



Memorandum

Date: December 14, 2012

To: Edward Randolph
Director of Energy Division

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

Subject: Pacific Gas and Electric Company Advice Letter 4091-E
Quarterly Procurement Plan Compliance Report for the Second Quarter 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 Pacific Gas and Electric Company's (PG&E) Advice Letter No. (AL) 4091-E. PG&E's procurement transactions during the second quarter of 2012 (Q2) were, in all material respects, in compliance with PG&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. Audit Findings:

1. **PG&E failed to demonstrate that it was in compliance with D. 02-12-074, Ordering Paragraph (OP) 24(b).** PG&E did not ensure that the Energy Procurement (EP) employees hired in Q2 completed PG&E's Code of Conduct (COC) Training in an appropriate timeframe.
2. **PG&E failed to demonstrate that it was in compliance with D.12-04-046, OP 14.** PG&E did not make the information from its Procurement Review Group (PRG) meeting held on June 19, 2012 available to the public in a timely manner.
3. **PG&E failed to demonstrate that it was in compliance with D.02-10-062, Appendix B.** Based on D.06-12-009, OP 3, PG&E filed a bilateral contract amendment with its Energy Recovery Reimbursement Account (ERRA) Compliance filing but failed to file it with its Q2 Quarterly Compliance Report (QCR) filing.

B. Recommendations:

1. **PG&E should enforce its mandatory COC training for all its new and transferred E&FP employees in a timely manner.**
2. **PG&E should ensure that its PRG meeting information is accessible to the public in a timely manner.**
3. **PG&E should file its bilateral contract amendments with its Q2 QCR filing as required by D.02-10-062, Appendix B, as well as per the requirements of its ERRA compliance filing.**

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. 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's (Commission) approved procurement plans, while complying with all AB 57 procurement rules and several procurement-related regulatory rulings and decisions, including, but not limited to, D.02-10-062, D.03-06-076, D.03-12-062, D.07-12-052, and D.08-11-008.

D. Findings:

1. COC

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.

Finding: Five of PG&E's new EP employees hired during Q2 did not complete COC training until two to four months later than their employment starting date. Completion of COC training served as the purpose of acknowledging PG&E's COC agreement.

PG&E's Response: PG&E responded that the delay in having its new EP employees complete their COC Training in Q2 was due to a transition of roles and responsibilities for the administering employees. The administering employees monitor the completion of the new EP employees' COC training. PG&E further asserts that as the roles and responsibilities were being transferred, follow-up on the completion of the COC training with some of the EP employees was delayed.

PG&E stated that the role and responsibility transition has been completed and that procedures are now in place to ensure timely completion of the COC training.

UAFCB Rebuttal: Even if PG&E decides to change the duties of its staff, it should not delay ensuring that new EP employees complete the COC training and sign PG&E's COC agreement in a timely manner.

2. PRG

Criteria: In D.12-04-046, OP 14, the Commission requires that the utilities' PRG meeting summaries shall be distributed on the earlier of a.) 14 days after the PRG meeting, or b.) 48 hours before the next regularly scheduled PRG meeting.

Finding: The list of non-confidential topics, list of participating organizations and attendees for the PRG meeting held on June 19, 2012 was not available on PG&E's web-based calendar until September 2012, which was almost three months later than the aforementioned Commission's requirement.

PG&E's Response: PG&E responded that the delay in making the meeting information from the PRG meeting held on June 19th publicly available was due to a revamping of the format of its PRG meeting summaries. PG&E further indicated that the revamp of the format was to provide a robust description of PRG meeting for the public.

PG&E asserts that the revamp has been completed and that the utility is now able to use the new format to quickly complete its PRG meeting summary and timely upload the meeting summary onto its public website.

UAFCB Rebuttal: Even if PG&E decides to change the format of the meeting summaries, it should not delay making the meeting summaries public.

3. Bilateral Contract Amendment

Criteria: In D.02-10-062, Appendix B, the Commission, among other things, requires that the utilities file all contracts with terms less than five years as part of their QCR filing.

Finding: As required by the Commission, PG&E filed its original Cal Peak Power bilateral contract executed in the first quarter of 2012, with a term less five years, via its first quarter of 2012 QCR filing. However, PG&E filed an amendment related to this contract, which was executed in Q2, via its ERRA Compliance filing but failed to file it with its Q2 QCR filing.

PG&E's Response: PG&E asserts that, in accordance with D.06-12-009, OP 3, the Cal Peak Contract Amendment should be a part of its 2012 ERRA Compliance filing. PG&E further stated that it is aware of the inconsistency of the Commission's requirements for filing original bilateral contracts less than five years and amendments related to those contracts. PG&E identified this issue to be addressed with the Commission in Track III of its LTPP.

UAFCB Rebuttal: PG&E is required to file its bilateral contract amendments with its QCR filings based on D. 02-12-062, Appendix B. If PG&E believes it should not file these contract amendments in both proceedings, it should seek clarification or modification of one or both of the decisions.

E. Conclusion:

Except for the items noted in Section D above, PG&E's AL 4091-E and its Q2 procurement transactions for electricity and natural gas were, in material respects, in compliance with PG&E's Commission-approved procurement plan and all relevant Commission decisions. PG&E's Q2 transactions, in material respects, appear to be complete, accurate and properly authorized by its management.

This audit is limited in scope and does not provide full assurance to the reasonableness of PG&E's Q2 QCR filing or its Q2 transactions.

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

cc: Rami Kahlon, Director, Division of Water and Audits
Judith Ikle, Energy Division
Ed Charkowicz, Energy Division
Lily Chow, Energy Division
Donna Wagoner, Division of Water and Audits
Tracy Fok, Division of Water and Audits

