



# QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

San Diego Gas and Electric Company  
Fourth Quarter of 2022 - Advice Letter 4157-E

Utility Audits, Risk and Compliance Division  
Utility Audits Branch  
June 26, 2023



## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



Transmitted via e-mail

June 26, 2023

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 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 San Diego Gas and Electric Company’s (SDG&E) Quarterly Energy Procurement Compliance Report (QCR) filed for its Fourth Quarter of 2022 in Advice Letter (AL) 4157-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 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 4157-E with amended Attachments B & H of its QCR and amend its QCR to include Long-Term Congestion Revenue Rights (LTCRR) and other information by June 30, 2023. 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 or [tracy.fok@cpuc.ca.gov](mailto:tracy.fok@cpuc.ca.gov).

Sincerely,

*Angie Williams*

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

Ms. Estela De Llanos  
Vice President – Energy Procurement  
San Diego Gas and Electric Company  
June 26, 2023  
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## **MEMBERS OF THE TEAM**

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**Masha Vorobyova, Assistant Director**

**Tracy Fok aka Tracy Yeh, CPA, Supervisor**

**Tim Baumgardner, Lead**

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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  
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 San Diego Gas and Electric Company's (SDG&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. 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 COVID19 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 the 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 Q4 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 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.

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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.



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: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581.** SDG&E's QCR did not include the confirmation letter for [REDACTED] in Attachment H – New Contracts Executed and Amended.

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

On April 19, 2023, SDG&E stated:

SDG&E will amend Attachment H to embed the correct confirmation letter for the RFO contract and submit a supplemental advice letter with the amendment.

SDG&E erroneously attached the Non-Disclosure Agreement (NDA) file in place of the confirmation letter. SDG&E conducts an independent crosscheck of all material contained in Attachment H before submission. SDG&E will further enhance/provide additional detail to its written procedures to include opening each embedded object in Attachment to ensure the correct embedded files are submitted.

**Finding #2: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581.** SDG&E did not report a correct execution date for a contract reported in Attachment H.

**SDG&E's Response: See E.6.**

**Finding #3: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581.** SDG&E reported inaccurate credit mechanisms for two counterparties in Attachment B – Non-Investment Grade Counterparties.

**SDG&E's Response: See E.6.**

**Finding #4: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B, PU Code Section 581, and Resolution E-4124.** SDG&E did not report the Long-Term Congestion Revenue Rights (LTCRRs) information in its Q4 2022 QCR, as required in CPUC Resolution E-4124. The Resolution E-4124 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.

**SDG&E's Response:**

On May 19, 2023, SDG&E stated:

SDG&E will submit a supplemental advice letter to amend its Q4 2022 QCR Filing to include the additional LTCRR information requested using the template provided.

SDG&E does not agree that it was non-compliant with Public Utilities Code section 581. The Data Request (DR) alleges that SDG&E violated section 581 by failing to comply with the requirement that “every public utility receiving from the commission any blanks with directions to fill them shall answer fully and correctly each question propounded therein, and if it is unable to answer any question, it shall give a good and sufficient reason for such failure.” Specifically, the DR suggests that it was SDG&E’s failure to fill out the blanks included in the LTCRR template document that constitutes violation of section 581. However, the template document was not made available to SDG&E prior to issuance of the DR; indeed, the template was conveyed to SDG&E in the DR document itself. Thus, SDG&E could not have filled in the blanks contained in the template before the date of the DR, and therefore cannot be found to be in violation of section 581 for failing to do so before the DR was propounded.

With regard to compliance with the “expectation” in Resolution E-4124 regarding LTCRR information described above in the DR, SDG&E notes that a similar concern related to SDG&E’s Q3 2022 QCR was raised by UARCD in March 2023, several weeks after SDG&E had submitted its Q4 2022 QCR. As SDG&E observed in its response to UARCD’s Q3 2022 data request, SDG&E has been including Congestion Revenue Rights (CRR) information in its QCRs since the Resolution was issued (over 15 years ago) and had not previously, to its knowledge, been asked to provide the additional CRR information requested in the DR. Since the Commission has now clarified its expectation, SDG&E will amend its QCR process/workflow document to ensure the additional LTCRR information requested is provided going forward.

**UAB's Rebuttal:**

UAB appreciates that SDG&E is planning to amend its QCR preparation process to ensure the required LTCRR information is provided in QCR going forward. Resolution E-4124 clearly requires that QCR should contain, at a minimum, for each LTCRR, the term, source and sink, relation to grid use, expected value, and past performance. SDG&E did not include such required information in its Q4 2022 QCR and, therefore, did not “answer fully and correctly each question propounded” by the Commission as required in Resolution E-4124 and PU Code Section 581.

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.

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 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 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 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 determine whether the utility consulted with its PRG for any contracts with terms over one calendar month 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 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 broker 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: 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: 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 #2: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581.** SDG&E incorrectly reported the execution/signed date in Attachment H. The date listed in the confirmation did not match attachment H for the contract executed with [REDACTED] SDG&E reported the execution date for the confirmation letter as 10/21/2022 in Attachment H instead of the correct execution date of 10/18/2022.

**SDG&E's Response:**

On April 24, 2023, SDG&E stated:

SDG&E's Q4 2022 QCR Attachment H incorrectly noted the Execution Date of the [REDACTED] confirmation letter as 10/21/2022 instead of the correct Execution Date of 10/18/2022.

SDG&E conducts an independent crosscheck of all material contained in Attachment H before submission. SDG&E will consider adding detail to its written procedures to include verifying execution date in Attachment H to ensure the correct execution dates are submitted.

**Finding #3: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581.** SDG&E reported incorrectly the credit mechanism for two counterparties [REDACTED] and [REDACTED] in Attachment B. SDG&E incorrectly reported [REDACTED] as non-investment grade counterparty instead of investment-grade counterparty. Furthermore, SDG&E reported incomplete credit information of [REDACTED] [REDACTED] had a letter of credit as collateral to secure a transaction and also elected to pre-pay for this transaction. SDG&E reported the letter of credit but did not report the prepayment elected by this counterparty for this transaction.

**SDG&E's Response:**

On April 20, 2023, SDG&E stated:

[REDACTED]  
Both entries are technically correct. The counterparty elected to prepay. However, SDG&E also required additional collateral to secure the deal. The additional collateral was in the form of a letter of credit until the utility received the prepayment for the deal.

[REDACTED]  
The non-investment classification in attachment B was an error. [REDACTED]  
[REDACTED] was investment-grade at the time attachment B was submitted.

The process of responding to data requests is manual, and therefore, human error may arise despite the department's best intentions. SDG&E always works to provide responsive and accurate information to the commission. Responses to data requests undergo a review process that involves several individuals, and going forward, SDG&E will continue to cross check responses with a goal of minimizing human error to the extent possible and correcting any inconsistencies prior to submittal.

**F. 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: The utility provided UAB with internal audit reports related to the QCR process.

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 document 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.