

Memorandum



Date: April 29, 2014
To: Edward Randolph
Director of Energy Division
From: Public Utilities Commission—
San Francisco Kayode Kajopaiye, Branch Chief
Division of Water and Audits
Subject: San Diego Gas and Electric Company Advice Letter 2530-E
Quarterly Procurement Plan Compliance Report for the third Quarter of 2013

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

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) 2530-E. The procurement transactions that SDG&E executed during the third quarter of 2013 (Q3) and UAFCB examined demonstrated, in all material respects, compliance with certain aspects of procurement-related state law and Commission 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 Finding:

SDG&E failed to demonstrate that it was in compliance with D.02-10-062, Appendix B. In its Q3 Quarterly Compliance Report (QCR) filing, SDG&E made reporting errors in Attachment A. SDG&E making similar reporting errors has been a UAFCB audit finding numerous times in the past.

In response to UAFCB's findings, on February 21, 2014, SDG&E submitted an amended Attachment A to correct the reporting errors.

B. Recommendations:

Before submitting its QCR filings, SDG&E should thoroughly review its QCR and related attachments to ensure that all 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, Pacific Gas and Electric Company (PG&E), 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, and as such these examinations are by design agree-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 ED chose to test compliance include, but 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. UAFCB, however, does not test all of the transactions that the utilities include in their QCR.

D. Findings:

SDG&E failed to demonstrate that it was in compliance with D.02-10-062, Appendix B. In Attachment A of its Q3 QCR filing, SDG&E incorrectly reported delivery (flow) dates and hours of some of its electric physical transactions executed in the spot market. However, the corresponding transaction volume and values were correctly reported.

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

SDG&E's Response: The errors occurred when SDG&E manually transferred the transaction data from its Allegro system to Attachment A. SDG&E submitted amended Attachment A to correct the reporting errors on February 21, 2014.

UAFCB's Rebuttal: In several past periods examined, SDG&E also made reporting errors in its QCR filings and related attachments. SDG&E needs to tighten its quality control related to its deal capture system to ensure that all transactions reported in the system, as well as in its QCR filings, are correct and complete. SDG&E should fully enforce its internal controls for checking its QCR filings and related attachments for accuracy before submitting them to the Commission.

E. Conclusion:

Except for the item noted in Section D above, SDG&E's AL 2530-E and its Q3 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 relevant Commission decisions that UAFCB tested compliance with. SDG&E's Q3 transactions that 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.

cc: Rami Kahlon, Director, Division of Water and Audits
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