

On May 9, 2024, the Franchise Compliance Review Committee (FCRC) received a draft of the independent auditor's report, along with a formal presentation. This report summarized the auditor's assessment of San Diego Gas & Electric's (SDGE's) compliance with the franchise agreement. The FCRC's review focused on ensuring the audit aligned with the Committee's and the auditor's roles as outlined in the Agreements. The Committee then provided comments on the initial findings.

The independent auditor received the FCRC's comments at our May 9, 2024 public meeting and provided a revised report on **May 28, 2024**.

Below is a summary of the comments regarding the independent auditor's report provided by the committee:

#### **General:**

- This audit was conducted using a limited sample size. To enhance the analysis, the next phase 2 audit should consider employing a more extensive sample.
- To ensure continuous improvement, SDGE should provide a response outlining how they will address recommendations prior to the commencement of the Phase 2 audit.
- During the auditor's presentation, it was noted there was a significant volume of communication, with over 700 comments and responses exchanged during the audit between the auditor and SDGE. To improve audit efficiency in the future, we recommend analyzing these communications to identify areas for streamlining the process for the phase 2 audit.
- The Auditor initially identified deficiencies in Items 3 and 4 of the report. However, SDGE has since implemented corrective actions to address these noted items. The final report should clearly acknowledge this resolution to ensure transparency.
- The draft audit report identified four key findings. The auditor is currently collaborating with the city to obtain a management letter that will provide additional franchise performance related comments. This management letter should be appended (attached as a separate document) to the final audit report and made publicly available.
- We recommend that the auditor conduct a more in-depth review and provide detailed comments on Section 10A of the franchise agreement.

#### **Administrative MOU**

- The agreement requires SDGE to utilize the category projects portal which has since been identified as needing improvement. The City and SDGE staff collaboratively developed a new process that eliminates the need for the portal. To ensure transparency and reflect this change, the franchise agreement should be amended to remove the outdated requirement and outline the new process collaboratively developed by the City and SDGE.

### **Utility Underground MOU**

- The absence of a publicly available undergrounding project master plan, which would coordinate projects with the City's initiatives, hinders transparency. The FCRC's recommendations section also notes this deficiency.
- The limited sample size of undergrounding project data identified in this report necessitates a more comprehensive review during the Phase 2 audit.

### **Energy Cooperation Agreement (ECA)**

- Finding #4 of the independent auditor's report highlights the need for periodic updates and revisions to the Energy Cooperation Agreement (ECA) to ensure its continued effectiveness. This is noted in the FCRC's recommendations section.
- Section 8.B of the Energy Cooperation Agreement (ECA) requires SDGE to support the City's affordable housing initiatives. However, the auditor's review found that SDGE provided only snapshots of affordable housing data to City staff, limiting transparency and effective collaboration. While this might have satisfied the requirement as identified in the agreement, the agreement should be amended to explicitly require SDGE to provide comprehensive and up-to-date data on its efforts to support the City's affordable housing initiatives. SDGE and the City should establish a clear process for ongoing communication and collaboration regarding affordable housing initiatives. This is noted in the FCRC's recommendations section.