ENERGY EFFICIENCY EXAMINATION

SOUTHERN CALIFORNIA EDISON COMPANY
PROGRAM YEAR 2017

UTILITY AUDIT, FINANCE AND COMPLIANCE BRANCH

AUGUST 5, 2019

A digital copy of this report can be found at:
http://www.cpuc.ca.gov/utilityaudits/

Thanks to:
Angie Williams, Kevin Nakamura, and Jeff Walter

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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) programs funded by California ratepayers. These EE programs are 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).[1] The primary purpose of these EE programs are to develop programs and measures to meet energy savings goals and transform technology markets in California.

The Commission's Utility Audit, Finance, and Compliance Branch (UAFCB) conducted the examinations of the EE programs pursuant to Ordering Paragraph (OP) 17 of Decision (D.) 13-09-023. Additionally, 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 Public Utilities Code (PUC) Sections 314.5, 314.6, 581, 582, and 584. UAFCB conducted this examination in accordance with Generally Accepted Governmental Auditing Standards (GAGAS).

The scope of this examination covered the period January 1, 2017 to December 31, 2017 or PY 2017. The purpose of this examination was to ensure that SCE was in compliance with EE program rules and regulations and to determine whether its reported EE expenditures were accurate, allowable and verifiable. For the examination on SCE's EE program, expenditures of selected EE programs and subprograms administered and implemented by SCE for the period under audit were reviewed. The specific SCE EE program and subprogram areas examined are included in the scope section of this report. Based on the examination, the following findings were identified:

- Finding #1: Lack of Compliance with Accrual Policy and Procedures Relating to its EE Program Costs for PY 2017
- Finding #2: Overstatement of the Efficiency Savings and Performance Incentive (ESPI) Award Amount for PY 2017

[1] San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SCG) are affiliated subsidiaries of SEMPRA Energy.

Examination Report

BACKGROUND

The California Public Utilities Commission (Commission) regulates investor-owned electric and gas utilities in California. Through its regulatory oversight, the Commission is responsible for overseeing the energy efficiency (EE) programs which are principally administered and implemented by the four major Investor-Owned Utilities (IOUs) in California and funded by California ratepayers. The four major IOUs in California 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).[2] The primary purpose of these EE programs are to develop programs and measures to meet energy savings goals and transform technology markets within California using ratepayer funds.

To meet California's aggressive electricity and natural gas energy efficiency goals, the Commission authorized billions to the EE programs, which are funded by electric and gas rates included in ratepayer bills.[3] The IOUs have greatly increased its costs and budgets through rate increases for administering and implementing these EE programs over time. Prior to 2016, the Commission authorized the IOUs budgets for the EE programs 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. As a result, the IOUs PY 2016 EE portfolio budget was the first year to utilize the new "rolling" portfolio process. Consistent with an annual EE program portfolio, the Commission provided ongoing funding for EE programs from 2015 onward. As such, the Commission extended the existing EE program through 2015, and authorized the IOUs to use the 2015 annual spending levels until the earlier of 2025 or when the Commission issues a superseding decision on funding level.[4]

These EE programs span 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." [5] In D.13-09-023, Ordering Paragraphs (OP) 15 and 16, the Commission authorized an incentive award to be paid to the IOUs as a

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[2] San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SCG) are affiliated subsidiaries of SEMPRA Energy.
[3] Public Utilities Code (PUC) 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. PUC Section 900 established a natural gas surcharge to fund cost-effective energy efficiency and other public purpose programs.
[4] D.14-10-046, OP 21
[5] D.13-09-023, page 2

management fee equal to 12% of authorized Codes and Standards (C&S) program expenditures and 3% of authorized non-resource (NR) program expenditures, respectively. Furthermore, in OP 17 of D.13-09-023, it directed the Commission's Utility Audit, Finance, and Compliance Branch (UAFCB) to verify the C&S and NR program expenditures for the purposes of awarding these management fees.

In conducting the annual EE program examinations pursuant to D.13-09-023, OP 17, the UAFCB's primary objective is to ensure that the IOUs are in compliance with EE program rules and regulations and to determine whether the EE expenditures claimed by the IOUs were for allowable purposes and supported by appropriate documentation, such as invoices, contracts and relevant records, and were recorded and reported appropriately for the period under examination.

Specifically, UAFCB's objectives for the examination on SCE's EE program are to determine whether:

1. SCE's costs recorded and reported for the period January 1, 2017 through December 31, 2017 or program year (PY) 2017 were relevant to the EE program and subprograms, supported by appropriate documentation, and in compliance with: (a) Commission's guidelines, including, but not limited to D.13-09-023, D.12-11-015, D.14-10-046, D.15-10-028, the rulings in R.01-08-028, Energy Division's memo dated October 22, 2009, and any relevant subsequent amendments; and (b) SCE's established internal policies and procedures.

2. Program design, structures, processes, implementation, cost and controls of SCE's EE programs were in compliance with: (a) Commission's guidelines, including, but not limited to D.13-09-023, D.12-11-015, D.14-10-046, D.15-10-028, the rulings in R.01-08-028, Energy Division's memo dated October 22, 2009, and any relevant subsequent amendments; and (b) SCE's established internal policies and procedures.

For program year (PY) 2017 EE funding levels, SCE filed Advice Letter (AL) 3465-E-B on July 28, 2017, pursuant to Commission directives in D.14-10-046 and D.15-10-028. The Commission's Energy Division (ED) approved this AL on the same day which, among other things, authorized SCE a total EE portfolio budget of $333.3 million, including $13.3 million for the Evaluation, Measurement and Verification (EM&V) budget, in ratepayer funds to administer and implement the EE programs for PY 2017.

SCOPE

UAFCB developed the scope of its examination based on consultation with the Commission's ED, UAFCB's prior experience in examining SCE's EE program, and Commission directives. The scope of this examination on PY 2017 is limited to the expenditures and activities of the following EE program and subprogram areas:

1. Overall EE Program Cost Reconciliation
2. Codes and Standards (C&S) Program and Subprograms
3. Non-Resource (NR) Program and Subprograms
4. Local Government Partnership (LGP) Program and Subprograms
5. Third Party (TP) Program and Subprograms

In addition to examining the expenditures of the above selected EE programs and subprograms, we also reviewed the monthly, quarterly claims, and annual EE reports submitted by SCE and uploaded on the Commission's California Energy Data and Reporting System (CEDARS)[6] website. A follow-up review was also performed on its prior recommendations in its PY 2016 EE audit [7] to determine whether SCE has implemented the appropriate corrective actions.

For this EE examination on PY 2017, UAFCB has divided the examination into two separate reports. The second examination report covering SCE's Local Government Partnership (LGP) and Third Party (TP) programs will be issued as a supplemental to this report.

METHODOLOGY

To address the examination objectives and assist the Commission in its oversight over the EE programs, the procedures performed include, but are not limited to, the following:

- Obtained an understanding of the EE program by reviewing relevant laws, rules, regulations, PUC codes, decisions, resolutions and advice letters.
- Obtained and reviewed SCE's accounting system, accounting policies, processes and procedures for recording, tracking, and monitoring EE program costs.
- Assessed whether the SCE's policies, procedures, and practices comply with the EE program requirements.
- Evaluated the design, structure and purpose of each EE program and subprogram area included in the scope of this examination to ensure compliance with Commission directives.
- Performed analysis of expenditure data to identify any anomalies or significant variances.
- Reviewed relevant reports filed with the Commission to determine accuracy of reported EE program data and information and ensure compliance with applicable rules and program requirements.
- From SCE'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 adequately supported the objective and purpose of the EE program.
- Reviewed SCE'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.

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[6] The California Energy Data and Reporting System (CEDARS) website securely manages data associated with demand-side management (DSM) programs, ensuring quality and improving communication between DSM Program Administrators (PAs), the Commission, and the Public.

[7] UAFCB report entitled *"Energy Efficiency Audit, Southern California Edison, Program Year 2016"* issued on August 29, 2018.

- Traced expenditures recorded in SCE's accounting records to supporting documentation and determined whether costs were reasonable, allowable, verifiable, and relevant to the EE program.

FINDINGS AND RECOMMENDATIONS

Finding #1: Lack of Compliance with Accrual Policy and Procedures Relating to its EE Program Costs for PY 2017

Condition:

1. SCE incorrectly included $72,016 in PY 2017 expenditures belonging to PY 2016, resulting in an overstatement of Codes and Standards (C&S) program expenditures reported to the Commission in PY 2017. A detailed description for this exception amount is included in **Appendix B.**

2. SCE overstated its 2017 Non-Resource (NR) program expenditures by a total of $109,505 by incorrectly recording $34,000, $30,094 and $45,411 in expenditures belonging to PYs 2015, 2016 and 2018, respectively. A detailed description for this exception amount is included in **Appendix B.**

An overstatement of EE program expenditures has been a repeated finding in prior Commission examinations including, but not limited to, PY's 2013, 2014, 2015 and 2016.

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 a corporation subject to the 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.

Cause:
SCE improperly recorded and accrued expenses to PY 2017 due to the inconsistent application of its own internal accrual policy and procedures.

Effect:
Failure to record expenditures in the proper period and program year resulted in an overstatement of EE program costs reported to the Commission by a total of $181,521 for PY 2017. It is critical to ensure that EE program costs are accurately recorded and reported since these programs are funded by ratepayers. An overstatement of expenditures can lead to an overpayment in incentive awards to SCE. Furthermore, an overstatement in expenditures may lead to higher than anticipated authorized budget amounts in future years since SCE develops its future year EE budgets on prior year costs. This practice can result in over-collections in ratepayer funds that support the EE program.

Recommendations:
SCE should ensure compliance with Generally Accepted Accounting Principles (GAAP) and its own internal accrual policy and procedures for the proper recording and reporting of EE expenditures funded by ratepayers. SCE should reduce its C&S and NR program costs by a total amount of $72,016 and $109,505, respectively, for PY 2017.

Finding #2: Overstatement of the Efficiency Savings and Performance Incentive (ESPI) Award Amount for PY 2017

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 – Energy Efficiency Resource Savings, Ex-Ante Review (EAR) Process Performance, Codes and Standards (C&S), and Non-Resource (NR) programs.

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 C&S program expenditures and 3% of authorized NR program expenditures, not to exceed authorized expenditures and exclusive of administrative costs.[8] The decision also ordered verification of the C&S and NR program expenditures for the purposes of awarding the management fees.[9]

Based on our sample selected for testing of the C&S and NR program expenditures, SCE overstated its ESPI award for PY 2017. Based upon its recalculation, UAFCB has determined that the revised ESPI base amount for calculating the NR program management fee incentive award amount should be adjusted to $15,456,122 for PY 2017. For the C&S program, the revised ESPI base amount should be adjusted to $3,881,347. A detailed recalculation of SCE's revised ESPI award amounts for the C&S and NR programs in PY 2017 are provided in the tables below.

Table 1

C&S ESPI Recalculation	
Reported C&S ESPI Base	$3,953,363
UAFCB's Audit Exception	(72,016)
Revised C&S ESPI Base	3,881,347
NR Earnings Rate	12%
Revised ESPI Award	$ 465,762

8 The C&S and Non-Resource programs support energy savings but do not provide direct energy savings.
9 D.13-09-023, OP 17

Table 2

NR ESPI Recalculation	
Reported NR ESPI Base	$15,565,627
UAFCB's Audit Exception	(109,505)
Revised NR ESPI Base	15,456,122
NR Earnings Rate	3%
Revised ESPI Award	**$ 463,684**

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 NR program expenditures, not to exceed authorized expenditures in each program year, and excluding administrative expenditures.

Cause:
When SCE overstated its EE program costs as stated in Finding #1, that resulted in an overstatement of its incentive award amounts for PY 2017.

Effect:
SCE overstated their NR and C&S incentive award amounts filed in AL 3901-E. The proper incentive award amounts should be $465,762 for the C&S and $463,684 for the NR programs in PY 2017.

Furthermore, it is critical to ensure that the savings claimed are accurate. The overstatement of incentive award claims by the IOUs may lead to higher than anticipated authorized budgets in future years that are funded by ratepayers since SCE develops its future year EE budgets on prior year costs.

Recommendations:
Since SCE has filed AL 3901-E to claim its C&S and NR program incentive awards for PY 2017, the Commission's Energy Division (ED) should adjust SCE's management fee incentive awards to $465,762 for the C&S program and $463,684 for the NR program when SCE's 2017 ex-post ESPI true-up AL is processed.

CONCLUSION

In conducting our examination, UAFCB obtained a reasonable understanding of SCE's internal controls, which were considered relevant and significant within the context of our examination objectives. UAFCB does not provide any assurance on SCE's internal controls. Any significant deficiencies or material weaknesses in internal controls that were identified during the examination were communicated to SCE's management and identified in this report.

SCE's management is responsible for the development of its policies and procedures to ensure that its EE program is administered and implemented in accordance with Commission directives. The Commission is responsible to ensure the ratepayers' monies funding SCE's EE program explicitly support the EE goals and strategies and protect ratepayers' funds against improprieties and abuse.

UAFCB conducted this examination in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the examination to obtain sufficient, appropriate evidence on the subject matter against criteria in order to draw a reasonable basis for our findings and conclusions based on our examination objectives. UAFCB believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our limited examination objectives.

Based on our sample tested, UAFCB has determined that, except for the items noted in the Findings and Recommendations section, SCE has complied, in all material respects, with the recording and reporting requirements of the EE costs for the audit period of January 1, 2017 to December 31, 2017.

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

Angie Williams, Director
Utility Audit, Finance and Compliance Branch and
Enterprise Risk and Compliance Office

cc: Ed Randolph, Director, Energy Division
Simon Baker, Deputy Director, Energy Division
Manisha Lakhanpal, Supervisor, Energy Division
Kevin Nakamura, Supervisor, UAFCB
Jeff Walter, Auditor, UAFCB

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 audits consistent with Generally Accepted Government Auditing Standards (GAGAS), and to follow-up on findings and recommendations.
	Section 381	Guidance mandating 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.
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. 3465-E-B and 3901-E	2017 Authorized Budget Filing and Request of SCE for its 2016 and 2017 EE Saving Incentive

APPENDIX B
Summary – PY 2017 Exam Adjustments

PrgID	Program Name	ESPI Category	Cost Category			Total
			Admin.	Mktg.	Direct Imp.	
008C	Compliance Improvement	C&S	$0	$0	$21,302	$21,302
008C	Compliance Improvement	C&S	0	0	29,732	29,732
008A	Building Codes & Compliance	C&S	0	0	20,982	20,982
	Total C&S Program		**$0**	**$0**	**$72,016**	**$72,016**
004A	Agriculture Energy Advisor	NR	$0	$0	$ 45,411	$ 45,411
010A	WE&T Centergies	NR	0	0	34,000	34,000
010A	WE&T Centergies	NR	0	0	30,094	30,094
	Total NR Program		**$0**	**$0**	**$109,505**	**$109,505**

APPENDIX C
SCE Responses

SOUTHERN CALIFORNIA EDISON
An EDISON INTERNATIONAL® Company

Jill C. Anderson
Vice President
Customer Programs and Services

June 25, 2019

Angie Williams – Director
Utility Audit, Finance and Compliance Branch and
Enterprise Risk Compliance Office
California Public Utilities Commission
180 Promenade Circle, Suite 115
Sacramento, CA 95834

Dear Ms. Williams

Southern California Edison Company (SCE) appreciates the opportunity to review and provide clarifying comments on the draft *Energy Efficiency Audit Report on Southern California Edison Company's (SCE's) Energy Efficiency Program For the Period January 1, 2017 through December 31, 2017* (Draft Report), issued on June 17, 2019 by the California Public Utilities Commission's Utility Audit, Finance, and Compliance Branch (UAFCB).

SCE's comments to the Draft Report are attached to this letter and provide additional clarification and information related to the findings in the Draft Report. SCE appreciates UAFCB's audit review of the Energy Efficiency Program, as SCE is committed to continuous improvement and uses the feedback received from these audits to implement those improvements.

If you have questions about SCE's comments or would like to set up a meeting to discuss the information provided, please contact Patrick Nandy at 626-302-2049.

Thank you,

Jill C Anderson

Jill C. Anderson
Vice President, Customer Programs and Services

Attachment

cc Edward Randolph, CPUC Energy Division Director
Simon Baker, CPUC Energy Division Deputy Director
Manisha Lakhanpal, CPUC Energy Division Supervisor
Kevin Nakamura, UAFCB Supervisor
Jeffrey Walter, UAFCB Auditor

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2244 Walnut Grove Ave.
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SCE's Comments to the Draft Report in UAFCB's Audit of SCE's Energy Efficiency Programs for the Year Ended December 31, 2017

The following are SCE's comments to the Draft Report prepared by the UAFCB based on its audit of SCE's 2017 Energy Efficiency (EE) Programs. Except for the comments below, SCE believes that the Draft Report accurately reflects the information that SCE provided to the auditors during the audit. Thus, these comments provide updated information, as necessary, and/or explain where SCE disagrees with a finding or portion thereof.

1. Lack of Compliance with Accrual Policy and Procedures Relating to its EE Program costs for PY 2017

Draft Finding 1: *1. SCE incorrectly recorded $112,349 in PY 2017 expenditures belonging to PYs 2016 and 2018 resulting in an overstatement of C&S program expenditures reported to the Commission in PY 2017. A detailed description for this exception amount is included in Appendix B. 2. SCE incorrectly recorded $114,834 in PY 2017 expenditures belonging to PYs 2015, 2016 and 2018, resulting in an overstatement of Non-Resource program expenditures reported to the Commission in PY 2017. A detailed description for this exception amount is included in Appendix B.*

An overstatement of EE program expenditures has been a repeated finding in prior Commission examinations including, but not limited to, PY's 2013, 2014, 2015 and 2016.

Draft Recommendation 1: *SCE should ensure compliance with Generally Accepted Accounting Principles (GAAP) and its own internal accrual policy and procedures for the proper recording and reporting of EE expenditures funded by ratepayers. SCE should reduce its C&S and Non-Resource program costs by a total amount of $112,349 and $114,834, respectively, for PY 2017.*

SCE Comments to Draft Finding 1

SCE acknowledges that the costs identified by UAFCB were recorded in the incorrect Program Year. However, several items identified in Appendix B were membership costs spanning more than one Program Year. SCE's ongoing practice has been to record such membership fees during the Program Year in which the invoice is received, and not prorate and split the costs over multiple Program Years. While this practice does not strictly conform to the GAAP "Matching Principle," it does comply with the principles of "Consistency" and "Materiality", and such practice has never been challenged by the UAFCB in past EE audits. SCE respectfully requests that this finding be reduced by the membership fees identified as part of Appendix B ($40,333 applicable to C&S and $5,329 applicable to Non-Resource).

The UAFCB also notes this finding has been made in prior audits. SCE agrees with UAFCB that the issue of accruals has been raised in prior audits and the importance that EE costs be accurately recorded and reported. It is SCE's goal to have all expenditures correctly recorded in the appropriate accounting period and we continue striving to meet that objective. . SCE is unsatisfied with any missed accruals and will continue to reemphasize to all program personnel the importance of capturing and recording costs in the correct accounting period as part of SCE's ongoing communications and training for accruals.

2. Lack of Internal Audits Related to its EE Program

Draft Finding 3: *SCE's Audit Services Department did not conduct any internal audits of its EE program in PY 2017.*

Draft Recommendation 3: *SCE's Audit Services Department should conduct regular internal audits of the EE program in order to strengthen internal controls and prevent any future deficiencies.*

SCE Comments on Draft Finding 3

SCE's Audit Services Department (ASD) develops its annual internal audit plan, approved annually by the Audit Committee of the Board of Directors, using an annual enterprise-wide risk assessment process. The purpose of the risk assessment is to ensure that ASD's resources are focused on the areas of the company with the greatest risk. While UAFCB is correct that ASD conducted no internal audits of the EE program in PY 2017, ASD has conducted various internal audits of the EE program in past years and is likely to do so in future years.

SCE will communicate this finding to ASD and confirm that the EE program continues to be included in ASD's annual enterprise-wide risk assessment process as part of developing the annual internal audit plan.

APPENDIX D
Evaluation of Responses

SCE's responses to the draft report dated June 17, 2019, have been reviewed and incorporated into our final report. In evaluating SCE's responses, we provide the following comments:

Finding 1: Lack of Compliance with Accrual Policy and Procedures Relating to its EE Program Costs for PY 2017

SCE acknowledges that costs identified by UAFCB were charged to the incorrect program year. However, SCE respectfully disagrees with UAFCB that membership fee expenses covering more than one year be prorated and charged over multiple years. SCE contends that its "practice has been to record such membership fees during the Program Year in which the invoice is received, and not prorate and split the costs over multiple Program Years. While this practice does not strictly conform to GAAP "Matching Principle," it does comply with the principles of "Consistency" and "Materiality", and such practice has never been challenged by the UAFCB in past EE audits." Consequently, SCE is requesting that UAFCB reduce its finding by $40,333 and $5,329 related to the C&S and NR programs, respectively.

We agree with SCE that its accounting practice for the recording of membership fee expenses does not fully comply with the GAAP Matching Principle, which requires that expenses by matched with revenues. However, since the Materiality Principle of GAAP allows for the violation of another principle if an amount is deemed to be insignificant and/or immaterial, UAFCB has agreed to reduce its finding as requested by SCE.

Given the finding of costs being charged to the incorrect program year, UAFCB respectfully requests that SCE continue to ensure that it follows Generally Accepted Accounting Principles (GAAP) for the proper recording and reporting of EE expenditures funded by ratepayers.

Finding 3: Lack of Internal Audits Related to its EE Program

UAFCB appreciates SCE's efforts to have its Audit Services Department (ASD) include the EE program as part of its annual enterprise-wide risk assessment process and have removed this finding from the report.