

Memorandum

Date: August 18, 2014

To: Edward Randolph
Director of Energy Division

From: Public Utilities Commission—
San Francisco

Subject: Pacific Gas and Electric Company Advice Letter 4352-E
Quarterly Procurement Plan Compliance Report for the Fourth Quarter of 2013

Kayode Kajopaiye, Branch Chief
Division of Water and Audits



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 Pacific Gas and Electric Company's (PG&E) Advice Letter No. (AL) 4352-E. The procurement transactions that PG&E executed during the fourth quarter of 2013 (Q4) and that the UAFCB examined demonstrated, in all material respects, compliance with certain aspects of procurement-related state law and Commission 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, PG&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:

PG&E failed to demonstrate that it was in compliance with D.02-10-062, Appendix B. In Attachments A and D of its Q4 QCR filing, PG&E made reporting errors. On August 11, 2014, PG&E report its QCR and related attachments was a UAFCB audit finding multiple times in the past.

B. Recommendations:

Before submitting its QCR filings, PG&E should thoroughly review its QCR and related attachments to ensure that all documents are correct and accurate. PG&E should develop, implement, and enforce new internal controls for checking its reports for accuracy before submitting them to the Commission.

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' QCR filings.

UAFCB conducts the quarterly procurement audits based on procedures specified by ED. As such these examinations are by design agreed-upon procedures. ED specified which aspects of the utilities' California Public Utilities Commission's (Commission) approved procurement plans, AB 57 procurement rules and several procurement-related rulings and decisions to test for compliance. The

directives of the decisions and rulings that ED chose 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, and D.12-01-033. Per agreement with ED, UAFCB does not test all of the transactions that the utilities include in their QCR.

D. Findings:

Finding: PG&E failed to demonstrate that it was in compliance with Appendix B of D.02-10-062. PG&E overstated the notional value of five of its gas physical daily swing transactions by \$55,274 in Attachments A and D of its Q4 QCR filing. In addition, PG&E misstated prices of two of its gas physical monthly transactions.

Criteria: 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 including, but not limited to, the volume and notional value of transactions.

PG&E's Response: PG&E indicated that the reporting errors associated with the aforementioned gas physical transactions occurred because a query of its trade data extracting system cannot capture correct pricing of certain daily swing and monthly transactions delivered around holidays. Some of these transactions involved ones that were more than one day and occurred during the weekdays or during holidays that were not trading market holidays. On August 11, 2014, PG&E submitted amended Attachments A and D to correct the reporting errors of the gas physical daily swing transactions. PG&E indicates that it will submit additional supplemental filing to correct the gas physical monthly transactions. PG&E further asserts that it will implement an internal control procedure to manually check for pricing errors of gas physical daily swing and monthly transactions which are delivered around holidays as the query cannot automatically capture the correct pricing of these types of transactions.

UAFCB Rebuttal: PG&E must strictly implement the internal control procedure to verify this type of errors and ensure accuracy of its transactions reported in its QCR filing. PG&E must tighten quality control of its transaction reporting in its QCR and ensure that all transactions and documents contained in its QCR filing are correct and complete.

E. Conclusion:

PG&E's AL 4352-E and its Q4 procurement transactions for electricity and natural gas that UAFCB examined were, in material respects, in compliance with the aspects of PG&E's Commission-approved procurement plan and relevant Commission decisions that the UAFCB tested compliance with. PG&E's Q4 transactions that the UAFCB examined, in material respects, appear to be complete, accurate and properly authorized by its management.

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

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