

Memorandum



Date: July 16, 2012
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 2329-E
Quarterly Procurement Plan Compliance Report for the Fourth 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) 2329-E. SDG&E's audited procurement transactions during the fourth quarter of 2011 (Q4) 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:

SDG&E failed to demonstrate that it was in compliance with D.02-10-062, Appendix B. SDG&E did not correctly report certain items in Attachments C, D, E, and H of its Q4 Quarterly Compliance Report (QCR) filing.

In response to UAFCB's Finding, SDG&E filed its corrected Attachments C and D on February 29, 2012 and corrected Attachments E and H on May 18, 2012.

B. Recommendations:

Before submitting its QCR, SDG&E should thoroughly review its QCR and related attachments to ensure that these documents are correct and accurate.

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 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:

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 information in the attachments of its Q4 QCR filing:

- a. In Attachment C, SDG&E overstated its notional value of electric physical purchases by \$13,130.
- b. In Attachment C, SDG&E understated its notional value of electric physical sales by \$1,562.
- c. In Attachment D, SDG&E understated its volume and notional value of gas financial purchases by 3,995,000 MMBtu and \$2,924,380 respectively.
- d. In Attachment E, SDG&E incorrectly reported \$175,000 for the system resource adequacy (RA) purchase contract with Powerex Corp. The correct contract value should be \$170,000.
- e. In Attachment H, SDG&E incorrectly reported \$1,009,800 for system RA sale contract with Shell Energy. The correct contract value should be \$990,000.
- f. In Attachment H, SDG&E did not include the 1-year local and system RA purchase contract with NRG Power Marketing LLC, which was worth \$57,387,808 and executed in Q4.

SDG&E's Response: SDG&E asserted that it inadvertently misreported the above-mentioned items. SDG&E filed its corrected Attachments C and D on February 29, 2012 and corrected Attachments E and H on May 18, 2012.

UAFCB's Rebuttal: None.

E. Conclusion:

Except for the items noted in Section D above, SDG&E's AL 2329-E and its Q4 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 Q4 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 Q4 QCR filing or its Q4 transactions.

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

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