



# QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

San Diego Gas and Electric Company

Fourth Quarter of 2020 - Advice Letter 3683-E

Utility Audits, Risk and Compliance Division  
Utility Audits Branch  
June 24, 2021



## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



Transmitted via e-mail

June 24, 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 October 1, 2020 through December 31, 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) Fourth Quarter of 2020 Quarterly Energy Procurement Compliance Report -Advice Letter 3683-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](mailto:tracy.fok@cpuc.ca.gov) or Tim Baumgardner, Senior Management Auditor, at (916) 894-5603 [tim.baumgardner@cpuc.ca.gov](mailto: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  
June 24, 2021  
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**MEMBERS OF THE TEAM**

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**Tim Baumgardner, Lead**

**Jeffrey Walter, Staff**

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**A digital copy of this report can be found at:**

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

**You can contact our office at:  
California Public Utilities Commission  
Utility Audits, Risk and Compliance Division  
400 R Street, Suite 221**

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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 the San Diego Gas and Electric Company's (SDG&E or the utility) compliance reporting period of October 1, 2020 through December 31, 2020 (Q4 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.<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 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*

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Angie Williams, Director  
Utility Audits, Risk and Compliance Division

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<sup>1</sup> 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

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Below is the summary 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. Ascertained whether the utility's Q4 2020 electric physical transaction details (Attachment A) contained any electronic solicitation or other competitive solicitation transactions, requiring additional review in audit procedures for electronic solicitation and related contracts.

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

2. Verified whether the utility's Q4 2020 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.

3. Confirmed whether the utility's Q4 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 Q4 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 Q4 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 Q4 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.

**Findings #1 and #2: SDG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581.** In its Q4 2020 QCR, SDG&E made reporting errors in Attachment

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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.

H – New Contracts Executed and Amended. For additional information about the findings, please see procedure D.7 Findings #1 and #2 listed below.

**SDG&E Response:** See D.7

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 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 – 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. Request for offers (RFO) and Related Contracts

1. 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.

2. Assessed 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. 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 #3:**

**SDG&E failed to demonstrate compliance with D.03-12-062, OP 11, and Section 9.1 of its contract agreement.** The counterparty, [REDACTED] provided a late payment as follows:

- The Performance Assurance in the amount of [REDACTED] should have been received on or before the Contract Execution Date of 10/28/2020 according to Section 9.1 of the contract agreement but was not received until 10/29/2020 according to the payment support SDG&E sent to UAB.
- The Performance Assurance was increased to [REDACTED] so the difference in the amount of [REDACTED] should have been received on 03/01/2021 according to Section 9.1 of the contract agreement but was not received until 03/18/2021 according to the payment support SDG&E sent to UAB.

**SDG&E's response:**

On May 14, 2021 and June 23, 2021, SDG&E asserted:

- The evidence of cash collateral SDG&E originally provided reflects the date of the cash posted to our internal accounting system. The [REDACTED] deposit was actually received on 10/29/2020. Although SDG&E itself cannot ensure the posting is delivered on time, it does utilize available mitigants in the contract up to and including termination of the deal. SDG&E is in the process of changing its internal processes so that counterparties will receive a reminder prior to collateral posting due dates.
- The evidence of cash collateral SDG&E originally provided reflects the date of the cash posted to our internal accounting system. The [REDACTED] deposit was actually received on 03/18/2021. SDG&E contacted [REDACTED] after it missed the posting due date. Although SDG&E itself cannot ensure the posting is delivered on time, it does utilize available mitigants in the contract up to and including termination of the deal. SDG&E is in the process of changing its internal processes so that counterparties will receive a reminder prior to collateral posting due dates.

**Finding #4:**

**SDG&E failed to demonstrate compliance with D.03-12-062, OP 11, and Section 9 of its contract agreement.** The counterparty, [REDACTED] provided a late payment as follows:

The payment in the amount of [REDACTED] is due no later than 5 business days after the Confirmation Execution Date of 10/20/2020 according to Section 9 of the contract agreement. Payment should have been received on 10/27/2020 but was not received until 10/30/2020 according to the payment support SDG&E sent to UAB.

**SDG&E's response:**

On May 14, 2021 and June 23, 2021, SDG&E asserted:

The evidence of cash collateral SDG&E originally provided reflects the date of the cash posted to our internal accounting system. The [REDACTED] deposit was received on 10/30/2020.

SDG&E communicated via a phone call with [REDACTED] about the wire transfer a few days prior to the posting due date. Although SDG&E itself cannot ensure the posting is delivered on time, it does utilize available mitigants in the contract up to and including termination of the deal. SDG&E is in the process of changing its internal processes so that counterparties will receive a reminder prior to collateral posting due dates.

4. 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.

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

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

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

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

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

**Finding#1 :**

**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 contract agreements on Attachment H:

Contract/Counterparty	Attachment H Execution/Signed Date	Contract Signature Date
[REDACTED]	10/28/2020	10/30/2020
[REDACTED]	10/28/2020	10/30/2020
[REDACTED]	10/28/2020	10/30/2020
[REDACTED]	10/20/2020	10/23/2020
[REDACTED]	10/19/2020	10/22/2020
[REDACTED]	10/21/2020	10/26/2020
[REDACTED]	10/20/2020	10/23/2020
[REDACTED]	10/16/2020	10/22/2020

**SDG&E’s response:**

On May 14, 2021, SDG&E asserted:

The execution/signed date of the transactions listed in the table were reported using the execution date on the confirmation. The two [REDACTED] transactions and the [REDACTED] transaction were last signed on 10/30/2020. Going forward, SDG&E will report all transactions in Attachment H using the last signed date.

**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 nominal value of [REDACTED] on Attachment H for the RFO Contract with [REDACTED]. The correct nominal value is [REDACTED] creating a discrepancy of [REDACTED] between Attachment H and the RFO Contract.

**SDG&E’s response:**

On May 14, 2021, SDG&E asserted:

The SDG&E team inadvertently recorded the nominal value of the transaction in Attachment H prior to adjusting for the increase volumes for January and November, [REDACTED] and [REDACTED] respectively. Only the nominal value column of Attachment H was recorded with the previous contract total before additional volumes were added during contracting. The SDG&E team will implement an additional layer of review during the finalization of Attachment H results.

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