State of California

Memorandum

Date: April 24, 2013

To: Edward Randolph
Director of Energy Division

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

Kayode Kajopaiye, Branch Chief
Division of Water and Audits

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Subject: Pacific Gas and Electric Company Advice Letter 4132-E
Quarterly Procurement Plan Compliance Report for the Third Quarter 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 Pacific Gas and Electric Company's (PG&E) Advice Letter No. (AL) 4132-E. The PG&E procurement transactions during the third quarter of 2012 (Q3) that UAFCB examined were, in all material respects, in compliance with PG&E's procurement plan, as approved in Decision (D.) 07-12-052, Assembly Bill (AB) 57 procurement rules and several procurement-related Commission directives. PG&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 was limited in scope and does not provide full assurance to the reasonableness of PG&E's Q3 Quarterly Compliance Report (QCR) filing or its Q3 transactions.

A. Summary of Audit Findings:

1. **PG&E failed to demonstrate that it was in compliance with D. 02-12-074, Ordering Paragraph (OP) 24(b).** PG&E did not ensure that an Energy Procurement (EP) employee hired in Q3 completed PG&E's Code of Conduct (COC) Training and assurance in an appropriate timeframe. UAFCB found that PG&E allowed new employees to not sign the COC agreement or complete the COC training in a timely fashion multiple times in the past.

2. **PG&E failed to demonstrate that it was in compliance with D.12-04-046, OP 14.** PG&E did not make the information from its Procurement Review Group (PRG) meeting held on September 13, 2012 available to the public in a timely manner. PG&E's failure to make its PRG meeting information publicly available in a timely manner was a UAFCB audit finding multiple times in the past.

3. **PG&E failed to demonstrate that it was in compliance with D.02-10-062, Appendix B.** In Attachments A and D of its Q3 QCR filing, PG&E made reporting errors. On February 22, 2013, PG&E submitted amended Attachments A and D to correct its reporting errors. PG&E's failure to correctly report its QCR and related attachments was a UAFCB audit finding multiple times in the past.

B. Recommendations:

1. **PG&E should enforce its mandatory COC training for all its new and transferred EP employees in a timely manner. PG&E needs to increase its internal controls and implement**

and enforce the new controls in this area to ensure that new EP employees complete the COC training in a timely manner.

2. **PG&E should ensure that its PRG meeting information is accessible to the public in a timely manner. PG&E should develop, implement and enforce new internal controls to ensure that its PRG meeting information is posted in compliance with the Commission's requirement.**
3. **Before submitting its QCR filings, PG&E should thoroughly review its QCR and related attachments to ensure that all documents are correct and accurate. PG&E should develop, implement, and enforce new internal controls for checking its reports for accuracy 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. ED requested that the UAFCB conduct compliance audits of these utilities' QCR filings.

The objective of these quarterly audits is to determine if the utilities were in compliance with their California Public Utilities Commission's (Commission) approved procurement plans, while complying with all AB 57 procurement rules and several procurement-related regulatory 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:

Finding 1: PG&E failed to demonstrate that it was in compliance with D.02-12-074, OP 24(b). One of PG&E's new EP employees hired during Q3 did not complete PG&E's COC training and provide the required COC assurances until two months after their employment starting date. The COC training is web-based and requires that EP employees electronically certify that they read, understand, and will comply with the standards outlined in the Employee COC upon completion of the training. Therefore, completion of PG&E's COC training includes the new employees electronically signing PG&E's COC agreement.

Criteria: In D. 02-12-074, OP 24(b), the Commission requires that each utility must adopt, actively monitor, and enforce compliance with a comprehensive code of conduct for all employees engaged in the utility's energy procurement process. It is a good management practice for an employee to complete the COC training or sign COC agreement within two weeks of starting employment in PG&E's EP department. If a new EP employee does not complete the COC training or sign a COC agreement within a two-week timeframe of beginning employment in EP, risks in its EP department can increase significantly because the EP employees may violate PG&E's COC rules without reviewing and understanding these rules.

PG&E's Response: PG&E indicated that the delay in having its new EP employee complete his or her COC Training was because PG&E was waiting to administer its new 2012 Employee COC training. The employee was hired in July 2012 but the new 2012 Employee COC training was not released until mid-September 2012, causing a delay of two months. PG&E stated that, in the future, it will require new employees to complete COC training, including electronically signing its COC agreement, immediately after they are hired.

UAFCB Rebuttal: While the reason is different this time than in the past for failing to complete the COC training in a timely fashion, PG&E needs to ensure that its new employees complete the COC training or sign the COC agreement immediately after they are hired into the EP department. In this case it would have been better to have the new employee participate in both the old and new training and have the employee certify, in a timely fashion, that he or she agrees to abide by the COC agreement. PG&E needs to increase its internal controls, implement and enforce the new controls in this area to ensure that new EP employees complete the COC training and electronically sign the COC agreement in a timely fashion.

Finding 2: PG&E failed to demonstrate that it was in compliance with D.12-04-046, OP 14. PG&E did not post the lists of non-confidential topics, participating organizations and attendees for the PRG meeting held on September 13, 2012 on its public website until November 2012, more than two months later contrary to the Commission's requirement.

Criteria: In D.12-04-046, OP 14, the Commission requires that the utilities' PRG meeting summaries shall be distributed on the earlier of a.) 14 days after the PRG meeting, or b.) 48 hours before the next regularly scheduled PRG meeting.

PG&E's Response: PG&E noted that the delay in making the meeting information from the PRG meeting held on September 13, 2012 publicly available was due to technical issues caused by uploading the meeting information onto its public website.

UAFCB Rebuttal: In several past periods examined, PG&E also did not post the PRG meeting information on its public website in a timely fashion due to technical issues. PG&E should resolve its technical issues promptly and ensure that its PRG meeting information is publicly available in a timely manner. PG&E should develop, implement and enforce new internal controls to ensure that its PRG meeting information is posted in compliance with the Commission's requirement.

Finding 3: PG&E failed to demonstrate that it was in compliance with Appendix B of D.02-10-062. PG&E overstated its gas physical volume by 70,000 MMBtu and corresponding notional value by $245,100 in Attachments A and D of its Q3 QCR filing.

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 volume and notional value of transactions.

PG&E's Response: PG&E indicated that the reporting errors were due to its incomplete corrections of data entry errors in its trade capture system, Endur. On February 22, 2013, PG&E submitted amended Attachments A and D to correct the reporting errors.

UAFCB Rebuttal: In several past periods examined, PG&E also made reporting errors in its QCR filings and related attachments. PG&E needs to tighten quality control of its QCR reporting to ensure that all documents contained in its QCR filing are correct and complete. PG&E should develop, implement and enforce new internal controls for checking its reports for accuracy before submitting them to the Commission.

E. Conclusion:

Except for the items noted in Section D above, PG&E's AL 4132-E and its Q3 procurement transactions for electricity and natural gas that UAFCB reviewed were, in material respects, in compliance with PG&E's Commission-approved procurement plan and all relevant Commission decisions. The Q3 transactions that UAFCB reviewed, in material respects, were complete, accurate and properly authorized by its management.

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

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