



# QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

Pacific Gas and Electric Company

Fourth Quarter of 2020 - Advice Letter 6069-E

Utility Audits, Risk and Compliance Division  
Utility Audits Branch  
June 24, 2021



## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
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Transmitted via e-mail

June 24, 2021

Ms. Kelly Everidge, Director  
Risk, Compliance & Reporting Department  
Pacific Gas and Electric Company  
P.O. Box 770000  
San Francisco, CA 94177-0001

Dear Ms. Everidge:

**Final Report Transmittal Letter – Agreed-Upon Procedures Engagement of Pacific Gas and Electric Company Quarterly Energy Procurement Compliance Report for the period of October 1, 2020 through December 31, 2020**

The Utility Audits Branch of the California Public Utilities Commission (CPUC) has completed its agreed-upon procedures (AUP) engagement of Pacific Gas and Electric's (PG&E) Fourth Quarter of 2020 Quarterly Energy Procurement Compliance Report - Advice Letter 6069-E. The final AUP report is enclosed.

PG&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 PG&E's response to the respective findings in the audit report.

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 [tracy.fok@cpuc.ca.gov](mailto:tracy.fok@cpuc.ca.gov) or Tim Baumgardner, Senior Management Auditor, at (916) 894-5603 [tim.baumgardner@cpuc.ca.gov](mailto:tim.baumgardner@cpuc.ca.gov).

Sincerely,

*Angie Williams*

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

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Pacific Gas and Electric Company  
June 24, 2021  
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## **MEMBERS OF THE TEAM**

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**Masha Vorobyova, Assistant Director**

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**Tim Baumgardner, Lead**

**Jeffrey Walter, Staff**

**Keen Banh, Staff**

**A digital copy of this report can be found at:**

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

**You can contact our office at:**

**California Public Utilities Commission  
Utility Audits, Risk and Compliance Division  
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# I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

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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 Pacific Gas and Electric Company (PG&E or the utility) compliance reporting period of October 1, 2020 through December 31, 2020 (Q4 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. PG&E is one of these utilities.<sup>1</sup> 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.

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.

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

*Angie Williams*

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Angie Williams, Director  
Utility Audits, Risk and Compliance Division

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

## II. PROCEDURES AND FINDINGS

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Below is the summary 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. Ascertained whether the utility's Q4 2020 electric physical transaction details (Attachment A) contained any electronic solicitation or other competitive solicitation transactions, requiring additional review in D. Electronic Solicitation and Related Contracts.

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

2. Verified whether the utility's Q4 2020 electric physical transaction details (Attachment A)<sup>2</sup> agreed to the corresponding transaction summary (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. Confirmed whether the utility's Q4 2020 electric financial transaction details (Attachment A) agreed to the corresponding transaction summary (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. Ascertained whether the utility's Q4 2020 gas physical transaction details (Attachment A) agreed to the corresponding transaction summary (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. Determined whether the utility's Q4 2020 gas financial transaction details (Attachment A) agreed to the corresponding transaction summary (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.

6. Determined whether the utility's Q4 2020 transport, storage, park and lend transaction details (Attachment A) agreed to the corresponding transaction summary (Attachment D).

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<sup>2</sup> 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.

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.

**Finding #1: PG&E failed to demonstrate compliance with D.02-10-062, Appendix B and PU Code Section 581.** PG&E erroneously classified the credit status of [REDACTED] as being non-investment grade in its Q4-2020 QCR filing. For additional information about the finding, please see Finding #1 at procedure D.8 listed below.

**PG&E Response:** See D.8.

**Finding #2: PG&E failed to demonstrate compliance with D.02-10-062, Appendix B and PU Code Section 581.** In its Q4 2020 QCR Filing, PG&E reported incomplete data on Attachment H. For additional information about the finding, please see Finding #2 at procedure D.8 listed below.

**PG&E Response:** See D.8.

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 – Contracts Executed/Contracts Amended in 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 – 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.

#### D. Electronic Solicitation and Related Contracts

1. Verified whether the utility's Q4 2020 electric physical transaction details (Attachment A) contained any electronic solicitation or other competitive solicitation transactions.

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

2. Validated whether the utility consulted with its PRG in a timely manner if any contract term was over one calendar quarter.

**Finding #3: PG&E failed to demonstrate compliance with D.16-01-015, OP 2(e)**

PG&E failed to consult with its PRG in a timely manner regarding the execution of a contract with [REDACTED] derived from the electronic solicitation procurement process. PG&E failed to notify its PRG regarding the execution of this contract before the contract execution date of October 23, 2020.

**PG&E Response:** On May 10, 2021 and May 28, 2021 PG&E asserted:

This transaction was executed upon further discussion with the counterparty after the first round of awards for the E-solicitation. PG&E did not notify PRG of this transaction and is revisiting its controls around this requirement (i.e. checklists, system solutions, etc).

PG&E agrees with this finding, and as a result has started an internal review process to identify additional controls within our internal checklist for all solicitation methods including, E-solicitation, RFO, and bilateral transactions to ensure PRG reporting guidelines, including proper notification timing, are met in the future. PG&E's PRG team will be informed of the findings, actions taken, and improvements to the process.

3. 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.

4. 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.

5. 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.

6. 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.

7. Identified 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.

8. Verified whether all electronic solicitation contracts executed during the quarter 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 erroneously classified the credit status of [REDACTED] as being non-investment grade in its Q4-2020 QCR Filing when it is actually investment grade.

**PG&E Response:** On March 18, 2021, PG&E asserted:

In the Q4 2020 QCR filed on December 31, 2020, PG&E inadvertently included [REDACTED] in Confidential Attachment B. [REDACTED] was non-investment Grade in Q3 2020 but had their status changed during Q4 2020. PG&E is reviewing our processes to mitigate this from reoccurring in the future. Upon conclusion of the audit, PG&E will include a revised Confidential Attachment B to correct this error as part of a Supplemental Advice Letter filing.

**Finding #2: PG&E failed to demonstrate compliance with D.02-10-062 – Appendix B, and PU Code Section 581.** PG&E incorrectly reported the counterparty's name on Attachment H. Attachment H listed the counterparty as [REDACTED] while on the Confirmation Letter, the name is listed as [REDACTED]

**PG&E Response:** On April 1, 2021, PG&E asserted:

Please note that the reference to [REDACTED] above, has been corrected to [REDACTED]. Upon conclusion of the audit, PG&E will include a revised Confidential and Public Attachment H to correct this error as part of a Supplemental Advice Letter filing.

#### 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 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 an RFP process of a market participant and executed four contracts.

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.