



QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

San Diego Gas and Electric Company

Third Quarter of 2021 - Advice Letter 3883-E

Utility Audits, Risk and Compliance Division
Utility Audits Branch
April 8, 2022



MEMBERS OF THE TEAM

Angie Williams, Director

Masha Vorobyova, Assistant Director

Tracy Fok aka Tracy Yeh, CPA, Supervisor

Tim Baumgardner, Lead

Amal Kattan-Handal, Lead

Keen Banh, Staff

Paulina Zepeda Gomez, Staff

A digital copy of this report can be found at:

[Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry)

You can contact our office at:

**California Public Utilities Commission
Utility Audits, Risk and Compliance Division
400 R Street, Suite 221
Sacramento, CA 95811**

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



Transmitted via e-mail

April 8, 2022

Ms. Estela De Llanos
Vice President – Energy Procurement
San Diego Gas and Electric Company
8330 Century Park Court, CP33B
San Diego, CA 92123

Dear Ms. De Llanos:

Final Report Transmittal Letter – Agreed-Upon Procedures Engagement of San Diego Gas and Electric Company’s Quarterly Energy Procurement Compliance Report for the period of July 1, 2021, through September 30, 2021

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its agreed-upon procedures (AUP) engagement of San Diego Gas and Electric Company’s (SDG&E) Quarterly Energy Procurement Compliance Report (QCR) filed for its Third Quarter of 2021 in Advice Letter (AL) 3883-E. The final AUP report is enclosed.

SDG&E’s response to the AUP report findings is incorporated into this report. As required by Public Utilities Code Section 454.5(g), the confidential market sensitive information contained in the AUP report is redacted. We will post the final audit report on our website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

A Corrective Action Plan addressing the findings is required. SDG&E has already provided the information regarding its corrective actions planned and those responses have been included into the report. However, SDG&E is still required to file a supplemental AL 3883-E with amended Attachment A and C of its QCR. Once SDG&E submits the supplemental AL, no further actions will be required..

We appreciate SDG&E’s assistance and cooperation during the engagement. If you have any questions regarding this report, please contact Tracy Fok, Program and Project Supervisor, at (415) 703-3122 or tracy.fok@cpuc.ca.gov.

Sincerely,

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division
cc: See next page

Ms. Estela De Llanos
Vice President – Energy Procurement
San Diego Gas and Electric Company
April 8, 2022
Page 2

cc: Michael Schneider, Vice President – Risk Management & Chief Compliance Officer, SDG&E
Gregory Anderson, Regulatory Tariff Manager, California Regulatory Affairs, SDG&E
Will Fuller, Regulatory Business Manager, California Regulatory Affairs, SDG&E
Kathy Anisovets, Regulatory Case Manager, California Regulatory Affairs, SDG&E
Rachel Peterson, Executive Director, CPUC
Kristin Stauffacher, Deputy Executive Director, Office of the Commission, CPUC
Pete Skala, Director of Efficiency, Electrification, and Procurement, Energy Division, CPUC
Simone Brant, Interim Program and Project Supervisor, Energy Division, CPUC
Michele Kito, Interim Program Manager, Energy Division, CPUC
Eric Dupre, Public Utilities Regulatory Analyst, Energy Division, CPUC
Theresa Buckley, Staff Attorney, CPUC
Masha Vorobyova, Assistant Director, UAB, CPUC
Tracy Fok, Program and Project Supervisor, UAB, CPUC
Tim Baumgardner, Senior Management Auditor, UAB, CPUC
Amal Kattan-Handal, Senior Management Auditor, UAB, CPUC
Keen Banh, Associate Management Auditor, UAB, CPUC
Paulina Zepeda Gomez, Staff Services Management Auditor, UAB, CPUC

TABLE OF CONTENTS

I. INDEPENDENT ACCOUNTANT’S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. PROCEDURES AND FINDINGS.....	3
A. TRANSACTION RECONCILIATION/ANALYSIS	3
B. QUARTERLY COMPLIANCE REPORT (QCR).....	4
C. STRONG SHOWING JUSTIFICATION.....	5
D. BILATERAL AND BROKER CONTRACTS	6
E. REQUEST FOR OFFERS (RFO) PROCESS	7
F. REQUEST FOR OFFERS (RFO) CONTRACTS	9
G. PHYSICAL ELECTRIC TRANSACTION DEEP DIVE	9

I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) performed the agreed-upon procedures (AUP) enumerated in Procedures and Findings section of this report for San Diego Gas and Electric Company's (SDG&E or the utility) energy procurement compliance reporting period of July 1, 2021, through September 30, 2021 (Q3 2021). These procedures were agreed to between CPUC's Energy Division (ED) and UAB solely to assist ED in determining whether the three large investor-owned electric utilities, Pacific Gas and Electric Company, Southern California Edison Company and SDG&E are in compliance with certain energy procurement-related state laws and CPUC's energy procurement directives. SDG&E is one of these utilities¹ and is responsible for complying with the energy procurement requirements.

ED engaged UAB to perform this AUP engagement. UAB is required to be independent and to meet other ethical responsibilities in accordance with the relevant ethical requirements related to the AUP engagement. We conducted this engagement in accordance with attestation standards established by the generally accepted government auditing standards (GAGAS). The sufficiency of the AUP procedures is solely the responsibility of ED. ED has agreed to and acknowledged that the procedures performed are appropriate for the intended purpose of the AUP engagement. Consequently, we make no representation regarding the sufficiency of the procedures described herein either for the purpose for which this report has been requested or for any other purpose. The results of the engagement are detailed in Procedures and Findings section of this report.

We were not engaged to, and did not, perform an examination or review of the subject matter, the objective of which would be the expression of an opinion on SDG&E's compliance with the energy procurement-related state laws and the CPUC's energy procurement directives. 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.

The purpose of this report is to communicate to ED the utility's compliance and the results of the AUP performed. The report may not be suitable for any other purposes. The procedures performed may not address all the items of interest to users other than ED and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

¹ Pacific Gas & Electric Company and Southern California Edison Company are the other two electric utilities subject to the agreed-upon procedures engagements.

In accordance with CPUC Decision (D.) 12-04-046, Ordering Paragraph (OP) 13, this report shall be made public. As required by Public Utilities (PU) Code Section 454.5(g), the confidential market sensitive information contained in the AUP report is redacted. The redacted report can be found on the CPUC public website through the following link: [Audit Reports by Industry \(ca.gov\)](#).

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

II. PROCEDURES AND FINDINGS

Below are the results of the AUP performed and associated findings. The sufficiency of these procedures is solely the responsibility of ED. Thus, UAB makes no representation regarding the sufficiency of the following procedures used for this engagement for the purposes for which this report has been requested.

A. Transaction Reconciliation/Analysis

1. Inspected whether the utility's Q3 2021 electric physical transaction details in Attachment A² contained any electronic solicitation or other competitive solicitation transactions, requiring additional performance of the audit procedures for Electronic Solicitation and Related Contracts.

Finding: We found no exceptions as a result of this procedure.

2. Reconciled to determine whether the utility's Q3 2021 electric physical transaction details in Attachment A agreed to the corresponding transaction summary in Attachment C. Performed mathematical re-calculation and an analysis of 100% of transactional average prices, volumes, and notional values for the detection of a reporting anomaly.

Finding: We found no exceptions as a result of this procedure.

3. Reconciled to determine whether the utility's Q3 2021 electric financial transaction details in Attachment A agreed to the corresponding transaction summary in Attachment C. Performed mathematical re-calculation and an analysis of 100% of transactional average prices, volumes, and notional values for the detection of a reporting anomaly.

Finding: We found no exceptions as a result of this procedure.

4. Reconciled to determine whether the utility's Q3 2021 gas physical transaction details in Attachment A agreed to the corresponding transaction summary in Attachment D. Performed mathematical re-calculation and an analysis of 100% of transactional average prices, volumes, and notional values for the detection of a reporting anomaly.

Finding: We found no exceptions as a result of this procedure.

5. Reconciled to determine whether the utility's Q3 2021 gas financial transaction details in Attachment A agreed to the corresponding transaction summary in Attachment D. Performed mathematical re-calculation and an analysis of 100% of transactional average prices, volumes, and notional values for the detection of a reporting anomaly.

Finding: We found no exceptions as a result of this procedure.

² All references to attachments in the list of Procedures and Findings are to the attachments to the utility's Quarterly Compliance Report subject to this engagement.

6. Reconciled to determine whether the utility's Q3 2021 transport, storage, park and lend transaction details in Attachment A agreed to the corresponding transaction summary in Attachment D.

Finding: We found no exceptions as a result of this procedure.

B. Quarterly Compliance Report (QCR)

1. Inspected the QCR advice letter filing, including the attachments of supporting documentation, to determine whether the filing was accurate and complete.

Finding #1: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SDG&E incorrectly reported Q3 2021 electric physical gas transactions detail in Attachment A and total deal volume and notional values in the electric physical transaction's summary in Attachment C. For additional information about the finding, please see Finding #1 at procedure G.2 listed below.

SDG&E's Response: See G.2

Finding #2: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SDG&E inadvertently did not report its non-standard product price equivalency information in Attachment C for Electric Physical transactions during Q3 2021. For additional information about the finding, please see Finding #2 at procedure G.6 listed below.

SDG&E's Response: See G.6

2. Identified any of the utility's authorized decision-makers that were not listed in the QCR.

Finding: We did not find any of the utility's authorized decision-makers that were not listed in the QCR.

3. Inspected QCR and associated attachments to determine whether the utility provided its descriptions of and justifications for its procurement processes used to select the transactions.

Finding: We found no exceptions as a result of this procedure.

4. Inspected QCR and associated attachments to determine whether the utility explained or justified the timing of its transactions.

Finding: We found no exceptions as a result of this procedure.

5. Inspected QCR and associated attachments to determine whether the utility discussed the system load requirements/conditions underlying the need for the quarter's transactions.

Finding: We found no exceptions as a result of this procedure.

6. Inspected QCR and associated attachments to determine whether the utility provided a copy of any data of forecasts used by the utility to analyze transactions.

Finding: We found the utility provided a copy of forecast data used to analyze transactions.

7. Inspected QCR and associated attachments to determine whether the utility provided a copy of each of the utility's procurement contracts reported in Attachment H – Contracts Executed/Contracts Amended.

Finding: We found no exceptions as a result of this procedure.

8. Inspected QCR and associated attachments to determine whether the utility provided a reasonable number of analyses, as requested by the CPUC or the Procurement Review Group (PRG) and provided the resulting outputs.

Finding: We found no exceptions as a result of this procedure.

9. Inspected QCR and associated attachments to determine whether the utility's QCR included its briefing package provided to the ultimate decision maker.

Finding: We found no exceptions as a result of this procedure.

10. Inspected QCR and associated attachments to determine whether the utility provided the break-even spot prices equivalent to the contracts.

Finding: We found no exceptions as a result of this procedure.

11. Inspected QCR and associated attachments to determine whether the utility provided average price information for non-standard transactions.

Finding: We found no exceptions as a result of this procedure.

12. Inspected QCR and associated attachments to determine whether the utility provided California Independent System Operator electricity procurement information in the utility's QCR.

Finding: We found no exceptions as a result of this procedure.

C. Strong Showing Justification

1. Inspected Attachment A of the utility's QCR for any transactions subject to strong showing justification and inspected Attachment M – Transactions Subject to Strong Showing of the QCR to determine whether the transactions were properly justified in Attachment M.

Finding: We found no exceptions as a result of this procedure.

2. Compared the price of bilateral contracts in Attachment A for non-standard products that are waived from strong showing justification under D. 03-06-067, OP 3(d) to the prices of relevant market supporting documentation to determine whether the bilateral contract prices are reasonable based on available and relevant market data. Compared the buy and sell

average price paid or sold in Attachment A to the market high and low prices to ensure a reasonable deal was completed.

Finding: We found no exceptions as a result of this procedure.

3. Inspected Attachment H of the utility's QCR for any transactions subject to strong showing justification and inspected Attachment M of the QCR to determine whether the transactions were properly justified in Attachment M.

Finding: We found no exceptions as a result of this procedure.

4. Compared the price of bilateral contracts in Attachment H for non-standard products that are waived from strong showing justification under D. 03-06-067, OP 3(d) to the prices of relevant market supporting documentation to determine whether the bilateral contract prices are reasonable based on available and relevant market data. Compared the buy and sell average price paid or sold in Attachment H to the market high and low prices to ensure a reasonable deal was completed.

Finding: We found no exceptions as a result of this procedure.

5. Inspected other bilateral transactions in the utility's QCR for any transactions subject to strong showing justification and inspected Attachment M of the QCR to determine whether the transactions were properly justified in Attachment M.

Finding: We found no exceptions as a result of this procedure.

6. Compared the price of other bilateral contracts for non-standard products that are waived from strong showing justification under D. 03-06-067, OP 3(d) to the prices of relevant market supporting documentation to determine whether the bilateral contract prices are reasonable based on available and relevant market data. Compared the buy and sell average price paid or sold for other transactions to the market high and low prices to ensure a reasonable deal was completed.

Finding: We found no exceptions as a result of this procedure.

D. Bilateral and Broker Contracts

1. Inspected PRG meeting materials to ascertain that the utility consulted with its PRG in a timely manner for contracts exceeding one calendar quarter.

Finding: We found no exceptions as a result of this procedure.

2. Inspected counterparties' credit supporting documentation to validate that the contracts executed bilaterally with investment-grade counterparties or non-investment grade counterparties that were supported with surety bonds, guarantee, collateral, etc.

Finding: We found no exceptions as a result of this procedure.

3. Inspected the utility's Independent Evaluator (IE) report to determine whether IE evaluated any contracts executed with affiliate(s) or any contracts with terms greater than two years.

Finding: We found no exceptions as a result of this procedure.

4. Inquired the utility as to whether the contracts had any impact on the overall Time to Expiration Value at Risk (TeVAR).

Finding: We found that no contracts had any impact on the overall TeVAR.

5. Identified any contract related to a new fossil generation or Power Purchase Agreement (PPA) that was less than five years.

Finding: We did not identify any contract related to a new fossil generation or PPA that was less than five years.

6. Traced and agreed all bilateral contracts executed during the quarter to supporting documentation to ensure that they were correctly and completely reported in attachments of the utility's QCR.

Finding: We found no exceptions as a result of this procedure.

E. Request for Offers (RFO) Process

Requested and inspected copies of RFO documents, criteria, evaluation supporting documentation, bids received, and other relevant supporting documentation:

1. Ascertained that the utility developed its RFO bid documents under oversight of its IE, vetted through the PRG and any differences were resolved by ED staff in advance of public issuance of the RFO bid document.

Finding: We found no exceptions as a result of this procedure.

2. Ascertained that the utility consulted with its IE, PRG and ED to outline its plans and solicited feedback prior to drafting RFO bid document so that the RFO process was improved by the identification of data gaps, confirmation of the fairness of the confidential components of the RFO, and in compliance with the letter and spirit of CPUC policies on procurement practices.

Finding: We found no exceptions as a result of this procedure.

3. Ascertained that the RFO went through a competitive bidding process.

Finding: We found no exceptions as a result of this procedure.

4. Validated that the RFO bid criteria included the measures recommended by the CPUC and were consistent with the CPUC's requirements.

Finding: We found no exceptions as a result of this procedure.

5. Validated that the RFO bid criteria were clearly described and defined.
Finding: We found no exceptions as a result of this procedure.
6. Ascertained that the rationale for the RFO bid criteria was clearly explained.
Finding: We found no exceptions as a result of this procedure.
7. Ascertained that project viability was part of the RFO bid criteria.
Finding: We found no exceptions as a result of this procedure.
8. Ascertained that the utility presented its RFO candidates in its PRG meetings for feedback from PRG members, ED staff, and IE.
Finding: We found no exceptions as a result of this procedure.
9. Ascertained that the utility addressed any concerns raised by its PRG members, ED staff, and IE regarding the RFO.
Finding: We found no exceptions as a result of this procedure.
10. Identified whether the utility created any false barriers to participation in the RFO or to attempt to limit the competitive process by manipulating the RFO products and/or process.
Finding: We found no exceptions as a result of this procedure.
11. Identified whether the utility issued RFO seeking bids for both PPA and utility build bids.
Finding: We found no exceptions as a result of this procedure.
12. Ascertained that the utility considered the use of Brownfield sites first and took full advantage of their location before it considered building new generation on Greenfield sites in those cases when the RFO solicited fossil-fuel generation contracts less than five years.
Finding: We found that the RFO did not solicit fossil-fuel generation contracts less than five years.
13. Ascertained that the RFO was evaluated by an IE regardless of contract duration if the RFO involved affiliates or utility bidders.
Finding: We found no exceptions as a result of this procedure.
14. Ascertained that the utility recognized the effects of debt equivalence when comparing PPA against PPAs in their bid evaluations, but not when a utility-owned generation project was being considered, in those cases when the RFO solicited PPA with a term of less than five years.
Finding: We found that the RFO did not solicit PPA with a term of less than five years.

F. Request for Offers (RFO) Contracts

1. Inspected PRG meeting documentation to ascertain that the utility consulted with its PRG in a timely manner for contracts that exceeded one calendar quarter.

Finding: We found no exceptions as a result of this procedure.

2. Inspected the utility's IE report to determine whether IE evaluated any contracts executed with affiliate(s) or any contracts with terms greater than two years.

Finding: We found no exceptions as a result of this procedure.

3. Inspected counterparties' credit supporting documentation to validate that the contracts derived from the RFO selection process were executed with investment-grade counterparties or non-investment grade counterparties that were supported with surety bonds, guarantee, collateral, etc.

Finding: We found no exceptions as a result of this procedure.

4. Inquired the utility as to whether the contracts had any impact on the overall TeVAR.

Finding: No contracts had any impact on the overall TeVAR.

5. Identified any contract related to a new fossil generation or PPA with a term of less than five years.

Finding: We did not identify any contract related to a new fossil generation or PPA with a term of less than five years.

6. Traced and agreed all RFO contracts executed during the quarter to supporting documentation to ensure that they were correctly and completely reported in attachments of the utility's QCR.

Finding: We found no exceptions as a result of this procedure.

G. Physical Electric Transaction Deep Dive

1. Obtained and inspected relevant supporting documentation to validate that the utility executed the transactions with adequate justifications (e.g., fulfilling its net residual open positions and using the least-cost-best-fit approach).

Finding: We found no exceptions as a result of this procedure.

- Traced and agreed transaction volumes, prices, and notional values to invoices and trade blotters (confirmations).

Finding #1: SDG&E incorrectly reported the volume and the notional value of several electric physical transactions in Attachment A and the corresponding total volume and total notional value in Attachment C. The table below depicts the misstated volume and notional value and the correct volume and notional value on a transactional basis as well as in total.

Deal Number	Misstated Volume (MWh)	Correct Volume (MWh)	Overstated Volume	Misstated Notional Value (\$)	Correct Notional Value (\$)	Overstated Notional Value
██████	██████	██████	██████	██████	██████	██████
██████	██████	██████	██████	██████	██████	██████
██████	██████	██████	██████	██████	██████	██████
██████	██████	██████	██████	██████	██████	██████
██████	██████	██████	██████	██████	██████	██████

SDG&E’s Response: On March 2, 2022, SDG&E stated:

The trade capture system had an additional blank price row in these transactions, that subsequently created an additional row of volume in the data tables. When this was pulled into the reports, the transactions had doubled the volume.

A hard control has been implemented that patched the issue of allowing for an additional price row (even if blank) to be brought into the coding that assists in compiling the QCR attachments. Additionally, a soft control has been implemented that will identify and display if any transactions import more than 1 (one) unique piece of information such as price or volume.

- Inquired the utility as to whether the sampled transactions had any impact on the overall TeVAR.

Finding: We found that physical electric transactions reduced the overall TeVAR.

- Inspected relevant supporting documentation to ascertain that the product types, transaction processes, brokers and exchanges used for procurement during the quarter were approved in SDG&E’s Bundled Procurement Plan. Inspected PRG meeting supporting documentation to ascertain that PRG consultation properly took place for transactions with terms over 90 days. Inspected transactions to ascertain that they did not have terms longer than five years and did not involve affiliates of SDG&E.

Finding: We found no exceptions as a result of this procedure.

5. Inspected counterparties' credit supporting documentation to validate that quarter's transactions were executed with investment-grade counterparties or non-investment grade counterparties that were supported with surety bonds, guarantees, collateral, etc.

Finding: We found no exceptions as a result of this procedure.

6. Inspected relevant supporting documentation to validate that the utility demonstrated that prices of over the counter (OTC) transactions were equivalent to exchanges.

Finding #2: SDG&E inadvertently did not report its non-standard product price equivalency information in Attachment C for electric physical transactions executed during Q3 2021.

SDG&E's Response: On March 2, 2022 and March 11, 2022, SDG&E respectively stated the following:

A hard control has been implemented that patched the issue of allowing for an additional price row (even if blank) to be brought into the coding that assists in compiling the QCR attachments. Additionally, a soft control has been implemented that will identify and display if any transactions import more than 1 unique piece of information such as price or volume.

The errors and corrective actions for this instance were provided in DR (Data Request) 004 (see the previous paragraph). In addition to what was previously provided in response to DR 004, SDG&E will denote any non-standard deals on deal blotters to ensure accuracy when these transactions are entered into the system of record.