



# QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

San Diego Gas & Electric Company  
Fourth Quarter of 2019 - Advice Letter 3502-E

Utility Audits, Risk and Compliance Division  
Utility Audits Branch  
July 31, 2020



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

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The Utility Audits Branch (UAB) performed the agreed-upon procedures (AUP) enumerated in the Procedures and Findings section of this report for the San Diego Gas & Electric Company's (SDG&E or the utility) compliance reporting period of October 1, 2019 through December 31, 2019 (Q4 2019). These procedures were agreed to between 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 California Public Utilities Commission (CPUC) energy procurement directives. SDG&E is one of these utilities.<sup>1</sup> SDG&E is responsible for complying with the energy procurement-related state laws and the CPUC's energy procurement directives.

UAB conducted the agreed-upon procedures 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 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.

In accordance with CPUC Decision 12-04-046, Ordering Paragraph 13 this report shall be made public. The report can be found on the CPUC public website through the following link:  
<https://www.cpuc.ca.gov/utilityaudits/>

We appreciate SDG&E's assistance and cooperation with this engagement. If you have any questions regarding this audit 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,

*Angie Williams*

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

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

cc: Alice Stebbins, Executive Director, CPUC (via email)  
Edward Randolph, Deputy Executive Director, Energy Division (via email)  
Pete Skala, Director of Efficiency, Electrification, and Procurement, Energy Division (via email)  
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## II. PROCEDURES AND FINDINGS

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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 Q4 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 Q4 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 Q4 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 Q4 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 Q4 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: We found no exceptions as a result of this procedure.

2. Identified any of the utility's authorized decision-makers that were not listed in the QCR.

Finding: We did not identify any of the utility's authorized decision-makers that were not listed in the QCR.

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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.

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 that 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. Bilateral Contracts

1. Ascertained 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. 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 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 was less than 5 years.

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

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

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

#### E. Request for Offers (RFO)/Proposal (RFP) – Other Market Participants

1. Determined whether the utility participated in any RFO/RFP process of any market participants and whether any contracts were executed between the utility and the market participants who issued RFO/RFP.

Finding: We found that the utility participated in a RFO process of a market participant and executed two contracts with this counterparty.



2. Evaluated whether the utility consulted with its PRG for the contracts derived from the RFO/RFP issued by other market participants with contract duration longer than one calendar quarter.

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

3. Validated whether the contracts 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. Verified whether the contracts executed from the RFO/RFP issued by other market participants 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 Offer (RFO) and related contracts

1. Assessed whether the utility developed its RFO bid documents under oversight of its IE, vetted through the PRG and any differences were resolved by ED staff in advance of public issuance of the RFO bid document.

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

2. Determined whether the utility consulted with its IE, PRG and ED to outline its plans and solicited feedback prior to drafting RFO bid document so that the RFO process was improved by the identification of data gaps, confirmation of the fairness of the confidential components of the RFO, and in compliance with the letter and spirit of CPUC policies on procurement practices.

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

3. Determined whether the RFO process was competitive and consistent with the spirit of competitive solicitation.

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

4. Confirmed whether the RFO bid criteria included the measures recommended by the CPUC and were consistent with the CPUC's requirements.

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

5. Validated whether the RFO bid criteria were clearly described and defined.

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

6. Evaluated whether the rationale for the RFO bid criteria was clearly explained.

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

7. Verified whether project viability was part of the RFO bid criteria.

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

8. Ascertained whether the utility presented its RFO candidates in its PRG meetings for feedback from PRG members, Energy Division staff, and IE.  
Finding: We found no exceptions as a result of this procedure.
9. Determined whether the utility addressed any concerns raised by its PRG members, Energy Division staff, and IE regarding the RFO.  
Finding: We found no exceptions as a result of this procedure.
10. Assessed whether the utility created any false barriers to participation in the RFO or to attempt to limit the competitive process by manipulating the RFO products and/or process.  
Finding: We found no exceptions as a result of this procedure.
11. Evaluated whether the utility issued RFO seeking bids for both power purchase agreements (PPAs) and utility build bids.  
Finding: We found no exceptions as a result of this procedure.
12. Determined whether the utility considered the use of Brownfield sites first and took full advantage of their location before it considered building new generation on Greenfield site in those cases when the RFO solicited fossil-fuel generation contracts less than 5 years.  
Finding: We found that the RFO did not solicit fossil-fuel generation contracts less than 5 years.
13. Assessed whether the RFO was evaluated by an IE regardless of contract duration if the RFO involved affiliates or utility bidders.  
Finding: We found no exceptions as a result of this procedure.
14. Identified whether the utility recognized the effects of debt equivalence when comparing PPA against PPAs in their bid evaluations, but not when a utility-owned generation project was being considered, in those cases when the RFO solicited Power Purchase Agreement (PPA) with a term of less than 5 years.  
Finding: We found that the RFO did not solicit PPA with a term of less than 5 years.
15. Confirmed whether the winning contract met the utility's RFO evaluation criteria.  
Finding: We found no exceptions as a result of this procedure.
16. Ascertained whether the utility's decisions to accept and reject offers were clearly provided.  
Finding: We found no exceptions as a result of this procedure.
17. 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.
18. 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.

19. 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.

20. 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.

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

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

22. Identified whether any contract related to a new fossil generation or PPA with a term of less than 5 years.

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

23. 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.