

# Memorandum



**Date:** October 9, 2012

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

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

**Subject:** San Diego Gas and Electric Company Advice Letter 2352-E  
Quarterly Procurement Plan Compliance Report for the First Quarter of 2012

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 San Diego Gas and Electric Company's (SDG&E) Advice Letter No. (AL) 2352-E. SDG&E's audited procurement transactions during the first quarter of 2012 (Q1) were, in all material respects, in compliance with SDG&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:

1. **SDG&E failed to demonstrate that it was in compliance with D.02-12,074, Ordering Paragraph (OP) 24(b).** SDG&E did not ensure that its Electric and Fuel Procurement (E&FP) employee hired in Q1 signed SDG&E's Code of Conduct (COC) agreement in a timely manner.
2. **SDG&E failed to demonstrate that it was in compliance with D.02-10-062, Appendix B.** SDG&E did not include a pipeline capacity contract that was less than five years duration in its Q1 Quarterly Compliance Report (QCR) filing. In response to UAFCB's finding, SDG&E amended its Q1 QCR Filing on July 19, 2012 by including this transaction in Attachment H.

## B. Recommendations:

1. **SDG&E should ensure that its E&FP new hires receive and acknowledge SDG&E's COC agreements within two weeks of starting employment with E&FP.**
2. **Before submitting its QCR, SDG&E should thoroughly review its QCR and related attachments and ensure that all required transactions are properly included.**

## 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 submit 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 (Commission) approved procurement plans, while complying with all AB 57 procurement rules and several procurement-related 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:**

### **1. COC**

**Criteria:** In 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 procurement process. It is a good management practice for an employee to sign COC agreement within two weeks of starting employment in the E&FP department. If any E&FP employees sign COC agreement outside of this two-week timeframe, SDG&E's internal control risk in the E&FP department can increase significantly because the E&FP employees may violate SDG&E's COC rules without reviewing and understanding these rules.

**Finding:** One employee who was hired in Q1 and involved in SDG&E's E&FP department did not sign SDG&E's COC agreement in a timely manner. This employee signed SDG&E's COC agreement 52 days after his hire date.

**SDG&E's Response:** SDG&E asserted that the aforementioned employee's delay in signing SDG&E's COC agreement was due to turnovers of two E&FP's administrative personnel responsible for monitoring SDG&E's COC agreement acknowledgment process. This resulted in SDG&E's failure of monitoring E&FP's employees' timely acknowledgment of COC agreement. SDG&E further asserted that since then, it has assigned the responsibility to one administrative associate to ensure that SDG&E's COC agreement is timely signed by E&FP employees.

**UAFCB's Rebuttal:** All investor owned utilities (IOU) should actively monitor and enforce compliance with a comprehensive COC for all employees engaged in the energy procurement process as required by D.02-12-074, OP 24(b). This includes SDG&E ensuring that its employees, who are involved in energy procurement process, sign COC agreement within a two-week timeframe from the employees' hire dates.

### **2. Errors in the QCR**

**Criteria:** In Appendix B of D.02-10-062, the Commission requires that utilities file each quarter's transactions by advice letter. The advice letter must contain, among other things, information that is complete and accurate, including, but not limited to, the number and volume of transactions.

**Finding:** In Attachment H of SDG&E's Q1 QCR Filing, SDG&E did not include its seven-month Kern River pipeline capacity purchase contract with RRI Energy Services, LLC executed in Q1.

**SDG&E's Response:** SDG&E asserted that it inadvertently excluded the aforementioned pipeline capacity contract from Attachment H. SDG&E amended its Q1 QCR Filing by including this transaction in Attachment H and submitted the amendment to UAFCB on July 19, 2012.

**UAFCB's Rebuttal:** None.

**E. Conclusion:**

Except for the items noted in Section D above, SDG&E's AL 2352-E and its Q1 procurement transactions for electricity and natural gas were, in material respects, in compliance with SDG&E's Commission-approved procurement plan and all relevant Commission decisions. SDG&E's Q1 transactions, 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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