

# Memorandum



**Date:** April 25, 2016

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

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

Kayode Kajopaiye, Branch Chief  
Division of Water and Audits

*D&W, for*

**Subject:** San Diego Gas and Electric Company Advice Letter 2812-E  
Quarterly Procurement Plan Compliance Report for the Third Quarter of 2015

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) 2812-E. Except for the findings mentioned below, the procurement transactions that SDG&E executed during the third quarter of 2015 (Q3) and UAFCB examined demonstrated compliance, in all material respects, with certain aspects of procurement-related state law and California Public Utilities Commission (Commission or CPUC) 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:

1. **SDG&E failed to demonstrate that it was in compliance with Decision (D.)02-10-062, Appendix B, and Public Utilities Code (PUC) §581.** SDG&E incorrectly reported two Resource Adequacy (RA) contracts executed in the second quarter of 2015 on Page 12 of its Q3 Quarterly Compliance Report (QCR), and its Q3 QCR Attachments H and E. On March 11, 2016, SDG&E submitted an amended QCR, including amended Attachments H and E, removing the aforementioned RA contracts from its Q3 QCR filing. SDG&E's failure to correctly report its QCR and related attachments has been a UAFCB audit finding 11 times in the past.
2. **SDG&E failed to demonstrate that it was in compliance with D.07-12-052, Ordering Paragraph (OP) 7 and D.12-04-046, OP 14.** SDG&E did not timely make its September 2015 Procurement Review Group (PRG) meeting summaries publicly available on its web-based calendar. After being notified by the UAFCB, SDG&E posted the September 2015 PRG meeting summaries on its web-based calendar on January 28, 2016. SDG&E's failure to correctly distribute its PRG meeting information in a timely fashion has been a UAFCB audit finding nine times in the past.
3. **SDG&E failed to demonstrate that it was in compliance with PUC §581.** In its response to UAFCB's document request, SDG&E submitted an inaccurate worksheet related to its September 2015 Greenhouse Gas Allowances (GHG) inventory carrying cost calculation reported in its Energy Resource Recovery Account (ERRA). On March 16, 2016, SDG&E submitted a revised worksheet with the correct GHG inventory carrying cost calculation. SDG&E's failure to submit a correct response to UAFCB's document request was also a finding for the third quarter of 2014 QCR audit.

## B. Recommendations:

1. **Before submitting its QCR filings, SDG&E should thoroughly review its QCR and related attachments to 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.**

- 2. 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 manner.**
- 3. SDG&E should develop, implement and enforce internal controls over documents submitted in response to the UAFCB's data requests to ensure that all documents provided are correct and accurate.**

### **C. Background:**

As required by D.02-10-062, 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' 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 filings.

### **D. Findings:**

- 1. SDG&E failed to demonstrate that it was in compliance with D.02-10-062, Appendix B, and PUC §581.** By including two RA contracts executed in the second quarter of 2015 in its Q3 2015 QCR filings, SDG&E incorrectly reported Page 12 of QCR, Attachments H (New Contracts Executed and Amended) and E (Other Transactions). SDG&E previously filed these two RA contracts in AL 2770-E with the second quarter of 2015 QCR filing. The Commission approved AL 2770-E on January 29, 2016.

SDG&E's failure to correctly report its QCR and related attachments has been a UAFCB audit finding 11 times from 2009 through 2015.

#### **Criteria:**

- a) 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 filing by an advice letter. The QCR filing must contain, among other things, information that is complete and accurate and include, but not limited to, the number and volume of transactions.
- b) PUC §581 requires that every public utility receiving from the commission any blanks with directions to fill them shall answer fully and correctly each question propounded therein, and if it is unable to answer any question, it shall give a good and sufficient reason for such failure.

**SDG&E's Response:** SDG&E stated that its staff inadvertently included the two RA contracts executed in the second quarter of 2015 in its Q3 QCR filing due to a sorting error. On March 11, 2016,

SDG&E submitted amended Page 12 of the QCR, and amended Attachments H and E by removing the RA transactions, thereby correcting its QCR filing.

**UAFCB's Rebuttal:** Before submitting its QCR filings, SDG&E should thoroughly review its QCR and related attachments to ensure that all documents are correct and accurate. SDG&E needs to vigorously implement and enforce new internal controls to ensure the accuracy of its QCR filings and related attachments before submitting such filings to the Commission.

2. **SDG&E failed to demonstrate that it was in compliance with D.07-12-052, OP 7 and D.12-04-046, OP 14.** SDG&E did not make its September 2015 PRG meeting summaries publicly available on its web-based calendar.

SDG&E's failure to correctly distribute its PRG meeting information in a timely fashion has been a UAFCB audit finding nine times in the past, from 2010 through 2015.

**Criteria:**

- a) D.07-12-052, OP 7 requires PG&E, SCE, and SDG&E to disseminate PRG meeting information through their own web-based forum.
- b) 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 indicated that its staff inadvertently copied its October 2015 CAM meeting information over its September 2015 PRG meeting web-based calendar. On January 28, 2016, after UAFCB pointed out the discrepancy, SDG&E corrected its error and posted its September 2015 PRG meeting summaries on its PRG web-based calendar.

**UAFCB's Rebuttal:** SDG&E must establish, strictly implement and enforce internal controls to ensure that its PRG information is properly, accurately and timely posted on its web-based calendar made to the public.

3. **SDG&E failed to demonstrate that it was in compliance with PUC §581.** In response to UAFCB's document request, SDG&E submitted an inaccurate worksheet related to its September 2015 GHG inventory carrying cost calculation reported in its ERRAs. On March 16, 2016, SDG&E submitted a revised worksheet with the correct GHG inventory carrying cost calculations. For the third quarter of 2014 QCR audit, SDG&E also provided an incorrect response to UAFCB's document request.

**Criteria:** PUC §581 requires that every public utility receiving from the commission any blanks with directions to fill them shall answer fully and correctly each question propounded therein, and if it is unable to answer any question, it shall give a good and sufficient reason for such failure.

**SDG&E's Response:** SDG&E claims that its staff inadvertently submitted the wrong worksheet due to staff oversight.

**UAFCB's Rebuttal:** SDG&E must strictly implement and enforce its internal reviews to ensure that complete and accurate responses and documentation are provided to the Commission.

**E. Conclusion:**

Except for the items noted in Section D above, SDG&E's AL 2812-E and its Q3 procurement transactions for electricity and natural gas that UAFCB examined were, in material respects, in compliance with the

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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 Q3 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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