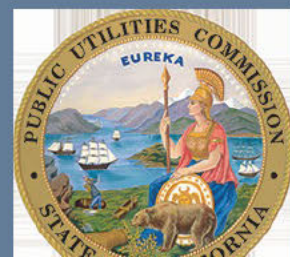




# QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

Pacific Gas and Electric Company  
Second Quarter of 2021 - Advice Letter AL 6277-E

Utility Audits, Risk and Compliance Division  
Utility Audits Branch  
December 13, 2021



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

[Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/AuditReportsbyIndustry)

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## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
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Transmitted via e-mail

December 13, 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 April 1, 2021, through June 30, 2021**

The Utility Audits Branch (UAB) 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 Second Quarter of 2021 in Advice Letter 6277-E. The final AUP report is enclosed.

PG&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 [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](mailto:tracy.fok@cpuc.ca.gov).

Sincerely,

*Angie Williams*

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

Ms. Kelly Everidge, Director  
Risk, Compliance & Reporting Department  
Pacific Gas and Electric Company  
December 13, 2021  
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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 Pacific Gas and Electric Company's (PG&E or the utility) compliance reporting period of April 1, 2021, through June 30, 2021, (Q2 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.<sup>1</sup> 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. 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*

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Angie Williams, Director  
Utility Audits, Risk and Compliance Division

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<sup>1</sup> 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

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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 Q2 2021 electric physical transaction details in Attachment A<sup>2</sup> 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 no exceptions as a result of this procedure.

2. Verified whether the utility's Q2 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 Q2 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 Q2 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 Q2 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.

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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.

6. Determined whether the utility's Q2 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 QCR 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, Pages 30 and 34, Appendix B, and PU Code Section 581.** PG&E inadvertently did not include strong showing justification for [REDACTED] bilateral confirmation in its QCR attachments. For additional information about the finding, please see Finding #1 at procedure C.3 listed below.

**PG&E's Response:** See C.3.

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 – New Contracts.

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 or other attachments in the QCR.

**Finding #1: PG&E failed to demonstrate compliance with D.02-10-062 Pages 30 and 34, Appendix B, and PU Code Section 581.** PG&E inadvertently did not include strong showing justification for [REDACTED] bilateral contract, which requires strong showing justification, in its QCR attachments. PG&E is required to include such strong showing justification in Attachment E – Other Transactions where the utility provides its strong showing justification for bilateral contracts.

**PG&E Response:** On November 4, 2021, PG&E stated:

The transaction above was inadvertently excluded from the Q2 2021 QCR Strategy Paper in the Q2 2021 QCR, Confidential Attachment E. Confidential Attachment M does not need to be amended as PG&E points the reader to Confidential Attachment E's Strategy Paper which addresses the justification for the Strong Showing transactions.

Once UAB has communicated all Q2 2021 findings, PG&E will file a supplemental advice letter to correct the record. PG&E will submit this item into its Corrective Action Program to review its current procedures, identify gaps and strengthen controls to mitigate a reoccurrence.

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 Process and Related Contracts

1. Assessed whether the utility developed its bid documents under oversight of its independent evaluator (IE), vetted through the PRG and any differences were resolved by ED staff prior to administering the solicitation.

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 solicitation bid document so that the solicitation process was improved by the identification of data gaps, confirmation of the fairness of the confidential components of the solicitation, and in compliance with the letter and spirit of CPUC policies on competitivesolicitations.

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

3. Ascertained whether the electronic solicitation 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 electronic solicitation 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 electronic solicitation 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 electronic solicitation 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 electronic solicitation bid criteria.

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

8. Ascertained whether the utility presented its electronic solicitation candidates in its PRG meetings for feedback from PRG members, ED 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, ED staff, and IE regarding the electronic solicitation process.

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

10. Ascertained whether the electronic solicitation process optimized the energy value of the products being solicited.

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

11. Determined whether the bid evaluation process was transparent and the circumstances, under which the bid results could be rejected, were well understood by potential bidders in advance of the solicitation.

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

12. Validated whether all bids considered were submitted solely via the electronic solicitation process.

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

13. Identified any pre-bid and post-bid negotiations.

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

14. Confirmed whether the award decision was communicated within the timeframe of the electronic solicitation.

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

15. Determined whether the utility created any false barriers to participation in the electronic solicitation or attempted to limit the competitive process by manipulating the products and/or process.

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

16. Assessed whether the utility issued an electronic solicitation seeking bids for both Power Purchase Agreement (PPA) and Utility Owned Generation (UOG).

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

17. Determined whether the electronic solicitation process solicited fossil-fuel generation contracts less than five years and evaluated 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.

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

18. Confirmed whether the electronic solicitation involved affiliates or utility bidders and attested whether the electronic solicitation was evaluated by an IE regardless of contract duration.

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

19. Identified whether the electronic solicitation solicited PPAs less than five years and appraised whether the utility recognized the effects of debt equivalence (DE) when comparing PPA against PPAs in their bid evaluations, but not when a UOG project was being considered.

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

20. Confirmed whether the winning contract met the utility's electronic solicitation evaluation criteria.

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

21. Verified whether the utility's decisions to accept and reject offers were clearly provided.

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

22. Verified whether the utility's Q2 2021 electric physical transaction details in Attachment A contained any electronic solicitation or other competitive solicitation transactions.

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

23. 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.

24. Ascertained whether the utility's IE evaluated the contracts with terms greater than two years.

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

25. 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.

26. 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.

27. 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.

28. 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.

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

#### F. Request for Offers/Proposal (RFO/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 no exceptions as a result of this procedure.

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.

#### G. Code of Conduct (COC)

1. Reviewed the utility's energy procurement chart as of Q2 2021 and determined whether all employees included in the chart acknowledged the utility's COC in a timely manner.

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

2. Validated whether all new employees who were hired or transferred during the past year Q3 2020 through Q2 2021 and involved in energy procurement activities acknowledged the utility's COC agreement or completed the utility's COC training in a timely manner.

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

3. Determined whether the utility has an ongoing process in reviewing and updating its COC and related issues to reinforce these mandatory rules of conduct.

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

4. Verified whether the utility has additional obligations, besides its COC, that employees must adhere to prove their compliance with confidentiality requirements at different level of transactions in accordance with D.02-12-074, OP 24 b.2.2.

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

5. Identified whether the utility has a process in place where energy procurement employees become legally compelled by a deposition to disclose any confidential procurement documents.

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

6. Determined whether the utility has a control process to prevent employee's misuse of confidential procurement information during and after their employment.

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