

Memorandum



Date: February 22, 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 2299-E
Quarterly Procurement Plan Compliance Report for the Third Quarter of 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 San Diego Gas and Electric Company's (SDG&E) Advice Letter No. (AL) 2299-E. SDG&E's audited procurement transactions during the third quarter of 2011 (Q3) 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.07-12-052, Ordering Paragraph (OP) 7.** SDG&E did not ensure that its Procurement Review Group (PRG) meeting information was available to the public on its web-based calendar in a timely fashion.

In response to UAFCB's Finding, SDG&E restored the web-links and made the information publicly available on December 9 and December 12 of 2011.

2. **SDG&E failed to demonstrate that it was in compliance with D.02-10-062, Appendix B.** SDG&E did not correctly report Attachment H of its Q3 Quarterly Compliance Report (QCR) filing.

In response to UAFCB's Finding, SDG&E filed its corrected Attachments H on December 19, 2011.

3. **SDG&E failed to demonstrate that it was in compliance with D.04-12-048, OP 15.** SDG&E failed to consult with its PRG before it executed its resource adequacy (RA) purchase contract with Escondido Energy Center, which has a contract term greater than three calendar months.¹

B. Recommendations

1. **SDG&E should review its web-based calendar on a regular basis to ensure that its PRG meeting information is properly posted and available to the public in a timely fashion.**
2. **Before submitting its QCR, SDG&E should thoroughly review its QCR and related attachments to ensure accuracy.**
3. **SDG&E should consult with its PRG before it executed any contracts with terms greater than three calendar months.**

¹ The Commission's resource adequacy requirement ensures that the utilities have enough reserve to fulfill their base load. The utilities purchase and sell energy to adjust their RA reserve and thus enter purchase or sales contracts to achieve these adjustments.

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. Untimely Posting of PRG Meeting Summaries on Web-based PRG Calendar:

Criteria: In D.07-12-052, OP7, the Commission requires that utilities implement the following:

- A web-based PRG calendar with expected solicitation milestones;
- A PRG meeting agenda and materials delivered to members 48 hours in advance of a meeting;
- Meeting summaries; and
- Web-based forum for public dissemination of meeting information.

Finding: SDG&E was four to five months late in making its July and August PRG meeting information available to the public.

SDG&E's Response: SDG&E asserts that its PRG meeting information was inaccessible because the weblinks for this information were lost during its website upgrade. SDG&E restored the weblinks and made the information publicly available on December 9 and December 12 of 2011. SDG&E is abandoning using the system it has been using to display its PRG meeting information and plans displaying its PRG information on its website on a going forward basis.

UAFCB's Rebuttal: UAFCB has had a similar audit finding for several quarters. Whatever system SDG&E uses to release its PRG information, it should review its web-based calendar on a regular basis to ensure that its PRG meeting information is properly posted and is available to the public in a timely fashion. Just posting the information and not monitoring it is insufficient.

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 its Q3 QCR filing, SDG&E incorrectly reported the contract value for its Local and System RA purchase contract with Escondido Energy Center.

SDG&E's Response: SDG&E filed its corrected Attachments H on December 19, 2011.

UAFCB's Rebuttal: Although SDG&E updated its QCR with correction(s) when the error was pointed out to SDG&E, before submitting its QCR, SDG&E should thoroughly review its QCR and related attachments to ensure accuracy.

3. Failure to consult with the PRG for transactions greater than three calendar months or one quarter:

Criteria: In D.04-12-048, OP15, the Commission requires that utilities consult with the PRG for transactions with delivery periods greater than three calendar months, or one quarter.

Finding: SDG&E failed to consult with its PRG for its one-year RA bilateral purchase contract with Escondido Energy Center before the contract was executed on August 30, 2011. SDG&E did not consult with its PRG regarding this contract until October 21, 2011, which was after the contract execution date.

SDG&E's Response: SDG&E asserts that, before it executed the RA contract with Escondido Energy Center, it had a discussion with ED regarding its purchase of the 2012 Encina RA contract. This discussion took place on August 9, 2011. SDG&E further asserts that, as part of the discussion, SDG&E indicated to ED that it intended to contract with Escondido for its 2012 RA.

UAFCB's Rebuttal: D.04-12-048, OP 15 applies to all transactions, including bilateral RA transactions, with delivery periods greater than three calendar months, or one quarter. SDG&E is required to consult with its PRG before executing any transactions greater than three calendar months, or one quarter. SDG&E is not permitted to use ED in lieu of its PRG to fulfill D.04-12-048, OP 15.

E. Conclusion

Except for the items noted in Section D above, SDG&E's AL 2299-E and its Q3 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 Q3 transactions, in material respects, appear to be complete, accurate and properly authorized by its management.

The audit is limited in scope and does not provide full assurance to the reasonableness of SDG&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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