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# Independent Audit of San Diego Gas & Electric (SDG&E) Gas and Electric Franchise

Franchise Compliance Review Committee

May 9, 2024





# Agenda

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# Introductions



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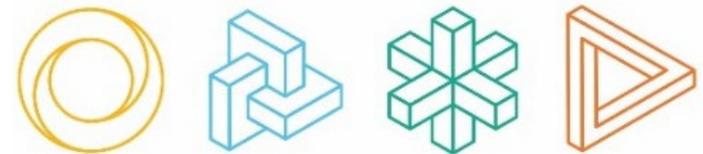


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# Audit Scope

- Independent Audit of San Diego Gas & Electric (SDG&E), Gas and Electric Franchise Agreements, for the two-year period of:
  - Start date of each of the agreements through July 7, 2023<sup>1</sup> (first phase)
  - July 8, 2023 to July 7, 2025 (second phase).
- The audit will cover SDG&E performance in complying the following:
  - Franchise Agreements
  - Administrative MOU
  - Utility Undergrounding MOU
  - Energy Cooperation Agreement associated with the Franchises.



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<sup>1</sup> The start dates were as follows: Gas and Electric Franchises on July 8, 2021; Administrative MOU on November 1, 2021; Undergrounding MOU on April 6, 2022; and Energy Cooperative Agreement on May 25, 2021.

# Audit Procedures

- Conduct interviews of SDG&E and City staff
  - SDG&E staff including finance, operational, and oversight personnel
  - City - Development Services Department
  - City - Engineering and Capital Projects
  - City - Utilities Undergrounding Program
  - City - Information Technology
  - City – Transportation Department
  - City – Management
- Reviewed and documented requirements of each agreement.
- Submitted multiple data requests to SDG&E and the City
  - Data requests were requested for all relevant requirements for each agreement.
- Franchise Fees
  - Obtained and reviewed SDG&E annual franchise fee calculation documents, quarterly franchise fee statements, process documentation (including how accounts coded to City), controls information, A/R aging reports, bad debt expense support and collection procedures, documentation of payments made to City.

# Audit Procedures *(continued)*

- Administrative MOU
  - Selected a sample of thirteen projects to audit project specific requirements (i.e., permitting, inspections or collaboration)
  - Reviewed supporting documentation for non-project specific requirements (i.e., information sharing protocols, communication)
- Utility Undergrounding MOU
  - Selected a sample of three in process projects to audit requirements that are project specific (i.e., permitting, inspections or collaboration)
  - Reviewed supporting documentation for non-project specific requirements (i.e., information sharing protocols, communication)
- Energy Cooperation Agreement
  - Reviewed supporting documentation for each requirement.
  - Tested source of funding for requirements that are shareholder funded.

# Undergrounding Project Scope

Project Name	Start Date	State of Development	Number of Months in Scope of Current July 7, 2023 Audit Period Ending
<b>SDG&amp;E Projects</b>			
Crown Point Blk 2BB Job 2	8/18/2022	Construction	9.5 months
Muirlands La Jolla Blk 1M1	Design: 3/7/2023	Design	4 months
Del Mar Heights Blk 1Y	Design: 4/10/2023	Design	3 months
Allied Gardens (Navajo) Blk 7T	2/18/2023 Design; 1/11/2024 Construction	Design	4.5 months
S. Mission Beach Blk 252	6/1/2023	Design	No progress yet
Allied Gardens Blk 7R1	5/16/2023	Design	No progress yet
N. Clairemont Blk 6K1	5/30/2023	Design	No progress yet
Clairemont Blk 6K2	5/30/2023		No progress yet
N. Encanto Blk 4R1	6/16/2023	Design	No progress yet
<b>Joint Projects (SDG&amp;E and City)</b>			
Palm City (Egger Highlands) Blk 8R	2/22/2023	Design (City performing)	No progress yet
Jamacha Lomita Blk 4Y1	TBD	Not started	No progress yet



# Phase 1 Audit Report Conclusion

The results of our tests indicated that SDG&E met the four (4) Audit Objectives in all significant respects for the period of the start date of each of the agreements to July 7, 2023. We include four (4) findings that were deemed not to be significant to the Audit Objectives but warranted inclusion in the report.

# Draft Report Findings

Finding Number	Finding Description	Classification	Audit Objective Impacted
1	Inconsistent Undergrounding Project Cost Estimates	<i>Noncompliance and Deficiency</i>	3
2	Limited Collaboration with the City on SDG&E Undergrounding Construction Project Master Services Agreement (MSA) Evaluation Criteria	<i>Noncompliance</i>	3
3	SDG&E Did Not Comply with Section 6 a) of the Administrative MOU	<i>Noncompliance</i>	2
4	The City and SDG&E Did Not Comply with Section 2 of the Energy Cooperation Agreement	<i>Noncompliance</i>	4

# Draft Report Findings

Finding Number	Finding Description	Finding Specifics
1	Inconsistent Undergrounding Project Cost Estimates	<p>SDG&amp;E’s undergrounding project cost estimates increased substantially between April 2023 and December 2023 because SDG&amp;E did not include overhead costs in its initial April 2023 project cost estimates.</p> <p>In the examples in the report, these overhead costs were 81% to 83% of SDG&amp;E direct costs.</p>
2	Limited Collaboration with the City on SDG&E Undergrounding Construction Project Master Services Agreement (MSA) Evaluation Criteria	<p>SDG&amp;E did not collaborate with the City to incorporate City input, provided on March 21, 2024, on the evaluation matrix that SDG&amp;E used in scoring respondents to the MSA Request for Proposal (RFP) for Construction.</p> <p>SDG&amp;E made this determination in isolation and did not fully collaborate with the City prior to arriving at this decision.</p>
3	SDG&E Did Not Comply with Section 6 a) of the Administrative MOU	<p>SDG&amp;E did not establish an effective online Work Portal (“Portal”) that describes all Category 1 Projects taking place in the ROW and was unable to share this information timely with the City.</p>
4	The City and SDG&E Did Not Comply with Section 2 of the Energy Cooperation Agreement	<p>The City and SDG&amp;E did not meet the 90-day deadline for developing an implementation plan as required under Section 2 of the Energy Cooperation Agreement (ECA).</p>

# Draft Report Recommendations

Finding Number	Finding Description	Recommendation
1	Inconsistent Undergrounding Project Cost Estimates	SDG&E should develop accurate undergrounding project cost estimates so that the City can accurately forecast cash flow balances and schedule projects. SDG&E should strengthen the quality control/quality assurance processes it uses for developing undergrounding project cost estimates.
2	Limited Collaboration with the City on SDG&E Undergrounding Construction Project Master Services Agreement (MSA) Evaluation Criteria	Going forward, SDG&E should carefully consider and fully discuss with the City its input on the MSA evaluation criteria before arriving at the final evaluation criteria and weightings. SDG&E also should provide the City with the MSA RFP package it intends to send to bidders so that the City has a more complete view of SDG&E's competitive MSA procurement process and can provide more informed feedback related to the evaluation categories and weightings
3	SDG&E Did Not Comply with Section 6 a) of the Administrative MOU	The City and SDG&E identified an alternative approach to the online Work Portal which is currently operating effectively according to City and SDG&E personnel.
4	The City and SDG&E Did Not Comply with Section 2 of the Energy Cooperation Agreement	The City and SDG&E implemented the necessary actions. The City and SDG&E initiated work on the ECA Implementation Plan in November 2021 and it was presented to the City Council's Environment Committee 284 days later, on March 18, 2022.

# Next Steps

Description	Due Date	Notes
CRC Meeting #3 (today)	May 9, 2024	Draft report
CRC Meeting #4	May 28, 2024	Final vote



# Questions?

