DUKE ENERGY
FLORIDA

Stephanie A. Cuello
SENIOR COUNSEL

March 8, 2022

VIA ELECTRONIC FILING

Adam J. Teitzman, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Petition for Approval of a Plant Account and Depreciation Rate for Electric Vehicle DC Fast Charge Stations by Duke Energy Florida, LLC; Docket No. 20220029-EI

Dear Mr. Teitzman:

Please find attached for electronic filing Duke Energy Florida, LLC's Response to Staff's First Data Request.

Thank you for your assistance in this matter and if you have any questions, please feel free to contact me at (850) 521-1425.

Sincerely,

s/ Stephanie A. Cuello

Stephanie A. Cuello

SAC/mw
Attachment

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CERTIFICATE OF SERVICE
Docket No. 20220029-EI

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished via electronic mail to the following this 8th day of March, 2022.

s/ Stephanie A. Cuello
Stephanie A. Cuello

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DUKE ENERGY FLORIDA, LLC'S ("DEF"), RESPONSE TO STAFF'S FIRST DATA REQUEST REGARDING DEF'S PETITION FOR APPROVAL OF A PLANT ACCOUNT AND DEPRECIATION RATE FOR ELECTRIC VEHICLE DC FAST CHARGE STATIONS

Docket No. 20220029-EI

1. In paragraph 5 of its petition, DEF requests that the Commission approve a 10 percent depreciation rate for Company-owned DC Fast Charge (DCFC) stations to be booked in the proposed subaccount of Account 370 - Meters.

   a. Please clarify the proposed subaccount by name and number.
   b. Please provide a full description and diagram of the equipment that constitutes a DCFC station (for all types of DCFC stations).
   c. Please explain the basis for DEF's assumption of a 10 percent depreciation rate for all types of DCFC stations and all related equipment to be included in the proposed subaccount.
   d. Please provide all reports and studies that support a 10 percent depreciation rate for the assets included in this petition.
   e. Please cite and identify any sources that support DEF's intention to record the costs of DCFC equipment in the proposed subaccount of Account 370 – Meters.
   f. Please explain why DEF believes that Account 370 – Meters is a better selection of accounts over other options, such as Account 371 – Installations on Customer Premises.

   <u>Response:</u>

   a. The proposed subaccount is 370.7 – EV Charging Stations.

   b. A DCFC station is 3 phase connected unit and can be a stand-alone unit or configured with dispensers connected back to power cabinets. Configurations depend on site host location and available parking plus land needed for equipment. Most DCFC installations will also necessitate a dedicated pad mounted transformer. Please refer to Attachment Staff-1-1(b)_Site Drawing, Attachment Staff-1-1(b)_ABB Terra HP Spec Sheet, Attachment Staff-1-1(b)_ABB Terra Spec Sheet, and Attachment Staff-1-1(b)_Blink Spec Sheet.

   c. When new FERC accounts/subaccounts are utilized in an interim period from the last approved set of depreciation rates, an interim depreciation rate needs to be applied to the assets placed into service for that new account/subaccount. Absent a depreciation study, DEF must use its best judgment in determining which depreciation rate to apply. In this instance, DEF received guidance from the manufacturer of the ABB DCFC Stations indicating the minimum design life of the assets was 10 years. DEF's third-party depreciation consultant confirmed a 10-year life is typical for DCFC stations. Therefore, DEF determined that the average service life was 10 years. These assets would be included in the next depreciation study and would be fully analyzed by the third-party depreciation consultant. DEF incorporated this 10% depreciation rate in its 2022 and 2023 MFRs filed in the 2021 Settlement Docket No. 20210016.

d. Please refer to DEF's response to subpart c.

e. In support of DEF's intention to record the costs of DCFC equipment in a subaccount of Account 370, DEF relied upon FERC guidance included in Docket FA19-3-000 (audit of San Diego Gas & Electric Company (SDG&E) Transmission Formula Rate Template), in which FERC staff observes and recommends the following:

   "The EV charging stations are made of several components that include hardware and software that facilitate retail end-use customer access to a low voltage power supply with control and monitoring oversight by SDG&E. The control and monitoring capabilities of the EV charging stations are similar in operation and function to utility smart meters. Given the nature of the assets and their control and monitoring capabilities, audit staff believes that the EV charging stations are more appropriately recorded to Account 370, Meter or Account 371 than Account 398. Account 370 provides for recording the cost of meters, and Account 371 provides for recording the cost of equipment on the customers' side of meters. Accordingly, SDG&E may decide to use one or both accounts to record components of the assets or record the assets in a subaccount of a single account and must maintain records to support the cost and depreciation of the assets."

   Refer to Attachment Staff-1-1(e)_Docket FA19-3-000.

f. When evaluating new types of assets, all accounts within the function (i.e., Distribution Plant) are considered.

   As noted in the previous response, from Attachment Staff-1-1(a)_Docket FA19-3-000, FERC staff recommends the use of Account 370: "*Given the nature of the assets and their control and monitoring capabilities, audit staff believes that the EV charging stations are more appropriately recorded to Account 370, Meter or Account 371 than Account 398. Account 370 provides for recording the cost of meters, and Account 371 provides for recording the cost of equipment on the customers' side of meters*."

   Account 371 is utilized for installations on customers' premises. While the DCFC stations are on the customers' premises, DEF considered the fact that DEF will utilize the meter for its own use, versus utilization by the customer on whose premises the meter is installed.

Based on this information, DEF determined that account 370 was the most appropriate account to record the DCFC stations.

2. Please provide the following depreciation parameters, and the basis for those parameters, for the proposed subaccount:

   a. Average Service Life.
   b. Net Salvage.

   Response:

   a. DEF determined that the average service life was 10 years, which was the basis for the 10% depreciation rate.

   b. A third-party depreciation study is needed to estimate Net Salvage. DCFC assets would be included in the next depreciation study, and a Net Salvage value would be developed.

3. Please answer the following:

   a. Is DEF currently recording any depreciation expense associated with the DCFC stations?
   b. If the response to Request 3.a. is affirmative, is the company requesting any plant in service and accumulated depreciation transfers be performed as part of this docket?
   c. If the response to Request 3.b. is affirmative, please specify: amounts to be transferred; accounts in which the property/balances are currently being depreciated; and accounts to which the property/balances are being transferred.
   d. Please provide the monthly DC Fast Charger book entries related depreciation (accounts, year/month, amounts) DEF has recorded as relates to both the DC Fast Charger Pilot program and the permanent DC Fast Charger Program since the inception of the pilot program.
   e. See Table 5 of DEF's December 20, 2021 EV Charger Pilot Program 4th Annual Report. Explain how the DC Fast Charger units' capital costs (pilot program) shown in the table are reflected in the amounts reported in Question 3.d.

   Response:

   a. No depreciation expense has been recorded, as no DCFC stations have been placed into service related to the permanent program under the 2021 Settlement Agreement approved in Order No. PSC-2021-0202-AS-EI. The costs related to the pilot program were deferred to a regulatory asset per Order No. PSC 2017-0451-AS-EU.

b. Not applicable.

c. Not applicable.

d. Please see DEF's response to 3.a. There have been no journal entries recorded related to the permanent DC Fast Charger Program and the costs related to the pilot program were recorded in a regulatory asset, which will be amortized over four years from 2022 through 2025. The balance in that regulatory asset as of December 31, 2021 was $9.3 million.

e. The capital costs shown in Table 5 of DEF's December 20, 2021 EV Charger Pilot Program 4th Annual Report reflect the invoiced expenses. The total amount in the regulatory asset includes deferred O&M costs and a carrying charge, consistent with the 2017 Settlement Agreement.

4. Is DEF aware of any regulated electric utility, located in the United States, which currently books depreciation of DCFC stations? If the response is affirmative, please identify the following to the extent that DEF has access to such information:

   a. The account number and its associated description.
   b. The average service life.
   c. The average net salvage.

   Response:
   DEF is specifically aware of two other utilities, SDE&G and Florida Power and Light (FPL) that book depreciation of DCFC stations. Regarding SDE&G, the extent of DEF's specific knowledge is included in the FERC's Audit Report in Attachment Staff-1-1(e)_Docket FA19-3-000. FPL's 2021 Settlement Agreement in Docket No. 20210015 indicates that FPL is using FERC Account 371.40 with a depreciable life of 15 years.

5. Will DEF's DCFC stations carry any type of warranty when purchased from the equipment manufacturers? If so, please provide a copy of the warranty for each type of DCFC station.

   Response:
   Yes, the DCFC stations will carry warranties. Please refer to the following attachments:
   - Attachment Staff-1-5_ABB Warranty
   - Attachment Staff-1-5_Tritium Warranty

6. In its petition (unnumbered page 3, at bottom), DEF has requested the proposed subaccount and depreciation rate for DC Fast Charging assets be effective as of January, 2022. Please clarify whether DEF's intended effective date to be the beginning of the month of January, 2022 (i.e. January 1, 2022).

   Response:
   DEF's intended effective date is confirmed to be the beginning of the month of January 2022, or January 1, 2022.

PRODUCT LEAFLET

Electric Vehicle Infrastructure

Terra HP high power charging UL

ABB's Terra HP is a modular 175-350 kW ultra-fast EV charging system supporting all 150-920 VDC compatible vehicles. The Terra HP is ideally suited for highway corridor and EV fleet operations.

Modular architecture

ABB's Terra HP system can be configured as:

- 175 kW: one charge post and one cabinet
- 350 kW: one charge post and two cabinets
- 175-350 kW: two charge posts and two cabinets

Scalable and future-proof

The Terra HP system is expandable over time by adding additional power cabinets and charge posts after initial site installation. This capability delivers site planning flexibility by offering a cost-efficient way to build expandable charge points that can grow with EV market demand.

Dynamic DC capability

With ABB Dynamic DC power sharing technology, power cabinets can be connected to charge one vehicle at up to 350kW or two vehicles simultaneously at up to 175kW. This architecture enables higher utilization of charging assets.

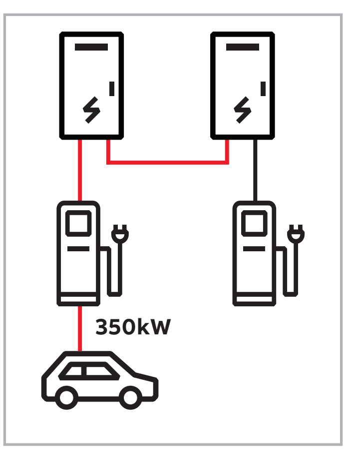
Industry leading cable cooling technology

Every Terra HP charge post is equipped with an integrated chiller and environmentally-friendly cooled cables offering higher peak and continuous output power performance. This technology enables faster charging for vehicles where typical 200A rated systems cannot deliver above 80KW to 400V electric vehicles.

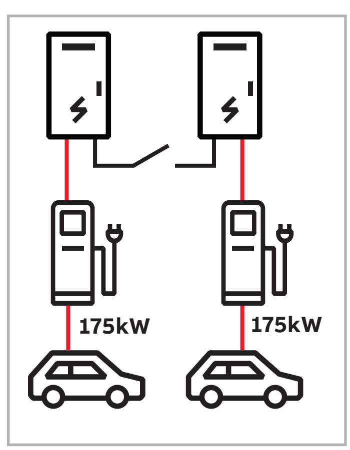
Dynamic DC illustrated

—
Dynamic DC utilization scenarios with varied vehicle demand profiles.

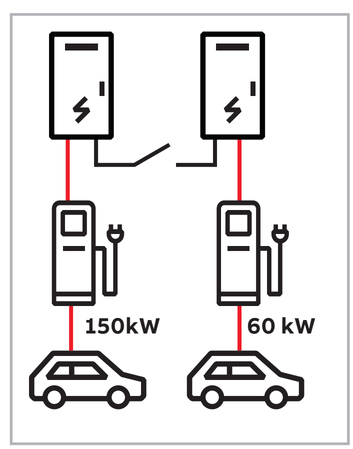
When one vehicle is fully charged, the power will be redistributed automatically.



Max charging dedicated to premium EV at up to 350kW on either charge post.



Shared power delivery for premium EV utilization at up to 175 kW to each vehicle.



Shared delivery tailored to varied EV model demands.

ABB Terra HP key features

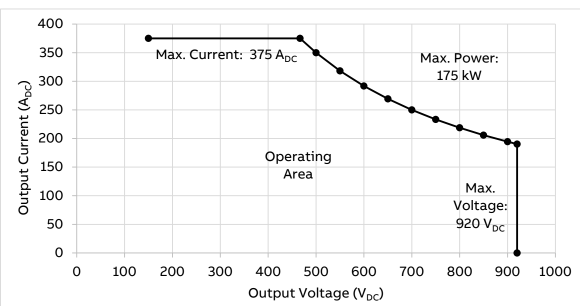
- Non-refrigerant-based, cooled cable system
- Distance between power cabinet(s) and charge post(s) up to 60 m/200 ft
- Daylight readable, intuitive touchscreen display
- Integrated RGB LED strips with customizable color
- Energy management via OCPP Smart Charging Profile
- ADA compliant

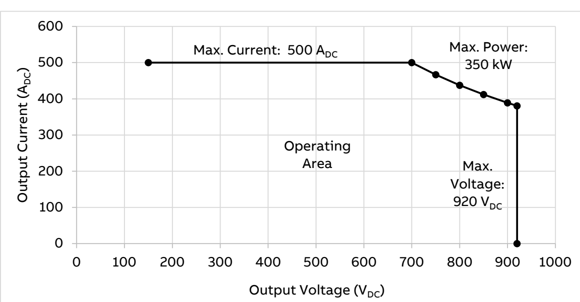
ABB Terra HP optional features

- Dynamic DC functionality
- Customizable user interface
- Integrated payment terminal
- Buy America option available

Why charging operators prefer ABB

- ABB Ability Connected Services
  - Charger Connect: Easily connect chargers to OCPP back offices, over-the-air software updates
  - Charger Care: Remote diagnostics and resolution, manage service cases, notifications, data export
- ABB's decade of EV charging experience and close cooperation with EV OEMs, networks and fleets
- High volume, high OpEx production with a globally distributed manufacturing base
- Industry leading uptime with a global and local service presence





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Terra HP 175 and Terra HP 350 output load and operational curves. De-rating characteristics apply.

Specifications	Terra HP 175	Terra HP 350
Electrical		
Max output power	175 kW peak 160 kW continuous	350 kW peak 320 kW continuous
AC Input voltage range	UL: 3-phase, 480Y/277 V_{AC} +/- 10% (60 Hz) CSA: 3-phase, 600 V_{AC} +/-10% (60 Hz)	
AC input connection	L1, L2, L3, GND (no neutral)	
Nominal input current and input power rating	UL: 231 A, 192 kVA CSA: 185 A, 192 kVA	UL: 2x231 A, 384 kVA CSA: 370 A, 384 kVA
Recommended upstream circuit breaker(s)	UL: 1 x 300 A CSA: 1 x 250 A	UL: 2 x 300 A CSA: 2 x 250 A
Power Factor	≥ 0.97	
Current THD	IEEE 519 Compliant; <8%; option for 5%	
DC output voltage	150 – 920 VDC	
DC output current	375 A CCS-1 200 A CHAdeMO	500 A CCS-1 200 A CHAdeMO
Efficiency	95% at full load	
Interface and Control		
Charging protocols	CCS-1 and CHAdeMO	
User interface	7" high brightness full color touchscreen display Option for 15" display	
RFID system	ISO/IEC 14443A/B, ISO/IEC 15393, FeliCa™1, NFC, Mifare, Calypso (option: Legic)	
Network connection	GSM/3G/4G; 10/100 base-T Ethernet	
Communication	OCPP 1.5 and OCPP 1.6 enabled	
Support languages	English (others available on request)	
Environment		
Operating temperature	-35 °C to +55 °C (de-rating characteristics apply)	
Storage Temperature	-10 °C to +70 °C	
Protection	IP 54, outdoor use	
Humidity	5% to 95%	
Altitude	2000 m / 6560 ft	
General		
Charge cable	3.2 m (10 ft 6 in) CHAdeMO 3.2 m (10 ft 6 in) or 3.8 m (12 ft 6 in) for CCS-1	
Dimensions (H x W x D)	Power cabinet: 2030 x 1170 x 770 mm / 79.9 x 46.1 x 30.3 in Charge post: 2390 x 620 x 440 mm / 94 x 24.4 x 17.3 in	
Weight	Power cabinet: 1340 kg / 2954 lbs Charge post: 250 kg / 551 lbs	
Compliance and safety	UL/cUL UL 2202, NEC Article 625, EN 61851, EN 62196; CHAdeMO 1.2; DIN 70121, ISO 15118; IEC 61000-6-3 EMC Class B; BA Rule 49 CFR Part 661.5	

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PRODUCT LEAFLET

Electric Vehicle Infrastructure

Terra 94/124/184 UL DC Fast Charging Station

ABB's Terra all-in-one DC fast chargers offer power up to 180 kW, with convenient charging times for every EV – including those with HV batteries.

The compact, modular design makes it perfect for retail, highway or fleet use, with power sharing to further optimize utilization. All Terra chargers feature connectivity for remote services and OCPP enablement.

—
The Terra 94/124/184 is available with CCS-only, CCS-dual and CCS+CHAdeMO dual outlets. Cable management options enhance reliability and usability.

Flexible configuration
ABB's Terra DC Fast chargers from 50 kW to 180 kW are designed for the most compact, reliable and future-proof demands. In addition to a range of power selections, Terra chargers can be configured with CCS and CHAdeMO connector cables, in single or dual outlet format. Cable management, payment enablement and connectivity choices also offer owners, operators and site hosts options tailored to the needs of every charging site, from public to fleet needs.

The most reliable, scalable choice
ABB's Terra chargers offer redundant power architecture for the highest uptime in the EV infrastructure industry. Additionally, Terra chargers can meet the needs of high voltage BEVs up to 920V, making these systems fully compatible with all current and future EVs. With a host of configuration options, Terra DC fast chargers are ready to support EV market growth over time.

Power sharing for high utilization
Enabling every business model is critical for EV charging infrastructure. With this goal in mind, ABB has designed the Terra 124 and Terra 184 models with power sharing technology, which is capable of charging two vehicles at the same time. Simultaneous charging can deliver higher utilization for every charging asset, a major key to public and fleet electrification success.

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ABB Terra "all in one" chargers are offered from up to 180 kW.

The Terra 124 and 184 models can charge two vehicles at the same time.

Terra 94
one EV
up to
90 kW

Terra 124
one EV
up to
120 kW

Terra 124
two EVs
each up to
60 kW

Terra 184
one EV
up to
180 kW

Terra 184
two EVs
each up to
90 kW

Key features

- A compact, all-in-one charger from 90 kw to 180 kW
- Terra 124 and Terra 184 can fast-charge two vehicles at the same time
- Paralleled power module topology with automatic failover offers high uptime through redundancy
- Delivers output power continuously and reliably over its lifetime
- Flexible configurations include CCS-single, CCS-dual and CCS+CHAdeMO-dual outlets
- Up to 920 VDC for every passenger or fleet EV
- Bright, daylight readable touchscreen display with graphic visualization of charging session
- High short circuit current rating
- EMC Class B certified for safe use at fuel stations, retail centers, offices, and residential-adjacent sites
- Design enables ADA compliant installations
- RFID authorization modes
- Always connected, enabling remote services, updates and upgrades
- Robust all-weather powder-coated stainless steel enclosure
- Quick and easy installation as well as serviceability

Optional features

- Reliable cable management system available as ordered or field upgrade
- Customizable user interface
- Integrated payment terminal
- Web tools for statistics and PIN access management
- Integration with OCPP networks, payment platforms and energy management
- Autocharge and ISO 15118 enabled

Why charging operators and fleets prefer ABB

- ABB offers the most advanced, safe and reliable EV infrastructure and grid connected technologies
- ABB Connected Services enable every business and remote services model
- ABB's decade of EV charging experience and close cooperation with EV OEMs, networks and fleets

Specifications	Terra 94	Terra 124	Terra 184
Electrical			
Maximum output power	90 kW	120 kW or 60 kW x 2	180 kW or 90 kW x 2
AC Input voltage	480Y / 277 VAC +/- 10% (60 Hz)		
AC input connection	3-phase: L1, L2, L3, GND (no neutral)		
Nominal input current and input power rating	115 A, 96 kVA	153 A, 128 kVA	230 A, 192 kVA
Recommended upstream circuit breaker(s)	150 A	200 A	300 A
Power Factor*	> 0.96		
Current THD*	< 5%		
Short circuit current rating	65 kA		
DC output voltage	CCS-1: 150 - 920 VDC; CHAdeMO: 150 - 500 VDC		
DC output current	CCS-1: 200 A; CHAdeMO: 200 A		
Efficiency*	95%		
Interface and Control			
Charging protocols	CCS1 and CHAdeMO 1.2		
User interface	7" high brightness full color touchscreen display		
RFID system	ISO/IEC 14443A/B, ISO/IEC 15393, FeliCa™ 1, NFC reader mode, Mifare, Calypso, (option: Legic)		
Network connection	GSM/3G/4G modem; 10/100 Base-T Ethernet		
Communication	OCPP 1.6 Core and Smart Charging Profiles; Autocharge		
Supported languages	English (others available on request)		
Environment			
Operating temperature	-35 °C to +55 °C / -31 °F to +131 °F (de-rating characteristics apply at extreme temperatures)		
Recommended storage	-10 °C to +70 °C / 14 °F to +158 °C (dry environment)		
Protection	IP54, NEMA 3R; indoor and outdoor rated		
Humidity	5% to 95%, non-condensing		
Altitude	2000 m (6560 ft)		
General			
Charge cable	6 m (19.6 ft)		
Dimensions (H x W x D)	1900 x 565 x 880 mm / 74.8 x 22.2 x 34.6 in		
Weight	350 kg / 775 lbs	365 kg / 800 lbs	395 kg / 870 lbs
Compliance and safety	UL 2202, CSA No. 107.1-16; UL 2231-1, UL 2231-2, CSA STD C22.2 No. 107.1; NEC Article 625, EN 61851, EN 62196; CHAdeMO 1.2; DIN 70121, ISO 15118; IEC 61000-6-3; EMC Class B, FCC Part 15		

*Data shown at nominal output power

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abb.com/evcharging

9AKK107991A4247 C

DCFC 175kW Fast Charger

The RT 175-S/175kW from Blink is a reliable and robust electric fast charger with an attractive design that is easy to own and operate. It's patented liquid-cooling system ensures maximum product life with minimum maintenance.

Benefits

- Easy to install
- Liquid cooled
- Low maintenance, easy to own
- Cable management
- 10" Screen
- CCS1/CCS2
- CHAdeMO
- Brandable exterior
- Optional credit card reader
- IP65

With the flexibility of different colors and branding design, the DCFC 175kW is easily adapted to suit your corporate image.

PD01-19-XII-01

*The product image shown are for illustration purposes only and may not be an exact representation of the product.

blink

DCFC 175kW Specifications

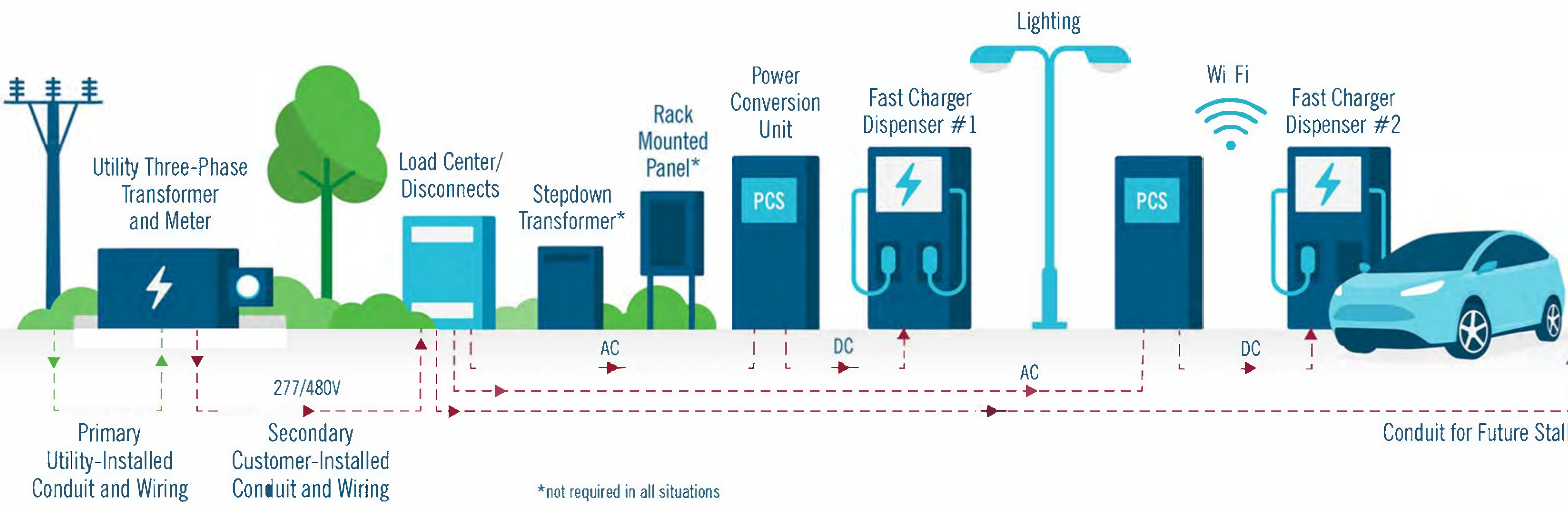
USER UNIT	
CONNECTORS	Single: CCS | Dual: CCS and CHAdeMO
CONNECTOR TYPE(S)	Worldwide: CCS2 or CCS2 and CHAdeMO US & Canada: CCS1 or CCS1 and CHAdeMO
OUTPUT VOLTAGE	200V - 920V DC
OUTPUT CURRENT	CCS: up to 350A CHAdeMO: up to 200A
IP RATING	IP65 (NEMA 3R)
IK RATING	IK10 (IK8 Screen)
EFFICIENCY	98.5% at full load (350A, 500V)
OPERATING TEMPERATURE	-30˚C to 50˚C (-22˚F to 122˚F)
STORAGE TEMPERATURE	-55˚C to 80˚C (-67˚F to 176˚F)
CREDIT CARD READER	Optional
RFID READER	Fitted standard
DIMENSIONS	2,011mm (6’7”) (H) x 993mm (3’3”) (W) x 532mm (1’9”) (D) Note: Width excludes plugs
WEIGHT	260kg (573lb)
SHIPPING WEIGHT	310kg (683lb) (estimate)
AUTHENTICATION / PAYMENT	RFID only OR Credit Card Reader with RFID
CABLE LENGTH	4.1m reach (13’5” reach)
CABLE MANAGEMENT	Fitted standard
COMPLIANCE	UL NRTL certification FCC Class A
ISOLATED POWER UNIT	
INPUT VOLTAGE	Worldwide (400VAC): 400VAC 3ph ±10% | 50Hz ±10% | Derate the power below -10% to-15% | 270A nominal | 300A maximum (at low line level) US & Canada (480VAC): 480VAC 3ph ±10% | 60Hz ±10% | Derate the power below -10% to -15% |225A nominal | 250A maximum (at low line level) Canada (600VAC): 600VAC 3ph ±10% | 60Hz ±10% | Derate the power below -10z% to -15% 180A nominal | 200A maximum (at low line level)
INPUT OVERVOLTAGE CATEGORY	Category III

blink

OUTPUT VOLTAGE | POWER	950V DC | Up to 178kW
ISOLATION BETWEEN AC MAINS & EV	Reinforced Isolating tranformer with double/reinforced insulation
EFFICIENCY	96% at full load
POWER FACTOR	>0.99
TOTAL HARMONIC DISTORTION (THD)	<5%
OPERATING TEMPERATURE	-10°C to 50°C (14˚F to 122˚F) 5% to 95% RH Non Condensing (without optional cold kit) -30°C to 50°C (-22˚F to 122˚F) 5% to 95% RH Non Condensing (with optional cold kit)
STORAGE TEMPERATURE	-55°C to 80°C (-67˚F to 176˚F) 5% to 95% RH Non Condensing
NETWORK CONNECTION	Ethernet to User Unit
WEIGHT	Without transformer: 500kg (1102lb) | With transformer: 988kg (2178lb)
SHIPPING WEIGHT	Without transformer: 590kg (1301lb) | With transformer: 1078kg (2377lb)
DIMENSIONS	2,147mm (7'1") (H) x 650mm (2'2") (W) x 1,055mm (3'6") (D)
IK RATING	IK10
IP RATING	IP55 (NEMA 3R)
WIRELESS UPLINK	3G/4G cellular communications with failover redundancy
WIRED UPLINK	Ethernet
POWER SUPPLY	Battery-backed UPS functionality for reliable telemetry at all times
SOFTWARE SUPPORT	OCPP v1.6J support for management and billing
SECURITY	SSH with EC keys and unique password for manufacturer diagnostics
POWER CONTROL	Supports OCPP charging profiles (OCPP v1.6J)
CONTROL PLATFORM	Included in the Power Unit
POWER SHARING (Optional)	Configurable site-level power demand management
EMC	
EMC	Worldwide: EMC Directive Immunity: Class A Emissions: Class A USA: FCC Immunity: Class A Emissions: Class A
AC GRID INTERFACE	
VOLTAGE	Worldwide (400VAC): 400VAC 3ph ±10% US & Canada (480VAC): 480VAC 3ph ±10% Canada (600VAC): 600VAC 3ph ±10%
FREQUENCY	Worldwide: 50Hz ±10% US & Canada: 60Hz ±10%

MAXIMUM CURRENT AT LOW LINE LEVEL (Nominal voltage -10%) AND PF = 0.99	Worldwide (400VAC): 300A US & Canada (480VAC): 250A Canada (600VAC): 200A
OVER CURRENT PROTECTION DEVICE REQUIRED (OCPD) IN SITE DISTRIBUTION BOARD	Worldwide (400VAC): 300A Circuit Breaker (recommended) (The circuit breaker nominal rating MUST not exceed 300A in order to maintain primary protection for the LV transformer in the IPU) (If a 350A circuit breaker is used the buried cable gauge MUST be increased) US & Canada (480VAC): 320A UL Listed Circuit Breaker (recommended) (The circuit breaker nominal rating MUST not exceed 320A in order to maintain primary protection for the LV transformer in the IPU) Canada (600VAC): 250A UL Listed Circuit Breaker (recommended) (The circuit breaker nominal rating MUST not exceed 250A in order to maintain primary protection for the LV transformer in the IPU)
FAULT CURRENT LIMITING FUSES IN SITE DISTRIBUTION BOARD	Current limiting fuses or a UL recognised current limiting circuit breaker MUST be installed if available fault current exceeds 18kA Note: The IPU has an option to upgrade the SCCR to 100kA
RESIDUAL CURRENT MONITORING IN SITE DISTRIBUTION BOARD (Optional)	If a residual current monitoring device is required by local regulation it shall be of time delay type
UNDER-VOLTAGE RELAY IN SITE DISTRIBUTION BOARD (Optional)	The isolated power unit includes circuitry to locally isolate the charger's power circuit if the safety loop monitoring the door switches and tilt sensors is triggered. The IPU can also be isolated upstream in the event of a safety loop trigger event by including an under-voltage relay coil on the feeder circuit breaker in the site distribution board. Tritium Veefil chargers should only be installed by a licensed contractor and a licensed electrician, in accordance with all local and national codes and standards to meet current NEC and NFPA 70E requirements. This may include additional, lockable disconnect mechanisms within line of sight of the supplied equipment.
MINIMUM BURIED CABLE SIZE FOR AC LINK (Length of AC link cables and system efficiency should be considered when sizing cables)	Worldwide (400VAC): Twin 70mm2 Cu for L1, L2, L3 Single 70mm2 Cu for PE US & Canada (480VAC): Twin 3/0 Cu for L1, L2, L3 Single 3/0 Cu for PE Canada (600VAC): Twin 1/0 Cu for L1, L2, L3 Single 1/0 Cu for PE
MAXIMUM LENGTH OF BURIED CABLES FOR MINIMUM AC LINK CABLE SIZE SPECIFIED	200m (656ft) (To maintain feeder voltage drop below 3%)

DC Fast Charger Setup



*not required in all situations

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

In Reply Refer To:
Office of Enforcement
Docket No. FA19-3-000

July 30, 2020

San Diego Gas & Electric Company
Attention: Dan Skopec
Vice President Regulatory Affairs
8330 Century Park Ct., CP33A
San Diego, CA 92123

Dear Mr. Skopec:

1. The Division of Audits and Accounting (DAA) within the Office of Enforcement (OE) of the Federal Energy Regulatory Commission (Commission) has completed an audit of San Diego Gas & Electric Company (SDG&E). The audit covered the period from January 1, 2016 through February 4, 2020.

2. The audit evaluated SDG&E's compliance with: (1) its formula rate transmission owner tariff; (2) accounting requirements of the Uniform System of Accounts Prescribed for Public Utilities and Licensees under 18 C.F.R. Part 101; (3) reporting requirements of the FERC Form No. 1, Annual Report of Major Electric Utilities, Licensees and Others, under 18 C.F.R. § 141.1; and (4) requirements in Preservation of Records of Public Utilities and Licensees under 18 C.F.R. Part 125. The enclosed audit report contains 11 finding and 55 recommendations that require SDG&E to take corrective action.

3. On July 16, 2020, you notified DAA that SDG&E accepts the 11 findings and 55 recommendations in the draft audit report and will submit within 30 days of the issuance of the final audit report a plan for implementing the audit recommendations. A copy of your verbatim response is included as an appendix to this report. I hereby approve the audit report.

4. SDG&E should submit its implementation plan to comply with the recommendations within 30 days of this letter order. SDG&E should make quarterly submissions to DAA describing the progress made to comply with the recommendations, including the completion date for each corrective action. As directed by the audit report, these submissions should be made no later than 30 days after the end of each calendar

5. The Commission delegated the authority to act on this matter to the Director of OE under 18 C.F.R. § 375.311. This letter order constitutes final agency action. SDG&E may file a request for rehearing with the Commission within 30 days of the date of this order under 18 C.F.R. § 385.713.

6. This letter order is without prejudice to the Commission's right to require hereafter any adjustments it may consider proper from additional information that may come to its attention. In addition, any instance of non-compliance not addressed herein or that may occur in the future may also be subject to investigation and appropriate remedies.

7. I appreciate the courtesies extended to the auditors. If you have any questions, please contact Mr. Steven D. Hunt, Director and Chief Accountant, Division of Audits and Accounting at (202) 502-6084.

Sincerely,

Larry R. Parkinson
Director
Office of Enforcement

Enclosure

Federal Energy Regulatory Commission
Office of Enforcement
Division of Audits and Accounting

AUDIT REPORT

Audit of San Diego Gas & Electric Company's compliance with: its formula rate transmission owner tariff; accounting requirements of the Uniform System of Accounts Prescribed for Public Utilities and Licensees; reporting requirements of the FERC Form No. 1, Annual Report; and requirements in Preservation of Records of Public Utilities and Licensees.

Docket No. FA19-3-000
July 30, 2020

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I. Executive Summary

A. Overview

The Division of Audits and Accounting (DAA) in the Office of Enforcement of the Federal Energy Regulatory Commission (Commission) has completed an audit of San Diego Gas & Electric Company (SDG&E). The audit evaluated SDG&E's compliance with: (1) its formula rate transmission owner tariff;[1] (2) accounting requirements of the Uniform System of Accounts Prescribed for Public Utilities and Licensees under 18 C.F.R. Part 101; (3) reporting requirements of the FERC Form No. 1, Annual Report of Major Electric Utilities, Licensees and Others, under 18 C.F.R. § 141.1; and (4) requirements in Preservation of Records of Public Utilities and Licensees under 18 C.F.R. Part 125. The audit covered the period from January 1, 2016 to February 4, 2020.

B. San Diego Gas & Electric Company

SDG&E is a subsidiary of Enova Corporation, which in turn is a wholly owned subsidiary of Sempra Energy (Sempra), a public utility holding company based in San Diego, California. Sempra provides, through subsidiaries and affiliates, various electric, natural gas, and energy-related products and services.

SDG&E is engaged in the transmission, distribution, and sale of energy services under the jurisdictions of the Commission and the California Public Utilities Commission (CPUC). SDG&E distributes electricity to approximately 3.7 million consumers through 1.4 million electric meters in San Diego and Orange Counties, California. Additionally, SDG&E has received Commission authority to sell wholesale power and ancillary services at market-based rates.[2] SDG&E has transferred operational control over its transmission facilities to the California Independent System Operator Corporation (CAISO), and is a Participating Transmission Owner in CAISO.

[1] San Diego Gas & Electric Company, FERC FPA Electric Tariff, SDG&E Transmission Owner Tariff, Original Volume No. 11, Appendix VIII, TO Appendix VIII, 6.0.0.

[2] *See San Diego Gas & Elec. Co.*, Docket No. ER19-2054-000 (Jul. 17, 2019) (delegated order); *see also* San Diego Gas & Electric Company, FERC FPA Electric Tariff, SDG&E MBR Tariff, SDG&E Baseline MBR Tariff, SDG&E FERC Electric Tariff Original Volume No. 10, 7.0.0.

On October 29, 2014, SDG&E filed a petition for declaratory order seeking authorization for certain transmission rate incentives pursuant to section 219 of the Federal Power Act[3] (FPA) and Order No. 679[4] for its Southern Orange County Reliability Enhancement (SOCRE) project. In its filing, SDG&E requested two incentives: (1) authorization to recover 100 percent of all prudently-incurred development and construction costs if the SOCRE project is abandoned or cancelled, in whole or in part, for reasons beyond SDG&E's control (Abandonment Incentive); and (2) a 100 basis points adder to SDG&E's return on equity (ROE) to address risks and challenges associated with the SOCRE project. On April 3, 2015, the Commission issued an order granting SDG&E the Abandonment Incentive and denying the request for a 100 basis points adder to its ROE.[5] The SOCRE project consists of approximately 16.7 linear miles of new 230 kilovolt (kV) transmission line connecting the Sycamore Canyon and Peñasquitos substations, including steel pole installations and underground wire. During the audit period, the project was under construction.

C. Summary of Compliance Findings

Audit staff's compliance findings are summarized below. Details of these findings are in section IV. Audit staff found 11 areas of noncompliance:

1. *Allowance for Funds Used During Construction* – SDG&E's methods for calculating its Allowance for Funds Used During Construction (AFUDC) base and rate were deficient. Specifically, SDG&E improperly included unpaid contract retention accruals in its construction work in process (CWIP) balance, and unamortized debt discounts and losses on reacquired debt in the determination of its long-term debt balance. As a result, SDG&E miscalculated its AFUDC base and rate. This led it to over-accrue AFUDC, which resulted in an overstatement of CWIP and plant in service balances. This resulted in SDG&E overbilling wholesale transmission customers because the excessive AFUDC costs were included in utility plant that impacted wholesale formula rate determinations.

[3] 16 U.S.C. § 824s (2018).

[4] *Promoting Transmission Investment through Pricing Reform*, Order No. 679, 116 FERC ¶ 61,057, *order on reh'g*, Order No. 679-A, 117 FERC ¶ 61,345 (2006), *order on reh'g*, 119 FERC ¶ 61,062 (2007). The Commission provided additional guidance regarding the application of its transmission incentive policies in *Promoting Transmission Investment through Pricing Reform*, 141 FERC ¶ 61,129 (2012).

[5] *San Diego Gas & Elec. Co.*, 151 FERC ¶ 61,011 (2015).

2. *Accounting for Commitment Fees* – SDG&E improperly accounted for upfront fees it paid that were associated with revolving line of credit agreements in Account 182.3, Other Regulatory Assets, and improperly accounted for quarterly commitment fees associated with the agreements in Account 923, Outside Services Employed. In addition, SDG&E improperly included the amortization of upfront line of credit fees in its calculation of long-term debt interest expense used to compute its AFUDC rate.

3. *Allocation of Overhead Costs to CWIP* – SDG&E capitalized overhead costs to Account 107, Construction Work in Progress – Electric, using an allocation method that was not based on the actual time that employees were engaged in construction activities or on a representative time study. This led to SDG&E charging costs to Account 107 that did not have a definite relationship to construction. As a result, SDG&E may have overstated construction costs recorded in Account 107 and electric plant in service, as well as accumulated depreciation and accumulated deferred income tax (ADIT) balances, and may have understated operating expenses. Moreover, this accounting may have led SDG&E to overstate its wholesale transmission revenue requirement and overcharge wholesale transmission customers.

4. *Accounting for EV Charging Stations* – SDG&E improperly accounted for electric vehicle (EV) charging station distribution assets in Account 398, Miscellaneous Equipment. SDG&E's accounting resulted in the cost of the assets and associated expenses being incorrectly included in accounts that are wholesale transmission formula rate inputs. This led the company to overstate its wholesale transmission revenue requirement and overcharge wholesale transmission customers.

5. *Regulatory Commission Expenses* – SDG&E improperly accounted for regulatory commission expenses. SDG&E's accounting resulted in regulatory commission expenses being incorrectly included in accounts that are wholesale transmission formula rate inputs. This led the company to overstate its wholesale transmission revenue requirement and overcharge wholesale transmission customers.

6. *Accounting for Distribution-Related Expenses* – SDG&E improperly accounted for distribution-related operation costs in a transmission operation expense account. SDG&E's accounting resulted in expenses being incorrectly included in accounts that were wholesale transmission formula rate inputs. This led the company to overstate its wholesale transmission revenue requirement and overcharge wholesale transmission customers.

7. *Accounting for Donations and Lobbying Expenses* – SDG&E misclassified donation payments and costs incurred to support activities to influence public opinion with regard to legislation. SDG&E's accounting resulted in such expenses being incorrectly included in accounts that were wholesale transmission formula rate inputs. This led the company to overstate its wholesale transmission revenue requirement and overcharge wholesale transmission customers.

8. *Accounting for Outside Services Employed* – SDG&E improperly accounted for external consultant fees incurred to support general services not applicable to a particular operating function. SDG&E's accounting resulted in expenses being incorrectly included in an account that is a wholesale transmission formula rate input. This led the company to overstate its wholesale transmission revenue requirement and overcharge wholesale transmission customers.

9. *Filing of Tariff Records* – SDG&E did not properly file all Tariff Records, as required, in the Commission's electronic tariff (eTariff) database. Specifically, SDG&E's eTariff filing omitted Attachment 2, its Formula Rate Spreadsheet, from its tariff filed in the eTariff database. This impacted interested parties' ability to access and review the attachment through the Commission's eTariff Public Viewer.

10. *Premature Destruction or Loss of Records* – SDG&E could not verify the existence of an asset, or provide documentation associated with the asset's cost, that was recorded in Account 154, Plant Materials and Operating Supplies. SDG&E's inability to produce the documentation represents an instance of premature destruction or loss of records.

11. *Filing Associated with Electric Plant Purchased* – SDG&E did not file its proposed journal entries for the purchase of electric plant within six months, as required. This hindered the Commission's and other interested parties' ability to timely review and monitor the transaction.

D. Summary of Recommendations

Audit staff's recommendations to remedy the audit findings are summarized below. Details are in section IV. Audit staff recommends that SDG&E:

Allowance for Funds Used During Construction

1. Revise policies and procedures for calculating the AFUDC base and rates to be consistent with Electric Plant Instruction (EPI) No. 3(A)(17) and other applicable Commission requirements. Revisions should include processes to prevent inclusion of unpaid contract retention accruals in AFUDC base calculations and processes to prevent improper inclusion of balances in Accounts 189 and 226 in the AFUDC rate calculations.

2. Revise policies, procedures, and accounting systems, as necessary, to calculate the AFUDC base and rates consistent with the requirements of EPI No. 3.

3. Train relevant staff on the revised AFUDC base and rate calculation methods and provide periodic training, as needed.

4. Recalculate AFUDC accrued in accordance with EPI No. 3(A)(17) for the contract retention accruals error from 2014 through the date of the final audit report and the other items from 2016 through the date of the final audit report. Also, submit a refund analysis, within 60 days of receiving the final audit report, to DAA for review that explains and details the following: (1) calculation of refunds that considers the amount of AFUDC improperly capitalized to plant in service, plus interest; (2) determinative components of the refund; (3) refund method; (4) wholesale transmission customers to receive refunds; and (5) period(s) refunds will be made.

5. Submit proposed accounting entries and supporting documentation to DAA that reflect the correction of the CWIP, electric plant in service, accumulated depreciation, ADIT, and other accounts impacted by over-accrual of AFUDC within 60 days of receiving the final audit report.

6. Revise CWIP, electric plant in service, accumulated depreciation, ADIT, and other accounts impacted by over-accrual of AFUDC after receiving DAA's assessment of the proposed accounting entries per Recommendation No. 5 and restate and footnote the FERC Form No. 1 for current and comparative years as necessary.

7. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

Accounting for Commitment Fees

8. Revise existing accounting policies, procedures, and practices relating to accounting for credit agreement expenses, such as upfront, commitment, quarterly, revolving line of credit, and letter of credit fees, to be consistent with Commission accounting requirements.

9. Revise policies and procedures for calculating the AFUDC rate to be consistent with EPI No. 3(A)(17) and other applicable Commission requirements. Revisions should include processes to exclude commitment fees from AFUDC rate calculations unless the costs are associated with debt issuances and are approved by the Commission for inclusion.

10. Train relevant staff on the revised accounting policies and provide periodic training, as needed.

11. Within 60 days of receiving the final audit report, submit proposed accounting entries and supporting documentation to DAA that reflect the transfer of credit agreement-related balances improperly recorded in Account 182.3 to Account 186.

12. Revise miscellaneous deferred debit balances to appropriately account for and report credit agreement-related balances after receiving DAA's assessment of the proposed accounting entries, and restate and footnote the balances reported in the FERC Form No. 1 in the current and comparative years of the report, as necessary to reflect and disclose the revisions.

Allocation of Overhead Costs to CWIP

13. Retain an independent third-party entity to conduct a representative labor time study for allocation of overhead costs incurred in 2019 to CWIP, and to assist with the development of procedures SDG&E shall use to periodically determine the allocation of overhead labor and labor-related costs capitalized into the cost of construction after 2019. Report the progress of the study within 120 days and provide the time study results to DAA for review and consideration within 180 days of the date of the final audit report and the developed allocation procedures when complete. At a

minimum, the developed allocation procedures should provide a method for overhead cost allocation and capitalization to construction based on actual timecard distributions or where this procedure is impractical, based on periodic time studies.

14. Revise written policies, practices, and procedures governing the methods used to account for, track, report, and review overhead labor, labor-related costs, and all other costs allocated to construction projects to be consistent with Commission accounting requirements. In addition, adopt procedures to retain formal documentation supporting the amount of overhead costs allocated to electric plant accounts.

15. Train relevant staff on the revised overhead allocation procedures and documentation, and provide periodic training in this area, as needed.

16. Within 30 days of the completion of Recommendation No. 13, submit an estimate to DAA, including the calculations and determinative components, of overhead costs that would have been allocated to CWIP during the audit period consistent with the requirements of EPI No. 4 and GI No. 9. The estimate should be based on a recalculation of 2016 and subsequent years overhead cost allocated to construction with labor and labor-related costs removed from the cost of plant that were not associated with construction activities based on the methodology developed in response to Recommendation No. 13.

17. With the response to Recommendation No. 16, submit proposed accounting entries to DAA that remove the overhead costs that were allocated to electric plant in CWIP and in service during the audit period that exceed the amount of costs that would have been allocated to the accounts based on the methodology developed in response to Recommendation No. 13. Also, provide proposed accounting entries to remove associated amounts from other accounts and balances affected by the inappropriately allocated cost such as the accumulated depreciation and ADIT accounts, and AFUDC balances capitalized into CWIP and plant in service. If the adjusting entries result in a significant impact to income for the current year, SDG&E may account for the transaction as a correction of a prior period error in Account 439, Adjustments to Retained Earnings. Such an entry should be submitted with the proposed accounting entries.

18. Revise account balances for utility plant, accumulated depreciation, ADIT, and other account balances impacted by the inappropriate allocation of

unsupported overhead cost after receiving DAA's assessment of the proposed accounting entries per Recommendation No. 17, and restate and footnote the balances reported in the FERC Form No. 1 in the current and comparative years of the report, as necessary to reflect and disclose the revisions.

19. Submit a refund analysis to DAA that explains and details the following: (1) calculation of refunds that result from the overstatement of transmission plant due to the improper capitalized of labor costs, as determined by the labor time study, plus interest; (2) determinative components of the refund; (3) refund method; (4) wholesale transmission customers to receive refunds; and (5) period(s) refunds will be made.

20. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

Accounting for EV Charging Stations

21. Revise policies, procedures, and practices to track, report, review and account for EV charging stations to be consistent with Commission accounting requirements.

22. Train relevant staff on the revised accounting methods and provide periodic training, as needed.

23. Within 30 days of implementing Recommendation No. 21, submit proposed accounting entries and supporting documentation to DAA that reflect the removal of the EV charging station costs improperly recorded in Account 398.

24. Revise the Account 398 balance to appropriately account for and report EV charging stations after receiving DAA's assessment of the proposed accounting entries, and restate and footnote the balances reported in the FERC Form No. 1 in the current and comparative years of the report, as necessary to reflect and disclose the revisions.

25. Submit a refund analysis, within 60 days of receiving the final audit report, to DAA for review that explains and details the following: (1) calculation of refunds that includes the amount of inappropriate recoveries during the audit period that resulted from the improper accounting for EV charging stations, plus interest; (2) determinative components of the refund;

(3) refund method; (4) wholesale transmission customers to receive refunds; and (5) period(s) refunds will be made.

26. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

Regulatory Commission Expenses

27. Revise policies, procedures, and practices to track, report, review, and account for regulatory commission expenses to be consistent with Commission accounting requirements.

28. Train relevant staff on the revised methods to account for regulatory commission expenses and provide periodic training, as needed.

29. Perform an analysis of transmission operation expense accounts to identify administrative and general (A&G) expenses, such as regulatory commission expenses, improperly charged to the accounts during the audit period. Within 60 days of the date of the final audit report, provide the results of the analysis to audit staff.

30. Submit a refund analysis, within 60 days of receiving the final audit report, to DAA for review that explains and details the following: (1) calculation of refunds resulting from improper accounting for A&G expenses recorded in operation and maintenance (O&M) accounts as identified pursuant to the analysis performed in response to Recommendation No. 29, plus interest; (2) determinative components of the refund; (3) refund method; (4) wholesale transmission customers to receive refunds; and (5) period(s) refunds will be made.

31. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

Accounting for Distribution-Related Expenses

32. Strengthen policies and procedures to account for distribution-related expenses consistent with Commission accounting requirements.

33. Train relevant staff on the methods to account for distribution-related expenses and provide periodic training, as needed.

34. Perform an analysis of costs incurred at substations during the audit period to determine whether distribution-related expenses were charged to the correct account(s) and that the appropriate allocators were used to charge costs to transmission and distribution expense accounts when applicable. Provide the results of the analysis to audit staff within 60 days of the date of the final audit report.

35. Submit a refund analysis, within 60 days of receiving the final audit report, to DAA for review that explains and details the following: (1) calculation of refunds resulting from improper accounting for distribution-related O&M expenses in transmission expense accounts, plus interest; (2) determinative components of the refund; (3) refund method; (4) wholesale transmission customers to receive refunds; and (5) period(s) refunds will be made.

36. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

Accounting for Donations and Lobbying Expenses

37. Develop and implement procedures and policies to track, report, review, and account for donations and for expenses of activities associated with influencing legislation and with other political activity consistent with the Commission's accounting requirements.

38. Train relevant staff on the procedures and policies and provide periodic training, as needed.

39. Perform an analysis of A&G expense accounts to identify nonoperating expenses, such as donations and lobbying costs, improperly charged to the accounts during the audit period. Provide the results of the analysis to audit staff within 60 days of the date of the final audit report.

40. Submit a refund analysis to DAA, within 60 days of receiving the final audit report, that explains and details the following: (1) calculation of refunds that include the amount of inappropriate recoveries during the audit period that resulted from the improper accounting for below-the-line expenses recorded in A&G expense accounts as identified pursuant to the analysis performed in response to Recommendation No. 39, plus interest; (2) determinative components of the refund; (3) refund method;

(4) wholesale transmission customers to receive refunds; and (5) period(s) refunds will be made.

41. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

Accounting for Outside Services Employed

42. Revise policies, procedures, and practices to maintain and retain documentation to be consistent with Commission record retention requirements.

43. Revise policies, procedures, and practices to track, report, review, and account for outside service expenses to be consistent with Commission accounting requirements.

44. Train relevant staff on the revised methods and provide periodic training, as needed.

45. Perform an analysis of transmission operation expense accounts to identify expenses, such as management consultant fees, improperly charged, in whole or in part, to transmission operations during the audit period. Provide the results of the analysis to audit staff within 60 days of the date of the final audit report.

46. Submit a refund analysis, within 60 days of receiving the final audit report, to DAA for review that explains and details the following: (1) calculation of refunds resulting from improper accounting for A&G expenses recorded in O&M accounts as identified pursuant to the analysis performed in response to Recommendation No. 45, plus interest; (2) determinative components of the refund; (3) refund method; (4) wholesale transmission customers to receive refunds; and (5) period(s) refunds will be made.

47. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

Filing of Tariff Records

48. Develop procedures and controls to help ensure all tariff records are properly filed and available for disclosure in the Commission's eTariff database.

49. Provide training to relevant staff on the procedures and controls to electronically file tariff records in the eTariff database and provide periodic training, as needed.

50. Notify DAA upon filing the omitted Tariff Records for the currently effective version of the Transmission Owner Transmission Tariff in the eTariff database.

Premature Destruction or Loss of Records

51. Strengthen procedures to maintain and retain documentation consistent with Commission record retention requirements.

52. Revise policies, procedures, and practices to track, report, review, and account for inventory to be consistent with Commission accounting requirements. Among other things, implement processes and procedures to audit inventories of plant materials and supplies on a cyclical basis and make necessary adjustments to bring Account 154 into agreement with the actual inventories.

53. Train relevant staff on the revised methods and provide periodic training, as needed.

Filing Associated with Electric Plant Purchased

54. Revise procedures and controls to timely file proposed journal entries for purchases or sales of operating units to be consistent with the Commission's requirements.

55. Train relevant staff on the revised methods and provide periodic training, as needed.

E. Implementation of Recommendations

Audit staff further recommends that SDG&E submit the following:

- A plan for implementing the recommendations within 30 days after the final audit report is issued;

- Quarterly reports describing progress in completing each corrective action recommended. Quarterly nonpublic submissions should be made no later than 30 days after the end of each calendar quarter, beginning with the first quarter after the audit report is issued, and continuing until all recommended corrective actions are completed; and

- Copies of written policies and procedures developed in response to recommendations. These documents should be submitted in the first quarterly filing after the development of a written policy or procedures.

II. Background

A. California Independent System Operator

SDG&E is a Transmission Owner participant in CAISO and transferred operational control of its transmission system to CAISO. While CAISO operates SDG&E's transmission system, SDG&E owns and maintains its transmission facilities.

CAISO provides transmission services to eligible wholesale transmission customers over SDG&E's and other transmission owners' high-voltage transmission facilities pursuant to its Commission-approved Open Access Transmission Tariff. SDG&E's Transmission Owner Tariff sets forth its revenue requirement, rates, and charges for transmission access to the CAISO-controlled grid.[6] During the audit period, SDG&E recovered the costs associated with its transmission facilities and the operation and maintenance of those facilities pursuant to its Commission-approved wholesale transmission formula rate mechanism in Appendix VIII of its tariff as delineated in the associated attachments: the Formula Rate Protocols (Attachment 1) and the Formula Rate Spreadsheet (Attachment 2).

B. Wholesale Transmission Formula Rate

SDG&E calculated its base transmission revenue requirement each year using the formula rate spreadsheet to derive charges assessed to recover costs from wholesale and retail electric customers associated with owning, operating and maintaining its transmission facilities. SDG&E's wholesale transmission formula rate mechanism consisted of: (1) a base period cost of service reflecting expenses recorded in its FERC Form No. 1, Annual Report, and underlying ledger accounts for the previous calendar year; (2) costs of forecasted transmission-related plant capital additions; (3) a true-up adjustment; and (4) an interest true-up adjustment. The rates established under the formula rate took effect beginning January 1st of each year and ran through December 31st of the same year. To the extent estimated costs included in rate determinations for a rate period were lower or higher than actual costs, SDG&E was required to true-up the difference in the subsequent rate period. SDG&E annually submitted an informational filing that reflected the true-up adjustments to be made in calculating its base transmission revenue requirement for the subsequent rate period.

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[6] San Diego Gas & Electric Company, FERC FPA Electric Tariff, SDG&E Transmission Owner Tariff, Original Volume No. 11, Appendix VIII, TO Appendix VIII, 6.0.0.

The base transmission revenue requirement was $817.7 million in 2018 and $851.4 million in 2019. The revenue requirement consisted of the summation of return on rate base and expenses. The expenses included O&M expenses, depreciation expense, income taxes, taxes other than income taxes, and administrative and general (A&G) expenses. Revenue credits were also factored into the revenue requirement. SDG&E's initial formula rate mechanism went into effect in 2003.[7] Prior to the wholesale transmission formula rate mechanism, SDG&E had fixed or stated rates that remained in effect until it filed for a rate change under section 205 of the FPA or had its rates challenged and changed under section 206 of the FPA.

C. Accounting System

SDG&E used Systems, Applications, and Products in Data Processing (SAP), as its accounting system during the audit period. General ledger activity was reflected in three SAP modules used for financial accounting: Financial (FI) Module, Controlling (CO) Module, and the Special Purpose Ledger (SPL). SDG&E posted all financial transactions to the General Ledger (G/L) in the FI Module using internal G/L accounts categorized by its internal chart of accounts structure for external financial reporting requirements such as those required by the Commission and the U.S. Securities & Exchange Commission. The FI Module fed financial transactions into the CO and SPL Modules.

The CO Module supported internal cost management reporting and included cost settlements and assessments to and from cost objects, including those belonging to affiliated entities. The SPL was used to convert SDG&E's internal accounts to accounts under the Commission's Uniform System of Accounts (USofA) for accounting and reporting information to the Commission in its reporting forms. The SPL reflects the posting activity from both the G/L and CO Modules. The SPL postings were categorized on a functional basis using the USofA structure. Each transaction line item posted in the G/L was posted to the SPL with an assigned Commission USofA account. The account assignment was determined by automated processing routines using combinations of values in data fields such as the natural G/L account, cost center, internal work order, and other transaction indicators to map costs from its internal G/L accounts to Commission USofA accounts.

D. Prior Wholesale Transmission Formula Rate Audit of SDG&E

On November 17, 2011, the Commission commenced an audit of SDG&E. The audit evaluated SDG&E's compliance with the requirements of its wholesale

[7] *San Diego Gas & Elec. Co.,* 143 FERC ¶ 61,246 (2013).

transmission formula rate mechanism and the Commission's accounting and reporting requirements. On June 10, 2014, SDG&E was issued a delegated letter order with an attached audit report on the results of the audit.[8]

The 2014 Audit resulted in 8 findings and 32 recommendations for corrective actions to help SDG&E attain and maintain compliance with Commission statutes, rules, regulations, and orders. During the implementation phase of the audit,[9] SDG&E submitted proposed policies and procedures to audit staff for review, and supporting documentation in some instances, that it represented as corrective actions that had been or would be implemented going forward in 2014 and subsequent periods. Audit staff's 2014 review during the implementation phase involved an assessment of SDG&E's representations of proposed corrective actions to determine whether the proposals could adequately and sufficiently help SDG&E attain and maintain a compliant stature, if and when actually implemented.

Through this process, audit staff accepted SDG&E's representations that it had already implemented, or would be implementing, its corrective actions. However, during the current audit, it was discovered that SDG&E had not sufficiently implemented certain corrective actions in a manner consistent with its representations during the 2014 Audit.

Specifically, three areas of noncompliance were identified in the current audit that were also found in the 2014 Audit: (1) inappropriate accrual of AFDUC on unpaid contract retention amounts (2014 Audit Finding No. 1); (2) improper accounting for outside service expenses and charitable contributions (2014 Audit Finding No. 2); and (3) misclassification of industry association dues (2014 Audit Finding No. 5). Based on corrective action representations made by SDG&E during the 2014 Audit, SDG&E should have implemented policies and procedures to help prevent reoccurrence of noncompliance in these areas. Audit staff believes SDG&E failed adequately to oversee the implementation of the corrective actions. The repeated areas of noncompliance are explained in detail in section IV of this report.

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[8] *San Diego Gas & Elec. Co.*, Docket No. FA12-8-000 (Jun. 10, 2014) (delegated order) (2014 Audit).

[9] The implementation phase of an audit commences after issuance of the final audit report. During this phase, an audited entity submits information to audit staff that responds to the recommendations of the audit report that the entity will implement. This information includes discussion of activities that an audited entity has initiated as of the submittal or that it plans to initiate at a subsequent period to become compliant with Commission requirements and/or controls to help maintain compliance.

III. Introduction

A. Objectives

The audit evaluated SDG&E's compliance with its transmission owner tariff, and Commission accounting, reporting and record retention requirements. The audit covered the period from January 1, 2016 to February 4, 2020.

B. Scope and Methodology

Audit staff performed the following actions to facilitate the testing and evaluation of SDG&E's compliance with Commission requirements relevant to the audit objectives:

- *Review of Public Information* – Reviewed publicly available information relating to SDG&E's operations, structure, history, regulatory oversight, tariff, and other pertinent business and regulatory aspects prior to commencing the audit. Some of the materials reviewed included SDG&E's FERC Form No. 1 reports, Commission filings and orders, its transmission owner tariff and corporate website, and trade press and news articles.

- *Conferring with Commission Staff* – Conferred with Commission staff in other offices to ensure audit report findings were consistent with Commission precedent and policy.

- *Regulatory Standards and Criteria* – Identified regulatory requirements and criteria to evaluate SDG&E's compliance with audit objectives, including the rates, terms, and conditions in its transmission owner tariff, Commission accounting and reporting requirements in 18 C.F.R. Parts 101 and 141, and other Commission rules, regulations, and orders generally applicable to jurisdictional public utilities. The review also included SDG&E's rate and accounting filings to understand that history.

- *Data Collection and Data Requests* – Issued data requests for information and audit evidence, including SDG&E's internal policies and procedures, financial accounting and transactional data, support for and disclosures in SDG&E's FERC filings, internal and external audit reports, Board of Directors and Audit Committee meeting minutes, corporate compliance program procedures, and other items not publicly available.

- *Site Visit to SDG&E's Headquarters* – Conducted three site visits to SDG&E's corporate headquarters to discuss, observe, and evaluate SDG&E's procedures, practices, and controls for ensuring compliance with the Commission's regulations. The visits enabled audit staff to:

- Discuss SDG&E's corporate structure, departmental functions, and employee responsibilities, and meet with key company officials;

- Learn about SDG&E's transmission system and operations, in particular the assets, departments, activities, functions, systems, and processes used;

- Interview executives, managers, and staff responsible for accounting, financial reporting, transmission operations, and corporate compliance;

- Review Board of Directors and Audit Committee meeting minutes and internal and external audit reports;

- Discuss management and operation of SDG&E's corporate compliance program; and

- Discuss and observe accounting and reporting procedures, processes, and controls relevant to audit scope.

Audit staff also performed specific tests and evaluations of SDG&E's compliance with the tariff, rates, and accounting and reporting requirements. Below are the significant areas evaluated:

Transmission Owner Tariff

- *Formula Rate Protocols (Attachment 1) and the Formula Rate Spreadsheet (Attachment 2)* – Reviewed SDG&E's wholesale transmission formula rate protocols and spreadsheet template included as attachments in Appendix VIII of SDG&E's transmission owner tariff. Reviewed SDG&E's rate filings with the Commission related to these tariff items to understand the history and evolution of the attachments.

- *Commission Rate Proceedings* – Reviewed initial and all subsequent Commission orders relating to SDG&E's formula rate, including SDG&E filings and orders approving related settlements.

- *Rate Processes and Procedures* – Evaluated processes, procedures, and controls to prepare and review the transmission owner formula rate and annual updates, true-ups, and informational filings.

- *Rate Components* – Determined the level of functionalization, derivation of allocation factors, return on equity, rate base, accumulated depreciation, and other expenses included in the revenue requirement. Reviewed background information about specific cost treatments, deferrals, disallowances, and other matters disclosed as part of approving the derivation of the formula rate.

- *Rate Mechanics* – Reviewed formula rate mechanics (forward-looking, true-up, and informational filings), including a comprehensive overview that SDG&E provided.

- *Formula Rate Allocation Factors* – Reviewed the allocation factors used to support SDG&E's wholesale transmission formula rate to determine whether the correct factors had been applied in the calculations. As part of this review, audit staff verified a sample of components from allocation factors by reconciling balances back to the FERC Form No. 1.

- *Reconciliation of Inputs* -– Reconciled formula rate inputs derived from the FERC Form No. 1 to SDG&E's books and records. Evaluated compliance with the USofA for the inputs under review, including related guidance, accounting releases, and Commission rate orders.

- *Evaluated Reporting Processes and Procedures* – Evaluated the FERC Form No. 1 processes and procedures to determine whether there was accurate and complete reporting. As part of this evaluation, audit staff reconciled FERC Form No. 1 data with formula rate calculations and reviewed all discrepancies.

- *Reviewed Annual FERC Filings* – Reviewed the FERC Form No. 1, including related notes to financial statements, to identify major accounting matters. Audit staff highlighted significant notes to understand financial statement and formula rate implications and identified underlying accounting entries for these matters.

- *Audit Sampling* – Evaluated various account balances that were included in the formula rate spreadsheet for compliance with relevant accounting regulations in the USofA.

Accounting, Recordkeeping, and Financial Reporting

To evaluate compliance with Commission accounting, recordkeeping, and financial reporting regulations, audit staff:

- *Evaluated Accounting Processes and Procedures* – Audit staff evaluated SGD&E's financial reporting processes, procedures, and internal controls for complying with the Commission's regulations under 18 C.F.R Part 141. Audit staff assessed SDG&E's procedures and practices to verify the accuracy and completeness of the reported account data. Audit staff interviewed SDG&E's employees who worked directly on daily reporting and in management oversight about ensuring filing accuracy.

- *Evaluated Financial Reporting Instructions* – Audit staff evaluated SDG&E's financial reporting to determine whether it complied with general reporting instructions in the FERC Form No. 1. Specifically, audit staff reviewed select schedules and pages in the form.

- *Confirmed Reported Financial Statement Account Balances* – Audit staff traced account balances in the FERC Form No. 1 to SDG&E's general ledger.

- *Performed Variance Analysis* – Audit staff performed variance analyses on those accounts in the FERC Form No. 1 with large balances, unusual activity, and/or significant year-to-year fluctuations. Audit staff discussed with SDG&E each account fluctuation to understand the nature of the transactions and, where necessary, obtained additional information and support.

- *Reviewed Notes to Financial Statements* – Audit staff reviewed the Notes to Financial Statements of the FERC Form No. 1 for significant accounting matters and followed up with SDG&E to understand financial statements and wholesale transmission formula rate implications, if any.

- *Preservation of Records* – Reviewed the retention schedules that were included in the record retention program. Interviewed employees responsible for record retention to understand processes, procedures, and controls for administration and maintenance of records. Sampled selected records to ascertain whether their retention period aligned with Commission preservation of records regulations, and any records prematurely destroyed or lost were reported to the Commission.

IV. Findings and Recommendations

1. Allowance for Funds Used During Construction

SDG&E's methods for calculating its Allowance for Funds Used During Construction (AFUDC) base and rate were deficient. Specifically, SDG&E improperly included unpaid contract retention accruals in its construction work in process (CWIP) balance, and unamortized debt discounts and losses on reacquired debt in the determination of its long-term debt balance. As a result, SDG&E over accrued AFUDC included in CWIP and utility plant accounts, and overbilled wholesale transmission customers.

Pertinent Guidance

- 18 C.F.R. Part 101, Electric Plant Instruction No. 3, Components of Construction Cost, states in part:

  > The costs of construction properly includable in the electric plant accounts shall include, where applicable, the direct and overhead costs as listed and defined hereunder:
  >
  > (1) "Contract work" includes amounts paid for work performed under contract by other companies, firms, or individuals, costs incident to the award of such contracts, and the inspection of such work.

- 18 C.F.R. Part 101, Electric Plant Instruction No. 3(A)(17), Allowance for Funds Used during Construction, states in part:

  > The rates shall be determined annually. The balances for long-term debt, preferred stock and common equity shall be the actual book balances as of the end of the prior year.

- *System Energy Resources, Inc.*, Opinion No. 446, 92 FERC ¶ 61,119, at 61,449 (2000), *reh'g denied*, Opinion No. 446-A, 96 FERC ¶ 61,165 (2001), states in relevant part:

  > It is the gross proceeds of a company's long-term debt, i.e., the total principal outstanding, that belong in the capital structure because this reflects the company's total obligation with respect to long-term debt.

- Opinion No. 446-A, 96 FERC ¶ 61,165 at 61,740, states in relevant part:

> Using the total principal outstanding, or gross proceeds, accurately represents the amount of debt outstanding and allows for a more accurate picture of SERI's capital structure, and, in turn, results in the correct calculation of SERI's cost of capital.

Background

AFUDC represents the financing cost of construction and consists of two components: Allowance for Borrowed Funds (debt) and Allowance for Other Funds (equity). The Commission's predecessor agency, the Federal Power Commission (FPC), in FPC Order No. 561,[10] established the formula for capturing these two components of AFUDC that is still used today and which, for public utilities, is found in the Electric Plant Instructions in the USofA. EPI No. 3(A)(17) provides the uniform formula for calculating a utility's maximum AFUDC rate. Audit staff reviewed SDG&E's AFUDC rate calculations and the inputs that SDG&E factored into the debt and equity components during the audit period, as well as SDG&E's application of AFUDC to CWIP during the audit period. This included interviewing SDG&E'S plant accounting staff and testing a sample of construction work orders, invoices, and other supporting documents for several construction projects.

Audit staff identified three issues relating to SDG&E's calculation and application of AFUDC, which are as follows:

Contract Retention Accruals

SDG&E improperly included unpaid contract retention accruals from 2014 through the present in the CWIP balances of its AFUDC base determinations, which was

[10] *Amendments to Uniform System of Accounts for Public Utilities and Licensees and For Natural Gas Companies (Classes A, B, C and D) to Provide for the Determination of Rate for Computing the Allowance for Funds Used During Construction and Revisions of Certain Schedule Pages of FPC Reports*, Order No. 561, 57 FPC 608 (1977), *reh'g denied*, Order No. 561-A, 59 FPC 1340 (1977), *order on clarification*, 2 FERC ¶ 61,050 (1978).

not consistent with Commission accounting regulations.[11] In accordance with EPI No. 3, contract costs includible in CWIP balances (and thus in AFUDC base), must represent amounts actually *paid* for work performed under a contract. Contract retention accruals that are not paid until future periods are not includible in the AFUDC base. This was also an issue of noncompliance with the accounting requirements in the 2014 Audit of SDG&E.[12]

In the 2014 Audit report, there were eight recommendations for corrective action associated with the contract retention accruals finding that overall required SDG&E to (1) remove the improper impact of contract retention accruals from CWIP and plant in service existing at that time; (2) refund inappropriate charges to wholesale transmission customers impacted by the error; and (3) implement internal control measures to help prevent the error from reoccurring in subsequent periods after the removals. Audit staff found that SDG&E implemented the corrective actions of items (1) and (2) but did not establish the effective controls required by item (3) that would have helped prevent reoccurrence of the error in periods subsequent to the 2014 Audit.

Unamortized Discounts on Long-Term Debt

SDG&E improperly included amounts recorded in Account 226, Unamortized Discount on Long-Term Debt – Debit, with the long-term debt balances used to compute its AFUDC rates.[13] This practice reduced SDG&E's gross balance of outstanding long-term debt leading it to include the net long-term debt proceeds in AFUDC rate calculations. However, in accordance with Commission policy, SDG&E is required to use the gross proceeds of outstanding long-term debt as the long-term debt balance of the capital structure; it may not include a reduction of the balance to recognize an

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[11] SDG&E defined unpaid contract retentions as the portion withheld from invoice payments to a vendor for products or services received until the contracted work is substantially complete and satisfactory to SDG&E's requirements.

[12] *See* 2014 Audit, Finding No. 1, Allowance for Funds Used During Construction, at pp. 19-27.

[13] A discount "as applied to securities issued or assumed by a utility, means the excess of the… face value of the securities plus interest… accrued at the date of the sale over the cash value of the consideration received from their sale." Definition No. 13, Discount, 18 C.F.R. Part 101. Further, an unamortized discount is the balance of the discount that remains to be amortized over the remaining life of securities issued or assumed.

unamortized discount.[14] Accordingly, SDG&E should have excluded amounts recorded in Account 226 from the long-term debt balance used to calculate its AFUDC rate.

Unamortized Losses on Reacquired Debt

SDG&E improperly included amounts recorded in Account 189, Unamortized Loss on Reacquired Debt, in calculating its long-term debt balances used to compute its AFUDC rates. This practice increased the amount of the long-term debt included in AFUDC rate calculations above the amount of long-term debt actually outstanding. As previously indicated, Commission policy requires that SDG&E include the gross proceeds of outstanding long-term debt in the AFUDC rate calculation.[15] Losses on reacquired debt are not part of the gross proceeds of outstanding debt. Therefore, SDG&E should have excluded amounts recorded in Account 189 from the long-term debt balance used to calculate its AFUDC rate.

Conclusion

As a result of these errors, SDG&E over accrued AFUDC, which then was capitalized as a component cost of construction and subsequently included in Account 106, Completed Construction Not Classified – Electric (Major Only), or Account 101, Electric Plant in Service (Major Only). SDG&E overbilled wholesale transmission customers for the excessive AFUDC costs in utility plant that was included in wholesale formula rate determinations through rate base and depreciation charges. SDG&E should stop continued errors in AFUDC accruals identified in this and prior audits. Specifically, SDG&E should strengthen its manual and automated controls to enhance its detective, preventive, and corrective capabilities to help exclude inappropriate items from AFUDC base and rate calculations.

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[14] Opinion No. 446, 92 FERC ¶ 61,119 at 61,449 ("It is the gross proceeds of a company's long-term debt, i.e., the total principal outstanding, that belong in the capital structure because this reflects the company's total obligation with respect to long-term debt."), *reh'g denied*, Opinion No. 446-A, 96 FERC ¶ 61,165 at 61,740 ("Using the total principal outstanding, or gross proceeds, accurately represents the amount of debt outstanding and allows for a more accurate picture of SERI's capital structure, and, in turn, results in the correct calculation of SERI's cost of capital.").

[15] *Id*.

Recommendations

We recommend that SDG&E:

1. Revise policies and procedures for calculating the AFUDC base and rates to be consistent with EPI No. 3(A)(17) and other applicable Commission requirements. Revisions should include processes to prevent inclusion of unpaid contract retention accruals in AFUDC base calculations and processes to prevent improper inclusion of balances in Accounts 189 and 226 in the AFUDC rate calculations.

2. Revise policies, procedures, and accounting systems, as necessary, to calculate the AFUDC base and rates consistent with the requirements of EPI No. 3.

3. Train relevant staff on the revised AFUDC base and rate calculation methods and provide periodic training, as needed.

4. Recalculate AFUDC accrued in accordance with EPI No. 3(A)(17) for the contract retention accruals error from 2014 through the date of the final audit report and the other items from 2016 through the date of the final audit report. Also, submit a refund analysis, within 60 days of receiving the final audit report, to DAA for review that explains and details the following: (1) calculation of refunds that considers the amount of AFUDC improperly capitalized to plant in service, plus interest; (2) determinative components of the refund; (3) refund method; (4) wholesale transmission customers to receive refunds; and (5) period(s) refunds will be made.

5. Submit proposed accounting entries and supporting documentation to DAA that reflect the correction of the CWIP, electric plant in service, accumulated depreciation, ADIT, and other accounts impacted by over-accrual of AFUDC within 60 days of receiving the final audit report.

6. Revise CWIP, electric plant in service, accumulated depreciation, ADIT, and other accounts impacted by over-accrual of AFUDC after receiving DAA's assessment of the proposed accounting entries per Recommendation No. 5 and restate and footnote the FERC Form No. 1 for current and comparative years as necessary.

7. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

2. Accounting for Commitment Fees

SDG&E improperly accounted for upfront fees it paid that were associated with revolving line of credit agreements in Account 182.3, Other Regulatory Assets, and improperly accounted for quarterly commitment fees associated with the agreements in Account 923, Outside Services Employed. In addition, SDG&E improperly included the amortization of upfront line of credit fees in its calculation of long-term debt interest expense used to compute its AFUDC rate.

Pertinent Guidance

- 18 C.F.R. Part 101, Account 186, Miscellaneous Deferred Debits, states in part:

  A. For Major utilities, this account shall include all debits not elsewhere provided for… which are in process of amortization…

- 18 C.F.R. Part 101, Account 930.2, Miscellaneous General Expenses (Major Only), states:

  This account shall include the cost of labor and expenses incurred in connection with the general management of the utility not provided for elsewhere.

Background

SDG&E entered into two revolving line of credit agreements with financial institutions during the audit period. As a condition of these agreements, SDG&E was required to pay upfront fees associated with establishing each agreement. SDG&E also incurred quarterly commitment fees associated with the credit agreements. Both line of credit agreements had five-year terms.

From January 1, 2016 to April 30, 2019, SDG&E incurred total upfront fees of $1,250,500 and quarterly commitment fees of $1,303,819. SDG&E recorded the upfront fees for establishing the lines of credit by charging Account 182.3, Other Regulatory Assets. During the audit period, SDG&E had no debt outstanding on its revolving lines of credit. SDG&E amortized the upfront fees recorded in Account 182.3 over the five-year term of the line of credit agreements through charges to Account 930.2, Miscellaneous General Expenses, and included the amortized cost in its calculation of long-term debt interest expense used to compute its AFUDC rate. Further, SDG&E accounted for the quarterly commitment fees paid that were associated with the lines of credit in Account 923, Outside Services Employed.

SDG&E's accounting to record the upfront fees associated with establishing the lines of credit by charging Account 182.3 is inappropriate. Account 182.3 provides for recording regulatory-created assets, not includible in other accounts, resulting from the ratemaking actions of regulatory agencies. The upfront fees incurred by SDG&E did not result from ratemaking actions of regulators. The fees are more appropriately accounted for in Account 186, Miscellaneous Deferred Debits. Account 186 provides for the recording of debits not elsewhere provided for in the USofA which are in process of amortization, such as the cost of the upfront fees incurred by SDG&E.

Additionally, audit staff found that the revolving line of credit agreements were not established in conjunction with the acquisition of debt or directly associated with outstanding debt. Rather, SDG&E represented that it entered into the agreements to create liquidity for general purpose needs. Audit staff finds that quarterly commitment fees associated with the revolving line of credit agreements that SDG&E accounted for in Account 923 are more appropriately recorded in Account 930.2, Miscellaneous General Expenses.[16] Account 930.2 provides for the cost of labor and expenses incurred for the general management of a utility not provided for elsewhere in the USofA, and we find that the quarterly commitment fees most resemble a banking charge to support SDG&E's utility operations as a whole when the credit facility is not associated with debt.

SDG&E included the amortization of upfront line of credit fees as a component of the cost of long-term debt included in AFUDC rate calculations. However, the fees are not directly associated with the company's debt, and as such there is no basis to consider the fees as a cost of debt. SDG&E should exclude the amortization of upfront line of credit fees from the cost of debt when calculating its AFUDC rate consistent with Commission requirements stipulating that for inclusion (1) the fees must be associated with credit facilities acquired in compliance with the provisions of specific debt agreements; and (2) the company receive prior Commission approval.[17]

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[16] Upfront and quarterly commitment fees for credit facilities acquired in compliance with the provisions of specific debt agreements should be recorded as interest expense and included as a cost of the short-term or long-term debt they support, consistent with Commission precedent. See *System Energy Resources, Inc*., 48 FERC ¶ 61,321 at 3 (1989) (holding that bank fees for letters of credit associated with construction bonds for nuclear generating plant lowered the cost of interest on the specific issuances of long-term construction bonds, thereby functioning as interest on such bond issuances, and should be recorded in Account 427, Interest on Long-Term Debt).

[17] Order No. 561, 57 FPC 608 at 611.

Recommendations

We recommend that SDG&E:

8. Revise existing accounting policies, procedures, and practices relating to accounting for credit agreement expenses, such as upfront, commitment, quarterly, revolving line of credit, and letter of credit fees, to be consistent with Commission accounting requirements.

9. Revise policies and procedures for calculating the AFUDC rate to be consistent with EPI No. 3(A)(17) and other applicable Commission requirements. Revisions should include processes to exclude commitment fees from AFUDC rate calculations unless the costs are associated with debt issuances and are approved by the Commission for inclusion.

10. Train relevant staff on the revised accounting policies and provide periodic training, as needed.

11. Within 60 days of receiving the final audit report, submit proposed accounting entries and supporting documentation to DAA that reflect the transfer of credit agreement-related balances improperly recorded in Account 182.3 to Account 186.

12. Revise miscellaneous deferred debit balances to appropriately account for and report credit agreement-related balances after receiving DAA's assessment of the proposed accounting entries, and restate and footnote the balances reported in the FERC Form No. 1 in the current and comparative years of the report, as necessary to reflect and disclose the revisions.

3. Allocation of Overhead Costs to CWIP

SDG&E capitalized overhead costs to Account 107, Construction Work in Progress – Electric, using an allocation method that was not based on the actual time that employees were engaged in construction activities or on a representative time study. This led to SDG&E charging costs to Account 107 that did not have a definite relationship to construction. As a result, SDG&E may have overstated construction costs recorded in Account 107 and electric plant in service, as well as accumulated depreciation and accumulated deferred income tax (ADIT) balances, and may have understated operating expenses. Moreover, this accounting may have led SDG&E to overstate its wholesale transmission revenue requirement and overcharge wholesale transmission customers.

Pertinent Guidance

- 18 C.F.R. Part 101, General Instruction No. 9 (GI No. 9), Distribution of Pay and Expenses of Employees, states:

  > The charges to electric plant, operating expense and other accounts for services and expenses of employees engaged in activities chargeable to various accounts, such as construction, maintenance, and operations, shall be based upon the actual time engaged in the respective classes of work, or in case that method is impracticable, upon the basis of a study of the time actually engaged during a representative period.

- 18 C.F.R. Part 101, General Instruction No. 10 (GI No. 10), Payroll Distribution, states:

  > Underlying accounting data shall be maintained so that the distribution of the cost of labor charged direct to the various accounts will be readily available. Such underlying data shall permit a reasonably accurate distribution to be made of the cost of labor charged initially to clearing accounts so that the total labor cost may be classified among construction, cost of removal, electric operating functions (steam generation, nuclear generation, hydraulic generation, transmission, distribution, etc.) and nonutility operations.

- 18 C.F.R. Part 101, Electric Plant Instruction No. 3 (EPI No. 3), Components of Construction Cost, states in part:

(A)(2) *Labor* includes the pay and expenses of employees of the utility engaged on construction work, and related workmen's compensation insurance, payroll taxes and similar items of expense. It does not include the pay and expenses of employees which are distributed to construction through clearing accounts nor the pay and expenses included in other items hereunder.

- 18 C.F.R. Part 101, Electric Plant Instruction No. 4 (EPI No. 4), Overhead Construction Costs, states:

A. All overhead construction costs, such as engineering, supervision, general office salaries and expenses, construction engineering and supervision by others than the accounting utility, law expenses, insurance, injuries and damages, relief and pensions, taxes and interest, shall be charged to particular jobs or units on the basis of the amounts of such overheads reasonably applicable thereto, to the end that each job or unit shall bear its equitable proportion of such costs and that the entire cost of the unit, both direct and overhead, shall be deducted from the plant accounts at the time the property is retired.

B. As far as practicable, the determination of pay roll charges includible in construction overheads shall be based on time card distributions thereof. Where this procedure is impractical, special studies shall be made periodically of the time of supervisory employees devoted to construction activities to the end that only such overhead costs as have a definite relation to construction shall be capitalized. The addition to direct construction costs of arbitrary percentages or amounts to cover assumed overhead costs is not permitted.

C. For Major utilities, the records supporting the entries for overhead construction costs shall be so kept as to show the total amount of each overhead for each year, the nature and amount of each overhead expenditure charged to each construction work order and to each electric plant account, and the bases of distribution of such costs.

Background

Audit staff evaluated a sample of charges allocated to SDG&E by Sempra, SDG&E's parent, and interviewed employees, reviewed supporting documentation, and identified the accounts used to record the charges. Audit staff discovered that of the sampled allocated costs of $9.7 million incurred in 2018, SDG&E capitalized $3.9 million of the costs, which represented overhead labor and non-labor related costs, to construction projects.[18] As such, SDG&E capitalized approximately 41.37 percent of costs allocated from some Sempra departments.

To support the capitalization of the costs, SDG&E represented that Sempra employees working in certain departments supported all SDG&E operations, including its construction operations. However, SDG&E did not distinguish between Sempra departments and employees that supported construction operations and those that did not in its determination of the allocated costs that it capitalized. Rather, audit staff found that SDG&E determined the costs that were capitalized to achieve its 41.37 percent capitalization rate based on a capital labor ratio. Throughout the audit period, the capital labor ratio was calculated as the ratio of the total direct labor costs charged to all capital work orders to all salaries and wages incurred each year. As such, SDG&E's allocation method did not consider whether departments with costs allocated and capitalized to construction projects actually supported construction operations.

In accordance with the accounting requirements of EPI No. 4, Overhead Construction Costs, and GI No. 9, Distribution of Pay and Expenses of Employees, labor costs capitalized as plant expense must have a definite relation to construction, and must be based on time card distributions or be allocated based on a study of the time actually engaged in construction related activities during a representative period. SDG&E acknowledged that it had neither performed a representative labor-time study nor assessed timecard distributions to determine capitalizable cost. Consequently, since the labor costs that SDG&E allocated to the construction overhead cost pool that it charged to construction were neither based on time employees actually engaged in construction activities as supported by time card distributions nor on a representative time study of such engagement, the charged costs did not have a definite relation to construction.

SDG&E's accounting for labor charges capitalized was not consistent with Commission accounting requirements and may have resulted in the company including inappropriate costs in constructed utility plant and, consequently, in transmission service formula rate determinations. This may have led to SDG&E overcharging wholesale transmission ratepayers.

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[18] Non-labor costs included other costs incurred by Sempra such as dues and subscriptions, rent, etc.

Recommendations

We recommend that SDG&E:

13. Retain an independent third-party entity to conduct a representative labor time study for allocation of overhead costs incurred in 2019 to CWIP, and to assist with the development of procedures SDG&E shall use to periodically determine the allocation of overhead labor and labor-related costs capitalized into the cost of construction after 2019. Report the progress of the study within 120 days and provide the time study results to DAA for review and consideration within 180 days of the date of the final audit report and the developed allocation procedures when complete. At a minimum, the developed allocation procedures should provide a method for overhead cost allocation and capitalization to construction based on actual timecard distributions or where this procedure is impractical, based on periodic time studies.

14. Revise written policies, practices, and procedures governing the methods used to account for, track, report, and review overhead labor, labor-related costs, and all other costs allocated to construction projects to be consistent with Commission accounting requirements. In addition, adopt procedures to retain formal documentation supporting the amount of overhead costs allocated to electric plant accounts.

15. Train relevant staff on the revised overhead allocation procedures and documentation, and provide periodic training in this area, as needed.

16. Within 30 days of the completion of Recommendation No. 13, submit an estimate to DAA, including the calculations and determinative components, of overhead costs that would have been allocated to CWIP during the audit period consistent with the requirements of EPI No. 4 and GI No. 9. The estimate should be based on a recalculation of 2016 and subsequent years overhead cost allocated to construction with labor and labor-related costs removed from the cost of plant that were not associated with construction activities based on the methodology developed in response to Recommendation No. 13.

17. With the response to Recommendation No. 16, submit proposed accounting entries to DAA that remove the overhead costs that were allocated to electric plant in CWIP and in service during the audit period that exceed the amount of costs that would have been allocated to the accounts based on the methodology developed in response to Recommendation No. 13. Also,

provide proposed accounting entries to remove associated amounts from other accounts and balances affected by the inappropriately allocated cost such as the accumulated depreciation and ADIT accounts, and AFUDC balances capitalized into CWIP and plant in service. If the adjusting entries result in a significant impact to income for the current year, SDG&E may account for the transaction as a correction of a prior period error in Account 439, Adjustments to Retained Earnings. Such an entry should be submitted with the proposed accounting entries.

18. Revise account balances for utility plant, accumulated depreciation, ADIT, and other account balances impacted by the inappropriate allocation of unsupported overhead cost after receiving DAA's assessment of the proposed accounting entries per Recommendation No. 17, and restate and footnote the balances reported in the FERC Form No. 1 in the current and comparative years of the report, as necessary to reflect and disclose the revisions.

19. Submit a refund analysis to DAA that explains and details the following: (1) calculation of refunds that result from the overstatement of transmission plant due to the improper capitalized of labor costs, as determined by the labor time study, plus interest; (2) determinative components of the refund; (3) refund method; (4) wholesale transmission customers to receive refunds; and (5) period(s) refunds will be made.

20. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

4. Accounting for EV Charging Stations

SDG&E improperly accounted for electric vehicle (EV) charging station distribution assets in Account 398, Miscellaneous Equipment. SDG&E's accounting resulted in the cost of the assets and associated expenses being incorrectly included in accounts that are wholesale transmission formula rate inputs. This led the company to overstate its wholesale transmission revenue requirement and overcharge wholesale transmission customers.

Pertinent Guidance

- 18 C.F.R. Part 101, Account 370, Meters, states in part:

  A. This account shall include the cost installed of meters or devices and appurtenances thereto, for use in measuring the electricity delivered to its users, whether actually in service or held in reserve.

- 18 C.F.R. Part 101, Account 371, Installations on Customers' Premises, states in part:

  This account shall include the cost installed of equipment on the customer's side of a meter when the utility incurs such cost and when the utility retains title to and assumes full responsibility for maintenance and replacement of such property.

Background

Audit staff performed variance analyses on accounts in the FERC Form No. 1 with large balances, unusual activity, and/or significant year-to-year fluctuations. Audit staff discussed with SDG&E each account fluctuation to understand the nature of the transactions and, where necessary, obtained additional information and support. Audit staff found that SDG&E incurred costs associated with implementation of an Electric Vehicle-Grid Integration (VGI) Pilot Program that was authorized by the CPUC.[19] Pursuant to the program, SDG&E was authorized to invest $45 million in the installation of 3,500 EV charging stations at 350 sites in California, plus cost recovery through future general rate case proceedings for justified capital and operations and maintenance expenses.

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[19] CPUC adopted the Electric Vehicle-Grid Integration Pilot Program in Decision 16-01-045, 2016 Cal. PUC LEXIS 67 (2016).

To incorporate rate design changes and the related VGI rate associated with the pilot program into its tariff, SDG&E filed, pursuant to section 205 of the FPA[20] and Sections 35.13 and 385.205 of the Commission's regulations,[21] proposed revisions to Appendices VII and IX of its tariff.[22] In the filing, SDG&E represented that the proposed revisions were limited to implementing the VGI Pilot Program and did not affect any other rates that were effective at the time, including the base transmission revenue requirement that is calculated using SDG&E's wholesale transmission formula rate.[23]

On June 6, 2016, the Commission issued an order accepting SDG&E's proposed tariff revisions.[24] The Commission relied on SDG&E's representations in accepting its proposal. Specifically, the Commission noted that its acceptance of the proposal was based on SDG&E's representation that "no customers other than the VGI customers will be affected" by the tariff changes.[25] However, audit staff found that SDG&E's accounting for its investment in the EV charging stations led to the inclusion of the costs in accounts that are inputs to SDG&E's wholesale transmission formula rate, which resulted in the company billing a portion of the cost to wholesale transmission formula rate customers. Moreover, audit staff determined that SDG&E recorded its investment in the assets in the incorrect utility plant account.

SDG&E explained that it initially recorded the cost of the EV charging stations as distribution assets in Account 371, Installations on Customers' Premises, but later decided that while the functional classification of the assets was appropriate, the account was not. Consequently, SDG&E transferred the cost from Account 371 to Account 398,

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[20] 16 U.S.C. § 824d (2018).

[21] 18 C.F.R. §§ 35.13 and 385.205 (2019).

[22] San Diego Gas & Electric's Transmission Owner Tariff, FERC Electric Tariff, Original Volume No. 11, Appendix VII, Reliability Must-Run Charges for End-Users; and Appendix IX, Determination of SDG&E's End Use Customer Class Transmission Charges, Low Voltage Access Charge, and High Voltage Utility-Specific Rate, and Allocation of BTRR Applicable to High Voltage and Low Voltage Transmission Facilities.

[23] San Diego Gas & Elec. Co. Filing, Docket No. ER16-1374-000, Transmittal at 4, Fang Testimony at 3-5 (filed Apr. 8, 2016).

[24] *San Diego Gas & Elec. Co.*, 155 FERC ¶ 61,244 (2016).

[25] *Id*. P 5.

Miscellaneous Equipment. SDG&E maintained that its use of Account 398 was appropriate because the account provides for the recording of "the cost of equipment, apparatus, etc., used in the utility operations, which is not includible in any other account of the USofA." However, the text of Account 398 also notes that equipment "wherever practicable shall be included in the utility plant accounts on a functional basis." This language restricts the use of Account 398 to property of a general nature that does not fit into any particular function.

The correct account classification of an item is dependent on the nature of the item. The EV charging stations are dissimilar in nature to those assets properly includible in Account 398. Based upon review of the record, including SDG&E's use and operations of the EV charging stations, audit staff believes the assets serve a distribution function. SDG&E's EV charging stations allow retail end-use customers in its distribution service territory access to low voltage power to charge electric vehicles. As assets of a distribution nature, the EV charging stations cannot appropriately be accounted for as general plant in Account 398 because the assets are more properly accounted for in a distribution plant account.

The EV charging stations are made of several components that include hardware and software that facilitate retail end-use customer access to a low voltage power supply with control and monitoring oversight by SDG&E. The control and monitoring capabilities of the EV charging stations are similar in operation and function to utility smart meters. Given the nature of the assets and their control and monitoring capabilities, audit staff believes that the EV charging stations are more appropriately recorded to Account 370, Meter or Account 371 than Account 398. Account 370 provides for recording the cost of meters, and Account 371 provides for recording the cost of equipment on the customers' side of meters. Accordingly, SDG&E may decide to use one or both accounts to record components of the assets or record the assets in a subaccount of a single account and must maintain records to support the cost and depreciation of the assets.

SDG&E did not seek guidance from the Commission on the appropriate accounting for the EV charging station assets. To the extent SDG&E was unsure of the appropriate accounting for EV charging stations, it should have submitted a request to the Commission for accounting guidance consistent with the requirements of General Instruction No. 5, Submittal of Questions.[26] The Commission provides this guidance to maintain uniformity of accounting among the companies in each industry that it regulates.

[26] General Instruction No. 5, Submittal of Questions, 18 C.F.R. Part 101 (2019).

In accordance with section 301(a) of the FPA and Section 41.8 of the Commission's regulations, the burden of proof to justify every accounting entry questioned by the Commission shall be on the person making, authorizing, or requiring such entry.[27] Here, audit staff determined that SDG&E did not justify its proposed accounting treatment for the EV charging station assets. As the Commission has explained in a similar context in past cases, where a utility finds the appropriate accounting treatment of a particular cost doubtful, and where a utility has opportunities available to it to ascertain the appropriate treatment of that particular cost and chooses not to avail itself of those opportunities, a Commission finding that the utility incorrectly accounted for the cost, and so must correct its accounting and billing, and pay refunds, is proper.[28] SDG&E, not having availed itself of the opportunities available to it to raise this matter with the Commission or with the Chief Accountant, should not be excused from correcting its accounting and its billing and from making refunds.

Recommendations

We recommend that SDG&E:

21. Revise policies, procedures, and practices to track, report, review and account for EV charging stations to be consistent with Commission accounting requirements.

22. Train relevant staff on the revised accounting methods and provide periodic training, as needed.

23. Within 30 days of implementing Recommendation No. 21, submit proposed accounting entries and supporting documentation to DAA that reflect the removal of the EV charging station costs improperly recorded in Account 398.

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[27] *See* 16 U.S.C. § 825(a) (2018); 18 C.F.R. § 41.8 (2019), respectively.

[28] *See*, *e.g.*, *Indianapolis Power & Light Co.*, Opinion No. 328, 48 FERC ¶ 61,040, at 61,202-61,203, *reh'g granted,* 48 FERC ¶ 61,328 (1989) (granting rehearing and clarifying refund obligation); *Cent. Ill. Pub. Serv. Co.*, Opinion No. 309-A, 47 FERC ¶ 61,043, at 61,124, *reh'g denied*, Opinion No. 309-B, 48 FERC ¶ 61,008 (1989), *rev'd on other grounds and remanded*, *Cent. Ill. Pub. Serv. Co. v. FERC*, 941 F.2d 622 (7th Cir. 1991); *Ky. Utilities Co.*, 45 FERC ¶ 61,409, at 62,293-62,294 (1988); *Minn. Power & Light Co.*, 45 FERC ¶ 61,369, at 62,158 (1988); *ITC Holdings Corp.*, 139 FERC ¶ 61,112, at PP 63-66 (2012).

24. Revise the Account 398 balance to appropriately account for and report EV charging stations after receiving DAA's assessment of the proposed accounting entries, and restate and footnote the balances reported in the FERC Form No. 1 in the current and comparative years of the report, as necessary to reflect and disclose the revisions.

25. Submit a refund analysis, within 60 days of receiving the final audit report, to DAA for review that explains and details the following: (1) calculation of refunds that includes the amount of inappropriate recoveries during the audit period that resulted from the improper accounting for EV charging stations, plus interest; (2) determinative components of the refund; (3) refund method; (4) wholesale transmission customers to receive refunds; and (5) period(s) refunds will be made.

26. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

5. Regulatory Commission Expenses

SDG&E improperly accounted for regulatory commission expenses. SDG&E's accounting resulted in regulatory commission expenses being incorrectly included in accounts that are wholesale transmission formula rate inputs. This led the company to overstate its wholesale transmission revenue requirement and overcharge wholesale transmission customers.

Pertinent Guidance

- 18 C.F.R. Part 101, Account 928, Regulatory Commission Expenses, states in part:

  > A. This account shall include all expenses (except pay of regular employees only incidentally engaged in such work) properly includible in utility operating expenses, incurred by the utility in connection with formal cases before regulatory commissions, or other regulatory bodies, or cases in which such a body is a party, including payments made to a regulatory commission for fees assessed against the utility for pay and expenses of such commission, its officers, agents, and employees.

Background

Audit staff selected a sample of transactions recorded to transmission O&M and A&G expense accounts. As part of this review, audit staff examined SDG&E's invoicing and accounts payable processes, assessed supporting documentation, and interviewed employees who performed relevant accounting functions.

Audit staff discovered witness fees for preparing FERC electric rate case testimony were recorded to Account 566, Miscellaneous Transmission Expenses, and witness fees for preparing CPUC general rate case testimony were recorded to Account 923, Outside Services Employed. The instructions to Account 928, Regulatory Commission Expenses, require that all expenses in connection with formal cases before regulatory commissions, such as witness fees, be recorded to Account 928. Therefore, in accordance with Commission accounting regulations, SDG&E should have recorded witness testimony fees in connection with formal cases before regulatory commissions in Account 928 and not Accounts 566 and 923.

Balances recorded in Accounts 566, 923, and 928 are cost component inputs used to populate SDG&E's transmission formula. Through operation of the transmission formula, amounts recorded in Account 566 may be 100 percent charged as a cost of transmission service; while amounts recorded in Accounts 923 and 928 are subjected to an allocator such that approximately 18 percent of a balance may be charged as a cost of transmission service in accordance with the allocation methodology for the account as provided for in the wholesale transmission formula rate. SDG&E's improper use of Account 566 to record regulatory commission expenses resulted in wholesale transmission formula rate customers being charged 100 percent of the cost instead of the 18 percent provided for by the transmission formula. This led the company to overcharge its wholesale transmission customers.

Recommendations

We recommend that SDG&E:

27. Revise policies, procedures, and practices to track, report, review, and account for regulatory commission expenses to be consistent with Commission accounting requirements.

28. Train relevant staff on the revised methods to account for regulatory commission expenses and provide periodic training, as needed.

29. Perform an analysis of transmission operation expense accounts to identify A&G expenses, such as regulatory commission expenses, improperly charged to the accounts during the audit period. Within 60 days of the date of the final audit report, provide the results of the analysis to audit staff.

30. Submit a refund analysis, within 60 days of receiving the final audit report, to DAA for review that explains and details the following: (1) calculation of refunds resulting from improper accounting for A&G expenses recorded in O&M accounts as identified pursuant to the analysis performed in response to Recommendation No. 29, plus interest; (2) determinative components of the refund; (3) refund method; (4) wholesale transmission customers to receive refunds; and (5) period(s) refunds will be made.

31. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

6. Accounting for Distribution-Related Expenses

SDG&E improperly accounted for distribution-related operation costs in a transmission operation expense account. SDG&E's accounting resulted in expenses being incorrectly included in accounts that were wholesale transmission formula rate inputs. This led the company to overstate its wholesale transmission revenue requirement and overcharge wholesale transmission customers.

Pertinent Guidance

- 18 C.F.R. Part 101, Account 562, Station Expenses (Major Only), states in relevant part:

> This account shall include the cost of labor, materials used and expenses incurred in operating transmission substations and switching stations….
>
> ITEMS
>
> Labor:
>
> . . . . .
>
> Item 8. Care of grounds, including snow removal, cutting grass, etc.

- 18 C.F.R. Part 101, Account 582, Station Expenses (Major Only), states in relevant part:

> Accounts 581.1 through 584 shall include, respectively, the cost of labor, materials used and expenses incurred in the operation of overhead and underground distribution lines and stations.
>
> ITEMS
>
> . . . . .
>
> Station Labor:
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> . . . . .
>
> Item 8. Care of grounds, including snow removal, cutting grass, etc.

Background

Audit staff selected a sample of transactions recorded to transmission O&M expense accounts. As part of this review, audit staff examined SDG&E's invoicing and accounts payable processes, assessed supporting documentation, and interviewed employees who performed relevant accounting functions.

Audit staff identified landscaping and other related activities performed at substations with costs that were charged as transmission operation expenses in Account 562, Station Expenses.[29] SDG&E represented that the substations supported both transmission and distribution operations; however, SDG&E recorded all the expenses to its transmission operations. SDG&E represented that, when SDG&E transferred control of its transmission facilities to the CAISO and implemented the first transmission owner rate tariff, determinations had to be made for ratemaking purposes on the treatment of land. For any substation with at least one 69kV or higher line entering the substation and a distribution voltage exiting the substation, the land is allocated 50 percent to transmission rate base and 50 percent to distribution rate base. Since the substation land is allocated to distribution and transmission operations equally, the expenses related to their operation should have been apportioned to the appropriate O&M expense accounts associated with each function. Accounts 562 and 582 provide for the recording of expenses incurred in the care of grounds at substations. Therefore, SDG&E should have recorded an applicable portion of the landscaping and other related activities costs in both Account 562 and Account 582.

The cost of the landscaping totaled $3.6 million. Based on records evaluated, audit staff determined that 50 percent of the $3.6 million ($1.8 million) cost should have been charged to distribution operations using Account 582. SDG&E's improper accounting for the distribution operations-related portion of the cost overstated transmission operation expenses included in SDG&E's wholesale transmission formula rate determinations. As a result, SDG&E overbilled wholesale transmission customers for the excessive operation expenses included in its wholesale formula rate determinations.

Recommendations

We recommend that SDG&E:

32. Strengthen policies and procedures to account for distribution-related expenses consistent with Commission accounting requirements.

33. Train relevant staff on the methods to account for distribution-related expenses and provide periodic training, as needed.

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[29] The substations included the Avocado, Batiquitos, Friars, Paradise, Point Loma, Proctor Valley, and Rose Canyon substations, among others.

34. Perform an analysis of costs incurred at substations during the audit period to determine whether distribution-related expenses were charged to the correct account(s) and that the appropriate allocators were used to charge costs to transmission and distribution expense accounts when applicable. Provide the results of the analysis to audit staff within 60 days of the date of the final audit report.

35. Submit a refund analysis, within 60 days of receiving the final audit report, to DAA for review that explains and details the following: (1) calculation of refunds resulting from improper accounting for distribution-related O&M expenses in transmission expense accounts, plus interest; (2) determinative components of the refund; (3) refund method; (4) wholesale transmission customers to receive refunds; and (5) period(s) refunds will be made.

36. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

7. Accounting for Donations and Lobbying Expenses

SDG&E misclassified donation payments and costs incurred to support activities to influence public opinion with regard to legislation. SDG&E's accounting resulted in such expenses being incorrectly included in accounts that were wholesale transmission formula rate inputs. This led the company to overstate its wholesale transmission revenue requirement and overcharge wholesale transmission customers.

Pertinent Guidance

- 18 C.F.R. Part 101, Account 426.1, Donations, states:

  > This account shall include all payments or donations for charitable, social or community welfare purposes.

- 18 C.F.R. Part 101, Account 426.4, Expenditures for Certain Civic, Political and Related Activities, states:

  > This account shall include expenditures for the purpose of influencing public opinion with respect to the election or appointment of public officials, referenda, legislation, or ordinances (either with respect to the possible adoption of new referenda, legislation or ordinances or repeal or modification of existing referenda, legislation or ordinances) or approval, modification, or revocation of franchises; or for the purpose of influencing the decisions of public officials, but shall not include such expenditures which are directly related to appearances before regulatory or other governmental bodies in connection with the reporting utility's existing or proposed operations.

Background

Audit staff tested a sample of charges made to A&G accounts to determine whether the charges were recorded consistent with Commission accounting requirements. As part of this review, audit staff examined SDG&E's invoicing and accounts payable processes, assessed supporting documentation, and interviewed employees who performed relevant accounting functions. Audit staff's analysis of the charges found that SDG&E misclassified costs associated with charitable donations and with activities to influence public opinion with regard to legislation. This was also an issue of noncompliance with Commission accounting requirements found during the 2014 Audit of SDG&E.[30]

In the 2014 Audit report, there were four recommendations for corrective action associated with the finding that overall required SDG&E to (1) implement internal control measures to help prevent the error from reoccurring in periods after the 2014 Audit; and (2) refund inappropriate charges to wholesale transmission customers impacted by the error. Audit staff found that SDG&E provided the refunds but did not establish the effective controls required by the 2014 Audit that would have helped prevent reoccurrence of the error in subsequent periods.

SDG&E awarded economic development grants to non-profit entities that serve the community. SDG&E also made charitable donations through payments to an industry association as a portion of its membership dues paid. Audit staff discovered through an assessment of the sampled data that SDG&E improperly accounted for donations of approximately $742,000. The sampled donations were comprised of $674,174 of economic development grants and $67,500 in the charitable giving portions of industry association membership dues. The donations were recorded as A&G expenses in Account 930.2, Miscellaneous General Expenses. However, Account 426.1, Donations, provides for the recording of donations for charitable, social or community welfare purposes such as those made by SDG&E. SDG&E should have accounted for its donations in Account 426.1.

SDG&E also improperly accounted for payments that were associated with activities to influence public opinion with regard to legislation. Audit staff discovered in sampled data that SDG&E recorded approximately $390,000 of such payments in Accounts 921, Office Supplies and Expenses; 923, Outside Services; and 930.2, Miscellaneous General Expenses. The sampled payments were comprised of $114,000 paid to consultants hired to perform lobbying activities on SDG&E's behalf and $275,522 constituting the portion of industry association membership dues paid to support associations' efforts to influence legislation. However, Account 426.4, Expenditures for Certain Civic, Political and Related Activities, provides for the recording of expenditures made for these purposes. SDG&E should have recorded the expenses in Account 426.4

Amounts recorded in Accounts 921, 923, and 930.2 are included in SDG&E's wholesale transmission formula rate. SDG&E's improper accounting for donations and lobbying-related expenses resulted in the costs being included in the determination of

[30] *See* 2014 Audit, Finding No. 5, Industry Association Dues and Lobbying Activities, at 41-43.

wholesale transmission service rates and inappropriately billed to wholesale transmission customers. Moreover, since the misclassified costs identified by audit staff were based on a sample, wholesale transmission customers SDG&E should perform an analysis of its A&G accounts to identify other donations and lobbying costs that may be misclassified during the audit period.

Recommendations

We recommend that SDG&E:

37. Develop and implement procedures and policies to track, report, review, and account for donations and for expenses of activities associated with influencing legislation and with other political activity consistent with the Commission's accounting requirements.

38. Train relevant staff on the procedures and policies and provide periodic training, as needed.

39. Perform an analysis of A&G expense accounts to identify nonoperating expenses, such as donations and lobbying costs, improperly charged to the accounts during the audit period. Provide the results of the analysis to audit staff within 60 days of the date of the final audit report.

40. Submit a refund analysis to DAA, within 60 days of receiving the final audit report, that explains and details the following: (1) calculation of refunds that include the amount of inappropriate recoveries during the audit period that resulted from the improper accounting for below-the-line expenses recorded in A&G expense accounts as identified pursuant to the analysis performed in response to Recommendation No. 39, plus interest; (2) determinative components of the refund; (3) refund method; (4) wholesale transmission customers to receive refunds; and (5) period(s) refunds will be made.

41. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

8. Accounting for Outside Services Employed

SDG&E improperly accounted for external consultant fees incurred to support general services not applicable to a particular operating function. SDG&E's accounting resulted in expenses being incorrectly included in an account that is a wholesale transmission formula rate input. This led the company to overstate its wholesale transmission revenue requirement and overcharge wholesale transmission customers.

Pertinent Guidance

- 18 C.F.R. Part 101, General Instruction No. 2, Records*,* states in part:

  > A. Each utility shall keep its books of account, and all other books, records, and memoranda which support the entries in such books of account so as to be able to furnish readily full information as to any item included in any account. Each entry shall be supported by such detailed information as will permit ready identification, analysis, and verification of all facts relevant thereto.
  >
  > B. The books and records referred to herein include not only accounting records in a limited technical sense, but all other records, such as minute books, stock books, reports, correspondence, memoranda, etc., which may be useful in developing the history of or facts regarding any transaction.

- 18 C.F.R. Part 101, Account 923, Outside Services Employed, states in part:

  > A. This account shall include the fees and expenses of professional consultants and others for general services which are not applicable to a particular operating function or to other accounts. It shall include also the pay and expenses of persons engaged for a special or temporary administrative or general purpose in circumstances where the person so engaged is not considered as an employee of the utility.

- 18 C.F.R. § 125.3, Schedule of Records and Periods of Retention, provides in pertinent part that:

  > Construction in progress ledgers, work orders, and supplemental records [must be retained for] 5 years after clearance to a plant

account, provided continuing plant inventory records are maintained; otherwise 5 years after plant is retired.

Background

Audit staff tested a sample of transactions recorded to transmission O&M expense and plant accounts. As part of this review, audit staff examined SDG&E's invoicing and accounts payable processes, assessed available supporting documentation, and interviewed employees who performed relevant accounting functions.

Pursuant to this review, audit staff found that SDG&E accounted for external consultant fees of $3.3 million in Accounts 560, Operation Supervision and Engineering, and 107, Construction Work in Progress-Electric. The consultants were hired in January 2017 to work on a project involving integration of SDG&E information technology systems. The project was ultimately abandoned, and associated amounts written off in September 2019.

Audit staff found that SDG&E did not retain documentation, as required by Commission accounting and record retention policy, regarding its basis for charging the external consultant fees to Accounts 107 and 560. Specifically, in accordance with GI No. 2, Records, SDG&E was required to maintain documentation to support all relevant facts regarding the transaction. In addition, in accordance with the Commission's schedule of records and periods of retention, 18 C.F.R. § 125.3, SDG&E was required to maintain records associated with the cost charged to Account 107 for five years after clearance of the cost to plant in service accounts or five years after the plant was retired, as appropriate. SDG&E's abandonment of the project was akin to its retirement of the plant. Therefore, SDG&E should have retained documentation to support its accounting for the project in accordance with GI No. 2.

Based on audit staff's review of documentation that was available and discussions with SDG&E staff, the work of the consultants was not applicable to a particular SDG&E operating function; instead, it was intended to support SDG&E's information technology systems for all its operating functions. Account 923 provides for the recording of fees and expenses of professional consultants which are not applicable to a particular operating function. As such, SDG&E should have accounted for the noncapitalized portion of the fees, amounting to approximately $1 million, in Account 923 instead of Account 560.

Balances recorded in Accounts 560 and 923 are cost component inputs used to populate SDG&E's wholesale transmission formula rate. Through operation of the wholesale transmission formula rate, amounts recorded in Account 560 may be 100 percent charged as a cost of transmission service, while amounts recorded in Account 923 are subject to an allocator such that approximately 18 percent of a balance may be charged as a cost of transmission service, in accordance with the allocation methodology for the account as provided for in the wholesale transmission formula rate. SDG&E's improper use of Account 560 to record the consultant fees resulted in wholesale transmission formula rate customers being charged 100 percent of the approximately $1 million cost instead of 18 percent of the cost as provided for by the wholesale transmission formula rate. This led the company to overstate its wholesale transmission revenue requirement and overcharge wholesale transmission customers.

As a result of the present audit, SDG&E reclassified the capitalized portion of the fees, amounting to approximately $2.3 million, from Account 107 to Account 426.5, Other Deductions. This accounting excludes the cost from future transmission service rate determinations. However, audit staff's evaluation of the transmission O&M expense and plant accounts was based on a sample; it is possible there are more errors, and as a result, additional costs inappropriately billed to wholesale transmission customers.

Recommendations

We recommend that SDG&E:

42. Revise policies, procedures, and practices to maintain and retain documentation to be consistent with Commission record retention requirements.

43. Revise policies, procedures, and practices to track, report, review, and account for outside service expenses to be consistent with Commission accounting requirements.

44. Train relevant staff on the revised methods and provide periodic training, as needed.

45. Perform an analysis of transmission operation expense accounts to identify expenses, such as management consultant fees, improperly charged, in whole or in part, to transmission operations during the audit period. Provide the results of the analysis to audit staff within 60 days of the date of the final audit report.

46. Submit a refund analysis, within 60 days of receiving the final audit report, to DAA for review that explains and details the following: (1) calculation of refunds resulting from improper accounting for A&G expenses recorded in O&M accounts as identified pursuant to the analysis performed in response to Recommendation No. 45, plus interest; (2) determinative

components of the refund; (3) refund method; (4) wholesale transmission customers to receive refunds; and (5) period(s) refunds will be made.

47. File a refund report with the Commission after receiving DAA’s assessment of the refund analysis.

9. Filing of Tariff Records

SDG&E did not properly file all Tariff Records, as required, in the Commission's electronic tariff (eTariff) database. Specifically, SDG&E's eTariff filing omitted Attachment 2, its Formula Rate Spreadsheet, from its tariff filed in the eTariff database. This impacted interested parties' ability to access and review the attachment through the Commission's eTariff Public Viewer.

Pertinent Guidance

- 18 C.F.R. § 35.9(b), Requirements for Filing Rate Schedules, Tariffs or Service Agreements, states:

  > (b) Open Access Transmission Tariffs (OATT) filed by utilities that are not Independent System Operators or Regional Transmission Organizations must be filed either as individual sheets or sections. If filed as sections, the sections must be no larger than the 1.0 level, although each schedule or attachment may be a single section. Individual service agreements that are entered into pursuant to the OATT may be filed as entire documents.

- *Electronic Tariff Filings*, Order No. 714, 124 FERC ¶ 61,270, at P 12 (2008) (footnotes omitted), states in part:

  > The [electronic filing] standards define an extensible markup language (XML) schema that will permit filers to assemble an XML filing package that includes the tariff changes, the accompanying tariff-related documents, such as the transmittal letter, rate schedules, and spreadsheets that are required to accompany various tariff filings, and other required information such as the proposed effective date of the filing.

Background

SDG&E electronically filed its Transmission Owner Transmission Tariff on the Commission's eLibrary and eTariff databases. The Commission provides its eTariff Public Viewer to effectuate public access and retrieval of electronically filed tariffs that are included in the eTariff database. Tariffs filed for inclusion in the eTariff database are required to be filed as individual sheets or sections.[31] SDG&E filed its tariff as individual sections.

Audit staff reviewed SDG&E's filing for completeness and found that an attachment was omitted from the eTariff database. Specifically, SDG&E omitted the Attachment 2, Formula Rate Spreadsheet, that includes the company's wholesale transmission formula rate used to determine the rate for wholesale transmission service.[32] SDG&E acknowledged that the attachment was erroneously omitted from the eTariff database but reasoned that the attachment was nonetheless available to the public through eLibrary. However, in Order No. 714, the Commission considered and rejected arguments that the availability of tariffs in eLibrary could be a substitute for a complete filing in the eTariff database.[33]

Recommendations

We recommend that SDG&E:

48. Develop procedures and controls to help ensure all tariff records are properly filed and available for disclosure in the Commission's eTariff database.

49. Provide training to relevant staff on the procedures and controls to electronically file tariff records in the eTariff database and provide periodic training, as needed.

50. Notify DAA upon filing the omitted Tariff Records for the currently effective version of the Transmission Owner Transmission Tariff in the eTariff database.

[31] 18 C.F.R. § 35.9, Requirements for Filing Rate Schedules, Tariffs or Service Agreements.

[32] *See* San Diego Gas & Electric Company, FERC FPA Electric Tariff, SDG&E Transmission Owner Tariff, Original Volume No. 11, Appendix VIII, TO Appendix VIII, 6.0.0, Attachment II.

[33] *Electronic Tariff Filings*, Order No. 714, 124 FERC ¶ 61,270, at PP 30-31 (2008), *order on reh'g*, Order No. 714-A, 147 FERC ¶ 61,115 (2014).

Corrective Action

- During the audit, SDG&E submitted a filing to comply with a Commission order[34] approving an uncontested settlement agreement for SDG&E's Fifth Transmission Owner Formula Rate (Compliance Filing), which Compliance Filing included the Attachment 2, Formula Rate Spreadsheet, discussed in the background of this finding.[35] This effort satisfies the requirement of Recommendation No. 50.

[34] *San Diego Gas & Elec. Co.,* 170 FERC ¶ 61,240, at P 10 (2020).

[35] *See* San Diego Gas & Electric Company, FERC FPA Electric Tariff, SDG&E TO Tariff Filing, Appendix I, TO Appendix I, 3.0.0, Appendix VIII, TO Appendix VIII, 13.0.0, Attachment 1 – Protocols, 1.0.0, Attachment 2 – Formula Rate Spreadsheet, 1.0.0, Formula Rate Protocols, TO Appendix VIII – Attachment 1, 8.0.0. *See also San Diego Gas & Elec. Co*., Docket No. ER19-221-003 (June 26, 2020) (letter order accepting Compliance Filing effective June 1, 2019).

10. Premature Destruction or Loss of Records

SDG&E could not verify the existence of an asset, or provide documentation associated with the asset's cost, that was recorded in Account 154, Plant Materials and Operating Supplies. SDG&E's inability to produce the documentation represents an instance of premature destruction or loss of records.

Pertinent Guidance

- 18 C.F.R. § 125.2(k), Rate Case, states:

  > Notwithstanding the minimum retention periods provided in these regulations, if a public utility or licensee wants to reflect costs in a current, future, or pending rate case, or if a public utility or licensee has abandoned or retired a plant subsequent to the test period of the utility's rate case, the utility must retain the appropriate records to support the costs and adjustments proposed in the current or next rate case.

- 18 C.F.R. Part 101, Account 154, Plant Materials and Operating Supplies, states in part:

  > This account shall include the cost of materials purchased primarily for use in the utility business for construction, operation and maintenance purposes.

Background

Audit staff tested a sample of charges in various accounts that were inputs to the wholesale transmission formula rate to determine whether the charges were accounted for consistent with Commission accounting requirements. As part of this review, audit staff interviewed employees who performed relevant accounting functions and examined a sample of invoices and other documentation that supported balances recorded in the accounts. Based on the sample of items reviewed, audit staff found that SDG&E retained required documentation for most of the items recorded in the accounts but could not locate documentation to support a $200,000 charge in Account 154, Plant Materials and Operating Supplies. In accordance with Commission record retention requirements, SDG&E must retain records of material costs included in rate determinations.

The charge was associated with a core deposit made to acquire reels of cable from a supplier. SDG&E explained that the deposit would be recovered upon its return of the empty reels to the supplier, unless additional reels of cable were acquired. When additional reels of cable were acquired, the supplier would apply the already held deposit toward SDG&E's acquisition of the new reels. Over time, due to administrative oversight and changes to its accounting software, SDG&E could not find the reels that were related to the deposit and the documentation associated with the transaction.

As a result of the audit, SDG&E reclassified the cost from Account 154 to Account 426.5, Other Deductions. This accounting excludes the cost from future transmission rate determinations. However, SDG&E should have had processes and procedures to monitor and periodically check its materials inventory to help ensure inclusion of appropriate materials cost in its accounts and transmission rate determinations.

Recommendations

We recommend that SDG&E:

51. Strengthen procedures to maintain and retain documentation consistent with Commission record retention requirements.

52. Revise policies, procedures, and practices to track, report, review, and account for inventory to be consistent with Commission accounting requirements. Among other things, the revisions should include processes and procedures to audit inventories of plant materials and supplies on a cyclical basis and make necessary adjustments to bring Account 154 into agreement with the actual inventories.

53. Train relevant staff on the revised methods and provide periodic training, as needed.

11. Filing Associated with Electric Plant Purchased

SDG&E did not file its proposed journal entries for the purchase of electric plant within six months, as required. This hindered the Commission's and other interested parties' ability to timely review and monitor the transaction.

Pertinent Guidance

- 18 C.F.R. Part 101, EPI No. 5(A), Electric Plant Purchased or Sold, states:

> A. When electric plant constituting an operating unit or system is acquired by purchase, merger, consolidation, liquidation, or otherwise, after the effective date of this system of accounts, the costs of acquisition, including expenses incidental thereto properly includible in electric plant, shall be charged to account 102, Electric Plant Purchased or Sold.

- 18 C.F.R. Part 101, Account 102, Electric Plant Purchased or Sold, states:

> A. This account shall be charged with the cost of electric plant acquired as an operating unit or system by purchase, merger, consolidation, liquidation, or otherwise, and shall be credited with the selling price of like property transferred to others pending the distribution to appropriate accounts in accordance with electric plant instruction 5.
>
> B. Within six months from the date of acquisition or sale of property recorded herein, the utility shall file with the Commission the proposed journal entries to clear from this account the amounts recorded herein.

Background

SDG&E purchased certain electric distribution facilities on June 1, 2018 from Southern California Edison Company. These facilities were previously used to support the San Onofre nuclear generation station. SDG&E agreed to purchase the facilities for $271,577.

Audit staff found that SDG&E properly used Account 102, Electric Plant Purchased or Sold, to record the cost of electric plant acquired. The instructions of Account 102 required SDG&E to file proposed journal entries with the Commission within six months from the date of acquisition of property recorded to the account.

Through inquiries with SDG&E, audit staff concluded that SDG&E did not file its proposed journal entries with the Commission as required by the Commission's regulations. SDG&E acknowledged that its failure to file was the result of administrative oversight. This error hindered the Commission's and other interested parties' ability to timely review and monitor the transaction.

As a result of the audit, SDG&E filed its proposed journal entries with the Commission on June 14, 2019, one year after the effective date of the purchase. The proposed journal entries were approved by the Chief Accountant on July 23, 2019.[36]

Recommendations

We recommend that SDG&E:

54. Revise procedures and controls to timely file proposed journal entries for purchases or sales of operating units to be consistent with the Commission's requirements.

55. Train relevant staff on the revised methods and provide periodic training, as needed.

[36] *San Diego Gas & Elec. Co.*, Docket No. AC19-160-000 (Jul. 23, 2019) (delegated order).

V. SDG&E's Response to Draft Audit Report

SDGE
A Sempra Energy utility®

Dan Skopec
Vice President, Regulatory Affairs

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July 16, 2020

Steven D. Hunt
Director and Chief Accountant
Division of Audits and Accounting
Office of Enforcement
Federal Energy Regulatory Commission
888 First Street NE, Room 5K-13
Washington, D.C. 20426

Re: San Diego Gas & Electric Company
Docket No. FA19-3-000

Dear Mr. Hunt:

San Diego Gas & Electric Company (SDG&E) has reviewed the draft audit report dated June 30, 2020 (Draft Report) issued by the Federal Energy Regulatory Commission's (FERC or Commission) Division of Audits and Accounting (DAA). DAA's audit evaluated SDG&E's compliance with: (1) its formula rate transmission owner tariff; (2) accounting requirements of the Uniform System of Accounts Prescribed for Public Utilities and Licensees under 18 C.F.R. Part 101; (3) reporting requirements of the FERC Form No. 1, Annual Report of Major Electric Utilities, Licensees and Others, under 18 C.F.R. § 141.1; and (4) requirements in Preservation of Records of Public Utilities and Licensees under 18 C.F.R. Part 125. The audit covered the period January 1, 2016 through February 4, 2020.

SDG&E's response to the Draft Report is attached. As set forth in SDG&E's response, SDG&E does not contest the findings identified in the Draft Report.

SDG&E will submit a plan for implementing the audit's recommendations within 30 days after the final audit report is issued, and will submit quarterly reports describing progress in completing each corrective action within 30 days after the end of each calendar quarter, beginning with the first quarter after the audit report is issued, and continuing until all recommended corrective actions are completed. SDG&E will also submit copies of written policies and procedures developed in response to recommendations in the first quarterly filing after the development of a written policy or procedures.

Mr. Steven D. Hunt
July 16, 2020
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SDG&E takes compliance with the Commission's accounting requirement seriously, and in that regard, SDG&E wishes to thank DAA and audit staff for their professionalism in conducting this audit. SDG&E further appreciates audit staff's time and attention in providing recommendations as to how SDG&E can strengthen its practices going forward.

SDG&E looks forward to working with DAA and audit staff to resolve the items in this audit.

Sincerely,

/s/ Dan Skopec
Dan Skopec
Vice President – Regulatory Affairs

San Diego Gas & Electric Company
Response to Draft Audit Report dated June 30, 2020
July 16, 2020

SUMMARY OF RESPONSE

San Diego Gas & Electric Company (SDG&E) does not contest the findings identified in the Draft Audit Report dated June 30, 2020 (Draft Audit Report) issued by the Federal Energy Regulatory Commission's (FERC or Commission) Division of Audits and Accounting (DAA).[1] With respect to SDG&E's planned implementation of certain recommendations contained within the Draft Audit Report, SDG&E's response includes clarifications that reflect discussions with audit staff.

RESPONSES TO FINDINGS AND RECOMMENDATIONS

Finding 1: Allowance for Funds Used During Construction
SDG&E's methods for calculating its Allowance for Funds Used During Construction (AFUDC) base and rate were deficient. Specifically, SDG&E improperly included unpaid contract retention accruals in its construction work in process (CWIP) balance, and unamortized debt discounts and losses on reacquired debt in the determination of its long-term debt balance. As a result, SDG&E miscalculated its AFUDC base and rate. This led it to over-accrue AFUDC, which resulted in an overstatement of CWIP and plant in service balances. This resulted in SDG&E overbilling wholesale transmission customers because the excessive AFUDC costs were included in utility plant that impacted wholesale formula rate determinations.

SDG&E Response: SDG&E does not contest this finding.

Recommendation 1: *Revise policies and procedures for calculating the AFUDC base and rates to be consistent with Electric Plant Instruction (EPI) No. 3(A)(17) and other applicable Commission requirements. Revisions should include processes to prevent inclusion of unpaid contract retention accruals in AFUDC base calculations and processes to prevent improper inclusion of balances in Accounts 189 and 226 in the AFUDC rate calculations.*

SDG&E Response: SDG&E has developed and implemented a custom SAP program that is being utilized to offset retained accruals on capital projects, in order to ensure amounts are properly excluded from CWIP. SDG&E has revised its policies and procedures for calculating the AFUDC base and rates to be consistent with EPI No. 3(A)(17) and other applicable Commission requirements, including processes to prevent inclusion of unpaid contract retention accruals in AFUDC base calculations and processes to prevent improper inclusion of balances in Accounts 189 and 226 in the AFUDC rate calculations.

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[1] SDG&E does not waive it right to advocate any position before the Commission in the future that might be contrary to any principle or legal matter contained in this audit.

Recommendation 2: *Revise policies, procedures, and accounting systems, as necessary, to calculate the AFUDC base and rates consistent with the requirements of EPI No. 3.*

SDG&E Response: SDG&E has revised its policies, procedures, and accounting systems, as necessary, to calculate the AFUDC base and rates consistent with the requirements of EPI No. 3.

Recommendation 3: *Train relevant staff on the revised AFUDC base and rate calculation methods and provide periodic training, as needed.*

SDG&E Response: SDG&E will provide training to relevant staff on its revised methods.

Recommendation 4: *Recalculate AFUDC accrued in accordance with EPI No. 3(A)(17) for the contract retention accruals error from 2014 through the date of the final audit report and the other items from 2016 through the date of the final audit report. Also, submit a refund analysis, within 60 days of receiving the final audit report, to DAA for review that explains and details the following: (1) calculation of refunds that considers the amount of AFUDC improperly capitalized to plant in service, plus interest; (2) determinative components of the refund; (3) refund method; (4) wholesale transmission customers to receive refunds; and (5) period(s) refunds will be made.*

SDG&E Response: SDG&E will recalculate AFUDC accrued in accordance with EPI No. 3(A)(17) for the contract retention accruals error for the periods reflected in Recommendation No. 4, and, within 60 days of receiving the final audit report, will submit a refund analysis to DAA for review as required by this recommendation.

Recommendation 5: *Submit proposed accounting entries and supporting documentation to DAA that reflect the correction of the CWIP, electric plant in service, accumulated depreciation, ADIT, and other accounts impacted by over-accrual of AFUDC within 60 days of receiving the final audit report.*

SDG&E Response: Within 60 days of receiving the final audit report, SDG&E will submit proposed accounting entries and supporting documentation to DAA reflecting the correction of the CWIP, electric plant in service, accumulated depreciation, ADIT, and other accounts impacted by over-accrual of AFUDC.

Recommendation 6: *Revise CWIP, electric plant in service, accumulated depreciation, ADIT, and other accounts impacted by over-accrual of AFUDC after receiving DAA's assessment of the proposed accounting entries per Recommendation No. 5 and restate and footnote the FERC Form No. 1 for current and comparative years as necessary.*

<u>SDG&E Response</u>: SDG&E will revise CWIP, electric plant in service, accumulated depreciation, ADIT, and other accounts impacted by AFUDC over-accrual after receiving DAA's assessment of the proposed accounting entries provided pursuant to Recommendation 5, and will restate and footnote its FERC Form No. 1 for current and comparative years as necessary.

Recommendation 7: *File a refund report with the Commission after receiving DAA's assessment of the refund analysis.*

<u>SDG&E Response</u>: SDG&E will file a refund report after receiving DAA's assessment.

Finding 2: Accounting for Commitment Fees
SDG&E improperly accounted for upfront fees it paid that were associated with revolving line of credit agreements in Account 182.3, Other Regulatory Assets, and improperly accounted for quarterly commitment fees associated with the agreements in Account 923, Outside Services Employed. In addition, SDG&E improperly included the amortization of upfront line of credit fees *in its calculation of long-term debt interest expense used to compute its AFUDC rate.*

SDG&E Response: SDG&E does not contest this finding.

Recommendation 8: *Revise existing accounting policies, procedures, and practices relating to accounting for credit agreement expenses, such as upfront, commitment, quarterly, revolving line of credit, and letter of credit fees, to be consistent with Commission accounting requirements.*

SDG&E Response: SDG&E will revise its existing accounting policies, procedures, and practices relating to accounting for credit agreement expenses to be consistent with Commission accounting requirements.

Recommendation 9: *Revise policies and procedures for calculating the AFUDC rate to be consistent with EPI No. 3(A)(17) and other applicable Commission requirements. Revisions should include processes to exclude commitment fees from AFUDC rate calculations unless the costs are associated with debt issuances and are approved by the Commission for inclusion.*

SDG&E Response: As noted in response to Recommendation 1, SDG&E will revise its policies and procedures for calculating the AFUDC rate to be consistent with EPI No. 3(A)(17) and other applicable Commission requirements, and consistent with this recommendation.

Recommendation 10: *Train relevant staff on the revised accounting policies and provide periodic training, as needed.*

SDG&E Response: SDG&E will provide training to relevant staff on its revised accounting policies.

Recommendation 11: *Within 60 days of receiving the final audit report, submit proposed accounting entries and supporting documentation to DAA that reflect the transfer of credit agreement-related balances improperly recorded in Account 182.3 to Account 186.*

SDG&E Response: SDG&E will submit proposed accounting entries and supporting documentation to DAA that reflect the transfer of credit agreement-related balances improperly recorded in Account 182.3 to Account 186 within 60 days of receiving the final audit report.

Recommendation 12: *Revise miscellaneous deferred debit balances to appropriately account for and report credit agreement-related balances after receiving DAA's assessment of the proposed accounting entries, and restate and footnote the balances reported in the FERC Form No. 1 in the current and comparative years of the report, as necessary to reflect and disclose the revisions.*

SDG&E Response: After receiving DAA's assessment of the proposed accounting entries, SDG&E will revise it miscellaneous deferred debit balances to appropriately account for and report credit agreement-related balances and will restate and footnote the balances reported in the FERC Form No. 1 in the current and comparative years of the report as necessary.

Finding 3: Allocation of Overhead Costs to CWIP
SDG&E capitalized overhead costs to Account 107, Construction Work in Progress – Electric, using an allocation method that was not based on the actual time that employees were engaged in construction activities or on a representative time study. This led to SDG&E charging costs to Account 107 that did not have a definite relationship to construction. As a result, SDG&E may have overstated construction costs recorded in Account 107 and electric plant in service, as well as accumulated depreciation and accumulated deferred income tax (ADIT) balances, and may have understated operating expenses. Moreover, this accounting may have led SDG&E to overstate its wholesale transmission revenue requirement and overcharge wholesale transmission customers.

SDG&E Response: SDG&E does not contest this finding.

Recommendation 13: *Retain an independent third-party entity to conduct a representative labor time study for allocation of overhead costs incurred in 2019 to CWIP, and to assist with the development of procedures SDG&E shall use to periodically determine the allocation of overhead labor and labor-related costs capitalized into the cost of construction after 2019. Report 1. the progress of the study within 120 days and 2. provide the time study results to DAA for review and consideration within 180 days of the date of the final audit report and the developed allocation procedures when complete. At a minimum, the developed allocation procedures should provide a method for overhead cost allocation and capitalization to construction based on actual timecard distributions or where this procedure is impractical, based on periodic time studies.*

SDG&E Response: As discussed with audit staff, SDG&E will retain an independent third-party entity to validate SDG&E's allocation of overhead costs incurred in 2019 to CWIP, which in turn will assist with the development of procedures consistent with this recommendation that SDG&E will use to periodically determine the allocation of overhead labor and labor-related costs capitalized into the cost of construction after 2019. SDG&E will (i) report the progress of this project within 120 days of the date of the final audit report, (ii) provide the results to DAA for review and consideration within 180 days of the date of the final audit report, and (iii) provide the developed allocation procedures when complete.

Recommendation 14: *Revise written policies, practices, and procedures governing the methods used to account for, track, report, and review overhead labor, labor-related costs, and all other costs allocated to construction projects to be consistent with Commission accounting requirements. In addition, adopt procedures to retain formal documentation supporting the amount of overhead costs allocated to electric plant accounts.*

SDG&E Response: SDG&E will revise its written policies, practices, and procedures consistent with this recommendation.

Recommendation 15: *Train relevant staff on the revised overhead allocation procedures and documentation, and provide periodic training in this area, as needed.*

SDG&E Response: SDG&E will provide training to relevant staff on its revised procedures and documentation.

Recommendation 16: *Within 30 days of the completion of Recommendation No. 13, submit an estimate to DAA, including the calculations and determinative components, of overhead costs that would have been allocated to CWIP during the audit period consistent with the requirements of EPI No. 4 and GI No. 9. The estimate should be based on a recalculation of 2016 and subsequent years overhead cost allocated to construction with labor and labor-related costs removed from the cost of plant that were not associated with construction activities based on the methodology developed in response to Recommendation No. 13.*

SDG&E Response: SDG&E will provide to DAA the estimate required pursuant to this recommendation within 30 days of the completion of Recommendation No. 13.

Recommendation 17: *With the response to Recommendation No. 16, submit proposed accounting entries to DAA that remove the overhead costs that were allocated to electric plant in CWIP and in service during the audit period that exceed the amount of costs that would have been allocated to the accounts based on the methodology developed in response to Recommendation No. 13. Also, provide proposed accounting entries to remove associated amounts from other accounts and balances affected by the inappropriately allocated cost such as the accumulated depreciation and ADIT accounts, and AFUDC balances capitalized into CWIP and plant in service. If the adjusting entries result in a significant impact to income for the current year, SDG&E may account for the transaction as a correction of a prior period error in Account 439, Adjustments to Retained Earnings. Such an entry should be submitted with the proposed accounting entries.*

SDG&E Response: SDG&E will provide to DAA the proposed accounting entries required pursuant to this recommendation within 30 days of the completion of Recommendation No. 13.

Recommendation 18: *Revise account balances for utility plant, accumulated depreciation, ADIT, and other account balances impacted by the inappropriate allocation of unsupported overhead cost after receiving DAA's assessment of the proposed accounting entries per Recommendation No. 17, and restate and footnote the balances reported in the FERC Form No. 1 in the current and comparative years of the report, as necessary to reflect and disclose the revisions.*

SDG&E Response: After receiving DAA's assessment of the proposed accounting entries, SDG&E will revise it account balances impacted by any inappropriate allocation of unsupported overhead cost and will restate and footnote the balances reported in the FERC Form No. 1 in the current and comparative years of the report as necessary.

Recommendation 19: *Submit a refund analysis to DAA that explains and details the following: (1) calculation of refunds that result from the overstatement of transmission plant due to the improper capitalized of labor costs, as determined by the labor time study, plus interest; (2) determinative components of the refund; (3) refund method; (4) wholesale transmission customers to receive refunds; and (5) period(s) refunds will be made.*

SDG&E Response: SDG&E agrees to submit a refund analysis to DAA that includes the items required by this recommendation.

Recommendation 20: *File a refund report with the Commission after receiving DAA's assessment of the refund analysis.*

SDG&E Response: SDG&E will file a refund report after receiving DAA's assessment of its refund analysis.

Finding 4: Accounting for EV Charging Stations
SDG&E improperly accounted for electric vehicle (EV) charging station distribution assets in Account 398, Miscellaneous Equipment. SDG&E's accounting resulted in the cost of the assets and associated expenses being incorrectly included in accounts that are wholesale transmission formula rate inputs. This led the company to overstate its wholesale transmission revenue requirement and overcharge wholesale transmission customers.

SDG&E Response: SDG&E does not contest this finding.

Recommendation 21: *Revise policies, procedures, and practices to track, report, review and account for EV charging stations to be consistent with Commission accounting requirements.*

SDG&E Response: SDG&E will revise its policies, procedures, and practices to track, report, review and account for EV charging stations to be consistent with Commission accounting requirements.

Recommendation 22: *Train relevant staff on the revised accounting methods and provide periodic training, as needed.*

SDG&E Response: SDG&E will provide training to relevant staff on its revised accounting methods.

Recommendation 23: *Within 30 days of implementing Recommendation No. 21, submit proposed accounting entries and supporting documentation to DAA that reflect the removal of the EV charging station costs improperly recorded in Account 398.*

SDG&E Response: SDG&E will submit proposed accounting entries and supporting documentation to DAA to reflect the removal of the EV charging station costs recorded in Account 398 within 30 days of implementing Recommendation No. 21.

Recommendation 24: *Revise the Account 398 balance to appropriately account for and report EV charging stations after receiving DAA's assessment of the proposed accounting entries, and will restate and footnote the balances reported in the FERC Form No. 1 in the current and comparative years of the report, as necessary to reflect and disclose the revisions.*

SDG&E Response: SDG&E will revise the Account 398 balance to appropriately account for and report EV charging stations after receiving DAA's assessment of its proposed accounting entries, and will restate and footnote the balances reported in the FERC Form No. 1 in the current and comparative years of the report as necessary.

Recommendation 25: *Submit a refund analysis, within 60 days of receiving the final audit report, to DAA for review that explains and details the following: (1) calculation of refunds that includes the amount of inappropriate recoveries during the audit period that resulted from the improper accounting for EV charging stations, plus interest; (2) determinative components of the refund; (3) refund method; (4) wholesale transmission customers to receive refunds; and (5) period(s) refunds will be made.*

SDG&E Response: Within 60 days of receiving the final audit report, SDG&E will submit a refund analysis to DAA for review as required by this recommendation.

Recommendation 26: *File a refund report with the Commission after receiving DAA's assessment of the refund analysis.*

SDG&E Response: SDG&E will file a refund report after receiving DAA's assessment of its refund analysis.

Finding 5: Regulatory Commission Expenses
SDG&E improperly accounted for regulatory commission expenses. SDG&E's accounting resulted in regulatory commission expenses being incorrectly included in accounts that are wholesale transmission formula rate inputs. This led the company to overstate its wholesale transmission revenue requirement and overcharge wholesale transmission customers.

SDG&E Response: SDG&E does not contest this finding.

Recommendation 27: *Revise policies, procedures, and practices to track, report, review, and account for regulatory commission expenses to be consistent with Commission accounting requirements.*

SDG&E Response: SDG&E will revise its policies, procedures, and practices for regulatory commission expenses to be consistent with Commission accounting requirements.

Recommendation 28: *Train relevant staff on the revised methods to account for regulatory commission expenses and provide periodic training, as needed.*

SDG&E Response: SDG&E will provide training to relevant staff on its revised accounting methods.

Recommendation 29: *Perform an analysis of transmission operation expense accounts to identify A&G expenses, such as regulatory commission expenses, improperly charged to the accounts during the audit period. Within 60 days of the date of the final audit report, provide the results of the analysis to audit staff.*

SDG&E Response: SDG&E will perform an analysis of transmission operation expense accounts to identify A&G expenses, such as regulatory commission expenses, improperly charged to the accounts during the audit period, and will provide the results to audit staff within 60 days of the date of the final audit report.

Recommendation 30: *Submit a refund analysis, within 60 days of receiving the final audit report, to DAA for review that explains and details the following: (1) calculation of refunds resulting from improper accounting for A&G expenses recorded in O&M accounts as identified pursuant to the analysis performed in response to Recommendation No. 29, plus interest; (2) determinative components of the refund; (3) refund method; (4) wholesale transmission customers to receive refunds; and (5) period(s) refunds will be made*

SDG&E Response: Within 60 days of receiving the final audit report, SDG&E will submit a refund analysis to DAA for review as required by this recommendation.

Recommendation 31: *File a refund report with the Commission after receiving DAA's assessment of the refund analysis.*

SDG&E Response: SDG&E will file a refund report after receiving DAA's assessment.

Finding 6: Accounting for Distribution-Related Expenses
SDG&E improperly accounted for distribution-related operation costs in a transmission operation expense account. SDG&E's accounting resulted in expenses being incorrectly included in accounts that were wholesale transmission formula rate inputs. This led the company to overstate its wholesale transmission revenue requirement and overcharge wholesale transmission customers.

<u>SDG&E Response</u>: SDG&E does not contest this finding.

Recommendation 32: *Strengthen policies and procedures to account for distribution-related expenses consistent with Commission accounting requirements.*

<u>SDG&E Response</u>: SDG&E will revise its policies, procedures, and practices for distribution-related expenses consistent with Commission accounting requirements.

Recommendation 33: *Train relevant staff on the methods to account for distribution-related expenses and provide periodic training, as needed.*

<u>SDG&E Response</u>: SDG&E will provide training to relevant staff on its revised accounting methods.

Recommendation 34: *Perform an analysis of costs incurred at substations during the audit period to determine whether distribution-related expenses were charged to the correct account(s) and that the appropriate allocators were used to charge costs to transmission and distribution expense accounts when applicable. Provide the results of the analysis to audit staff within 60 days of the date of the final audit report.*

<u>SDG&E Response</u>: SDG&E will perform an analysis of costs incurred at substations during the audit period to determine whether distribution-related expenses were charged to the correct account(s) and that the appropriate allocators were used to charge costs to transmission and distribution expense accounts when applicable. As discussed with audit staff, SDG&E will analyze invoiced amounts in Account 562 – Station expenses (Major only) and Account 570 – Maintenance of station equipment (Major only). SDG&E will provide the results of the analysis to audit staff within 60 days of the date of the final audit report.

Recommendation 35: *Submit a refund analysis, within 60 days of receiving the final audit report, to DAA for review that explains and details the following: (1) calculation of refunds resulting from improper accounting for distribution-related O&M expenses in transmission expense accounts, plus interest; (2) determinative components of the refund; (3) refund method; (4) wholesale transmission customers to receive refunds; and (5) period(s) refunds will be made.*

<u>SDG&E Response</u>: Within 60 days of receiving the final audit report, SDG&E will submit a refund analysis to DAA for review as required by this recommendation.

Recommendation 36: *File a refund report with the Commission after receiving DAA's assessment of the refund analysis.*

<u>SDG&E Response</u>: SDG&E will file a refund report after receiving DAA's assessment.

Finding 7: Accounting for Donations and Lobbying Expenses
SDG&E misclassified donation payments and costs incurred to support activities to influence public opinion with regard to legislation. SDG&E's accounting resulted in such expenses being incorrectly included in accounts that were wholesale transmission formula rate inputs. This led the company to overstate its wholesale transmission revenue requirement and overcharge wholesale transmission customers.

SDG&E Response: SDG&E does not contest this finding.

Recommendation 37: *Develop and implement procedures and policies to track, report, review, and account for donations and for expenses of activities associated with influencing legislation and with other political activity consistent with the Commission's accounting requirements.*

SDG&E Response: SDG&E will develop and implement procedures and policies for donations and for expenses of activities associated with influencing legislation and with other political activity consistent with the Commission's accounting requirements.

Recommendation 38: *Train relevant staff on the procedures and policies and provide periodic training, as needed.*

SDG&E Response: SDG&E will provide training to relevant staff on its procedures and policies.

Recommendation 39: *Perform an analysis of A&G expense accounts to identify nonoperating expenses, such as donations and lobbying costs, improperly charged to the accounts during the audit period. Provide the results of the analysis to audit staff within 60 days of the date of the final audit report.*

SDG&E Response: SDG&E will perform an analysis of A&G expense accounts to identify nonoperating expenses improperly charged to the accounts during the audit period, and will provide the results of the analysis to audit staff within 60 days of the date of the final audit report.

Recommendation 40: *Submit a refund analysis to DAA, within 60 days of receiving the final audit report, that explains and details the following: (1) calculation of refunds that include the amount of inappropriate recoveries during the audit period that resulted from the improper accounting for below-the-line expenses recorded in A&G expense accounts as identified pursuant to the analysis performed in response to Recommendation No. 39, plus interest; (2) determinative components of the refund; (3) refund method; (4) wholesale transmission customers to receive refunds; and (5) period(s) refunds will be made.*

<u>SDG&E Response</u>: Within 60 days of receiving the final audit report, SDG&E will submit a refund analysis to DAA for review as required by this recommendation.

Recommendation 41: *File a refund report with the Commission after receiving DAA's assessment of the refund analysis.*

<u>SDG&E Response</u>: SDG&E will file a refund report after receiving DAA's assessment of its refund analysis.

Finding 8: Accounting for Outside Services Employed
SDG&E improperly accounted for external consultant fees incurred to support general services not applicable to a particular operating function. SDG&E's accounting resulted in expenses being incorrectly included in an account that is a wholesale transmission formula rate input. This led the company to overstate its wholesale transmission revenue requirement and overcharge wholesale transmission customers.

SDG&E Response: SDG&E does not contest this finding.

Recommendation 42: *Revise policies, procedures, and practices to maintain and retain documentation to be consistent with Commission record retention requirements.*

SDG&E Response: SDG&E will revise its policies, procedures, and practices to maintain and retain documentation to be consistent with Commission record retention requirements.

Recommendation 43: *Revise policies, procedures, and practices to track, report, review, and account for outside service expenses to be consistent with Commission accounting requirements.*

SDG&E Response: SDG&E will revise its policies, procedures, and practices for outside service expenses to be consistent with Commission accounting requirements.

Recommendation 44: *Train relevant staff on the revised methods and provide periodic training, as needed.*

SDG&E Response: SDG&E will provide training to relevant staff on its revised methods.

Recommendation 45: *Perform an analysis of transmission operation expense accounts to identify expenses, such as management consultant fees, improperly charged, in whole or in part, to transmission operations during the audit period. Provide the results of the analysis to audit staff within 60 days of the date of the final audit report.*

SDG&E Response: SDG&E will perform an analysis of transmission operation expense accounts to identify expenses, such as management consultant fees, improperly charged, in whole or in part, to transmission operations during the audit period, and will provide the results of the analysis to audit staff within 60 days of the date of the final audit report.

Recommendation 46: *Submit a refund analysis, within 60 days of receiving the final audit report, to DAA for review that explains and details the following: (1) calculation of refunds resulting from improper accounting for A&G expenses recorded in O&M accounts as identified* *pursuant to the analysis performed in response to Recommendation No. 45, plus interest; (2) determinative components of the refund; (3) refund method; (4) wholesale transmission customers to receive refunds; and (5) period(s) refunds will be made.*

SDG&E Response: Within 60 days of receiving the final audit report, SDG&E will submit a refund analysis to DAA for review as required by this recommendation.

Recommendation 47: *File a refund report with the Commission after receiving DAA's assessment of the refund analysis.*

SDG&E Response: SDG&E will file a refund report after receiving DAA's assessment of its refund analysis.

Finding 9: Filing of Tariff Records
SDG&E did not properly file all Tariff Records, as required, in the Commission's electronic tariff (eTariff) database. Specifically, SDG&E's eTariff filing omitted Attachment 2, its Formula Rate Spreadsheet, from its tariff filed in the eTariff database. This impacted interested parties' ability to access and review the attachment through the Commission's eTariff Public Viewer.

SDG&E Response: SDG&E does not contest this finding.

Recommendation 48: *Develop procedures and controls to help ensure all tariff records are properly filed and available for disclosure in the Commission's eTariff database.*

SDG&E Response: To more closely align with organizational responsibilities, SDG&E has implemented changes to staff responsible for ensuring that tariff records are appropriately submitted and available in the Commission's eTariff database, and will further enhance its procedures and controls consistent with this recommendation.

Recommendation 49: *Provide training to relevant staff on the procedures and controls to electronically file tariff records in the eTariff database and provide periodic training, as needed.*

SDG&E Response: As part of the realignment of staff responsible for ensuring that tariff records are correctly submitted and available in the Commission's eTariff database, SDG&E is ensuring that responsible individuals have the appropriate training, and will continue to provide for training as needed.

Recommendation 50: *Notify DAA upon filing the omitted Tariff Records for the currently effective version of the Transmission Owner Transmission Tariff in the eTariff database.*

SDG&E Response: As reflected in the Draft Report, SDG&E has satisfied the requirement of this recommendation.

Finding 10: Premature Destruction or Loss of Records
SDG&E could not verify the existence of an asset, or provide documentation associated with the asset's cost, that was recorded in Account 154, Plant Materials and Operating Supplies. SDG&E's inability to produce the documentation represents an instance of premature destruction or loss of records.

SDG&E Response: SDG&E does not contest this finding.

Recommendation 51*: Strengthen procedures to maintain and retain documentation consistent with Commission record retention requirements.*

SDG&E Response: SDG&E will strengthen its procedures for retaining documentation consistent with Commission record retention requirements.

Recommendation 52*: Revise policies, procedures, and practices to track, report, review, and account for inventory to be consistent with Commission accounting requirements. Among other things, the revisions should include processes and procedures to audit inventories of plant materials and supplies on a cyclical basis and make necessary adjustments to bring Account 154 into agreement with the actual inventories.*

SDG&E Response: SDG&E will revise its policies, procedures, and practices for inventory to be consistent with Commission accounting requirements.

Recommendation 53*: Train relevant staff on the revised methods and provide periodic training, as needed.*

SDG&E Response: SDG&E will provide training to relevant staff on its revised methods.

Finding 11: Filing Associated with Electric Plant Purchased
SDG&E did not file its proposed journal entries for the purchase of electric plant within six months, as required. This hindered the Commission's and other interested parties' ability to timely review and monitor the transaction.

SDG&E Response: SDG&E does not contest this finding.

Recommendation 54: *Revise procedures and controls to timely file proposed journal entries for purchases or sales of operating units to be consistent with the Commission's requirements.*

SDG&E Response: SDG&E will add the procedures and controls to its Other General Plan policy to ensure timely filing of proposed journal entries for purchases and sales of operating units to be consistent with Commission requirements.

Recommendation 55: *Train relevant staff on the revised methods and provide periodic training, as needed.*

SDG&E Response: SDG&E will provide training to relevant staff on its revised methods.

ABB Standard Warranty

(a) Equipment and Services Warranty. ABB warrants that Equipment (excluding Software, which is warranted as specified in paragraph (d) below) shall be delivered free of defects in material and workmanship and that Services shall be free of defects in workmanship. The Warranty Remedy Period for Equipment (excluding Software, Spare Parts and Refurbished or Repaired Parts) shall end twenty-four (24) months after installation or thirty (30) months after date of shipment, whichever first occurs. The Warranty Remedy Period for new spare parts shall end twelve (12) months after date of shipment. The Warranty Remedy Period for refurbished or repaired parts shall end ninety (90) days after date of shipment. The Warranty Remedy Period for Services shall end ninety (90) days after the date of completion of Services.

(b) Equipment and Services Remedy. If a nonconformity to the foregoing warranty is discovered in the Equipment or Services during the applicable Warranty Remedy Period, as specified above, under normal and proper use and provided the Equipment has been properly stored, installed, operated and maintained and written notice of such nonconformity is provided to ABB promptly after such discovery and within the applicable Warranty Remedy Period, ABB shall, at its option, either (i) repair or replace the nonconforming portion of the Equipment or re-perform the nonconforming Services or (ii) refund the portion of the price applicable to the nonconforming portion of Equipment or Services. If any portion of the Equipment or Services so repaired, replaced or re-performed fails to conform to the foregoing warranty, and written notice of such nonconformity is provided to ABB promptly after discovery and within the original Warranty Remedy Period applicable to such Equipment or Services or 30 days from completion of such repair, replacement or re-performance, whichever is later, ABB will repair or replace such nonconforming Equipment or re-perform the nonconforming Services. The original Warranty Remedy Period shall not otherwise be extended.

(c) Exceptions. ABB shall not be responsible for providing working access to the nonconforming Equipment, including disassembly and re-assembly of non-ABB supplied equipment, or for providing transportation to or from any repair facility, all of which shall be at Purchaser's risk and expense. ABB shall have no obligation hereunder with respect to any Equipment which (i) has been improperly repaired or altered; (ii) has been subjected to misuse, negligence or accident; (iii) has been used in a manner contrary to ABB's instructions; (iv) is comprised of materials provided by or a design specified by Purchaser; or (v) has failed as a result of ordinary wear and tear. Equipment supplied by ABB but manufactured by others is warranted only to the extent of the manufacturer's warranty, and only the remedies, if any, provided by the manufacturer will be allowed.

(d) Software Warranty and Remedies. ABB warrants that, except as specified below, the Software will, when properly installed, execute in accordance with ABB's published specification. If a nonconformity to the foregoing warranty is discovered during the period ending one (1) year after the date of shipment and written notice of such nonconformity is provided to ABB promptly after such discovery and within that period, including a description of the nonconformity and complete information about the manner of its discovery, ABB shall correct the nonconformity by, at its option, either (i) modifying or making available to the Purchaser instructions for modifying the Software; or (ii) making available at ABB's facility necessary corrected or replacement programs. ABB shall have no obligation with respect to any nonconformities resulting from (i) unauthorized modification of the Software or (ii) Purchaser-supplied software or interfacing. ABB does not warrant that the functions contained in the software will operate in combinations which may be selected for use by the Purchaser, or that the software products are free from errors in the nature of what is commonly categorized by the computer industry as "bugs".

(e) THE FOREGOING WARRANTIES ARE EXCLUSIVE AND IN LIEU OF ALL OTHER WARRANTIES OF QUALITY AND PERFORMANCE, WHETHERWRITTEN, ORAL OR IMPLIED, AND ALL OTHER WARRANTIES INCLUDING ANY IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USAGE OF TRADE ARE HEREBY DISCLAIMED. THE REMEDIES STATED HEREIN CONSTITUTE PURCHASER'S EXCLUSIVE REMEDIES AND ABB'S ENTIRE LIABILITY FOR ANY BREACH OF WARRANTY.

Warranty Statement

1. **Definitions:**

   a. **Customer** means the party seeking warranty support for the Products, being either the End Owner or one of Tritium's Authorised Resellers.

   b. **End Owner** means the end owner of the Products, who either purchased them directly from Tritium, or purchased them from one of Tritium's Authorised Resellers.

   c. **Products** means electric vehicle chargers, power units and control units manufactured and supplied by Tritium.

   d. **Site Installation Checklist** means the approved installation and/or commissioning checklist for the relevant Products supplied by Tritium to the Customer or their agent.

   e. **Tritium** means Tritium Pty Ltd and its related bodies corporate (as defined by the *Corporations Act 2001* (Cth)).

   f. **Tritium Authorised Agent** means an agent of Tritium trained by Tritium and authorised to conduct site commissioning, replacement or repairs of Tritium Products. Tritium excludes any liability for acts or omissions of entities not authorised by Tritium, including any entity that may incorrectly represent itself as a Tritium Authorised Agent.

   g. **Tritium Authorised Reseller** means a customer to whom Tritium has granted an express written right to resell or distribute the Products to End Owners.

   h. **Tritium Service Hub** means the global locations where Tritium has trained service staff or Tritium Authorised Agents – this list is available on Customer request.

   i. **Warranty Period** means two years from the date described in clause 4, unless a different warranty period has been offered by Tritium in writing.

2. **Tritium Standard Warranty:**

   Tritium guarantees its Products will be free from manufacturing defects during the Warranty Period.

   This warranty is exclusive and supersedes any other quality and performance warranties, whether written, verbal or implicit. Any other warranties, including any implied warranties of merchantability or fitness for purpose, are hereby specifically excluded by Tritium to the extent legally possible.

3. **Claim Coverage:**

   Where the Products are covered by Tritium's Standard Warranty, or a *Parts & Labour* Warranty Period Extension:-

   a. If notified of defects during the Warranty Period, Tritium's warranty covers the materials and labour required for their repair with new or reconditioned Products or components, (defective Products or components replaced by Tritium become the property of Tritium upon their replacement), at a repair centre or on site, at the sole discretion of Tritium.

   b. If a defective Product cannot reasonably be repaired or replaced, we will refund or credit monies paid by you for the defective Product/s, at our sole discretion.

   c. Any costs associated with travel to the installation site where it is more than two (2) hours' drive from a Tritium Service Hub will be borne by the Customer.

   Where the Products are covered by a *Parts Only* Warranty:-

   d. if notified of defects during the Warranty Period, Tritium's warranty covers the provision of new or reconditioned Products or components to replace defective Products or components; noting that:-

i. defective Products or components become the property of Tritium upon provision of replacement Products or components under the warranty;

ii. the Customer shall be responsible for the safekeeping of defective Products or components until Tritium advises whether they are to be returned to Tritium - and the Customer shall store them in an appropriate low humidity environment suitable for the storage of electronic parts.

e. Any costs associated with the:-

i. delivery of the replacement Products or components to the Customer; or

ii. return of the defective Products or components to Tritium,

will be borne by Tritium.

4. Tritium Warranty Duration:

a. The Warranty Period commences on the earlier of:

(i) delivery to the End Owner or Tritium Authorised Reseller; or

(ii) if a Tritium Authorised Reseller stores the Products before site installation, then on site installation or three [3] months following delivery to Tritium's Authorised Reseller, whichever comes sooner; or

(iii) if the Customer has been advised by Tritium that the Products are ready for delivery and does not provide a delivery address at that time, the date four [4] weeks after the date on which Tritium advises the Customer that the Products are ready for delivery.

b. The Warranty Period concludes after:

Standard Warranty Period	Extended Warranty Period*		
• a period of two (2) years;	• a period of three (3) years;	• a period of four (4) years;	• a period of five (5) years
**any Warranty Period extension must be purchased upfront at the time of purchase of the Products.*			

c. Warranty repair or replacement will not extend or renew the applicable Warranty Period.

5. Country:

Tritium's warranty will only be valid in the country the Products were delivered to or commissioned in.

6. Claims under Warranty:

All claims under warranty must be made within the Warranty Period and follow the procedures described below:

a. The Customer shall notify Tritium by submitting a ticket through Tritium's *MyTritium* service portal.

b. The Customer shall provide the following mandatory information:

i. Product model;

ii. Product proof of purchase;

iii. Product serial number;

iv. Description of the problem, and where applicable, the error code;

v. Customer's name, phone number and email of the contact person;

vi. Installation site address.

Failure to follow the claim procedure, or providing inaccurate or incomplete mandatory information, will mean the claim is not valid.

c. Where Tritium has elected to repair a Product on site, the Customer must:

i. Ensure access to the Product and provide any necessary equipment for this purpose (eg. keys); and

ii. Ensure the work environment meets all relevant health, safety and environment legislation and guidelines.

The Tritium technician may refuse to inspect or repair the Product where conditions (i) or (ii) above are not met. Should this occur, Tritium will charge the Customer any reasonable costs, including but not limited to, costs relating to the technician who could not access the site and/or the Product.

d. The Customer shall be responsible for the safekeeping of spare parts and/or any replacement Products in their possession and must adequately insure them against the risk of theft or damage whilst in their possession. Any loss or damage to the spare parts or Products incurred whilst they are in the possession of the Customer will be paid for by them.

e. Where the Customer site requires a site induction or training, either virtually or on location, in order to authorise the Tritium site works, the Customer will cover the costs to Tritium of any induction or training.

7. Warranty Disclaimer:

Tritium's warranty does not apply when:

a. The Warranty Period has expired;

b. The Products at the Customer's site are not commissioned by Tritium or a Tritium Authorised Agent, OR, the Customer has not completed the Site Installation Checklist which has been signed off by an authorised Tritium representative;

c. Tritium (or a Tritium Authorised Agent) is not granted remote access to the defective Product's telemetry data after receiving notice of a defect;

d. Mechanical damage occurs during transportation of the Product when the Product is transported under the responsibility of the Customer or their agent or representative;

e. Where the Products are not installed immediately and have not been stored in an environment with a controlled temperature and humidity levels conforming with the ranges specified Tritium's Product Data Sheets;

f. The Customer has not complied with the Product documentation including without limitation, ongoing maintenance requirements where specified, Embedded Software update schedules, site installation requirements and Product usage instructions;

g. Any modification, adaptation or repair has been made to the Product that has not been authorised by Tritium and conducted by a Tritium Authorised Agent, including the use of ANY unauthorised parts;

h. Improper use of the Product (for example charging a prototype or non-production vehicle) has occurred;

i. The Product is used in combination with unauthorised equipment (including plug adapters);

j. An external event has occurred (for example vandalism, vehicle collision, acid rain, over-voltage);

k. The defect is caused by the negligence of the Customer or their agents or the end user;

l. A force majeure event occurs leading to the defect (for example fire, flood, lightning, cyclone, extreme climatic event, natural disaster);

m. The Products have been installed in a Territory or market channel the Customer was not authorised to install in or the Products have been on-sold to a customer the Customer is not authorised to sell them to;

n. the Customer has failed to make full payment of any amounts due to Tritium.

8. Specific Warranty Exclusions:

Tritium's warranty does not extend to:

a. liquid cooled charge connector cables; and

b. grid connection transformers,

manufactured by third parties. In each of these cases Tritium will use best efforts to pass on the manufacturer's warranty to the Customer and will assist the Customer with any information required to make a claim under that warranty, but accepts no further liability for those third party products.

9. Claims made outside Warranty coverage:

Where the Customer makes a claim under this Warranty for a manufacturing defect and Tritium ascertains that the defect is not covered by this Warranty Statement (for any reason) the Customer is liable for any and all costs incurred by Tritium in responding to that claim; including but not limited to:-

a. travel and logistics costs;

b. parts and component costs; or

c. engineering and support team time costs.

The Customer will be invoiced for these costs, at Tritium's nominated rates, on fourteen (14) day payment terms.