



QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

Pacific Gas and Electric Company

Third Quarter of 2021 - Advice Letter 6387-E

Utility Audits, Risk and Compliance Division
Utility Audits Branch
April 8, 2022



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Transmitted via e-mail

April 8, 2022

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

Dear Ms. Aikawa:

Final Report Transmittal Letter – Agreed-Upon Procedures Engagement of Pacific Gas and Electric Company’s Quarterly Energy Procurement Compliance Report for the period of July 1, 2021, through September 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 Third Quarter of 2021 in Advice Letter (AL) 6387-E. The final AUP report is enclosed.

PG&E’s response to the AUP report findings are 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. PG&E has already provided the information regarding its corrective actions planned and those responses have been included into the report. However, PG&E is still required to file a supplemental AL 6837-E with amended Attachment B of its QCR. Once PG&E submits the supplemental AL, no further actions will be required.

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 tracy.fok@cpuc.ca.gov.

Sincerely,

Angie Williams

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

Marianne Aikawa, Acting Director
Pacific Gas & Electric Company
April 8, 2022
Page 2

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TABLE OF CONTENTS

I. INDEPENDENT ACCOUNTANT’S REPORT ON APPLYING AGREED-UPON PROCEDURES.....	1
II. PROCEDURES AND FINDINGS.....	3
A. TRANSACTION RECONCILIATION/ANALYSIS.....	3
B. QUARTERLY COMPLIANCE REPORT (QCR).....	4
C. STRONG SHOWING JUSTIFICATION.....	5
D. ELECTRONIC SOLICITATION CONTRACTS.....	6
E. BILATERAL AND BROKER CONTRACTS.....	7
F. REQUEST FOR OFFERS (RFO)/PROPOSAL (RFP) - OTHER MARKET PARTICIPANTS.....	8
G. GREENHOUSE GAS ALLOWANCES (GHG).....	9
H. PHYSICAL GAS TRANSACTION DEEP DIVE.....	10

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 Pacific Gas and Electric Company's (PG&E or the utility) energy procurement compliance reporting period of July 1, 2021, through September 30, 2021 (Q3 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 laws and CPUC's energy procurement directives. PG&E is one of these utilities¹ and is responsible for complying with the energy procurement requirements.

ED engaged UAB to perform this AUP engagement. UAB is required to be independent and to meet other ethical responsibilities in accordance with the relevant ethical requirements related to the AUP engagement. We conducted this engagement in accordance with attestation standards established by the generally accepted government auditing standards (GAGAS). The sufficiency of the AUP procedures is solely the responsibility of ED. ED has agreed to and acknowledged that the procedures performed are appropriate for the intended purpose of the AUP engagement. 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 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.

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.

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

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. Inspected whether the utility's Q3 2021 electric physical transaction details in Attachment A² contained any electronic solicitation or other competitive solicitation transactions, requiring additional performance of 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. Reconciled to determine whether the utility's Q3 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. Reconciled to determine whether the utility's Q3 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. Reconciled to determine whether the utility's Q3 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. Reconciled to determine whether the utility's Q3 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. Reconciled to determine whether the utility's Q3 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. Inspected the QCR advice letter filing, including the attachments of supporting documentation, to determine whether the filing was accurate and complete.

Finding#1: PG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. An electronic solicitation contract and a bilateral contract executed with a non-investment grade counterparty is not listed in Attachment B – Non-investment Grade Counterparties as required. For additional information about the finding, please see Finding #1 at procedure D.7 and E.6 listed below.

PG&E's 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. Inspected QCR and associated attachments to determine 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. Inspected QCR and associated attachments to determine whether the utility explained or justified the timing of its transactions.

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

5. Inspected QCR and associated attachments to determine 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. Inspected QCR and associated attachments to determine 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. Inspected QCR and associated attachments to determine whether the utility provided a copy of each of the utility's procurement contracts reported in Attachment H – Contracts Executed/Contracts Amended.

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

8. Inspected QCR and associated attachments to determine 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. Inspected QCR and associated attachments to determine 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. Inspected QCR and associated attachments to determine 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. Inspected QCR and associated attachments to determine whether the utility provided average price information for non-standard transactions.

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

12. Inspected QCR and associated attachments to determine 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. Inspected Attachment A of the utility's QCR for any transactions subject to strong showing justification and inspected Attachment M – Transactions Subject to Strong Showing of the QCR to determine whether the transactions were properly justified in Attachment M.

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

2. Compared the price of bilateral contracts in Attachment A for non-standard products that are waived from strong showing justification under D. 03-06-067, OP 3(d) to the prices of relevant market supporting documentation to determine whether the bilateral contract prices are 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. Inspected Attachment H of the utility's QCR for any transactions subject to strong showing justification and inspected Attachment M of the QCR to determine whether the transactions were properly justified in Attachment M.

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

4. Compared the price of bilateral contracts in Attachment H for non-standard products that are waived from strong showing justification under D. 03-06-067, OP 3(d) to the prices of relevant market supporting documentation to determine whether the bilateral contract prices are 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. Inspected other bilateral transactions in the utility's QCR for any transactions subject to strong showing justification and inspected Attachment M of the QCR to determine whether the transactions were properly justified in Attachment M.

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

6. Compared the price of other bilateral contracts for non-standard products that are waived from strong showing justification under D. 03-06-067, OP 3(d) to the prices of relevant market supporting documentation to determine whether the bilateral contract prices are reasonable based on available and relevant market data. Compared the buy and sell average price paid or sold for other transactions 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 Contracts

1. Inspected the utility's Q3 2021 electric physical transactions included in Attachment A to find if there are any electronic solicitation or other competitive solicitation transactions.

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

2. Inspected PRG meeting materials to determine 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. Inspected the utility's Independent Evaluator (IE) report to determine whether IE evaluated any contracts executed with affiliate(s) or any contracts with terms greater than two years.

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

4. Inspected counterparties' credit supporting documentation to validate that 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. Inquired the utility as to 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.

6. 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.

7. Traced and agreed all electronic solicitation contracts executed during the quarter to supporting documentation to ensure that they were correctly and completely reported in attachments of the utility's QCR.

Finding#1: PG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. The electronic solicitation contract executed with the non-investment grade counterparty, [REDACTED], was not listed in Attachment B as required.

PG&E's Response: On February 18, 2022, PG&E stated:

PG&E inadvertently omitted [REDACTED] in Confidential Attachment B Non-Investment Grade Counterparty document. As part of its corrective actions, PG&E has revised its internal process to include a final validation of Confidential Attachments B and H to ensure any changes during the review process have been captured correctly. Once UAB has communicated all Q3 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.

E. Bilateral and Broker Contracts

1. Inspected PRG meeting materials to ascertain that 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. Inspected counterparties' credit supporting documentation to validate that the contracts executed bilaterally with investment-grade counterparties or non-investment grade counterparties were supported with surety bonds, guarantee, collateral, etc.

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

3. Inspected the utility's IE report to determine whether IE evaluated any contracts executed with affiliate(s) or any contracts with terms greater than two years.

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

4. Inquired the utility as to 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. Traced and agreed all bilateral contracts executed during the quarter to supporting documentation to ensure that they were correctly and completely reported in attachments of the utility's QCR.

Finding#1: PG&E failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. The bilateral contract executed with the non-investment grade counterparty, [REDACTED] was not listed in Attachment B. This counterparty is the same one as previously indicated at Procedure D.7.

PG&E's Response: See D.7.

F. Request for offers (RFO)/Proposal (RFP) - Other Market Participants

1. Identified 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 the utility participated in a RFO process of a market participant and executed [REDACTED] contracts.

2. Inspected PRG meeting documentation to ascertain that 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. Inspected counterparties' credit supporting documentation to validate that 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. Traced and agreed to supporting documentation to ascertain that 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. Greenhouse Gas Allowances (GHG)

1. Identified whether the utility procured GHG allowances, allowance futures and forwards, offsets, and offset forwards within the Direct Compliance Obligation Purchase Limits and Financial Exposure Purchase Limits, as set forth in PG&E Bundled Procurement Plan (BPP) approved by the CPUC.

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

2. Inspected all GHG offset transactions to ascertain that the utility only procured offsets certified by the California Air Resources Board (CARB).

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

3. Totaled the volume of all offset transactions to ascertain that the utility purchased no more than eight percent of its compliance requirement in the form of offsets.

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

4. Inspected GHG offset contracts to determine whether the utility only purchased offsets if the seller contractually assumes the risk of invalidation.

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

5. Inspected the utility's GHG procurement supporting documentation to determine whether the utility procured allowances from the CARB or other processes approved by the CPUC.

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

6. Inspected relevant supporting documentation to determine that the utility applied its standard procurement credit and collateral requirements and, if appropriate, imposed additional credit and collateral requirements to those transactions, in which the utility procured allowances via forward contracts.

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

7. If the utility procured authorized GHG compliance instruments via bilateral transactions, inspected relevant supporting documentation to ascertain that the utility utilized a competitive request for offer process, consulted with their PRG, applied their approved procurement credit and collateral requirements, and applied the applicable affiliate transactions rules.

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

8. If the utility procured GHG compliance instruments through the exchanges not approved by the Commission, inspected the utility's one-time Tier 2 advice letter to ascertain that the utility submitted such a letter to the Commission.

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

9. If the utility resold GHG compliance instruments, inspected PRG meeting documentation to determine whether the utility reported GHG sales to its PRG.

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

10. Inspected PRG meeting documentation and QCR attachments to determine whether the utility reported its forecast updates and corresponding revisions to the procurement limits, along with all GHG compliance instrument transactions at its quarterly PRG meetings and QCR filings.

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

H. Physical Gas Transaction Deep Dive

1. Inspected relevant supporting documentation to validate 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. Traced and agreed transaction volumes, prices, and notional values to invoices and trade blotters (confirmations).

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

3. Inquired the utility as to whether the sampled transactions had any impact on the overall TeVAR.

Finding: We found no physical gas transactions had any impact on the overall TeVAR.

4. Inspected relevant supporting documentation to ascertain that the product types, transaction processes, brokers and exchanges used for procurement during the quarter were approved in PG&E's BPP. Inspected PRG meeting documentation to ascertain that PRG consultation properly took place for transactions with terms over 90 days. Inspected transaction to ascertain that they did not have terms longer than five years and did not involve affiliates PG&E.

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

5. Inspected counterparties' credit supporting documentation to validate that 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. Inspected relevant supporting documentation to validate that 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.