California Public Utilities Commission

Utility Audit, Finance and Compliance Branch

Compliance Examination Report of the Public Purpose Program Regulatory Accounts of San Diego Gas & Electric Company

For the Years Ended December 31, 2015 and 2016

December 15, 2017

Acknowledgement

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

December 15, 2017

Table of Contents

December 15, 2017

Compliance Examination Report

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San Diego Gas and Electric (SDG&E)
8335 Century Park Court
San Diego, CA 92123

Compliance Examination Report of SDG&E's 2015 and 2016 Public Purpose Program Regulatory Accounts

Dear Ms. Sommerville:

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

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

Results Summary

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

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

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

1. Observation 4 – SDG&E did not provide its detailed allocation documents to support its PPP rates when filing Advice Letters (ALs) 2685-E and 2840-E with the Commission to consolidate electric rates.
2. Observation 6 – SDG&E has not consistently used the same accrual basis of accounting to record and report electric revenue and expenditures in the PPP funds.
3. Observation 7 – SDG&E consistently collected unneeded funding from the PPP, resulting in six PPP regulatory accounts carrying excessive balances in the past 10 years. As of

December 31, 2016, the total net balance of over-collection on those PPP regulatory accounts is approximately $106 million.

Scope and Methodology

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

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

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

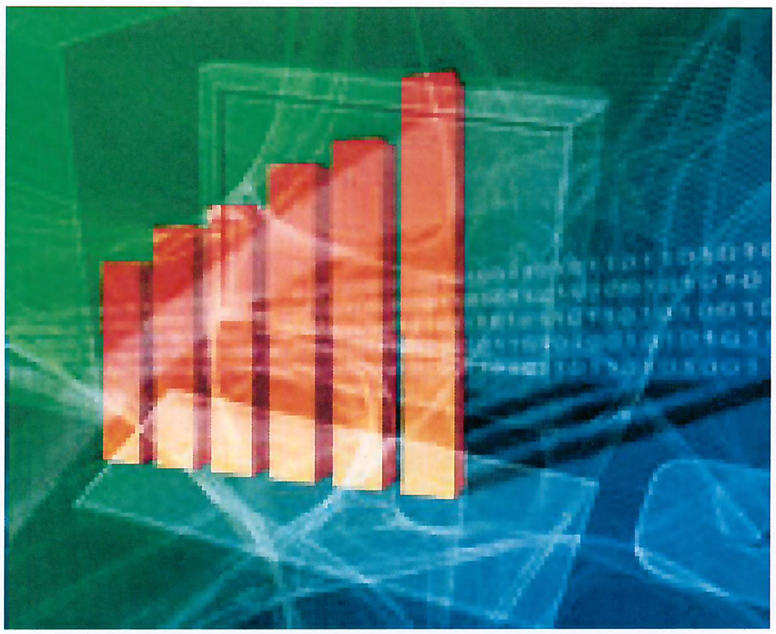
We appreciate the assistance and cooperation of SDG&E staff during the examination. If you have any questions regarding this report, please contact K.C. Tran at KieuChinh.Tran@cpuc.ca.gov.

/s/ Raymond Yin

Raymond Yin
Program and Project Supervisor
Utility Audit, Finance and Compliance Branch

cc: Maryam Ebke, Deputy Executive Director, CPUC
Barbara Owens, Enterprise Risk and Compliance Officer, CPUC
KieuChinh Tran, UAFCB
Peter Skala, Deputy Director, Energy Division

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



I. EXECUTIVE SUMMARY

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

The purpose of the regulatory compliance review was to determine whether SDG&E properly billed, recorded and reported PPP revenues of its regulatory accounts in accordance with Public Utilities Code (PUC) Sections (§§) 381 and 399.8(b)1, and applicable Commission directives including, but not limited to, Commission Decisions (D.)15-01-023, D.15-01-002, D.14-10-046, D.04-08-010, and D.03-12-062.[2] UAFCB also reviewed if SDG&E properly reflected the PPP program expenditures[3] drawn from its PPP regulatory accounts. Specifically, UAFCB's examination included: (1) verifying whether the approved PPP rates were properly billed and if the PPP revenues received were accounted for in Program Years 2015 and 2016 in compliance with Commission directives; (2) evaluating whether SDG&E's internal control over its PPP billing, accounting and recording process to ensure proper safeguard of ratepayer funds; (3) verifying whether the PPP program expenditures[2] drawn from those regulatory accounts were properly recorded; and (4) evaluating whether the over-collection and under-collection of program funds were properly resolved at the end of year under examination in accordance with Commission directives.

SDG&E maintained fifteen (15) regulatory accounts during the audit period to track its PPP activities. Of these fifteen (15) PPP regulatory accounts, eight (8) accounts are for electric and seven (7) for gas. A detailed description and purpose of each PPP regulatory account are included in Appendix A of this report.

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

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

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[2] Among other things, D.15-01-002 authorized the 2015 EE programs and budgets; D.15-01-023 corrected errors on D.15-01-002 and updated the 2015 EE budgets; D.14-10-046 extended the 2015 EE budget level to year 2025; D.04-08-010 implemented Assembly Bill 1002 establishing that the gas PPP be first remitted to the California Board of Equalization before the funds can be used for the programs; and D.03-12-062 ordered the utilities to establish one-way balancing accounts to track EE costs and revenue.

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

II. SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

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

Recommendation: None.

Observation 2: SDG&E's PPP revenue recorded in the PPP regulatory accounts were properly accounted for in PYs 2015 and 2016. The PPP revenues were properly allocated and recorded in the PPP regulatory accounts. SDG&E complied with the regulatory requirements specified in its preliminary statements for the PPP accounts.

Recommendation: None.

Observation 3: SDG&E demonstrated compliance with PUC §§ 381 and 399.8(b)1, and applicable Commission directives with respect to the billing of PPP charges by using proper PPP rates for its authorized regulatory accounts. SDG&E properly billed its customers using the Commission-approved PPP rates specified in its tariffs for PYs 2015 and 2016.

Recommendation: None.

Observation 4: SDG&E failed to provide detailed documents to support its PPP allocation rates when filing advice letters (ALs) with the Commission to consolidate electric rates. When SDG&E filed ALs 2685-E and 2840-E with the Commission to implement electric rates, including the PPP rates, effective January 1, 2015 and 2016 respectively, it only included the aggregate PPP rate and not the detail percentage allocation for each rate component.

SDG&E's comments: SDG&E indicated that it will be including an Attachment with the 2018 PPP rates by component in its Consolidated Filing to implement January 1, 2018 electric rates.

Rebuttal: The Commission's Energy Division should review SDG&E's Consolidated 2018 filing to ensure that the PPP rates include a detailed percentage allocation for each rate component.

Recommendation: For better transparency and tracking, the Commission should provide clear and specific AL filing instructions to all energy Investor-owned Utilities (IOUs) to mandate the inclusion of detailed electric PPP rate allocation percentage to each rate component. The Commission's Energy Division should review SDG&E's Consolidated Filing to ensure SDG&E has implemented UAFCB's recommendation in this regard.

Observation 5: Except for Observation 6 below, SDG&E's internal policies and procedures respecting its revenue recording processes were adequately designed to meet

the requirements of the Commission. SDG&E's established internal controls to ensure that PPP revenues are recorded and accounted in compliance with the Commission's directives and SDG&E's internal policies and procedures in PYs 2015 and 2016 seemed adequate.

Recommendation: None.

Observation 6: SDG&E failed to use accrual basis of accounting for the recording and reporting of electric PPP revenues collected during PYs 2015 and 2016. SDG&E did not use the accrual basis of accounting in accordance with regulatory accounting and the accounting principles generally accepted in the United States of America (GAAP) for the recording and reporting of PPP revenues in appropriate regulatory accounts. The main objective of an accrual is to ensure that valid expenditures and/or revenues are properly reflected in SDG&E's PPP regulatory accounts in the proper period. While SDG&E has used accrual basis of accounting for the recording of expenditures, it does not use the same basis of accounting for revenues collected from ratepayers. This inconsistent treatment distorts the balances recorded and reported in the PPP balancing accounts and does not provide complete and accurate data to the Commission and ratepayers when expenditures were recognized and recorded in the funds earlier than respected revenues.

SDG&E's comments: Due to system limitations, SDG&E is not able to accurately calculate and accrue electric revenues into the balancing accounts. It uses actual billing data to book revenues into the balancing accounts.

Rebuttal: SDG&E failed to use the accrual basis of accounting in accordance with regulatory accounting and GAAP when recording and reporting is PPP revenues during PYs 2015 and 2016.

Recommendations: SDG&E and the Commission should address the inconsistent application of recognizing the electric PPP revenue and expenditures. SDG&E should update its system and use accrual basis of accounting to capture revenue and expenditures in its PPP regulatory accounts. SDG&E should update its accounting procedures and practices to ensure transparency and consistency when reporting expenditures and revenues of these PPP funds. The Commission should also establish clear guidelines that require all utilities to use the accrual basis of accounting in accordance with regulatory accounting and GAAP when recording and reporting both revenues and expenditures. In addition, this would help the Commission compare the program effectiveness when all IOUs use the same accounting treatment to record revenues and expenditures.

Observation 7: SDG&E consistently collected unneeded funds from the PPP rates, resulting in several PPP regulatory accounts carrying excessive over-collections or under-spent authorized budget balances in the past 10 years. Appendix B of this report presents the year-end balances of those PPP regulatory accounts from 2007, or inception of the programs, to 2016. As of December 31, 2016, the total net balance of those PPP regulatory accounts resulted in an over-collection of approximately $106 million. Appendix B demonstrates a consistent pattern of material over-collection in aggregate of these PPP regulatory accounts. Technically, these accounts should be self-balanced or carry small balances by the end of every program year.

UAFCB also observed that the PPP budgets were significantly higher than the actual PPP expenditures.

SDG&E's comments:

(1) Electric CARE Balancing Account: In 2015 and 2016 over-collections resulted due to actual sales and actual customer participation being lower than forecasted. Current rates include a $30 million amortization that returns these funds to customers.

(2) Gas CARE Balancing Account: In 2015 and 2016 the account was over-collected primarily due to a combination of the CARE volume forecast as well as the commodity price forecast. An amortization of $6 million was approved by the Commission to return to customers in rates effective January 1, 2017.

(3) Electric Program Investment Charge Balancing Account (EPIC): The 2015 and 2016 over-collected balances primarily reflect a timing difference between when SDG&E collects revenue and when CEC submits a "bill" to SDG&E.

(4) Gas Energy Efficiency Balancing Account: This account was over-collected in 2015 and 2016 reflecting historical energy efficiency (EE) and low income (LIEE) balances. SDG&E intends to transfer these balances to more current energy efficiency (EE) and low income (LIEE) balancing accounts where the funds can be used to offset future revenue requirements to be included in rates.

(5) Low Income Energy Efficiency – Electric; and Post 2005 Gas Low Income Energy Efficiency: The Commission denied SDG&E's request to partially offset future revenue requirements by approximately $6 million; and authorized SDG&E to fund new low income energy efficiency programs for years 2017 through 2020 with a portion of the over-collected balances and to offset future revenue requirements to be included in rates with the remainder.

(6) Post-1997 Electric Energy Efficiency; and Post 2005 Gas Energy Efficiency: These accounts also hold funds that represent contracted commitments to be fulfilled in future years.

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

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

Observation 8: SDG&E properly computed monthly interest on month-end balances of the PPP regulatory accounts using criteria specified in SDG&E's preliminary statements. The interest rates used by SDG&E to calculate interest agreed with the 90-day commercial paper rates required by the preliminary statements.

Recommendation: None.

Observation 9: SDG&E's internal policies and procedures respecting its billing practices and processes were adequately designed to meet the requirements of the Commission. SDG&E's established internal controls to ensure that approved PPP rates were correctly applied to customer billings during PYs 2015 and 2016 appeared adequate. SDG&E also complied with its own internal policies and procedures in that regard.

Recommendation: None.

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

Recommendation: None.

III. OBJECTIVE, SCOPE, AUTHORITY, AND TESTING

A. Examination Objective

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

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

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

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

B. Examination Scope

The examination scope included reviewing customer billing records, accounting records, and documentation associated with selected transactions SDG&E made in its PPP regulatory accounts from January 1, 2015 through December 31, 2016.

C. Authority

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

D. Methodology and Testing

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

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

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

IV. SUMMARY OF EXAMINATION FINDINGS

A. Introduction

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

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

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

The mechanism used by SDG&E to monitor the collection of the PPP authorized revenue requirement (ARQ or budget) and track specific types of costs charged against actual revenue collected is through the use of PPP regulatory accounts. Sometimes, balances from one regulatory account may roll up into another balancing account if authorized by the Commission. In general, balances in regulatory accounts can either be over- or under-collected or spent depending on different types of amounts being tracked in the program. Unless approved otherwise, PPP regulatory accounts accumulate interest periodically at a rate equal to one-twelfth of the interest rate on three-month commercial paper rate.[9]

PUC §§ 890-900 and D.04-08-010 require utilities to implement updated gas PPP surcharge rates each January 1 through an AL filing by October 31 of the preceding year. Gas Public Purpose

[7] A utility maintains, among other things, approved Preliminary Statements in its tariff books.
[8] Utilities are authorized to consolidate the rates to recover the cost of each PPP by a bundled PPP rate that is applied to customers' bills. PPP bundled rates vary by customer class or type of customer.
[9] Ibid, pp. 37-38.

Programs fall into three main categories: energy efficiency and low income energy efficiency; the subsidy for California Alternative Rate for Energy (CARE); and the California Energy Commission's gas public interest research and development program. Costs associated with these programs are determined in various Commission proceedings.

Effective January 1, 2001, PUC § 890, et. seq, required the PPP rate collected by the gas utilities as a surcharge to be remitted to the California Board of Equalization (BOE)[10]. Among other Commission directives regarding the gas surcharges and the BOE, in D.04-08-010, the Commission determined how amounts held in the Gas Consumption Surcharge Fund (GCSF) are to be distributed to utilities and other entities and how often the distributions are to be conducted. On October 8, 2004, the Commission's Energy Division distributed a letter outlining procedures for the gas utilities to follow in order to recover the surcharge funds remitted to the BOE. The BOE retains an amount from the surcharges remitted for its administrative costs and provides interest for the time the surcharges resided in the GCSF. In addition, the BOE collects surcharges from interstate pipeline customers and provides utilities with funding for the PPPs.

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

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

On August 19, 2004, the Commission issued D.04-08-010 that addressed both the Phase 1 implementation issues on the gas surcharge rulemaking and Phase 2 administration of public purpose R&D. Pursuant to OP 10, SDG&E uses the surcharge formula adopted in the decision for calculating the gas PPP surcharge rates. SDG&E uses information provided by the Commission's Energy Division for calculating the gas surcharge rates as it relates to (1) the Commission and BOE administrative costs, (2) SDG&E's portion of the statewide R&D budget, and (3) the assumption that SDG&E's non-exempt interstate pipeline gas volumes are zero. SDG&E uses the billed gas volumes to calculate the gas surcharge rates for the customer classes adopted in SDG&E's Triennial Cost Allocation Proceeding (TCAP) per D.14-06-007, effective July 1, 2014.

[10] The BOE changed its name to "CA Department of Tax and Fee Administration" (CADTFA) on July 1, 2017.

SDG&E updated its PPP rate levels to reflect the most current Commission-adopted revenue requirements in its annual year-end revenue requirement and rate consolidation ALs. The authorized revenue requirements for the PPP included funding established by Commission decisions for CARE - Electric, Electric Procurement EE (EPEEBA), Electric Program Investment Charge (EPIC), Family Electric Rate Assistance – Electric[11] (FERA), Low Income EE (LIEEBA), CARE – Gas, Post 2005 Gas EE (PGEEBA), Post 2015 Gas Low Income EE (PGLIEEBA) programs.

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

B. PPP Authorized Budgets and Expenditures

SDG&E filed multiples ALs to update its PPP revenue requirements and rates for both gas[12] and electric[13] for PYs 2015 and 2016. Table 1 shows a summary of SDG&E's total revenue requirements for both electric and gas PPP for PYs 2015 and 2016: Table 2 shows a summary of SDG&E's reported PPP expenditures for both electric and gas for PYs 2015 and 2016.

[11] Only for PY 2016.
[12] Advice Letters 2325-G and 2427-G for PYs 2015 and 2016, respectively.
[13] Advice Letters 2685-E and 2840-E for PYs 2015 and 2016, respectively.

Table 1
Summary of 2015 and 2016 PPP Authorized Revenue Requirements

Public Purpose Programs	2015	2016
ELECTRIC PPP		
California Alternate Rates for Energy	$61,904,365	$125,368,033
Electric Procurement Energy Efficiency	104,643,000	107,486,100
Electric Program Investment Change	14,954,544	14,953,600
Family Electric Rate Assistance[14]	N/A	911,027
Low Income Energy Efficiency - Electric	12,432,395	12,432,395
Post-1997 Electric Energy Efficiency - Electric[15]	(6,000,000)	(6,000,000)
Subtotal – Electric PPP	**$187,934,304**	**$255,151,155**
GAS PPP		
California Alternate Rates for Energy	$18,662,140	$17,475,691
Post 2005 Gas Energy Efficiency	(572,855)	2,442,900
Post-2005 Gas Low Income Energy Efficiency	15,109,751	11,339,885
Research, Development & Demonstration - Gas	1,495,922	1,219,016
Subtotal – Gas PPP	**$34,694,958**	**$32,477,492**
Total Recorded PPP Authorized Revenue Requirement	**$222,629,262**	**$287,628,647**

[14] FERA 2015 electric has no revenue requirement because the FERA line item discount was effective beginning in 2016.
[15] Amortization amount.

Table 2
Summary of 2015 and 2016 Reported PPP Expenditures[16]

Public Purpose Program Regulatory Accounts	2015	2016
ELECTRIC PPP ACCOUNTS		
California Alternate Rates for Energy	$4,481,601	$4,350,624
Electric Program Investment Change	17,805,492	21,777,128
Low Income Energy Efficiency - Electric	9,104,568	8,520,714
Post-1997 Electric Energy Efficiency - Electric	93,511,103	123,173,858
Subtotal – Electric PPP	**$124,902,764**	**$157,822,324**
GAS PPP ACCOUNTS		
California Alternate Rates for Energy	$885,484	$504,853
Post 2005 Gas Energy Efficiency	8,572,848	12,075,459
Post-2005 Gas Low Income Energy Efficiency	8,659,358	8,865,256
Subtotal – Gas PPP	**$18,117,690**	**$21,455,568**
Total Recorded PPP Expenditures	**$143,020,154**	**$179,267,892**

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

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

SDG&E maintained fifteen (15) regulatory accounts to capture its PPP activities during PYs 2015 and 2016. Of these fifteen (15) PPP regulatory accounts, eight (8) accounts are for electric and seven (7) for gas. These PPP regulatory accounts are listed below:

PPP ELECTRIC REGULATORY ACCOUNTS	Acronym
California Alternate Rates for Energy	CARE
Electric Procurement Energy Efficiency	EPEEBA
Electric Program Investment Change	EPICBA
Energy Savings Assistance Program - Electric	ESAPMA
Family Electric Rate Assistance	FERA
Low Income Energy Efficiency - Electric	LIEEBA
Post-1997 Electric Energy Efficiency - Electric	PEEEBA
Demand Side Management Bidding - Electric	DSM BIDDING

PPP GAS REGULATORY ACCOUNTS	Acronym
California Alternate Rates for Energy	CARE
Energy Savings Assistance Program - Gas	ESAPMA
Gas Energy Efficiency	GEEBA
Post 2005 Gas Energy Efficiency	PGEEBA
Post-2005 Gas Low Income Energy Efficiency	PGLIEEBA
Research, Development & Demonstration - Gas	RD&D
Demand Side Management Bidding - Gas	DSM BIDDING

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

D. Significant Findings:

Excessive Over-collection of PPP Regulatory Accounts

SDG&E consistently collected unneeded funds through PPP rates, resulting in several PPP regulatory accounts carrying excessive balances during the past 10 years. Appendix B presents the year-end balances of the accounts from 2007 or inception of the programs to 2016. As of December 31, 2016, the total net balance of those PPP regulatory accounts shows an over-collection of approximately $106 million. These over-collection balances represent monies collected from and funded by SDGE's ratepayers. Many of these material over-collections or underspent-authorized budgets have been accumulated and carried forward during the past 10 years. Technically, these accounts should be balanced or carry small balances at the end of each program year. Appendix B demonstrates a consistent pattern of material over-collection in aggregate for SDG&E's PPP regulatory accounts. The CARE program had the highest over-collection balance among all PPP regulatory accounts, reflecting an accumulated over-collected balance of approximately $36 million as of December 31, 2016. In response to UACFB's inquires, SDG&E provided its plans to address the over-collection or underspent amounts regarding its PPP funds.

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

PPP Regulatory Accounts	Over-collection/ Under-collection Explanation
CARE - Electric	To address the over-collected balance of approximately $36 million as of December 31, 2016, SDG&E file the AL 2977-E and calculated its CARE discount rate using an updated sales forecast for the determination of average CARE usage and updated forecast customer participation levels for rates effective January 1, 2017.[17] In this AL, the CARE current rates include a return of $30 million to its customers[18].
EPICBA	Per D.13-11-025, the Commission instructed the IOU to refund the uncommitted fund at the conclusion of the second investment plan cycle due to the delay of project expenditure incurrence. Therefore, SDG&E was allowed to hold on to the over-collection until the end of December 31, 2017.
FERA	SDG&E maintains an immaterial over collected balance in this fund.
LIEEBA	In D.16-11-022, the Commission denied SDG&E's request to partially offset future revenue requirements by approximately $6 million; and authorized SDG&E to fund new low income energy efficiency programs for years 2017 through 2020 with a portion of the over-collected balances and to offset future revenue requirements to be included in rates with the remainder.
PEEBA	SDG&E maintains an immaterial under collected balance in this fund.
CARE-Gas	SDG&E filed AL 2524-G on the December 31, 2016 to request an amortization of $6 million to return to customers in rates effective January 1, 2017.
GEEBA	The GEEBA was over-collected in 2015 and 2016 reflecting historical Energy Efficiency (EE) and Low Income Energy Efficiency (LIEE) balances. SDG&E intends to transfer these balances to more current EE and LIEE balancing accounts where the funds can be used to offset future revenue requirements to be included in rates.
PGEEBA	SDG&E maintains an immaterial over collected balance in this fund.
PGLIEEBA	In D.16-11-022, the Commission denied SDG&E's request to partially offset future revenue requirements by approximately $6 million; and authorized SDG&E to fund new LIEE or years 2017 through 2020 with a portion of the over-collected balances and to offset future revenue requirements to be included in rates with the remainder.
RD&D	SDG&E maintains an immaterial balance in this fund.

UAFCB also observed that the Commission had increased the program budgets through rate increases for the PPP programs despite that they carried significant high balances. UAFCB recommends the Commission should carefully review the PPP expenditures and budget requests, and unspent year-end balances in the PPP regulatory accounts before approving PPP funding.

17 AL 3028-E
18 AL 2977-E

Over-budgeting raises serious concerns that SDG&E collects unnecessary PPP funds from its ratepayers.

Detailed Component Electric Rates Not Included in the Advice Letters

UAFCB noted that the detailed component rates were not included in the ALs 2521-E and 2685-E for electric rates. SDG&E asserted that only aggregate allocation rates were submitted with its ALs filings to the Commission. UAFCB recommends that the Commission provide specific instructions that require SDG&E to include detailed allocation rates for each PPP component when filing its ALs related to PPP.

Inconsistency Accounting Basis for Electric Expenditures and Revenue

Although SDG&E properly allocated the electric PPP revenue to appropriate regulatory accounts, it has not used accrual basis of accounting for the recording and reporting its electric PPP revenue in its regulatory accounts. Instead, SDG&E recorded the electric PPP revenue to these accounts when it billed its customers. In contrast, SDG&E has been using accrual basis of accounting for the purposes of recording and reporting PPP expenditures incurred in these programs. SDG&E's failure to apply the accrual basis of accounting when recording and reporting revenues resulted in an inconsistent treatment of PPP funds. The main objective of an accrual is to ensure that valid expenditures or revenues are properly recorded and reflected in the proper period. If accrual basis of accounting is used for expenditures, the same accounting basis should be used for revenues in order to properly match revenues with expenditures. This mismatched accounting treatment could potentially lead to the understatement of program revenues or overstatement of expenditures, resulting in unreliable balances in these funds. SDG&E and the Commission should address the inconsistent treatment of recognizing electric PPP revenue and expenditures. SDG&E should update its accounting procedures and practices to ensure transparency and consistency when reporting the electric PPP expenditures and revenues. The Commission should also establish clear guidelines to require all utilities to use the same basis of accounting for both revenue and expenditures for consistency. It would help the Commission compare the program effectiveness among Utilities when they use the same accounting treatment.

E. PPP Billing Rates and PPP Revenue Recording Testing

PPP Billing Rates

To review the accuracy of the electric PPP rates billed by SDG&E, UAFCB randomly selected SDG&E's electric billing data of December 2015 and March 2016 by each type of customer class to verify if the electric PPP rates used for the billing statements agreed with those on the related tariffs. The aggregated PPP charges in the two sets of sample were $174,606 in 2015 and $248,984 in 2016. UAFCB recalculated the PPP revenue amounts of the selected billing statements by multiplying the electric usage with the PPP rates for a customer class. UAFCB's review disclosed that SDG&E applied the proper PPP rates authorized by the Commission to its customers billings for PYs 2015 and 2016.

To review the accuracy of the gas PPP rates billed by SDG&E, UAFCB randomly selected SDG&E's gas billing data of December 2015 and March 2016 by each type of customer class to verify if the gas PPP rates used for the billing statements agreed with those on the related tariffs. The aggregated PPP charges in the two sets of samples were $10,654 in 2015 and $46,384 in 2016. UAFCB recalculated the PPP revenue amounts of the selected billing statements by multiplying the electric usage with the PPP rates for a customer class. UAFCB's review disclosed that SDG&E applied proper PPP rates authorized by the Commission to its customer billings for PYs 2015 and 2016.

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

PPP Revenue Recording

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

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

Electric Regulatory Accounts:

In general, SDG&E's billing system records payments from customers. SDG&E uses disaggregated revenue schedule and predetermined rate allocation factors for the allocation of its PPP revenues to the programs. These factors are provided by the electric and gas rate departments on a minimum of an annual basis. For electric, the internal reporting unit prepared the revenue schedules. Then the accounting group performed allocation of PPP revenue by distributing revenue through predetermined rate allocation factors, which are provided by the electric rate department on a minimum of an annual basis. For gas, the total gas surcharges are extracted from the billing system. Our review disclosed that SDG&Es internal control for revenue allocation and recording were adequate.

UAFCB judgmentally selected one month for each program year to test actual billing revenue allocated to selected PPP regulatory accounts that tracked the differences between SDG&E's program expenses and revenue.

A summary of selected SDG&E PPP electric regulatory accounts tested for PYs 2015 and 2016 is presented in Table 3 as follows:

Table 3
Summary of Electric PPP Regulatory Accounts Selected for Testing

PPP Regulatory Account	Months Selected for Testing	
	December 2015	December 2016
EPIC	$1,171,500	$1,137,372
CARE	5,216,296	10,118,957
LIEE	974,942	934,058
EPEEBA	7,792,509	7,792,202
CARE Rate Subsidies[19, 20]	5,329,952	NA
FERA[21]	NA	77,838
Totals	**$20,485,199**	**$20,060,426**

The amounts in the table are the total electric billing amounts allocated to appropriate PPP regulatory accounts for the month of December 2015 and 2016. UAFCB independently recalculated the allocated revenue amounts using the detailed component rates in documentation provided by SDG&E.

Gas Regulatory Accounts:
The billing system is set up to calculate the gas surcharges by rate components. The recording of PPP gas surcharges is different from the recording of PPP electric revenue in that SDG&E does not record PPP gas surcharges as its revenues. SDG&E's gas surcharges are billed daily to customers and revenues are recorded directly to the associated PPP regulatory accounts in its ERP accounting system. On a quarterly basis, SDG&E staff reconciles the monthly billed surcharges from the reporting system to the amounts in the PPP regulatory accounts.

UAFCB selected a quarter for each program year to test actual billings allocated to selected PPP regulatory accounts that tracked program expenses against PPP revenue. They are DSM, LIEE, RD&D and CARE regulatory accounts.

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

[19] Pursuant to D.14-01-002, the amount for PY 2015 reflects the recovery of CARE rate subsidies in the CARE rate surcharge that was implemented in AL 2595-E.
[20] In 2016, this amount was combined in the CARE balance.
[21] The program started in 2016. Per AL 2783-E and AL 2790-E, the discount is reflected in PPP beginning 2016.

Table 4
Summary of Gas PPP Regulatory Accounts Selected for Testing

PPP Regulatory Account	Period Selected for Testing	
	Quarter 4th of 2015	Quarter 2nd of 2016
DSM[22]	($34,382)	$204,893
LIEE	719,662	822,002
RD&D	71,249	88,364
CARE	908,555	1,418,173
Totals	**$1,665,084**	**$2,533,432**

The amounts in the table are the total gas billing amounts allocated to appropriate PPP regulatory accounts for the month of the quarter 4th of 2015 and the quarter 2nd of 2016. Our testing disclosed that the recorded revenues on the above accounts were properly allocated in the appropriate PPP funds. UAFCB concludes that the revenues in SDG&E's regulatory accounts were properly recorded and reported during PYs 2105 and 2016.

[22] The negative DSM amount in 2015 was due to refunds and billing errors.

Appendix A

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

UAFCB reviewed the preliminary statement of each PPP Regulatory Account maintained by SDG&E for Program Years (PYs) 2016 and 2015. Below are the general descriptions for each balancing account.

ELECTRIC REGULATORY ACCOUNTS:

1. **California Alternative Rates for Energy (CARE).**
Decision (D) 15-07-001 established the CARE Balancing Account to compare CARE revenues with CARE program costs. The CARE balancing account consists of two subaccounts: CARE – Rate Discount and CARE –Temporary Assistance for Needy Families (TANF). The CARE – Rates Discount program was authorized by various Commission decisions[23]. The discount was increased pursuant to D.15-07-001 and effective September 1, 2015. The CARE – TANF as authorized by Resolution E-4328 dated April 22, 2010 to record actual expense incurred by SDG&E for implementing the CARE/TANF Leveraging Program.

2. **Electric Procurement Energy Efficiency Balancing Account (EPEEBA)**
D.03-12-062 established the EPEEBA to record the costs of procurement energy efficiency program funding. In addition, the EPEEBA will record revenues from a non-by passable surcharge that will fund the procurement energy efficiency program costs.

3. **Electric Program Investment Charge Balancing Account (EPICBA)**
D.16-06-006 established the EPICBA consisting of the two subaccounts: the Renewables and Research, Development and Demonstration program (RRDD) and the New Solar Homes Partnership Program (NSHP). Pursuant to Phase 1 of D.11-12-035 of December 15, 2011, the purpose of the RRDD Subaccount is to record funds collected from customers through the RRDD charge and expenses associated with the electric Research, Development and Demonstration (RD&D) and Renewable Resource Energy Technologies (Renewables) programs. The purpose of the NSHP Subaccount is to record the authorized revenue requirement pursuant to D.16-06-006 of June 9, 2016. The revenue requirement is to be offset by disbursements to the California Energy Commission (CEC) or NSHP applicants per Ordering Paragraph (OP) 10 of D.16-06-006 and any SDG&E incremental costs authorized by the Commission. This is an interest bearing account.

4. **Energy Savings Assistance Program Memorandum Account (ESAPMA)**
D.15-12-024 and D.16-06-018, Bridge Funding for 2016 CARE and Energy Savings Assistance Program (ESAP), effective January 1, 2016 and July 1, 2016, respectively, established the ESAPMA to record the difference between the revenue requirement adopted for the applicable bridge funding period and the revenue requirement requested and approved

[23] Commission Decisions include D.89-07-062, D.89-09-044, D.92-04-024 and D.92-06-060.

in D.16-11-022 in SDG&E's 2015-2017 CARE and ESAP Application (A.)14-11-009. The ESAPMA is an interest bearing memorandum account that is not recorded on SDG&E's financial statements.

5. **Family Electric Rate Assistance Balancing Account (FERA)**
D.15-07-001 established the FERA to record FERA revenues with FERA program costs for FERA line item discounts. This is an interest bearing account.

6. **Low-Income Energy Efficiency Balancing Account (LIEEBA)**
D.97-12-103 authorized the recording of revenues and expenses associated with the electric low-income Energy Efficiency PPP in the Post-1997 Electric Energy Efficiency Balancing Account (PEEEBA), and certain other adjustments to funding levels as authorized the Commission. D.03-04-027, the Low-Income Energy Efficiency (LIEE) portion of the PEEEBA shall be transferred to the new LIEEBA. This is an interest bearing account.

7. **Post-1997 Electric Energy Efficiency Balancing Account (PEEEBA)**
D.97-12-103 and Resolution E-3792 of December 17 2002 established the PEEEBA to record the revenues and expenses associated with the electric Energy Efficiency PPP, transference of PPP funds to a new administrator(s), and certain other adjustments to funding levels as authorized by the Commission decisions. Pursuant to Commission D.03-04-027, the LIEE portion of the PEEEBA shall be transferred to the Low-Income Energy Efficiency Balancing Account effective May 1, 2003. Pursuant to D.09-09-047, the PEEEBA will track the corresponding activity in the 2009 bridge funding period and the 2010 – 2012 energy efficiency program cycle. The PEEEBA also records the costs associated with the On-Bill Financing (OBF) Program adopted in D.05-09-043 and extended by D.09-09-047. This is an interest bearing account.

8. **Demand-Side Management (DSM) Bidding Memorandum Account – Electric**
Resolution E-3592, dated April 1, 1999, established the electric DSMMA to record the transfer of funds to the CEC to conduct certain market assessment and evaluation (MA&E) studies authorized by the Commission. These studies include but are not limited to the: Commercial Building Survey, Non-Residential Remodeling and Renovation and Non-Residential Market Share Tracking Activities and Update of the Database for Energy Efficient Resources. The transfer of funds is expected to occur on or before June 30 and December 31 of each year, however, the scheduling of transfers may occur at different intervals as authorized by the Commission.

<u>GAS REGULATORY ACCOUNTS:</u>

9. **California Alternative Rates for Energy (CARE GAS)**
Resolution (R) 10-02-005 established the CARE balancing account to balance CARE program expenses against revenues. The CARE balancing account consists of two subaccounts: 1) CARE – Rate Discount and 2) CARE – TANF. The CARE – Rate Discount Program was previously known as the LIRA Program, which was authorized by various

decisions.[24] The utility shall maintain a CARE balancing account commencing as of August 14, 1989. The CARE – TANF as authorized by R.E-4328 dated April 22, 2010 to record actual expenses incurred by SDG&E for implementing the CARE/TANF Leveraging Program. This is an interest bearing account.

10. **Energy Savings Assistance Program Memorandum Account – Gas (ESAPMA GAS)**
D.11-11-010 and D.12-06-030, Bridge Funding for 2012 CARE and ESAP, effective January 1, 2012 and July 1, 2012, respectively, established the ESAPMA to record the difference between the revenue requirement adopted for the applicable bridge funding period and the revenue requirement requested and eventually approved in the 2012-2014 CARE and ESAP Application (A.) 11-05-020. D.16-06-018 established the ESAPMA is an interest bearing memorandum account that is not recorded on SDG&E's financial statements.

11. **Gas Energy Efficiency Balancing Account (GEEBA)**
The GEEBA is established to balance Gas Energy Efficiency program expenses against revenues from January 1, 1998 forward. The GEEBA will also facilitate the transference of gas funds to a new administrator(s), and certain other adjustments to funding levels as authorized by Commission decisions. Commission Resolution G-3303, dated December 21, 2000, adopted gas PPP surcharge rates effective January 1, 2001 as directed by Assembly Bill (AB) 1002. Resolution G-3303 also 1) exempts some customers from the PPP surcharge who were not exempt to charges in rates prior to January 1, 2001 and 2) requires utility to make quarterly payments to the California BOE.[25] D.04-08-010 authorized utilities to modify their regulatory accounts to facilitate the unbundling of PPP costs from their rates. D.04-08-010 also notes that while the surcharge collections are in the possession of the State, the applicable interest that applies is the actual amount of interest that accrued while the remittances were on deposit in the State's Gas Consumption Surcharge Fund (Fund). For energy efficiency and low income energy efficiency program cycles beginning January 1, 2006, program costs and related surcharge funds will be recorded to the Post-2005 Gas Energy Efficiency Balancing Account and the Post-2005 Gas Low Income Energy Efficiency Balancing Account respectively.

12. **Post-2005 Gas Energy Efficiency Balancing Account (PGEEBA)**
D.05-09-043 established the Post-2005 PGEEBA to balance PGEE program expenses against revenues for the program cycle beginning January 1, 2006. Pursuant to D.09-09-047, the PGEEBA will track the corresponding activity in the 2009 bridge funding period and the 2010 – 2012 energy efficiency program cycle. The PGEEBA also tracks the costs associated with the OBF Program adopted in D.05-09-043 and extended by D.09-09-047.

13. **Post-2005 Gas Low Income Energy Efficiency Balancing Account (PGLIEEBA)**
D.05-12-026 established the PGLIEEBA to balance PGLIEE program expenses against revenues for the program cycle beginning January 1, 2006.

14. **Research, Development and Demonstration (RD&D)**

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[24] Commission Decisions include D.89-07-062, D.89-09-044, D.92-04-024 and D.92-06-060.
[25] The BOE has changed its name to "CA Department of Tax and Fee Administration" (CADTFA) on July 1, 2017.

D.04-08-010 establish the RD&D account to track the gas surcharge collected from non-exempt customers related to the PPP that will be remitted to BOE to fund programs administered by the CEC or other non-utility entity designated by the Commission. This account also tracks SDG&E's allocation of the annual BOE and the Commission's administrative costs authorized by the Commission.

15. Gas Demand Side Management Memorandum Account (GDSMMA)
D.92-12-019 established the GDSMMA to track the unamortized DSM balance or "true-up amount" remaining from the elimination of the Gas Efficiency Balancing Account (GEBA).

Appendix B

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

Item No.	Regulatory Accounts	SDG&E's Reported PPP Regulatory Account Balances as of									
		12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016
	ELECTRIC REGULATORY ACCOUNTS										
1	CARE	($1,858,933)	($8,514,496)	($3,762,498)	($16,991,966)	($18,974,225)	$13,774,048	$8,615,221	$6,746,349	($9,277,403)	($35,901,584)
2	EPEEBA	(87,123,977)	0	0	0	0	0	0	0	0	0
3	EPICBA	0	0	0	0	0	(13,219,760)	(25,425,818)	(37,670,045)	(34,230,669)	(26,446,743)
4	ESAPMA	0	0	0	0	0	2,014,217	1,623	1,623	0	0
5	FERA	0	0	0	0	0	0	0	0	150,451	197,300
6	LIEEBA	(2,591,201)	(1,247,606)	(3,731,645)	(7,019,440)	(3,197,815)	438,164	(3,939,846)	(6,531,984)	(9,341,544)	(12,313,334)
7	PEEEBA	(14,460,757)	(80,099,237)	(47,376,272)	(65,699,886)	(52,590,537)	(39,681,111)	(10,729,276)	(20,455,789)	(22,244,262)	377,246
8	DSM BIDDING	(5,395,225)	(5,525,492)	(5,543,707)	(5,556,148)	(5,566,204)	(5,585,067)	(5,316,466)	(5,321,739)	(5,329,505)	0
	Total - Electric	**($111,430,093)**	**($95,386,831)**	**($60,414,122)**	**($95,267,440)**	**($80,328,781)**	**($42,259,509)**	**($36,794,562)**	**($63,231,585)**	**($80,272,932)**	**($74,087,115)**
	GAS REGULATORY ACCOUNTS										
9	CARE	(299,533)	(291,779)	(1,621,647)	(187,818)	(3,761,779)	(2,002,085)	(613,525)	(1,212,604)	(5,602,339)	(11,393,810)
10	ESAPMA	0	0	0	0	0	(2,792,930)	(629)	(629)	0	0
11	GEEBA	(9,745,092)	(8,326,067)	(8,531,257)	(8,497,480)	(8,630,891)	(9,018,843)	(9,029,973)	(9,021,410)	(9,034,577)	(9,079,173)
12	PGEEBA	(3,195,697)	(2,667,708)	(6,972,979)	(9,848,680)	(13,908,309)	(20,872,195)	(15,597,486)	(18,035,348)	(9,632,498)	(42,942)
13	PGLIEEBA	(2,949,966)	(2,234,782)	(1,620,294)	(3,659,871)	(1,660,412)	(3,650,736)	(5,484,790)	(5,096,455)	(9,589,395)	(11,009,338)
14	RDD	(69,029)	(73,333)	(11,669)	(11,913)	(12,140)	(12,367)	(12,545)	(12,653)	(13,496)	(13,389)
15	DSM BIDDING	(333,731)	(341,788)	(342,915)	(343,687)	(344,309)	(348,592)	(300,408)	(300,707)	(301,146)	0
	Total - Gas	**($16,593,048)**	**($13,935,457)**	**($19,100,761)**	**($22,549,449)**	**($28,317,840)**	**($38,697,748)**	**($31,039,356)**	**($33,679,806)**	**($34,173,451)**	**($31,538,652)**
	Grand Total	**($128,023,141)**	**($109,322,288)**	**($79,514,883)**	**($117,816,889)**	**($108,646,621)**	**($80,957,257)**	**($67,833,918)**	**($96,911,391)**	**($114,446,383)**	**($105,625,767)**

Note: Zero denotes non-existence. Negative amounts denote over-collection and positive amounts denote under-collection.

December 15, 2017

Appendix C

SDG&E's Response

SDGE
A Sempra Energy utility

Michelle Somerville
Regulatory Business Manager
San Diego Gas & Electric Company
msomerville@semprautilities.com
(858) 654-6356

December 5, 2017

R. 13-11-005

Sent thru E-Mail

Ms. Kieu Chinh Tran
Mr. Raymond Yin
CPUC-DWA, UAFCB
180 Promenade Circle, Suite 115
Sacramento, CA 95834

Subject: **SDG&E 2015 and 2016 Regulatory Accounts (RA) Related to Public Purpose Program (PPP) and Public Goods Charge (PGC) Rate Revenues - SDG&E Response to UAFCB Examination Draft Report (Observation 4, 6 and 7)**

Dear Ms. Tran and Mr. Yin:

Enclosed please find San Diego Gas & Electric Company's (SDG&E) response to UAFCB Examination Draft Report (Observation 4, 6 and 7) dated November 15, 2017.

As requested, hard-copies will be provided by overnight courier.

If you have any questions, please contact me.

Sincerely,

/signed

Michelle Somerville
Regulatory Business Manager

Enclosure

cc: K. Kajopaiye - UAFCB
Central Files

R.13-11-005 SDG&E Response
DWA-CPUC Data Request No: SDGE 2015 and 2016 DR-009 dated July 25, 2017
Re: Compliance Examination of SDG&E 2015-2016 Regulatory Accounts (RA) Related to Public Purpose Program (PPP) and Public Good Charge (PGC) Rate Revenues
Submitted: December 5, 2017

Attendees:
CPUC (KC Tran)
SDG&E (M Somerville, E Dalton, J Phan and E MacDonald)

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

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

1. Observation 4 – SDG&E did not provide its detailed allocation documents to support its PPP rates when filing Advice Letters (ALs) 2685-E and 2840-E with the Commission to consolidate electric rates.

   SDG&E Response:

   SDG&E will be including an Attachment with the 2018 PPP rates by component in its Consolidated Filing to implement January 1, 2018 electric rates. Please note that SDG&E did include this Attachment as Attachment C in its Electric Public Purpose Programs ("PPP") Filing per AL 3124-E filed on 10/2/2017 and approved on 10/31/2017.

   Person Responsible for the Response: Jenny Phan

R.13-11-005 SDG&E Response
DWA-CPUC Data Request No: SDGE 2015 and 2016 DR-009 dated July 25, 2017
Re: Compliance Examination of SDG&E 2015-2016 Regulatory Accounts (RA) Related to Public Purpose Program (PPP) and Public Good Charge (PGC) Rate Revenues
Submitted: December 5, 2017

2. Observation 6 – SDG&E has not consistently used the same accrual basis of accounting to record and report electric revenue and expenditures in the PPP funds.

   SDG&E Response:

   Due to system limitations, we are not able to accurately calculate and accrue electric revenues into the balancing accounts. We use actual billing data to book revenues into the balancing accounts.

   Person Responsible for the Response: Eric Dalton

R.13-11-005 SDG&E Response
DWA-CPUC Data Request No: SDGE 2015 and 2016 DR-009 dated July 25, 2017
Re: Compliance Examination of SDG&E 2015-2016 Regulatory Accounts (RA) Related to Public Purpose Program (PPP) and Public Good Charge (PGC) Rate Revenues
Submitted: December 5, 2017

3. Observation 7 – SDG&E consistently collected unneeded funding from the PPP, resulting in six PPP regulatory accounts carrying excessive balances in the past 10 years. As of December 31, 2016, the total net balance of over-collection on those PPP regulatory accounts is approximately $106 million.

SDG&E Response:

At December 31, 2016, there were eight regulatory accounts with large overcollected balances:

			YE 2015		YE 2016
Line #	Balancing Account	Balancing Account Code	(Over)/Under Collected	Activity	(Over)/Under Collected
1	Care - Electric	CARE ELEC	(9,277,403)	(26,624,181)	(35,901,584)
2	Care - Gas	CARE GAS	(5,602,339)	(5,791,471)	(11,393,810)
3	Electric Program Investment Charge	EPIC	(34,230,669)	7,763,926	(26,466,743)
4	Gas Energy Efficiency - Gas	GEEBA	(9,034,577)	(44,596)	(9,079,173)
5	Low Income Energy Efficiency - Electric	LIEEBA	(9,341,544)	(2,971,790)	(12,313,334)
6	Post-1997 Electric Energy Efficiency - Electric	PEEEBA	(22,244,262)	22,621,508	377,246
7	Post 2006 Gas Energy Efficiency	PGEEBA	(9,632,498)	9,589,556	(42,942)
8	Post 2005 Gas Low Income Energy Efficiency	PGLIEEBA	(9,589,395)	(1,419,943)	(11,009,338)

(1) Electric CARE Balancing Account
The calculation of the CARE discount is affected mainly by two components: average CARE usage based on forecasted sales and customer participation forecast.

In 2015 and 2016 over-collections resulted due to actual sales and actual customer participation being lower than forecasted.

For rates effective 1/1/2017 (Advice Letter (AL)3028-E http://regarchive.sdge.com/tm2/pdf/3028-E.pdf), SDG&E's CARE discount was calculated using an updated sales forecast for the determination of average CARE usage and updated forecast customer participation levels. Current rates also include a $30 million amortization that returns these funds to customers. Refer to AL 2977-EA http://regarchive.sdge.com/tm2/pdf/2977-E-A.pdf

(2) Gas CARE Balancing Account
In 2015 and 2016 the account was over-collected primarily due to a combination of the CARE volume forecast as well as the commodity price forecast.
Per AL 2524-G http://regarchive.sdge.com/tm2/pdf/2524-G.pdf , an amortization of $6 million was approved by the Commission to return to customers in rates effective 1/1/2017.

(3) Electric Program Investment Charge Balancing Account (EPIC):
In D.12-05-037 http://docs.cpuc.ca.gov/PublishedDocs/WORD_PDF/FINAL_DECISION/167664.PDF , the Commission authorized SDG&E to collect from customers, revenue requirement for use primarily by the California Energy Commission (CEC) in funding renewables and RD&D grants.

R.13-11-005 SDG&E Response
DWA-CPUC Data Request No: SDGE 2015 and 2016 DR-009 dated July 25, 2017
Re: Compliance Examination of SDG&E 2015-2016 Regulatory Accounts (RA) Related to Public Purpose Program (PPP) and Public Good Charge (PGC) Rate Revenues
Submitted: December 5, 2017

SDG&E serves as an administrator and does not direct the timing of when CEC requests funds from SDG&E.

The 2015 and 2016 over-collected balances primarily reflect a timing difference between when SDG&E collects revenue and when CEC submits a "bill" to SDG&E.

(4) Gas Energy Efficiency Balancing Account
The GEEBA was over-collected in 2015 and 2016 reflecting historical energy efficiency (EE) and low income (LIEE) balances. SDG&E intends to transfer these balances to more current energy efficiency (EE) and low income (LIEE) balancing accounts where the funds can be used to offset future revenue requirements to be included in rates.

(5) Low Income Energy Efficiency – Electric; and
(8) Post 2005 Gas Low Income Energy Efficiency:
Through program years 2015 and 2016, SDG&E had an over-collection in its gas and electric low income energy efficiency balancing accounts (PGLIEEBA and LIEEBA) of $19 million and $23 million respectively. The over-collection carry-over was authorized by the Commission in D.14-08-030. http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M103/K080/103080857.PDF

In D.16-11-022, the Commission denied SDG&E's request to partially offset future revenue requirements by approximately $6 million; and authorized SDG&E to fund new low income energy efficiency programs for years 2017 through 2020 with a portion of the over-collected balances and to offset future revenue requirements to be included in rates with the remainder. http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M169/K760/169760972.PDF .

(6) Post-1997 Electric Energy Efficiency; and
(7) Post 2005 Gas Energy Efficiency
The two energy efficiency balancing accounts listed above (#6 PEEEBA, and #7 PGEEBA) were over-collected by $31.9 million in 2015 and under-collected by a total of $0.3 million in 2016. The balance reduction from 2015 to 2016 is partially due to a $9.5 million gas amortization and $6 million electric amortization giving back the over-collection to customers effective 1/1/16 as approved by the Commission in AL 2427-G http://regarchive.sdge.com/tm2/pdf/2427-G.pdf ; and AL 2795-E http://regarchive.sdge.com/tm2/pdf/2795-E.pdf .

These accounts also hold funds that represent contracted commitments to be fulfilled in future years. SDG&E prepares monthly reports detailing committed funds by program cycle. Monthly reports are found at http://eestats.cpuc.ca.gov/Views/Documents.aspx.

Person Responsible for the Response: Elaine MacDonald