

Memorandum



Date: December 20, 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 2391-E
Quarterly Procurement Plan Compliance Report for the Second 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) 2391-E. SDG&E's procurement transactions during the second quarter of 2012 (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:

SDG&E failed to demonstrate that it was in compliance with D.02-10-062, Appendix B. In its Q2 Quarterly Compliance Report (QCR) filing, SDG&E made reporting errors in its Procurement Plan Compliance Report and Attachments C and H.

In response to UAFCB's findings, on August 31, 2012 and September 24, 2012, SDG&E submitted an amended Procurement Plan Compliance Report and Attachments C and H, correcting the reporting errors.

B. Recommendations:

- 1. SDG&E should strengthen its internal controls for submitting reports to require a quality review to detect and correct errors before submitting its reports.**
- 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.**

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.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 each utility file each quarter's energy procurement transactions of less than five years duration with a QCR filing by 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.

Finding: SDG&E incorrectly reported the following information in its Q2 QCR filing:

- a. On Page 13 of its Procurement Plan Compliance Report, SDG&E incorrectly stated that its pipeline capacity was made available on the Kern River Pipeline. The correct transporter should be the PG&E Pipeline.
- b. In Attachment C, SDG&E incorrectly classified its electric physical Hour-Ahead (HA) transactions in the "Other Non-Standard" category. These transactions should be classified in the "Spot HA purchases and Sales" category.
- c. In Attachment H, SDG&E misstated the contract value and unit price of its system Resource Adequacy (RA) purchase contract with Shell Energy executed in Q2 as shown below.

Shell Energy Contract	Unit Price	Contract Value
Incorrectly Reported	\$0.98/kW	\$5,890
Correct Amount	\$0.9667/kW	\$5,980

SDG&E's Response: SDG&E asserted that it inadvertently misreported the above-mentioned items. SDG&E amended Page 13 of Procurement Plan Compliance Report, and Attachments C and H to correct the aforementioned reporting errors. SDG&E submitted these amendments to UAFCB on August 31, 2012 and September 24, 2012.

UAFCB's Rebuttal: Since SDG&E has repetitively made errors in its QCR filings in the past and the current quarter, SDG&E needs to tighten its quality control of its QCR reporting to ensure that all documents contained in the QCR filing are correct and complete.

E. Conclusion:

Except for the items noted in Section D above, SDG&E's AL 2391-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.

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

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