

Memorandum



Date: July 16, 2012

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 3999-E
Quarterly Procurement Plan Compliance Report for the Fourth Quarter 2011

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) 3999-E. PG&E's audited procurement transactions during the fourth quarter of 2011 (Q4) were, in all material respects, in compliance with PG&E's procurement plan, as approved in Decision (D.) 07-12-052, Assembly Bill (AB) 57 procurement rules and several procurement-related Commission directives.

A. Summary of Audit Findings:

PG&E failed to demonstrate that it was in compliance with D. 02-10-062, Appendix B:

- a) PG&E did not report the correct delivery volume for transactions listed in Attachment A, Electric Physical Term Transactions, of its Q4 Quarterly Procurement Compliance Report (QCR) filing.
- b) PG&E did not report the correct notational amount for transactions listed in Attachment A, Gas Physical Transactions, of its Q4 QCR filing.
- c) PG&E did not correctly report a contract in Attachment H of its Q4 QCR filing correctly.

In response to UAFCB's finding, PG&E corrected Attachments A and H of its Q4 QCR filing on July 11, 2012.

B. Recommendations:

Before submitting its QCR, PG&E should thoroughly review its QCR and related attachments to ensure that these documents are correct and accurate.

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. ED requested that the UAFCB conduct compliance audits of these utilities' quarterly procurement compliance 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, and D.08-11-008.

D. Findings:

Errors in the 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.

Findings:

1. PG&E overstated the volume of electric physical transactions listed in Attachment A of its Q4 QCR filing by 2,400 MWh. PG&E asserted that the overstatement was caused by its erroneous calculation for the North American Electric Reliability Corporation (NERC) holiday, January 2, 2012 as a heavy load day, which should have been considered as a light load day.
2. PG&E incorrectly calculated the notational quantity for indexed gas transactions for forward delivery in Attachment A of its Q4 QCR filing. The notational amount was calculated by including the index adder twice. This resulted in an overstatement of values for 6 of the forward transactions listed in Attachment A. The total overstatement amount was \$4,847 or 1% of the total notational amount reported for future periods.
3. PG&E misclassified a contract executed with Morgan Stanley as a bilateral contract in Attachment H of its Q4 QCR filing. This contract is an auction contract.

PG&E's Response

PG&E agreed that it made errors in its filing and corrected Attachments A and H of its Q4 QCR filing on July 11, 2012.

UAFCB's Rebuttal

None

E. Conclusion:

Except for the items noted in Section D above, PG&E's AL 3999-E and its Q4 procurement transactions for electricity and natural gas were, in material respects, in compliance with PG&E's Commission-approved procurement plan and all relevant Commission decisions. PG&E's Q4 transactions, in material respects, appear to be complete, accurate and properly authorized by its management.

This audit is limited in scope and does not provide full assurance to the reasonableness of PG&E's Q4 QCR filing or its Q4 transactions.

If you have any questions on UAFCB's audit, please contact Tracy Fok at (415) 703-3122.

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