

Memorandum



Date: October 23, 2014

To: Edward Randolph
Director of Energy Division

From: **Public Utilities Commission—
San Francisco**

Kayode Kajopaiye, Branch Chief
Division of Water and Audits

A handwritten signature in black ink, appearing to be "Kajopaiye".

Subject: Pacific Gas and Electric Company Advice Letter 4409-E
Quarterly Procurement Plan Compliance Report for the First Quarter of 2014

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 Pacific Gas and Electric Company's (PG&E) Advice Letter No. (AL) 4409-E. The procurement transactions that PG&E executed during the first quarter of 2014 (Q1) and that the 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, 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 Negative Audit Findings:

PG&E disclosed that there were price calculation errors for several gas physical transactions reported in its Q1 Quarterly Compliance Report (QCR) filing due to currency reporting errors. On October 15, 2014, PG&E submitted corrected attachments included in its Q1 QCR filing for these transactions.

B. Recommendations:

PG&E should develop, implement and enforce new internal controls for thoroughly checking gas physical transactions traded in foreign currencies and ensure the accuracy of its transaction reporting.

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. Per agreement with ED, UAFCB does not test all of the transactions that the utilities include in their QCR. In addition, 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 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, and D.12-01-033.

D. Findings:

PG&E disclosed that there were price calculation errors for several gas physical transactions reported in Q1 Quarterly Compliance Report (QCR) filing. For each of these transactions, the incorrect price calculation was the result of the transaction having been priced in Canadian dollars but reported as US dollars. On October 15, 2014, PG&E filed AL4409-E-B with the Commission and submitted corrected attachments with this advice letter for the items identified as incorrect.

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 volume and notional value of transactions.

UAFCB Rebuttal: PG&E must develop, implement and enforce new internal controls to verify gas physical transactions traded in foreign currencies and ensure the accuracy of its transactions reported in its QCR filing. PG&E must tighten the quality control of its transaction reporting in its QCR and ensure that all transactions and documents contained in its QCR filing are correct and complete.

E. Conclusion:

PG&E's AL 4409-E and its Q1 procurement transactions for electricity and natural gas that the UAFCB examined were, in material respects, in compliance with the aspects of PG&E's Commission-approved procurement plan and relevant Commission decisions that the UAFCB tested compliance with. PG&E's Q1 transactions that the UAFCB examined, in material respects, appear to be complete, accurate and properly authorized by its management.

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

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