



QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

San Diego Gas & Electric Company
Second Quarter of 2020 - Advice Letter 3579-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

Miguel Romero
Vice President – Energy Supply
San Diego Gas & Electric Company
8330 Century Park Court, CP33B
San Diego, CA 92123

Dear Mr. Romero:

Final Report Transmittal Letter – Agreed-Upon Procedures Engagement of San Diego Gas and 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 has completed its agreed-upon procedures (AUP) engagement of San Diego Gas and Electric's (SDG&E) Second Quarter of 2020 Quarterly Energy Procurement Compliance Report -Advice Letter 3579-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 redacted audit report on our website at <https://www.cpuc.ca.gov/utilityaudits/>.

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

We appreciate SDG&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

Mr. Miguel Romero
Vice President – Energy Supply
San Diego Gas and Electric Company
December 28, 2020
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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 San Diego Gas & Electric Company's (SDG&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. SDG&E is one of these utilities.¹ SDG&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 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.

This 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 Southern California Edison Company and Pacific Gas & Electric 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: We found no exceptions as a result of this procedure.

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.

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: 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.

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 Decision (D.) 02-12-074, Ordering Paragraph (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.

Findings #1-3: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and Public Utilities Code (PUC) Section 581.

- a) In its Q2 2020 QCR, SDG&E made reporting errors in Attachment H – Contracts Executed/Contracts Amended. For additional information about the finding, please see Finding #1 at procedure E.7 listed below.
- b) In its Q2 2020 QCR, SDG&E did not provide the correct supporting documentation. For additional information about the finding, please see Finding #2 at procedure F.6 listed below.
- c) In its Q2 2020 QCR, SDG&E made reporting errors in Attachment H – Contracts Executed/Contracts Amended. For additional information about the finding, please see Finding #3 at procedure F.6 listed below.

SDG&E Response: See E.7 and F.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. 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 of the utility's QCR.

Finding: We found not 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 #1: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PUC Section 581. SDG&E incorrectly reported the total volume for the October 2020 transaction with [REDACTED] in Attachment H. The contract with [REDACTED] indicated a volume of [REDACTED] for October, however Attachment H incorrectly reported [REDACTED].

SDG&E's response: On October 7, 2020, SDG&E asserted:

- i. Attachment H has been amended to correct the aforementioned findings and will be submitted along with a supplemental advice letter with this amendment.
- ii. The transaction with [REDACTED] was for [REDACTED]. SDG&E does not frequently execute this type of transaction, and as a result SDG&E's transaction tracking system is not currently configured to record [REDACTED]. When recording these transactions in the QCR, the information from transactions needs to be manually populated into Attachment H from the confirm. In this instance, the volume was incorrectly recorded as [REDACTED] as opposed to [REDACTED].

SDG&E will add another layer of review for all [REDACTED] transactions going forward. Additionally, SDG&E is examining the feasibility of configuring its deal tracking system to record [REDACTED]. Once [REDACTED] are recorded in the transaction tracking system, they system will be able to generate a report to allow for easier verification of [REDACTED] transactions recorded in Attachment H.

F. Bilateral 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.

- 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.

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

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

- 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.

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

Finding #2: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PUC Section 581. SDG&E provide the incorrect confirmation in Attachment H for the contract executed bilaterally with [REDACTED].

SDG&E’s response: On November 18, 2020, SDG&E asserted:

SDG&E inadvertently attached the broker confirmation to Attachment H instead of the transaction confirmation between SDG&E and [REDACTED]. The notional value was correctly stated in Attachment H. SDG&E provided the correct confirmation and will ensure that the correct confirmations are included going forward.

Finding #3: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PUC Section 581. SDG&E incorrectly reported the execution/signed date and/or did not provide the signature date for the following contracts on Attachment H:

| Contract/ Counterparty | Attachment H Execution/Signed Date | Confirmation Signature Date |
|---------------------------|---------------------------------------|--|
| [REDACTED] | 5/21/2020 | 5/22/2020 |
| [REDACTED] | 6/30/2020 | 7/08/2020 |
| [REDACTED] | 4/20/2020 | Unable to verify signature date Effective date: 4/17/2020 |

SDG&E’s response: On December 15, 2020, SDG&E asserted:

For reporting new contracts in Attachment H, SDG&E’s practice is to consider the effective date as the execution date, which is the date that the contract is binding.

SDG&E provided the correct effective date for the [REDACTED] transaction in Attachment H. The [REDACTED] confirmation states in the first paragraph that the “Contract Execution Date” is May 21, 2020, regardless of when signatures may have been processed.

The [REDACTED] confirmation states in the first paragraph that the “Effective Date” was June 30, 2020. In this instance, the Effective Date represents the execution date agreed upon by both parties.

SDG&E did not put the correct execution/effective date on the [REDACTED]. April 17, 2020 is the effective date of the transaction as stated in the first paragraph of the confirmation. SDG&E has amended Attachment H and will submit after all findings have been communicated. SDG&E will also change the column heading going forward to state “Effective Date” instead of “Execution/Signed Date” to avoid ambiguity.

UAB Rebuttal:

SDG&E is required to report the contract execution or signature date on Attachment H, as required in the QCR Template instructions since December 15, 2008. In addition, it has been a common practice of all the investor-owned utilities to report either the contract effective date or signature date, whichever is later, on Attachment H of the QCR because a contract is not legally binding until it is signed by all contract parties. Therefore, SDG&E is required to report the confirmation signature dates which took place later than the effective dates for the contracts executed with [REDACTED] and [REDACTED]. The finding remains unchanged.

G. Request for Offers (RFO)/Proposal (RFP) – Other Market Participants

1. Determined whether the utility participated in any RFO/RFP process of any market participants and whether any contracts were executed between the utility and the market participants who issued RFO/RFP.

Finding: We found that the utility participated in a RFO process of a market participant and executed two contracts with this counterparty.

2. Evaluated whether the utility consulted with its PRG for the contracts derived from the RFO/RFP issued by other market participants with contract duration longer than one calendar quarter.

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

3. Validated whether the contracts 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. Verified whether the contracts executed from the RFO/RFP issued by other market participants during the quarter were correctly reported in the utility’s QCR.

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