

# Memorandum



**Date:** July 31, 2013  
**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 2456-E  
Quarterly Procurement Plan Compliance Report for the Fourth Quarter of 2012

**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) 2456-E.** The SDG&E procurement transactions during the fourth quarter of 2012 (Q4) that UAFCB examined were, in all material respects, in compliance with SDG&E's procurement plan, as approved in Decision (D.) 12-01-033, Assembly Bill (AB) 57 procurement rules and several procurement-related Commission directives. SDG&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. This audit is limited in scope and does not provide full assurance to the reasonableness of SDG&E's Q4 Quarterly Compliance Report (QCR) filing or its Q4 transactions.

## A. Summary of Negative Audit Findings:

- 1. SDG&E failed to demonstrate that it was in compliance with D.12-04-046, Ordering Paragraph (OP) 14.** SDG&E did not ensure that its Procurement Review Group (PRG) meeting information was available to the public on its web-based calendar within the time frame specified in D.12-04-046, OP 14. SDG&E's failure to make its PRG meeting information publicly available in a timely manner has been a UAFCB audit finding multiple times in the past.
- 2. SDG&E failed to demonstrate that it was in compliance with D.02-10-062, Appendix B.** In its Q4 Quarterly Compliance Report (QCR) filing, SDG&E made reporting errors in its Attachment A. SDG&E's failure to correctly report its QCR and related attachments has been a UAFCB audit finding multiple times in the past.
- 3. Finding 3: SDG&E failed to demonstrate that it was in compliance with D.02-10-062, Appendix B.** SDG&E did not correctly report one of its Feed-in-Tariff (FiT) program contracts in its Attachment H (New Contracts Executed and Contracts Amended) of its Q4 QCR filing.

## 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 within the time frame specified in D.12-04-046, OP 14. SDG&E should develop, implement and enforce new internal controls to ensure that its PRG meeting information is properly posted and available to the public in a timely fashion. ED should require SDG&E to provide UAFCB with a copy of its new controls in this area for evaluation.**
- 2. Before submitting its QCR filings, SDG&E should thoroughly review its QCR and related attachments to ensure that all documents are correct and accurate. SDG&E needs to increase its internal controls and implement and enforce the new controls to ensure the accuracy of its QCR**

**filings before submitting such filings to the Commission. ED should require SDG&E to implement new controls in this area and provide UAFCB with a copy of the new controls for evaluation.**

### **C. Background:**

As required by D.02-10-062, OP 8, and clarified in D.03-12-062, Pacific Gas and Electric Company, SDG&E, and Southern California Edison must submit QCR filings 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, D.08-11-008, and D.12-01-033.

### **D. Negative Findings:**

#### **Finding 1: SDG&E failed to demonstrate that it was in compliance with D.12-04-046, OP 14.**

SDG&E did not distribute its PRG meeting summaries from the October 19, 2012, November 16, 2012, and December 14, 2012 PRG meetings within the Commission's required timeframe. The meeting summaries were distributed two to three weeks late.

**Criteria:** D. 12-04-046, OP 14 requires PG&E, SCE, and SDG&E to distribute their PRG meeting summaries on the earlier of a) 14 days after the PRG meeting, or b) 48 hours before the next regularly scheduled PRG meeting.

**SDG&E's Response:** SDG&E asserts that it has established and put controls in place in February of 2013 to ensure its compliance with D.12-04-046, OP 14. SDG&E claims it now imposes an internal deadline of five business days for the distribution of PRG meeting summaries.

**UAFCB's Rebuttal:** In several past periods that UAFCB examined, SDG&E also did not distribute the PRG meeting information in a timely fashion due to various reasons. SDG&E should strictly implement and enforce its new internal controls to ensure that its PRG meeting information is properly distributed to the public in accordance with D.12-04-046, OP 14.

#### **Finding 2: SDG&E failed to demonstrate that it was in compliance with D.02-10-062, Appendix B.**

In Attachment A of its Q4 QCR filing, SDG&E incorrectly reported delivery (flow) dates for some of its electric transactions executed in the spot market. However, the corresponding transaction volume and values were correctly reported.

**Criteria:** In Appendix B of D.02-10-062, the Commission requires that each utility submit a summary of each quarter's energy procurement transactions of less than five years duration in a QCR and provide the QCR with 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.

**SDG&E's Response:** SDG&E brought the errors to the UAFCB's attention in a conference call on July 8, 2013 and subsequently submitted an amended Attachment A to correct the errors. The incorrect flow dates resulted from the manner in which the report, a base for Attachment A, was produced. The errors were not indicative of flaws in SDG&E's deal tracking system. The incorrect dates were non-substantive

in nature and only affected a small portion of the deals. All aspects of the deals related to price and volume were correctly reported.

**UAFCB's Rebuttal:** In several past periods examined, SDG&E also made reporting errors in its QCR filings and related attachments. SDG&E needs to tighten its quality control related to its deal capture system to ensure that all transactions are correctly reported in the system, as well as in its QCR filings. SDG&E should vigorously implement and enforce new internal controls for checking its QCR filings and related attachments for accuracy before submitting them to the Commission.

**Finding 3: SDG&E failed to demonstrate that it was in compliance with D.02-10-062, Appendix B.** SDG&E incorrectly reported the nominal value of its FiT program contract with Con Dios Solar 33, LLC as \$5,700,000 in Attachment H (New Contracts Executed and Contracts Amended) of its Q4 QCR filing. The correct value was \$10,477,942.

**SDG&E's Response:** The misstatement of the FiT program contract with Con Dios Solar 33, LLC was a result of SDG&E's miscalculation. SDG&E is continuing to refine its QCR reporting process to avoid any misstatements in its QCR filings in the future.

**UAFCB's Rebuttal:** SDG&E should implement and enforce new QCR reporting quality controls to ensure that all contracts are correctly reported in its QCR filings.

**E. Conclusion:**

Except for the items noted in Section D above, SDG&E's AL 2456-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.

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

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