




# Memorandum

**Date:** May 10, 2019

**To:** Edward Randolph  
Public Utilities Commission  
Director of Energy Division

**From:** Angie Williams, Director   
Utility Audit, Finance and Compliance Branch  
Enterprise Risk and Compliance Office

**Subject:** Pacific Gas and Electric Company Advice Letter 5475-E  
Findings on Quarterly Energy Procurement Compliance Report for the Fourth Quarter of 2018

**The Utility Audit, Finance and Compliance Branch (UAFCB) issues this memorandum containing its findings on Pacific Gas and Electric Company (PG&E) Quarterly Energy Procurement Compliance Report (QCR) filed by Advice Letter No. (AL) 5475-E.** The 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 AUP engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA). 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 5475-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 other purpose.

## A. Finding Summary

1. **PG&E failed to demonstrate compliance with Decision (D).03-12-062, Ordering Paragraph (OP) 11, and Article 8.1 of its contract agreements.** PG&E did not properly enforce the provisions of cash collateral set forth in Article 8.1 of two contract agreements that it executed with a non-investment grade counterparty.
2. **PG&E failed to demonstrate compliance with D.02-10-062, Appendix B and Public Utilities Code (PUC) § 581.** In its fourth quarter of 2018 (Q4) QCR, PG&E failed to include a complete copy of its contract agreement executed through an electronic solicitation process. On

April 24, 2019, PG&E filed a supplemental advice letter to include a complete copy of the contract agreement in response to UAFCB's finding.

## A. Recommendations

1. PG&E should strengthen its internal controls to ensure that all contracts executed with its counterparties comply with contract provisions as set forth in its contract agreements.
2. PG&E needs to implement and enforce an effective review process to ensure that its QCR and related attachments are complete before submitting them to the Commission.

## B. 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. 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 chooses 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.

## C. Finding Detail

1. **PG&E failed to demonstrate compliance with D.03-12-062, OP 11, and Article 8.1 of its contract agreements.** PG&E did not properly enforce the provisions of cash collateral set forth in Article 8.1 of two contract agreements that it executed with a non-investment grade counterparty. Specifically, PG&E received the cash collateral specified in the agreements 37 to 53 business days after the contract execution dates. As required by Article 8.1 of the contract agreements, the counterparty should provide the cash collateral to PG&E within five (5) business days following the contract confirmation effective (or execution) dates.

### Criteria:

- D.03-12-062, OP 11, states that when extending unsecured credit limits to non-investment (grade) counterparties, the utilities' credit assessment shall rely on master agreements with special parent or guarantor provisions for posting collateral and for assuring continuity of service.
- Article 8.1 of the contract agreements between [REDACTED] (Buyer) and PG&E (Seller) requires Buyer, within five (5) Business Days following the contract confirmation effective (or execution) dates, provide to, and maintain with, Seller a Fixed Independent Amount as long as Buyer or its Guarantor, if any, does not maintain Credit Rating of at least BBB from S&P and Baa3 from Moody's.

**PG&E's response:**

On March 20, 2019 and April 12, 2019, PG&E stated the following in response to the finding:

- i. There were two separate transactions between [REDACTED] and PG&E. A bilateral transaction that was executed on October 2, 2018 and an e-solicitation that was executed on October 24, 2018.
- ii. With respect to the [REDACTED] bilateral transaction that was executed on October 2, 2018, PG&E received a wire transfer of \$5,130 on October 5, 2018. The \$5,130 was the amount due to meet the necessary collateral requirement for this transaction. However, instead of applying the full \$5,130 for the collateral posting, \$2,130 was applied to the collateral posting and the remaining \$3,000 was allocated towards the prepayment for the January 2019 delivery term. PG&E did not follow up with the counterparty to make up the difference until December 14, 2018.
- iii. Separately, due to an oversight, PG&E did not collect the required \$2,500 collateral posting associated with the e-solicitation that was executed on October 24, 2018 until December 14, 2018.
- iv. The action plan is to review all outstanding RA (Resource Adequacy) transactions and collateral postings. Going forward PG&E will do the following:
  - a. Credit will work on training its team members about timely collecting collateral.
  - b. Work with the counterparty to confirm the purpose of wire sent to PG&E.
  - c. Work with internal groups to establish better controls around collateral postings and timing of collection of collateral.

**UAFCB's Rebuttal:** None.

2. **PG&E failed to demonstrate compliance with D.02-10-062, Appendix B and PUC § 581.** In its Q4 QCR, PG&E failed to include a complete copy of its contract agreement executed through an electronic solicitation process. Specifically, in Attachment H of the Q4 QCR, PG&E did not enclose a copy of the full contract containing detail contract information such as contract terms, volume, price, and product descriptions.

**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 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.
- 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 March 20, 2019, PG&E asserted the following in response to the finding:

- i. PG&E is providing a copy of the [REDACTED] contract which reflects the contract terms, volume, price and product description.
- ii. Immediately prior to executing a RA (Resource Adequacy) confirm with [REDACTED] on December 13, 2018, PG&E and [REDACTED] executed an EEI Master Agreement. Both executed documents were kept in the same folder with similar file names, which lead to the inadvertent inclusion of the EEI Master Agreement Cover Sheet with the 2018 Q4 QCR Attachment H documents instead of the RA Confirm.
- iii. To avoid this and similar incidents, PG&E will review its folder structure guidelines with transactors to ensure the creation of separate folders for different contracts and agreements when concurrently negotiating them with the same counterparty. When preparing supporting documents for each QCR submission, a relevant transactor will review each supporting file to ensure their accuracy and completeness.

**UAFCB's Rebuttal:** None.

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