



QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

Pacific Gas and Electric Company
Fourth Quarter of 2022 - Advice Letter 6844-E

Utility Audits, Risk and Compliance Division
Utility Audits Branch
June 16, 2023



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Transmitted via e-mail

June 16, 2023

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

Dear Ms. 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 October 1, 2022, through December 31, 2022

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 Fourth Quarter of 2022 in Advice Letter (AL) 6844-E. The final AUP report is enclosed.

PG&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. PG&E has already provided the information regarding its corrective actions planned, and those responses have been included into the report. However, PG&E is still required to file a supplemental AL 6844-E to amend its QCR to include additional Long-Term Congestion Revenue Rights (LTCRR) information, Attachment L, by June 23, 2023. Once PG&E submits these documents, 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,

Angie Williams

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

Ms. Kelly Everidge, Director
Risk, Compliance & Reporting Department
Pacific Gas and Electric Company
June 16, 2023
Page 2

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TABLE OF CONTENTS

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.....	5
D. ELECTRONIC SOLICITATION CONTRACTS.....	6
E. BILATERAL AND BROKER CONTRACTS	8
F. CARBON FREE ENERGY CONTRACTS	8
G. INSPECTION OF UTILITY'S INTERNAL AUDIT REPORTS	9

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 Pacific Gas and Electric Company's (PG&E or the utility) energy procurement compliance reporting period of October 1, 2022, through December 31, 2022 (Q4 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. 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), except for obtaining an external peer review. UAB was unable to obtain an external peer review timely due to delays caused by the COVID-19 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 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 \(ca.gov\)](#).

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 Q4 2022 electric physical 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 indicated in Section D of this report.

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

2. Reconciled to determine whether the utility's Q4 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 Q4 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 Q4 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 Q4 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 Q4 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: PG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581, and Resolution E-4122. PG&E did not report the Long-Term Congestion Revenue Rights (LTCRRs) information in its Q4 2022 QCR, as required in CPUC Resolution E-4122. The Resolution E-4122 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.

PG&E's Response:

On April 6, 2023, PG&E stated:

PG&E agrees with this finding. This issue has been reported in PG&E's Corrective Action Program (CAP) and is currently being reviewed to determine the root cause and finalizing the appropriate corrective actions to be put in place.

The Energy Policy Procurement (EPP) group is in the process of implementing additional controls including a system generated reminder as well as the development of an independent calendar to track deadlines to ensure this yearly CRR report is sent to the PRG timely. PG&E will file a supplement to Advice Letter 6844-E once all findings have been communicated.

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 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 prices 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 prices 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 prices 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 prices 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 prices 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. Electronic Solicitation Contracts

1. Inspected the utility's Q4 2022 electric physical transactions included in Attachment A to find if there are any electronic solicitation or other competitive solicitation transactions.

Finding: We found no exception 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 terms were over one calendar quarter.

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. 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 surety bonds, guarantee, collateral, etc.

Finding #2 – PG&E failed to demonstrate compliance with OP 11 of D.03-12-062 and Section 3.1 of the Confirmation Letter with [REDACTED] for its credit protection. PG&E did not receive the payment timely from [REDACTED] in the amount of [REDACTED] for the April 2023 compliance showing. PG&E should have received this payment by February 15, 2023, but the utility did not receive it until February 28, 2023.

In accordance with Section 3.1 of the contract provision with the counterparty, payment shall be paid by Buyer and received by Seller no later than ten (10) calendar days prior to the deadlines for the corresponding Compliance Showings applicable to the Showing Month.

PG&E's Response:

On April 19, 2023, PG&E stated:

PG&E agrees with this finding, [REDACTED] did not pay PG&E timely for this transaction. Although this payment was received late, PG&E is following the EEI Master Agreement contractual protocol and invoiced the counterparty [REDACTED] in interest, which is due to PG&E on 5/4/2023.

PG&E will be reviewing its current payment process and potential ways to strengthen it going forward.

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 contract had any impact on the overall TeVAR.

6. Identified any contract related to a new fossil generation or Purchase Power 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 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.

E. Bilateral and Broker Contracts

1. Inspected PRG meeting materials to ascertain that the utility consulted with its PRG for any contracts exceeding one calendar quarter before the contracts 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 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 TeVAR.

Finding: We found that four (4) bilateral physical gas park and storage transactions reported in Attachment A provide fixed price gas in the future, which reduce gas purchases subject to market fluctuations, thus reducing TeVAR. The transport for the pipeline capacity transaction and [REDACTED] reported in Attachment H had no impact on TeVAR.

5. Identified any contract related to a new fossil generation or 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 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.

F. Carbon Free Energy Contracts

1. Inspected all contracts to determine that all carbon energy sales reported were for 2023.

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

2. Requested and inspected EEI Master Agreements to ascertain that all carbon energy sales were executed through these Master agreements.

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

3. Traced and agreed contract price, volume, and other terms to determine that all carbon energy sales were correctly reported.

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

G. Inspection of Utility's Internal Audit Reports

1. Requested and inspected the utility's internal audit reports of the past two calendar years, which may have had an impact on the utility's transactions reported in QCR, including, but not limited to, the following aspects: Contracting Process, Credit Department, QCR Preparation and Reporting Process, Spot/Trade Floor Transaction Process, Competitive Solicitation Process, Bilateral Trading Process, Congestion Revenue Rights, [REDACTED], and Convergence Bidding.

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

2. Inspected the internal audit reports provided by the utility to determine whether any deficiencies may have led to the utility's non-compliance with the Commission's requirements with respect to QCR transactions and documented these deficiencies.

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

3. Requested and inspected related documentation provided by the utility to determine whether the utility had corrective action plans in place to mitigate and eliminate the deficiencies from the internal audit report(s).

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

4. Requested and inspected related documentation provided by the utility to determine whether the utility had implemented the corrective action plans to mitigate and eliminate the deficiencies.

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

5. Requested and inspected related documentation provided by the utility to determine whether the results of implementation of corrective action plans were effective.

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