operating budget, including fund shifts of \$700,000 in PY 2014, amounted to \$28,868,711 for the 2013-2015 EE program cycle. A summary of PG&E's C&S operating budget by subprogram and the proportion to total operating budget is presented in Table B-5.

⁵ Fact Sheet, "Statewide Codes and Standards Program (2013-2014)," March 2013, p. 1, Codes and Standards Support at <http://www.cpuc.ca.gov/PUC/energy/Energy+Efficiency/>

⁶ The EE Policy Manual mentioned in this report all refer to this version.

Table B-5
2013-2015 C&S Program Operating Budget

Program Name	2013-2015 Operating Budget	% to Total C&S Operating Budget
Building Codes Advocacy	\$ 10,421,974	36.1%
Appliance Standards Advocacy	8,448,594	29.3%
Compliance Improvement	5,297,075	18.3%
Reach Codes	1,904,282	6.6%
Planning and Coordination	<u>2,796,786</u>	<u>9.7%</u>
Totals	<u>\$ 28,868,711</u>	<u>100%</u>

PG&E spent a total of \$26,263,839, or approximately 91.0% of its C&S operating budget in the 2013-2015 EE program cycle. A detail summary of C&S program charges by subprogram and the proportion to total expenses for the 2013-2015 program cycle is provided in the table below.

Table B-6
2013-2015 C&S Program Expenditures

Program Name	PY 2013	PY 2014	PY 2015	Total	%
Building Codes Advocacy	\$ 890,437	\$1,329,061	\$ 3,296,640	\$ 5,516,138	21.0%
Appliance Standards Advocacy	3,019,411	2,130,971	5,129,082	10,279,464	39.1%
Compliance Improvement	1,279,305	3,065,682	2,776,489	7,121,476	27.1%
Reach Codes	32,613	131,459	669,052	833,125	3.2%
Planning and Coordination	<u>669,872</u>	<u>933,513</u>	<u>910,251</u>	<u>2,513,636</u>	<u>9.6%</u>
Totals	<u>\$5,891,638</u>	<u>\$7,590,686</u>	<u>\$12,781,514</u>	<u>\$26,263,839</u>	<u>100%</u>

For PY 2015, PG&E spent \$12,781,514, or 83.3% of its total C&S program authorized budget of \$15.3 million. A detail summary of PG&E's C&S program charges by subprogram, cost category and the proportion to total expenses for PY 2015 is provided in the table below.

Table B-7
C&S Program Expenditures – PY 2015

Program Name	Admin.	Mktg.	DI	Reported Total	%
Building Codes Advocacy	\$216,315	\$(890)	\$ 3,081,215	\$ 3,296,640	25.8%
Appliance Standards Advocacy	162,236	0	4,966,846	5,129,082	40.1%
Compliance Improvement	118,554	0	2,657,935	2,776,489	21.7%
Reach Codes	32,708	0	636,344	669,052	5.2%
Planning and Coordination	<u>52,315</u>	<u>0</u>	<u>857,936</u>	<u>910,251</u>	<u>7.1%</u>
Total C&S – PY 2015	<u>\$582,128</u>	<u>\$(890)</u>	<u>\$12,200,276</u>	<u>\$12,781,514</u>	<u>100%</u>

Pursuant to Ordering Paragraphs (Ops) 3 and 15 of D.13-09-023, PG&E filed AL 3755-G-A/4908-E-A on October 7, 2016, requesting its C&S Program Management Fee incentive award for PY 2015 in the form of a management fee equal to 12% of approved C&S program expenditures, not to exceed authorized expenditures, and excluding administrative costs. PG&E requested \$1,463,926 for PY 2015. A summary detailing PG&E's calculation of the amount is presented in the table B-8.

**Table B-8
 C&S Program Management Fee Calculation – PY 2015**

Description	Amount
Total C&S Program Expenditure	\$12,781,514
Less: C&S Administrative Cost	<u>582,128</u>
Subtotal	\$12,199,386
Multiplied by 12%	<u>12%</u>
Total C&S Program Management Fee – PY 2015	<u>\$ 1,463,926</u>

B.8 Non-Resource (NR) Program and Subprograms - 2015

The NR programs represent energy efficiency (EE) activities that do not focus on displacement of supply-side resources at the time they are implemented, but may lead to displacement over a longer-term, or may enhance program participation overall. The NR programs in themselves do not provide direct energy savings and only have costs, making them not cost-effective on their own. Therefore, to motivate utility management focus on achieving NR program goals while removing disincentives to shift funds and resources away from the NR programs,⁷ a performance reward for implementing the NR programs is paid in a form of a management fee equal to 3% of NR program expenditures, not to exceed the program authorized expenditures, and excluding administrative costs.⁸

Currently, there are no specific criteria for determining whether a particular EE program is to be classified as Resource or NR. For PG&E, it classified its EE program as NR based on the definition contained in the EE Policy Manual,⁹ which defines NR Program as “Energy efficiency programs that do not directly procure energy resources that can be counted, such as marketing, outreach and education, workforce education and training, and emerging technologies.”

PG&E’s total NR program authorized budget for PY 2015 is \$80.7 million. A summary of PG&E’s authorized budget for PY 2015 by subprogram and the proportion to total budget is provided in Table B-9.

⁷ D.13-19-023, Findings of Fact 10, p. 88

⁸ D.13-19-023, OP 3(D), p. 95

⁹ EE Policy Manual, p.57.

**Table B-9
 Non-Resource Program Authorized Budget for PY 2015**

Non-Resource Program Name	PY 2015 Authorized Budget	% to Total Non- Resource Budget
Commercial Continuous Energy Improvement	\$ 491,755	0.6%
Industrial Continuous Energy Improvement	226,406	0.3%
Agricultural Continuous Energy Improvement	506,988	0.6%
Lighting Innovation	1,692,692	2.1%
Lighting Market Transformation	670,738	0.8%
Technology Development Support	452,119	0.6%
Technology Assessments	3,073,632	3.8%
Technology Introduction Support	2,766,326	3.4%
Centergies	9,721,801	12.0%
Connections	2,150,604	2.7%
Strategic Planning	688,937	0.9%
Statewide DSM Coordination & Integration	714,617	0.9%
Bridges to Energy Sector Opportunities	380,828	0.5%
Waypoint Commercial Outreach	761,655	0.9%
SEI Energize Schools Program	507,770	0.6%
Strategic Energy Resources ¹⁰	<u>55,896,665</u>	<u>69.3%</u>
Total NR Authorized Budget – PY 2015	<u>\$80,703,533</u>	<u>100%</u>

In PY 2015, PG&E identified 16¹¹ EE programs as active NR programs with recorded charges totaling \$30,944,602. A detailed summary of PG&E's reported NR program expenditures by subprogram, cost category, and the proportion to total expenses for PY 2015 is provided in Table B-10.

¹⁰ The total Strategic Energy Resource budget amount of \$55,896,665 includes the Strategic Energy Resource subprogram and 18 NR subprograms as reported by PG&E in EEStats for PY 2015.

¹¹ PG&E closed the Builder Energy Code Training, Green Building Technical Support Services and Ozone Laundry Energy Efficiency subprograms in 2015. Thus, the UAFCB did not consider these active NR programs in PY 2015.

Table B-10
Non-Resource Program Expenditures – PY 2015

Program Name	Admin.	Mktg.	DI	Reported Total	%
Commercial Continuous Energy Improvement	\$ 78,279	\$ 464,744	\$ 583,022	\$ 1,126,045	3.6%
Industrial Continuous Energy Improvement	80,086	176,258	242,653	498,997	1.6%
Agricultural Continuous Energy Improvement	69,046	5,459	89,747	164,252	0.5%
Lighting Innovation	334,155	189,714	379,003	902,872	2.9%
Lighting Market Transformation	86,342	6,736	157,584	250,662	0.8%
Technology Development Support	37,056	11,643	1,172,197	1,220,896	3.9%
Technology Assessments	217,760	191,123	2,780,342	3,189,225	10.3%
Technology Introduction Support	133,667	72,098	3,357,489	3,563,254	11.5%
Centergies	583,924	35,114	7,315,233	7,934,271	25.6%
Connections	87,709		2,006,558	2,094,267	6.8%
Strategic Planning	67,162		757,410	824,572	2.7%
Statewide DSM Coordination & Integration	(211,735)	54	195,382	(16,299)	(0.1%)
Bridges to Energy Sector Opportunities	31,801	1,609	233,525	266,935	0.9%
Waypoint Commercial Outreach	219,112	100,984	544,724	864,820	2.8%
SEI Energize Schools Program	114,178	93,492	329,391	537,061	1.7%
Strategic Energy Resources ¹²	496,535	271,011	6,741,220	7,508,766	24.3%
Builder Energy Code Training	10,448	2	1,073	11,523	0.0%
Green Building Technical Support Services	11,896	3,207	(10,404)	4,699	0.0%
Ozone Laundry Energy Efficiency	(3,227)	5	1,006	(2,216)	0.0%
Total NR Expenditures – PY 2015	<u>\$2,444,194</u>	<u>\$1,623,253</u>	<u>\$26,877,155</u>	<u>\$30,944,602</u>	<u>100%</u>

Pursuant to OPs 3 and 16 of D.13-09-023, PG&E filed AL 3755-G-A/4908-E-A on October 7, 2016, requesting its NR Program Management Fee incentive award for PY 2015 in the form of a management fee equal to 3% of approved NR program expenditures, not to exceed authorized expenditures, and excluding administrative costs. PG&E requested \$855,012 for PY 2015. A summary detailing PG&E's calculation of the amount is presented in the table below.

Table B-11
NR Program Management Fee Calculation – PY 2015

Description	Amount
Total Non-Resource Program Expenditure	\$30,944,602
Less: Non-Resource Program Administrative Cost	<u>2,444,194</u>
Subtotal	\$28,500,408
Multiplied by 3%	<u>3%</u>
Total NR Program Management Fee – PY 2015	<u>\$ 855,012</u>

B.9 Energy Upgrade California (EUC) Program – 2015

The Residential Energy Upgrade California (EUC) Program is designed to offer a one-stop approach to whole-house residential retrofits that provide customers with energy efficiency

¹² The total Strategic Energy Resource expenditure amount includes the Strategic Energy Resource subprogram and 18 NR subprograms as reported by PG&E in EESStats for PY 2015.

improvements, energy savings and comfort to their dwelling. The EUC Program moves customers from a single-measure based approach to energy efficiency to a more comprehensive approach that views a house as a series of interdependent systems that must be considered holistically.

For single family residences, the whole house approach of EUC promotes two paths, a prescriptive-based Enhanced Basis/Modified Flex Path and a comprehensive, measured Advanced Path.

- EUC Advanced Path offers customers a customized path to comprehensive whole house energy efficiency that drives the customer to deep retrofits. Customers can also participate in Advanced Path by using a Participating Rater. This path requires diagnostic "test-in" and "test-out" whole house assessments. The "test-in" assessments will generate a comprehensive work scope and the "test-out" assessments will be used to document that specified improvements have been properly sized and installed. For the Advanced Path Incentives, PG&E's Program Implementation Plan (PIP) has provided the incentive rebate rate for each savings or participation level. However, the four IOUs had filed AL 3483-G/4442-E to require the increase of incentive amount, and this advice letter was effective as of July 11, 2014.
- The Enhanced Basic/Modified Flex Path offers customers and contractors an easy entry point on the path to home performance with a defined package of measures. The difference between the Advanced Path and Enhanced Basis/Modified Flex Path is that, Advanced Path solutions require participating contractors to obtain higher levels of expertise than those who perform the Enhanced Basic/Modified Flex Path installations. Same as Advanced Path, the incentives will be available for customers to offset a portion of the cost of specific comprehensive retrofits. For the Enhanced Basic/Modified Flex Path Incentives, PG&E's PIP also has provided the incentive rebate rate for each participation level.

For multifamily buildings, PG&E's Multifamily Upgrade Program (MUP) promotes and facilitates energy-efficient retrofits of multifamily housing through design assistance, cash incentives, and program coordination. TRC Energy Services (TRC) implements, oversees, and coordinates this program on behalf of PG&E.¹³

- The MUP offers two kinds of incentives: Assessment Incentive and Upgrade Incentive. Only the upgrade incentive belongs to the EE expenditures. Upgrade incentive is performance-based escalating incentive for the energy efficiency upgrades, paid to the Owner Applicant, unless signed over to the Approved Contractor installing the upgrades.
- The Multifamily Upgrade Program uses modeling software that captures performance for the whole building and allows for recommendations on a wide variety of measures to determine estimated energy savings potentials. Projects must complete the installation of two or more measure-types and achieve a minimum of 10 percent in modeled energy improvements to qualify for incentives.¹⁴ PG&E's Multifamily Upgrade Customer

¹³ PG&E's Multifamily Upgrade Customer Handbook, pp.2-3.

¹⁴ PG&E's Multifamily Upgrade Customer Handbook, p.6.

Handbook has provided the upgrade incentive amount for each level of post-upgrade modeled savings.

In D.14-10-046, the Commission authorized PG&E a total budget of \$61.8 million for the Statewide Residential EE Program in PY 2015. Due to the need of additional funding for the Statewide Residential EE Programs, PG&E requested and received authorization from the Commission's Energy Division to shift \$13.9 million from PG&E's Statewide Industrial and Agricultural Programs to PG&E's Statewide Residential Programs in AL 3631-G/4703-E. Subsequently, in AL 3752-G/4905-E, PG&E was authorized to shift an additional \$3.3 million from its Statewide Lighting and Third Party Program budgets to its Statewide Residential EE Programs budget at the end of 2015. In addition, for its Statewide Residential EE Programs budget in 2015, PG&E carried over an additional \$5.0 million from 2013-2014 EE program cycle, resulting in a total Statewide Residential EE Program operating budget of \$83.9 million for PY 2015. A summary of PG&E Statewide Residential EE Programs budget for PY 2015 is provided in the table below.

Table B-12
Statewide Residential EE Program Budget – PY 2015

Description	Amount
2015 Adopted Budget per D.14-10-046	\$61,794,379
Fund Shift per AL 3631-G/4703-E	13,883,425
Fund Shift per AL 3752-G/4905-E	3,251,838
2013-2014 Carryover Funding	<u>5,055,160</u>
Total Residential EE Program Operating Budget	<u>\$83,984,802</u>

In PY 2015, PG&E spent its entire Statewide Residential EE Programs budget amount of \$83,984,802, including the \$5,055,160 carried over from the 2013-2014 EE program cycle. Of the \$83.9 million, PG&E incurred approximate \$21.0 million in implementing its EUC Program, or approximately 25.0% of the total.. A detailed summary of PG&E's reported EUC program costs by cost category and their related percentages for PY 2015 is presented in the table below.

Table B-13
EUC Program Expenditures – PY 2015

Cost Category	Amount	%
Administrative	\$ 1,215,123	5.8%
Marketing	2,220,442	10.6%
Direct Implementation	<u>17,532,386</u>	<u>83.6%</u>
Totals	<u>\$20,967,951</u>	<u>100%</u>

B.10 Commercial Deemed Incentives (CDI) Program – 2015

Commercial Deemed Incentive (CDI) Program is a resource subprogram and one of the six subprograms under the Statewide Commercial EE Program. It offers California's commercial customers a statewide-consistent suite of products and services to overcome the market barriers to optimized energy management. The program targets integrated energy management solutions, including EE, demand response, and distributed generation, through strategic energy planning

support; technical support services, such as facility audits, and calculation and design assistance; and financial support through rebates, incentives, and financing options.¹⁵

The statewide CDI subprogram provides rebates for the installation of new EE equipment. The CDI mechanism is designed to help influence the installation of EE equipment and systems in both retrofit and added load applications by reducing the initial purchase costs of such equipment and reducing the "hassle" of participating in utility rebate programs by offering a simple application process. The CDI subprogram directly addresses key market factors that lead to higher energy costs for California businesses. Providing a menu of prescribed common measures simplifies the process of reviewing project proposals and provides a "per-widget" rebate that reduces the cost of retrofitting outdated and inefficient equipment. This sub-program makes it attractive for customers to spend money in the short-run in order to achieve lower energy costs in the long-run. Audits are an important tool for marketing and increasing the uptake of EE measures. An audit is not a prerequisite for deemed incentives, unless three or more EE measures are being implemented on a single application.¹⁶

Under the entire Commercial Program, Commercial Calculated Incentives (CCI) subprogram and CDI subprogram both provide incentives payment to customers. The difference between the two incentives subprograms is that, in the CCI subprogram, savings are calculated and tracked on a site specific basis. For the CDI subprogram, deemed incentives has a predetermined agreed upon amount of savings for a specific piece of equipment (or "widget").¹⁷

The utility administrator never pays an incentive for more than 100% of the actual purchase price of the items or over the maximum incentive allowance per unit.¹⁸

PG&E's Rebate Catalogs have provided the commercial deemed incentive rebate rates used in the calculation of the deemed incentive payment.

In D.14-10-046, the Commission authorized PG&E a total budget of \$79.0 million for the Statewide Commercial EE Program in PY 2015. Due to the need of additional funding for the Statewide Residential EE Programs, and also because the shifted amount was within the 15% of approved 2015 budget limit, PG&E obtained an additional funding of \$1.55 million. In addition, for the Statewide Commercial EE Programs budget in PY 2015, PG&E carried over an additional \$4.2 million from 2013-2014 EE program cycle, resulting in a total operating budget of \$84.8 million. A summary of PG&E's Statewide Commercial EE Programs budget for PY 2015 is provided in the table B-14.

¹⁵ PG&E's 2013-2014 EE Portfolio PIP – Commercial Program, p.2.

¹⁶ PG&E's 2013-2014 EE Portfolio PIP – Commercial Program, pp.110-112.

¹⁷ PG&E's Data Response to DR-016 Supplemental 01, Question #1.

¹⁸ 2013-2014 Statewide Energy Efficiency Business Rebates Manual.

**Table B-14
 Statewide Commercial EE Program Budget – PY 2015**

Description	Amount
2015 Adopted Budget per D.14-10-046	\$79,040,928
Fund Shift (within 15% of approved PY 2015 budget limit)	1,551,676
2013-2014 Carryover Funding	<u>4,204,773</u>
Total Commercial EE Program Operating Budget	<u>\$84,797,377</u>

In PY 2015, PG&E spent its entire Statewide Commercial EE Programs budget amount of \$84,797,377, including the \$4,204,773 carried over from the 2013-2014 EE program cycle. Of the \$84.8 million, PG&E incurred \$23.8 million in implementing its CDI Program, or 28.1% of the total. A detailed summary of PG&E's reported CDI program costs by cost category and their related percentages for PY 2015 is presented in the table below.

**Table B-15
 CDI Program Expenditures – PY 2015**

Cost Category	Amount	%
Administrative	\$ 2,510,802	10.6%
Marketing	4,084,353	17.2%
Direct Implementation	<u>17,191,777</u>	<u>72.2%</u>
Totals	<u>\$23,786,932</u>	<u>100%</u>

B.11 Industrial EE Program and Subprograms – 2015

The Statewide Industrial EE Program offers California's industrial segment a statewide-consistent suite of products and services designed to meet customer needs, overcome market barriers to optimized energy management, enhance adoption of integrated demand-side management practices, and advance the industry toward achieving the goals of the Strategic Plan. The program overcomes barriers through strategies that provide an integrated solution to the customer; create heightened awareness through education and outreach; and foster continuous energy improvement. The program also promotes use of commonly accepted standards to document a facility's attainment of high resource management levels – and access to branding and certification to garner market recognition for this achievement. In addition, it supports training to create a highly skilled EE workforce that is accessible to industry.¹⁹

PG&E's Statewide Industrial EE Program consists of four subprograms: 1) Industrial Calculated Incentives (ICI), 2) Industrial Deemed Incentives (IDI), 3) Industrial Continuous Energy Improvement (ICEI), and 4) Industrial Energy Advisor.

In D.14-10-046, the Commission authorized PG&E a total budget of \$18.7 million for the Statewide Industrial EE Program in PY 2015. Due to the need of additional funding for the Statewide C&S Program, PG&E shifted \$6.75 million from the Statewide Industrial EE Program budget to the C&S Program budget, which resulted in a total Statewide Industrial Program authorized budget of \$11.9 million for PY 2015 as approved in AL 3541-G-C/4550-E-C.

¹⁹ PG&E's 2013-2014 EE Portfolio PIP – Industrial Program, p.2.

Subsequently, in AL 3595-G-A/4636-E-A and AL 3615-G/4682-E, PG&E was authorized to shift \$3.5 and \$1.5 million from its Statewide Industrial EE Program budget to its BayREN budget in July and August 2015, respectively. In addition, in AL 3631-G/4703-E, PG&E was authorized to shift \$1.8 million from its Statewide Industrial EE Program budget to Statewide Residential EE Program budget in October 2015. For its Statewide Industrial EE Program budget in PY 2015, PG&E carried over an additional \$9.7 million from 2013-2014 EE program cycle, resulting in a total Statewide Industrial EE Program operating budget of \$14.9 million for PY 2015. A summary of PG&E Statewide Industrial EE Program budget for PY 2015 is provided in the table below.

Table B-16
Statewide Industrial EE Program Budget – PY 2015

Description	Amount
2015 Adopted Budget per D.14-10-046	\$18,689,000
Fund Shift per AL 3541-G-C/4550-E-C	(6,750,220)
Total Industrial EE Program Authorized Budget	\$11,938,780
Fund Shift per AL 3595-G-A/4636-E-A	(3,500,000)
Fund Shift per AL 3615-G/4682-E	(1,500,000)
Fund Shift per AL 3631-G/4703-E	(1,790,817)
2013-2014 Carryover Funding	9,748,470
Total Industrial EE Program Operating Budget	<u>\$14,896,433</u>

A summary of PG&E's Statewide Industrial EE Program operating budget for subprogram and the proportion to total budget are presented in Tables B-17 below.

Table B-17
Industrial EE Program Operating Budget for PY 2015

Program Name	PY 2015 Operating Budget	%
Industrial Calculated Incentives	\$10,052,601	67.5%
Industrial Deemed Incentives	(770)	0.0%
Industrial Continuous Energy Improvement	806,463	5.4%
Industrial Energy Advisor	<u>4,038,139</u>	<u>27.1%</u>
Totals	<u>\$14,896,433</u>	<u>100.0%</u>

For PY 2015, PG&E's reported the Statewide Industrial EE Program cost of \$12,571,310 or approximately 84.4% of its total operating budget of \$14,896,433, including \$9,748,470 carried over from the 2013-2014 EE program cycle. A detail summary of reported Statewide Industrial EE Program charges by subprogram, cost category and the proportion to total expenses is provided in the table below.

Table B-18
Statewide Industrial EE Program Expenditures – PY 2015

Program Name	Admin.	Mktg.	DI	Total	%
Industrial Calculated Incentives	\$1,748,170	\$ 626,697	\$7,145,857	\$ 9,520,724	75.7%
Industrial Deemed Incentives	142,350	320,969	811,713	1,275,032	10.1%
Industrial Cont. Energy Improvement	80,086	176,258	242,653	498,997	4.0%
Industrial Energy Advisor	323,712	213,841	739,004	1,276,557	10.2%
Totals	<u>\$2,294,318</u>	<u>\$1,337,765</u>	<u>\$8,939,227</u>	<u>\$12,571,310</u>	<u>100%</u>

B.12 Agricultural EE Program and Subprograms – 2015

The Statewide Agricultural EE Program offers California's diverse agricultural customers a statewide-consistent suite of products and services to overcome the market barriers to optimized energy management. The program targets agricultural end-users, such as irrigated agriculture growers (crops, fruits, vegetable, and nuts), greenhouses, post-harvest processors (ginners, nut hullers, and associated refrigerated warehouses) and dairies. Traditionally, food processors have received IOU services through the Industrial program offering. However, there are those facilities that are integrated with growers and their products, as is the case with some fruit and vegetable processors (canners, dryers, and freezers), prepared food manufacturers, wineries, and water distribution customers that may be addressed by this program's offerings.²⁰

PG&E's Statewide Agricultural EE Program consists of four subprograms: 1) Agricultural Calculated Incentives (ACI), 2) Agricultural Deemed Incentives (ADI), 3) Agricultural Continuous Energy Improvement, and 4) Agricultural Energy Advisor. Except for the target market, Agricultural customers and one project mentioned below, these four subprograms primarily share the same characteristics with the subprograms under the Statewide Industrial EE Program.

The Agricultural EE program differs from Industrial EE Program in that the Agricultural Energy Advisor subprogram offers Pump Efficiency Services, which is designed to help agricultural customers make informed decisions about improving inefficient pumping systems and operations through recommendations derived from pump test audit or direct observations of processes. The Pump Efficiency Services program element, implemented by a team of trained in house or third party contractors, aims to overcome key informational, technical, and financial barriers to pump optimization by offering pump tests, retrofit incentives, and targeted education, training and technical support for customers and pump companies.²¹

The Advanced Pumping Efficiency Program (APEP) is an educational and incentive program intended to improve overall water pumping efficiency and encourage energy conservation in California. APEP has four program components: Education, Technical Assistance, Pump Efficiency Tests, and Incentives for Pump Retrofits/Replacements. PG&E's Advanced Pumping Efficiency Program Policy and Procedures Manual has detail guidance on how to participate APEP, Pump Efficiency Tests, how to calculate incentives, and how to apply for a Pump Retrofit/Replacement Incentive.

²⁰ PG&E's 2013-2014 EE Portfolio PIP – Agricultural Program, p.2.

²¹ PG&E's 2013-2014 EE Portfolio PIP – Agricultural Program, p.36.

In D.14-10-046, the Commission authorized PG&E a total budget of \$18.8 million for the Statewide Agricultural EE Program in PY 2015. Due to the need of additional funding for the Statewide Residential EE Program, PG&E shifted \$2.82 million from the Statewide Agricultural EE Program budget to the Statewide Residential EE Program budget in October 2015 as approved in AL 3631-G/4703-E. , PG&E carried over an additional \$2.5 million from 2013-2014 EE program cycle. In addition, due to the need of additional funding and because the shifted amount was within the 15% of approved 2015 budget limit, PG&E obtained an additional funding of \$47,048 from the other EE program, resulting in a total operating budget of \$18.55 million. A summary of PG&E Statewide Agricultural EE Program budget is provided in the table below.

Table B-19
Statewide Agricultural EE Program Budget – PY 2015

Description	Amount
2015 Adopted Budget per D.14-10-046	\$18,823,008
Fund Shift per AL 3631-G/4703-E	(2,823,451)
Fund Shift (within 15% of approved PY 2015 budget limit)	47,048
2013-2014 Carryover Funding	<u>2,506,965</u>
Total Industrial EE Program Operating Budget	<u>\$18,553,570</u>

A summary of PG&E's Statewide Agricultural EE Program operating budget for by subprogram and the proportion to total budget is presented in Tables B-20.

Table B-20
Agricultural EE Program Operating Budget for PY 2015

Program Name	PY 2015 Operating Budget	%
Agricultural Calculated Incentives	\$ 9,443,466	50.9%
Agricultural Deemed Incentives	2,629,376	14.2%
Agricultural Continuous Energy Improvement	1,034,505	5.6%
Agricultural Energy Advisor	<u>5,446,223</u>	<u>29.3%</u>
Totals	<u>\$18,553,570</u>	<u>100.0%</u>

In PY 2015, PG&E spent its entire Statewide Agricultural EE Programs budget amount of \$18,553,570, including the \$2,506,965 carried over from the 2013-2014 EE program cycle. A detail summary of reported Statewide Agricultural EE Program charges by subprogram, cost category and the proportion to total expenses for is provided in the table below.

Table B-21
Statewide Agricultural EE Program Expenditures – PY 2015

Program Name	Admin.	Mktg.	DI	Total	%
Agricultural Calculated Incentives	\$1,363,484	\$755,788	\$ 6,185,506	\$ 8,304,778	75.7%
Agricultural Deemed Incentives	471,412	76,175	4,256,816	4,804,403	10.1%
Agricultural Cont. Energy Imp.	69,046	5,459	89,747	164,253	4.0%
Agricultural Energy Advisor	<u>571,499</u>	<u>143,529</u>	<u>4,565,109</u>	<u>5,280,136</u>	<u>10.2%</u>
Totals – PY 2015	<u>\$2,475,441</u>	<u>\$980,951</u>	<u>\$15,097,178</u>	<u>\$18,553,570</u>	<u>100%</u>

B.13 Local Government Partnership (LGP) Program and Subprograms – 2015

PG&E's LGP Program and subprograms serve as PG&E's primary delivery channel supporting cities, counties, and other agencies seeking energy savings and greenhouse gas emission reductions on the community-scale. Promoting energy planning at a statewide and local level is a major market driver in the uptake of energy efficiency projects due to the unique advantage local governments have in understanding the distinctive circumstances of their communities. Partnerships leverage the significant role that local governments play in terms of community-wide energy usage, extending the reach and effectiveness of PG&E's energy efficiency programs.

In PY 2015, PG&E incurred charges totaling \$68,224,688 in implementing its LGP Program and subprograms. A detailed summary of PG&E's reported LGP program costs by cost category and their related percentages for PY 2015 is presented in the table below.

Table B-22
LGP Expenditures – PY 2015

Program Name	Admin.	Mktg.	DI	Total	%
California Community College	\$ 375,518	\$ 5,930	\$ 2,069,116	\$ 2,450,565	4%
University of California/State	2,035,351	25,376	3,605,328	5,666,056	8%
State of California	166,113	2,418	277,816	446,348	1%
Dept. of Correction & Rehab	438,164	5,427	(85,598)	357,993	1%
Local Government Energy Action	1,193,548	498,267	9,119,024	10,810,840	16%
Strategic Energy Resource	496,535	271,011	6,741,220	7,508,766	11%
Association Monterey Bay Area	607,035	211,030	3,395,783	4,213,849	6%
East Bay	1,622,559	209,543	4,888,354	6,720,475	10%
Fresno	590,360	155,181	2,385,290	3,130,833	5%
Kern	478,332	102,167	2,230,685	2,811,185	4%
Madera	71,107	18,681	346,217	436,006	1%
Marin County	231,504	43,081	904,716	1,179,302	2%
Mendocino County	82,708	23,864	520,018	626,591	1%
Napa County	94,790	25,910	398,625	519,325	1%
Redwood Coast	268,317	53,056	1,153,041	1,474,416	2%
San Luis Obispo County	195,214	17,906	665,098	878,220	1%
San Mateo County	312,809	290,742	2,021,555	2,265,108	4%
Santa Barbara	173,233	35,936	757,670	966,840	1%
Sierra Nevada	410,595	58,329	1,485,676	1,954,601	3%
Sonoma County	290,530	57,390	1,878,496	2,226,417	3%
Silicon Valley	604,853	112,390	3,891,930	4,609,174	7%
San Francisco	<u>1,206,249</u>	<u>474,366</u>	<u>4,931,171</u>	<u>6,611,787</u>	<u>10%</u>
Total – PY 2015	<u>\$11,945,432</u>	<u>\$2,698,012</u>	<u>\$53,581,242</u>	<u>\$68,224,687</u>	<u>100%</u>

B.14 Follow-up on Prior UAFCB's Observations and Recommendations and PG&E Internal Audit Services Reports

UAFCB performed a follow-up examination on each observation and recommendation included in its prior report entitled, *Financial, Management, Regulatory, and Compliance Examination*

Report on Pacific Gas & Electric Company's (PG&E's) Energy Efficiency Program For the Period January 1, 2014 through December 31, 2014, issued on June 30, 2016.

UAFCB's reviewed prior observations and recommendations pending corrective actions by PG&E which included the following:

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

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

UAFCB Follow-Up Response: PG&E and the IOUs had meetings and discussions with Amy Reardon of the Energy Division of the CPUC, to agree on a report format that would be consistent among all the IOUs and satisfy the ED's data requirements for 2016. These discussions began in mid-February of 2016, and concluded in early March with the issuance of a revised and reformatted Monthly EEStats report.

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

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

Recommendation: PG&E has since filed AL 3606-G/4659-E²² to claim its C&S Program Management Incentive award for PY 2014. ED should reduce the C&S Program Management Incentive award by \$2,533 ($\$21,109 * 12$) when PG&E's true-up AL is processed.

UAFCB Follow-Up Response: On October 7, 2016, PG&E filed AL 3755-G/4908-E and 3755-G-A/4908-E-A to incorporate the above reductions to its PY 2014 EE Incentive Award. The AL was approved by ED on December 23, 2016.

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

²² In Table 3 on Page 4 of AL 3606-G/4659-E, PG&E claimed \$7,279,208 C&S program costs, excluding administrative costs, for PY 2014. This amount reconciled with the \$7,279,210 total C&S program costs per PG&E's accounting records, with a \$2 rounding variance.

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

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

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

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

UAFCB Follow-Up Response: On October 7, 2016, PG&E filed AL 3755-G/4908-E and 3755-G-A/4908-E-A to incorporate the above reductions to its PY 2014 EE Incentive Award. The AL was approved by ED on December 23, 2016.

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

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

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

UAFCB Follow-Up Response: On October 7, 2016, PG&E filed AL 3755-G/4908-E and 3755-G-A/4908-E-A to incorporate the above reductions to its PY 2014 EE Incentive Award. The AL was approved by ED on December 23, 2016.

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

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

UAFCB Follow-Up Response: On October 7, 2016, PG&E filed AL 3755-G/4908-E and 3755-G-A/4908-E-A to incorporate the above reductions to its PY 2014 EE Incentive Award. The AL was approved by ED on December 23, 2016.

PG&E's Internal Audit Recommendations

PG&E's Internal Audit (IA) Department issued an internal audit report that contained subjects that were relevant to PY 2015 EE program. However, the company management provided appropriate corrective responses to the IA Department findings and recommendations, and there were no outstanding issues. Refer to Observation 38, Appendix A for more details.

Appendix C



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

245 Market Street
Suite 686
San Francisco, CA 94105
(415) 973-6250
Vincent.Davis@pge.com

June 22, 2017

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

Subject: Financial, Management, Regulatory, and Compliance Examination Report on Pacific Gas and Electric Company's (PG&E's) Energy Efficiency (EE) Program for the period January 1, 2015 through December 31, 2015

On June 7, 2017, the Utility Audit, Finance and Compliance Branch (UAFCB) issued its draft Financial, Management, and Regulatory Compliance Report (Draft Report) on Pacific Gas and Electric Company's (PG&E) 2015 Energy Efficiency (EE) Program. This Draft Report addresses EE regulatory and compliance areas for January 1, 2015 through December 31, 2015, including financial regulatory reporting requirements.

PG&E appreciates the UAFCB's efforts and collaboration to support the continuous improvements of EE program administration. PG&E would like to provide the UAFCB with responses to recommendations in observations 6, 8, 9, 15, 18, 19, 23, 26, 29 and 32; and additional comments to observations 11, 12 and 38. PG&E also proposes corrections to certain sections of Appendix B - Program Compendium.

Summary

- In Observation 6, the UAFCB recommends the Commission clarify the 10% administrative cost cap requirement and provide specific instructions to avoid ambiguity. If the Commission agrees with the UAFCB's method, UAFCB recommends that the administrative expense amount in excess of the 10% cap be refunded to ratepayers. PG&E's calculation of the percentage of its EE portfolio attributable to its administrative costs was correct. The existing formula is not ambiguous, and there is no reason to adopt either of UACFB's alternative methods for calculating the percentage of IOU administrative costs. If the Commission decides to re-examine its cost accounting for energy efficiency, as it indicated, the new rules should apply prospectively, only, as retroactive application of a new performance standard would be unfair to the IOUs.
- In Observation 8, the UAFCB recommends ED should reduce \$18,540 from PG&E's Non-IOU administrative costs. There is no impact on PG&E's Efficiency Savings and Performance Incentive (ESPI) since these expenditures are administrative costs. With regards to the UAFCB's recommendation that PG&E adhere to accrual basis of

accounting when recording and reporting its EE Program expenditures, PG&E follows Generally Accepted Accounting Principles (GAAP) and will continue to provide periodic accrual training for its employees.

- In Observation 9, the UAFCB recommends PG&E should ensure that the provisions in signed PO agreements and amendments are accurately recorded in order to reduce the risk of any types of errors. PG&E will strengthen and provide better oversight of its existing contracting process.
- With regards to Observation 11, although the UAFCB found PG&E's Non-IOU administrative costs to be in compliance with the 10% cost target, PG&E respectfully disagrees with the UAFCB's alternative methodology which uses operating expenses as the denominator in its calculation. This alternative methodology does not conform to the adopted Commission guidelines set forth in the EE Policy Manual. Refer to PG&E's response to Observation 6 above for further discussion.
- With regards to Observation 12, amounts characterized as spent, committed, and unspent/uncommitted should be updated to reflect the amounts on PG&E's Proposed Revised Table B-1, as presented in the comments to Appendix B – Program Compendium. The revised amounts should be, Spent: \$1,269,296,207; Committed: \$82,478,271; Unspent/Uncommitted: \$40,129,447.
- In Observation 15, the UAFCB recommends the Commission's ED should reduce PG&E's Program Year (PY) 2015 C&S Management Fee incentive award by \$98,034 ($\$816,953 * 12\%$) when PG&E's true-up advice letter (AL) is processed. PG&E agrees with the UAFCB's recommendation to reduce PG&E's C&S Management Fee incentive award as calculated. With regards to the UAFCB's recommendation that PG&E adhere to accrual basis of accounting when recording and reporting its EE Program expenditures, PG&E follows GAAP and will continue to provide periodic accrual training for its employees.
- In Observation 18, the UAFCB recommends the Commission's ED should reduce PG&E's PY2015 Non-Resource Program Management Fee incentive award by \$13,155 ($\$438,493 * 3\%$) when PG&E's true-up AL is processed. PG&E agrees with the UAFCB's recommendation to reduce PG&E's PY2015 Non-Resource Program Management Fee incentive award as calculated. With regards to the UAFCB's recommendation that PG&E adhere to accrual basis of accounting when recording and reporting its EE Program expenditures, PG&E follows GAAP and will continue to provide periodic accrual training for its employees.
- In Observation 19, the UAFCB recommends the Commission's ED should reduce PG&E's PY2015 Non-Resource Program Management Fee incentive award by \$81,295 ($\$2,709,846 * 3\%$) when PG&E's true-up AL is processed. PG&E respectfully disagrees with the UAFCB's recommendation to reduce PG&E's PY2015 Non-Resource Program Management Fee incentive award in this case. The EE program budgets include unspent funds from prior years (2013 and 2014) and budgets are held at the Program Area level in accordance with CPUC guidelines as outlined in PG&E's detailed response to Observation 19.

- In Observation 23, the UAFCB recommends the Commission's ED should reduce PG&E's PY2015 Resource Program Savings Incentives by \$53,219 ($\$591,327 * 9\%$) when PG&E's true-up AL is processed. PG&E agrees with the recommendation to reduce its PY2015 Resource Program Savings Incentives award (Ex-Ante Review (EAR) Process Performance) but respectfully disagrees with the UAFCB's calculation. PG&E recommends the following calculation based on Decision (D.)13-09-023, Attachment 5; the impact to PG&E's 2015 ESPI is $\$7,245 (\$591,327 * .03 * .4084)$.
- In Observation 26, the UAFCB recommends the Commission's ED should reduce PG&E's PY2015 Resource Program Savings Incentives by \$11,053 ($\$122,816 * 9\%$) when PG&E's true-up AL is processed. PG&E agrees with the recommendation to reduce its PY2015 Resource Program Savings Incentives award (EAR Process Performance) but respectfully disagrees with the UAFCB's calculation. PG&E recommends the following calculation based on D.13-09-023, Attachment 5; the impact to PG&E's 2015 ESPI is $\$1,505 (\$122,816 * .03 * .4084)$.
- In Observation 29, the UAFCB recommends the Commission's ED should reduce PG&E's PY2015 Resource Program Savings Incentives by \$2,672 ($\$29,691 * 9\%$) when PG&E's true-up AL is processed. PG&E agrees with the recommendation to reduce its PY2015 Resource Program Savings Incentives award (EAR Process Performance) but respectfully disagrees with the UAFCB's calculation. PG&E recommends the following calculation based on D.13-09-023, Attachment 5; the impact to PG&E's 2015 ESPI is $\$364 (\$29,691 * .03 * .4084)$.
- In Observation 32, the UAFCB recommends the Commission's ED should reduce PG&E's PY2015 Resource Program Savings Incentives by \$13,634 ($\$151,485 * 9\%$) when PG&E's true-up AL is processed. PG&E agrees with the recommendation to reduce its PY2015 Resource Program Savings Incentives award (EAR Process Performance) but respectfully disagrees with the UAFCB's calculation. PG&E recommends the following calculation based on D.13-09-023, Attachment 5; the impact to PG&E's 2015 ESPI is $\$1,856 (\$151,485 * .03 * .4084)$.
- In Observation 38, the UAFCB states that PG&E's Internal Audit (IA) Department did not conduct any audits related to 2015 EE programs. PG&E's IA Department did indeed conduct an audit of the Customized Retrofit Program related to the EE programs in 2015. All internal audit findings related to this audit were addressed and corrective actions taken.

2013-2015 EE Program Cycle IOU Administrative Costs:

Observation 6: PG&E failed to demonstrate compliance with Commission Decision (D.) 09-09-047, Ordering Paragraph (OP) 13 and other applicable Commission directives respecting the 10% IOU administrative cost cap for the 2013-2015 EE program cycle. PG&E reported an IOU administrative cost cap of 8.6% for the 2013-2015 EE program cycle. However, UAFCB's determination of PG&E's IOU administrative cost cap for the 2013-2015 EE program cycle disclosed that it exceeded the 10% IOU administrative cost cap. UAFCB's calculation produced an IOU administrative cost cap amount of 13.2% based on PG&E's total EE program budget for the 2013-2015 program cycle and/or 12.0% based on PG&E's EE program operating expenses for the 2013-2015 program cycle.

Recommendation: UAFCB recommends that the Commission clarify the 10% administrative cost cap requirement and provide specific instructions to avoid ambiguity. If the Commission agrees with the UAFCB's method, UAFCB recommends that administrative expense amount in excess of the 10% cap be refunded to ratepayers.

Response:

I. Introduction and Summary

While many of the UAFCB's observations are constructive, PG&E strongly disagrees with Observation 6 in which UAFCB faults PG&E for using the Energy Division's and UAFCB's interpretations of the Commission's application of the ten percent cap on the investor-owned utility (IOU) administrative costs. The Draft Report recommends two different alternatives to the established formula and suggests that if the Commission decides that its adopted formula is ambiguous, it should adopt one of UAFCB's alternatives and deny cost recovery of administrative costs that exceed the newly-adopted formula.

PG&E's calculation of the percentage of its EE portfolio attributable to its administrative costs was correct. The existing formula is not ambiguous, and there is no reason to adopt either of UACFB's alternative methods for calculating the percentage of IOU administrative costs. If the Commission decides to re-examine its cost accounting for energy efficiency, as it indicated¹, the new rules should apply prospectively, only, as retroactive application of a new performance standard would be unfair to the IOUs.

PG&E explains these concerns in further detail, below.

II. Observation 6 of the Draft Report

The Draft Report states:

Observation 6: PG&E failed to demonstrate compliance with Commission Decision (D.) 09-09-047, Ordering Paragraph (OP) 13 and other applicable Commission directives respecting the 10% IOU administrative cost cap for the 2013-2015 EE program cycle. PG&E reported an IOU administrative cost cap of 8.6% for the 2013-2015 EE program cycle. However, UAFCB's determination of PG&E's IOU administrative cost cap for the 2013-2015 EE program cycle disclosed that it exceeded the 10% IOU administrative cost cap. UAFCB's calculation produced an IOU administrative cost cap amount of 13.2% based on PG&E's total EE program budget for the 2013-2015 program cycle

¹ Assigned Commissioner and Administrative Law Judge's Ruling and Amended Scoping Memorandum (Regarding Phase III of R.13-11-005), p. 10 (Nov. 2, 2016).

and/or 12.0% based on PG&E's EE program operating expenses for the 2013-2015 program cycle.

Recommendation: UAFCB recommends that the Commission clarify the 10% administrative cost cap requirement and provide specific instructions to avoid ambiguity. If the Commission agrees with the UAFCB's method, UAFCB recommends that administrative expense amount in excess of the 10% cap be refunded to ratepayers.

III. PG&E's Comments on Observation 6

A. PG&E Did Not Exceed the 10% IOU Administrative Cost Cap, As Measured by Existing Commission Rules.

PG&E respectfully disagrees with Observation 6, which states that PG&E's IOU administrative costs in 2015 exceed the 10% cost cap.² This statement is premised upon the difference between the denominator adopted by the Commission and the ones proposed by UAFCB. The Commission's denominator is based on PG&E's total energy efficiency budget, subject to certain exclusions, not based on its actual expenditures... "Administrative costs for utility energy efficiency programs (excluding third party (3P) and/or government partnership (GP) budgets) are limited to 10% of total energy efficiency budgets."³

There is no ambiguity as to the 3P and LG administrative costs that are removed from the IOUs' administrative costs because they are the subject of a separate performance target. The EE Policy Manual states, "The IOUs shall seek to achieve a 10% administrative cost target for third party and government partnership direct costs (i.e., separate from utility costs to administer these programs). The cost target is 10% of third party and government partnership budget, rather than 10% of the total energy efficiency portfolio (as with the utility administrative cost cap)."⁴

To conform to the Energy Division's prescribed Caps and Targets Report format, PG&E excluded the administrative costs of Target Exempt IOU programs, as required by Appendix D: "Reporting Requirements for Energy Efficiency" of the Energy Efficiency Policy Manual.⁵ The Administrative Costs section of this template lists "IOU Administrative Cap Exempt Programs" as a separate line item which is not subject to a cap or target. Based on these authorities and the current Caps and Targets report format, the formula for calculating the IOU (utility) administrative cap is as follows:

$$\frac{\text{IOU admin expenditures (excluding 3P+LGP+ target-exempt)}}{\text{Utility EE + SWMEO budgets}}$$

² Observation 3 confirmed PG&E complied with PU code regarding reporting EE program IOU administrative costs for the 3-year period 2013-2015. And Observation 4 found no material exceptions after verifying over \$650,000 of 2015 expenditures. The UAFCB appears comfortable that the administrative costs for the 3-year period are reasonable.

³ Decision (D.) 09-09-047 Ordering Paragraph 13.a, EE Policy Manual, p. 87

⁴ EE Policy Manual, Appendix F, p. 93; see also D.09-09-047, p. 63.

⁵ EE Policy Manual, footnote 102, p. 67. A website link to the CPUC's "EEStats Website" contains the "Revised Cap and Target Quarterly Report Template developed jointly by the IOUs and Energy Division staff.

The formula for calculating the 3P and LGP administrative target is as follows:

$$\frac{3P + LGP \text{ admin expenditures (excluding IOU + target-exempt)}}{3P + LGP \text{ budget}}$$

PG&E's 2015 IOU Administrative Cost calculation follows established and approved practices. PG&E estimated its utility administrative budget as part of its EE 2015 Funding Proposal.⁶ PG&E used its "total portfolio budget" for the IOU, less the budget for 3P and LG partnerships as the denominator for calculating PG&E's percentage of spending on administrative costs. The approval of PG&E's EE proposal by D.14-10-046 also confirmed that the administrative cost cap calculation for PG&E's 2015 EE program relies on total portfolio budget, less 3P and GP budgets as the denominator. This is consistent with the EE Policy Manual, in which the Commission highlighted the use of total energy efficiency portfolio versus direct costs as administrative cost benchmarks. Appendix F, p. 93 of the EE Policy Manual states:

The IOUs shall seek to achieve a 10% administrative cost target for third party and government partnership direct costs (i.e., separate from utility costs to administer these programs). The cost target is 10% of third party and government partnership budget, rather than 10% of the total energy efficiency portfolio (as with the utility administrative cost cap).

PG&E's 2015 recorded IOU Administrative Costs lies within the forecasted EE program range that was approved by D.14-10-046 and PG&E's 2015 IOU administrative cost calculation follows the established formula for calculating the percentage spent on IOU administrative costs. Using these approved inputs, PG&E did not exceed the 10% IOU administrative cost cap.

B. The Methods that UAFCB Proposes to Calculate Percentage of IOU Administrative Cost Do Not Follow Existing Commission Rules.

Through the EE Policy Manual, Energy Division's reporting template, and its approval of IOU administrative costs during previous review periods, the Commission has provided objective standards for calculating the denominator of the IOU administrative cost factor. Despite these established rules, UAFCB states that, "there is no clear guidance on the types of costs to include in the numerator or denominator," and based on this premise, UAFCB has proposed two new calculation methodologies that would show PG&E as exceeding the 10% administrative cost cap. PG&E does not accept UAFCB's premise.

The Commission provided that the denominator would be "PG&E's Total Energy Efficiency Budget," which is a broad and inclusive "tops down" expense category from which certain costs were removed. The Commission did not take an additive "bottoms up" approach used by UAFCB. The UAFCB created two methods for calculating PG&E's percentage admin cost, but there is no Commission authority for either method.

⁶ R.13-11-005, March 26, 2014, sec. Appendix C, Section 3.1(a) and (b).

The difference between the IOU Administrative Cost percentages calculated by PG&E and UAFCB lies in UAFCB's new method of defining the denominator. The following table shows the differences between the Commission's IOU Administrative Cost Cap and UAFCB's approach:

1. UAFCB Rejects the Commission's Use of the IOU's Total Energy Efficiency Budget as the Denominator

PG&E (Existing CPUC Methodology)	Amount (\$ Millions)	UAFCB New: Budget Methodology	Amount (\$ Millions)	UAFCB New: Cost (Operating Expense) Methodology	Amount (\$ Millions)
Total Portfolio Budget	\$1,343.7	Total Portfolio Budget	\$1,343.7	3-yr actual expenditures	\$1,208.2
SW ME&O	\$ 16.9	SW ME&O	\$ 16.9	Third Party DINI	(\$ 101.4)
BayREN	(\$ 35.6)	Third Party & LGP	(\$502.9)	LGP DINI	(\$ 88.4)
MCE	(\$ 5.2)			EM&V	(\$ 22.3)
				Core WE&T	(\$ 34.1)
				Third Party WE&T	(\$ 2.4)
				BayREN	(\$ 40.1)
				MCE	(\$ 4.1)
IOU Administrative Cost Ratio Denominator	\$1,319.8		\$857.7		\$ 915.4
Ratio:	8.6%		13.3%		12.5%

2. UAFCB's Proposals Artificially Inflate the Utility's Administrative Costs Percentage by the Selective Inclusion of Utility Costs in the Denominator.

The UAFCB recalculated PG&E's administrative cost percentage using the two alternative methodologies discussed below and cited its conclusion in Observation 6. The numerators of both calculations are identical and agree with PG&E's calculation. However, because UAFCB has modified the denominators, neither of these methodologies conforms to the calculation set forth in the EE Policy Manual as explained above.

UAFCB Alternative Methodology I: Budget Methodology Formula

(IOU administrative costs + IOU administrative costs incurred in support of TP program and LGP program + IOU's additional administrative loaders) / (total EE program portfolio budget + IOU's additional loader)

Under the Budget Methodology, the denominator starts with the 3-year budget of \$1.32 billion as PG&E, and deducts the total budgets of the GP and 3P programs. In addition the UAFCB adds to the basis the budgets of the Non-Utility entities (BayREN and MCE). The resulting calculation is about 13.3%. This calculation does not conform to the EE Policy Manual that clearly states that for IOU Administrative cap calculation, the denominator should be "Total Energy Efficiency Budgets." This would exclude the Non-utility budgets of BayREN and MCE, and include the GP and 3P program budgets since they are included in the total portfolio.

UAFCB Alternative Methodology II: Cost (Operating Expense) Methodology Formula:
(IOU administrative costs + IOU administrative costs incurred in support of its TP programs and LGP programs + IOU's additional loaders) / (total EE program portfolio costs + IOU's additional loaders)

Under the Cost Methodology, the denominator starts with the 3-year actual expenditures of \$1.21 billion, and deducts only direct implementation, non-incentive (DINI) expenditures of the GP and 3P, as well as deducting total EM&V, total Core and 3P Workforce Education and Training expenditures (that auditors referred to as "ME&O"), and BayREN and MCE expenditures. The resulting calculation is about 12.5%. This calculation does not conform to the EE Policy Manual, either. Because the manual clearly states that the denominator should be "Total Energy Efficiency Budget," UAFCB should not prescribe an alternative basis for the denominator. It is unclear what the UAFCB's rationale is for using actual expenditures as the basis, nor are the reasons for selecting particular program expenditures to be deducted.

3. UAFCB's Proposal Contradicts Prior Year Audit Report Findings and Recommendations.

In the UAFCB's Audit Report for program years 2011 and 2012 (dated June 27, 2014), Observation 3 (pages 2 and A-3) found PG&E to be compliant with the 10% IOU administrative cost cap, but faulted PG&E for its previous use of the total actual expenditures as the denominator for the cap calculation. UAFCB's audit report states:

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

Recommendation: PG&E should use the authorized EE portfolio budget amount, not the actual EE portfolio expenditures to determine the 10% cap calculation in compliance with the decision of the Commission.⁷

The UAFCB recommended that, in accordance with D.09-09-047, OP 13a, PG&E use the adopted EE portfolio budget amount as the denominator for the calculation rather than actual expenditures. PG&E agreed with this recommendation and has been using this methodology ever since. This recommendation further contradicts the UAFCB's use of its Cost Methodology alternative since this denominator is actual expenditure-based.

C. If the Commission Decides to Revise the Rules for Calculating IOU Administrative Cost Percentages, the Revised Rules should be applied only to Subsequent Audits.

UAFCB claims that ambiguity in the formula for measuring percentage of IOU administrative costs requires a revision of the rules. If the percentage of utility budget spent on administrative

⁷ Financial, Management, and Regulatory Compliance Examination Report of Pacific Gas and Electric Company's (PG&E's) Energy Efficiency (EE) Programs for the Period January 1, 2011 through December 31, 2012, p. 2 (June 27, 2014).

costs cannot be determined under the existing rules, and a benchmark administrative cost cap cannot be calculated for the utility, holding the utility to a new performance standard and penalty does not make any sense. The text of Observation 6 should be changed to at least state that the UAFCB is unable to determine, or is unclear, as to whether PG&E demonstrated compliance, but should refrain from using "failed" as a conclusion, since there is no objective basis by which to measure compliance.

The Commission should not change the administrative cost cap without providing program administrators the notice and opportunity to be heard in the same manner as when the cost cap was originally adopted in D.09-09-047. If the Commission adopts a new equation for calculating the cap, it should be applied only on a prospective basis to allow the IOUs the opportunity to comply with the new rule.

D. There is no Reason to Disallow PG&E's Recovery of Administrative Costs in Rates

The Commission should not find that PG&E failed to comply with cost cap requirements because if the requirement is unclear as UAFCB claims, then whether an action complies with the requirement is likewise ambiguous. Observation 6 should be changed to at least state that the UAFCB is unable to determine that PG&E demonstrated compliance, or alternatively, is unclear, as to whether PG&E demonstrated compliance, but should refrain from using "failed" as a conclusion because that is unsupported by the facts.

III. Conclusion

PG&E requests that UAFCB withdraw its suggestion that if the Commission finds that the IOU Administrative Cost guidelines require revision, the Commission should retroactively deny PG&E rate recovery of costs in excess of UAFCB's new formula for calculating the ten percent administrative cost cap. The Commission should instead conclude that PG&E demonstrated compliance with D.09-09-047 with respect to the 10% IOU administrative cost cap for the 2013-2015 EE program cycle. The Commission should review proposals to revise the existing budget category limits in Rulemaking 13-11-005, consistent with the Scoping Memo issued in that proceeding, rather than in connection with Audit Reports, which should determine compliance with existing rules.

2013-2015 EE Program Cycle Non-IOU Administrative Costs:

Observation 8: PG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including PG&E's established accrual policy and procedures. PG&E incorrectly included \$18,540 in PY 2015 the Non-IOU administrative expenditures belonging to PY 2014. This amount represents 0.4% of the total Non-IOU expenditures in PY 2015.

Recommendation: ED should reduce \$18,540 from PG&E's Non-IOU administrative costs. PG&E should adhere to accrual basis of accounting when recording and reporting its EE program expenditures.

Response: There is no impact on PG&E's ESPI since these expenditures are administrative costs. PG&E adheres to GAAP and will continue to provide periodic accrual training for its employees.

Observation 9: PG&E failed to demonstrate compliance with General Order (GO) 28 and the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts (USOA) respecting its Non-IOU administrative costs. The contract value on several signed Purchase Order (PO) agreements provided by PG&E to substantiate recorded transactions contained inaccurate contract term amounts. The overstatement is insignificant but the occurrence is an indication of lack of sufficient oversight.

Recommendation: PG&E should ensure that the provisions in signed PO agreements and Amendments are accurately recorded in order to reduce the risk of any types of errors. PG&E should strengthen its oversight over the existing contracting process.

Response: PG&E will strengthen and provide better oversight of its existing contracting process.

Observation 11: PG&E demonstrated compliance with Commission D.09-09-047 and other applicable Commission directives respecting the 10% administrative cost target for the 2013-2015 program cycle. PG&E reported an administrative cost target of 3.0% for the 2013-2015 program cycle. UAFCB's calculation produced an administrative cost target amount of 4.3% based on PG&E's combined Third Party (TP) and Local Government Partnership (LGP) Non-IOU administrative operating expenses for the 2013-2015 program cycle.

Recommendation: None

Response: Although the UAFCB found PG&E's Non-IOU administrative costs to be in compliance with the 10% cost target, PG&E respectfully disagrees with the UAFCB's alternative methodology which uses operating expenses as the denominator in its calculation. This alternative methodology does not conform to the adopted Commission guidelines set forth in the EE Policy Manual. Refer to PG&E's response to Observation 6 above for further discussion.

2013 – 2015 Amounts Spent, Committed and Unspent/Uncommitted:

Observation 12: PG&E demonstrated compliance with PU code §§ 581, 582, and 584 respecting the total EE portfolio amounts reported as spent, committed, and unspent/uncommitted for the 2013-2015 program cycle. The total EE portfolio expenditure amounts recorded and reported as spent, committed, and unspent/uncommitted in the 2013-2015 program cycle amounted to \$1,110,236,039, \$82,478,271, and \$120,260,078, respectively. A reconciliation of the total reported EE portfolio amounts reported in EEStats as spent, committed, and unspent/uncommitted, to PG&E's accounting records for the 2013-2015 program cycle disclosed no material exceptions.

Recommendation: None

Response: Amounts characterized as spent, committed, and unspent/uncommitted should

be updated to reflect the amounts on PG&E's Proposed Revised Table B-1, as presented in the comments to Appendix B – Program Compendium. The revised amounts should be, Spent: \$1,269,296,207; Committed: \$82,478,271; Unspent/Uncommitted: \$40,129,447.

Codes and Standards (C&S) Program and Subprograms - 2015:

Observation 15: PG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including PG&E's established accrual policy and procedures. PG&E incorrectly included a total of \$816,953 in C&S program expenditures not belonging to PY 2015. The amount was charged to the Direct Implementation cost category of the program. This represents 6.4% of the total C&S program expenses in PY 2015.

Recommendation: PG&E has since filed AL 3755-G-A/4908-E-A to claim its Management Fee incentive award for PY 2015. The Commission's ED should reduce the C&S Management Fee incentive award by \$98,034 ($\$816,953 * 12\%$) when PG&E's true-up AL is processed. In addition, PG&E should adhere to accrual basis of accounting when recording and reporting its EE Program expenditures.

Response: PG&E agrees with the UAFCB's recommendation to reduce PG&E's C&S Management Fee incentive award as calculated. With regards to the UAFCB's recommendation that PG&E adhere to accrual basis of accounting when recording and reporting its EE Program expenditures, PG&E follows GAAP and will continue to provide periodic accrual training for its employees.

Non-Resource (NR) Program and Subprograms - 2015:

Observation 18: PG&E failed to demonstrate compliance with PU code §§ 581, 582 and 584, including PG&E's established accrual policy and procedures. PG&E incorrectly included a total of \$442,558 in NR program expenditures not belonging to PY 2015. PG&E incorrectly recorded \$1,046 of administrative costs which caused PG&E to understate the Administrative cost category in PY 2015. In addition, UAFCB found that PG&E incorrectly recorded and overstates its PY 2015 NR Marketing and Direct Implementation costs by \$2,379 and \$441,225, respectively. PG&E also included (\$5,111) in NR program costs in PY 2015 that related to three TP programs that were closed at the end of PY 2014 and beginning of PY 2015 and they should be removed from the NR Management Fee incentive award calculation for PY 2015. Furthermore, UAFCB found expenditures that were either charged to the incorrect EE program or recorded to the incorrect major cost category.

Recommendation: PG&E has since filed AL 3755-G-A/4908-E-A to claim its Management Fee incentive award for PY 2015. The Commission's ED should reduce the NR Program Management Fee incentive award amount by \$13,155 ($\$438,493 * 3\%$) when PG&E's true-up AL is processed. In addition, PG&E should adhere to accrual basis of accounting when recording and reporting its EE Program expenditures.

Response: PG&E agrees with the UAFCB's recommendation to reduce PG&E's PY2015 Non-Resource Program Management Fee incentive award by \$13,155 ($\$438,493 * 3\%$). With regards to the UAFCB's recommendation that PG&E adhere to accrual basis of

accounting when recording and reporting its EE Program expenditures, PG&E follows GAAP and will continue to provide periodic accrual training for its employees.

Observation 19: PG&E failed to demonstrate compliance with Commission D.13-09-023, OP 3.D. respecting the calculation of the NR Management Fee. PG&E incorrectly included an additional \$2,709,846 of PY 2015 expenditures in the calculation of its NR Program Management Fee. PG&E included costs that exceeded the authorized expenditure amount of six NR programs in its calculation of the NR Program Management Fee incentive award for PY 2015.

Recommendation: PG&E has since filed AL 3755-G-A/4908-E-A to claim its NR Program Management Fee incentive award for PY 2015. The Commission's ED should reduce the NR Program Management Fee incentive award by \$81,295 ($\$2,709,846 \times 3\%$) when PG&E's true-up AL is processed.

Response: PG&E respectfully disagrees with the UAFCB's recommendation to reduce PG&E's PY2015 Non-Resource Program Management Fee incentive award.

In the May 9, 2017 Exit Conference for PG&E's PY2015 EE Examination, the auditors cited the first paragraph of page 11 of Resolution E-4807 (Resolution), dated December 15, 2017, as the basis for their recommended audit adjustments. The Resolution states: "...the 2015 program budgets authorized in D.14-10-046 were considered the maximum acceptable expenditures for the purposes of ESPI award calculations." And the auditors based their recommendation on comparing one-year (2015) spending versus one-year (2015) authorized budget, in accordance with this language.

However in Decision 14-10-046, the Commission clarified that 2015 should be treated for accounting purposes as the third year of the 2013-2015 cycle. Subsection 3.2.5 "Next Steps for Accounting" states:

The budgets we approve here reflect each PA's authorized expenditures for 2015 programs (including funds PAs may "commit" in 2015, to be paid out in subsequent years). Since we are generally treating 2015 as a third year 2013-2015 cycle, it is as if 2015 amounts were added to the budgets we authorized in D.12-11-015.

For the 2013-2015 cycle, PG&E has managed program budgets on a 3-year cycle basis. PG&E's Quarterly Funds Shifting Report indicates how PG&E manages spending (and fund shifting) against the Operating Budget as shown in column J. The Operating Budget represents PG&E's authorized funding which includes 2015 annual funding plus unspent funds from 2013 and 2014. In other words, the Operating Budget represents funds authorized and available to be spent in the current calendar year within the same cycle.

In addition, the language in the first paragraph of page 11 of Resolution E-4807 makes reference to "program" budgets; not "subprogram" budgets. Footnote 19 (page 11) of the Resolution refers to pages 107-109 of D.14-10-046. These pages present Figure 7, Total Approved Utility Energy Efficiency budgets for 2015 By Program Area. The budgets presented are by Program Area, and do not show subprogram budgets. Hence, PG&E respectfully disagrees with the UAFCB's interpretation of the language in the Resolution that the budgets are applicable at the subprogram level.

Energy Upgrade California (EUC) Program - 2015:

Observation 23: PG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including PG&E's established accrual policy and procedures. PG&E incorrectly included a total of \$593,868 in EUC program expenditures not belonging to PY 2015. PG&E incorrectly recorded a total of \$2,541 to the Administrative cost category, \$57,532 to the Marketing cost category, and \$533,795 to the Direct Implementation cost category. These amounts represent 2.8% of the total EUC program expenditures in PY 2015.

Recommendation: PG&E has since filed AL 3755-G-A/4908-E-A to claim its Resource Programs Savings Incentives award for PY 2015. The Commission's ED should reduce the Resource Programs Savings Incentives by \$53,219 ($\$591,327 * 9\%$) when PG&E's true-up AL is processed.

Response: PG&E agrees with the recommendation to reduce PG&E's PY2015 Resource Program Savings Incentives award (EAR Process Performance) but respectfully disagrees with the UAFCB's calculation. PG&E recommends the following calculation based on Decision (D.)13-09-023, Attachment 5; the impact to PG&E's 2015 ESPI is \$7,245 ($\$591,327 * .03 * .4084$).

Statewide Commercial Deemed Incentives (CDI) Program - 2015:

Observation 26: PG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including PG&E's established accrual policy and procedures. PG&E incorrectly included a total of \$126,618 in CDI program expenditures not belonging to PY 2015. Specifically, PG&E overstated the Administrative cost category and Marketing cost category by \$3,802 and \$122,816, respectively. This represents 0.5% of the total CDI program expenditure in PY 2015.

Recommendation: PG&E has since filed AL 3755-G-A/4908-E-A to claim its Resource Programs Savings Incentives for PY 2015. The Commission's ED should reduce the Resource Programs Savings Incentives by \$11,053 ($\$122,816 * 9\%$) when PG&E's true-up AL is processed.

Response: PG&E agrees with the recommendation to reduce PG&E's PY2015 Resource Program Savings Incentives award (EAR Process Performance) but respectfully disagrees with the UAFCB's calculation. PG&E recommends the following calculation based on D.13-09-023, Attachment 5; the impact to PG&E's 2015 ESPI is \$1,505 ($\$122,816 * .03 * .4084$).

Industrial EE Program and Subprograms - 2015:

Observation 29: PG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including PG&E's established accrual policy and procedures. PG&E incorrectly included a total of \$51,743 in Industrial EE Program expenditures not belonging to PY 2015. Specifically, PG&E overstated the Administrative cost category by \$3,178, and the Marketing and Direct Implementation cost category by \$4,764 and \$43,801, respectively. This represents 0.4% of the total Industrial EE Program expenditures in PY 2015. In

addition, UAFCB found some deficiencies in PG&E's internal controls when determining its incentive payment calculation.

Recommendation: PG&E has since filed AL 3755-G-A/4908-E-A to claim its Resource Programs Savings Incentives for PY 2015. The Commission's ED should reduce the Resource Programs Savings Incentives by \$2,672 ($\$29,691 * 9\%$) when PG&E's true-up AL is processed.

Response: PG&E agrees with the recommendation to reduce PG&E's PY2015 Resource Program Savings Incentives award (EAR Process Performance) but respectfully disagrees with the UAFCB's calculation. PG&E recommends the following calculation based on D.13-09-023, Attachment 5, Attachment 5; the impact to PG&E's 2015 ESPI is \$364 ($\$29,691 * .03 * .4084$).

Agricultural EE Program and Subprograms - 2015:

Observation 32: PG&E failed to demonstrate compliance with PU code §§ 581, 582, and 584, including PG&E's established accrual policy and procedures. PG&E incorrectly included a total of \$155,139 in Agricultural EE Program expenditures not belonging to PY 2015. Specifically, PG&E understated the Administrative cost category by \$3,534, and overstated the Marketing and Direct Implementation cost category by \$7,308 and \$151,365, respectively. This amount represents 0.8% of the total Agricultural EE Program expenditures in PY 2015. In addition, UAFCB found some deficiencies in PG&E's internal controls on its incentive payment calculation.

Recommendation: PG&E has since filed AL 3755-G-A/4908-E-A to claim its Resource Programs Savings Incentives for PY 2015. The Commission's ED should reduce the Resource Programs Savings Incentives by \$13,634 ($\$151,485 * 9\%$) when PG&E's true-up AL is processed.

Response: PG&E agrees with the recommendation to reduce PG&E's PY2015 Resource Program Savings Incentives award (EAR Process Performance) but respectfully disagrees with the UAFCB's calculation. PG&E recommends the following calculation based on D.13-09-023, Attachment 5; the impact to PG&E's 2015 ESPI is \$1,856 ($\$151,485 * .03 * .4084$).

Follow-up on Prior UAFCB's Observations and Recommendations and PG&E's Internal Auditor (IA) Recommendations:

Observation 38: PG&E's Internal Audit (IA) Department did not conduct any audits related to 2015 EE programs.

Recommendation: None

Response: PG&E's IA Department did conduct an audit in the Customized Retrofit Program. All internal audit findings related to this audit were addressed and corrective actions taken.

Proposed Corrections to Appendix B, Program Compendium

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

Table B-1

PG&E requests that the UAFCB's Table B-1 be replaced with the PG&E Revised Table B-1, shown below. PG&E found omissions and in UAFCB's presentation which are reconciled in Footnote 1 of the comparison table shown below. Specifically, UAFCB excluded the budget and expenditures of the Core and Third-Party Workforce Education and Training (WE&T) subprograms. No footnote or explanation was provided so it is assumed that this was done in error. The WE&T subprograms are considered Non-Resource, however differences between PG&E and UAFCB appear on the Resource lines as well. This suggests that further cost misclassification may have taken place on UAFCB's Table B-1.

The amounts on UAFCB's Table B-1 were also found referenced in Observation 12 and in Appendix A, Section A.5. These amounts should be revised to conform to PG&E's Revised Table B-1. However in Observation 12 and in Section A.5 of Appendix A, the amount described as "unspent/uncommitted" (\$120,260,078) is in reality the "unspent" amount per Table B-1. UAFCB should correct the description of the amount to read "unspent", or correct the amount assuming the description is as intended. It should also be noted that the amounts on Table B-1 in the "Committed" column are only incentive commitments. Unspent funds of approximately \$40.9 million for EM&V and New Financing Offerings (OBR Pilots) are also committed to be spent in future periods, but are not represented on this table.

Comparison of Table B-1 versus PG&E's Proposed Table B-1

PG&E Proposed Revised Table B-1	Budget	Spent	Unspent	Committed	Unspent / Uncommitted
Resource (Statewide)	569,802,924	531,397,117	38,405,807	56,269,988	(17,864,181)
Other Resource (3P & GP)	457,125,258	413,625,293	43,499,966	26,208,283	17,291,683
Non-Resource (includes OBF Loans)	141,564,879	135,150,888	6,413,990	-	6,413,990
Subtotal	1,168,493,061	1,080,173,298	88,319,763	82,478,271	5,841,492
REN	43,880,450	40,119,565	3,760,885	-	3,760,885
MCE	5,435,472	4,139,744	1,295,728	-	1,295,728
Subtotal	49,315,922	44,259,309	5,056,613	-	5,056,613
Total before EM&V	1,217,808,983	1,124,432,607	93,376,376	82,478,271	10,898,105
EM&V	51,487,225	22,255,883	29,231,342	-	29,231,342
Grand Totals	\$ 1,269,296,207	\$ 1,146,688,489	\$ 122,607,718	\$ 82,478,271	\$ 40,129,447

UAFCB, Table B-1	Budget	Spent	Unspent	Committed	Unspent / Uncommitted
Resource (Statewide)	531,000,943	528,772,448	2,228,495	56,269,988	(54,041,493)
Other Resource (3P & GP)	457,125,258	413,683,881	43,441,377	26,208,283	17,233,094
Non-Resource (includes OBF Loans)	141,566,769	101,264,518	40,302,251	-	40,302,251
Subtotal	1,129,692,970	1,043,720,847	85,972,123	82,478,271	3,493,852
REN	43,880,450	40,119,565	3,760,885	-	3,760,885
MCH	5,435,472	4,139,744	1,295,728	-	1,295,728
Subtotal	49,315,922	44,259,309	5,056,613	-	5,056,613
Total before EM&V	1,179,008,892	1,087,980,156	91,028,736	82,478,271	8,550,465
EM&V	51,487,225	22,255,883	29,231,342	-	29,231,342
Grand Totals	\$ 1,230,496,117	\$ 1,110,236,039	\$ 120,260,078	\$ 82,478,271	\$ 37,781,807

DIFFERENCES	Budget	Spent	Unspent	Committed	Unspent / Uncommitted
Resource (Statewide)	38,801,981	2,824,669	36,177,312	-	36,177,312
Other Resource (3P & GP)	0	(58,588)	58,589	-	58,589
Non-Resource (includes OBF Loans)	(1,890)	33,886,370	(33,886,261)	-	(33,886,261)
Subtotal	38,800,091	36,452,451	2,347,640	-	2,347,640
REN	-	-	-	-	0
MCE	-	-	-	-	(0)
Subtotal	-	-	-	-	0
Total before EM&V	38,800,091	36,452,451	2,347,640	-	2,347,640
EM&V	-	-	-	-	0
Grand Total Differences [1]	\$ 38,800,091	\$ 36,452,451	\$ 2,347,640	\$ -	\$ 2,347,640

Footnote [1]

Differences due to the following WE&T Programs Excluded from Table B-1 by UAFCB:

	Budget	Spent	Unspent
Workforce Education & Training (Core WE&T)	36,922,791	34,069,016	2,853,775
Builder Energy Code Training (3P)	696,689	789,872	(93,173)
Green Building Technical Support Svcs (3P)	792,300	1,002,548	(210,248)
Bridges to Energy Sector Opportunities (3P)	388,301	591,015	(202,714)
Grand Total Differences	\$ 38,800,091	\$ 36,452,461	\$ 2,347,640

Table B-9

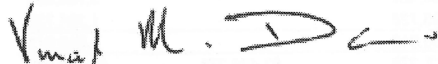
The budget for Strategic Energy Resources is incorrectly shown as \$55,896,665 but should be \$2,764,003. The grand total should also be updated.

Conclusion

This concludes PG&E's response to the UAFCB's Draft Report on PG&E's EE Program for period January 1, 2015 through December 31, 2015. We appreciate the work the UAFCB

has put into this audit. If you have any additional questions or concerns, please feel free to contact me.

Thank you,


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

cc: Kevin Nakamura, Division of Water and Audits
Bixia Ye, Division of Water and Audits
Kristine Du, Division of Water and Audits