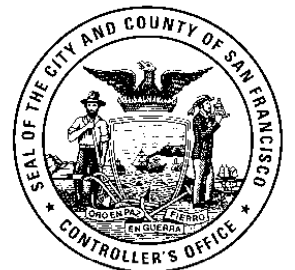


Pacific Gas and Electric Company Properly Paid Its Franchise Fees and Surcharges for 2019 and 2020

Board of Supervisors



November 16, 2022

City & County of San Francisco
Office of the Controller
City Services Auditor

About the Audits Division

The City Services Auditor (CSA) was created in the Office of the Controller through an amendment to the Charter of the City and County of San Francisco (City) that was approved by voters in November 2003. Within CSA, the Audits Division ensures the City's financial integrity and promotes efficient, effective, and accountable government by:

- Conducting performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of service delivery and business processes.
- Investigating reports received through its whistleblower hotline of fraud, waste, and abuse of city resources.
- Providing actionable recommendations to city leaders to promote and enhance accountability and improve the overall performance and efficiency of city government.

Team:

Winnie Woo, *Audit Manager*

Mark de la Rosa
Director of Audits
Office of the Controller
City and County of San Francisco
(415) 554-7574

Consultant:

Sjoberg Evashenk Consulting, Inc.

For media inquiries, please contact
con.media@sfgov.org.

 <http://www.sfcontroller.org>

 @sfcontroller

 LinkedIn Office of the Controller

Audit Authority

CSA conducted this audit under the authority of the San Francisco Charter, Section 3.105 and Appendix F, which requires that CSA conduct periodic, comprehensive financial and performance audits of city departments, services, and activities.



OFFICE OF THE CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

November 16, 2022

Board of Supervisors
City and County of San Francisco
City Hall, Room 244
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Dear President Walton and Members:

The City Services Auditor (CSA) of the Office of the Controller (Controller) engaged Sjoberg Evashenk Consulting, Inc., (SEC) to audit the payment of franchise fees and surcharge fees by Pacific Gas and Electric Company (PG&E) to the City and County of San Francisco (City) for 2019 and 2020. PG&E pays the City franchise fees to use city streets to transmit, distribute, and supply electricity and natural gas (gas). PG&E is required to report its gross receipts and pay each year franchise fees of 0.5 percent of its gross receipts on the sales of electricity and 1 percent of its gross receipts on the sales of gas. Also, pursuant to the California Public Utilities Code, PG&E must remit to the City surcharge fees PG&E collects from customers who purchase electricity and gas from a third party.

January 2019 Through December 2020	Fees Paid
Franchise Fees	\$11,279,077
Surcharge Fees	4,306,043
Total	\$15,585,120

PG&E correctly reported \$1,745,261,923 in gross receipts subject to the franchise fee and correctly calculated and paid the City the proper franchise and surcharge fees according to the terms and deadlines specified in the franchise agreements. Also, the Controller's Budget and Analysis Division and San Francisco Public Utilities Commission (SFPUC) complied with the requirements in administering and monitoring the franchise agreement. The responses of PG&E, SFPUC, and the Controller's Budget and Analysis Division are attached to this report.

CSA and SEC appreciate the assistance and cooperation of PG&E, SFPUC, and Controller's Budget and Analysis Division staff during the audit. For questions about the report, please contact me at mark.p.delarosa@sfgov.org or 415-554-5393 or CSA at 415-554-7469.

Respectfully,

Mark de la Rosa
Director of Audits

cc: Board of Supervisors
Budget Analyst
Civil Grand Jury
Citizens Audit Review Board
City Attorney
Mayor
Public Library

Board of Supervisors:

Pacific Gas and Electric Company Properly Paid Its
Gas and Electric Franchise Fees for 2019 and 2020

November 2022



EXECUTIVE SUMMARY

Purpose of the Audit

As required by the San Francisco Administrative Code, Chapter 11 – *Franchises*, the Office of the Controller (Controller) is required to assess (1) whether Pacific Gas & Electric Company (PG&E) complied with the reporting requirements and payment obligations contained in the chapter and in San Francisco Gas Franchise Fee Ordinance 413 and Electric Franchise Fee Ordinance 414 and (2) whether City and County of San Francisco (City) departments complied with the relevant requirements for administering and monitoring the Gas and Electric Franchise Ordinances.

Highlights

The San Francisco Board of Supervisors may grant a franchise by ordinance to another entity to construct, install, and/or operate facilities in public rights-of-way within the City.

In 1939, PG&E was granted gas and electric franchises authorizing it to use City streets to transmit, distribute, and supply electricity and gas. In consideration for the franchise, PG&E must annually submit statements of gross receipts and gas and electric franchise fee payments to the City.

The Controller's Budget and Analysis Division (Division) is responsible for receiving and reviewing the statements and payments, while the San Francisco Public Utilities Commission (SFPUC) is responsible for administering and reporting on non-financial aspects of the franchise.

The audit found that PG&E complied with its obligations under the gas and electric franchise ordinances and the relevant provisions of the San Francisco Administrative Code, and that the SFPUC and the Division also fulfilled their obligations in administering and monitoring the franchise.

INTRODUCTION

Audit Authority

The Office of the Controller (Controller) is required under the San Francisco Administrative Code (Administrative Code), Chapter 11, Section 11.44(a) to file a report no less than every two years with the Board of Supervisors analyzing whether each franchisee is complying with the reporting and payment obligations in the chapter and the relevant franchise ordinance.

The City and County of San Francisco (City) also has the right under the Administrative Code, Chapter 11, Section 11.38 to access the books and records of a franchisee to monitor compliance with the chapter, the franchise ordinance, or other applicable law.

Further, the San Francisco Charter provides the Controller's City Services Auditor Division (CSA) with broad authority to conduct audits. Sjoberg Evashenk Consulting, Inc. (SEC) conducted this audit on behalf of CSA under these authorities.

Background

In 1939, the San Francisco Board of Supervisors granted Pacific Gas and Electric Company (PG&E) and its successors two franchises to use City streets to transmit, distribute, and supply electricity and gas. In consideration for the two franchises, PG&E agreed to pay the City annually a percentage of its gross receipts from the sales of electricity and gas in the City.

The electricity and gas franchise ordinances require PG&E to remit to the City, by April 15 of each year, a total of 0.5 percent of PG&E's gross receipts on the sales of electricity and 1 percent of PG&E's gross receipts on the sales of gas. PG&E reports and remits gas and electric franchise fees to the City based on gross revenues that have been reduced by uncollectible accounts and interdepartmental sales. Uncollectible accounts are amounts billed to customers, but not received by PG&E. Interdepartmental sales are PG&E's costs to supply electricity and gas to other PG&E properties it owns in the City. Since PG&E is not compensated for internal use of gas and electricity, no gross receipts are generated by these interdepartmental sales.

PG&E collects electricity and gas surcharge fees pursuant to requirements in the California Public Utilities Code and remits those amounts to the City when it pays its franchise fees. PG&E collects the surcharge fee, which is a municipal surcharge for the use of public lands, from customers who purchase electricity and gas from a third party. The surcharge fee is to replace, but not to increase, franchise fees that would have been collected if not for changes in the regulatory environment.

PG&E also has an Interconnection Agreement with the City to transmit electricity generated by the Hetch Hetchy Project (Hetch Hetchy) inside and outside the City, distribute the electricity within the City, and sell supplemental power to the City. PG&E bills the City for Hetch Hetchy-related services, including transmission and distribution charges, supplemental power charges, demand charges, and other special charges. PG&E includes the transactions for services it provides to the City as part of PG&E's gross receipts from the sales of electricity reported to the City.

However, because the Interconnection Agreement expired in July 2015, the City and PG&E began using PG&E's Wholesale Distribution Tariff (WDT) agreement on July 1, 2015 for the City's Points of Delivery¹ for which the City also requires interconnection to PG&E's Distribution System. The new agreement was filed as "unexecuted" with the Federal Energy Regulatory Commission (FERC) because both parties could not agree on terms, rates, and conditions. FERC has accepted the agreement, though it remains unexecuted. PG&E continues to bill the City for services provided, and includes the revenue as part of its gross receipts.

The San Francisco Public Utilities Commission (SFPUC) is responsible for administering the Interconnection Agreement, WDT agreement, and franchise agreement with PG&E. Administration includes verifying the accuracy of PG&E's monthly billings to the City prior to payment.

The Administrative Code, Chapter 11, designates the SFPUC as the entity responsible for administering and reporting on the City's gas and electric franchises, except

¹ The physical locations where the City provides utility service delivery.

for certain financial aspects which are administered by the Office of the Controller. The Controller's Budget and Analysis Division (Division) is responsible for receiving PG&E's annual statement and collecting franchise fee payment.

Objectives and Scope

The objective of the audit was to determine whether PG&E complied with the reporting requirements and payment obligations contained in Administrative Code Chapter 11 – *Franchises*, Gas Franchise Ordinance 413-39, and Electric Franchise Ordinance 414-39 (collectively referred to as the franchise agreements), as well as whether City departments complied with the relevant requirements for administering and monitoring the franchise for the audit period of calendar years 2019 and 2020.

Specifically, the audit determined whether:

1. PG&E correctly reported all revenues from the sale of electric and gas sales within City limits, including Hetch Hetchy, under the terms of San Francisco Electric Franchise Ordinance 414-39 and Gas Franchise Ordinance 413-39;
2. PG&E properly calculated and supported any adjustments from gross receipts;
3. PG&E correctly calculated and paid the City the proper franchise fees under the terms and deadlines specified in the franchise agreements; and
4. The SFPUC and the Division complied with applicable requirements in administering and monitoring the franchise agreements such as the San Francisco City Charter of 1996 and Chapter 11 of the Administrative Code.

Methodology

To conduct the audit, the audit team reviewed the applicable provisions of Chapter 11 of the Administrative Code and the franchise agreement as well as conducted interviews of PG&E, SFPUC, and Division management and staff.

Additionally, to understand the environment, the audit team reviewed the applicable provisions of the franchise ordinances and tested, on a sample basis, selected PG&E revenue components with amounts that materially impact the franchise fees payable to the City.

To determine whether PG&E correctly reported its annual gross receipts, the audit team:

- Compared the amounts PG&E reported to the City to the amounts PG&E recorded in its monthly summary reports, financial systems, and monthly detailed reports, including, but not limited to, underlying reports of gas and electric sales from its customer billing system, uncollectable accounts, and revenue derived from natural gas vehicle sales, Hetch Hetchy Wheeling, and Hetch Hetchy streetlights.
- Compared PG&E's system-wide uncollectable rate to the uncollectable rate for the City to determine whether a large variance between the rates existed.
- Reviewed the reasonableness of PG&E's collection and write-off processes.
- Analyzed historical franchise fees and surcharges over a five-year period to identify variances and reasons for any variances identified.
- Reviewed the reasonableness of electricity and gas surcharge fees collected by PG&E.
- Tested a sample of PG&E Customer Invoices from several gas and electric rate categories to ensure amounts were included in total revenue receipts.
- Assessed PG&E's internal controls over franchise requirements and systems used to calculate franchise fees.
- Performed high level tests of the completeness of PG&E's customer data set.
- Verified PG&E's internal reconciliation between its financial system and customer billing system.

The audit team's review of the Hetch Hetchy invoices consisted of verifying the amounts reported by PG&E to supporting monthly billing reports. The audit team did not test the accuracy of the detailed billings to the City because SFPUC staff is responsible for reviewing the billings to ensure they are accurate before paying PG&E; however, the audit team compared actual invoices to monthly system billing reports.

To assess whether PG&E correctly calculated and paid the City the proper franchise fee under the terms and deadlines specified in the franchise agreement, the audit team reviewed Division date stamps on PG&E's annual statements of gross receipts and franchise fee payments; confirmed that the statements of gross receipts were duly verified (i.e., signed and dated); and checked each calculation in PG&E's computation of its franchise fee to ensure mathematical accuracy.

To evaluate SFPUC's and Division's compliance with all applicable requirements and practices in administering and monitoring the franchise agreement, the audit team reviewed the most recent compliance report that SFPUC submitted to the Board of Supervisors and the tools used by the Division to track and review franchise fee reports and payments.

Statement of Auditing Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT RESULTS

Summary

For the period of January 1, 2019, through December 31, 2020, PG&E accurately reported its gas and electric gross receipts subject to the franchise fees according to the terms and deadlines specified in the franchise agreements.

Both the Controller's Budget and Analysis Division and SFPUC complied with their requirements for administering and monitoring the franchise agreements.

PG&E Met Deadlines for Submitting Statements and Paying Franchise Fees

For the period January 1, 2019 through December 31, 2020, PG&E accurately reported \$1,745,261,923 in total gross electricity and gas sales receipts to the City by the due dates as stipulated by the franchise agreement. As shown in Exhibit 1 below, PG&E also correctly calculated and paid \$11,279,077 in franchise fees by the annual April 15th deadline specified in the franchise agreements. PG&E also correctly collected and remitted to the City electricity and gas surcharge fees of \$4,306,043 for the period under review.

EXHIBIT 1: Gross Receipts Reported and Franchise Fees and Surcharge Fees Paid January 1, 2019, Through December 31, 2020

Year	Type	Gross Receipts ¹	Franchise Fees ²	Surcharge Fees ³	Over/(Under) Paid
<u>2019</u>	Electricity	\$644,896,260	\$3,224,481	\$1,972,547	\$0
	Gas	\$253,539,403	\$2,535,394	\$132,807	\$0
	<i>Subtotal</i>	<i>\$898,435,663</i>	<i>\$5,759,875</i>	<i>\$2,105,354</i>	<i>\$0</i>
<u>2020</u>	Electricity	\$589,812,057	\$2,949,060	\$2,099,937	\$0
	Gas	\$257,014,203	\$2,570,142	\$100,752	\$0
	<i>Subtotal</i>	<i>\$846,826,260</i>	<i>\$5,519,202</i>	<i>\$2,200,689</i>	<i>\$0</i>
Total		\$1,745,261,923	\$11,279,077	\$4,306,043	\$0

Notes:

¹ Gross receipts reported by PG&E are net of uncollectable accounts, interdepartmental sales, and reflect updated customer information adjustments.

² Franchise fee rates are 0.5 percent of electricity receipts and 1 percent of gas receipts.

³ PG&E billed and collected electricity and gas franchise surcharge fees based on the formula specified in state law from its customers who purchased electricity and gas from a third party.

Source: PG&E Certification of Gross Receipts

SFPUC Issued Its Statutorily Required

SFPUC is required by the Administrative Code, Chapter 11, Article 5, Section 11.44(b), to file a report with the Board of

**Franchise
Compliance Report**

Supervisors, no less than every two years, analyzing whether each franchise grantee is complying with all provisions of the chapter and its franchise, except for those addressed by the Controller’s Report.² SFPUC issued a compliance report to the Board of Supervisors dated August 26, 2022. In its compliance report, SFPUC indicated that no formal complaints were filed and no new concerns raised by the City that PG&E was not meeting its obligations under Section 7 of its franchise agreements during January 1, 2019 to December 31, 2020.³

**The Division
Generally Fulfilled Its
Administrative
Requirements**

The Division generally fulfilled its administrative requirements and generally followed its internal procedures with some minor adjustments as a result of the unprecedented global pandemic outbreak that began in early 2020 and continued into 2021, referred to as the coronavirus (COVID-19) pandemic, and California’s governor issued Executive Order N-33-20 2020, that included requirements for non-essential workers to stay home due to the pandemic, referred to as the Shelter-in-Place Order.

The Division is responsible for ensuring PG&E complies with the following agreement obligations:

- Franchise fee is correctly calculated;
- Franchise fee payment submitted by due date; and
- Annual statement submitted by due date and duly verified.

For the 2019 and 2020 statements and fee payments, the Division generally adhered to its written process for reviewing the annual statements and payments. Specifically, the Division reviewed franchise fee statements and payments by continuing to use a spreadsheet to track key dates and payments, completed data analyses to identify variances greater than 10 percent between expected franchise fee and surcharge revenue receipts and actual revenue receipts, and conducted follow-up with PG&E where variances were identified. Additionally, the Division added additional tracking fields to its spreadsheet to document its review of statements and

² Controller’s Report refers to the report requirement under the Administrative Code, Chapter 11, Article 5, Section 11.44(a), analyzing whether each person owing a franchise fee is complying with the audit, reporting requirements, and payment obligations contained in the Chapter.

³ Section 7 of the gas and electric franchise agreements requires that the franchise grantee pay the City on demand the cost of all repairs to public property made necessary by the grantee’s operations and remove or relocate any facilities installed, used, and maintained under the franchise, without expense to the City.

payments. However, because no staff were physically present, the Division deviated from its written procedures and did not date stamp the physical copies of the statements sent by PG&E as they also received electronic copies of the statements that were used for the Division's internal review—a reasonable deviation in light of the COVID-19 pandemic and ensuing Shelter-in-Place order.

**The Division
Implemented Prior
Audit
Recommendations**

The prior audit of PG&E gas and electric franchise fees and surcharges, for the period of January 1, 2017 through December 31, 2018, identified three recommendations for corrective action to be taken by the Controller's Budget and Analysis Division. Specifically, auditors recommended that the Controller's Budget and Analysis Division should:

1. Bill and collect from PG&E for the underpayment of \$3,283 in electric franchise fees owed to the City.
2. Formalize and document its policies and procedures to ensure consistent procedures are followed each year, including verifying the accuracy of the franchise fee due calculation.
3. Update its variance analysis review of franchise fees and surcharges to include an assessment of actual receipts against multi-year trends to better identify any unusual fluctuations.

All recommendations were implemented by the Division at the time of this audit.

ATTACHMENT A: DEPARTMENTS' RESPONSES

San Francisco Public Utilities Commission



525 Golden Gate Avenue, 13th Floor
San Francisco, CA 94102
T 415.554.3155
F 415.554.3161
TTY 415.554.3488

November 4, 2022

Mark de la Rosa
Director of Audits
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Subject: Pacific Gas and Electric Company Properly Paid Its Franchise Fees and Surcharges for 2019 and 2020

Dear Mr. Mark delaRosa,

Thank you for providing us the opportunity to review the audit report, *Pacific Gas and Electronic Company Properly Paid Its Franchise Fees and Surcharges for 2019 and 2020*, prepared by the Controller's Office City Services Auditor.

We appreciate the time your staff dedicated to this audit and are satisfied that there are no findings.

If there are any questions or additional information is needed, please do not hesitate to contact me at 415-554-1600.

Sincerely,

A handwritten signature in blue ink that reads "Dh J. Herrera".

Dennis J. Herrera
General Manager

London N. Breed
Mayor

Newsha Ajami
President

Sophie Maxwell
Vice President

Tim Paulson
Commissioner

Tony Rivera
Commissioner

Kate Stacy
Commissioner

Dennis J. Herrera
General Manager

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Office of the Controller



OFFICE OF THE CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

November 3, 2022

Mr. Mark de la Rosa
Director of Audits
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

RE: Pacific Gas and Electric Company Franchise Fees and Surcharges for 2019 and 2020

Dear Mr. de la Rosa,

Thank you for the opportunity to review the audit of franchise fees and surcharges remitted to the City by Pacific Gas and Electric Company for 2019 and 2020. We agree with the findings and do not note any errors or omissions.

Sincerely,

Michelle Allersma

Michelle Allersma
Director, Budget & Analysis Division

CITY HALL • 1 DR. CARLTON B. GOODLETT PLACE • ROOM 316 • SAN FRANCISCO, CA 94102-4694
PHONE 415-554-7500 • FAX 415-554-7466

ATTACHMENT B: PG&E'S RESPONSE



Customer Care & Enablement
Revenue & Statistics
77 Beale Street
San Francisco, CA 94105

November 10, 2022

Mark de la Rosa
Director of Audits
1 Dr. Carlton B. Goodlett Place, Room 316
San Francisco, CA 94102-4694

RE: Response to the Audit Report of franchise fees and franchise fee surcharges for 2019 and 2020

Dear Mark de la Rosa,

Thank you for providing Pacific Gas and Electric Company (PG&E) with an opportunity to comment on your draft report on the audit of PG&E's franchise fees and surcharges for 2019 and 2020. We find the report comprehensive and acceptable in form. We are pleased that you have concluded that PG&E has properly reported and calculated the 2019 and 2020 franchise fees and surcharges.

We appreciate working with the professionals at Sjoberg Evashenk Consulting in performing this audit.

Sincerely,

A handwritten signature in cursive script, appearing to read 'Cecilia Guiman'.

Cecilia Guiman
Pacific Gas and Electric Company