



# Memorandum

**Date:** April 30, 2019

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

**From:** Angie Williams, Director  
Utility Audit, Finance and Compliance Branch  
Enterprise Risk and Compliance Office

**Subject:** Pacific Gas and Electric Company Advice Letter 5416-E  
Findings on Quarterly Procurement Plan Compliance Report for the Third Quarter of 2018

The Utility Audit, Finance and Compliance Branch (UAFCB) issues this memorandum containing its findings on Pacific Gas and Electric Company (PG&E) Quarterly Procurement Plan Compliance Report (QCR) filed by Advice Letter No. (AL) 5416-E. The findings are based on the results of UAFCB's performed procedures to assess PG&E's compliance. UAFCB assesses PG&E's compliance in accordance with agreed-upon procedures (AUP) with Energy Division (ED) and does not assess the compliance with all aspects of the procurement-related state law and procurement-related directives mandated by the California Public Utilities Commission (CPUC or 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.

The AUP engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA). 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 5416-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.

## A. Finding Summary

1. **PG&E failed to demonstrate compliance with Decision (D).12-04-046, Ordering Paragraph (OP) 9 and D.02-10-062, Appendix B.** In its third quarter of 2018 (Q3) QCR, PG&E failed to report its Greenhouse Gas (GHG) transactions executed via California Air Resources Board (CARB) auction. PG&E has not been reporting these transactions in a complete and comprehensive manner since the first quarter of 2017 (Q1 2017). On February 14, 2019, PG&E submitted a complete and comprehensive report of GHG auction results in response to UAFCB's findings.

2. **PG&E failed to demonstrate compliance with D.03-12-062, OP 11, and Article 6 of its Master Agreement.** PG&E did not properly enforce a payment term required by its master agreement for a contract executed with a counterparty.

## **B. Recommendations**

1. PG&E needs to be familiar with the QCR reporting requirement and implement an effective review process to ensure the reporting accuracy of its QCR and related attachments before submitting them to the Commission.
2. PG&E should strengthen its internal controls to ensure that all contracts executed comply with terms and conditions as set forth by its master agreements.

## **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 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, Assembly Bill (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. Finding Detail**

1. **PG&E failed to demonstrate compliance with D.12-04-046, OP 9 and D.02-10-062, Appendix B.** In its Q3 QCR, PG&E failed to report its GHG transactions executed via CARB auction. PG&E has not been reporting these transactions in a complete and comprehensive manner since Q1 2017. Instead, PG&E has been reporting piecemeal information of GHG transactions in its QCR since Q1 2017.

### **Criteria:**

- D.12-04-046, OP 9 states that forecast updates and corresponding revisions to the procurement limits, along with all greenhouse gas compliance instrument transactions, shall be reported at each of the quarterly procurement review group meetings and quarterly compliance reports of PG&E, SCE, and SDG&E.
- 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 by an advice letter. The QCR and related attachments must contain, among other things, information that is complete and accurate and include, but not limited to, the number and volume of transactions.

**PG&E's response:** On January 25, 2019, PG&E asserted the following in response to the finding:

In its QCRs, as part of its supporting documentation, PG&E has provided GHG Auction information similar to the information requested in Report Format #1. Specifically, the information can be obtained from PRG presentations and QCR Limits files. PG&E agrees with UAFCB that reporting the data in one central report will facilitate UAFCB's review. Going forward, PG&E will be including PG&E's GHG Auction results for each respective quarter.

**UAFCB's Rebuttal:** None.

2. **PG&E failed to demonstrate compliance with D.03-12-062, OP 11, and Article 6 of its Master Agreement.** PG&E did not properly enforce a payment term required by its master agreement for a contract executed with one of its counterparties. Specifically, PG&E received the first monthly payment 30 days later than the contract required timeframe. Instead of receiving the first monthly payment 60 days prior to the delivery period, PG&E received the payment 30 days prior to the delivery period.

**Criteria:**

- D.03-12-062, OP 11, states that when extending unsecured credit limits to non-investment counterparties, the utilities' credit assessment shall rely on master agreements with special parent or guarantor provisions for posting collateral and for assuring continuity of service.
- In Article 6 of the Master Agreement and Section 3.1 of the Resource Adequacy (RA) confirmation between [REDACTED] (Buyer) and PG&E (Seller), the Buyer shall make a payment (a "Monthly Payment") to the Seller, no later than sixty (60) days prior to the applicable Showing Month.

**PG&E's response:** On January 29, 2019, PG&E stated the following:

1. PG&E cannot speculate the reasons for late payment. As part of PG&E's settlement process, prepayment invoice notifications are remitted to a counterparty in advance of payment due dates.
2. The late payment is not due to PG&E's error. PG&E notified [REDACTED] on July 18, 2018 that their Resource Adequacy (RA) payments were due to PG&E on August 2, 2018.
3. In light of [REDACTED]'s late payment, PG&E made process improvements to ensure that follow-up after late payments is standardized. The process includes the following steps: (1) if payment is not received on the due date, Settlements will send a reminder email to counterparty within 5 business days, (2) once payment is received, Settlements confirms

if the late payment is a one-time event and sends an email to counterparty reminding that future late payments will be subject to interest charges, and (3) if late payment has occurred previously, Settlements remits an interest invoice to counterparty for the number of days late the payment was received.

**UAFCB's Rebuttal: None.**

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