



QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

Pacific Gas & Electric Company
Second Quarter of 2020 - Advice Letter 5897-E

Utility Audits, Risk and Compliance Division
Utility Audits Branch
December 22, 2020



PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



Transmitted via e-mail

December 22, 2020

Ms. Kelly Everidge, Director
Risk, Compliance & Reporting Department
Pacific Gas & Electric Company
P.O. Box 770000
San Francisco, CA 94177-0001

Dear Ms. Everidge:

Final Report Transmittal Letter – Agreed-Upon Procedures Engagement of Pacific Gas & Electric Company Quarterly Energy Procurement Compliance Report for the period of April 1, 2020 through June 30, 2020

The Utility Audits Branch of the California Public Utilities Commission (CPUC) has completed its agreed-upon procedures (AUP) engagement of Pacific Gas & Electric's (PG&E) Second Quarter of 2020 Quarterly Energy Procurement Compliance Report - Advice Letter 5897-E. The final AUP report is enclosed.

PG&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 redacted audit report on our website at <https://www.cpuc.ca.gov/utilityaudits/>.

A Corrective Action Plan (CAP) addressing the findings was included in PG&E's response to the respective findings in the audit report.

We appreciate PG&E's assistance and cooperation during the engagement, and its willingness to implement corrective actions. If you have any questions regarding this report, please contact Tracy Fok, Program and Project Supervisor, at (415) 703-3122 tracy.fok@cpuc.ca.gov or Tim Baumgardner, Senior Management Auditor, at (916) 894-5603 tim.baumgardner@cpuc.ca.gov.

Sincerely,

Angie Williams

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

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cc: Marianne Aikawa, Senior Manager, Risk, Compliance & Reporting, PG&E
Christina Honey, Expert Analyst, Risk, Compliance & Reporting, PG&E
Rachel Peterson, Acting Executive Director, CPUC
Edward Randolph, Deputy Executive Director, Energy Division, CPUC
Pete Skala, Director of Efficiency, Electrification, and Procurement, Energy Division, CPUC
Judith Ikle, Program Manager, Energy Division, CPUC
Michele Kito, Program & Project Supervisor, Energy Division, CPUC
Nick Dahlberg, Public Utilities Regulatory Analyst, Energy Division, CPUC
Mitchell Shapson, Public Utilities Counsel IV, CPUC
Masha Vorobyova, Assistant Director, Utility Audits Branch, CPUC
Tracy Fok, Program & Project Supervisor, Utility Audits Branch, CPUC
Tim Baumgardner, Senior Management Auditor, Utility Audits Branch, CPUC
Keen Banh, Staff Service Management Auditor, Utility Audits Branch, CPUC

MEMBERS OF THE TEAM

**Angie Williams
Director**

**Masha Vorobyova
Assistant Director**

**Tracy Fok aka Tracy Yeh, CPA
Program and Project Supervisor**

**Tim Baumgardner
Lead**

**Keen Banh
Staff**

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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 the Pacific Gas & Electric Company's (PG&E or the utility) compliance reporting period of April 1, 2020 through June 30, 2020 (Q2 2020). 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 law and CPUC energy procurement directives. PG&E is one of these utilities.¹ PG&E is responsible for complying with the energy procurement-related state laws and the CPUC's energy procurement directives.

UAB conducted the AUP engagement in accordance with attestation standards established by the generally accepted government auditing standards (GAGAS). The sufficiency of these procedures is solely the responsibility of ED. 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 also 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 PG&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.

In accordance with CPUC Decision 12-04-046, Ordering Paragraph 13, this report shall be made public. As required by Public Utilities 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: <https://www.cpuc.ca.gov/utilityaudits/>

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

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

II. PROCEDURES AND FINDINGS

Below is the summary of the AUP performed and associated findings noted if any. 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. Verified whether the utility's Q2 2020 electric physical transaction details (Attachment A)² agreed to the corresponding transaction summary (Attachment C).

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

2. Confirmed whether the utility's Q2 2020 electric financial transaction details (Attachment A) agreed to the corresponding transaction summary (Attachment C).

Finding #1: PG&E failed to demonstrate compliance with Decision (D.)02-10-062, Appendix B, and Public Utilities Code (PUC) Section 581. PG&E incorrectly reported [REDACTED] as the total volume of [REDACTED] transactions for its electric financial trade on Attachment C. The correct volume should be [REDACTED] to be consistent with Attachment A.

PG&E Response: On October 2, 2020, PG&E asserted:

PG&E agrees that Attachment C's [REDACTED] should be [REDACTED]. As part of its corrective actions to prevent this type of error, PG&E is adding multiple formula checks to confirm Confidential Attachment B and C summaries are consistent with the individual transactions listed in Confidential Attachment A. This will alert us to any formula issues before the QCR is filed so that they can be corrected.

3. Ascertained whether the utility's Q2 2020 gas physical transaction details (Attachment A) agreed to the corresponding transaction summary (Attachment D).

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

4. Determined whether the utility's Q2 2020 gas financial transaction details (Attachment A) agreed to the corresponding transaction summary (Attachment D).

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

5. Determined whether the utility's Q2 2020 transport, storage, park and lend transaction details (Attachment A) agreed to the corresponding transaction summary (Attachment D).

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.

B. Code of Conduct (COC)

1. Reviewed the utility's energy procurement chart as of Q2 2020 and determined whether all employees included in the chart acknowledged the utility's COC in a timely manner.

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

2. Validated whether all new employees who were hired or transferred during the past year (Q3 2019 through Q2 2020) and involved in energy procurement activities acknowledged the utility's COC agreement or completed the utility's COC training in a timely manner.

Finding #2: PG&E failed to demonstrate compliance with D.02-10-062, Appendix B, PUC Section 581 and D.02-12-074 – Ordering Paragraph (OP) 24. Employee acknowledgement of the utility code of conduct after assuming a role in energy procurement should be completed within one calendar month, as adopted in D.02-10-062 and modified in D.02-12-074 and as clarified in the ED Memorandum dated April 30, 2019. One employee with the hiring date of 01/21/2020 should have acknowledged the utility code of conduct by 02/21/2020 but did not do so until 02/28/2020.

PG&E Response: On November 5, 2020, PG&E asserted:

PG&E agreed that the employee did not complete the Code of Conduct Training within the 30-day window required by CPUC.

In addition to the current processes outlined in bullets 1-3, PG&E is implementing two additional corrective actions (bullets 4 and 5) to ensure timely completion of the CoC Training.

- 1) Receive Code of Conduct Training Report from the PG&E Learning Academy (weekly).
 - 2) Updating the EPP Employee Code of Conduct training roster with new EPP employees, including their hire date, position date, and the date the last Code of Conduct was completed (weekly).
 - 3) Emailing EPP assistants to request a list of new hires, transfers, contractors (bi-weekly).
 - 4) Validating the EPP Employee Code of Conduct training roster against the EPP org chart and PG&E's internal directory (Who's Who report) (monthly).
 - 5) Create help desk ticket with PG&E's Learning Academy immediately when a training glitch is identified (on occurrence).
3. Determined whether the utility has an ongoing process in reviewing and updating its COC and related issues to reinforce these mandatory rules of conduct.

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

4. Verified whether the utility has additional obligations, besides its COC, that employees must adhere to prove their compliance with confidentiality requirements at different level of transactions in accordance with D.02-12-074, OP 24 b.2.2.

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

5. Identified whether the utility has a process in place where energy procurement employees become legally compelled by a deposition to disclose any confidential procurement documents.

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

6. Determined whether the utility has a control process to prevent employee's misuse of confidential procurement information during and after their employment.

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

C. Quarterly Compliance Report (QCR)

1. Confirmed whether the quarterly advice letter filing, including the attachments of supporting documentation, was accurate and complete.

Finding #1: PG&E failed to demonstrate compliance with D.02-10-062, Appendix B and PUC Section 581. In its Q2 2020 QCR Filing, PG&E reported Q1 2020 data on Attachment C. For additional information about the finding, please see Finding #1 at procedure A.2 listed above.

PG&E Response: See A.2.

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. Verified 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. Determined whether the utility explained or justified the timing of its transactions.

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

5. Affirmed 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. Ascertained 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. Validated whether the utility provided a copy of each of the utility's procurement contracts reported in Attachment H – Contracts Executed/Contracts Amended in the utility's QCR.

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

8. Ascertained 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. Confirmed 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. Ascertained 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. Validated whether the utility provided average price information for non-standard transactions.

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

12. Determined 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.

D. Strong Showing Justification

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

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

2. Ascertained whether the price of bilateral contracts for non-standard products that are waived from strong showing justification under D.03-06-067, OP 3(d) in Attachment A, is 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. Ascertained whether any transactions subject to strong showing justification included in Attachment H of the utility's QCR were properly justified in Attachment M.

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

4. Affirmed whether the price of bilateral contracts for non-standard products that are waived from strong showing justification under D.03-06-067, OP 3(d) in Attachment H, is 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. Verified whether any other transactions included in the utility's QCR are subject to strong showing justification and if any, whether they are properly justified in Attachment M.

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

6. Ascertained whether the price of bilateral contracts for non-standard products that are waived from strong showing justification under D.03-06-067, OP 3(d) in other transactions, is reasonable based on available and relevant market data. Compared the buy and sell average price paid or sold 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.

E. Electronic Solicitation and Related Contracts

1. Validated whether the utility consulted with its PRG in a timely manner if any contract term was over one calendar quarter.

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

2. Ascertained whether the utility's independent evaluator (IE) evaluated the contracts with terms greater than 2 years.

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

3. Determined whether the contracts derived from the electronic solicitation 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. Determined whether IE had evaluated the counterparty regardless of contract duration if the counterparty was an affiliate.

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

5. Evaluated 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.

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

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

7. Verified whether all electronic solicitation contracts executed during the quarter were correctly and completely reported in attachments of the utility's QCR.

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

F. Bilateral, Broker and Carbon Free Energy Contracts

1. Ascertained whether the utility consulted with its PRG in a timely manner for contracts exceeded one calendar quarter.

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

2. Validated whether 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. Determined whether the utility's IE had evaluated the counterparty regardless of contract duration if the counterparty was an affiliate.

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

4. Evaluated whether the contracts had any impact on the overall TeVAR.

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

5. Identified whether any contract related to a new fossil generation or PPA that was less than 5 years.

Finding: We did not identify any contract related to a new fossil generation or PPA that was less than 5 years.

6. Verified whether the bilateral contracts executed during the quarter were correctly reported in the utility's QCR.

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