



QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

San Diego Gas and Electric Company
Third Quarter of 2020 - Advice Letter 3643-E

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



PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



Transmitted via e-mail

April 7, 2021

Mr. Miguel Romero
Vice President – Energy Supply
San Diego Gas and Electric Company
8330 Century Park Court, CP33B
San Diego, CA 92123

Dear Mr. Romero:

Final Report Transmittal Letter – Agreed-Upon Procedures Engagement of San Diego Gas and Electric Company Quarterly Energy Procurement Compliance Report for the period of July 1, 2020 through September 30, 2020

The Utility Audits Branch of the California Public Utilities Commission has completed its agreed-upon procedures (AUP) engagement of San Diego Gas and Electric's (SDG&E) Third Quarter of 2020 Quarterly Energy Procurement Compliance Report -Advice Letter 3643-E. The final AUP report is enclosed.

SDG&E's response to the AUP report finding 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 <https://www.cpuc.ca.gov/utilityaudits/>.

A Corrective Action Plan (CAP) addressing the finding was included in SDG&E's response to the respective finding in the audit report.

We appreciate SDG&E's assistance and cooperation during the engagement, and its willingness to implement corrective actions. 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 or Tim Baumgardner, Senior Management Auditor, at (916) 894-5603 tim.baumgardner@cpuc.ca.gov.

Sincerely,

Angie Williams

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

Mr. Miguel Romero
Vice President – Energy Supply
San Diego Gas and Electric Company
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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 July 1, 2020 through September 30, 2020 (Q3 2020). 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 (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.

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: <https://www.cpuc.ca.gov/utilityaudits/>

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

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

II. PROCEDURES AND FINDINGS

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. Ascertained whether the utility's Q3 2020 electric physical transaction details (Attachment A) contained any electronic solicitation or other competitive solicitation transactions, requiring additional review in procedure D.

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

2. Verified whether the utility's Q3 2020 electric physical transaction details (Attachment A)² agreed to the corresponding transaction summary (Attachment C).

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

3. Confirmed whether the utility's Q3 2020 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.

4. Ascertained whether the utility's Q3 2020 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.

5. Determined whether the utility's Q3 2020 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.

6. Determined whether the utility's Q3 2020 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: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581.

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.

In its Q3 2020 QCR, SDG&E made reporting errors in Attachment H – New Contracts Executed and Amended. For additional information about the finding, please see procedure E.6 listed below.

SDG&E Response: See E.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 of the utility’s QCR.
Finding: We found not 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 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.

6. 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 other transactions, 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. Electronic Solicitation and Related Contracts

1. Verified whether the utility's Q3 2020 electric physical transaction details (Attachment A) contained any electronic solicitation or other competitive solicitation transactions.

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

2. Validated whether the utility consulted with its PRG in a timely manner if any contract term was over one calendar quarter.

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

3. 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.

4. 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.

5. 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.

6. 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.

7. Identified whether any contract related to a new fossil generation or Purchase Power Agreement (PPA) that was less than 5 years.

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

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

Finding: We found not exceptions as a result of this procedure.

E. Bilateral and Broker 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. Determined whether the utility's 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 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 PPA that was less than 5 years.

Finding: We did not identify any contract related to a new fossil generation or PPA that was less than 5 years.

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

Finding:

SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SDG&E incorrectly reported the execution/signed date for the following contracts on Attachment H:

Contract/ Counterparty	Attachment H Execution/Signed Date	Confirmation Signature Date
[REDACTED]	09/28/2020	10/02/2020
[REDACTED]	7/2/2020	07/08/2020

SDG&E’s response:

On March 2, 2021, SDG&E asserted:

Prior to the QCR Q4 2020 filing, SDG&E has reported the execution/signed date based on the execution date stated in the transaction and not the date of the last signature. Going forward, SDG&E will record the execution/signed date as the date of the last signature. SDG&E will perform an independent review of all transactions in Attachment H to ensure correct and accurate execution/signed dates are provided. Attachment H will be amended to correct the aforementioned findings.