



Memorandum

Date: November 15, 2018

To: Edward Randolph
Director of Energy Division

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

Barbara Owens
Barbara Owens, Risk and Compliance Officer
Utility Audit, Finance and Compliance Branch

Subject: San Diego Gas and Electric Company Advice Letter 3215-E
Quarterly Procurement Plan Compliance Report for the First Quarter of 2018
Summary of Negative Findings

The Utility Audit, Finance and Compliance Branch (UAFCB) issues this memorandum containing its negative findings on San Diego Gas and Electric Company (SDG&E) Quarterly Procurement Plan Compliance Report (QCR) filed by Advice Letter No. (AL) 3215-E. The negative findings are based on the results of UAFCB's performed procedures to assess SDG&E's compliance. UAFCB assesses SDG&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, SDG&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.

A. Summary of Negative Findings:

SDG&E failed to demonstrate compliance with Decision (D.) 02-12-074, Ordering Paragraph (OP) 24(b). SDG&E did not ensure that its one (1) employee who hired to the Energy Procurement (EP) department during the first quarter of 2018 (Q1) completed its Code of Conduct (COC) Training within an appropriate timeframe.

B. Recommendations:

SDG&E should strengthen the internal controls of its onboarding and training systems in order to enforce its mandatory COC training for all its new and transferred EP employees within an appropriate timeframe.

C. Background:

As required by D.02-10-062, OP 8 and clarified in D.03-12-062, SDG&E, Pacific Gas & Electric Company (PG&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. Negative Findings:

SDG&E failed to demonstrate compliance with D.02-12-074, OP 24(b). SDG&E did not ensure that the newly hired employee to the EP department during Q1 2018 completed its COC training within two weeks of employment start date. The new employee completed its COC training more than two weeks after the start date. Completion of COC training served as the purpose of acknowledging SDG&E's COC agreement.

Criteria:

In D. 02-12-074, OP 24(b), the Commission requires that each utility must adopt, actively monitor, and enforce compliance with a comprehensive code of conduct for all employees engaged in the utility's energy procurement process. It is a good management practice for an employee to sign COC agreement within two weeks of starting employment in SDG&E's EP department. If any EP employees sign COC agreement outside of this two-week timeframe, SDG&E's internal control risk in its EP department can increase significantly because the EP employees may violate SDG&E's COC rules without reviewing and understanding these rules.

SDG&E's response: On June 12, 2018 and July 3, 2018, SDG&E asserts the following:

- There was a delay in the onboarding systems that caused the employee to not properly integrate into the appropriate systems. It required a manual push that eventually fed information into the Training system that houses the digital certificate for the Market Activity and Credit Policy (MACP) completion. Once the information was fed into the training system, it kicked off the MACP automation (delayed) and gave 2 weeks to sign.
- It will now be mandatory to sign a physical MACP document in parallel to the automated MACP process for new onboarding employees. This will guarantee that if the automated process fails or is delayed, there will be a backup process to ensure timeliness and compliance.

UAFCB's Rebuttal: None.

E. Conclusion:

UAFCB was not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on SDG&E's QCR filed in AL 3215-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.

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