



# QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

San Diego Gas and Electric Company  
Second Quarter of 2022 - Advice Letter 4046-E

Utility Audits, Risk and Compliance Division  
Utility Audits Branch  
December 23, 2022



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## PUBLIC UTILITIES COMMISSION

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Transmitted via e-mail

December 23, 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 April 1, 2022, through June 30, 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 second quarter of 2022 in Advice Letter (AL) 4046-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. However, SDG&E is still required to file a supplemental AL 4046-E with amended Attachments A and C for electric physical and financial transactions as well as Congestion Revenue Rights (CRR) and Long-Term Congestion Revenue Rights (LTCRRs) information by January 6, 2022. Once SDG&E submits the supplemental AL, no further actions will be required.

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 [tracy.fok@cpuc.ca.gov](mailto:tracy.fok@cpuc.ca.gov).

Sincerely,

A handwritten signature in cursive script that reads "Angie Williams".

Angie Williams, Director  
Utility Audits, Risk and Compliance Division

cc: See next page

Ms. Estela De Llanos  
Vice President – Energy Procurement  
December 23, 2022  
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cc: Brandon Henzie, Energy Risk Manager, California Regulatory Affairs, SDG&E  
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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 San Diego Gas and Electric Company's (SDG&E or the utility) energy procurement compliance reporting period of April 1, 2022, through June 30, 2022, (Q2 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. SDG&E is one of these utilities<sup>1</sup> 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 the AUP engagement. 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.

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<sup>1</sup> Pacific Gas & 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*

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Angie Williams, Director  
Utility Audits, Risk and Compliance Division

## II. PROCEDURES AND FINDINGS

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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 2022 electric physical transaction details in Attachment A<sup>2</sup> contained any electronic solicitation or other competitive solicitation transactions, requiring 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 Q2 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 #1: SDG&E failed to demonstrate compliance with SDG&E's Bundled Procurement Plan (BPP), D.21-12-015, D.02-10-062, Appendix B, and PU Code Section 581.**

SDG&E erroneously included two (2) electric physical transactions in Attachments A and C for CPUC's approval via the Quarterly Compliance Report (QCR) advice letter filing process that should have been omitted from the filing. The two (2) electric physical transactions were also included in Attachment B – Counterparty Information.

**SDG&E's Response:**

On September 2, 2022, SDG&E stated:

The two transactions should not be included in SDG&E Q2 2022 QCR approval because they were not procured pursuant to SDG&E's Bundled Procurement Plan (BPP) authority, rather the transactions were procured pursuant to D.21-12-015.

Instead, the two transactions are to be recorded in SDG&E Local Generating Balancing Account (LGBA) and reviewed as part of the annual Energy Resource Recovery Account (ERRA) proceeding for the CPUC's approval.

Attachment A and associated Attachments B and C have been corrected and included in SDG&E's supplemental advice letter 4046-E-A.

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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 #2: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SDG&E incorrectly reported the volume and notional value of its electric physical transactions in Attachments A and C.**

The table below depicts the misstated total volume and total notional value of the electric physical transactions:

Electric Physical Transactions	Reported Amount	Correct Amount	Difference
Notional Value	[REDACTED]	[REDACTED]	[REDACTED]
Volume (MWh)	[REDACTED]	[REDACTED]	[REDACTED]

**SDG&E’s Response:**

On November 30, 2022, SDG&E stated:

All electric transactions have been reviewed and corrected in Attachment A and associated Attachments B and C... The 2022 Q2 Electric Physical Transactions Attachment A transaction detail contained incorrect deal volumes and incorrect notional values. There was a software error in Electric Financial (and Physical) Transaction valuation process which caused a duplicate valuation result and the duplicate result caused the volume to be doubled. A duplicate records removal step has been created to ensure accurate reporting in case the IT software error ever happens again.

3. Reconciled to determine whether the utility’s Q2 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 #3: SDG&E failed to demonstrate compliance with D.02-10- 062, Appendix B and PU Code Section 581. SDG&E overstated its volume and notional value of its electric financial transactions in Attachments A and C.**

For additional information about the finding, please see Finding # 3 at Procedure G.3 listed below.

**SDG&E’s Response: See G.3.**

4. Reconciled to determine whether the utility’s Q2 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 Q2 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.

6. Reconciled to determine whether the utility's Q2 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: SDG&E failed to demonstrate compliance with SDG&E'S BPP, D.21-12-015, D.02-10-062, Appendix B, and PU Code Section 581.** SDG&E erroneously included two (2) electric physical transactions in Attachments A, B and C for approval via its Q2 2022 QCR advice letter filing.

For additional information about the finding, please see Finding # 1 at Procedure A.2 listed above.

**SDG&E's Response: See A.2.**

**Finding #2: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581.** SDG&E incorrectly reported the volume and notional value of its electric physical transactions in Attachments A and C.

For additional information about the finding, please see Finding # 2 at Procedure A.2 listed above.

**SDG&E's Response: See A.2.**

**Finding #3: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B and PU Code Section 581.** SDG&E overstated its volume and notional value of its electric financial transactions in Attachments A and C.

For additional information about the finding, please see Finding # 3 at Procedure G.3 listed below.

**SDG&E's Response: See G.3.**

**Finding #4: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B, PU Code Section 581, and Resolutions E-4136 and E-4124.** The Congestion Revenue Rights (CRR) and Long-Term Congestion Revenue Rights (LTCRRs) detailed information provided in the QCR was incomplete and did not meet all the requirements set forth in CPUC Resolutions E-4136 and E-4124, as follows:

- The CRR information did not include the monthly and annual CRR past

performance, bid price, and description of the underlying energy supply arrangement that the CRR will hedge, as required per CPUC Resolution E-4136.

- The required LTCRRs information, including, at a minimum, the term, source and sink, relation to grid use, expected value, and past performance, was not included in the QCR, as required per CPUC Resolution E-4124.

### **SDG&E's Response:**

On September 29, 2022, SDG&E stated:

SDG&E has provided the amended QCR Attachment E filing to include detailed allocated CRRs during Q2 2022 (May, June and July monthly CRR awards) with this data request response.

...Since inception of CRR reporting in the QCR, SDG&E has been submitting summarized results for CRRs but going forward and regarding Monthly CRRs reported in Attachment E of the QCR, SDG&E will provide the additional required details of allocated CRRs for Monthly CRRs and Annual LTCRRs.

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 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 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 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 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 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 price 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 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. 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 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. 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.

5. 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.

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.

#### E. Request for offers (RFO) Contracts

1. Inspected PRG meeting documentation to ascertain that the utility consulted with its PRG in a timely manner for contracts that exceeded one calendar quarter.

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

2. 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.

3. Inspected counterparties' credit supporting documentation to validate that the contracts derived from the RFO selection process were executed with investment-grade counterparties or non-investment grade counterparties that were supported with surety bonds, guarantee, collateral, etc.

**Finding #5 – SDG&E failed to demonstrate compliance with OP 11 of D.03-12-062 and Section 3 of the Confirmation Letter with [REDACTED] for its credit protection.** SDG&E did not receive the Performance Assurance from [REDACTED] in the amount of [REDACTED] timely. SDG&E should have received this payment by July 1, 2022, but instead the utility received it on July 12, 2022. In accordance with the contract provision indicated in Section 3 of the Confirmation Letter, the Performance Assurance should be provided by [REDACTED] on the earlier of the ten (10) days after receipt of an invoice from seller (SDG&E) or the sixty (60) days before the start of the Monthly Delivery Period.

#### **SDG&E's Response:**

On October 12, 2022, SDG&E stated:

SDG&E agrees that the amount of [REDACTED] should have been received the earlier of the (10) days after receipt of an invoice from seller or the sixty (60) days before the start of such Monthly Delivery Period according to Section 3 of the Confirmation Letter, and that such payment should have been received on July 1, 2022. ...SDG&E inadvertently issued the [REDACTED] invoice with insufficient time for payment in the defined timeline and so did not receive payment until July 12, 2022.

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

Finding: No contracts had any impact on the overall TeVAR.

5. Identified any contract related to a new fossil generation or PPA with a term of less than five years.

Finding: We did not identify any contract related to a new fossil generation or PPA with a term of less than five years.

6. Traced and agreed all RFO 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. 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 2022 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 2021 through Q2 2022) 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.

#### G. Financial Electric Transaction Deep Dive

1. Selected a sample from the utility's financial electric transaction population on a judgmental basis covering all product types, various counterparties, purchases/sales, brokers/exchanges, locations, and transaction methods.

Finding: UAB selected a sample size of [REDACTED] financial electric transactions, which covered [REDACTED] of the total population value. ED approved this sample on October 10, 2022.

2. Obtained and inspected relevant supporting documentation to validate that the utility executed the transactions with adequate justifications (e.g., fulfilling its net residual open positions and using the least-cost-best-fit approach).

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

3. Traced and agreed transaction volumes, prices, notional values, and other related information to invoices and trade blotters (confirmations).

**Finding #3: SDG&E failed to demonstrate compliance with D.02-10- 062, Appendix B and PU Code Section 581.** SDG&E incorrectly reported the volume and the notional value of several electric financial transactions in Attachment A and the corresponding total volume and total notional value in Attachment C. The table on the next page depicts the misstated volume and notional value on a transactional basis as well as in total.





ascertain that transactions did not have terms longer than five years and did not involve affiliates of SDG&E.

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

6. Inspected counterparties' credit supporting documentation to validate that quarter's transactions were executed with investment-grade counterparties or non-investment grade counterparties that were supported with surety bonds, guarantees, collateral, etc.

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

7. Inspected relevant supporting documentation to validate the utility demonstrated that prices of over the counter (OTC) transactions were equivalent to exchanges.

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

#### H. Physical Gas Transaction Deep Dive

1. Selected a sample from the utility's physical gas transaction population on a judgmental basis covering all product types, various counterparties, purchases/sales, brokers/exchanges, locations, and transaction methods.

Finding: UAB selected a sample size of [REDACTED] physical gas transactions, which covered [REDACTED] of the total population value. ED approved this sample on October 10, 2022.

2. Obtained and inspected relevant supporting documentation to validate whether the utility executed the transactions with adequate justifications (e.g., fulfilling its net residual open positions and using the least-cost-best-fit approach).

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

3. Traced and agreed transaction volumes, prices, notional values, and other related information to invoices and trade blotters (confirmations).

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

4. Inquired the utility as to whether the sampled transactions had any impact on the overall TeVAR.

Finding: We found that three physical gas transactions reduced the overall TeVAR by \$8,102,799.

5. Inspected relevant supporting documentation to ascertain that the product types, transaction processes, brokers and exchanges used for procurement during the quarter were approved in SDG&E's BPP. Inspected PRG meeting documentation to ascertain that PRG consultation properly took place for transactions with terms over 90 days. Inspected transaction to ascertain that they did not have terms longer than five years and did not involve affiliates of SDG&E.

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

6. Inspected counterparties' credit supporting documentation to validate that quarter's transactions were executed with investment-grade counterparties or non-investment grade counterparties that were supported with surety bonds, guarantees, collateral, etc.

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

7. Inspected relevant supporting documentation to validate the utility demonstrated that prices of OTC transactions were equivalent to exchanges.

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