



QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

San Diego Gas and Electric Company
Fourth Quarter of 2023- Advice Letter 4380-E

Utility Audits, Risk and Compliance Division
Utility Audits Branch
June 28, 2024



PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



Transmitted via e-mail

June 28, 2024

Adam Pierce
Vice President – Energy Procurement and Rates
San Diego Gas and Electric Company
8330 Century Park Court, CP33B
San Diego, CA 92123

Dear Adam Pierce:

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, 2023, through December 31, 2023

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 2023 in Advice Letter (AL) 4380-E. The final AUP report is enclosed.

SDG&E’s response 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 in the report. However, SDG&E is still required to file a supplemental AL 4380-E with amended Attachments A, B, D, and H of its QCR by July 12, 2024. 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.

Sincerely,

Angie Williams

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

Adam Pierce
Vice President – Energy Procurement and Rates
San Diego Gas and Electric Company
June 28, 2024
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cc: Brandon Henzie, Energy Risk Manager, California Regulatory Affairs, SDG&E
Chris Summers, Director, Marketing Affiliate, California Regulatory Affairs, SDG&E
Joe Pasquito, Market Analysis Manager, Origination and Portfolio Design, SDG&E
Jacqueline Sanchez, Regulatory Case Manager, California Regulatory Affairs, SDG&E
Rachel Peterson, Executive Director, CPUC
Kristin Stauffacher, Deputy Executive Director, Office of the Commission, CPUC
Pete Skala, Director, Energy Division (ED), CPUC
Meredith “Molly” Sterkel, Program Manager, ED, CPUC
Jaime Gannon, Program & Project Supervisor, ED, CPUC
Eric Dupre, Public Utilities Regulatory Analyst, ED, CPUC
Theresa Buckley, Staff Attorney, CPUC
Masha Vorobyova, Assistant Director, UAB, CPUC
Tracy Fok, Program & Project Supervisor, UAB, CPUC
Tim Baumgardner, Senior Management Auditor, UAB, CPUC
Judith Mason, Public Utility Financial Examiner IV, UAB, CPUC
Keen Banh, Associate Management Auditor, UAB, CPUC
Paulina Zepeda Gomez, Associate Management Auditor, UAB, CPUC

MEMBERS OF THE TEAM

Angie Williams, Director

Masha Vorobyova, Assistant Director

Tracy Fok aka Tracy Yeh, CPA, Supervisor

Tim Baumgardner, Lead

Judith Mason, Lead

Keen Banh, Staff

Paulina Zepeda Gomez, Staff

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
400 R Street, Suite 221
Sacramento, CA 95811**

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I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

The 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 (SDG&E or the utility) energy procurement compliance reporting period of October 1, 2023, through December 31, 2023, (Q4 2023). 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 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). 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.

¹ 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

Angie Williams, Director
Utility Audits, Risk and Compliance Division (UARCD)

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 2023 electric physical (and transmission) transaction details in Attachment A² contained any electronic solicitation or other competitive solicitation transactions, requiring performance of the audit procedures indicated under Section E - Electronic Solicitation Contracts.

Finding: We found no electronic/competitive solicitation transactions reported in Attachment A as a result of this procedure.

2. Reconciled to determine whether the utility's Q4 2023 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 percent 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 2023 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 percent 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 2023 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 percent 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 filed with the utility's Quarterly Compliance Report subject to this engagement.

- Reconciled to determine whether the utility’s Q4 2023 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 percent of transactional average prices, volumes, and notional values for the detection of a reporting anomaly.

Finding #1: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SDG&E discovered that two fixed price future trades of gas financial transactions reported in Attachment A contained incorrect price information. The errors were the consequence of SDG&E’s improper setup within its internal systems ensuring the flow of correct data. The two trades listed below were impacted resulting in an overstated notional value of [REDACTED]. Below are tables depicting the areas affected based on SDG&E’s assertion:

Attachment A – Gas Financial Details			
Financial Gas Deals	Reported	Corrected	(Overstated)
			Understated
Average Price (\$/MMBtu)			
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Notional Value			
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total (Overstated)	[REDACTED]	[REDACTED]	[REDACTED]

Attachment B - Top Ten Counterparties			
Counterparty	Reported Transaction Total Notional Value	Corrected Transaction Total Notional Value	(Overstated)
			Understated
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Attachment D – Gas Financial Purchases			
Fixed Price Swap/Fixed Price Futures	Reported Transaction	Corrected Transaction	(Overstated)
			Understated
Average Price (\$/MMBtu)	[REDACTED]	[REDACTED]	[REDACTED]
Notional Value	[REDACTED]	[REDACTED]	[REDACTED]

SDG&E's Communication with UAB:

A) On May 22, 2024, SDG&E stated:

It was recently discovered that two fixed price futures trades reported as part of SDG&E's Q4 2023 QCR filing contained incorrect price information resulting from a suspected incomplete import of trade details from the [REDACTED] (Intercontinental Exchange) trading platform to SDG&E's internal energy trading and risk management system. SDG&E has analyzed all additional financial transactions reported during this time period and determined that only the two trades were impacted.

B) On May 31, 2024, SDG&E stated:

Trades [REDACTED] were correctly imported from the [REDACTED] trading platform to SDG&E's internal energy trading and risk management system (ETRM) as fixed price financial futures with a [REDACTED] position. However, a subsequent field required to ensure the trades flow correctly through SDG&E's position reporting and valuation was not populated in these instances. To correct this going forward, SDG&E has made the field in question "mandatory" during the trade entry process and provided additional training to monitor this issue.

6. Reconciled to determine whether the utility's Q4 2023 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.

7. Compared the utility's spot market (i.e., Day-Ahead, Hour-Ahead, and Real-Time energy) electric physical purchases to its monthly retail energy needs, or energy physical purchase requirement, to determine whether the spot market purchases exceed five percent of the monthly retail energy needs, or energy physical purchase requirement.

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

B. Quarterly Compliance Report (QCR)

1. Inspected 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 made reporting errors in Attachments A, B and D. For additional information about the finding, please see Finding #1 at procedure A.5 listed above.

SDG&E's Response: See A.5.

Finding #2: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SDG&E incorrectly reported a counterparty name in Attachment H – New and Amended Contracts of QCR filing. For additional information about the finding, please see Finding #2 at procedure D.5 listed below.

SDG&E's Response: See D.5.

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 credit mechanism on one of its counterparties in Attachment B. For additional information about the finding, please see Finding #3 at procedure E.7 listed below.

SDG&E's Response: See E.7.

2. Identified any of the utility's authorized decision-makers that were not listed in QCR.
Finding: We did not find any of the utility's authorized decision-makers that were not listed in 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 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 (CAISO) 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 for any transactions subject to strong showing justification and inspected Attachment M – Transactions Subject to Strong Showing 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 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 for any transactions subject to strong showing justification and inspected Attachment M 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 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 QCR for any transactions subject to strong showing justification and inspected Attachment M 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 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 Contracts

1. Inspected PRG meeting materials to determine whether the utility consulted with its PRG for any contracts with terms over one calendar quarter 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 were executed bilaterally with investment-grade counterparties or non-investment grade counterparties that were supported with credit protection such as surety bonds, guarantee, collateral, and net provision.

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

3. Inquired with 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.

4. Identified any contract related to a new fossil-fuel generation or Power Purchase Agreement (PPA) that was less than five years.

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

5. 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 #2: SDG&E incorrectly reported the counterparty name of [REDACTED] instead of [REDACTED] in Attachment H in the QCR filing. It is important to report the correct counterparty's name since the two names noted above represent two different entities. [REDACTED] is an indirect subsidiary of [REDACTED], thus a separate entity.

SDG&E's Response:

On April 26, 2024, SDG&E stated:

SDG&E inadvertently transcribed the [REDACTED] name onto the QCR. SDG&E agrees with UARCD that the name should be [REDACTED]. SDG&E has revised Attachment H to reflect the change. SDG&E will ensure that name accuracy will be checked by all personnel that submit or verify the information going forward.

E. Electronic Solicitation Contracts

1. Inspected the utility's Q4 2023 electric physical transactions included in Attachment A to determine if there were any electronic solicitation or other competitive solicitation transactions.

Finding: We found no electric physical transactions derived from electronic/competitive solicitation(s) as a result of this procedure.

2. Inspected PRG meeting materials to determine whether the utility consulted with its PRG for any contracts with terms over one calendar quarter before they were executed.

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 credit protection such as surety bonds, guarantee, collateral, and net provision.

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

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

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

6. Identified any contract related to a new fossil-fuel generation or PPA that was less than five years.

Finding: We did not identify any contract related to a new fossil-fuel 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 #3: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SDG&E incorrectly reported [REDACTED] as the credit mechanism for [REDACTED] should have been reported as [REDACTED] in Attachment B of the QCR filing. It is important to report the correct credit mechanism in Attachment B as users of the QCR and related attachments relies on such information.

SDG&E's Response:

On May 14, 2024, SDG&E stated:

SDG&E acknowledges that the [REDACTED] for [REDACTED] [REDACTED] should have been reported as [REDACTED] in Attachment B. We have included a revised Attachment B for clarity. It is important to note that there was no inconsistency between

the reported information in Attachment B and the details provided in our response. Both documents correctly did not indicate any collateral being requested.

F. Congestion Revenue Rights (CRR) and Long Term CRR (LTCRR)

1. Inquired with the utility and inspected evidence to determine whether it consulted with ED and its PRG regarding its annual CRR nominations prior to submitting those nominations and participating in the CAISO's CRR nomination process.

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

2. Inquired with the utility and inspected evidence to determine whether it consulted with ED and its PRG regarding any CRRs having a term greater than one calendar quarter prior to execution of such CRR.

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

3. Inquired with the utility and inspected evidence to determine whether the utility, prior to the PRG meeting, provided a list of proposed annual CRR and LTCRR nominations for allocation and auction, showing source (generation), sink (load), Megawatt (MW) quantity, term, expected value, past performance (if applicable), bid price, and a description the underlying arrangement that the CRR will hedge.

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

4. Inquired with the utility and inspected evidence to determine whether it consulted with ED and its PRG to review its CRR position during the periodic position update discussions and provided the PRG with information regarding the CRR, including but not limited to source, sink, MW quantity, term, expected value, past performance (if applicable), price and a description of the underlying arrangement that the CRR will hedge (or in the case of a CRR sale, no longer hedge).

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

5. Inquired with the utility whether it limits candidate CRRs to those CRRs with a source at which utility reasonably expects to procure power.

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

6. Inspected QCR to determine whether utility reports CRRs, which contain, at minimum, for each CRR, source, sink, MW quantity, term, expected value, past performance (if applicable), bid price (for CRR auctions or secondary market transactions), and a description of the underlying energy supply arrangement that the CRR will hedge.

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

7. Inquired with the utility and inspected evidence to determine whether it consulted with ED and its PRG regarding its LTCRR nominations prior to submitting those nominations and participating in the CAISO's LTCRR nomination process.

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

8. Inquired with the utility and inspected evidence to determine whether it provided periodic updates at least quarterly to the PRG on how its previously obtained LTCRRs were performing. The PRG update should contain, at minimum, for each LTCRR, the term, source and sink, relation to grid use, expected value, and past performance.

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

9. Inspected QCR to determine whether the utility reported LTCRRs, which contained, at minimum, for each LTCRR, the term, source and sink, relation to grid use, expected value, and past performance.

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