



# QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

Pacific Gas & Electric Company  
Third Quarter of 2019 - Advice Letter 5670-E

Utility Audits, Risk and Compliance Division  
Utility Audits Branch  
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### **Acknowledgement**

The following California Public Utilities Commission staff contributed to the completion of this report:

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# Table of Contents

I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES .....	1
II. PROCEDURES AND FINDINGS .....	2
A. Transaction Reconciliation/Analysis .....	2
B. Quarterly Compliance Report (QCR) Filing.....	2
C. Strong Showing Justification .....	4
D. Electronic Solicitation and Related Contracts.....	4
E. Bilateral Contracts/Amendments.....	5

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

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Utility Audits, Risk and Compliance Division's (UARCD) Utility Audits Branch (UAB) performed the agreed-upon procedures (AUP) enumerated in "II. Procedures and Findings" of this report for the compliance reporting period of July 1, 2019 through September 30, 2019 (Q3 2019). These procedures were agreed to between Energy Division (ED) and the 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 California Public Utilities Commission (CPUC) energy procurement directives. Pacific Gas & Electric Company (PG&E or the utility) is one of these utilities.<sup>1</sup> PG&E is responsible for complying with the energy procurement-related state laws and the CPUC's energy procurement directives.

The agreed-upon procedures engagement was conducted 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 "II. Procedures and Findings" 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.

This report is intended solely for the information and use of ED. 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.

*Angie Williams*

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Angie Williams, Director  
Utility Audits, Risk and Compliance Division

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

## II. PROCEDURES AND FINDINGS

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The AUP performed by UAB and associated findings are summarized below. 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 Q3 2019 electric physical transaction details (Attachment A)<sup>2</sup> 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 Q3 2019 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 Q3 2019 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 Q3 2019 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 Q3 2019 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: PG&E failed to demonstrate compliance with Decision (D.)02-10-062, Appendix B, and Public Utilities Code (PUC) Section 581.** In its Q3 2019 QCR, PG&E made reporting errors in Attachments B and H. For detail information of the finding, please see procedures D.7 and E.6.

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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.

## **PG&E Response:**

On March 23, 2020, PG&E submitted the amended Attachments B and H via a supplemental Q3 2019 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: 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: 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.

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

2. 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.

3. 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.

### D. Electronic Solicitation and Related Contracts

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

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. If the counterparty was an affiliate, affirmed whether IE has evaluated the counterparty regardless of contract duration.

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: No contracts had any impact on the overall TeVAR.

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

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

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

**Finding: PG&E failed to demonstrate compliance with D. 02-10-062, Appendix B, and PUC Section 581.** PG&E made reporting errors in Attachment H as detailed below.

- i. PG&E incorrectly reported the product type for one contract with [REDACTED] as Local Resource Adequacy (RA) Sale, instead of Local, Flexible RA Sale.
- ii. PG&E incorrectly reported the notional values of three contracts with two counterparties, [REDACTED].
- iii. PG&E incorrectly reported the local capacity areas for a contract with [REDACTED].

**PG&E Response:**

On February 12, 2020 and March 6, 2020, PG&E provided the following responses to the finding:

To address the above-mentioned findings and minimize future reporting errors, PG&E updated and streamlined the process by leveraging PG&E's trade capture system. Specifically, PG&E used the data in the trade capture system to develop a table in Excel, similar to the Attachment H table, that improved the accuracy of calculating notional values. PG&E also used this Excel table to validate against the executed RA confirms. PG&E continues to refine and review this validation process in order to increase efficiency and limit errors.

On March 23, 2020, PG&E submitted the amended Attachment H via a supplemental Q3 2019 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. If the counterparty was an affiliate, determined whether the utility's IE had evaluated the counterparty regardless of contract duration.

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

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

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



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

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

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

**Finding: PG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PUC Section 581.** PG&E made a reporting error in Attachment B, the heading indicated "Second Quarter 2019" and should reflect the current quarter, "Third Quarter 2019".

**PG&E Response:**

On March 11, 2020, PG&E provided the following responses to the finding:

PG&E is in the process of expanding its QCR review and sign-off process with subject matter experts to be more comprehensive, including verification that the Narrative and Confidential Attachments reflect the correct quarter.

On March 23, 2020, PG&E submitted the amended Attachment B via a supplemental Q3 2019 QCR advice letter to correct the above-mentioned reporting error.