



QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

San Diego Gas and Electric Company
Second Quarter of 2024 - Advice Letter 4486-E

Utility Audits, Risk and Compliance Division
Utility Audits Branch
December 27, 2024



PUBLIC UTILITIES COMMISSION

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Transmitted via e-mail

December 27, 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 April 1, 2024, through June 30, 2024

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 2024 in Advice Letter (AL) 4486-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 4486-E with amended Attachments A, H, and M of its QCR by January 7, 2025. In addition, SDG&E is still required to implement corrective actions from repeat findings noted in prior AUP engagement reports.

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
December 27, 2024
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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)

You can contact our office at:

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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 April 1, 2024, through June 30, 2024, (Q2 2024). 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 Q2 2024 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 – Request for Offers 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 Q2 2024 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 Q2 2024 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 Q2 2024 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 #1: SDG&E failed to demonstrate compliance with D.02-10-062 – Appendix B and PU Code Section 581. SDG&E did not report the average price and the notional value of deal number ██████ in Attachment A. The average price and the notional value of this transaction should have been ██████ and ██████ respectively, in Attachment A.

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.

SDG&E's Response:

On October 4, 2024, SDG&E stated:

A correction was made to trade ██████ in SDG&E's energy trading and risk management system after data had already been extracted for Q2 2024 QCR reporting and this new, updated information was not correspondingly added to Attachment A. SDG&E apologizes for the oversight and will continue to enhance collaboration among teams and review of quarterly trade information to help ensure accurate responses.

5. Reconciled to determine whether the utility's Q2 2024 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: We found no exceptions as a result of this procedure.

6. Reconciled to determine whether the utility's Q2 2024 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 did not report the average price and the notional value of deal number ██████ in Attachment A. For additional information about the finding, please see Finding #1 at procedure A.4 listed above.

SDG&E's Response: See A.4.

Finding #2: SDG&E failed to demonstrate compliance with D.02-10-062 – Appendix B and PU Code Section 581. SDG&E incorrectly reported ██████ contracts as being executed bilaterally instead of being executed via brokers in Attachment M – Transactions subject to Strong Showing. For additional information about the finding, please see Finding #2 at procedure C.5 listed below.

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

Finding #3: SDG&E failed to demonstrate compliance with D.02-10-062 – Appendix B and PU Code Section 581. SDG&E did not include a Request for Offer (RFO) contract executed with [REDACTED] in Attachment H – Contracts Executed/ Contracts Amended.

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

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 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 #2: SDG&E failed to demonstrate compliance with D.02-10-062 – Appendix B and PU Code Section 581. SDG&E incorrectly reported [REDACTED] contracts with [REDACTED] counterparties as being executed bilaterally instead of being executed via brokers in Attachment M. The counterparties are

[REDACTED] and [REDACTED]. Only bilateral contracts or transactions are subject to strong showing requirements.

However, SDG&E still provided strong showing justification for these broker contracts. Since

SDG&E chose to report strong showing justification for these broker contracts, SDG&E must correctly report the information related to these contracts in Attachment M for auditor to make a correct determination.

SDG&E's Response:

On October 29, 2024, SDG&E stated:

At the time Attachment M was completed, SDG&E was not making a distinction between bilateral and brokered transactions and was classifying both types of transactions as bilateral. In the future, SDG&E will be clear as to whether the transactions are bilateral or brokered.

UAB Comment:

This is a repeat finding from the prior AUP QCR engagement report issued on September 27, 2024, for the first quarter of 2024 (Q1 2024.) SDG&E will need to ensure corrective actions are implemented to remediate this issue in future QCR filings.

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 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 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: 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 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.

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

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

4. Inquired with 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-fuel generation or PPA with a term of less than five years.

Finding: We did not identify any contract related to a new fossil-fuel 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 #3: SDG&E failed to demonstrate compliance with D.02-10-062 – Appendix B and PU Code Section 581. SDG&E did not include [REDACTED] RFO contract executed with [REDACTED] in Attachment H.

SDG&E's Response:

On November 27, 2024, SDG&E stated:

The contract was not included in SDG&E's Q2 Attachment H because it was part of SDG&E's Q2 RA solicitation, which typically has contracts executed in Q1. Corrective action to prevent this in the future involves running a query of deals entered into SDG&E's trading management system in the subject quarter to ensure there are no deals missed.

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 #4: SDG&E failed to demonstrate compliance with Resolution E-4136. SDG&E failed to provide periodic updates on its CRR position to its PRG. The updates should include a listing of proposed monthly CRR allocation and auction showing source, sink, MW quantity, term, expected value, past performance (if applicable), bid price and a description of the underlying arrangement that the CRR will hedge. As a result, the PRG may not be able to provide valuable advice that may affect the ratepayers to the utility due to lack of knowledge regarding the CRR update.

The Resolution E-4136 states, in part, that:

The Commission does not direct SDG&E to consult with the PRG prior to each monthly CRR allocation/auction process. Rather, the Commission directs SDG&E to review its CRR position with the PRG in its periodic position update discussions, including the review of quarterly compliance reports. In addition, the Commission directs SDG&E to provide the PRG participants, within three business days of each monthly CRR allocation or auction tier, a listing of proposed monthly CRR nominations for allocation and auction, showing source, sink, MW quantity, term, expected value, past performance (if applicable), bid price and a description the underlying arrangement that the CRR will hedge.

SDG&E's Response:

On October 16, 2024, SDG&E stated:

In Resolution E-4136, issued in 2007, the Commission authorized SDG&E to procure what was at that time a new energy market product – congestion revenue rights (CRRs). As the Resolution explained, CRRs could be used to hedge congestion costs under the California Independent System Operator's (CAISO's) new Market Redesign Technology Upgrade (MRTU) market....Going forward, SDG&E will provide periodic updates concerning its CRR position to its PRG that include a listing of monthly CRR allocation and auction showing source, sink, MW quantity, term, expected value, past performance (if applicable), bid price and a description of the underlying arrangement that the CRR will hedge (the applicable resource ID or proxy location). In addition, within three business days of each monthly CRR allocation or auction tier, SDG&E will provide all PRG participants with a list of proposed monthly CRR nominations for allocation and auction, showing source, sink, MW quantity, term, expected value, past performance (if applicable), bid price and a description the underlying arrangement that the CRR will hedge. If PRG members indicate that they no longer wish to receive individual communications with this detailed CRR information related to each monthly CRR allocation or auction tier, SDG&E will consider seeking a waiver or modification of this requirement.

UAB Comment:

This is a repeat finding from the prior AUP QCR engagement report issued on September 27, 2024, for Q1 2024. SDG&E will need to ensure corrective actions are implemented to remediate this non-compliance issue in future QCR filings.

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.