

Memorandum



Date: September 16, 2015

To: Edward Randolph
Director of Energy Division

From: Public Utilities Commission—
San Francisco

Kayode Kajopaiye, Branch Chief
Division of Water and Audits

A handwritten signature in black ink, appearing to read "Kajopaiye", written over the typed name of the Branch Chief.

Subject: San Diego Gas and Electric Company Advice Letter 2736-E
Quarterly Procurement Plan Compliance Report for the First Quarter of 2015

Based on the results of its audit, the Utility Audit, Finance and Compliance Branch (UAFCB), of the Division of Water and Audits, 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) 2696-E. The procurement transactions that SDG&E executed during the first quarter of 2015 (Q1), that UAFCB examined demonstrated, in all material respects, compliance with certain aspects of procurement-related state law and California Public Utilities Commission (Commission or CPUC) directives. The UAFCB assesses compliance in accordance with agreed-upon procedures with ED and does not assess compliance with all aspects of the procurement-related state law or those directives. In addition, SDG&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.

A. Summary of Negative Audit Findings:

- 1. SDG&E failed to demonstrate that it was in compliance with D.02-12,074, Ordering Paragraph (OP) 24(b).** SDG&E did not ensure that its Electric and Fuel Procurement (E&FP) employee hired in Q1 signed SDG&E's Code of Conduct (COC) agreement in a timely manner.
- 2. SDG&E failed to demonstrate that it was in compliance with D.02-10-062, Appendix B.** In its Q1 Quarterly Compliance Report (QCR) filing, SDG&E made reporting errors in Attachments A and D. On May 29, 2015, SDG&E amended Attachments A and D to correct these reporting errors. SDG&E's failure to correctly report its QCR and related attachments has been a UAFCB audit finding multiple times in the past.
- 3. SDG&E failed to demonstrate that it was in compliance with D.02-10-062, Appendix B.** In its Q1 QCR filing, SDG&E made a reporting error of a time period and outdated regulation references throughout AL 2696-E and Q1 Procurement Plan Compliance Report. On June 12, 2015, SDG&E submitted a revised AL 2696-E and Q1 Procurement Plan Compliance Report with a corrected time period and updated regulation references.

B. Recommendations:

- 1. SDG&E should ensure that its E&FP new hires receive and acknowledge SDG&E's COC agreements in a timely manner.**
- 2. Before submitting its advice letters and related QCR filings, SDG&E should thoroughly review information contained in them and ensure that all documents are correct and accurate. SDG&E needs to increase its internal controls and implement and enforce the new controls to ensure the accuracy of its advice letters and related QCR filings before submitting them to the Commission.**

C. Background:

As required by D.02-10-062, Ordering Paragraph (OP) 8 and clarified in D.03-12-062, Pacific Gas and Electric Company (PG&E), SDG&E, and Southern California Edison (SCE) must each submit a QCR filing 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.

UAFCB conducts the quarterly procurement audits based on procedures specified by ED, and as such these examinations are by design agreed-upon procedures. ED specified which aspects of the utilities' Commission-approved procurement plans, AB 57 procurement rules and several procurement-related rulings and decisions to test for compliance. The directives ED chose to test for compliance include, but are not limited to: some of the ordering paragraphs included in 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. UAFCB, however, does not test all of the transactions that the utilities include in their QCR.

D. Findings:

1. COC Not Signed in Timely Manner

Criteria: In 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 procurement process. It is a good management practice for an employee to sign COC agreement within two weeks of starting employment in the E&FP department. If any E&FP employees sign COC agreement outside of this two-week timeframe, SDG&E's internal control risk in the E&FP department can increase significantly because the E&FP employees may violate SDG&E's COC rules without reviewing and understanding the rules.

Finding: One employee who was hired in Q1 and involved in SDG&E's E&FP department did not complete and acknowledge SDG&E's COC training in a timely manner. This employee completed and acknowledged SDG&E's COC training 26 days after her hire date.

SDG&E's Response: The aforementioned employee's delay in signing SDG&E's COC agreement was due to a human error. The employee incorrectly set a reminder to complete and acknowledge the COC training that was outside the above-mentioned two-week timeframe.

UAFCB's Rebuttal: All investor owned utilities (IOU) should actively monitor and enforce compliance with a comprehensive COC for all employees engaged in the energy procurement process as required by D.02-12-074, OP 24(b). This includes SDG&E ensuring that its employees, who are involved in energy procurement process, either sign COC agreement or complete COC training within a two-week timeframe from the employees' hire dates.

2. Errors in QCR Filing Attachments

Criteria: In Appendix B of D.02-10-062, the Commission requires that utilities file each quarter's transactions by advice letter. The advice letter must contain, among other things, information that is complete and accurate, including, but not limited to, the number and volume of transactions.

Finding: In Attachments A and D of SDG&E's Q1 QCR Filing, SDG&E incorrectly reported numbers of deals for gas physical transactions.

SDG&E's Response: The reporting errors were in the deal count of gas physical receipt and

delivered at Kern location. The errors were attributed to a duplicate gas physical deal and a query error of transaction counting in SDG&E's trade system. On May 29, 2015, SDG&E amended Attachments A and D to correct these reporting errors.

UAFCB's Rebuttal: In several of the past periods examined, SDG&E also made reporting errors in its QCR filings and related attachments. SDG&E should vigorously implement and enforce new internal controls for checking its QCR filings and related attachments for accuracy before submitting them to the Commission.

3. Errors in Advice Letter and QCR

Criteria: In Appendix B of D.02-10-062, the Commission requires that utilities file each quarter's transactions by advice letter. The advice letter must contain, among other things, information that is complete and accurate, including, but not limited to, the number and volume of transactions.

Finding: In AL 2736-E, SDG&E incorrectly indicated 2014, instead of 2015, for its Q1 QCR filing. In addition, throughout AL 2736-E and Procurement Plan Compliance Report, SDG&E referenced Short-Term Procurement Plan for 2006 and Resolution E-4189, which are outdated for its Q1 QCR filing. SDG&E should have referenced D.12-01-033 and 2012 Long Term Procurement Plan, which are current and applicable to its Q1 2015 QCR filing.

SDG&E's Response: On June 12, 2015, SDG&E corrected the aforementioned year and outdated references and filed substitute sheets to AL 2736-E and its Procurement Plan Compliance Report.

UAFCB's Rebuttal: SDG&E should vigorously implement and enforce new internal controls for checking its advice letters and Procurement Plan Compliance Reports for accuracy before submitting them to the Commission.

E. Conclusion:

SDG&E's AL 2736-E and its Q1 procurement transactions for electricity and natural gas that UAFCB examined were, in material respects, in compliance with the aspects of SDG&E's Commission-approved procurement plan and certain ordering paragraphs from relevant Commission decisions that the UAFCB tested compliance with. SDG&E's Q1 transactions that the UAFCB examined, 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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