

Memorandum



Date: August 19, 2016

To: Edward Randolph
Director of Energy Division

From: Public Utilities Commission—
San Francisco

Kayode Kajopaiye, Branch Chief

A handwritten signature in black ink, appearing to read "Kajopaiye".

Subject: San Diego Gas and Electric Company Advice Letter 2852-E
Quarterly Procurement Plan Compliance Report for the Fourth Quarter of 2015

Based on the results of its audit, the Utility Audit, Finance and Compliance Branch (UAFCB) did not find any material reasons for Energy Division (ED) to deny the approval of San Diego Gas and Electric Company's (SDG&E) Advice Letter No. (AL) 2852-E. Except for the findings mentioned below, the procurement transactions that SDG&E executed during the fourth quarter of 2015 (Q4) and UAFCB examined demonstrated compliance, in all material respects, with certain aspects of procurement-related state law and California Public Utilities Commission (Commission or CPUC) directives. The UAFCB assesses compliance in accordance with agreed-upon procedures with ED and does not assess compliance with all aspects of the procurement-related state law or those directives. In addition, SDG&E's transactions conducted in the Integrated Forward Market (IFM) and the Residual Unit Commitment Market (RUC) are outside the scope of UAFCB's audits.

A. Summary of Negative Audit Findings:

SDG&E failed to demonstrate that it was in compliance with Decision (D.)02-10-062, Appendix B and Public Utilities Code (PUC) §581. In its Q4 2015 Quarterly Compliance Report (QCR) filing, SDG&E made numerous reporting errors in its Procurement Plan Compliance Report and Attachments A, E and H. In response to UAFCB's findings, SDG&E submitted amended Procurement Plan Compliance Report and Attachments A, E, and H to correct its reporting errors.

B. Recommendations:

SDG&E should strengthen its review of the information included in its QCR filings to ensure the accuracy of such information before submitting QCR filings to the Commission.

C. Background:

As required by D.02-10-062, OP 8 and clarified in D.03-12-062, Pacific Gas and Electric Company (PG&E), SDG&E, and Southern California Edison (SCE) must each submit a QCR filing for all transactions of less than five years duration executed in the quarter. ED requested that the UAFCB conduct compliance audits of these utilities' QCR filings.

UAFCB conducts the quarterly procurement audits based on procedures specified by ED, and as such these examinations are by design agreed-upon procedures. ED specified which aspects of the utilities' Commission-approved procurement plans, AB 57 procurement rules and several procurement-related rulings and decisions to test for compliance. The directives ED chose to test for compliance include, but are not limited to: some of the ordering paragraphs included in D.02-10-062, D.03-06-076, D.03-12-062, D.04-12-048, D.07-12-052, D.08-11-008, and D.12-01-033. UAFCB, however, does not test all of the transactions that the utilities include in their QCR filings.

D. Findings:

Errors in the QCR

Criteria: In Appendix B of D.02-10-062, the Commission requires that each utility file each quarter's energy procurement transactions of less than five years duration with a QCR filing by an advice letter. The QCR filing must contain, among other things, information that is complete and accurate, including but not limited to, the number and volume of transactions.

Findings: SDG&E incorrectly reported the following information in its Q4 QCR filing:

- a) On Page 1 of its Procurement Plan Compliance Report, SDG&E incorrectly stated that September 1, 2015, instead of October 1, 2015, was the beginning of the transaction period for Q4.
- b) On Page 11 of the Procurement Plan Compliance Report, SDG&E mistakenly indicated that it did not execute any transaction as a result of a Request for Offer solicitation (RFO) to be approved via the QCR. In fact, SDG&E executed five contracts in Q4 as a result of its 2016 Resource Adequacy (RA) RFO as evidenced in its Independent Evaluator (IE) Report enclosed in Attachment G of the Q4 QCR filing.
- c) In Attachment A, SDG&E overstated the delivery terms of four of its electric physical transactions.
- d) SDG&E incorrectly submitted a red-lined version, instead of a clean version, of Attachment E.
- e) In Attachment E, SDG&E incorrectly stated that it executed six bilateral RA transactions during Q4. SDG&E actually executed five contracts derived from its 2016 RA RFO and one bilateral RA contract during Q4.
- f) In Attachment H, SDG&E incorrectly classified Goal Line, LP as a new contract executed in Q4. The said transaction is actually a contract amendment.
- g) In Attachment H, SDG&E made a typographical error of a time period. Instead of "Q4", SDG&E indicated "Q2".

SDG&E's Response: SDG&E asserts that its management and staff overlooked the errors listed above. SDG&E also asserts that:

1. It has implemented several corrective actions to decrease the likelihood of future errors;
2. It has instituted quarterly meetings with all QCR contributing personnel to discuss QCR content and accurate reporting of QCR activities; and
3. It has instituted a process to separately verify that the information in the QCR agrees with the information in the QCR attachments.

UAFCB's Rebuttal: Incorrect and inaccurate QCR reporting has been an audit finding numerous times in 2014 and 2015. The UAFCB has not seen any improvement in SDG&E's QCR filings and continued to find errors and mistakes in the filings. SDG&E needs to vigorously implement and enforce new internal controls to ensure the accuracy of its QCR filings and related attachments before submitting any QCR filings to the Commission. In future, the UAFCB will recommend ED to reject or deny SDG&E's QCR filing that contains significant reporting errors.

E. Conclusion:

Except for the items noted in Section D above, SDG&E's AL 2852-E and its Q4 procurement transactions for electricity and natural gas that UAFCB examined were, in material respects, in compliance with the aspects of SDG&E's Commission-approved procurement plan and certain ordering paragraphs from relevant Commission decisions that the UAFCB tested compliance with. SDG&E's Q4 transactions that the UAFCB examined, in material respects, appear to be complete, accurate and properly authorized by its management.

If you have any questions concerning UAFCB's audit, please contact Tracy Fok at (415) 703-3122.

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