



STATE OF CALIFORNIA

# ENERGY EFFICIENCY AUDIT

SOUTHERN CALIFORNIA GAS COMPANY  
PROGRAM YEAR 2016



A digital copy of this report can be found at:

<http://www.cpuc.ca.gov/utilityaudits/>

# Table of Contents

---

EXECUTIVE SUMMARY .....	1
AUDIT REPORT .....	2
BACKGROUND .....	2
SCOPE .....	3
METHODOLOGY .....	4
FINDINGS AND RECOMMENDATIONS .....	4
CONCLUSION .....	7
APPENDICES .....	9
SCG'S RESPONSES .....	11
EVALUATION OF RESPONSES .....	16

# Executive Summary

---

The California Public Utilities Commission (Commission) was established by Constitutional Amendment as the Railroad Commission in 1911. The Legislature passed the Public Utilities Act, expanding the Commission's regulatory authority to include natural gas, electric, telephone, and water companies as well as railroads and marine transportation companies in 1912. One of the Commission's duties is to oversee billions of dollars expended on energy efficiency (EE) program funded by California ratepayers. The EE program is predominantly administered by the four major Investor-Owned Utilities (IOUs) in California. They are Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E), and Southern California Gas Company (SCG).<sup>1</sup> The primary purpose of the EE program is to develop programs and measures to meet energy savings goals and transform the technology markets in California.

Pursuant to California Public Utilities Code (PUC) Sections 381 et seq., and 454.5<sup>2</sup>, the Commission is responsible to oversee the EE program which is principally administered and implemented by the four major IOUs in California and funded by California ratepayers. The Commission has statutory authority to inspect and audit the books and records of the IOUs to ensure that ratepayers' money is well spent, specifically, pursuant to PUC Section 314.5 and 314.6. Other relevant criteria can be found in Decision (D.) 13-09-023, Ordering Paragraph (OP) 17, Energy Efficiency Policy Manual (Version 5 dated July 2013), and other applicable PUC codes, directives, rulings, etc. For the audit on SCG's EE program for program year (PY) 2016, we reviewed the expenditures of the EE program and selected subprograms administered and implemented by SCE in accordance with Generally Accepted Government Auditing Standards (GAGAS) as required in PUC Section 314.6(b).

The scope of this audit covered the period January 1, 2016 to December 31, 2016 or PY 2016. The purpose of this audit was to ensure that SCG was in compliance with EE program rules and regulations and to determine whether its reported EE expenditures and commitments were accurate, allowable and verifiable. For the audit on SCG's EE program, expenditures of selected EE programs and subprograms administered and implemented by SCE for the period under audit were reviewed. The specific SCG EE program and subprogram areas audited are included in the scope section of this report. Based on the audit, the following findings were identified:

- Finding #1: Lack of Compliance with Accrual Policy and Procedures Respecting its EE Program Costs for PY 2016
- Finding #2: Overstatement of the Efficiency Savings and Performance Incentive (ESPI) Award Amount for PY 2016

---

<sup>1</sup> San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SCG) are affiliated subsidiaries of SEMPR Energy.

<sup>2</sup> All statutory citations are the California Public Utilities Code, unless otherwise noted.

# Audit Report

---

## BACKGROUND

Pursuant to California Public Utilities Code (PUC) Sections 381 et seq., and 454.5, the Commission is responsible to oversee the energy efficiency (EE) program which is principally administered and implemented by the four major Investor-Owned Utilities (IOUs) in California and funded by California ratepayers. UAFCB conducted this audit of Southern California Gas Company's (SCG's) 2016 EE program pursuant Public Utilities Code (PUC) Section 314.5 and Decision (D.) 13-09-023, Ordering Paragraph (OP) 17.

The major IOUs are Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E), and Southern California Gas Company (SCG). To meet California's aggressive electricity and natural gas energy efficiency goals, the Commission authorized billions to the EE program, which is funded by electric and gas rates included in ratepayer bills.<sup>3</sup> The IOUs have greatly increased its costs and budgets through rate increases for administering and implementing the EE program over time. Prior to 2016, the Commission authorized the IOUs budgets for the EE program and subprograms based on a three-year program cycle. In Rulemaking (R.) 13-11-005, the Commission contemplated moving away from authorizing the EE budgets on a triennial basis and towards authorizing the EE budgets on an annual "rolling" portfolio basis. However, the Commission recognized that the adoption of authorizing EE budgets on a "rolling" portfolio basis would not be completed on time for 2015 funding levels. As a result, in D.14-10-046, the Commission approved the 2015 EE funding levels and authorized the IOUs to use 2015 annual spending levels until the year 2025 or when the Commission issues a superseding decision on funding levels. Subsequently, on October 22, 2015, the Commission issued D.15-10-028 which, among other things, authorized the IOUs 2016 EE funding levels at 2015 annual spending levels.

The EE program spans a variety of sectors encompassing residential homes and commercial buildings, large and small appliances, lighting and heating, ventilation and air conditioning (HVAC), industrial manufacturers, and agriculture. Within those sectors, the EE program utilizes a variety of tools to meet energy savings goals, such as financial incentives and rebates, research and development for EE technologies, financing mechanisms, codes and standards development, education and public outreach, marketing and others. The Commission also adopted the Efficiency Savings Performance Incentive (ESPI) mechanism with the intent "to motivate the utilities to prioritize EE goals, while protecting ratepayers through necessary cost containment mechanisms."<sup>4</sup> In D.13-09-023, OP 15 and 16, the Commission authorized an incentive award to be paid to the IOUs as a management fee equal to 12% of authorized Codes and Standards (C&S) program expenditures and 3% of authorized non-resource

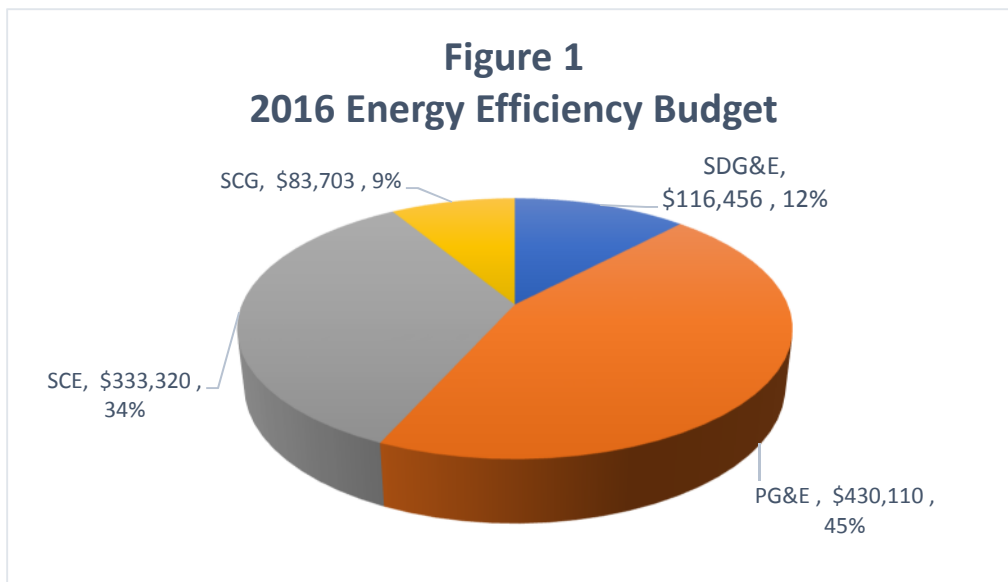
---

<sup>3</sup> Section 381 established a Public Goods Charge (PGC) that consumers pay on electricity consumption for cost-effective energy efficiency, renewable technologies, and public interest research. Section 900 established a natural gas surcharge to fund cost-effective energy efficiency and other public purpose programs.

<sup>4</sup> Decision 13-09-023, page 2

NR) program expenditures, not to exceed authorized expenditures and exclusive of administrative costs.<sup>5</sup>

For program year (PY) 2016, the Commission issued D.15-10-028 which, among other things, authorized SCG a total EE budget amount of \$83.7 million, which represents approximately 9% of the total \$963.6 million EE program budget for all four IOUs for PY 2016. SCG's PY 2016 authorized budget also included \$3.3 million for Evaluation, Measurement and Verification (EM&V) which is outside the scope of this examination. A chart reflecting SCG's portion of the total \$963.6 million EE program budget authorized for PY 2016 is shown in the figure below.



SCG received funding for the EE program through a Public Purpose Program (PPP) rate authorized by the Commission and included on customer billings.

## SCOPE

Our audit objective was to ensure that SCG was in compliance with EE program rules and regulations and to determine whether the EE expenditures claimed by SCG were for allowable purposes and supported by appropriate documentation, such as invoices, contracts and relevant records, and were recorded appropriately in PY 2016.

In this audit, we examined the expenditures of the following EE programs and subprograms:

1. Codes and Standards (C&S)
2. Non-Resource (NR)
3. Residential Energy Advisor (REA)
4. Commercial Energy Advisor (CEA)
5. Plug Load and Appliances (PLA)
6. Third-Party (TP)

---

<sup>5</sup> The C&S and Non-Resource programs support energy savings but do not provide direct energy savings.

In addition to examining the expenditures of the above selected EE program and subprograms, we also reviewed the EE commitments that SCG reported to the Commission, and reviewed the monthly EE reports submitted by SCG and uploaded to the Commission’s California Energy Efficiency Statistics (EEStats) website<sup>6</sup>. A follow-up review was also performed on its PY 2015 EE audit<sup>7</sup> recommendations to determine whether SCG has implemented the appropriate corrective actions.

## METHODOLOGY

To address the audit objectives and assist the Commission in its oversight over the EE programs, the following procedures were performed:

- Obtained an understanding of the EE program by reviewing relevant laws, rules, regulations, PUC codes, decisions, resolutions and advice letters.
- Obtained and reviewed SCG’s accounting system, accounting policies, processes and procedures for recording, tracking, and monitoring EE program costs.
- Assessed whether the SCG’s policies, procedures, and practices comply with the EE program requirements.
- Performed analysis of expenditure data to identify any anomalies or significant variances.
- From the SCG’s accounting data, judgmentally selected expenditure transactions for review and testing.
- Requested and reviewed supporting documentation such as purchase orders, detailed invoices, contracts, receiving reports, timesheets and additional documentation as needed for the expenditure transactions selected for testing.
- Reviewed relevant contracts to determine if contract terms and provisions supported the EE program.
- Traced expenditure samples recorded in SCG’s accounting records to supporting documentation to determine whether costs were reasonable, allowable, verifiable, and relevant to the EE program.
- Reviewed SCG’s accrual entries and verified the cutoff of expenditure transactions to determine if proper expenditure amounts were recorded and reported in the proper accounting period.
- Reviewed the SCG’s commitments reported in EEStats and performed reconciliation of these reported amounts to SCG’s records to determine whether these commitments were sufficiently justified and properly reported to the Commission.

## FINDINGS AND RECOMMENDATIONS

### **FINDING 1: Lack of Compliance with Accrual Policy and Procedures Respecting its EE Program Costs for PY 2016**

---

<sup>6</sup> This California Energy Efficiency Statistics (EEStats) website is a repository of utility-submitted reports to the Commission and contains up-to-date savings, budgets, expenditures, and cost effectiveness results for each IOUs EE programs.

<sup>7</sup> UAFCB report entitled “*Financial, Management, Regulatory, and Compliance Examination Report on Southern California Gas Company’s (SCG’s) Energy Efficiency (EE) Program for the Period January 1, 2015 through December 31, 2015*”, dated July 31, 2017.

**Condition:**

SCG incorrectly recorded \$809,495 in PY 2016 expenditures belonging to PY 2015, resulting in an overstatement of PY 2016 expenditures reported to the Commission.

Based on its review, SCG improperly recorded and accrued \$809,495 in expenditures to PY 2016 due to the inconsistent application of its own internal accrual policy and procedures. A detailed breakdown expenditure amounts overstated by SCG for PY 2016 by program and subprogram areas is provided in Appendix B, Table 1.

**Criteria:**

PUC Sections 581, 582, and 584 require that the utility provide timely, complete and accurate data to the Commission. PUC Section 793 requires that accounts, records, and memoranda prescribed by the Commission for corporations subject to regulatory authority shall not be inconsistent with the systems and forms established for corporations by or under the United States. The EE Policy Manual (R.09-11-014), Version 5, dated July 2013, provides policy rules for the administration, oversight, and evaluation of the EE program.

SCG's internal accrual accounting procedures require SCG to use the accrual basis of accounting to ensure expenditures are properly recognized in the period in which the services were rendered or materials received.

**Cause:**

SCG inadvertently reported and recorded expenditures incurred in PY 2015 to PY 2016. When internal controls were not adequately enforced in combination with lack of proper training and supervision of employees, recording and reporting errors may occur.

**Effect:**

Failure to record accurate expenditures in a proper period and program year resulted in an overstatement of program costs reported to the Commission by \$809,495. It is critical to ensure that EE costs are accurately recorded and reported because these programs are funded by ratepayers. Furthermore, an overstatement of expenditures may lead to higher than anticipated authorized budget in future years since SCG develops its future year EE budgets on prior year costs. This practice can result in an over-collection in ratepayer funds that subsidize the EE program through its balancing accounts.

**Recommendation:**

SCG should adhere to accrual basis of accounting when recording and reporting its EE program expenditures. SCG should reduce its PY 2016 EE program costs by a total amount of \$809,495 based on the exception amounts identified in the audit for the EE program and subprogram areas listed in the scope section of this report.

It is our responsibility to bring this finding to the Commission and SCG's attention since an overstatement of EE program expenditures has been a repeated finding in prior UAFCB audits including, but not limited to, PY's 2013, 2014 and 2015.



## **FINDING 2: Overstatement of the Efficiency Savings and Performance Incentive (ESPI) Award Amount for PY 2016**

### **Condition:**

In D.13-09-023, the Commission authorized the IOUs a new Efficiency Savings and Performance Incentive (ESPI) awards mechanism to promote achievement of EE goals. The ESPI mechanism offers each IOU incentive awards in four performance categories:

1. **Energy Efficiency Resource Savings:** A performance award for ex-ante locked down and ex-post verified net lifecycle resource programs (energy efficiency programs that are intended to achieve and report quantified energy savings) energy savings measured in MW, GWh, and MMTh.
2. **Ex-Ante Review (EAR) Process Performance:** A performance award for IOUs ex-ante review conformance.
3. **Codes and Standards (C&S):** A management fee award for the IOUs advocacy of codes and standards.
4. **Non-Resource Programs:** A management fee award for implementing non-resource programs (an energy efficiency program that has no directly attributed energy saving but the programs support the energy efficiency portfolio through activities such as marketing or improved access to training and education.)

In D.13-09-023, Ordering Paragraph (OP) 15 and 16, the Commission authorized an incentive award to be paid to the IOUs as a management fee equal to 12% of authorized Codes and Standards (C&S) program expenditures and 3% of authorized non-resource (NR) program expenditures, not to exceed authorized expenditures and exclusive of administrative costs.<sup>8</sup> The decision also ordered verification of the C&S and NR program expenditures for the purposes of awarding the management fees.<sup>9</sup>

Based on its review and testing of the C&S and NR program expenditures, SCG overstated its ESPI award amount for PY 2016. Based upon its recalculation, UAFCB determined that the revised ESPI base amount for calculating SCG's NR program management fee incentive award amount is \$9,458,607. Consequently, SCG's incentive award amounts should be adjusted to \$283,758 for its NR program. A detailed recalculation of SCG's revised ESPI award amount for the NR program for PY 2016 is provided in the table below.

### **Criteria:**

Commission D.13-09-023 authorizes an incentive to be paid to each IOU as a management fee equal to 12% of authorized C&S program expenditures and 3% of authorized non-resource program expenditures, not to exceed authorized expenditures in each program year, and excluding administrative expenditures.

---

<sup>8</sup> The C&S and Non-Resource programs support energy savings but do not provide direct energy savings.

<sup>9</sup> D.13-09-023, OP 17

<b>NR ESPI Recalculation</b>	
Reported NR ESPI Base	\$9,595,947
Audit Exception <sup>10</sup>	<u>(137,340)</u>
Revised NR ESPI Base	9,458,607
NR Earnings Rate	<u>3%</u>
Revised ESPI Award	<u><b>\$ 283,758</b></u>

**Cause:**

When SCG overstated its PY 2016 EE program costs in Finding #1, it also overstated its incentive awards for its NR program.

**Effect:**

SCG overstated their NR program incentive award amount filed in AL 5182-G. The proper incentive award amount should be \$283,758 for the NR program.

Furthermore, it is critical to ensure that the savings claimed are accurate. The overstatement of incentive award claims by the IOUs can have negative consequences to ratepayers.

**Recommendation:**

Since SCG has filed AL 5182-G to claim its C&S and NR program incentive awards for PY 2016, the Commission’s Energy Division (ED) should adjust SCG’s management fee incentive awards to \$283,758 for the NR program when SCG’s 2016 ex-post ESPI true-up AL is processed.

**CONCLUSION**

In conducting our audit, we obtained a reasonable understanding of SCG’s internal controls, which were considered relevant and significant within the context of our audit objectives. Deficiencies in internal control that were identified during the audit and determined to be significant are included in this report.

SCG’s management is responsible for the development of its policies and procedures to ensure that expenditures and commitments of its EE programs were reported accurately and timely. The Commission is responsible to ensure the ratepayers’ monies funding energy efficiency programs in California explicitly support the EE goals and strategies and protect ratepayers’ funds against fraud and abuse.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to afford a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our limited audit objectives.

---

<sup>10</sup> The original amount of the UAFCB’s audit exception was erroneously stated at \$144,236, which has been corrected to \$137,340.

The report is intended solely for the information and use of the Commission and SCG and is not intended to be and should not be used by anyone other than these specified parties.

*Barbara Owens*

---

Barbara Owens, CIA, CISA, CGAP, CRMA  
Director, Enterprise Risk and Utility Audits

Kevin Nakamura, Supervisor  
Frederick Ly, Sr. Analyst

# Appendices

## APPENDIX A Applicable Rules and Regulations

Rule/Regulation Types	Reference	Description
Public Utility Code	Section 314	Guidance providing the Commission the authority to conduct financial and performance audits consistent with Generally Accepted Government Auditing Standards (GAGAS), and to follow-up on findings and recommendations
	Section 381	Guidance mandating that the Commission to allocate funds spent on EE programs that enhance system reliability and provide in-state benefits including cost-effective EE and conservation activities.
	Section 581	Guidance providing the Commission the authority to require a utility to file complete and correct reports in prescribed form and detail
	Section 582	Guidance providing the Commission the authority to require a utility to timely provide applicable records
	Section 584	Guidance providing the Commission the authority to require a utility to furnish reports to the commission
	Section 783	Guidance on the system of accounts and the forms of accounts, records, and memoranda prescribed by the Commission.
Decisions & Rulemaking	D.09-09-047	Adopting Efficiency Savings and Performance Incentive Mechanism
	D.12-11-015	Approving 2013-2014 EE Programs and Budgets
	D.15-10-028	Establishing a "Rolling Portfolio" process for regularly reviewing and revising EE goals for 2016 and beyond
	D.14-10-046	Establishing EE Savings Goals and Approving 2015 EE Programs and Budgets (Concludes Phase I of R.13-11-005)
	R. 13-11-005	Establishing a proceeding in which to fund the current energy efficiency portfolios through 2015, implement energy efficiency "rolling portfolios", and address various related policy
Advice Letters	AL No. 5182	EE Incentive Award for PY 2015 and 2016
	AL No. 5160	2016 EE Incentive Award Earnings Rates and Award Caps

## APPENDIX B

**Table 1  
UAFCB Audit Adjustments  
PY 2016**

Program ID	Program Name	Cost Category			Total
		Administrative	Marketing	Direct Implementation	
SCG3708	CEA	\$ -	\$ -	\$ 5,114	\$ 5,114
SCG3708	CEA	-	-	36,934	36,934
SCG3708	CEA	-	-	<u>75,458</u>	<u>75,458</u>
	Subtotal	-	-	117,506	<b>117,506</b>
SCG7301	REA	-	-	4,883	4,883
SCG7301	REA	-	-	6,243	6,243
SCG7301	REA	-	-	<u>8,708</u>	<u>8,708</u>
	Subtotal	-	-	19,834	<b>19,834</b>
SCG3775	CRM	8,490	-	-	8,490
SCG3775	CRM	9,060	-	-	9,060
SCB3775	CRM	9,180	-	-	9,180
SCG3775	CRM	19,844	-	-	19,844
SCG3775	CRM	30,000	-	-	30,000
SCG3775	CRM	<u>5,975</u>	-	-	<u>5,975</u>
	Subtotal	82,549	-	-	<b>82,549</b>
SCG3724	C&S Bldg. Codes Adv.	-	-	1,306	1,306
SCG3724	C&S Bldg. Codes Adv.	-	-	<u>1,339</u>	<u>1,339</u>
	Subtotal	-	-	2,645	<b>2,645</b>
SCG3702	CAL PLA <sup>11</sup>	-	104,720	-	104,720
SCG3702	CAL PLA	-	11,830	-	11,830
SCG3702	CAL PLA	-	-	<u>21,166</u>	<u>21,166</u>
	Subtotal	-	\$116,550	\$ 21,166	<b>\$137,716</b>
SCG3703	CALS PLA POS	-	-	164,475	164,475
SCG3703	CALS PLA POS	-	-	164,150	164,150
SCG3703	CALS PLA POS	-	-	<u>15,900</u>	<u>15,900</u>
	Subtotal	-	-	344,525	<b>344,525</b>
SCG3705	CALS EUC <sup>12</sup>	-	<u>104,720</u>	-	<u>104,720</u>
<b>Grand Total</b>		<b><u>\$82,549</u></b>	<b><u>\$221,270</u></b>	<b><u>\$505,676</u></b>	<b><u>\$809,495</u></b>

<sup>11</sup> The \$104,720 amount consists of \$17,085, \$14,121.49, \$6,337.17, \$1,022.67, \$36,365.12, \$20,425.96, \$4,987.50 and \$4,375 related to invoices 1981, 1983, 1979, 1956, 1980, 1984, 1965 and 1982, respectively.

<sup>12</sup> Resulted from auditors review and testing of supporting documentation provided by SCG in response to DR-008, Question #6.

# SCG's Responses



**Daniel J. Rendler**  
Director  
Customer Programs & Assistance

555 W. Fifth Street, GT19A5  
Los Angeles, CA 90013-1011  
Tel: 213.244.3480  
DRendler@semprautilities.com

July 27, 2018

Ms. Barbara Owens  
CPUC Utility Audit, Finance & Compliance Branch  
505 Van Ness Avenue  
San Francisco, CA 94102

**Re: SoCalGas Comments on Financial, Management, and Regulatory Compliance Examination Report of Southern California Gas Company Energy Efficiency Programs For the Period January 1, 2016 through December 31, 2016**

Dear Ms. Owens,

Southern California Gas Company (SoCalGas) has reviewed the Draft Financial, Management, and Regulatory Compliance Examination Report of Southern California Gas Company Energy Efficiency (EE) Programs For the Period January 1, 2016 through December 31, 2016 (Report) prepared by the Utility Audit, Finance and Compliance Branch (UAFCB). SoCalGas hereby provides the following comments.

**UAFCB Finding 1**

SCG incorrectly recorded \$809,495 in PY 2016 expenditures belonging to PY 2015, resulting in an overstatement of PY 2016 expenditures reported to the Commission.

**SoCalGas Response to Finding 1**

SoCalGas has conducted a review of Appendix B Table 2 and has found that the report inappropriately determines the overstatement of PY 2016 expenditures. Appendix B Table 2 identifies a total of 21 items as being incorrectly recorded in PY 2016 due to improper recording and accruing of the expenditures. On May 21, 2018, SoCalGas provided UAFCB with additional information for those items in Appendix B Table 2, noting where SoCalGas appropriately recorded the PY 2015 expenditures. The following table provides an overview of this additional information. SoCalGas requests that the final audit report revise Finding 1 to report \$465,757 in PY 2016 expenditures belonging to PY 2015, based on the information presented below and attached.

Program ID	Program Name	Total	SoCalGas Comment
SCG3708	CEA	\$5,114	This item was not accrued in 2015 as it did not meet SoCalGas' Corporate and Customer Program and Assistance (CPA) current minimum accrual

			threshold of \$10,000. Please refer to Attachment 1 "CPA Accrual Procedures Final revised.pdf".
SCG3708	CEA	\$36,934	This item was received by SoCalGas' Accounts Payable department on December 31, 2015 for payment processing, however the payment process was not completed on time. As a result, the Accounts Payable department accrued the item at a high-level cost center. Please refer Attachment 2 "Supporting Documentation".
SCG3708	CEA	\$75,458	SoCalGas acknowledges that this should have been accrued in 2015 as it met SoCalGas' minimum accrual threshold of \$10,000. As a business practice, SoCalGas continuously seeks to strengthen its internal processes. In 2017, SoCalGas implemented training to ensure that program expenditures are recognized and reported in the appropriate reporting period. Please refer to Attachment 3 "Budgets Reporting Oversight EE Kick-off Meeting".
SCG7301	REA	\$4,883	This item was not accrued in 2015 as it did not meet SoCalGas' Corporate and Customer Program and Assistance (CPA) current minimum accrual threshold of \$10,000. Please refer to Attachment 1.
SCG7301	REA	\$6,243	This item was not accrued in 2015 as it did not meet SoCalGas' Corporate and Customer Program and Assistance (CPA) current minimum accrual threshold of \$10,000. Please refer to Attachment 1.
SCG7301	REA	\$8,708	This item was not accrued in 2015 as it did not meet SoCalGas' Corporate and Customer Program and Assistance (CPA) current minimum accrual threshold of \$10,000. Please refer to Attachment 1.
SCG3775	CRM	\$8,490	This item was not accrued in 2015 as it did not meet SoCalGas' Corporate and Customer Program and Assistance (CPA) current minimum accrual threshold of \$10,000. Please refer to Attachment 1.
SCG3775	CRM	\$9,060	This item was not accrued in 2015 as it did not meet SoCalGas' Corporate and Customer Program and Assistance (CPA) current minimum accrual threshold of \$10,000. Please refer to Attachment 1.
SCG3775	CRM	\$9,180	This item was not accrued in 2015 as it did not meet SoCalGas' Corporate and Customer Program and Assistance (CPA) current minimum accrual threshold of \$10,000. Please refer to Attachment 1.
SCG3775	CRM	\$19,844	SoCalGas acknowledges that this item should have been accrued in 2015 as it met SoCalGas' minimum accrual threshold of \$10,000. As a business practice,

			SoCalGas continuously seeks to strengthen its internal processes. In 2017, SoCalGas implemented training to ensure that program expenditures are recognized and reported in the appropriate reporting period. Please refer to Attachment 3.
SCG3775	CRM	\$30,000	SoCalGas acknowledges that this item should have been accrued in 2015 as it met SoCalGas' minimum accrual threshold of \$10,000. As a business practice, SoCalGas continuously seeks to strengthen its internal processes. In 2017, SoCalGas implemented training to ensure that program expenditures are recognized and reported in the appropriate reporting period. Please refer to Attachment 3.
SCG3775	CRM	\$5,975	This item was not accrued in 2015 as it did not meet SoCalGas' Corporate and Customer Program and Assistance (CPA) current minimum accrual threshold of \$10,000. Please refer to Attachment 1.
SCG3724	C&S Bldg. Codes Advocacy	\$1,306	This item was not accrued in 2015 as it did not meet SoCalGas' Corporate and Customer Program and Assistance (CPA) current minimum accrual threshold of \$10,000. Please refer to Attachment 1.
SCG3724	C&S Bldg. Codes Advocacy	1,339	This item was not accrued in 2015 as it did not meet SoCalGas' Corporate and Customer Program and Assistance (CPA) current minimum accrual threshold of \$10,000. Please refer to Attachment 1.
SCG3702	CAL PLA	\$104,720	This item was appropriately accrued to the CAL PLA program in 2015. Please refer to Attachment 2.
SCG3702	CAL PLA	\$11,830	SoCalGas acknowledges that this item should have been accrued in 2015 as it met SoCalGas' minimum accrual threshold of \$10,000. As a business practice, SoCalGas continuously seeks to strengthen its internal processes. In 2017, SoCalGas implemented training to ensure that program expenditures are recognized and reported in the appropriate reporting period. Please refer to Attachment 3.
SCG3702	CAL PLA	\$21,166	This item was appropriately accrued to the CAL PLA program in 2015. Please refer to Attachment 2.
SCG3703	CAL PLA POS	\$164,475	SoCalGas acknowledges that this item should have been accrued in 2015 as it met SoCalGas' minimum accrual threshold of \$10,000. As a business practice, SoCalGas continuously seeks to strengthen its internal processes. In 2017, SoCalGas implemented training to ensure that program expenditures are recognized and reported in the appropriate reporting period. Please refer to Attachment 3.



SCG3703	CAL PLA POS	\$164,150	SoCalGas acknowledges that this item should have been accrued in 2015 as it met SoCalGas' minimum accrual threshold of \$10,000. As a business practice, SoCalGas continuously seeks to strengthen its internal processes. In 2017, SoCalGas implemented training to ensure that program expenditures are recognized and reported in the appropriate reporting period. Please refer to Attachment 3.
SCG3703	CAL PLA POS	\$15,900	This item was appropriately accrued to the CAL PLA POS program in 2015. Please refer to Attachment 2.
SCG3705	CALS EUC	\$104,720	This item was appropriately accrued to the CALS EUC program in 2015. Please refer to Attachment 2.

**UAFCB Finding 2**

SCG overstated its NR program incentive award amount filed in AL 5182-G. Based upon recalculation, UAFCB determined that the revised ESPI base amount for calculating SoCalGas' NR program management fee incentive award amount is \$9,451,711. Consequently, UAFCB notes that SoCalGas' incentive award amounts should be adjusted to \$283,551 for its NR program.

SoCalGas contacted UAFCB seeking clarification of the \$144,236 UAFCB Audit Exception on page 6 of the draft report. On July 26, 2018, UAFCB clarified that the number was an error and the corrected number should be \$137,340.

**SoCalGas Response to Finding 2**

UAFCB's finding is based on the assumption that SoCalGas did not properly accrue the expenditures under the CEA (SCG3708) and REA (SCG3701) identified in Table 2 of Appendix A. However, as shown in the table in SoCalGas' response to finding 1, SoCalGas did not overstate its PY 2016 expenditures. All the expenditures, with the exception of SCG 3708-CEA totaling \$75,458, were not accrued in 2015 as they did not meet SoCalGas' Corporate and Customer Program and Assistance (CPA) current minimum accrual threshold of \$10,000, as further explained in Attachment 1. SoCalGas acknowledges that the expenditures total \$75,458 should have been accrued in 2015 as it met SoCalGas' minimum accrual threshold of \$10,000. Given the inaccurate finding of certain expenditures in Finding 1, SoCalGas requests that the final audit report be revised to adjust UAFCB's audit exception to \$75,458.

If you have any questions or require additional information regarding these comments, please do not hesitate to contact me.

Sincerely,

/s/

Daniel J. Rendler

Director, Customer Programs and Assistance

Cc: E. Henry  
C. Sierzant  
E. Brooks  
E. Baires  
K.Nakamura  
F. Ly

# Evaluation of Responses

---

SCG's responses to the draft report have been reviewed and incorporated into the final report. In evaluating SCG's responses, we provide the following comments:

## **FINDING 1: Lack of Compliance with Accrual Policy and Procedures Respecting its EE Program Costs for PY 2016**

### Evaluation of SCG's Response to Finding 1

1) SCG3708, CEA - \$36,934

At issue is whether there was any PY 2015 expense recorded in PY 2016. In this case, the subject expense in the amount of \$36,934 belonged to PY 2015, but was recorded in PY 2016. Therefore, the original audit adjustment should remain in its entirety.

2) SCG3702, CAL PLA - \$104,720 & SCG3705 CALS EUC - \$104,720

At issue is whether or not the company had made proper accounting accruals for PY 2015 expenses. Our review of additional detailed information, we concluded that the company had made proper accounting accruals for the above-referenced subprograms' expenses in their respective amount of \$104,720. Therefore, the original audit adjustments have been removed in its entirety.

3) SCG3702, CAL PLA - \$21,166

At issue is whether or not there was PY 2015 expense recorded in PY 2016. The subject expense in the amount of \$21,166 belonged to PY 2015, but was recorded in PY 2016. Therefore, the original audit adjustment should remain in its entirety.

4) SCG3703, CAL PLA POS - \$15,900

At issue is whether there was PY 2015 expense recorded in PY 2016. The subject expense in the amount of \$15,900 belonged to PY 2015, but was recorded in PY 2016. Therefore, the proposed audit adjustment should remain in its entirety.

Based on the results of our evaluation, the total audit adjustment has been revised from \$809,495, per Table 1 of Appendix, to \$600,055. We have summarized the revised audit adjustments in the table below:

**Table 1**  
**UAFCB Audit Adjustments – As Revised**  
**PY 2016**

Program ID	Program Name	Cost Category			Total
		Administrative	Marketing	Direct Implementation	
SCG3708	CEA	\$ -	\$ -	\$ 5,114	\$ 5,114
SCG3708	CEA	-	-	36,934	36,934
SCG3708	CEA	-	-	75,458	75,458
Subtotal		-	-	117,506	<b>117,506</b>
SCG7301	REA	-	-	4,883	4,883
SCG7301	REA	-	-	6,243	6,243
SCG7301	REA	-	-	8,708	8,708
Subtotal		-	-	19,834	<b>19,834</b>
SCG3775	CRM	8,490	-	-	8,490
SCG3775	CRM	9,060	-	-	9,060
SCB3775	CRM	9,180	-	-	9,180
SCG3775	CRM	19,844	-	-	19,844
SCG3775	CRM	30,000	-	-	30,000
SCG3775	CRM	5,975	-	-	5,975
Subtotal		82,549	-	-	<b>82,549</b>
SCG3724	C&S Bldg. Codes Adv.	-	-	1,306	1,306
SCG3724	C&S Bldg. Codes Adv.	-	-	1,339	1,339
Subtotal		-	-	2,645	<b>2,645</b>
SCG3702	CAL PLA	-	11,830	-	11,830
SCG3702	CAL PLA	-	-	21,166	21,166
Subtotal		-	\$11,830	\$ 21,166	<b>\$32,996</b>
SCG3703	CALS PLA POS	-	-	164,475	164,475
SCG3703	CALS PLA POS	-	-	164,150	164,150
SCG3703	CALS PLA POS	-	-	15,900	15,900
Subtotal		-	-	344,525	<b>344,525</b>
<b>Grand Total</b> <b>– As Revised</b>		<b><u>\$82,549</u></b>	<b><u>\$11,830</u></b>	<b><u>\$505,676</u></b>	<b><u>\$600,055</u></b>

## **FINDING 2: Overstatement of the Efficiency Savings and Performance Incentive (ESPI) Award Amount for PY 2016**

### Evaluation of SCG's Response to Finding 2

After issuance of the draft report, we noted that the report contained an error which we have corrected in this final report (Refer to Finding 2). Except for the above mentioned error and correction, there was no other change to the ESPI award calculation and its result. For ease of reference, we have summarized the revised NR Efficiency Savings and Performance Incentive (ESPI) calculation below:

**Table 2**  
**NR ESPI Calculation**  
**Program Year 2016**

Reported NR ESPI Base	\$9,595,947
UAFCB's Audit Exception <sup>13</sup>	<u>(137,340)</u>
Revised NR ESPI Base	9,458,607
NR Earnings Rate	<u>3%</u>
Revised ESPI Award	<u><b>\$ 283,758</b></u>

---

<sup>13</sup> The original amount of the UAFCB's audit exception was erroneously stated at \$144,236, which has been corrected to \$137,340.