



# QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

Pacific Gas and Electric Company

First Quarter of 2022 - Advice Letter 6577-E

Utility Audits, Risk and Compliance Division  
Utility Audits Branch  
September 30, 2022



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## PUBLIC UTILITIES COMMISSION

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Transmitted via e-mail

September 30, 2022

Ms. Kelly Everidge, Director  
Risk, Compliance & Reporting Department  
Pacific Gas and 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 and Electric Company’s Quarterly Energy Procurement Compliance Report for the period of January 1, 2022, through March 31, 2022**

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its agreed-upon procedures (AUP) engagement of Pacific Gas and Electric Company’s (PG&E) Quarterly Energy Procurement Compliance Report (QCR) filed for its First Quarter of 2022 in Advice Letter (AL) 6577-E. The final AUP report is enclosed.

PG&E’s responses to the AUP report finding are incorporated into this report. We will post the final 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 finding is required. PG&E has already provided the information regarding its corrective actions planned and those responses have been included into the report. However, PG&E is still required to file a supplemental AL 6577-E with amended Attachments A and C of its QCR by October 14, 2022. Once PG&E submits the supplemental AL, no further actions will be required.

We appreciate PG&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](mailto:tracy.fok@cpuc.ca.gov).

Sincerely,

A handwritten signature in cursive script that reads "Angie Williams".

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

Ms. Kelly Everidge, Director  
Risk, Compliance & Reporting Department  
Pacific Gas and Electric Company  
September 30, 2022  
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# I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

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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 Pacific Gas and Electric Company's (PG&E or the utility) energy procurement compliance reporting period of January 1, 2022, through March 31, 2022 (Q1 2022). 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's energy procurement directives. PG&E is one of these utilities<sup>1</sup> 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 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.

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<sup>1</sup> San Diego Gas and 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. The report can be found on the CPUC public website through the following link:

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

*Angie Williams*

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Angie Williams, Director  
Utility Audits, Risk and Compliance Division

## II. PROCEDURES AND FINDINGS

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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 the utility's Q1 2022 electric physical transaction details in Attachment A<sup>2</sup> to determine whether they contained any electronic solicitation or other competitive solicitation transactions, requiring additional performance of the AUP for Electronic Solicitation and Related Contracts indicated in Section D of this report.

**Finding:** We found fourteen electronic solicitation electric physical transactions in Attachment A that required additional performance of the AUP. We performed the AUP for these transactions along with other electronic solicitation contracts reported in Attachment H following the procedures in Section D of this report.

2. Reconciled to determine whether the utility's Q1 2022 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 #1: PG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and Public Utilities (PU) Code Section 581.** PG&E failed to report the electric physical transaction average price information in Attachment A and Attachment C.

#### **PG&E's Response:**

On July 14, 2022, PG&E stated:

The Confidential Attachment A physical import transactions uses Endur, PG&E's transactional system of record, to produce the ElecPhysFin spreadsheet. If the fixed price is available, the average price is automatically calculated. If the fixed price is not available, the average price is not calculated. Going forward, for non-fixed priced transactions, PG&E can manually calculate the average price based on the notional and MWh.

On August 17, 2022, PG&E stated:

To address the missing Average Pricing information on Electric Physical Summary (Attachment C), PG&E has calculated the Weighted Average Price. All updates have been made and are included in "Atch03-DR003 Q2 2022-ElecPhysFin-REDLINE-CONF.xlsx."

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<sup>2</sup> 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.



To mitigate the issues from reoccurring in the future, the formulas will be included as part of the Electric Physical Transactions (Attachment A) and Electric Physical Summary (Attachment C) of the ElecPhysFin workbook for each quarter going forward.

3. Reconciled to determine whether the utility's Q1 2022 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. Reconciled to determine whether the utility's Q1 2022 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. Reconciled to determine whether the utility's Q1 2022 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.

6. Reconciled to determine whether the utility's Q1 2022 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 (QCR)

1. Inspected the QCR advice letter filing, including the attachments of supporting documentation, to determine whether the filing was accurate and complete.

**Finding #1: PG&E failed to demonstrate compliance with D.02-10-062, Appendix B and PU Code Section 581.** In its Q1 2022 QCR Filing, PG&E failed to report the electric physical transaction average price information in Attachment A and Attachment C.

For additional information about the finding, please see Finding #1 at procedure A.2 listed above.

**PG&E Response:** See A.2.

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. 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 – Contracts Executed/Contracts Amended.  
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 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. 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 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 of the utility's QCR for any transactions subject to strong showing justification and inspected Attachment M – Transactions Subject to Strong Showing of the QCR 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 prices of bilateral contracts in Attachment A 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 prices 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. Inspected Attachment H of the utility's QCR for any transactions subject to strong showing justification and inspected Attachment M of the QCR 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 prices of bilateral contracts in Attachment H 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 prices 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. Inspected other bilateral transactions in the utility's QCR for any transactions subject to strong showing justification and inspected Attachment M of the QCR 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 paid or sold 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. Electronic Solicitation Contracts

1. Inspected the utility's Q1 2022 electric physical transactions included in Attachment A to find if there are any electronic solicitation or other competitive solicitation transactions.

Finding: We found fourteen electric physical transactions executed via electronic solicitation in Attachment A. We performed the AUP for these transactions along with other electronic solicitation contracts reported in Attachment H following the procedures in this section.

2. Traced and agreed each contract to contract/trade confirmations for the type of contract, contract term, counterparty, product type, total volume, and total cost.

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

3. Inspected PRG meeting materials to determine whether the utility consulted with its PRG before the contracts were executed if any contract term was over one calendar quarter.

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 surety bonds, guarantee, collateral, etc.

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

5. 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.

6. Inquired of the utility as to whether the contracts had any impact on the overall Time to Expiration Value at Risk (TeVAR).

Finding: We found that the resource adequacy contracts in Attachment H do not have any impact on the overall TeVAR. However, the fourteen electric physical transactions in Attachment A are fixed-price imports that reduce the volume of energy subject to market fluctuations, thereby decreasing the TeVAR.

7. 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.

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

#### E. Bilateral and Broker Contracts

1. Traced and agreed each contract to contract/trade confirmations for the type of contract, contract term, counterparty, product type, total volume, and total cost.

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

2. Inspected PRG meeting materials to determine whether the utility consulted with its PRG before the contracts were executed if any contract term was over one calendar quarter.

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

3. Inspected counterparties' credit supporting documentation to validate that the contracts were executed bilaterally with investment-grade counterparties or non-investment grade counterparties supported with surety bonds, guarantee, collateral, etc.

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

4. Inspected the utility's 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.

5. Inquired of 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 generation or 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.

7. 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.

#### F. Procurement Review Group (PRG)

1. Inspected relevant supporting documentation to determine whether utility held a PRG meeting at least once in Q1 2022.

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

2. Inspected PRG supporting documentation to determine whether the utility implemented the PRG requirements indicated in D.07-12-052, OP 7.

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

3. Inspected relevant supporting documentation to determine whether the utility made a list of non-confidential discussion topics of the PRG meetings publicly available.

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

4. Inspected relevant supporting documentation to determine 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.

5. Inspected relevant supporting documentation to determine whether the utility 95% TeVAR metric exceeded the established Customer Risk Tolerance (CRT). If yes, inspected PRG meeting material to determine whether the utility informed its PRG in a timely manner.

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