

# Memorandum



**Date:** December 20, 2013

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

**From:** Public Utilities Commission—  
San Francisco

Kayode Kajopaiye, Branch Chief  
Division of Water and Audits

**Subject:** San Diego Gas and Electric Company Advice Letter 2477-E  
Quarterly Procurement Plan Compliance Report for the First Quarter of 2013

Based on the results of its audit, the Division of Water and Audits' 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) 2477-E. The SDG&E procurement transactions during the first quarter of 2013 (Q1) that UAFCB examined were, in all material respects, in compliance with SDG&E's procurement plan, as approved in Decision (D.) 12-01-033, Assembly Bill (AB) 57 procurement rules and several procurement-related Commission directives. 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. UAFCB's audit is limited in scope and does not provide full assurance to the reasonableness of SDG&E's Q1 Quarterly Compliance Report (QCR) filing or its Q1 transactions.

## A. Summary of Negative Audit Findings:

1. **SDG&E failed to demonstrate that it was in compliance with D.12-04-046, Ordering Paragraph (OP) 14.** SDG&E did not ensure that its Procurement Review Group (PRG) meeting information was available to the public on its web-based calendar within the time frame specified in D.12-04-046, OP 14. SDG&E's failure to make its PRG meeting information publicly available in a timely manner has been a UAFCB audit finding multiple times in the past.
2. **SDG&E failed to demonstrate that it was in compliance with D.02-10-062, Appendix B.** In its Q1 QCR filing, SDG&E made a reporting error in its Attachment C. SDG&E's failure to correctly report its QCR and related attachments has been a UAFCB audit finding multiple times in the past.

## B. Recommendations:

1. **SDG&E should review its web-based calendar on a regular basis and ensure that its PRG meeting information is properly posted and available to the public within the time-frame specified in D.12-04-046, OP 14.** SDG&E should develop, implement and enforce new internal controls to ensure that its PRG meeting information is properly posted and available to the public in a timely fashion.
2. **Before submitting its QCR filings, SDG&E should thoroughly review its QCR and related attachments and ensure that all documents are correct and accurate.** SDG&E needs to increase its internal controls and implement and enforce the new controls to ensure the accuracy of its QCR filings before submitting such 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, SDG&E, and Southern California Edison must submit QCR filings 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 Commission-approved procurement plans, while complying with all AB 57 procurement rules and several procurement-related rulings and decisions, including, but 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, and D.12-01-033.

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

##### **Finding 1: SDG&E failed to demonstrate that it was in compliance with D.12-04-046, OP 14.**

SDG&E distributed its PRG meeting summary from the January 18, 2013 PRG meeting thirteen days later than the Commission's required timeframe.

**Criteria:** D. 12-04-046, OP 14 requires PG&E, SCE, and SDG&E to distribute their PRG meeting summaries on the earlier of a) 14 days after the PRG meeting, or b) 48 hours before the next regularly scheduled PRG meeting.

**SDG&E's Response:** Since February of 2013, SDG&E has established and put controls in place to ensure its compliance with D.12-04-046, OP 14. SDG&E now imposes an internal deadline of five business days after the PRG meetings for the distribution of PRG meeting summaries.

**UAFCB's Rebuttal:** SDG&E has been distributing its PRG meeting summaries in a timely fashion since February 2013. SDG&E is demonstrating that its revised internal controls to ensure its compliance with D.12-04-046, OP 14 are effective. SDG&E needs to continue to enforce such internal controls and ensure that its PRG meeting information is properly distributed to the public in accordance with D.12-04-046, OP 14.

##### **Finding 2: SDG&E failed to demonstrate that it was in compliance with D.02-10-062, Appendix B.**

In Attachment C of its Q1 QCR filing, SDG&E incorrectly reported transaction count of locational swaps. However, the corresponding transaction volume and values were correctly reported.

**Criteria:** In Appendix B of D.02-10-062, the Commission requires that each utility submit a summary of each quarter's energy procurement transactions of less than five years duration in a QCR and provide the QCR by an advice letter filing. 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.

**SDG&E's Response:** On November 7, 2013, SDG&E amended Attachment C to correct the aforementioned error.

**UAFCB's Rebuttal:** In several of the past periods examined, SDG&E also made reporting errors in its QCR filings and related attachments. SDG&E should vigorously implement and enforce new internal controls for checking its QCR filings and related attachments for accuracy before submitting them to the Commission.

**E. Conclusion:**

Except for the items noted in Section D above, SDG&E's AL 2477-E and its Q1 procurement transactions for electricity and natural gas were, in material respects, in compliance with SDG&E's Commission-approved procurement plan and all relevant Commission decisions. SDG&E's Q1 transactions, 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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