



QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

Pacific Gas and Electric Company

First Quarter of 2021 - Advice Letter 6179-E

Utility Audits, Risk and Compliance Division
Utility Audits Branch
October 20, 2021



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Transmitted via e-mail

October 20, 2021

Ms. Kelly Everidge, Director
Risk, Compliance & Reporting Department
Pacific Gas and Electric Company
P.O. Box 770000
San Francisco, CA 94177-0001

Dear Ms. Everidge:

Final Report Transmittal Letter – Agreed-Upon Procedures Engagement of Pacific Gas and Electric Company’s Quarterly Energy Procurement Compliance Report for the period of January 1, 2021, through March 31, 2021

The Utility Audits Branch of the California Public Utilities Commission (CPUC) has completed its agreed-upon procedures (AUP) engagement of Pacific Gas and Electric Company’s (PG&E) Quarterly Energy Procurement Compliance Report (QCR) filed for its First Quarter of 2021 in Advice Letter 6179-E. The final AUP report is enclosed.

PG&E’s response to the AUP report findings 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 [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

A Corrective Action Plan addressing the findings is required. However, PG&E has already provided the information regarding its corrective actions planned and implemented in its response to the AUP report findings. Therefore, no additional information is needed at this time.

We appreciate PG&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 or 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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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 Pacific Gas and Electric Company's (PG&E or the utility) compliance reporting period of January 1, 2021, through March 31, 2021 (Q1 2021). 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. PG&E is one of these utilities.¹ PG&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 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.

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: [Audit Reports by Industry \(ca.gov\)](#).

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

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

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. Ascertained whether the utility's Q1 2021 electric physical transaction details in Attachment A² contained any electronic solicitation or other competitive solicitation transactions, requiring additional review in the audit procedures for Electronic Solicitation and Related Contracts indicated in Section D of this report.

Finding: We found one electronic solicitation electric physical transaction in Attachment A that required additional review. We reviewed the transaction along with other electronic solicitation transactions following the procedures in Section D of this report.

2. Verified whether the utility's Q1 2021 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% 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. Confirmed whether the utility's Q1 2021 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% 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.

4. Ascertained whether the utility's Q1 2021 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% 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.

5. Determined whether the utility's Q1 2021 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% 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 to the utility's Quarterly Compliance Report subject to this engagement.

6. Determined whether the utility's Q1 2021 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.

B. Quarterly Compliance Report (QCR)

1. Confirmed whether the quarterly advice letter filing, including the attachments of supporting documentation, was accurate and complete.

Finding #1: PG&E failed to demonstrate compliance with D.02-10-062, Appendix B and PU Code Section 581. PG&E failed to correctly report the product price and notional value on Attachment H – Contracts Executed/Contracts Amended for one contract. For additional information about the finding, please see Finding #1 at procedure E.6 listed below.

PG&E's Response: See E.6.

Finding #2: PG&E failed to demonstrate compliance with D.02-10-062, Appendix B and PU Code Section 581. PG&E failed to correctly report product type on Attachment H for one contract. For additional information about the finding, please see Finding #2 at procedure E.6 listed below.

PG&E's 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.

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 all 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 all other bilateral transactions and contracts for non-standard products that are waived from strong showing justification under D.03-06-067, OP 3(d) 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 Q1 2021 electric physical transaction details in Attachment A contained any electronic solicitation or other competitive solicitation transactions.

Finding: We found one electronic solicitation electric physical transaction in Attachment A. We reviewed this transaction along with other electronic solicitation transactions following the procedures in this section and found no exceptions resulting from our review.

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 two 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 any contract related to a new fossil generation or Purchase Power Agreement (PPA) that was less than five 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 no 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 exceeding 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 any contract related to a new fossil generation or PPA that was less than five years.

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

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

Finding #1: PG&E failed to demonstrate compliance with D.02-10-062, Appendix B and PU Code Section 581. PG&E failed to correctly report notional value and product price in Attachment H for the contract [REDACTED] with [REDACTED]. PG&E erroneously listed the notional value of [REDACTED] instead of [REDACTED], which resulted from an incorrectly reported product price of [REDACTED] instead of [REDACTED].

PG&E's Response: On August 5, 2021, PG&E asserted:

PG&E agrees with this finding. The price should be [REDACTED] and notional value should be [REDACTED]. PG&E recognizes that there was a similar inadvertent error with Confidential Attachment H in the Q4 2020 QCR Findings. As a result of the Q4 2020 finding, PG&E is now password protecting Attachment H after the final review in order to prevent these types of errors. This corrective action was in place for the Q2 2021 QCR but not in time for the Q1 2021 QCR.

Finding #2: PG&E failed to demonstrate compliance with D.02-10-062, Appendix B and PU Code Section 581. PG&E failed to correctly report the product type in Attachment H for the contract [REDACTED] with [REDACTED]. PG&E reported the product type as System Resource Adequacy (RA) instead of System, Flexible RA.

PG&E's Response: On August 5, 2021, PG&E asserted:

PG&E agrees that Attachment H should be updated. PG&E did not label the 130 MW contract in its Attachment H correctly. The 130 MW should have been labeled as System, Flexible RA. PG&E will file a Supplemental Advice Letter filing to correct the record once all Q1 2021 QCR Findings have been finalized.

F. Procurement Review Group

1. Ascertained whether the utility held a regular PRG meeting at least once in Q1 2021.
Finding: We found no exceptions as a result of this procedure.
2. Assessed whether the utility implemented the requirements indicated in D.12-04-046, OP 14 and D.07-12-052, OP 7.
Finding: We found no exceptions as a result of this procedure.
3. Determined whether the utility made a list of non-confidential discussion topics of the regular PRG meetings publicly available.
Finding: We found no exceptions as a result of this procedure.
4. Verified whether the utility's PRG meeting summaries were distributed (or made publicly available) on the earlier of a) 14 days after the procurement review group meeting, or b) 48 hours before the next regularly scheduled PRG meeting.
Finding: We found no exceptions as a result of this procedure.

5. Determined whether the utility met and conferred with the PRG to discuss the Customer Risk Tolerance (CRT) applicable to the utility hedging as it is changed from one cent per kilowatt-hour to 10% of a utility's system average rate, in accordance with the requirements outlined in D.12-01-033, OP 5.

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

6. Verified the utility's monthly risk report and determined whether the utility's 95% TeVAR metric exceeded the established CRT derived from Item 5 above and determined whether the utility informed its PRG in a timely manner, if appropriate.

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

G. Physical Electric Transaction Deep Dive

1. Determined whether the utility executed the transactions with adequate justifications (e.g. fulfilling its net residual open positions and using the least-cost-best-fit approach).

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

2. Verified transaction volumes, prices, and notional values to invoices and trade blotters (confirmations).

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

3. Evaluated whether the sampled transactions had any impact on the overall TeVAR.

Finding: We found that physical electric transactions did not have any impact on the overall TeVAR except for an electric physical import transaction that decreased the overall TeVAR.

4. Verified that the product types, transaction processes, brokers and exchanges used for procurement during the quarter were approved in PG&E's Bundled Procurement Plan. Ascertained that PRG consultation properly took place for transactions with terms over 90 days. Confirmed that transactions did not have terms longer than five years and did not involve affiliates of PG&E.

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

5. Confirmed whether quarter's transactions were executed with investment-grade counterparties or non-investment grade counterparties that were supported with surety bonds, guarantees, collateral, etc.

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

6. Determined whether the utility demonstrated that prices of over the counter (OTC) transactions were equivalent to exchanges.

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

H. Financial Electric Transaction Deep Dive

1. Determined whether the utility executed the transactions with adequate justifications (e.g., fulfilling its net residual open positions and using the least-cost-best-fit approach).

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

2. Verified transaction volumes, prices, and notional values to invoices and trade blotters (confirmations).

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

3. Evaluated whether the sampled transactions had any impact on the overall TeVAR.

Finding: We found that financial electric transactions decreased the overall TeVAR.

4. Verified that the product types, transaction processes, brokers and exchanges used for procurement during the quarter were approved in PG&E's Bundled Procurement Plan. Ascertained that PRG consultation properly took place for transactions with terms over 90 days. Confirmed that transactions did not have terms longer than five years and did not involve affiliates of PG&E.

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

5. Confirmed whether quarter's transactions were executed with investment-grade counterparties or non-investment grade counterparties that were supported with surety bonds, guarantees, collateral, etc.

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

6. Determined whether the utility demonstrated that prices of OTC transactions were equivalent to exchanges.

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