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

Franchise Compliance
Review Committee

November 12, 2025



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Introductions



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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 July 8, 2023 through July 7, 2025.
- The audit covered SDG&E's performance in complying with the following:
 - Franchise Agreements
 - Administrative MOU
 - Utility Undergrounding MOU
 - Energy Cooperation Agreement associated with the Franchises.



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Audit Procedures

- Conducted 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 – Management
- Reviewed and documented requirements of each agreement.
- Submitted multiple data requests to SDG&E and the City
 - Data requests were requested for relevant requirements for each agreement.
- Franchise Fees
 - Obtained and reviewed SDG&E annual franchise fee calculation documents, quarterly franchise fee statements, process documentation, controls information, A/R aging reports, bad debt expense support and collection procedures, and 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 eight 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.



Phase 2 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 July 8, 2023 through July 7, 2025.

We included two (2) findings that were deemed not to be significant to the Audit Objectives but warranted inclusion in the report.

Phase 2 Report Findings

Finding Number	Finding Description / Classification	Description
1	SDG&E Did Not Comply with Sections 6.11.2, 6.11.3, 7.4.3 and 8.3.4 of the Undergrounding MOU <i>Noncompliance and Deficiency</i>	6.11.2 - For the Project titled Block 8R SDG&E did not complete internal processes on time which caused a delay in assigning an inspector for the project. 6.11.3 - SDG&E did not provide a written schedule of days and hours in which the SDG&E inspector would be available for the project titled Block 8R. SDG&E was not able to provide an inspector at the time of construction. 7.4.3 - SDG&E did not provide a Construction Baseline for trench and conduit work for the project titled 2BB Job 2. 8.3.4 - SDG&E has not submitted detailed 90% estimates, and the supporting documentation for invoices did not clearly differentiate projects that have reached the 90% completion threshold.

Recommendation(s):

- Establish stronger project management controls by developing standardized timelines and checklists
- Assign a dedicated compliance liaison or project coordinator
- Revise invoicing backup materials to more clearly distinguish 90% Design Estimates
- Establish regular joint review meetings with City staff
- Train personnel on MOU requirements
- Link compliance to performance metrics or oversight reviews.

Phase 2 Report Findings

Finding Number	Finding Description / Classification	Description
2	SDG&E Did Not Comply with Section 10.b of the Administrative MOU <i>Noncompliance and Deficiency</i>	SDG&E did not schedule a pre-construction meeting with the City as required. SDG&E's field crew incorrectly assumed the project was classified as a Category 1 project which would not have required the pre-construction meeting. The project was classified as a Category 2 project which requires a pre-construction meeting.

Recommendation:

- Strengthen its project classification and review process
- Develop a project checklist to be reviewed by a supervisor before construction begins
- Train field crews and project managers to clarify differences between Category 1 and Category 2 projects.

Status of Phase 1 Findings

Finding Number	Finding	Status	Comment
1	Inconsistent Undergrounding Project Cost Estimates	To be determined based on future construction cost estimates	Cost estimates have stabilized since the Phase 1 audit, but estimates continue to be at the highest end of the range relative to comparable IOU estimates.
2	Limited Collaboration with the City on SDG&E Undergrounding Construction Project Master Services Agreement (MSA) Evaluation Criteria	Not Remediated	Finding is not relevant to the Phase 2 audit. The same MSA is still active but the recommendation in the Phase 1 audit remains relevant.
3	SDG&E Did Not Comply with Section 6 a) of the Administrative MOU	Remediated	Finding is not relevant to the Phase 2 audit due to an updated Administrative MOU.
4	The City and SDG&E Did Not Comply with Section 2 of the Energy Cooperation Agreement	Remediated	Finding was not relevant to the Phase 2 Audit.



Questions?