




Memorandum

Date: April 30, 2019

To: Edward Randolph
Public Utilities Commission
Director of Energy Division

From: Angie Williams, Director 
Utility Audit, Finance and Compliance Branch
Enterprise Risk and Compliance Office

Subject: Southern California Edison Company Advice Letter 3883-E
Findings on Quarterly Procurement Plan Compliance Report for the Third Quarter of 2018

The Utility Audit, Finance and Compliance Branch (UAFCB) issues this memorandum containing its findings on Southern California Edison Company (SCE) Quarterly Procurement Plan Compliance Report (QCR) filed by Advice Letter No. (AL) 3883-E. The findings are based on the results of UAFCB's performed procedures to assess SCE's compliance. UAFCB assesses SCE's compliance in accordance with agreed-upon procedures (AUP) with Energy Division (ED) and does not assess the compliance with all aspects of the procurement-related state law and procurement-related directives mandated by the California Public Utilities Commission (CPUC or Commission). In addition, SCE's transactions conducted in the Integrated Forward Market (IFM) and the Residual Unit Commitment Market (RUC) are outside the scope of the agreed-upon procedures engagement.

The AUP engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA). UAFCB was not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on SCE's QCR filed in AL 3883-E. 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.

This memo is intended solely for the information and use of ED and should not be used by anyone other than ED or for any other purpose.

A. Finding Summary

1. **SCE failed to demonstrate compliance with Decision (D.) 07-12-052, Ordering Paragraph (OP) 27 and Public Utilities Code (PUC) §581.** In Attachment B of its third quarter of 2018 (Q3) QCR, SCE failed to report one (1) non-investment grade counterparty with which it transacted through a Request for Offer (RFO) process. On February 13, 2019, SCE submitted an amended Attachment B to include this counterparty in response to UAFCB's finding.
2. **SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PUC §581.** In its Q3 QCR, SCE made reporting errors in Attachment H. On February 13, 2019, SCE submitted an amended Attachment H to correct the reporting errors in response to UAFCB's finding.

B. Recommendation

Before submitting its QCR and related attachments, SCE should thoroughly review them and ensure that all documents are correct and accurate. SCE needs to strengthen its quality review control and process to ensure the reporting accuracy of its QCR and related attachments.

C. Background

As required by D.02-10-062, OP 8 and clarified in D.03-12-062, SCE, Pacific Gas & Electric Company (PG&E), and San Diego Gas and Electric Company (SDG&E) must each submit a QCR for all transactions of less than five years duration executed in the quarter. UAFCB conducts the quarterly procurement engagements based on the scope specified by ED, using procedures agreed upon between ED and UAFCB. ED specified which aspects of the utilities' Commission-approved procurement plans, Assembly Bill (AB) 57 procurement rules and several procurement-related rulings and decisions to test for compliance. The decisions and rulings that ED chose directives from to test for compliance include, but are not limited to, D.02-10-062, D.03-06-076, D.03-12-062, D.04-12-048, D.07-12-052, D.08-11-008, D.12-01-033, D.15-10-031 and D.16-01-015. Based on our understanding with ED, UAFCB does not test all of the transactions that the utilities include in their QCR.

D. Finding Detail

1. **SCE failed to demonstrate compliance with D.07-12-052, OP 27 and PUC §581.** In Attachment B of its Q3 QCR, SCE failed to report one (1) non-investment grade counterparty with which it transacted through a RFO process. The contracts executed with this non-investment grade counterparty were included in Attachment H.

Criteria:

- a. D.07-12-052, OP 27 indicates that the Commission directs the ED, in conjunction with the external auditors and the IOUs (Investor Owned Utilities) to continue the collaborative effort formed earlier this year and develop a reformatted QCR. The Commission delegates authority to ED to authorize the implementation of the reformatted and streamlined QCRs and to make ministerial changes to the content and format of the report as needs arise. The reformatted QCR requires all the IOUs to report any non-investment grade counterparties that the IOUs transact with on Attachment B.
- b. PUC §581 requires that every public utility receiving from the commission any blanks with directions to fill them shall answer fully and correctly each question propounded therein, and if it is unable to answer any question, it shall give a good and sufficient reason for such failure.

SCE's response: On December 28, 2018, SCE stated the following in response to the finding:

- a. SCE will file a supplemental advice letter with a revised Attachment B that adds [REDACTED] to the table of non-investment grade counterparties.
- b. The reason [REDACTED] was not included in Attachment B was due to an oversight. SCE's action plan to correct this going forward is to add a step in the Attachment B procedures that ensures a complete review of all counterparties that SCE is enabled with to transact.

UAFCB's Rebuttal: None.

2. **SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PUC §581.** In its Q3 QCR, SCE made reporting errors in Attachment H. Specifically, SCE incorrectly reported the trade volume of one (1) bilateral contract and the notional values of nine (9) Request for Offer (RFO) contracts.

Criteria:

- a. In Appendix B of D.02-10-062, the Commission requires that each utility file each quarter's energy procurement transactions of less than five years duration with a QCR by an advice letter. The QCR and related attachments must contain, among other things, information that is complete and accurate and include, but not limited to, the number and volume of transactions.
- b. PUC §581 requires that every public utility receiving from the commission any blanks with directions to fill them shall answer fully and correctly each question propounded therein, and if it is unable to answer any question, it shall give a good and sufficient reason for such failure.

SCE's response:

- a. On January 1, 2019, SCE stated the following in response to the finding related to the bilateral contract reporting error:
 - i. SCE will submit an amended Attachment H with volumes in the correct order.
 - ii. The reason for the volumes not being in the correct order was due to a data entry error. SCE's action plan to correct this going forward is to add a step in the Attachment H procedures that ensures a more thorough review of the data entries.
- b. On February 6, 2019, SCE asserted the following in response to the finding related to the RFO contract reporting errors:
 - i. SCE will submit an amended Attachment H with revised Notional Values of the nine (9) RFO contracts.
 - ii. The Notional Values of the nine (9) RFO contracts were not correct because of a

calculation error. SCE's action plan to address this issue going forward is to add an additional step in the Attachment H review process and procedures.

UAFCB's Rebuttal: None.

cc: Judith Ikle, Energy Division
Michele Kito, Energy Division
Nick Dahlberg, Energy Division
Julie Halligan, Office of Ratepayer Advocates
Tracy Fok, UAFCB
Jieli (Bella) Feng, UAFCB