



QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

Pacific Gas & Electric Company
Fourth Quarter of 2019 - Advice Letter 5748-E

Utility Audits, Risk and Compliance Division
Utility Audits Branch
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I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Utility Audits Branch (UAB) performed the agreed-upon procedures (AUP) enumerated in Procedures and Findings section of this report for the Pacific Gas & Electric Company's (PG&E or the utility) compliance reporting period of October 1, 2019 through December 31, 2019 (Q4 2019). These procedures were agreed to between 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 California Public Utilities Commission (CPUC) energy procurement directives. PG&E is one of these utilities.¹ PG&E is responsible for complying with the energy procurement-related state laws and the CPUC's energy procurement directives.

UAB conducted the AUP engagement in accordance with attestation standards established by the generally accepted government auditing standards (GAGAS). The sufficiency of these procedures is solely the responsibility of ED. Consequently, we make no representation regarding the sufficiency of the procedures described herein either for the purpose for which this report has been requested or for any other purpose. The results of the engagement are also detailed in Procedures and Findings section of this report.

We were not engaged to, and did not, perform an examination or review of the subject matter, the objective of which would be the expression of an opinion on PG&E's compliance with the energy procurement-related state laws and the CPUC's energy procurement directives. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to ED.

This report is intended solely for the information and use of ED. 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. The report can be found on the CPUC public website through the following link:

<https://www.cpuc.ca.gov/utilityaudits/>

We appreciate PG&E's assistance and cooperation with this engagement. If you have any questions regarding this audit 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.

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

cc: Alice Stebbins, Executive Director, CPUC (via email)
Edward Randolph, Deputy Executive Director, Energy Division (via email)
Pete Skala, Director of Efficiency, Electrification, and Procurement, Energy Division (via email)
Judith Ikle, Program Manager, Energy Division (via email)
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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 Q4 2019 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 Q4 2019 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 Q4 2019 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 Q4 2019 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 Q4 2019 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. Quarterly Compliance Report (QCR)

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

Findings: PG&E failed to demonstrate compliance with Decision (D.)02-10-062, Appendix B, and Public Utilities Code (PUC) Section 581. In its Q4 2019 QCR, PG&E made reporting errors in Attachments B and H. For detail information of the finding, please see procedure D.7.

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.

PG&E Response: On June 19, 2020, PG&E submitted the amended Attachments B and H via a supplemental Q4 2019 QCR advice letter to correct the above-mentioned reporting errors.

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 no exceptions as a result of this procedure.
8. Ascertained whether the utility provided a reasonable number of analyses, as requested by the CPUC or the Procurement Review Group (PRG) and provided the resulting outputs.
Finding: We found no exceptions as a result of this procedure.
9. Confirmed whether the utility's QCR included its briefing package provided to the ultimate decision maker.
Finding: We found no exceptions as a result of this procedure.
10. Ascertained whether the utility provided the break-even spot prices equivalent to the contracts.
Finding: We found no exceptions as a result of this procedure.
11. Validated whether the utility provided average price information for non-standard transactions.
Finding: We found no exceptions as a result of this procedure.
12. Determined whether the utility provided California Independent System Operator electricity procurement information in the utility's QCR.

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

C. 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.

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

2. 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.

3. 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.

D. 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: PG&E failed to demonstrate compliance with D. 02-10-062, Appendix B, and PUC Section 581. PG&E made reporting errors in Attachments H and B detailed below.

- i. PG&E incorrectly reported the execution date of the contract executed with [REDACTED] in Attachment H. The execution date reported did not agree with that of the confirmation letter.
- ii. PG&E incorrectly reported the product type for the contract executed with [REDACTED] in Attachment H as the Local Resource Adequacy (RA) Sale. The actual product type should be Local Flexible RA Sale.
- iii. PG&E incorrectly reported [REDACTED] as a non-investment grade counterparty in Attachment B. [REDACTED] is an investment grade counterparty acting by and thru its [REDACTED] as negotiated [REDACTED] credit term.

PG&E Response:

On April 21, 2020, PG&E asserted:

PG&E had a high volume of RA transactions in Q4 2019 and is working with subject matter experts to improve its process controls to refine the validation of Attachment H and confirmation letters.

On June 19, 2020, PG&E submitted amended Attachments B and H to correct the aforementioned reporting errors with a supplemental advice letter.

E. 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.

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

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

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

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

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

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

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

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

F. 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 the utility participated in a RFO process of a market participant and executed 4 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: PG&E failed to demonstrate compliance with D.16-01-015, Ordering Paragraph 2.e. PG&E failed to consult with its PRG in a timely manner regarding the execution of a contract derived from the RFO process of a market participant. PG&E failed to notify its PRG regarding the execution of this contract before the contract execution date, November 1, 2019.

PG&E Response: On June 2, 2020, PG&E asserted “PG&E is working to strengthen and enhance internal protocols, including additional signoffs, to ensure notifications to PRG are timely.”

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.