



# Memorandum

**Date:** December 30, 2016

**To:** Edward Randolph  
Director of Energy Division

**From:** **Public Utilities Commission—** Kayode Kajopaiye, Branch Chief  
**San Francisco** Utility Audit, Finance and Compliance Branch

**Subject:** Pacific Gas and Electric Company Advice Letter 4883-E  
Quarterly Procurement Plan Compliance Report for the Second Quarter of 2016  
Summary of Negative Findings

**Based on the results of its performed procedures to assess compliance, the Utility Audit, Finance and Compliance Branch (UAFCB) is issuing its negative findings on Pacific Gas and Electric Company's (PG&E) Quarterly Procurement Plan Compliance Report (QCR) filed by Advice Letter (AL) 4883-E.** UAFCB assesses compliance in accordance with agreed-upon procedures with Energy Division (ED) and does not assess compliance with all aspects of the procurement-related state law or procurement-related directives mandated by the California Public Utilities Commission (Commission). In addition, PG&E's transactions conducted in the Integrated Forward Market (IFM) and the Residual Unit Commitment Market (RUC) are outside the scope of the agreed-upon procedures engagement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA).

## A. Summary of Negative Findings:

**PG&E failed to demonstrate compliance with Decision (D.) 02-10-062, Appendix B.** In the second quarter of 2016 (Q2), PG&E made a reporting error in Attachment H of its QCR. PG&E executed a purchase resource adequacy (RA) transaction and a sale RA transaction. PG&E incorrectly reported the two transactions in a net notional value in Attachment H. On September 27, 2016, PG&E submitted a revised version of Attachment H to correct the aforementioned reporting error.

## B. Recommendations:

**PG&E should separately report RA purchase and sale transactions without netting the notional value of both transactions. PG&E should implement and enforce its internal control that would ensure correct and accurate transaction reporting in its QCR.**

## C. Background:

As required by D.02-10-062, OP 8 and clarified in D.03-12-062, PG&E, San Diego Gas and Electric (SDG&E), and Southern California Edison (SCE) must each submit a Quarterly Procurement Plan Compliance Report (QCR) for all transactions of less than five years duration executed in the quarter. UAFCB conducts the quarterly procurement engagements based on the scope specified by ED, using procedures agreed upon between ED and UAFCB. 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 decisions and rulings that ED chose directives from to test for compliance include, but are not limited to, D.02-10-062, D.03-06-076, D.03-12-062, D.04-12-048, D.07-12-052, D.08-11-008, D.12-01-033, D.15-10-031 and D.16-01-015. Based on our understanding with ED, UAFCB does not test all of the transactions that the utilities include in their QCR.

#### **D. Negative Findings:**

**PG&E failed to demonstrate compliance with D.02-10-062, Appendix B.** PG&E made an reporting error in Attachment H of its Q2 QCR. PG&E executed a purchase RA transaction and a sale RA transaction and incorrectly reported both transactions in a net notional value in Attachment H.

**Criteria:** 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 in duration with a QCR filed by an advice letter. The QCR must contain, among other things, information that is complete and accurate, including, but not limited to, the number and volume of transactions.

**PG&E's response:** Both RA transactions were exchange transactions with SCE and thus were correctly reported in a net notional value in Attachment H. PG&E is not aware of a CPUC requirement which dictates how notional values should be reported for exchange transactions. The notional value of the purchase and sale transactions, as well as, the net notional value can be ascertained from the data provided in Attachment H. To eliminate any confusion going forward, for exchange transactions, PG&E will report the notional value for the individual purchase and sale transactions separately.

On September 27, 2016, PG&E submitted a revised version of Attachment H to correct the aforementioned reporting error.

**UAFCB's Rebuttal:** PG&E incorrectly reported the RA purchase and sale transactions by netting the notional value of both transactions. PG&E should have reported the notional value of the sale and purchase transactions separately.

#### **E. Conclusion:**

UAFCB was not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on PG&E's QCR filed in AL 4883-E. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to ED.

This memo is intended solely for the information and use of ED and should not be used by anyone other than ED or for any other purpose.

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