



# Memorandum

**Date:** April 29, 2014

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

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

A handwritten signature in black ink, appearing to be "Kajopaiye", is written over the name of the sender in the "From:" field.

**Subject:** Pacific Gas and Electric Company Advice Letter 4309-E  
Quarterly Procurement Plan Compliance Report for the Third Quarter of 2013

**Pacific Gas & Electric's (PG&E) procurement transactions executed during the third quarter of 2013 (Q3) that the Utility Audit, Finance and Compliance Branch (UAFCB) of the Division of Water and Audits examined demonstrated, in all material respects, compliance with certain aspects of procurement-related state law and commission directives. However, the UAFCB recommends that Energy Division (ED) not approve PG&E's Advice Letter No. (AL) 4309-E until 15 non-compliant transactions that PG&E executed in Q3 are addressed by the Commission. The UAFCB assesses compliance in accordance with agreed-upon procedures with ED and does not assess compliance with all aspects of the aforementioned directives. 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 UAFCB's audits.**

**A. Summary of Noncompliant Transactions:**

**In its Q3 Quarterly Compliance Report (QCR) filing, PG&E disclosed that 15 transactions that it executed in Q3 were not in compliance with its approved hedging plan. PG&E explained that these transactions exceeded one of the hedging limits in its approved hedging plan. Evaluation of the utilities' compliance with the hedging limits in the utilities' approved hedging plans is outside of the scope of UAFCB's audits.**

**B. Recommendation:**

**ED should not approve AL 4309-E until the non-compliant transactions are addressed by the Commission and the Commission determines an appropriate action for the noncompliance.**

**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' QCR filings.

UAFCB conducts the quarterly procurement audits based on procedures specified by ED. As such these examinations are by design agreed-upon procedures. ED specified which aspects of the utilities' California Public Utilities Commission's (Commission) approved procurement plans, AB 57 procurement rules and several procurement-related rulings and decisions to test compliance. The directives of the decisions and rulings that ED chose to test 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, and D.12-01-033. Per agreement with ED, UAFCB does not test all of the transactions that the utilities include in their QCR.

**D. PG&E's Noncompliant Transactions:**

**In its Q3 QCR filing, PG&E disclosed that it was not in compliance with the hedging limits in its approved hedging plan.** PG&E indicated that it executed 15 transactions during Q3 that exceeded one of the operating targets in its approved hedging plan. PG&E asserts that the non-compliant transactions 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 presented testimony in its 2013 Energy Resource Recovery Account (ERRA) Compliance Proceeding that it filed on February 28, 2014, it requested the Commission's approval of the non-compliant transactions and associated activity.

**UAFCB's Response:** Evaluating whether transactions were under the limits of the utilities' hedging operating targets and plans are not part of UAFCB's audit scope. PG&E's non-compliant transactions should be addressed by the Commission in the 2013 ERRA Compliance Proceeding. ED should process AL 4309-E and PG&E's Q3 QCR after the Commission addresses the non-compliant transactions.

**E. Conclusion:**

PG&E's AL 4309-E and its Q3 procurement transactions for electricity and natural gas that UAFCB examined were, in material respects, in compliance with the aspects of PG&E's Commission-approved procurement plan and relevant Commission decisions that UAFCB tested compliance with. The Q3 transactions that UAFCB examined were, in material respects, complete, accurate and properly authorized by its management. However, based on PG&E's disclosure about its non-compliant transactions, action on PG&E's AL 4309-E should be delayed until after the Commission addresses the non-compliant transactions.

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

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