




# 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:** San Diego Gas and Electric Company Advice Letter 3295-E  
Finding 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 finding on San Diego Gas and Electric Company's (SDG&E) Quarterly Procurement Plan Compliance Report (QCR) filed by Advice Letter No. (AL) 3295-E.** The finding is 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.

This 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 SDG&E's QCR filed in AL 3295-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

**SDG&E failed to demonstrate compliance with Decision (D.) 02-10-062, Appendix B, and Public Utilities Code (PUC) §581.** In its third quarter of 2018 (Q3) QCR, SDG&E made reporting errors in Attachments B and D. On February 4, 2019, SDG&E submitted the amended Attachments B and D to correct the reporting errors in response to UAFCB's finding.

## **B. Recommendation**

Before submitting its QCR and related attachments, SDG&E should thoroughly review them and ensure that all documents are correct and accurate. SDG&E needs to strengthen its quality review control and process to ensure the reporting accuracy of its QCR and related attachments.

## **C. Background**

As required by D.02-10-062, Ordering Paragraph (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. Finding Detail**

**SDG&E failed to demonstrate compliance with Appendix B of D.02-10-062 and PUC §581.** In its Q3 QCR, SDG&E made reporting errors in Attachments B and D. Specifically, SDG&E incorrectly reported the notional value of its gas physical purchase transactions in Attachment D. The aforementioned reporting errors also led to a reporting error in the notional value of one (1) of SDG&E's counterparties in Attachment B.

### **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 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.
- 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:** On December 11, 2018, SDG&E provided the following statement in response to UAFCB's finding:

Manual adjustments were required in the production of QCR files due to the inclusion of a new trade type (i.e. transportation transactions) per Energy Division's recent request in October 2018. We have improved our internal QCR process to ensure data integrity anytime manual adjustments are

required, which includes automation of the process of including the new trade type and secondary check of all attachments.

**UAFCB's Rebuttal:** None.

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