



QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

Pacific Gas & Electric Company
First Quarter of 2020 - Advice Letter 5815-E

Utility Audits, Risk and Compliance Division
Utility Audits Branch
October 30, 2020



PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



Transmitted via e-mail

October 30, 2020

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

Dear Ms. Everidge:

Final Report Transmittal Letter – Agreed-Upon Procedures Engagement of Pacific Gas & Electric Company Quarterly Energy Procurement Compliance Report for the period of January 1, 2020 through March 31, 2020

The Utility Audits Branch of the California Public Utilities Commission (CPUC) has completed its agreed-upon procedures (AUP) engagement of Pacific Gas & Electric's (PG&E) First Quarter of 2020 Quarterly Energy Procurement Compliance Report -Advice Letter 5815-E. The final AUP report is enclosed.

PG&E's response to the AUP report findings is incorporated into this report. As required by Public Utilities Code Section 454.5(g), the confidential market sensitive information contained in the AUP report is redacted. We will post the final redacted audit report on our website at <https://www.cpuc.ca.gov/utilityaudits/>.

A Corrective Action Plan (CAP) addressing the findings was included in PG&E's response to the respective findings in the audit report.

We appreciate PG&E's assistance and cooperation during the engagement, and its willingness to implement corrective actions. 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 or Tim Baumgardner, Senior Management Auditor, at (916) 894-5603 tim.baumgardner@cpuc.ca.gov.

Sincerely,

Angie Williams

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

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MEMBERS OF THE TEAM

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

Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) performed the agreed-upon procedures (AUP) enumerated in Procedures and Findings section of this report for the Pacific Gas & Electric Company's (PG&E or the utility) compliance reporting period of January 1, 2020 through March 31, 2020 (Q1 2020). These procedures were agreed to between CPUC's Energy Division (ED) and UAB solely to assist ED in determining whether the three large investor owned electric utilities are in compliance with certain energy procurement-related state law and CPUC energy procurement directives. PG&E is one of these utilities.¹ PG&E is responsible for complying with the energy procurement-related state laws and the CPUC's energy procurement directives.

UAB conducted the AUP engagement in accordance with attestation standards established by the generally accepted government auditing standards (GAGAS). The sufficiency of these procedures is solely the responsibility of ED. Consequently, we make no representation regarding the sufficiency of the procedures described herein either for the purpose for which this report has been requested or for any other purpose. The results of the engagement are also detailed in Procedures and Findings section of this report.

We were not engaged to, and did not, perform an examination or review of the subject matter, the objective of which would be the expression of an opinion on PG&E's compliance with the energy procurement-related state laws and the CPUC's energy procurement directives. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to ED.

The purpose of this report is to communicate to ED the utility's compliance and the results of the AUP performed. The report may not be suitable for any other purposes. The procedures performed may not address all the items of interest to users other than ED and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

In accordance with CPUC Decision 12-04-046, Ordering Paragraph 13, this report shall be made public. The report can be found on the CPUC public website through the following link:
<https://www.cpuc.ca.gov/utilityaudits/>

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

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

II. PROCEDURES AND FINDINGS

Below is the summary of the AUP performed and associated findings noted if any. 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. Verified whether the utility's Q1 2020 electric physical transaction details (Attachment A)² agreed to the corresponding transaction summary (Attachment C).

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

2. Confirmed whether the utility's Q1 2020 electric financial transaction details (Attachment A) agreed to the corresponding transaction summary (Attachment C).

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

3. Ascertained whether the utility's Q1 2020 gas physical transaction details (Attachment A) agreed to the corresponding transaction summary (Attachment D).

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

4. Determined whether the utility's Q1 2020 gas financial transaction details (Attachment A) agreed to the corresponding transaction summary (Attachment D).

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

5. Determined whether the utility's Q1 2020 transport, storage, park and lend transaction details (Attachment A) agreed to the corresponding transaction summary (Attachment D).

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

B. Quarterly Compliance Report (QCR)

1. Confirmed whether the quarterly advice letter filing, including the attachments of supporting documentation, was accurate and complete.

Findings: PG&E failed to demonstrate compliance with Decision (D.)02-10-062, Appendix B, and Public Utilities Code (PUC) Section 581.

1. In its Q1 2020 QCR Filing, PG&E submitted incomplete Attachment F – Key Briefing Packages and Attachment K – Risk Management Strategy. For detail information of the finding, please see procedure B.9.
2. In its Q1 2020 QCR, PG&E made reporting errors in Attachment B – Counterparty Information. For detail information of the finding, please see procedure D.7, E.6, and F.4.

² 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.

PG&E Response: On November 05, 2020, PG&E will submit the amended Attachments B, F and K, via a supplemental Q1 2020 QCR advice letter to correct the above-mentioned reporting errors.

2. Identified any of the utility's authorized decision-makers that were not listed in the QCR.

Finding: We did not find any of the utility's authorized decision-makers that were not listed in the QCR.

3. Verified whether the utility provided its descriptions of and justifications for its procurement processes used to select the transactions.

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

4. Determined whether the utility explained or justified the timing of its transactions.

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

5. Affirmed whether the utility discussed the system load requirements/conditions underlying the need for the quarter's transactions.

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

6. Ascertained whether the utility provided a copy of any data of forecasts used by the utility to analyze transactions.

Finding: We found the utility provided a copy of forecast data used to analyze transactions.

7. Validated whether the utility provided a copy of each of the utility's procurement contracts reported in Attachment H – Contracts Executed/Contracts Amended in the utility's QCR.

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

8. Ascertained whether the utility provided a reasonable number of analyses, as requested by the CPUC or the Procurement Review Group (PRG) and provided the resulting outputs.

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

9. Confirmed whether the utility's QCR included its briefing package provided to the ultimate decision maker.

Finding #1: PG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PUC Section 581. In its Q1 2020 QCR Filing, PG&E submitted incomplete Attachment F – Key Briefing Packages and Attachment K – Risk Management Strategy. Auditor communicated this issue to PG&E and complete files were provided to UAB.

PG&E Response: On August 12, 2020, PG&E asserted:

PG&E inadvertently omitted the Q1 2020 QCR Confidential Attachment F Key Briefing Packages zip file, as well as the Confidential Attachment K Risk Strategy Papers zip file. Per PG&E's internal confidentiality protocols with documents containing information on the [REDACTED], Confidential Attachments F and K containing information about [REDACTED] offers, were kept separate from the other QCR files to limit access. PG&E will file a supplemental advice letter with 1) Confidential Attachment F – Key Briefing Packages zip file, 2) Confidential Attachment F Q1 2020 PRG meeting materials as separate files, and 3) Confidential Attachment K Risk Strategy Papers zip file once all Q1 2020 QCR findings have been communicated to PG&E.

On November 05, 2020, PG&E will submit the amended Attachments F and K via a supplemental Q1 2020 QCR advice letter to correct the above-mentioned reporting errors.

10. Ascertained whether the utility provided the break-even spot prices equivalent to the contracts.

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

11. Validated whether the utility provided average price information for non-standard transactions.

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

12. Determined whether the utility provided California Independent System Operator electricity procurement information in the utility's QCR.

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

C. Strong Showing Justification

1. Affirmed whether any transactions subject to strong showing justification in Attachment A of the utility's QCR were properly justified in Attachment M – Transactions Subject to Strong Showing.

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

2. Ascertained whether the price of bilateral contracts for non-standard products that are waived from strong showing justification under D.03-06-067, Ordering Paragraph (OP) 3(d) in Attachment A, is reasonable based on available and relevant market data. Compared the buy and sell average price paid or sold in Attachment A, to the market high and low prices to ensure a reasonable deal was completed.

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

3. Ascertained whether any transactions subject to strong showing justification included in Attachment H of the utility's QCR were properly justified in Attachment M.

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

4. Affirmed whether the price of bilateral contracts for non-standard products that are waived from strong showing justification under D.03-06-067, OP 3(d) in Attachment H, is reasonable based on available and relevant market data. Compared the buy and sell average price paid or sold in Attachment H, to the market high and low prices to ensure a reasonable deal was completed.

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

5. Verified whether any other transactions included in the utility's QCR are subject to strong showing justification and if any, whether they are properly justified in Attachment M.

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

6. Ascertained whether the price of bilateral contracts for non-standard products that are waived from strong showing justification under D.03-06-067, OP 3(d) in other transactions, is reasonable based on available and relevant market data. Compared the buy and sell average price paid or sold to the market high and low prices to ensure a reasonable deal was completed.

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

D. Electronic Solicitation and Related Contracts

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

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

2. Ascertained whether the utility's independent evaluator (IE) evaluated the contracts with terms greater than 2 years.

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

3. Determined whether the contracts derived from the electronic solicitation selection process were executed with investment-grade counterparties or non-investment grade counterparties that were supported with surety bonds, guarantee, collateral, etc.

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

4. Determined whether IE had evaluated the counterparty regardless of contract duration if the counterparty was an affiliate.

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

5. Evaluated whether the contracts had any impact on the overall Time to Expiration Value at Risk (TeVAR).

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

6. Identified whether any contract related to a new fossil generation or Purchase Power Agreement (PPA) that was less than 5 years.

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

7. Verified whether all electronic solicitation contracts executed during the quarter were correctly and completely reported in attachments of the utility's QCR.

Finding #2: PG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PUC Section 581. PG&E reported incorrectly the credit mechanism for counterparty, [REDACTED] in Attachment B. This counterparty is investment grade and was incorrectly reported in the Attachment B as non-investment grade.

PG&E Response: On July 29, 2020, PG&E asserted:

PG&E inadvertently included the [REDACTED] in Confidential Attachment B as Non-Investment Grade Counterparties. A PG&E training issue on Confidential Attachment B was identified during the Q4 2019 audit in May 2020. As part of its corrective actions, PG&E updated the spreadsheet used to collect information on investment and non-investment grade counterparties to include a formula check to confirm which non-investment grade counterparties belong on Confidential Attachment B. In addition, Confidential Attachment B is now reviewed by PG&E's Credit & Risk Department before filing.

On November 05, 2020, PG&E will submit the amended Attachments B via a supplemental Q1 2020 QCR advice letter to correct the above-mentioned reporting errors.

E. Bilateral Contracts

1. Ascertained whether the utility consulted with its PRG in a timely manner for contracts exceeded one calendar quarter.

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

2. Validated whether the contracts executed bilaterally with investment-grade counterparties or non-investment grade counterparties that were supported with surety bonds, guarantee, collateral, etc.

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

3. Determined whether the utility's IE had evaluated the counterparty regardless of contract duration if the counterparty was an affiliate.

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

4. Evaluated whether the contracts had any impact on the overall TeVAR.

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

5. Identified whether any contract related to a new fossil generation or PPA that was less than 5 years.

Finding: We did not identify any contract related to a new fossil generation or PPA that was less than 5 years.

6. Verified whether the bilateral contracts executed during the quarter were correctly reported in the utility's QCR.

Finding #2: PG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PUC Section 581. PG&E reported incorrectly the credit mechanism for counterparty, [REDACTED] in Attachment B. This counterparty is investment grade and was incorrectly reported in the Attachment B as non-investment grade.

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On November 05, 2020, PG&E will submit the amended Attachments B via a supplemental Q1 2020 QCR advice letter to correct the above-mentioned reporting errors.

F. Request for offers (RFO)/Proposal (RFP) – Other Market Participants

1. Determined whether the utility participated in any RFO/RFP process of any market participants and whether any contracts were executed between the utility and the market participants who issued RFO/RFP.

Finding: We found the utility participated in a RFO process of a market participant and executed 2 contracts.

2. Evaluated whether the utility consulted with its PRG for the contracts derived from the RFO/RFP issued by other market participants with contract duration longer than one calendar quarter.

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

3. Validated whether the contracts executed with investment-grade counterparties or non-investment grade counterparties that were supported with surety bonds, guarantee, collateral, etc.

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

4. Verified whether the contracts executed from the RFO/RFP issued by other market participants during the quarter were correctly reported in the utility's QCR.

Finding #2: PG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PUC Section 581. PG&E reported incorrectly the credit mechanism for counterparty, [REDACTED] in Attachment B. This counterparty is investment grade and was incorrectly reported in the Attachment B as non-investment grade.

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On November 05, 2020, PG&E will submit the amended Attachments B via a supplemental Q1 2020 QCR advice letter to correct the above-mentioned reporting errors.

G. Procurement Review Group (PRG)

1. Ascertained whether the utility held a regular PRG meeting at least once in Q1 2020.

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

2. Assessed whether the utility implemented the requirements indicated in D. 12-04-046, OP 14 and D. 07-12-052, OP 7.

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

3. Determined whether the utility made a list of non-confidential discussion topics of the regular PRG meetings publicly available.

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

4. Verified whether the utility's PRG meeting summaries were distributed (or made publicly available) on the earlier of a) 14 days after the procurement review group meeting, or b) 48 hours before the next regularly scheduled PRG meeting.

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