




# Memorandum

**Date:** December 27, 2018

**To:** Edward Randolph  
Director of Energy Division

**From:** **Public Utilities Commission—  
San Francisco**

  
Tracy Fok, Program & Project Supervisor  
Utility Audit, Finance and Compliance Branch

**Subject:** Pacific Gas and Electric Company Advice Letter 5341-E  
Quarterly Procurement Plan Compliance Report for the Second Quarter of 2018  
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) 5341-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 compliance with Decision (D).02-10-062, Appendix B, and Public Utilities Code (PUC) §581.** In its second quarter of 2018 (Q2 2018) QCR, PG&E made reporting errors on its Attachment B and Quarterly Procurement Plan Compliance Report (QCR) narrative. On October 17, 2018, PG&E submitted the amended Attachment B and QCR narrative to correct the reporting errors in response to UAFCB's findings.
2. **PG&E failed to demonstrate compliance with D.04-12-048, Ordering Paragraph (OP) 11, and Article 6 of its Master Agreement.** PG&E did not properly enforce a payment term required by its contract agreement with one of its counterparties.
3. **PG&E failed to demonstrate compliance with PUC §581.** PG&E failed to disclose numerous Energy Procurement (EP) employees that were hired and transferred during the Q4 2017 and Q1 2018 in response to UAFCB's request.
4. **PG&E failed to demonstrate compliance with D.07-12-052, OP 27, and PUC §581.** PG&E failed to report its non-investment counterparties on Attachment B of its Q2 2018 QCR. On October 30, 2018, PG&E submitted the amended Attachment B to correct the reporting error in response to the finding. However, PG&E did not submit a supplemental advice letter for the amended Attachment B.

## **B. Recommendations:**

1. PG&E should implement an effective review process to ensure the reporting accuracy of its QCR and related attachments before submitting them to the Commission.
2. PG&E should strengthen its internal controls to ensure that all contracts executed comply with terms and provisions as set forth by its contract agreements.
3. PG&E should strengthen its review of documents submitted in response to UAFCB's requests to ensure that all documents provided are complete and accurate.
4. PG&E needs to be familiar with the QCR reporting requirement and implement and enforce an effective review process to ensure the reporting accuracy of its QCR and related attachments before submitting them to the Commission.

## **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 compliance with D.02-10-062, Appendix B, and PUC §581.** In its Q2 2018 QCR, PG&E made reporting errors on its Attachment B and QCR narrative as described below:
  - a) On its Attachment B, PG&E incorrectly reported an investment grade counterparty as a non-investment grade counterparty.
  - b) On PG&E's Q2 2018 QCR, Attachment 1: Narrative, page 9, PG&E reported that "it conducted electronic solicitations for the purchase of physical gas supply, relevant information is included in Confidential Attachment A". However, UAFCB's review of Attachment A indicated that PG&E did not execute any physical gas transactions from electronic solicitation.

### **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 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.

- 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:** On July 5, 2018 and July 11, 2018, PG&E responded the following:

- PG&E reported [REDACTED] as non-investment grade counterparty on Attachment B based on its own internal rating of the counterparty, which was below investment grade.
- Going forward, PG&E will only use external rating agencies, (i.e. Moody's, Standard and Poor's), for purposes of determining the non-investment grade counterparties to include on Attachment B.
- PG&E stated that the language PG&E included in the Narrative (page 9) section was "generic" in nature and meant to capture the type of CPUC approved procurement methods that PG&E may execute during the quarter. The language refers to the relevant confidential attachments for the actual transactions executed during the quarter.
- The corrective action that PG&E will take, going forward, is to use standard language to capture the activities during the quarter in the Narrative Section on page 9.
- On October 17, 2018, PG&E submitted the amended Attachment B and QCR to correct the above-mentioned reporting errors in response to UAFCB's findings.

**UAFCB's Rebuttal:** None.

2. **PG&E failed to demonstrate compliance with D.04-12-048, OP 11, and Article 6 of its Master Agreement.** PG&E did not properly enforce a contract monthly payment with one of its counterparties, which was 60 days prior to a delivery period, due to its system tracking flaws. As a result, PG&E received the first monthly payment 30 days later than the contract required timeframe. Instead of receiving the first monthly payment 60 days prior to the delivery period, PG&E received the payment 30 days prior to the delivery period.

**Criteria:**

- D.04-12-048, OP 10, states that when extending unsecured credit limits to non-investment counterparties, the utilities' credit assessment shall rely on master agreements with special parent or guarantor provisions for posting collateral and for assuring continuity of service.

- Article 6 of the Master Agreement and Section 3.1 of the Resource Adequacy (RA) confirmation indicates that the Buyer shall make a payment (a “Monthly Payment”) to the seller, no later than sixty (60) days prior to the applicable Showing Month.

**PG&E’s response:** On August 29, 2018, PG&E stated the following:

- The RA (Resource Adequacy) Sales transaction with [REDACTED] was entered incorrectly by the transactor in PG&E’s trade capture tool (Endur). Per Section 3.1 of the RA Confirmation (“No later than sixty (60) days prior to the applicable Showing Month”), the code entry in Endur should have been T-60 from the “first of month”, but instead “last of month” was entered. This resulted an incorrect payment due date for September and October Showing Months (8/2/18 and 9/4/18 respectively). The correct payment due dates should have been 7/3/18 and 8/2/18 respectively.
- The remaining payment schedule for November and December Showing Months has been corrected in Endur (T-60 from “first of month”) which is now consistent with the payment term of the RA Confirmation.
- In an effort to prevent this error in the future, PG&E will confirm in Endur that each payment due date is accurate.

**UAFCB’s Rebuttal:** None.

3. **PG&E failed to demonstrate compliance with PUC §581.** PG&E failed to disclose eleven (11) employees that were hired and transferred in Q4 2017 and Q1 2018 and involved in energy procurement activities in response to UAFCB’s request. UAFCB discovered this disclosure failure during its Q2 2018 COC review of PG&E’s employee organizational chart.

**Criteria:**

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 is unable to answer any question, it shall give a good and sufficient reason for such failure.

**PG&E’s response:** On September 27 and October 19, 2018, PG&E asserted the following:

- Energy Policy and Procurement (EPP) was part of a reorganization in December 2017. The reorganization affected a couple of departments inside and outside EPP. As a result of the reorganization, there were some PG&E employees who were inadvertently omitted from the EPP employee organizational charts in the SAP system.
- The process to create the **Organizational Change Request (OCRs) to transfer employees** between departments is a very manual process within the Human Resources (HR) system. In some cases, this transition took over 60 days to complete at which point the

EPP employees would show up on the organizational charts in the SAP system.

- The Risk, Compliance and Reporting Department's action plan for ensuring that a complete list of newly hired and/or transferred EPP employees is reported timely consist of:
  - a) Generating Organizational Charts/Reports from the SAP system weekly;
  - b) Emailing EPP assistants to request a list of new hires, transfers, contractors bi-weekly;
  - c) Receiving Code of Conduct Training Reports from Human Resources weekly;
  - d) Updating the EPP Employee Code of Conduct training roster with new EPP employees weekly, including their hire date, position date, and the date the last Code of Conduct was completed.

**UAFCB's Rebuttal:** None.

4. **PG&E failed to demonstrate compliance with D.07-12-052, OP 27 and PUC §581.** PG&E failed to report eleven (11) non-investment grade counterparties on its Attachment B. The contracts or transactions executed with these non-investment grade counterparties were included in Attachments A and H of PG&E's Q2 2018 QCR.

**Criteria:**

- D.07-12-052, OP 27 states that we direct the ED, in conjunction with the external auditors and the IOUs to continue the collaborative effort formed earlier this year and develop a reformatted QCR. We delegate authority to ED to authorize the implementation of the reformatted and streamlined QCRs and to make ministerial changes to the content and format of the report as needs arise. The reformatted QCR requires all the IOUs to report any non-investment grade counterparties that the IOUs transact with on Attachment B.
- 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:** On October 30, 2018, PG&E responded that :

- PG&E disagrees with UAFCB's Finding #4. PG&E stated that the non-investment grade counterparties that have a credit-worthy guarantor should be excluded from Attachment B, because these counterparties has a guaranty from an investment-rated counterparty such as a parent company. PG&E has applied this methodology consistently for reporting the non-investment counterparties on Attachment B for several years without any issues.
- PG&E submitted an amended Attachment B and included all non-investment grade counterparties as defined by rating agencies (S&P, Moody's, and Fitch). Going forward, PG&E has agreed to include all non-investment grade counterparties on Attachment B.

**UAFCB's Rebuttal:**

- Per D.07-12-052, IOUs shall follow the current QCR reporting template developed collaboratively with ED. As required by the template, all non-investment grade counterparties with whom the utility transacted during the quarter should be reported on Attachment B.
- PG&E submitted to UAFCB an amended Attachment B to correct the reporting error. However, PG&E did not submit the amended Attachment B via a supplemental advice letter as required by UAFCB.

**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 5341-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.

cc: Judith Ikle, Energy Division  
Michele Kito, Energy Division  
Nick Dahlberg, Energy Division  
Julie Halligan, Office of Ratepayer Advocates  
Jieli (Bella) Feng, Utility Audit, Finance and Compliance Branch