



QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

San Diego Gas and Electric Company

Third Quarter of 2023- Advice Letter 4309-E

Utility Audits, Risk and Compliance Division
Utility Audits Branch
April 17, 2024



PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



Transmitted via e-mail

April 17, 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 July 1, 2023, through September 30, 2023

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 Third Quarter of 2023 in Advice Letter (AL) 4309-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 4309-E with amended Attachments A, D, and H of its QCR by May 1, 2024. Once SDG&E submits the supplemental AL, no further actions will be required.

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
April 17, 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-by-Industry)

**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 July 1, 2023, through September 30, 2023, (Q3 2023). 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 Q3 2023 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 – Electronic Solicitation 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 Q3 2023 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 Q3 2023 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.

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.

4. Reconciled to determine whether the utility’s Q3 2023 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 overstated the notional value of a gas physical transaction (Deal ██████████) in Attachment A, resulting in an overstatement in related commodity sales reported in Attachment D. See the table below for the audited results:

Attachment A Gas Physical - Deal ██████████			
Delivery Location	Reported Notional Value (\$)	Audited Notional Value (\$)	Notional Value Overstated (\$)
██████████	██████████	██████████	██████████
Attachment D Gas Physical - Commodity Sales			
██████████	██████████	██████████	██████████

SDG&E’s Response:

On February 12, 2024, SDG&E stated:

The notional value for deal ██████████ has been updated to the correct value of ██████████ in Attachment A, which correlates to the stated average price of ██████████ and deal volume of ██████████. The notional value for this deal was populated incorrectly in the original submission.

SDG&E continually works to improve its processes around QCR reporting, which includes multiple systems and a combination of manual and automated steps. Since the attachments for Q3 2023 were submitted several improvements to the data collection and review process for Attachments A-D have been made, including monthly reviews of transaction information, new checklists, and additional cross-review of extracted trade information. SDG&E will continue to refine its QCR reporting process to address the inconsistencies identified in this data request and reduce instances of system and/or human error in reported information.

Finding #2: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SDG&E incorrectly reported the volume and notional value in Attachment D. SDG&E overstated the total volume amount by [REDACTED] and the notional value amount by [REDACTED]. See the table below for the audited results:

Delivery Location	Reported Notional Value (\$)	Audited Notional Value (\$)	Notional Value Overstated (\$)	Reported Volume (MMBtu)	Audited Volume (MMBtu)	Volume Overstated (MMBtu)
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	-
[REDACTED]	[REDACTED]	[REDACTED]	-	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	-	[REDACTED]	[REDACTED]	[REDACTED]
Total			[REDACTED]			[REDACTED]

SDG&E’s Response:

On February 12, 2024, SDG&E stated:

The discrepancy outlined above has been corrected, and Attachment D has been further amended to account for the updated notional value outlined in SDG&E’s response to Question II.A.

SDG&E continually works to improve its processes around QCR reporting, which includes multiple systems and a combination of manual and automated steps. Since the attachments for Q3 2023 were submitted several improvements to the data collection and review process for Attachments A-D have been made, including monthly reviews of transaction information, new checklists, and additional cross-review of extracted trade information. SDG&E will continue to refine its QCR reporting process to address the inconsistencies identified in this data request and reduce instances of system and/or human error in reported information.

5. Reconciled to determine whether the utility’s Q3 2023 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 Q3 2023 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 overstated the notional value of a gas physical transaction in Attachment A, resulting in an overstatement in related commodity sales reported in Attachment D.

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 the volume and notional value in Attachment D. SDG&E overstated the total volume amount by [REDACTED] and the notional value amount by [REDACTED].

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

Finding #3: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SDG&E failed to report [REDACTED] [REDACTED] electronic solicitation contracts in Attachment H – Contracts Executed/Contracts Amended, of the Q3 2023 QCR advice letter filing.

SDG&E's Response: See E.7.

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 – Transactions Subject to Strong Showing 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: 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 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 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. Electronic Solicitation Contracts

1. Inspected the utility's Q3 2023 electric physical transactions included in Attachment A to determine if there were any electronic solicitation or other competitive solicitation transactions.

Finding: We found no electric physical transactions derived from electronic/competitive solicitation(s) as a result of this procedure.

2. 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.

3. 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.

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

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

5. Inquired with 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-fuel generation or 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.

7. 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 #3: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SDG&E failed to report [REDACTED] electronic solicitation contracts in Attachment H of the Q3 2023 QCR advice letter filing.

SDG&E's Response:

On March 1, 2024, SDG&E stated:

The [REDACTED] is held every three years by [REDACTED]. Due to the infrequent nature of these contracts, SDG&E inadvertently did not include these transactions as part of Attachment H of the Q3 2023 QCR. Going forward, SDG&E has added [REDACTED] transactions as part of the quarterly checklist of transaction types to be covered at Attachment H meetings held after each quarter's completion for accuracy and completeness.

On March 5, 2024, SDG&E stated:

On March 1, 2024, SDG&E and the UARCD held a conference call to discuss [REDACTED] contracts and the inadvertent exclusion of [REDACTED] contracts from Attachment H of the Q3 2023 QCR. During this call, SDG&E explained to UARCD that these contracts resided outside of SDG&E's current tracking system for querying transactions to be included in the QCR. Therefore, SDG&E has implemented new controls for reporting these transactions such as including [REDACTED] transactions in its quarterly review checklist reviewed at Attachment H meetings prior to submission. Furthermore, SDG&E is working with its new [REDACTED] vendor to be able to query these types of transactions and to enhance the controls around Attachment H tracking to make sure it is accurate and complete upon filing.

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 #4: SDG&E failed to demonstrate compliance with CRR Nomination Process Requirements per Resolution E-4136. SDG&E failed to consult with ED and its PRG prior to making the CRR nomination for [REDACTED] in its 2024 Annual CRR allocation process. The Annual [REDACTED] nomination was due on September 5-7, 2023, with [REDACTED] results becoming available on September 12, 2023. SDG&E consulted with PRG members on September 15, 2023, eight days after the CRR nomination window, which resulted in non-compliance with Resolution E-4136.

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

SDG&E shall consult with Energy Division and the PRG regarding its CRR nominations prior to submitting those nominations, and report the transactions in its QCR. The Commission expects that the QCRs will contain, at a 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 the underlying energy supply arrangement that the CRR will hedge.

SDG&E's Response:

On March 27, 2024, SDG&E stated:

Traditionally, SDG&E presents information on the Annual CRR process in September. The August 2023 PRG (and every August PRG) occurred on the third Friday of the month. This is too early to prepare a proposal for PRG review and approval at a PRG meeting because [REDACTED]

[REDACTED] - essential for preparing the [REDACTED] nominations' proposal - were not provided/posted by the CAISO until two to three days prior to the August PRG meeting. With respect to Resolution E-4136, SDG&E could email the Annual [REDACTED] CRR nomination proposal prior to future September PRGs and more importantly, prior to the CRR nomination deadline for [REDACTED], for PRG personnel to review and approve.

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

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 #5: SDG&E failed to demonstrate compliance with Resolution E-4124. SDG&E failed to provide periodic updates at least quarterly to the PRG on how its previously obtained LTCRRs performed. The updates should contain, at minimum, for each LTCRR, the term, source and sink, relation to grid use, expected value, and past performance.

The Resolution E-4124 states, in part, that:

The Commission directs that SDG&E shall consult with the PRG regarding its proposed LTCRR nominations, of which the Commission's Energy Division is an ex officio member, prior to participating in the CAISO's CRR nomination process. SDG&E shall provide periodic updates at least quarterly to the PRG on how its previously obtained LTCRRs are performing. SDG&E shall also report these transactions in its QCR. The Commission expects that the QCRs and PRG presentations will contain, at a minimum, for each LTCRR, the term, source and sink, relation to grid use, expected value, and past performance.

SDG&E's Response:

On March 7, 2024, SDG&E stated:

Prior to the February 2024 PRG meeting, SDG&E has not regularly provided quarterly performance updates of its previously obtained LTCRRs to the PRG. Unfortunately, this was due to a failure to incorporate this requirement into SDG&E's process after the adoption of Resolution E-4124. SDG&E has not been previously flagged about this oversight in review of its QCR report; however, SDG&E has amended its QCR and PRG processes and procedures to ensure timely compliance with this reporting requirement going forward.

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.