



# Memorandum

**Date:** May 11, 2015

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

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

A handwritten signature in black ink, appearing to be "Kajopaiye".

**Subject:** Pacific Gas and Electric Company Advice Letter 4574-E  
Quarterly Procurement Plan Compliance Report for the Fourth Quarter of 2014

**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) 4574-E.** The procurement transactions that PG&E executed during the fourth quarter of 2014 (Q4), that UAFCB examined, demonstrated, in all material respects, compliance with certain aspects of procurement-related state law and California Public Utilities Commission (Commission or CPUC) 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 did not provide justification for six of its longer-term (more than 90 days in duration) non-standard products. PG&E failed to state why standard products that could have been purchased through a more open and transparent process were not in the best interest of ratepayers.

## **B. Recommendation:**

In accordance with Decision (D.) 03-12-062, Pages 39 and 40 and D.14-02-040, Page 41, PG&E must provide justification for any non-standard products greater than 90 days in duration and state why standard products that could have been purchased through a more open and transparent process were not in the best interest of ratepayers.

## **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. Per agreement with ED, UAFCB does not test all of the transactions that the utilities include in their QCR. In addition, ED specified which aspects of the utilities' Commission-approved procurement plans, 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, and D.12-01-033.

**D. Findings:**

**PG&E did not demonstrate that it is in compliance with D.03-12-062, Pages 39 and 40 and D.14-02-040, Page 41.** PG&E failed to provide justification for the following six resource adequacy (RA) bilateral transactions greater than 90 calendar days in duration and failed to state why standard products that could have been purchased through a more open and transparent process were not in the best interest of ratepayers.

Counterparty	Executed Date	Product
Exelon Generation Company, LLC	10/8/2014	RA Import Allocation Rights (Sale)
Shell Energy North America	10/8/2014	RA Import Allocation Rights (Sale)
Shell Energy North America	10/13/2014	Local RA Sale
Shell Energy North America	10/13/2014	System RA Purchase
Exelon Generation Company, LLC	10/17/2014	Local RA Sale
Shell Energy North America	10/20/2014	Local RA Sale

**Criteria:**

D.03-12-062, Pages 39 and 40 and D.14-02-040, Page 41 indicate:

Second, utilities may use negotiated bilateral contracts to purchase longer term non-standard products provided they include a statement in quarterly compliance filings to justify the need for a non-standard product in each case. The justification must state why a standard product that could have been purchased through a more open and transparent process was not in the best interest of ratepayers.

**PG&E’s Response:**

PG&E asserts that it included in its quarterly compliance filing information justifying the need for the above-mentioned transactions in its “Strategy for Import Allocation Sales,” “Strategy for RA Exchange,” and “Strategy for Local RA Sale” as part of Attachment H.

**UAFCB Rebuttal:**

The above-mentioned “Strategies” only indicate that PG&E needs to execute the aforementioned transactions. PG&E also indicated that the transactions will benefit ratepayers. However, it did not indicate why standard products that could have been purchased through a more open and transparent process were not in the best interest of ratepayers, such as Request for Offers (RFO) or a similar competitive solicitation. Consequently, PG&E did not demonstrate that it is in compliance with D.03-12-062 and D.14-12-040.

**E. Conclusion:**

Except for the item noted in Section D above, PG&E's AL 4574-E and its Q4 procurement transactions for electricity and natural gas that the 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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