



# Memorandum

**Date:** April 27, 2010

**To:** Julie Fitch  
Director of Energy Division

**From:** **Public Utilities Commission—** Kayode Kajopaiye, Branch Chief  
**San Francisco** Division of Water and Audits

**Subject:** Pacific Gas and Electric Company Advice Letter 3606-E  
Quarterly Procurement Plan Compliance Report for the Fourth Quarter of 2009

## A. Audit Findings:

UAFCB does not have any current findings with respect to PG&E's Q4 filing.

## B. Outstanding Prior Audit Findings:

Pacific Gas and Electric (PG&E) should eliminate NERC Holiday transaction errors contained in its Quarterly Procurement Plan Compliance Report (QCR) filing starting in the first quarter of 2010.

## C. Closed Prior Audit Findings:

1. ED determined that PG&E's policy of entering into unguaranteed transactions with non-investment grade or non-rated counterparties as a net purchaser is permissible under PG&E's Long Term Procurement Plan (LTPP).
2. ED determined that PG&E's Standards for Personal Conduct and Business Decisions meets the requirements of D. 02-12-074, Ordering Paragraph (OP) 24.b.

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<sup>1</sup> Pursuant to D.03-12-067 and D.04-12-048, the utilities are required to develop and calculate the price equivalency to the exchange for its non-standard products.

## D. 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 QCR for all transactions of less than five years duration executed in the quarter. ED requested that the UAFCB conduct compliance audits of these utilities' quarterly procurement compliance filings. The objective of these quarterly audits is to determine if the utilities were in compliance with their California Public Utility Commission's (Commission) approved procurement plans, while complying with all AB 57 procurement rules and several procurement-related regulatory rulings and decisions, including, but not limited to, D.02-10-062, D.03-06-076, D.03-12-062, D.07-12-052, and D.08-11-008.

On January 29, 2010, PG&E filed AL 3606-E, which summarized its electric and natural gas procurement activities for the period October 1 through December 31, 2009 or Q4. UAFCB analysis indicates during Q4, PG&E executed a total of 4,009 [redact] transactions consisting of, but not limited to, physical power and financial hedging transactions, as compared to 6,925 in the fourth quarter of 2008. [redact] This represents a decrease of 42% in its transactions over the same quarter in 2008 and a 55% decrease over the average number of transactions for 2008 of 8,845 [redact]. In response to a previous request, PG&E indicated that the primary reason for the year-over-year decrease in transaction volume is its mandatory participation in the California Independent System Operator's (CAISO) new day ahead Integrated Forward Market (IFM), as part of the Market Redesign and Technology Upgrade (MRTU), starting in the second quarter of 2009 (Q2). [redact]

Prior to the launch of MRTU, load serving entities (LSE), including PG&E, had to maintain enough energy to satisfy their load and sales obligations by generating electricity or acquiring it through contracts and/or purchases in the bilateral energy market [redact]. PG&E is required to report physical power purchases and sales in the bilateral energy market in its QCR. PG&E reported in its fourth quarter of 2008 QCR that its energy procurement transactions mostly consisted of physical energy deals transacted in the bilateral energy market [redact].

With the advent of the IFM at the beginning of Q2, physical power purchases by LSE in the bilateral energy market have decreased significantly and have almost been eliminated. LSE can now purchase physical energy in CAISO's centralized day-ahead energy market or IFM, based on price curves that potential buyers submit to the CAISO. The CAISO in turn, buys electricity from suppliers based on price curves submitted by those suppliers [redact]. PG&E is not required to report physical power purchases in CAISO's centralized market in its QCR. PG&E is replacing some of its former energy purchases in the bilateral market with energy from the IFM. Hence, the number of physical transactions is greatly reduced in the post-MRTU Q4 as compared to the pre-MRTU fourth quarter of 2008. [redact]

## E. Findings

UAFCB does not have any findings on PG&E'Q4 filing and fourth quarter procurement transactions.

## **F. Conclusion**

PG&E's AL 3606-E and its Q4 procurement transactions for electricity and natural gas were, in material respects, in compliance with PG&E's Commission-approved procurement plan and all relevant Commission decisions. PG&E's Q4 transactions, in material respects, appear to be complete, accurate and properly authorized by its management.

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

cc: Rami Kahlon, Director, Division of Water and Audits  
Judith Ikle, Energy Division  
Robert Strauss, Energy Division  
Nat Skinner, Energy Division  
Donna Wagoner, Division of Water and Audits  
Tracy Fok, Division of Water and Audits