State of California

Memorandum

Date: July 28, 2016

To: Edward Randolph
Director of Energy Division

From: **Public Utilities Commission— San Francisco**

Kayode Kajopaiye, Branch Chief
Division of Water and Audits

Subject: Pacific Gas and Electric Company Advice Letter 4783-E
Quarterly Procurement Plan Compliance Report for the Fourth Quarter of 2015

Based on the results of its audit, the 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) 4783-E. The procurement transactions that PG&E executed during the fourth quarter of 2015 (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 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 Q4 completed PG&E's Code of Conduct (COC) Training in an appropriate timeframe.

B. Recommendations:

PG&E should enforce its mandatory COC training for all its new and transferred E&FP employees in a timely manner.

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 Plan Compliance Report (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:

One of PG&E's new EP employees hired during Q4 did not complete COC training until four weeks after her employment starting date. Completion of COC training served as the purpose of acknowledging PG&G'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: PG&E asserts that the said new employee had trouble accessing the training and did not timely escalate the system issue to her supervisor or PG&E's Energy Compliance and Reporting (ECR) department. PG&E further asserts that ECR reached out to the employee and her supervisor directly to reiterate the importance of completing the COC training timely.

UAFCB Rebuttal: To minimize the risk that PG&E's employees do not timely complete the COC training, in addition to monitoring and detecting whether employees sign the COC within two weeks of their employment start dates, PG&E should have internal control process and procedures in place to ensure employees complete the COC training during the two-week timeframe after their employment starting dates.

E. Conclusion:

PG&E's AL 4783-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.

cc: Maryam Ebke, Deputy Executive Director
Judith Ikle, Energy Division
Michele Kito, Energy Division
Simone Brant, Energy Division
Yuliya Shmidt, Office of Ratepayer Advocates
Donna Wagoner, Division of Water and Audits
Tracy Fok, Division of Water and Audits