

Memorandum



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Date: February 27, 2015
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 2663-E
Quarterly Procurement Plan Compliance Report for the Third 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 San Diego Gas and Electric Company's (SDG&E) Advice Letter No. (AL) 2663-E. The procurement transactions that SDG&E executed during the third quarter of 2014 (Q3), 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, SDG&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:

1. **SDG&E failed to demonstrate that it was in compliance with D.02-10-062, Appendix B and Public Utilities Code (PUC) §581.** In its Q3 Quarterly Compliance Report (QCR) filing, SDG&E made reporting errors in Attachment H. The UAFCB had noted that SDG&E made similar reporting errors ten times in the past. In response to UAFCB's findings, on February 25, 2015, SDG&E submitted an amended Attachment H to correct the reporting errors.
2. **SDG&E failed to demonstrate that it was in compliance with PUC §581.** SDG&E made numerous errors in its response to UAFCB's document requests.

B. Recommendations:

1. **Before submitting its QCR filings, SDG&E should thoroughly review its QCR and related attachments and ensure that all documents are correct and accurate.**
2. **Before submitting its response to UAFCB's document requests, SDG&E should thoroughly review its response for accuracy.**

C. Background:

As required by D.02-10-062, Ordering Paragraph (OP) 8 and clarified in D.03-12-062, Pacific Gas and Electric Company (PG&E), SDG&E, and Southern California Edison (SCE) must each submit a QCR filing 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, and as such these examinations are by design agreed-upon procedures. 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 directives ED chose to test for compliance include, but are not limited to: some of the ordering paragraphs included in 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. UAFCB, however, does not test all of the transactions that the utilities include in their QCR.

D. Negative Findings:

1. **SDG&E failed to demonstrate that it was in compliance with D.02-10-062, Appendix B and PUC §581.** SDG&E erroneously categorized its Yuma Cogeneration Associates contract amendment as an amendment that is not required to be filed via a separate/dedicated advice letter filing. This amendment should be required to be filed via a separate advice letter for the Commission's approval. Therefore, it should have been categorized as an amendment that does not require CPUC's approval via QCR filings but it is included for information only.

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.

In addition, PUC §581 requires that every public utility receiving from the commission any blanks with directions to fill them shall answer fully and correctly each question propounded therein, and if it is unable to answer any question, it shall give a good and sufficient reason for such failure.

SDG&E's Response: SDG&E asserts that the contract with Yuma Cogeneration was inadvertently included in the wrong section of Attachment H. On February 25, 2015, SDG&E filed a supplemental Q3 2014 QCR filing to correct Attachment H.

UAFCB's Rebuttal: In the following periods that UAFCB examined, SDG&E also made certain reporting errors in Attachment H:

1. Third Quarter of 2009;
2. Third Quarter of 2010;
3. First Quarter of 2011;
4. Second Quarter of 2011;
5. Third Quarter of 2011;
6. Fourth Quarter of 2011;
7. First Quarter of 2012;
8. Second Quarter of 2012;
9. Third Quarter of 2012; and
10. Fourth Quarter of 2012.

SDG&E should fully enforce its internal controls for checking its QCR filings and related attachments for accuracy before submitting them to the Commission.

2. **SDG&E failed to demonstrate that it was in compliance with PUC §581.** SDG&E made numerous errors in its response to UAFCB's document requests. These errors included transaction unit bid price errors and incorrect years.

Criteria: PUC §581 requires that every public utility receiving from the commission any blanks with directions to fill them shall answer fully and correctly each question propounded therein, and if it is unable to answer any question, it shall give a good and sufficient reason for such failure.

SDG&E's Response: SDG&E always strives to respond to data requests with complete correctness. In an attempt to eliminate these errors going forward, SDG&E will increase its internal reviews before submitting the responses.

UAFCB's Rebuttal: None.

E. Conclusion:

Except for the item noted in Section D above, SDG&E's AL 2663-E and its Q3 procurement transactions for electricity and natural gas that UAFCB examined were, in material respects, in compliance with the aspects of SDG&E's Commission-approved procurement plan and certain ordering paragraphs from relevant Commission decisions that the UAFCB tested compliance with. SDG&E's Q3 transactions that the UAFCB examined, in material respects, appear to be complete, accurate and properly authorized by its management.

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

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