

Memorandum



Date: October 30, 2017

To: Edward Randolph
Director, Energy Division

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

Subject: San Diego Gas and Electric Company Advice Letter 3105-E
Quarterly Procurement Plan Compliance Report for the Second Quarter of 2017
Summary of Negative Findings

The Utility Audit, Finance and Compliance Branch (UAFCB) issues this memorandum containing its negative findings on San Diego Gas and Electric Company's (SDG&E) Quarterly Procurement Plan Compliance Report (QCR) filed by Advice Letter No.(AL) 3105-E. The negative findings are based on the results of UAFCB's performed procedures to assess SDG&E's compliance. UAFCB assesses SDG&E's compliance in accordance with agreed-upon procedures with Energy Division (ED) and does not assess compliance with all aspects of procurement-related state law and procurement-related directives mandated by the California Public Utilities Commission (Commission). 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 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:

SDG&E failed to demonstrate compliance with Decision (D) 02-10-062, Appendix B, and Public Utilities Code (PUC) §581. In its second quarter of 2017 (Q2) QCR, SDG&E made a reporting error in Attachment H. SDG&E incorrectly reported nine (9), instead of (13) thirteen, Demand Response Auction Mechanism (DRAM) contracts. On October 11, 2017, SDG&E submitted an amended Attachment H to correct the aforementioned reporting error.

B. Recommendation:

SDG&E should strengthen its review process of information included in QCR and related attachments and ensure the accuracy of such information before submitting QCR advice letters to the Commission.

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 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 by 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:

SDG&E failed to demonstrate compliance with Appendix B of D.02-10-062 and PUC §581. In Attachment H of its Q2 QCR, SDG&E incorrectly reported the number of DRAM contracts executed during Q2. Instead of (13) thirteen 2018-2019 DRAM contracts, which was the actual number of contracts executed during the quarter, SDG&E erroneously reported nine (9).

On October 11, 2017, SDG&E submitted an amended Attachment H to correct the aforementioned reporting error.

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, including but not limited to, the number and volume of transactions.

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 Response:

In its response dated October 11, 2017, SDG&E asserts that the reporting error was a typographical error. SDG&E subsequently submitted an amended Attachment H to correct the error.

UAFCB's rebuttal: QCR reporting errors have been findings 14 times in 2014, 2015 and 2016. SDG&E needs to vigorously implement and enforce new internal review process to ensure the accuracy of its QCR and related attachments before submitting any QCR to the Commission. In the future, UAFCB will recommend ED to reject any SDG&E QCR that contains reporting errors for correction and submittal.

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 SDG&E's QCR filed in AL 3105-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.

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