



# QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

San Diego Gas and Electric Company

Third Quarter of 2022 - Advice Letter 4100-E

Utility Audits, Risk and Compliance Division  
Utility Audits Branch  
April 13, 2023



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## PUBLIC UTILITIES COMMISSION

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Transmitted via e-mail

April 13, 2023

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, 2022, through September 30, 2022**

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 2022 in Advice Letter (AL) 4100-E. The final AUP report is enclosed.

SDG&E’s responses to the AUP report findings are 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 4100-E with amended Attachments D of its QCR and amend its QCR to include additional Long-Term Congestion Revenue Rights (LTCRR) information by April 27, 2023. 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](mailto: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 13, 2023  
Page 2

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# TABLE OF CONTENTS

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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.....	7
D. BROKER CONTRACTS.....	8
E. GREENHOUSE GAS ALLOWANCES (GHG).....	8
F. FINANCIAL GAS TRANSACTION DEEP DIVE .....	11

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

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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, 2022, through September 30, 2022, (Q3 2022). 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 are in compliance with certain energy procurement-related state laws and CPUC energy procurement directives. SDG&E is one of these utilities<sup>1</sup> 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), except for obtaining an external peer review. UAB was unable to obtain an external peer review timely due to delays caused by the COVID19 pandemic. However, this does not affect UAB's adherence to all other GAGAS requirements and the results of procedures performed. 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.

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<sup>1</sup> 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*

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Angie Williams, Director  
Utility Audits, Risk and Compliance Division

## II. PROCEDURES AND FINDINGS

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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 2022 electric physical transaction details in Attachment A<sup>2</sup> contained any electronic solicitation or other competitive solicitation transactions, requiring 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 2022 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 2022 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 2022 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 #1: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581.** SDG&E overstated the total notional value of its physical gas transactions in Attachment D by \$ [REDACTED], as illustrated in the table below:

Reported Notional Value	Audited Notional Value	Overstated Notional Value
\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

<sup>2</sup> 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.



**SDG&E's Response:**

On January 23, 2023, SDG&E stated:

Attachment D has been revised. The error was caused by SDG&E not updating Attachment D after correcting a notional value for a physical gas transaction in Attachment A. The corrective action plan is to assign a team member to do an independent review before submission to ensure the attachments are correct and accurate.

5. Reconciled to determine whether the utility's Q3 2022 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.

6. Reconciled to determine whether the utility's Q3 2022 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 overstated the notional value for its physical gas transaction summary in Attachment D by \$ [REDACTED].

For additional information about the finding, please see Finding #1 at procedure A.4 listed above.

**SDG&E's Response: See A.4.**

**Finding #2: SDG&E failed to demonstrate compliance with D.02-10- 062, Appendix B, PU Code Section 581, and Resolution E-4124.** SDG&E did not report the Long-Term Congestion Revenue Rights (LTCRRs) information in its Q3 2022 QCR, as required in CPUC Resolution E-4124. The Resolution E-4124 states:

The Commission expects that the QCRs and Procurement Review Group (PRG) presentation will contain, at a minimum, for each LTCRR, the term, source and sink, relation to grid use, expected value, and past performance.

**SDG&E's Response:**

On March 30, 2023, SDG&E stated:

SDG&E does not agree that it was non-compliant with Public Utilities Code § 581. The DR (data request) alleges that SDG&E violated §581 by failing to comply with the requirement that “every public utility receiving from the commission any blanks with directions to fill them shall answer fully and correctly each question propounded therein, and if it is unable to answer any question, it shall give a good and sufficient reason for such failure.” Specifically, the DR suggests that it was SDG&E’s failure to fill out the blanks included in the LTCRR template document that constitutes violation of § 581. However, the template document was not made available to SDG&E prior to issuance of the DR; indeed, the template was conveyed to SDG&E in the DR document itself. Thus, SDG&E could not have filled in the blanks contained in the template before the date of the DR, and therefore cannot be found to be in violation of § 581 for failing to do so before the DR was propounded.

With regard to compliance with the “expectation” in Resolution E-4124 regarding CRR information described above in the DR, SDG&E notes that it has been including CRR information in its QCRs since the Resolution was issued (over 15 years ago) and has not previously, to its knowledge, been asked to provide the additional CRR information requested in the DR. Since the Commission has now clarified its expectation, SDG&E will amend its QCR process/workflow document to ensure the additional LTCRR information requested is provided going forward.

SDG&E will submit a supplemental advice letter to amend its QCR Filing to include the additional LTCRR information requested using the template provided.

**UAB's Rebuttal:**

UAB appreciates that SDG&E is planning to amend its QCR preparation process to ensure the required LTCRR information is provided in QCR going forward. Resolution E-4124 clearly requires that QCR should contain, at a minimum, for each LTCRR, the term, source and sink, relation to grid use, expected value, and past performance. SDG&E did not include such required information in its Q3 2022 QCR and, therefore, did not “answer fully and correctly each question propounded” by the Commission as required in Resolution E-4124 and PU Code Section 581.

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 for non-standard products in Attachment A, which 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 for non-standard products in Attachment H, which 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 prices 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. Broker Contracts

1. Inspected PRG meeting materials to determine whether the utility consulted with its PRG for any contracts with terms over one calendar month before they were executed.

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 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 broker 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. Greenhouse Gas Allowances (GHG)

1. Identified whether the utility procured GHG allowances, allowance futures and forwards, offsets, and offset forwards within separately calculated Direct Compliance Obligation Purchase Limits and Financial Exposure Purchase Limits, as set forth in Appendix I of D.12-04-046.

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

2. Inspected all GHG transactions to ascertain that the utility only procured offsets certified by the California Air Resources Board (CARB).

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

3. Totaled the volume of all offset transactions to determine whether the utility purchased no more than 8 percent of its compliance requirement in the form of offsets.

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

4. Inspected GHG offset contracts to determine whether the utility only purchased offsets when the seller contractually assumes the risk of invalidation.

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

5. Inspected the utility's GHG procurement supporting documentation to determine whether the utility procured allowances from the CARB or other processes approved by the CPUC.

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

6. Inspected relevant supporting documentation to determine that the utility applied its standard procurement credit and collateral requirements and, if appropriate, imposed additional credit and collateral requirements to those transactions, in which the utility procured allowances via forward contracts.

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

7. Inspected relevant supporting documentation to determine that the utility utilized a competitive request for offer process, consulted with their procurement review group, applied their approved procurement credit and collateral requirement, and applied the applicable affiliate transactions rules, if the utility procured authorized compliance instruments via bilateral/broker transactions.

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

8. If applicable, inspected the utility's one-time Tier 2 advice letter to ascertain that the utility submitted such a letter to the Commission when the utility procured GHG compliance instruments through the exchanges not approved by the Commission.

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

9. Inspected PRG meeting documentation to determine whether the utility reported GHG sales to its PRG if the utility resold GHG compliance instruments.

**Finding #3: SDG&E failed to demonstrate compliance with D.12-04-046, OP 8(i).**

UAB inspected GHG transactions reported from Q2 2020 through Q3 2022, consistent with the AUP requiring to inspect these transactions every three years. SDG&E failed to notify its PRG regarding the bilateral GHG sales transactions number [REDACTED] and [REDACTED] reported in its Attachment Q of Q3 2020 and Q3 2021 QCRs, respectively.

**SDG&E's Response:**

On April 4, 2023, SDG&E stated:

While SDG&E is amenable to notifying its PRG of GHG compliance instrument sales and will do so on a going-forward basis, it disagrees with the characterization of

its actions related to transactions [REDACTED] and [REDACTED] as being “non-compliant” with D.12-04-046. D.12-04-046 does not clearly establish a mandatory requirement to notify the PRG of GHG compliance instrument sales; use of the term “should” instead of “must” or “shall” in D.12-04-046’s creates an ambiguity regarding whether such notification is mandatory or voluntary. SDG&E’s sales of greenhouse gas compliance instruments are infrequent. Thus, while transactions [REDACTED] and [REDACTED] were properly reported in Attachment Q of the relevant QCRs, SDG&E’s process for preparing PRG materials process did not include a prompt to ensure that the relevant transactions were discussed with the PRG. As noted above, going forward SDG&E will perform a cross check procedure to ensure that all GHG instrument sales reported on Attachment Q are also reported to the PRG.

**UAB’s Rebuttal:**

UAB appreciates SDG&E’s willingness to notify its PRG of GHG compliance instrument sales on a going-forward basis. Page 55 of D.12-04-046 indicates that the Commission will allow PG&E, SCE, and SDG&E to resell GHG compliance instruments without obtaining prior Commission approval; however, the utilities should report any such sales to their PRG.

D.12-04-046, OP 8(i) further reiterates such Commission’s intent:

PG&E, SCE, and SDG&E may resell greenhouse gas compliance instruments, but should report any such sales to their procurement review group.

As the Commission forgoes the requirement of getting prior approval of GHG compliance instrument sales for the three utilities in exchange for the utilities’ notification of such sales to their PRG, the utilities should comply with Page 55 and OP 8(i) of D.12-04-046.

10. Inspected PRG meeting documentation and QCR attachments to determine whether the utility reported its forecast updates and corresponding revisions to the procurement limits, along with all GHG compliance instrument transactions in its quarterly PRG meetings and QCR filings.

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

11. Traced and agreed greenhouse gas compliance instrument to invoices and payments to determine whether the utility correctly reported its greenhouse gas compliance instrument transactions.

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

## F. Financial Gas Transaction Deep Dive

1. Selected a sample from the utility's financial gas transaction population on a judgmental basis covering all product types, various counterparties, purchases/sales, brokers/exchanges, locations, and transaction methods.

Finding: UAB selected a sample size of [REDACTED] financial gas transactions, which covered [REDACTED] of the total population value. ED approved this sample on January 5, 2023.

2. 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) and in accordance with its hedging strategy approved by the Commission.

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

3. Traced and agreed transaction volumes, prices, notional values, and other related information to invoices and trade blotters (confirmations).

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

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

Finding: We found that [REDACTED] of the [REDACTED] sampled financial gas transactions decreased the overall TeVAR.

5. 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 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.

6. 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.

7. Inspected relevant supporting documentation to validate the utility demonstrated that prices of OTC transactions were equivalent to exchanges.

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

8. Inquired the utility and inspect relevant supporting documentation to ascertain that the utility identified the hedging limits and demonstrated compliance with the hedging limits.

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