




Memorandum

Date: April 5, 2018

To: Edward Randolph
Director of Energy Division

From: **Public Utilities Commission—
San Francisco** 
Tracy Fok, Program and Project Supervisor
Utility Audit, Finance and Compliance Branch

Subject: Pacific Gas and Electric Company Advice Letter 5171-E
Quarterly Procurement Plan Compliance Report for the Third Quarter of 2017
Summary of Negative Findings

The Utility Audit, Finance and Compliance Branch (UAFCB) issues this memorandum containing its negative findings on Pacific Gas and Electric Company (PG&E) Quarterly Procurement Plan Compliance Report (QCR) filed by Advice Letter No.(AL) 5171-E. The negative findings are based on the results of UAFCB's performed procedures to assess PG&E's compliance. UAFCB assesses PG&E's compliance in accordance with agreed-upon procedures (AUP) with Energy Division (ED) and does not assess the compliance with all aspects of the procurement-related state law and procurement-related directives mandated by the California Public Utilities Commission (CPUC or Commission). In addition, PG&E's transactions conducted in the Integrated Forward Market (IFM) and the Residual Unit Commitment Market (RUC) are outside the scope of the agreed-upon procedures engagement. The agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA).

A. Summary of Negative Findings:

PG&E failed to demonstrate that it was in compliance with Decision (D.) 02-10-062, Appendix B, and Public Utilities Code (PUC) §581. In its third quarter 2017 (Q3) QCR, PG&E made reporting errors in Attachments A, B and D. The same reporting errors also existed in its first and second quarters of 2017 (Q1 and Q2) QCR. On January 24, 2018, PG&E submitted amended Attachments A, B and D to correct its reporting errors in response to UAFCB's findings, .

B. Recommendations:

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 needs to increase its internal controls and implement and enforce the new controls to ensure the accuracy of its QCR filings before submitting such filings to the Commission.

C. Background:

As required by D.02-10-062, Ordering Paragraph (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. UAFCB conducts the quarterly procurement engagements based on the scope specified by ED, using procedures agreed upon between ED and UAFCB. ED specified which aspects of the utilities' Commission-approved procurement plans, Assembly Bill (AB) 57 procurement rules and several procurement-related rulings and decisions to test for compliance. The decisions and rulings that ED chose directives from to test for compliance include, but are 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, D.12-01-033, D.15-10-031 and D.16-01-015. Based on our understanding with ED, UAFCB does not test all of the transactions that the utilities include in their QCR.

D. Negative Findings:

PG&E failed to demonstrate that it was in compliance with D.02-10-062, Appendix B, and PUC §581. In its Q3 QCR, PG&E made reporting errors in Attachments A, B and D. The same reporting errors also existed in the same attachments of PG&E's Q1 and Q2 QCR. The reporting errors are described in detail below:

- a. PG&E reported six transactions with incorrect forward gas prices. As a result, the average price and notional value were incorrectly reported on Attachments A, B, and D of its Q3 QCR.
- b. On Attachment D of its Q3 QCR, PG&E incorrectly included four (4) Physical Call Option transactions that were not executed during Q3.
- c. Prior to Q1, PG&E had been reporting its gas physical transactions by delivery location on Attachment D of its QCR. Without ED's pre-approval, however, PG&E changed its practice of reporting gas physical transactions by eliminating delivery locations from Attachment D of its Q1, Q2 and Q3 QCR. The elimination of delivery locations provided limited information for UAFCB to conduct its AUP review.

On January 24, 2018, PG&E submitted amended Attachments A, B and D to correct the above-mentioned reporting errors in response to UAFCB's findings.

Criteria:

1. 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 by an advice letter. The QCR and related attachments must contain, among other things, information that is complete and accurate and include, but not limited to, the number and volume of transactions.

2. PUC §581 requires that every public utility receiving from the commission any blanks with directions to fill them shall answer fully and correctly each question propounded therein, and if it is unable to answer any question, it shall give a good and sufficient reason for such failure.

PG&E's response: On January 8, 2018 and January 24, 2018, PG&E explained the reason for the reporting errors as follows:

- a. Beginning in Q1 2017, PG&E streamlined Attachment D in an effort to provide summarized transactional information, improve efficiencies, and eliminate redundancies between Attachment A and D. PG&E discontinued summarizing the location of gas physical transactions given that the locations of each physical transaction was already provided in Attachment A. Going forward, PG&E has revised its procedures to include the gas physical transactions summarized by location in Attachment D in future QCRs.
- b. PG&E introduced a new streamlined approach and as part of the new process, two minor steps in the report generation were inadvertently omitted.
- c. Due to manual processes, the missed steps to clear the summary table of the Physical Call Option trades from a previous quarter were not identified in the validation of the QCR prior to filing.

PG&E automated the Quarterly Compliance Report in its Endur trade capture system and will no longer rely on manual processes. Additionally, PG&E will implement a new validation process to ensure the accuracy of the QCR filings going forward.

On January 24, 2018, PG&E submitted revised Attachments A and B for Q3 QCR and revised Attachment D for Q1, Q2 and Q3 QCR.

UAFCB's Rebuttal: Before submitting its QCR and related attachments, PG&E should thoroughly review them to ensure that all documents are correct and accurate. PG&E needs to vigorously implement and enforce new internal controls and ensure the accuracy of its QCR and related attachments before submitting them to the Commission.

E. Conclusion:

UAFCB was not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on PG&E's QCR filed in AL 5171-E. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to ED.

This memo is intended solely for the information and use of ED and should not be used by anyone other than ED or for any purpose.

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