



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: Pacific Gas and Electric Company Advice Letter 4184-E
Quarterly Procurement Plan Compliance Report for the Fourth 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) 4184-E. The PG&E procurement transactions during the fourth quarter of 2012 (Q4) that UAFCB examined were, in all material respects, in compliance with PG&E's procurement plan, as approved in Decision (D.) 12-01-033, 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 Q4 Quarterly Compliance Report (QCR) filing or its Q4 transactions.

A. Summary of Negative Audit Findings:

PG&E failed to demonstrate that it was in compliance with D. 03-12-062, Conclusion of Law (COL) 12. PG&E did not consult with its Procurement Review Group (PRG) regarding the two contracts executed in Q4 with WPX Energy. The terms of these two contracts are greater than 90 days or three calendar months.

B. Recommendations:

PG&E should consult with its PRG before it executes any contracts with terms greater than 90 days or three calendar months.

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, and Southern California Edison 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, D.08-11-008, and D.12-01-033.

D. Negative Findings:

Finding 1: PG&E failed to demonstrate that it was in compliance with D.03-12-062, COL 12. In Q4, PG&E executed two contracts with WPX Energy as the result of its 2012-2013 Ruby Pipeline Gas Supply Request for Offers (RFO). The terms of the two contracts are greater than 90 days or three calendar months. PG&E neither presented to its PRG regarding the bid ranking of these two contracts nor consulted with the PRG specifically on the prices and terms of these two contracts.

Criteria: D.03-12-062, COL 12 requires the utilities to consult with their PRG for transactions of greater than 90 days.

PG&E's Response: PG&E did not consult with the PRG regarding the two WPX Energy contracts prior to their execution, but had communicated with its PRG in the Electric Portfolio Winter 2012-2013 Physical Plan regarding: (1) the issuance of the Ruby Pipeline Supply RFO and (2) the evaluation criteria. PG&E asserts that its selection criterion was straightforward, which was to choose the smallest adder to the bid week index prices. In addition, PG&E claims it had to accept offers within three business days from the time offers were submitted by bidders. Such a schedule did not give PG&E enough time to consult with the PRG. PG&E pointed out if it consulted with the PRG on the two contracts, it would mean a longer review period which would have caused bidders to increase the prices of their offers due to the additional risk they would face by holding open their offers. PG&E asserts that meaningful consultation on individual commodity transactions of this type is not practical and is not in the best interest of PG&E's customers.

UAFCB Rebuttal: PG&E's consultation with the PRG regarding the issuance of the Ruby Pipeline Supply RFO and the related evaluation criteria did not specifically address the two contracts with WPX Energy. PG&E should at least, before the contract execution, present prices, terms, and bid ranks of the two contracts to the PRG during the RFO negotiation process. If holding a PRG meeting to discuss the contracts in a short timeframe is not feasible, PG&E could always, by e-mail, communicate such information to its PRG members and request feedback from the members.

E. Conclusion:

Except for the items noted in Section D above, PG&E's AL 4184-E and its Q4 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 Q4 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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