



# Memorandum

**Date:** December 20, 2013

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

**From:** **Public Utilities Commission—  
San Francisco** Kayode Kajopaiye, Branch Chief  
Division of Water and Audits

**Subject:** Pacific Gas and Electric Company Advice Letter 4220-E  
Quarterly Procurement Plan Compliance Report for the First Quarter of 2013

Based on the results of its audit, the Division of Water and Audits' Utility Audit, Finance and Compliance Branch (UAFCB) recommends that Energy Division (ED) not approve Pacific Gas and Electric Company's (PG&E) Advice Letter No. (AL) 4220-E until a non-compliant transaction that PG&E executed in the first quarter of 2013 (Q1) is addressed by the Commission. The PG&E procurement transactions during Q1 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 Q1 Quarterly Compliance Report (QCR) filing or its Q1 transactions.

## A. Summary of Audit Findings:

1. **PG&E failed to demonstrate compliance with D.02-10-062, Appendix B.** In its Q1 QCR filing, PG&E made a reporting error in Attachment H. In response to UAFCB's findings, on December 5, 2013, PG&E submitted an amended Attachment H, correcting the reporting error.
2. **PG&E disclosed that one transaction that it executed in Q1 was not in compliance with its approved hedging plan.** PG&E explained that this transaction exceeded one of the hedging limits in its approved hedging plan. Evaluation of the utilities' compliance with the hedging limits in approved hedging plans is outside of the scope of UAFCB's audits.

## B. Recommendations:

1. **Before submitting its QCR filings, PG&E should thoroughly review its QCR and related attachments to ensure that all documents are correct and accurate.**
2. **ED should not approve AL 4220-E until the non-compliant transaction is addressed by the Commission and the Commission determines an appropriate action for the noncompliance.**

## 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:** In Attachment H of its Q1 QCR filing, PG&E incorrectly reported the volume of the contract that it executed with Lodi Gas Storage LLC. PG&E incorrectly reported 6,808,000 MMBtu for this contract. The correct volume is 6,080,000 MMBtu.

**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.

**PG&E's Response:** On December 5, 2013, PG&E filed amended Attachment H to correct its reporting error.

**UAFCB's Rebuttal:** PG&E needs to strengthen its quality control with respect to its QCR reporting and ensure that all documents contained in the QCR filing are correct and complete.

**Finding 2:** PG&E disclosed that it was not in compliance with the hedging limits of its approved hedging plan. PG&E indicated that it executed one transaction during Q1 that exceeded one of the operating targets in its approved hedging plan. On October 21, 2013, PG&E filed amended AL 4220-E-A and disclosed the non-compliant transaction that it executed in Q1. PG&E asserts that the non-compliant transaction occurred because a control for one of the operating targets in its approved hedging plan was not included in its electronic hedging implementation model. PG&E indicated that it subsequently implemented additional procedural controls that would prevent the reoccurrence of non-compliant transactions and executed offsetting transactions to close out any non-compliant transactions that could still be exposed to market price risk. PG&E states that when it presents testimony in its 2013 ERRA Compliance Proceeding to be filed on February 28, 2014, it will request the Commission's approval of the non-compliant transaction and associated activity.

**UAFCB's Rebuttal:** Evaluating whether the non-compliant transaction was under the limits of PG&E's hedging operating targets was not part of UAFCB's audit scope for PG&E's Q1 QCR filing. The transaction should be addressed by the Commission before ED takes action on AL 4220-E and PG&E's Q1 QCR filing.

#### **E. Conclusion:**

Except for the items noted in Section D above, PG&E's AL 4220-E and its Q1 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 Q1 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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