



# Memorandum

**Date:** March 19, 2012

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

**From:** **Public Utilities Commission—** Kayode Kajopaiye, Branch Chief  
**San Francisco** Division of Water and Audits

**Subject:** Pacific Gas and Electric Company Advice Letter 3935-E  
Quarterly Procurement Plan Compliance Report for the Third Quarter 2011

**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 Pacific Gas and Electric Company's (PG&E) Advice Letter No. (AL) 3935-E. PG&E's audited procurement transactions during the third quarter of 2011 (Q3) were, in all material respects, in compliance with PG&E's procurement plan, as approved in Decision (D.) 07-12-052, Assembly Bill (AB) 57 procurement rules and several procurement-related Commission directives.**

**A. Summary of Audit Findings:**

**PG&E failed to respond to questions raised by its Procurement Review Group (PRG) members regarding three procurement items discussed during the PRG meeting held on September 6, 2011 in a timely manner.**

**B. Recommendations:**

**PG&E must respond to its PRG members' questions and concerns in a timely manner to enable its PRG to make a proper assessment of its procurement processes.**

**C. Background:**

As required by D.02-10-062, Ordering Paragraph (OP) 8. and clarified in D.03-12-062, PG&E, San Diego Gas and Electric (SDG&E), and Southern California Edison (SCE) must each submit a QCR 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 California Public Utilities Commission's (Commission) approved procurement plans, while complying with all AB 57 procurement rules and several procurement-related regulatory 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, and D.08-11-008.

**D. Findings**

During PG&E's PRG meeting on September 6, 2011, the PRG members asked PG&E to respond to a list of questions. Specifically, its PRG members wanted to know what voltage level the substation in Stockton could sustain, whether GWF Tracy supports local or system Resource Adequacy (RA) and whether any renewables in PG&E's portfolio have RA capacity. On January 10, 2012, UAFCB presented its finding to PG&E that it had failed to respond to its September 6, 2011 PRG members' questions. PG&E failed to respond to its PRG's concerns until January 27, 2011, after the UAFCB had presented its audit finding.

**PG&E's Response:**

PG&E acknowledges that it did not respond to its PRG's concerns on a timely basis. PG&E asserts that its internal review process for the materials to respond to its PRG was lengthy. PG&E asserts that it has just started to implement a process to ensure a timely response to its PRG's concerns and questions.

**UAFCB's Rebuttal:**

UAFCB will continue its monitoring to assess whether PG&E timely responds to its PRG's inquiries and concerns.

**E. Conclusion**

Except for the items noted in Section D above, PG&E's AL 3935-E and its Q3 procurement transactions for electricity and natural gas were, in material respects, in compliance with PG&E's Commission-approved procurement plan and all relevant Commission decisions. PG&E's Q3 transactions, in material respects, appear to be complete, accurate and properly authorized by its management.

This audit is limited in scope and does not provide full assurance to the reasonableness of PG&E's Q3 QCR filing or its Q3 transactions.

If you have any questions on UAFCB's audit, please contact Tracy Fok at (415) 703-3122.

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