



QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

San Diego Gas and Electric Company

First Quarter of 2022 - Advice Letter 3995-E

Utility Audits, Risk and Compliance Division
Utility Audits Branch
September 30, 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:

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**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

September 30, 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 January 1, 2022, through March 31, 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 First Quarter of 2022 in Advice Letter (AL) 3995-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 redacted 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.

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
September 30, 2022
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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
Kristopher Bourbois, 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
Meredith Sterkel, Program Manager, Energy Division, CPUC
Michele Kito, Program & Project Supervisor, 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

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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 San Diego Gas and Electric Company's (SDG&E or the utility) energy procurement compliance reporting period of January 1, 2022, through March 31, 2022 (Q1 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'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 and 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 the utility's Q1 2022 electric physical transaction details in Attachment A² to determine whether they 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 Q1 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 Q1 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 Q1 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: We found no exceptions as a result of this procedure.

5. Reconciled to determine whether the utility's Q1 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.

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 Q1 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: We found no exceptions as a result of this procedure.

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 (CAISO) 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 prices 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 prices paid or sold in Attachment A to the market high and low prices to ensure reasonable deals were 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 prices 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 prices paid or sold in Attachment H to the market high and low prices to ensure reasonable deals were 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 prices paid or sold for other transactions to the market high and low prices to ensure reasonable deals were completed.

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

D. Procurement Review Group (PRG)

1. Inspected relevant supporting documentation to determine whether the utility held a PRG meeting at least once in Q1 2022.

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

2. Inspected PRG supporting documentation to determine whether the utility implemented the PRG requirements as indicated in D.07-12-052, OP 7.

Finding #1: SDG&E failed to demonstrate compliance with D.07-12-052, OP 7.

SDG&E did not make its 2022 PRG calendars publicly available on the utility's website. SDG&E inadvertently posted the incorrect information of PRG meeting summaries, instead of PRG calendars, within the Procurement Calendar 2022 section of the utility's PRG web page.

SDG&E's Response:

On August 4, 2022, SDG&E stated:

SDG&E acknowledges the above-mentioned error of the incorrect PRG meeting summaries posted to the public, instead of the 2022 PRG calendars. SDG&E corrected this error on August 2, 2022. The 2022 PRG public calendar workbooks are provided with this response.

Going forward, SDG&E will ensure PRG web-based calendar and meeting agenda and related materials are provided to the public within the required time frame, in accordance with CPUC Decision (D.) 07-12-052, OP 7.

The error occurred when a PRG meeting summaries workbook file was posted over the 2022 PRG calendars. Corrective action will include thorough review of all posted materials by SDG&E's origination and web teams before the material is posted and after the web pages are live.

3. Inspected relevant supporting documentation to determine whether the utility made a list of non-confidential discussion topics of the PRG meetings publicly available.

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

4. Inspected relevant supporting documentation to determine whether the utility's PRG meeting summaries were distributed (or made publicly available) on the earlier of a) 14 days

after the procurement review group meeting, or b) 48 hours before the next regularly scheduled PRG meeting.

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

5. Inspected relevant supporting documentation to determine whether the utility’s 95% Time to Expiration Value at Risk (TeVAR) metric exceeded the established Customer Risk Tolerance (CRT). If yes, inspected PRG meeting material to determine whether the utility informed its PRG in a timely manner.

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

E. Bilateral Contracts

1. Traced and agreed each contract to contract/trade confirmations for the type of contract, contract term, counterparty, product type, total volume, and total cost.

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

2. Inspected PRG meeting materials to determine whether the utility consulted with its PRG before the contracts were executed if any contract term was over one calendar quarter.

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

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

Finding #2: SDG&E failed to demonstrate compliance with D.03-12-062, OP 11 and Section 9.1 of the contract confirmation (Confirmation). SDG&E did not receive timely cash collateral for the bilateral contract executed with [REDACTED]. The cash collateral in the amount of [REDACTED] should have been received three (3) business days after the Confirmation Execution Date, January 25, 2022, which was nineteen (19) days late. The table below indicates the performance dates for the confirmation:

[REDACTED] Confirmation	Execution Date	Collateral Due Date	Collateral Receipt Date
	1/25/2022	1/28/2022	2/16/2022

SDG&E’s Response:

On August 16, 2022, SDG&E stated:

Pursuant to the RA confirmation between SDG&E and [REDACTED] executed January 25, 2022 (the “Confirmation”), [REDACTED] was required to post its Collateral Requirements no later than three (3) Business Days after the execution date, or January 28, 2022. [REDACTED] failed to provide timely collateral based upon the terms of the Confirmation. The Confirmation is governed by the terms of the Edison Electric Institute (EEI) Master agreement which states, among other things, that if an event of default occurs, the non-defaulting party may suspend performance under any or all transactions and exercise any remedy available at law or in equity

(emphasis added). SDG&E elected to not exercise these rights and allow [REDACTED] additional time to provide collateral.

For future transactions, SDG&E will send notice to [REDACTED] or other counterparties requesting collateral requirements and indicating the timelines, as applicable, or alternatively request collateral requirements from counterparties upon their execution of transactions, which SDG&E will not counter sign until such collateral requirements are received.

4. 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.

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

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

6. 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.

7. 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.