State of California

Memorandum

Date: December 12, 2014

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 2635-E
Quarterly Procurement Plan Compliance Report for the Second Quarter of 2014

Based on the results of its audit, the Utility Audit, Finance and Compliance Branch (UAFCB) of the Division of Water and Audits 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) 2635-E. The procurement transactions that SDG&E executed during the second quarter of 2014 (Q2) and that the UAFCB examined demonstrated, in all material respects, compliance with certain aspects of procurement-related state law and Commission 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 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 nine times in the past.

B. Recommendations:

SDG&E should review its web-based calendar on a regular basis to 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. ED should require SDG&E to provide UAFCB with a copy of its new controls in this area for evaluation.

C. Background:

As required by D.02-10-062, Ordering Paragraph (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' California Public Utilities Commission's (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.

D. Negative Findings:

Finding 1: SDG&E failed to demonstrate that it was in compliance with D.12-04-046, OP 14. SDG&E did not distribute its PRG meeting summary from the May 16, 2014 PRG meeting within the Commission's required timeframe. The meeting summary was distributed three days late.

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: SDG&E asserts that the late posting of the May 16, 2014 PRG meeting summary was due to delays in internal processing and inter-departmental communication. SDG&E further asserts that it will review its processes and streamline its inter-departmental communication to ensure no delays will occur in the future.

UAFCB's Rebuttal: In the following periods that UAFCB examined, SDG&E also did not distribute the PRG meeting information in a timely fashion due to various reasons.

1. First Quarter of 2010;
2. Third Quarter of 2010;
3. First Quarter of 2011;
4. Second Quarter of 2011;
5. Third Quarter of 2011;
6. Third Quarter of 2012;
7. Fourth Quarter of 2012;
8. First Quarter of 2013; and
9. First Quarter of 2014.

SDG&E should strictly implement and enforce its new internal controls to ensure that its PRG meeting information is properly distributed to the public in accordance with D.12-04-046, OP 14.

E. Conclusion:

Except for the item noted in Section D above, SDG&E's AL 2635-E and its Q2 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 Q2 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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