



QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

San Diego Gas and Electric Company

Second Quarter of 2021 - Advice Letter 3819-E

Utility Audits, Risk and Compliance Division
Utility Audits Branch
December 7, 2021



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A digital copy of this report can be found at:

[Audit Reports by Industry \(ca.gov\)](#)

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Transmitted via e-mail

December 7, 2021

Ms. Estela De Llanos
Vice President – Energy Procurement
San Diego Gas and Electric Company
8330 Century Park Court, CP33B
San Diego, CA 92123

Dear Ms. De Llanos:

Final Report Transmittal Letter – Agreed-Upon Procedures Engagement of San Diego Gas and Electric Company’s Quarterly Energy Procurement Compliance Report for the period of April 1, 2021, through June 30, 2021

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’s (SDG&E) Quarterly Energy Procurement Compliance Report (QCR) filed for its Second Quarter of 2021 in Advice Letter 3819-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 [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

A Corrective Action Plan addressing the findings is required. However, SDG&E has already provided the information regarding its corrective actions planned and implemented in its response to the AUP report findings. Therefore, no additional information is needed at this time.

We appreciate SDG&E’s assistance and cooperation during the engagement. If you have any questions regarding this report, please contact Tracy Fok, Program and Project Supervisor, at (415) 703-3122 or tracy.fok@cpuc.ca.gov.

Sincerely,

Angie Williams

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

Ms. Estela De Llanos
Vice President – Energy Procurement
San Diego Gas and Electric Company
December 7, 2021
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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 and Electric Company's (SDG&E or the utility) compliance reporting period of April 1, 2021, through June 30, 2021 (Q2 2021). 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. 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.

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 (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 \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

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

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. Ascertained whether the utility's Q2 2021 electric physical transaction details in Attachment A² contained any electronic solicitation or other competitive solicitation transactions, requiring additional review in the audit procedures for Electronic Solicitation and Related Contracts indicated in Section D of this report.

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

2. Verified whether the utility's Q2 2021 electric physical transaction details in Attachment A agreed to the corresponding transaction summary in Attachment C. Performed mathematical re-calculation and an analysis of 100% of transactional average prices, volumes, and notional values for the detection of a reporting anomaly.

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

3. Confirmed whether the utility's Q2 2021 electric financial transaction details in Attachment A agreed to the corresponding transaction summary in Attachment C. Performed mathematical re-calculation and an analysis of 100% of transactional average prices, volumes, and notional values for the detection of a reporting anomaly.

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

4. Ascertained whether the utility's Q2 2021 gas physical transaction details in Attachment A agreed to the corresponding transaction summary in Attachment D. Performed mathematical re-calculation and an analysis of 100% of transactional average prices, volumes, and notional values for the detection of a reporting anomaly.

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

5. Determined whether the utility's Q2 2021 gas financial transaction details in Attachment A agreed to the corresponding transaction summary in Attachment D. Performed mathematical re-calculation and an analysis of 100% of transactional average prices, volumes, and notional values for the detection of a reporting anomaly.

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

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.

6. Determined whether the utility's Q2 2021 transport, storage, park and lend transaction details in Attachment A agreed to the corresponding transaction summary in Attachment D.

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

B. Quarterly Compliance Report

1. Confirmed whether the quarterly advice letter filing, including the attachments of supporting documentation, 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 provided a draft version of Attachment E – Other Transactions rather than a final document. The document provided was incomplete and contained track changes. SDG&E is required to submit a complete final version of Attachment E.

SDG&E's Response: On October 26, 2021, SDG&E stated:

SDG&E inadvertently submitted Attachment E as a draft version by not clicking on the “stop tracking changes” function in Microsoft Word. There are two personnel responsible for turning off the track changes features before submission. SDG&E will ensure going forward that both personnel doublecheck that the track changes feature is turned off before submittal.

Finding #2: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B and PU Code Section 581. SDG&E listed the incorrect collateral type on Attachment B – Counterparties Information. For additional information about the finding, please see Finding #2 at procedure D.6 listed below.

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

Finding #3: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B and PU Code Section 581. SDG&E listed the incorrect collateral type on Attachment B. For additional information about the finding, please see Finding #3 at procedure D.6 listed below.

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

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: 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, 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 all 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 all other bilateral transactions and contracts for non-standard products that are waived from strong showing justification under D.03-06-067, OP 3(d) 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. Bilateral and Broker Contracts

1. Ascertained whether the utility consulted with its PRG in a timely manner for contracts exceeding 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 any contract related to a new fossil generation or Purchase Power Agreement (PPA) that was less than five years.

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

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

Finding #2: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. For the [REDACTED] contract, Attachment B incorrectly indicates that the collateral type is unsecured credit based on analysis. The correct collateral information should be prepayment by the counterparty.

SDG&E Response: On November 2, 2021, SDG&E stated:

We have updated Attachment B to add information that it had prepayment provisions. The information was shown in response to question I.C.b.3i and I.C.b.3ii; however, we will include this payment information in Attachment B in future QCRs.

Finding #3: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. For the [REDACTED] contract, Attachment B incorrectly indicates that the collateral type is unsecured credit based on analysis. The correct collateral information should be a letter of credit.

SDG&E Response: On November 2, 2021, SDG&E stated:

SDG&E entered into two transactions with [REDACTED]. One was unsecured based on internal analysis and the other was secured by a letter of credit as responded in answer to I.C.b.3i and I.C.b.3ii. We have updated Attachment B to add this information and we will include this payment information in Attachment B in future QCRs.

E. Code of Conduct

1. Reviewed the utility's energy procurement chart as of Q2-2021 and determined whether all employees included in the chart acknowledged the utility's COC in a timely manner.

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

2. Validated whether all new employees who were hired or transferred during the past year Q3 2020 through Q2 2021 and involved in energy procurement activities acknowledged the utility's COC agreement or completed the utility's COC training in a timely manner.

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

3. Determined whether the utility has an ongoing process in reviewing and updating its COC and related issues to reinforce these mandatory rules of conduct.

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

4. Verified whether the utility has additional obligations, besides its COC, that employees must adhere to prove their compliance with confidentiality requirements at different level of transactions in accordance with D.02-12-074, OP 24 b.2.2.

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

5. Identified whether the utility has a process in place where energy procurement employees become legally compelled by a deposition to disclose any confidential procurement documents.

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

6. Determined whether the utility has a control process to prevent employee's misuse of confidential procurement information during and after their employment.

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

F. 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 two years.

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

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

6. Identified any contract related to a new fossil generation or PPA that was less than five 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: We found no exceptions as a result of this procedure.