



QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

San Diego Gas & Electric Company
First Quarter of 2020 - Advice Letter 3538-E

Utility Audits, Risk and Compliance Division
Utility Audits Branch
November 6, 2020



PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



Transmitted via e-mail

November 6, 2020

Miguel Romero
Vice President – Energy Supply
San Diego Gas & Electric Company
8330 Century Park Court, CP33B
San Diego, CA 92123

Dear Mr. Romero:

Final Report Transmittal Letter – Agreed-Upon Procedures Engagement of San Diego Gas and 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 has completed its agreed-upon procedures (AUP) engagement of San Diego Gas and Electric's (SDG&E) First Quarter of 2020 Quarterly Energy Procurement Compliance Report -Advice Letter 3538-E. The final AUP report is enclosed.

SDG&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 SDG&E's response to the respective findings in the audit report.

We appreciate SDG&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

Mr. Miguel Romero
Vice President – Energy Supply
San Diego Gas and Electric Company
November 6, 2020
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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 San Diego Gas & Electric Company's (SDG&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. SDG&E is one of these utilities.¹ SDG&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 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.

This 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. As required by Public Utilities 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: <https://www.cpuc.ca.gov/utilityaudits/>

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

¹ Southern California Edison Company and Pacific Gas & Electric 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.

Finding: SDG&E failed to demonstrate compliance with Decision (D.) 02-10-062, Appendix B, and Public Utilities Code (PUC) Section 581. In its Q1 2020 QCR, SDG&E made reporting errors in Attachment H – Contracts Executed/Contracts Amended. For additional information about the finding, please see procedure F.7.

SDG&E Response: See F 7.

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.

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 of the utility's QCR.

Finding: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PUC Section 581. In its Q1 2020 QCR advice letter filing, SDG&E did not submit a copy of the two Request for Offer (RFO) contracts executed with [REDACTED] as required. For additional information about the finding, please see procedure F.7.

SDG&E Response: See F 7.

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

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. Greenhouse Gas Allowances (GHG)

1. Determined whether the utility procured GHG allowances, allowance futures and forwards and offsets and offset forwards within separately calculated Direct Compliance Obligation Purchase Limits and Financial Exposure Purchase Limits, as set forth in Appendix I of D.12-04-046.

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

2. Assured whether the utility only procured offsets certified by the California Air Resources Board (CARB).

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

3. Assessed whether the utility purchased no more than 8% of its compliance requirement in the form of offsets.

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

4. Confirmed whether the utility only purchased offsets if the seller contractually assumes the risk of invalidation.

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

5. Attested whether the utility procured allowances from the CARB.

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

6. Determined whether the utility applied its standard procurement credit and collateral requirements and, if appropriate, imposed additional credit and collateral requirements to those transactions, in which the utility procured allowances via forward contracts.

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

7. Verified whether the utility utilized a competitive request for offer process, consulted with their procurement review group, applied their approved procurement credit and collateral requirement, and applied the applicable affiliate transactions rules, if the utility procured authorized compliance instruments via bilateral transactions.

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

8. Determined whether the utility submitted a one-time Tier 2 advice letter to the Commission if the utility did not procure GHG compliance instruments on the Commission-approved exchanges.

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

9. Ascertained whether the utility reported GHG sales to its PRG if the utility resold GHG compliance instruments.

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

10. Assured whether the utility reported its forecast updates and corresponding revisions to the procurement limits, along with all GHG compliance instrument transactions at its quarterly PRG meetings and QCR filings.

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

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 Independent Evaluator (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 Time to Expiration Value at Risk (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 Power Purchase 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 5 years.

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

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

F. Request for offers (RFO) and Related Contracts

1. Evaluated whether 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. Assessed whether the utility's IE evaluated the contracts with terms greater than 2 years.

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

3. Validated whether 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. 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 TeVAR.

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

6. Identified whether any contract related to a new fossil generation or power purchase agreement was less than 5 years.

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

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

Finding: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B and PUC Section 581. SDG&E did not report the two RFO purchase contracts with [REDACTED] on Attachment H. Additionally, SDG&E did not submit a copy of the contracts with the QCR Filing as required.

SDG&E Response:

On October 26, 2020, SDG&E asserted:

- i. SDG&E disagrees that the omission of the [REDACTED] transactions from Attachment H constitutes a finding. At the time of the filing, SDG&E was lacking clear direction as to which attachment standard power deals executed via a competitive solicitation should be included. UACD received further direction from Energy Division during the Audit process, after Q1 QCR was filed, that these transactions should be included in Attachment H. In light of this new direction, SDG&E will submit a supplemental advice letter with an amendment.

While SDG&E will amend the Advice Letter, SDG&E does not believe this omission qualifies as a finding because it was not a material discrepancy, and it was reasonable not to include the [REDACTED] transactions in Attachment H for the following reasons:

1. The transactions with [REDACTED] were executed via a confirmation under the existing WSPP Master Agreement. This information is included in the confirmations that were included in SDG&E's response to Q1 2020 QCR Data Request 002. No changes in the master agreement was agreed to as part of this contract
2. As with all executed physical electric deals under existing WSPP agreements, SDG&E reported these transactions on tab "Electric Deals – Physical" in spreadsheet *Q1 2020 Transactions – Electric Att A.xlsx* and the volumes from those deals are included in *Q1 2020 Electric Transactions Att C.xlsx*
3. SDG&E states in its QCR:
7. Copy of each contract.
A list of contracts over three months executed and/or modified by SDG&E during the Quarter is included in confidential Attachment H, along with references to the workpapers containing the contracts.
Both [REDACTED] transactions were for 3 months, and therefore the contracts were not included in Attachment H.
4. SDG&E was compliant with Appendix B, D.02-10-062, because the transactions were correctly reported in Attachment A and Attachment C.

- ii. SDG&E does not agree that this was an error, but in light of this new direction from Energy Division, SDG&E will include standard power transactions executed via a competitive solicitation in Attachment H going forward.

UAB Rebuttal:

SDG&E is required to report energy procurement transactions on Attachment H when transactions incurred resulted in a contract or trade confirmation execution regardless of the contract duration. The requirement to report contracts in Attachment H has been outlined in the QCR Template instructions which have been available to the three investor-owned utilities since December 15, 2008.

The QCR Template instructions contain the following requirements:

7. Copy of each contract.

A list of contracts executed and/or modified by ___ during the Quarter are included in Confidential Attachment H. Copies of these contracts are contained in the workpapers (insert workpaper citation here), unless already filed by separate Advice Letter (include AL numbers, if applicable).

[Copy of contract is required for all contracts that are filed via this quarterly advice letter and should be listed in Attachment H, New Contracts Executed/Contracts Amended and filed in the workpapers. Master agreements to be listed in Attachment H and included in the workpapers as well.]

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.