

# Memorandum



**Date:** November 17, 2011

**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 2275-E  
Quarterly Procurement Plan Compliance Report for the Second Quarter of 2011

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 San Diego Gas and Electric Company's (SDG&E) Advice Letter No. (AL) 2275-E. SDG&E's audited procurement transactions during the second quarter of 2011 (Q2) were, in all material respects, in compliance with SDG&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. Summary of Audit Findings

1. **SDG&E failed to demonstrate that it was in compliance with D.07-12-052, Ordering Paragraph (OP) 7.** SDG&E did not ensure that its May and June 2011 Procurement Review Group (PRG) meeting information was available to the public on its web-based calendar in a timely fashion.

In response to UAFCB's finding, SDG&E reposted the correct web-link for its May and June 2011 PRG meeting information on September 27, 2011.

2. **SDG&E failed to demonstrate that it was in compliance with D.02-10-062, Appendix B.** SDG&E did not correctly report Attachments A, D and H of its Q2 Quarterly Compliance Report (QCR) filing.

In response to UAFCB's finding, SDG&E filed its corrected Attachments A, D, and H on November 4, 2011.

3. **SDG&E failed to demonstrate that it was in compliance with D.04-12-048, OP 15.** SDG&E failed to consult with its PRG for its resource adequacy (RA) sales contract with Shell Energy, which has a contract term greater than three calendar months.<sup>1</sup>

In response to UAFCB's finding, SDG&E indicated that it will brief its PRG on all future RA transactions regardless of size or timing in order to comply with the Commission's directive.

## B. Recommendations

1. **SDG&E should review its web-based calendar on a regular basis to ensure that its PRG meeting information is properly posted and available to the public in a timely fashion.**

<sup>1</sup> The Commission's resource adequacy requirement ensures that the utilities have enough reserve to fulfill their base load. The utilities purchase and sell energy to adjust their RA reserve and thus enter purchase or sales contracts to achieve these adjustments.

2. **Before submitting its QCR, SDG&E should thoroughly review its QCR and related attachments to ensure accuracy.**
3. **SDG&E should consult with its PRG for all transactions greater than three calendar months.**

### C. Background

As required by D.02-10-062, OP 8, and clarified in D.03-12-062, Pacific Gas and Electric Company (PG&E), SDG&E, and Southern California Edison (SCE) must submit 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 (Commission) approved procurement plans, while complying with all AB 57 procurement rules and several procurement-related rulings and decisions, including, but not limited to, D.02-10-062, D.03-06-076, D.03-12-062, D.04-12-048, D.07-12-052, and D.08-11-008.

### D. Findings

#### 1. Untimely Posting of PRG Meeting Summaries on Web-based PRG Calendar:

**Criteria:** In D.07-12-052, OP7, the Commission requires that utilities implement the following:

- A web-based PRG calendar with expected solicitation milestones;
- A PRG meeting agenda and materials delivered to members 48 hours in advance of a meeting;
- Meeting summaries; and
- Web-based forum for public dissemination of meeting information.

**Finding:** SDG&E was three to four months late in making its May and June PRG meeting information available to the public.

**SDG&E's Response:** SDG&E asserts that the delay was caused by a technical glitch of the Google calendar that supports SDG&E's PRG calendar. To address this issue, SDG&E reposted the correct web-link for its May and June 2011 PRG meeting information on September 27, 2011. SDG&E asserts that it will monitor its PRG calendar on a weekly basis to ensure the accessibility of its PRG meeting information and report its progress from this monitoring in the fourth quarter of 2011.

**UAFCB's Rebuttal:** None.

#### 2. Errors in the QCR

**Criteria:** In Appendix B of D.02-10-062, the Commission requires that utilities file each quarter's transactions by advice letter. The advice letter must contain, among other things, information that is complete and accurate, including, but not limited to, the number and volume of transactions.

**Findings:** SDG&E incorrectly reported the following attachments of its Q2 QCR filing:

- a. In Attachment H, SDG&E did not report the correct contract value for the Local and System RA sale contract with Shell Energy.
- b. In Attachment A, SDG&E incorrectly included two gas physical purchases from the third quarter of 2011.
- c. In Attachment D, SDG&E incorrectly reported numbers of transactions for its gas financial purchases.



**SDG&E's Response:** SDG&E filed its corrected Attachments A, D, and H on November 4, 2011.

**UAFCB's Rebuttal:** None.

**3. Failure to consult with the PRG for transactions greater than 90 days:**

**Criteria:** In D.04-12-048, OP15, the Commission requires that utilities to consult with the PRG for transactions with delivery periods greater than three calendar months, or one quarter.

**Finding:** SDG&E did not consult with its PRG regarding the 7-month RA bilateral sales contract with Shell Energy.

**SDG&E's Response:** SDG&E asserts that based upon its analysis of D.04-07-028, it believed that its bilateral RA transactions were not subject to D.04-12-048, OP 15. SDG&E believes that consulting with its PRG prior to the transaction in question was impracticable because the timing of the transaction would have necessitated holding an additional PRG meeting. SDG&E indicated that holding an additional PRG meeting just for the one transaction would have imposed an unreasonable burden on both the PRG members and SDG&E. SDG&E asserts that the Commission needs to achieve a reasonable balance between administrative requirements and the important goal of RA. In addition, SDG&E believes that the transaction in question was insignificant. Nevertheless, SDG&E indicated that it will brief its PRG on all future RA transactions regardless of size or timing and comply with the Commission's directive.

**UAFCB's Rebuttal:** D.04-12-048, OP 15 applies to all transactions, including bilateral RA transactions, with delivery periods greater than three calendar months, or one quarter. SDG&E is required to consult with its PRG before executing any transactions greater than three calendar months, or one quarter, regardless of a transaction's size or timing. In addition, the volume and length of the transaction in question was not insignificant.

**E. Conclusion**

Except for the items noted in Section D above, SDG&E's AL 2275-E and its Q2 procurement transactions for electricity and natural gas were, in material respects, in compliance with SDG&E's Commission-approved procurement plan and all relevant Commission decisions. SDG&E's Q2 transactions, in material respects, appear to be complete, accurate and properly authorized by its management.

The audit is limited in scope and does not provide full assurance to the reasonableness of SDG&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.

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