



Memorandum

Date: April 21, 2017

To: Edward Randolph
Director of Energy Division

From: **Public Utilities Commission—** Kayode Kajopaiye, Branch Chief
San Francisco Utility Audit, Finance and Compliance Branch

Subject: Pacific Gas and Electric Company Advice Letter 4945-E
Quarterly Procurement Plan Compliance Report for the Third Quarter of 2016
Summary of Negative Findings

The Utility Audit, Finance and Compliance Branch (UAFCB) hereby issues this memorandum containing its negative findings on Pacific Gas and Electric Company's (PG&E) Quarterly Procurement Plan Compliance Report (QCR) filed by Advice Letter (AL) 4945-E. The negative findings are based on the results of UAFCB's performed procedures to assess PG&E's compliance. UAFCB assesses PG&E's compliance in accordance with agreed-upon procedures with Energy Division (ED) and does not assess the compliance with all aspects of the procurement-related state law or procurement-related directives mandated by the California Public Utilities Commission (Commission). 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 the agreed-upon procedures engagement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA).

A. Summary of Negative Findings:

PG&E failed to demonstrate compliance with Decision (D.) 02-12-074, Ordering Paragraph (OP) 24(b). PG&E did not ensure that its two employees who transferred to Energy Procurement (EP) department during the third quarter of 2016 (Q3) completed their Code of Conduct (COC) training within an appropriate timeframe.

B. Recommendations:

PG&E should enforce its mandatory COC training for all its new and transferred EP employees within an appropriate timeframe.

C. Background:

As required by D.02-10-062, 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. 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. Negative Findings:

PG&E failed to demonstrate compliance with D.02-12-074, OP 24(b). PG&E did not ensure that its two employees who transferred to the EP department during Q3 completed their COC training within two weeks of their employment start dates. These employees completed their COC training four to eight weeks after they began their employment in the EP department. Completion of COC training served as the purpose of acknowledging PG&E's COC agreement.

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

PG&E's response:

In its response dated December 15, 2017, PG&E asserts the following:

During the period when [REDACTED] and [REDACTED] joined EPP, roles and responsibilities within Energy Compliance and Reporting (ECR) were transitioning. As such, PG&E inadvertently did not send out the standard training email to these employees. The standard training email is sent to new EPP employees and provides them with a list of mandatory and required training at the enterprise and the organization levels. Included in the email are the requirements to complete the Code of Conduct training (i.e., web-based module number and the 14 day deadline to complete the training).

PG&E has taken the following steps to improve its employees' timeliness of completing the Code of Conduct training:

- ECR generates a list of all employees in EPP, every Monday using the companies master organization chart, Who'sWho, which is housed in the companies SAP system and is updated nightly. The Training Leads from ECR compare the previous week's report to the current week's report and alert any new employee by a phone call and email to complete the Code of Conduct training within the allotted 14 day time period.
- ECR Training Leads email the Energy Policy and Procurement Department assistants bi-weekly (every other Monday) requesting a list of all new or transferring employees, including MBA Associates, rotational, interns, and contractors who have joined EPP within the last two weeks. The list includes the

date the person started in EPP, including a copy of the signed Non-Disclosure Agreement (NDA), if applicable. The assistants are requested to respond to the email whether they have an update or not. If the assistants report a new or transferring employee into EPP, the ECR Training Leads will send a standard training email to the new employee.

- The standard training email contains a list of mandatory and required trainings the new employee must complete, including the Annual Code of Conduct training and the requirement to complete this specific training within 14 days of their start date.”

UAFCB’s Rebuttal: None.

E. Conclusion:

UAFCB was not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on PG&E’s QCR filed in AL 4945-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.

cc: Maryam Ebke, Deputy Executive Director
Judith Ikle, Energy Division
Michele Kito, Energy Division
Scott Murtishaw, Energy Advisor to President Picker
David Peck, Energy Advisor to President Picker
Yuliya Shmidt, Office of Ratepayer Advocates
Tracy Fok, Utility Audit, Finance and Compliance Branch