



Memorandum

Date: June 7, 2018

To: Edward Randolph
Director of Energy Division

From: **Public Utilities Commission—** Tracy Fok, Program and Project Supervisor
San Francisco Utility Audit, Finance and Compliance Branch

Subject: Pacific Gas and Electric Company Advice Letter 5224-E
Quarterly Procurement Plan Compliance Report for the Fourth Quarter of 2017
Summary of Negative Findings

The Utility Audit, Finance and Compliance Branch (UAFCB) issues this memorandum containing its negative findings on Pacific Gas and Electric Company (PG&E) Quarterly Procurement Plan Compliance Report (QCR) filed by Advice Letter No.(AL) 5224-E. The negative findings are based on the results of UAFCB's performed procedures to assess PG&E's compliance. UAFCB assesses PG&E's compliance in accordance with agreed-upon procedures (AUP) with Energy Division (ED) and does not assess the compliance with all aspects of the procurement-related state law and procurement-related directives mandated by the California Public Utilities Commission (CPUC or Commission). 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 the agreed-upon procedures engagement.

A. Summary of Negative Findings:

1. **PG&E failed to demonstrate that it was in compliance with Decision (D.) 02-10-062, Appendix B, and Public Utilities Code (PUC) §581.** PG&E made reporting errors in Attachments A, B, H, and M of its fourth quarter of 2017 (Q4) QCR. On May 24, 2018, PG&E submitted amended Attachments A, B, H, and M to correct its reporting errors in response to UAFCB's findings.
2. **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 sixteen (16) employees who transferred to Energy Procurement (EP) department during Q4 completed their Code of Conduct (COC) training within an appropriate timeframe.

B. Recommendations:

1. **Before submitting its QCR filings, PG&E should thoroughly review its QCR and related attachments and ensure that all documents are correct and accurate. PG&E needs to strengthen its internal controls to ensure the accuracy of its QCR and related attachments before submitting them to the Commission.**

2. **PG&E should enforce its mandatory COC training for all its new and transferred EP employees within an appropriate timeframe.**

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. UAFCB conducts the quarterly procurement engagements based on the scope specified by ED, using procedures agreed upon between 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:

1. **PG&E failed to demonstrate that it was in compliance with D.02-10-062, Appendix B, and PUC §581.** In its Q4 QCR, PG&E made reporting errors in Attachments A, B, H, and M. The reporting errors are described in detail below:
 - a. PG&E reported one (1) transaction with an incorrect execution method in Attachment A. As a result, the transaction was incorrectly reported on Attachment M of its Q4 QCR.
 - b. In its Attachment H, PG&E incorrectly reported the contract price (\$/kW-mo) for a resource adequacy (RA) contract executed as a result of an electronic solicitation during Q4. The incorrect contract price reporting encompassed the deliveries in June, August, and September.
 - c. In Attachment B, PG&E incorrectly reported the collateral type/credit mechanism for seven (7) counterparties.

On May 24, 2018, PG&E submitted amended Attachments A, B, H, and M to correct the above-mentioned reporting errors in response to UAFCB's findings.

Criteria:

1. 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 by an advice letter. The QCR and related attachments must contain, among other things, information that is complete and accurate and include, but not limited to, the number and volume of transactions.

2. 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.

PG&E's response: PG&E explains the reason for the reporting errors as follows:

1. On March 13, 2018, PG&E explains the transaction was incorrectly labeled as a bilateral transaction instead of an electronic solicitation on Attachment A. PG&E asserted that it intended to file a supplemental advice letter to correct the errors in Attachment A and M. Moreover, PG&E indicated that it implemented changes to its Attachment M generation process in order to ensure that all transactions included in the attachment meet the strong showing requirements.
2. On March 29, 2018, PG&E provided amended Attachment H to correct the monthly price per \$/kW-month. Going forward, PG&E will perform a more extensive review and approval process for the Resource Adequacy transactions.
3. On May 7, 2018, PG&E submitted a revised Attachment B to correct the types of collateral and credit mechanism used by counterparties for Q4. PG&E indicated that on a going-forward basis, it will ensure that correct types of collateral and credit mechanism used by non-investment grade counterparties are included in Attachment B.
4. On May 24, 2018, PG&E submitted amended Attachments A, B, H, and M to correct the above-mentioned reporting errors in response to UAFCB's findings.

UAFCB's Rebuttal: Before submitting its QCR and related attachments, PG&E should thoroughly review them and ensure that all documents are correct and accurate. PG&E needs to strengthen its internal controls and ensure the accuracy of its QCR and related attachments before submitting them to the Commission.

2. **PG&E failed to demonstrate compliance with D.02-12-074, OP 24(b).** PG&E did not ensure that its sixteen employees who transferred to the EP department during Q4 completed their COC training within two weeks of their employment start dates. These employees completed their COC training three to six weeks after they began their employment in the EP department. Completion of COC training served as the purpose of acknowledging PG&E'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: On March 13, 2018 and April 2, 2018, PG&E asserts the following:

1. PG&E had reorganization at the end of Q4 where several departments outside of the Energy Policy and Procurement (EPP) organization were integrated into EPP.
2. As part of the reorganization, Organizational Change Requests (OCRs) were created to move employees to their new departments within the Human Resources (HR) system. This process was manual and in some cases took 60 days to complete.
3. In addition to the HR system constraints, two contributing factors delayed the completion of the Code of Conduct: the condensed reorganizational time frame of EPP and the uncertainty in which department head counts were finalized.
4. The Risk, Compliance and Reporting (RCR) team, with current processes and controls, was able to ensure that most of the employees impacted by the reorganization completed the Code of Conduct training in a timely manner. Due to the HR system transition, the RCR team could not perform the usual validation to ensure that the 14 business day requirement was met. In the event of future reorganizations, given system constraints, the RCR team will take a more proactive role to ensure that all affected employees have completed the Code of Conduct timely.

UAFCB's Rebuttal: None.

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 PG&E's QCR filed in AL 5224-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 purpose.

cc: Barbara Owens, Risk and Compliance Officer
Judith Ikle, Energy Division
Michele Kito, Energy Division
Nick Dahlberg, Energy Division
David Peck, Energy Advisor to President Picker
Julie Halligan, Office of Ratepayer Advocates