



QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

Pacific Gas and Electric Company
Second Quarter of 2023 – Advice Letter 7001-E

Utility Audits, Risk and Compliance Division
Utility Audits Branch
December 22, 2023



PUBLIC UTILITIES COMMISSION

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Transmitted via e-mail

December 22, 2023

Kelly Everidge, Director
Risk, Compliance & Reporting Department
Pacific Gas and Electric Company
300 Lakeside Drive
Oakland, CA 94612

Dear Kelly Everidge:

Final Report Transmittal Letter – Agreed-Upon Procedures Engagement of Pacific Gas and Electric Company’s Quarterly Energy Procurement Compliance Report for the period of April 1, 2023, through June 30, 2023

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its agreed-upon procedures (AUP) engagement of Pacific Gas and Electric Company’s (PG&E) Quarterly Energy Procurement Compliance Report (QCR) filed for its Second Quarter of 2023 in Advice Letter (AL) 7001-E. The final AUP report is enclosed.

PG&E’s responses to the AUP report finding 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 finding is required. PG&E has already provided the information regarding its corrective actions planned and those responses have been included in the report. However, PG&E is still required to file a supplemental AL 7001-E with amended Attachment B by January 19, 2024. Once PG&E submits the supplemental AL, no further actions will be required.

We appreciate PG&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,

Alasha Terelyeva for Angie Williams

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

Kelly Everidge, Director
Risk, Compliance & Reporting Department
Pacific Gas and Electric Company
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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
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I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

The 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 Pacific Gas and Electric Company's (PG&E or the utility) energy procurement compliance reporting period of April 1, 2023, through June 30, 2023 (Q2 2023). 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. PG&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 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.

¹ San Diego 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 \(ca.gov\)](#).

Masha Verbyeva for 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 Q2 2023 electric physical (and transmission) transaction details in Attachment A² contained any electronic solicitation or other competitive solicitation transactions, requiring performance of the audit procedures for Electronic Solicitation and Related Contracts.

Finding: We found [REDACTED] electronic solicitation electric physical transactions reported in Attachment A that required performance of the audit procedures for Electronic Solicitation and Related Contracts. We performed the required procedures outlined in Section E of this report for these transactions along with other electronic solicitation contracts also reported in Attachment H—Contracts Executed/Contracts Amended.

2. Reconciled to determine whether the utility's Q2 2023 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 percent 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 Q2 2023 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 percent 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 Q2 2023 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 percent 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.

5. Reconciled to determine whether the utility's Q2 2023 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 percent 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 Q2 2023 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 QCR advice letter filing, including the attachments of supporting documentation, to determine whether the filing was accurate and complete.

Finding #1: PG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. PG&E failed to report [REDACTED] as one of the credit mechanisms for [REDACTED] bilateral contract in Attachment B – Non-investment Grade Counterparties as required. For additional information about the finding, please see Finding #1 at procedure F.5 listed below.

PG&E's Response: See F.5.

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

Finding: We did not find any of the utility's authorized decision-makers that were not listed in 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 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 for any transactions subject to strong showing justification and inspected Attachment M – Transactions Subject to Strong Showing 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 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 for any transactions subject to strong showing justification and inspected Attachment M 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 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 QCR for any transactions subject to strong showing justification and inspected Attachment M 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 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. Electronic Solicitation Process

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

1. Ascertained that the utility developed its bid documents under oversight of its independent evaluator (IE), vetted through its PRG and any differences were resolved by ED staff prior to administering the solicitation.

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 solicitation bid document so that the solicitation process was improved by the identification of data gaps, confirmation of the fairness of the confidential components of the solicitation, and in compliance with the letter and spirit of CPUC policies on competitive solicitations.

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

3. Ascertained that the electronic solicitation process was competitive and consistent with the spirit of competitive solicitation.

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

4. Ascertained that the electronic solicitation bid criteria included the measures recommended by CPUC and were consistent with the CPUC's requirements.

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

5. Validated that the electronic solicitation bid criteria were clearly described and defined.

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

6. Validated that the rationale for the electronic solicitation bid criteria was clearly explained.

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

7. Validated that project viability was part of the electronic solicitation bid criteria.

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

8. Ascertained that the winning contract met the utility's electronic solicitation evaluation criteria.

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

9. Ascertained that the utility presented its electronic solicitation 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.

10. Ascertained that the utility addressed any concerns raised by its PRG members, ED staff, and IE regarding the electronic solicitation process.

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

11. Validated that the electronic solicitation process optimized the energy value of the products being solicited.

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

12. Ascertained that the bid evaluation process was transparent and the circumstances under which the bid results could be rejected were well understood by potential bidders in advance of the solicitation.

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

13. Validated that all bids considered were submitted solely via the electronic solicitation process.

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

14. Identified any pre-bid and post-bid negotiations.

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

15. Ascertained that the award decision was communicated within the timeframe of the electronic solicitation.

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

16. Identified whether the utility created any false barriers to participation in the electronic solicitation or to attempt to limit the competitive process by manipulating the products and/or process.

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

17. Affirmed that the utility did not issue an electronic solicitation seeking bids for both Power Purchase Agreement (PPA) and Utility Owned Generation (UOG).

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

18. Identified whether the electronic solicitation process solicited fossil-fuel generation contracts less than five years and evaluated whether 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.

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

19. Validated whether the electronic solicitation involved affiliates or utility bidders. If yes, affirmed that the electronic solicitation was evaluated by an IE regardless of contract duration.

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

20. Identified whether the electronic solicitation solicited PPAs less than five years. If any, ascertained that the utility recognized the effects of debt equivalence (DE) when comparing PPA against PPAs in their bid evaluations, but not when a UOG project was being considered.

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

E. Electronic Solicitation Contracts

1. Inspected the utility's Q2 2023 electric physical transactions included in Attachment A to determine if there were any electronic solicitation or other competitive solicitation transactions.

Finding: We found [REDACTED] electric physical transactions executed via electronic solicitation reported in Attachment A. We performed the required AUP for these transactions along with other electronic solicitation contracts reported in Attachment H following the procedures in this section.

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

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

3. 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.

4. Inspected counterparties' credit supporting documentation to validate that the contracts derived from the electronic solicitation selection process were executed with investment-grade counterparties or non-investment grade counterparties that were supported with credit protection such as surety bonds, guarantee, collateral, and net provision.

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

5. 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.

6. Identified any contract related to a new fossil-fuel generation or PPA that was less than five years.

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

7. Traced and agreed all electronic solicitation 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.

F. Bilateral and Broker Contracts

1. Inspected PRG meeting materials to determine whether the utility consulted with its PRG for any contracts with terms over one calendar quarter 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 credit protection such as surety bonds, guarantee, collateral, and net provision.

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

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

Finding: We found that [REDACTED] reported in Attachment A provide fixed price gas in the future, which reduces gas purchases subject to market fluctuations, thus decreasing TeVAR. There are [REDACTED], [REDACTED] and [REDACTED] contracts reported in Attachment H, which had no impact on TeVAR.

4. Identified any contract related to a new fossil-fuel generation or PPA that was less than five years.

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

5. 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 #1: PG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. PG&E did not include [REDACTED] as one of the credit mechanisms for [REDACTED] bilateral contract executed with the non-investment grade counterparty, [REDACTED] in Attachment B. PG&E only listed [REDACTED] in Attachment B but should have also included [REDACTED] since that was an additional type of credit mechanism obtained by PG&E for this counterparty.

PG&E's Response:

On November 15, 2023, PG&E stated:

PG&E disagrees with this finding. [REDACTED] are not a collateral type or credit mechanism, but considered a contractual settlement type, or term. In Confidential Attachment B, the [REDACTED] is accurately reported as the collateral PG&E holds for [REDACTED]. In the Q2 2023 QCR DR 001 response which included specific information on [REDACTED] transaction, the [REDACTED] was not listed because there was a [REDACTED] settlement term associated with the transaction and collateral was not required. This is consistent with the discussion and meeting notes of the September 8, 2023, PG&E and UAB teleconference on supporting credit documentation.

PG&E's credit information and responses in both the Q2 2023 QCR Confidential Attachment B and the Q2 2023 QCR Data Request 001 were answered in a manner consistent with previous QCR responses.

On December 11, 2023, PG&E stated:

PG&E requested a conference call to discuss and further clarify UAB's Q2 2023 QCR Attachment B finding. After the discussion held on December 7, 2023, to ensure consistency across the IOU QCRs, PG&E agreed to update its Attachment B methodology and include counterparty [REDACTED] information going forward.

As part of its corrective actions, PG&E will submit a Q2 2023 QCR Attachment B Supplemental to correct the record. In addition, PG&E will submit this finding in PG&E's Corrective Action Program (CAP) to ensure the process and controls to support this change are documented and finalized.

G. Code of Conduct (COC)

1. Requested and inspected the utility's current COC manual to determine whether the utility adopts, actively monitors, and enforces compliance with a comprehensive COC for all employees engaged in the procurement process.

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

2. Inspected relevant supporting documentation to determine whether all employees included in the utility's energy procurement organizational chart as of Q2 2023 acknowledged the utility's COC or completed COC training within one month after the date of hire or transfer.

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

3. Inspected relevant supporting documentation to validate that all new employees who were hired or transferred during the past year (Q3 2022 through Q2 2023) and involved in energy procurement activities acknowledged the utility's COC agreement or completed the utility's COC training within one month after the date of hire or transfer.

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

4. Inquired the utility to ascertain that 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.

5. Inquired the utility to ascertain that 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.

6. Inquired the utility to ascertain that 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.

7. Inquired the utility to ascertain that 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.