

**CALIFORNIA PUBLIC UTILITIES COMMISSION**

**Audit of Southern California Edison Affiliate Transactions**

**For the period of**

**January 1, 2010 – December 31, 2011**

**August 19, 2014**

# CALIFORNIA PUBLIC UTILITIES COMMISSION

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## EXECUTIVE SUMMARY

### 0.0 EXECUTIVE SUMMARY

#### 0.1 – Background

In response to applications filed in the late 1980s and early 1990s by several energy utilities, the California Public Utilities Commission (CPUC or Commission) gave authority to several companies under its jurisdiction to reorganize under a holding company structure. The Commission expressed concerns about the potential for transfer of market power to and cross subsidy of these companies' unregulated affiliates. To address these concerns, the Commission imposed Rules governing transactions between the utilities and their affiliates (the Affiliate Transaction Rules or ATRs). The Commission's goals are to (1) ensure that the utilities meet their public service obligations at the lowest reasonable cost and (2) ensure that the utilities do not favor or otherwise engage in preferential treatment of their affiliates.

#### 0.2 – Audit Scope and Approach

The scope of the audit includes a determination of the degree of compliance Southern California Edison (SCE) has achieved with ATR I – IX during the audit period January 1, 2010 – December 31, 2011. This report will clearly identify the following:

- a. Those areas where the utility has complied with the Rule
- b. The areas where the utility's compliance with the Rules had been found deficient by either the auditor or the utility
- c. The dates, affiliate names, and details regarding each deficiency found in the 2010/2011 period by the utility and how they were addressed and/or resolved
- d. For the deficiencies found by the utility during the audit period, a description of how the utility identified and assessed these deficiencies and the utility's internal procedures to identify the deficiencies
- e. How successful the utility was in correcting deficiencies identified during the audit period
- f. A description of the method(s) used to determine the degree of compliance with the Rules
- g. Review and testing procedures performed to ensure the utility has adequate systems in place to comply with the ATRs
- h. The utility's Compliance Plan's consistency with the Rules and the deficiencies identified
- i. A discussion of any recommended modifications or improvements to the ATRs to enhance effectiveness, increase ease of data collection and monitoring methods, improve accuracy of data, and decrease cost of compliance by the utility

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Our project approach was based on the attestation standards of the American Institute of Certified Public Accountants (AICPA). We also used the guidebook of the National Association of Regulatory Utility Commissioners' (NARUC) Consultant Standards and Ethics for the Performance of Management Analysis.

The AICPA standards applicable to this project are detailed in Attestation Standards (AT) Section 101 Attest Engagements of the Statements on Standards for Attestation Engagements of the American Institute of Certified Public Accountants. Baker Tilly followed these standards for the project.

During the course of the audit, Baker Tilly submitted 208 data requests to SCE. A list of the data requested is provided in Appendix A of this report. Baker Tilly also conducted 59 interviews with SCE officers, managers, and employees who had specific knowledge of operations and policies relating to Affiliate Transaction Rules compliance. Many SCE personnel were interviewed more than once. Appendix B contains a list of the personnel interviewed.

Internal control plays a key role in SCE's compliance with the Affiliate Transaction Rules. As such, Baker Tilly reviewed the processes and internal control structures that SCE had in place during the audit period to ensure compliance with the Rules. Our review included those SCE controls over financial transactions, reporting, and IT systems.

### **0.3 – Organization of this Report**

This report is organized as follows for each ATR:

Rule Name and Number

1. Rule background and definitions
2. Observations and recommendations regarding each Rule
3. Detailed testing procedures performed by Baker Tilly for each Rule

This draft report is designed to be viewed using Bookmarks in Adobe. Bookmarks and headers are set to more easily move from section to section of the report.

### **0.4 – Summary of Observations and Recommendations**

Our observations and recommendations are shown separately below for SCE and for the CPUC.

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## EXECUTIVE SUMMARY

### SCE Observations and Recommendations

#### Observation Severity Evaluation

Per the audit scope of work, we performed an analysis to determine a financial impact assessment to ratepayers for each error, discrepancy, or violation<sup>1</sup>. For each observation considered a rule violation identified in this report, Baker Tilly rated both the severity of potential harm to SCE ratepayers and the magnitude of that observation considering the overarching goals of the ATRs of:

1. Avoiding cross-subsidization of affiliate activities by ratepayers and
2. Maintaining market competition

The ratings for each rule violation are rated on a scale of 1-5 for both severity of potential harm to ratepayers and magnitude. These ratings were arrived at after discussion of an evaluation criterion amongst the Baker Tilly project personnel for each rule violation. The ratings are subjective and based on Baker Tilly's evaluation of the facts surrounding each finding and the potential for ratepayer impact based on a scenario of risk exposure if the control deficiency is allowed to continue (i.e., the inherent risk involved with the control deficiency is not corrected by SCE).

#### Severity of Potential Harm and Magnitude Rating Scale Definitions

The severity of potential ratepayer harm and magnitude of each violation used in the rating scale of 1 – 5 is based on the following parameters:

Severity of Potential Harm (X- Axis):

- 1 – No Significant Impact
- 3 – Cross- subsidization
- 5 – Impact on Competitive Energy Market

Violation Magnitude (Y-Axis):

- 1 – Error and/or Oversight
- 3 – Inadequate and/or Incorrect Controls
- 5 – Disregard for Compliance with the Rule

The overall compliance impact score for each rule violation is determined by multiplying the severity value (along the X-Axis) by the violation magnitude value (along the Y-Axis). The compliance impact score for each violation also corresponds to an assigned violation impact of high, medium, or low as depicted in the following figure:

---

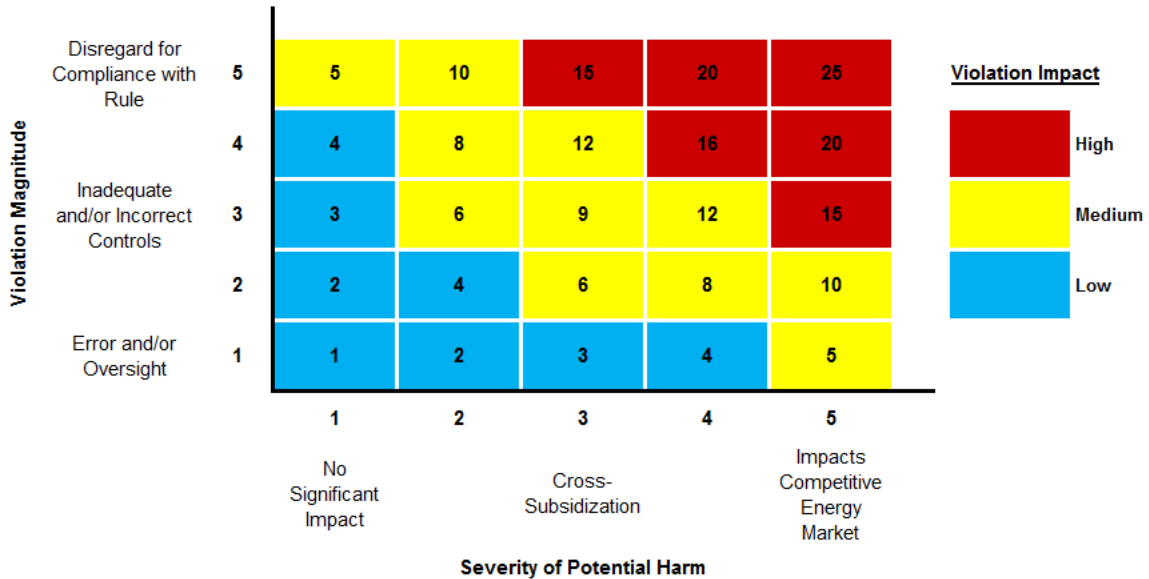
<sup>1</sup> For sake of simplicity, we refer errors, discrepancies, and violations collectively as "violations."

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## EXECUTIVE SUMMARY

### Observation Severity Heat Map – Rule Violation Impact Scoring Matrix



During the course of the audit, the Baker Tilly project team did make note if any controls may have been improved since the end of 2011. While these improvements may mitigate the possibility for future violations, the ratings reflect the potential risk if SCE has not improved their processes and/or controls to prevent the possibility of rule violations. Our ratings of the findings are shown in the following table:

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## EXECUTIVE SUMMARY

**Table 1**  
**Summary of Observations and Recommendations**

#	Rule	Observation	Recommendation	Rule Violation Potential Impact <sup>2</sup>
SCE-1	I. Definitions	SCE did not formally document its determination of classifying an entity as an affiliate.	SCE should formally document the classification of entities as an affiliate showing how the affiliate meets the criteria as defined in Rule I. Note: In 2013, SCE created a formal checklist for affiliate determination.	N/A
SCE-2	I. Definitions	<p>The 2010 and 2011 list of affiliates had 13 affiliates classified as N/A rather than as Class A (covered by the Rules) or B (not covered by the Rules).</p> <ul style="list-style-type: none"> <li>&gt; 4 should have been classified as Class A (note 3 of these were correctly classified as Class A on an Advice Letter to the CPUC, however Big Sky Wind was not. No transactions were done with Big Sky Wind during our audit period).</li> <li>&gt; 5 should have been classified as Class B.</li> <li>&gt; 4 were correctly classified as N/A, however since they are not affiliates, they should not be included on the affiliate listing.</li> </ul>	SCE should not include entities that are not affiliates on its list of affiliates reported to the CPUC. All affiliates on the list should be classified as Class A (covered) or Class B (uncovered). In addition, SCE should have a formal process to periodically ask affiliates about ownership changes which would make an entity originally classified a non-affiliate to an affiliate. Note: SCE updated their list of affiliates in November 2013.	High
SCE-3	II. Applicability	Baker Tilly found 3 electric utility companies which met the criteria for Class A, but were incorrectly classified as Class B affiliates (1. Electricidad de La Paz S.A. (Electropaz), 2. Empresa de Luz y Fuerza Electrica de Oruro S.A. ("Elfeo"), 3. Empresa de Servicios Edeser S.A. ("Edeser")).	SCE should implement a formal process for documenting whether an affiliate is classified as Class A or Class B which includes the criteria used to determine the classification. Note: In 2013, SCE created a formal checklist for affiliate classification. This process should mitigate future findings in this area.	High
SCE-4	II. Applicability	SCE does not perform reviews of existing Class B affiliates to ensure their business activities have not changed.	A process should be put in place to periodically review the business activities of Class B affiliates to ensure they have not started to engage in activities that would make them covered under the rules.	N/A
	III. Non-discrimination	None		

<sup>2</sup> If the finding is a result of a control weakness, an additional assessment is made of the inherent risk to ratepayers and the potential for future instances of findings in that area if the control weakness is not addressed

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#	Rule	Observation	Recommendation	Rule Violation Potential Impact <sup>3</sup>
SCE-5	IV. Disclosure and information	Review of Board of Director and Finance Committee meeting minutes identified instances when an affiliate may have been present during potentially sensitive discussions.	<p>Additional controls should be put in place at Board of Directors and Finance Committee meetings to ensure that non-public information is not discussed with affiliates. At a minimum, meeting minutes should document:</p> <ul style="list-style-type: none"> <li>a. All attendees</li> <li>b. Whether the attendees are affiliates or not an affiliate</li> <li>c. Whether each agenda item is public or non-public information</li> <li>d. Whether meeting attachments are public or non-public information and what the distribution list was for that information</li> <li>e. The time affiliate attendees were dismissed from the meeting and discussion began for non-public information</li> <li>f. The closing time of the discussion for non-public information</li> <li>g. The time affiliate attendees returned to the meeting and discussion RE-commenced on public information</li> </ul> <p>Documentation should be made for reasons behind discussion of non-public SCE information when affiliates were present and how the information discussed was relevant to the affiliate</p>	Medium
SCE-6	IV. Disclosure and information	The EIX Risk Management Committee meeting minutes do not indicate all attendees or specific topics of discussion.	All meeting attendees and organizations present at Board of Director and Finance Committee meetings should be noted in the minutes along with a more detailed record of what is discussed during the meeting. This will allow for easier auditing to ensure sensitive information is not shared with affiliates at the meetings. Documentation of when certain parties are excused from the meeting should also be maintained.	N/A
SCE-7	IV. Disclosure and information	There were five instances of non-public information being shared with affiliates in 2010-2011. These were reported on SCE's website.	SCE should improve their processes and controls (including training) to prevent information from being shared with affiliates and thus having to be posted to the SCE website for public notification.	Low

<sup>3</sup> If the finding is a result of a control weakness, an additional assessment is made of the inherent risk to ratepayers and the potential for future instances of findings in that area if the control weakness is not addressed

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#	Rule	Observation	Recommendation	Rule Violation Potential Impact <sup>4</sup>
SCE-8	IV. Disclosure and information	SCE was not able to provide the Articles of Incorporation for a sampled affiliate or exit interview documentation for a transferring employee.	Although not a direct Rule violation, we recommend SCE keep all affiliate records until the period in question has undergone an audit.	N/A
SCE-9	V. Separation	A transferred employee's VPN access (SecurID) and email access (Domino Mail) were not disabled until the day after the employee's effective transfer date. Further, while SCE's termination process indicates that when someone in HR terminates an employee's employment in SAP, thus triggering an auto-suspension of SCE's network access (SCE-WIN2K), no evidence from the system was provided showing the actual suspension date of this transferring employee.	SCE should consider reviewing business rules pertaining to IT configurations regularly to ensure current configurations restrict affiliate access to the SCE network and only allow execution of approved shared support services.  In addition, SCE should reassess its current process for suspending affiliate access upon personnel transfers to and from affiliate entities to ensure access is disabled and provisioned timely.	High
SCE-10	V. Separation	Affiliate Transaction Rule training is not being provided across all shared support functions or to each SCE employee that provides shared support services.	Affiliate Transaction Rule training should be required to be attended by all shared support functions. <i>Note: In 2013 SCE implemented a formalized affiliate rules training program which established the frequency of trainings to be required for each organizational unit performing tasks relevant to the Rules. This process should mitigate future findings in this area.</i>	N/A
SCE-11	V. Separation	Currently, SCE has monthly loaned labor reports to track the hours that SCE employees perform work for affiliates, to ensure those hours account for no more than 30% of their chargeable time. However, there is no mechanism in place to track the 5% FTE provision in V.G.2.e.iii, which requires that "no more than 5% of full time equivalent utility employees may be on loan at a given time.	SCE should add a control in the monthly loaned labor reports for Rule V.G.2.e.iii to track the percentage of full time equivalent utility employees on loan at a given time and ensure there is documented evidence that shows SCE's compliance with this Rule.	N/A
SCE-12	VI. Regulatory oversight	The 2010 and 2011 Compliance plans did include a list of all affiliates and their classifications, however, classifications for 12 affiliates on these lists were not accurate because SCE did not update the lists to reflect changes in classifications. (See also Observation 2 under Rule 1.0.0.0.2)	SCE should create a checklist for the annual Compliance Plan process to ensure that the list of affiliates is updated to reflect any affiliate and/or classification changes.	N/A

<sup>4</sup> If the finding is a result of a control weakness, an additional assessment is made of the inherent risk to ratepayers and the potential for future instances of findings in that area if the control weakness is not addressed

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## EXECUTIVE SUMMARY

#	Rule	Observation	Recommendation	Rule Violation Potential Impact <sup>5</sup>
SCE-13	VI. Regulatory oversight	SCE does not include any detail explaining their compliance with Rule VIII in the Compliance Plans. All that is noted is "SCE maintains appropriate procedures and mechanisms to ensure compliance with this rule."	SCE should update their Compliance Plan to include a description of processes and controls in place to ensure compliance with Rule VIII ( <i>Complaint Procedures and Remedies</i> ), including (1) complaints procedures and (2) conduct of the utility in preventing and identifying violations.	N/A
SCE-14	VI. Regulatory oversight	SCE did not submit an advice letter notifying the CPUC of 3 new affiliates within 60 days.	SCE should develop and implement controls to ensure that advice letters for new affiliate notifications occur within the time requirement of Rule VI.	Medium
SCE-15	VI. Regulatory oversight	Thirty-six new affiliates were not posted to SCE.com within 3 days. Note: SCE interprets this requirement to mean 3 days from the time SCE is notified of a new acquisition from an affiliate, not 3 days from the actual creation/acquisition date of the affiliate.	SCE should develop and implement controls to ensure that new affiliate notifications are posted to the website within the time requirement of Rule VI. In addition, SCE should develop a formal process with its affiliates to ensure that the SCE ATR Compliance lead is notified of new affiliates within a reasonable timeframe.	Medium
SCE-16	VI. Regulatory oversight	The CPUC was not immediately notified of new affiliates within 3 days for 35 new affiliates. Note: SCE interprets this requirement to mean 3 days from the time SCE is notified of a new acquisition from an affiliate, not 3 days from the actual creation/acquisition date of the affiliate.	SCE should develop a formal process with its affiliates to ensure that the SCE ATR compliance lead is notified within a reasonable timeframe when an affiliate creates or acquires a new affiliate so that SCE can comply with the time notification requirements of Rule VI.	Medium
SCE-17	VI. Regulatory oversight	The Officer Certification forms utilized by SCE have been altered with a footnote which alters the requirement originally imposed by this rule and allows the officers to exclude violations from being reported.	SCE should remove the footnote from their Officer Certification forms and require officers to document and report all violations of which they are aware on the certification form. Violations previously reported to the CPUC could be documented with a reference to the advice letter. For any investigations/audits that are still in progress, officers should report the violations that they know have been confirmed.	Medium
SCE-18	VII. Utility products and services	The Gross Revenue Sharing Mechanism spreadsheet for 2011 included a formula error. This error occurred in January before the \$16.7 million threshold was reached so had no effect on the revenue sharing calculation, however, the error indicates a control weakness in the Gross Revenue Sharing process.	SCE should develop and implement controls to ensure that the Gross Revenue Sharing Mechanism is reviewed for accuracy (with a signature sign off showing review).	N/A

<sup>5</sup> If the finding is a result of a control weakness, an additional assessment is made of the inherent risk to ratepayers and the potential for future instances of findings in that area if the control weakness is not addressed



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#	Rule	Observation	Recommendation	Rule Violation Potential Impact <sup>6</sup>
SCE-19	VII. Utility products and services	SCE relies on the ATR auditing requirement in Rule VI.C to satisfy the requirement of Rule VII.D.4 for periodic auditing of the cost allocated to and the revenues derived from the NTP&S.	SCE's Internal Audit function should periodically review the revenues and costs from NTP&S for accuracy to comply with the audit requirements in Rule VII.H.	N/A
SCE-20	VII. Utility products and services	SCE had 5 errors in the amount of incremental costs reported on the 2010 NTP&S report and 3 errors on the amount of incremental costs reported on the 2011 NTP&S report. These errors had a net effect of \$8,676,000 of incremental costs being under-reported in the 2010 and 2011 NTP&S reports. See below for details of these errors.	SCE should perform a reconciliation of the costs reported in the NTP&S report to the costs recorded in the general ledger. SCE should also compare cost center detail to prior years, explain material variances and ensure the proper cost centers are excluded from the General Rate Case forecasts. Baker Tilly recommends that SCE update its 2010 and 2011 NTP&S reports for reporting errors that were found and resubmit them to the Commission.	Medium
SCE-21	VII. Utility products and services	SCE incorrectly included incremental costs (\$258,545) in determining the revenue requirement for its 2015 General Rate Case (GRC).	Although SCE's 2015 GRC revenue requirement has not yet been approved by the CPUC for inclusion in SCE rates, Baker Tilly recommends that in addition to removing the recorded 2012 NTP&S incremental costs from SCE's 2015 GRC forecast, SCE should perform a detailed review of the costs included in future GRC forecasts to ensure all incremental costs are excluded. In addition, Baker Tilly recommends that all incremental costs be recorded in separate accounts from non-incremental costs to more easily exclude incremental costs from the GRC. Per SCE, the errata will be filed with its rebuttal testimony which is due on September 15, 2014.	Medium
SCE-22	VIII. Complaint procedures and remedies	Baker Tilly identified several rule violations throughout this report indicating that SCE may not have the proper procedures and controls in place to prevent and detect rule violations in certain areas.	SCE should implement the recommendations provided in this report to help reduce the number of non-compliance issues with the rules in the future.	Medium
SCE-23	VIII. Complaint procedures and remedies	Only one internal audit was included in the SCE internal annual audit plan during 2010-2011 related to the Affiliate Transaction Rules.	Annual internal audits of various portions of the Affiliate Transaction Rules should be part of SCE's annual internal audit plan.	N/A

<sup>6</sup> If the finding is a result of a control weakness, an additional assessment is made of the inherent risk to ratepayers and the potential for future instances of findings in that area if the control weakness is not addressed

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#	Rule	Observation	Recommendation	Rule Violation Potential Impact <sup>7</sup>
SCE-24	VIII. Complaint procedures and remedies	SCE did not require union employees to complete the Code of Conduct form during 2010-2011. Per SCE, "such a requirement would be a mandatory subject of bargaining with the unions, and the Collective Bargaining Agreements (CBA's) were not open for bargaining at the time."	All employees (including union employees) should complete the code of conduct form. Per SCE, the Collective Bargaining Agreements are now open for bargaining and SCE plans to discuss with the unions the participation of their members in completing the annual code certification going forward.	N/A
SCE-25	IX. Protecting the utility's financial health	The last non-consolidating opinion was obtained by SCE in 2007, which was shortly after Rule IX was implemented.	To ensure compliance with Rule IX, SCE should seek an updated Non-consolidated Opinion every audit period, or in the event of significant parent company corporate restructuring or significant bankruptcy proceeding occurring within the corporation. We also recommend that SCE provide the detailed calculation of the capital structure in the Rule IX report.	N/A

<sup>7</sup> If the finding is a result of a control weakness, an additional assessment is made of the inherent risk to ratepayers and the potential for future instances of findings in that area if the control weakness is not addressed

# CALIFORNIA PUBLIC UTILITIES COMMISSION

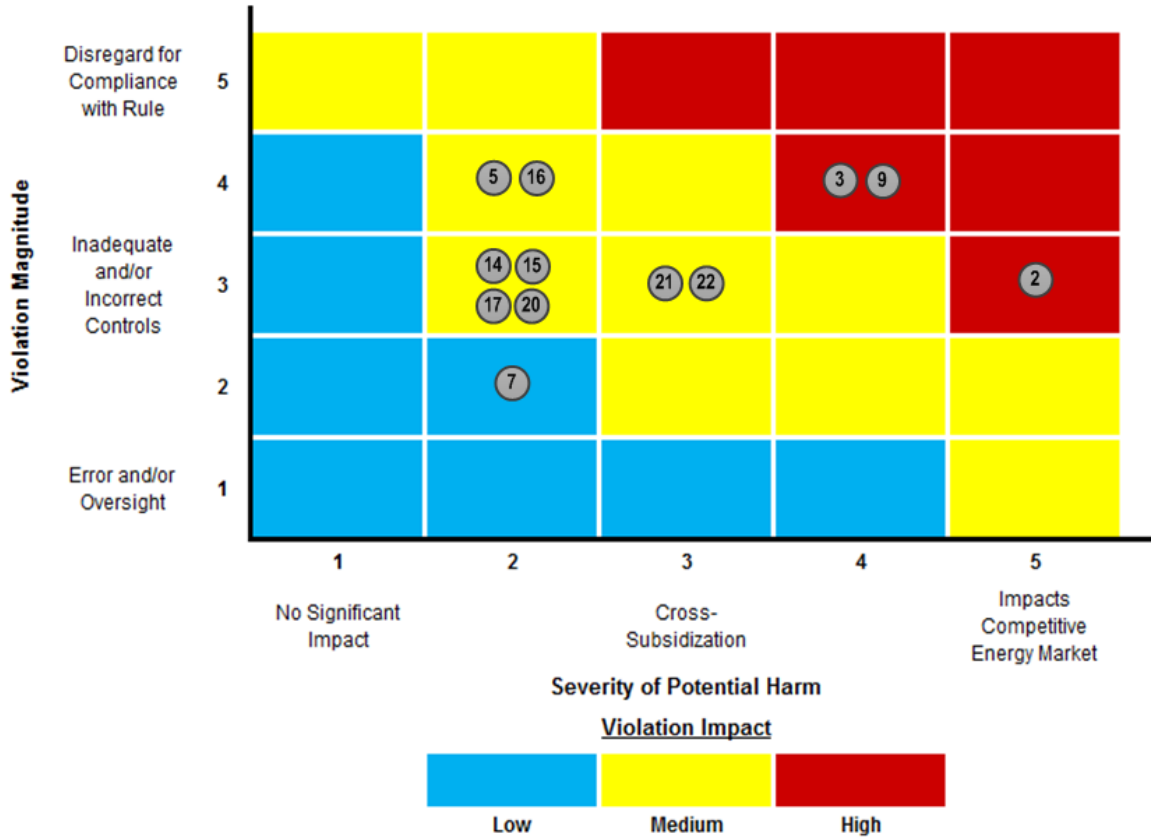
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## EXECUTIVE SUMMARY

### Observation Severity Heat Map Evaluation

The ratings for both the severity of potential harm and magnitude of each relevant observation considered a rule violation as listed in the previous table is shown in the following Heat Map. This Heat Map reflects the potential impact of future findings if the control deficiency that caused the original finding from the 2010-2011 audit period is not addressed. The ratings are subjective and based on Baker Tilly’s evaluation of the facts surrounding each finding and the potential for ratepayer impact based on a scenario of risk exposure if the control deficiency is allowed to continue (i.e., the inherent risk involved with the control deficiency is not corrected by SCE).

**Observation Severity Heat Map – Rule Violation Potential Impact Evaluation**



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## EXECUTIVE SUMMARY

**Table 2**  
**Southern California Edison**  
**Summary Compliance Status (2010-2011)**

Rule	Section	Brief Rule Description	In Compliance	SCE Observation Number	Compliance Impact Score (and SCE Observation #)	
I	A - G	Definitions	No	#1 and #2	15 (#2)	
II	A - I	Rules Applicability/Coverage	No	#3 and #4	16 (#3)	
III	A	Nondiscrimination	Yes	None		
	B	No Preferential Treatment	Yes	None		
	C	No Tying of Services	Yes	None		
	D	No Customer Assignments	Yes	None		
	E	No Business Development	Yes	None		
	F	Affiliate Discount Reports	Yes	None		
IV	A	Customer Information Disclosure	Yes	None		
	B	Non-Customer Non-Public Information	No	#5 - #7	8 (#5)	4 (#7)
	C	Service Provider Information	Yes	None		
	D	Supplier Information	Yes	None		
	E	Affiliate Advise/Assistance	Yes	None		
	F	Record Keeping	Yes	#8		
	G	Affiliate Contracts/Bids	Yes	None		
	H	FERC Reporting	Yes	None		
V	A	Separate Corporate Entities	Yes	None		
	B	Separate Books & Records	Yes	None		
	C	Shared Plant & Facilities	No	#9	16 (#9)	
	D	Joint Procurement	Yes	None		
	E	Shared Corporate Support	Yes	#10		
	F	Corporate Identification and Advertising	Yes	None		
	G	Employees	Yes	#11		
	H	Transfer of Goods/Services	Yes	None		
VI	A	Compliance Plans	Yes	#12 and #13		
	B	New Affiliate Notifications	No	#14 - #16	6 (#14, #15)	8 (#16)
	C	Affiliate Transactions Audit	Yes	None		
	D	Witness Availability	Yes	None		
	E	Officer Certifications	No	#17	6 (#17)	
VII	A	NTP&S General	Yes	None		
	B	NTP&S Definitions	Yes	None		
	C	NTP&S Limitations	Yes	None		
	D	Precedent Conditions	Yes	#18 and #19		
	E	Advice Letter Requirements	Yes	None		
	F	Existing Offerings	Yes	None		
	G	Section 851 Application	Yes	None		
	H	Periodic Reporting NTP&S	No	#20 and #21	6 (#20)	9 (#21)
	I	NTP&S to Affiliates	Yes	None		
VIII	A	Enforcement of Rules	Yes	None		
	B	Violation Claims	Yes	None		
	C	Complaint Procedure	Yes	None		
	D	Remedies	No	#22 - #24	9 (#22)	
IX	A - D	Protection of Utility's Financial Health	Yes	#25		

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## EXECUTIVE SUMMARY

As a result of our audit testing, interviews, review of supporting documents and the ATRs we have also included recommendations for the CPUC to aid in their administration of the ATRs. These recommendations are discussed in this section:

### **CPUC Recommendations**

In our discussions with SCE Compliance Personnel, they indicated that often there was not acknowledgement of receipt by the CPUC of required filings made by SCE. We recommend that a CPUC process be put in place to acknowledge receipt of required compliance filings either through an automated reply process or reply email by CPUC staff with a date and timestamp.

### **Rule I – Definitions**

CPUC-1: Rule I should be updated to include all the definitions used throughout the Rules.

CPUC-2: Rule I should be updated to more clearly define certain terms to avoid misinterpretation by the utility including, but not limited to, the following:

- a. Class A Affiliates (covered by the Rules)
- b. Class B Affiliates (not covered by the Rules)
- c. Energy Marketing Affiliate
- d. Transactions
- e. Shared Office Space
- f. Shared Support Functions
- g. Base Annual Compensation (for transferred employees)
- h. Executive
- i. Employees involved in marketing

CPUC-3: Rule I should be updated to clearly define the types of charges that should be included in “Fully Loaded Cost” and changes to the methodologies used should be approved by the CPUC.

### **Rule II – Applicability**

CPUC-4: Rule II should be updated to more clearly define what is considered an affiliate engaging in the provision of a product that uses gas or electricity or services that relate to the use of gas or electricity.

### **Rule III – Non-Discrimination**

We have no findings or recommendations for the CPUC for this Rule.

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### **Rule IV – Disclosure and Information**

We have no findings or recommendations for the CPUC for this Rule.

### **Rule V – Separation**

We have no findings or recommendations for the CPUC for this Rule.

### **Rule VI – Regulatory Oversight**

We have no findings or recommendations for the CPUC for this Rule.

### **Rule VII – Utility Products and Services**

CPUC-5: Rule VII.H should be updated to specify the required filing date of the annual NTP&S reports.

### **Rule VIII – Complaint Procedures and Remedies**

We have no findings or recommendations for the CPUC for this Rule.

### **Rule IX – Protecting the Utility’s Financial Health**

We have no findings or recommendations for the CPUC for this Rule.

### **Overall Rule Comments**

As part of this audit, representatives from SCE met with Baker Tilly and the CPUC project manager and submitted their comments as to proposed Rule changes. These comments are included in Appendix D.

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EXECUTIVE SUMMARY

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## RULE I – DEFINITIONS

### 1.0 RULE I – DEFINITIONS

#### 1.0.0.0.1 – Background

#### Rules I.A through I.G

##### *I. Definitions*

*Unless the context otherwise requires, the following definitions govern the construction of these Rules:*

*A. “Affiliate” means any person, corporation, utility, partnership, or other entity 5 per cent or more of whose outstanding securities are owned, controlled, or held with power to vote, directly or indirectly either by a utility or any of its subsidiaries, or by that utility’s controlling corporation and/or any of its subsidiaries as well as any company in which the utility, its controlling corporation, or any of the utility’s affiliates exert substantial control over the operation of the company and/or indirectly have substantial financial interests in the company exercised through means other than ownership. For purposes of these Rules, “substantial control” includes, but is not limited to, the possession, directly or indirectly and whether acting alone or in conjunction with others, of the authority to direct or cause the direction of the management or policies of a company. A direct or indirect voting interest of 5% or more by the utility in an entity’s company creates a rebuttable presumption of control.*

*For purposes of this Rule, “affiliate” shall include the utility’s parent or holding company, or any company which directly or indirectly owns, controls, or holds the power to vote 10% or more of the outstanding voting securities of a utility (holding company), to the extent the holding company is engaged in the provision of products or services as set out in Rule II B. However, in its compliance plan filed pursuant to Rule VI, the utility shall demonstrate both the specific mechanism and procedures that the utility and holding company have in place to assure that the utility is not utilizing the holding company or any of its affiliates not covered by these Rules as a conduit to circumvent any of these Rules. Examples include but are not limited to specific mechanisms and procedures to assure the Commission that the utility will not use the holding company, or another utility affiliate not covered by these Rules, or a consultant or contractor as a vehicle to (1) disseminate information transferred to them by the utility to an affiliate covered by these Rules in contravention of these Rules, (2) provide services to its affiliates covered by these Rules in contravention of these Rules or (3) to transfer employees to its affiliates covered by these Rules in contravention of these Rules. In the compliance plan, a corporate officer from the utility and holding company shall verify the adequacy of these specific mechanisms and procedures to ensure that the utility is not utilizing the holding company or any of its affiliates not covered by these Rules as a conduit to circumvent any of these Rules. Regulated subsidiaries of a utility, defined as subsidiaries of a utility, the revenues and expenses of which are subject to regulation by the Commission and are included by the Commission in establishing rates for the utility, are not included within the definition of affiliate. However, these Rules apply to all interactions any regulated subsidiary has with other affiliated entities covered by these Rules.*

*B. “Commission” means the California Public Utilities Commission or its succeeding state regulatory body.*

*C. “Customer” means any person or corporation, as defined in Sections 204, 205 and 206 of the California Public Utilities Code, that is the ultimate consumer of goods and services.*

*D. “Customer Information” means non-public information and data specific to a utility customer which the utility acquired or developed in the course of its provision of utility services.*

*E. “FERC” means the Federal Energy Regulatory Commission.*

*F. “Fully Loaded Cost” means the direct cost of good or service plus all applicable indirect charges and overheads.*



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### RULE I – DEFINITIONS

*G. "Utility" means any public utility subject to the jurisdiction of the Commission as an Electrical Corporation or Gas Corporation, as defined in California Public Utilities Code Sections 218 and 222, and with gross annual operating revenues in California of \$1 billion or more.*

Rule I defines key terms used throughout the Affiliate Transaction Rules. Although Rule I did not have specific requirements for SCE to comply with during the audit period, the definitions in Rule I should be consistent with those in SCE's procedures manuals, training materials, and compliance plans.

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## RULE I – DEFINITIONS

### 1.0.0.0.2 – Observations and Recommendations

Baker Tilly made the following observations regarding SCE’s compliance with Rule I:

Observations	Recommendations
<p>SCE-1: SCE did not formally document its determination of classifying an entity as an affiliate. Although SCE stated that they applied this test to each new entity, the process was not formally documented.</p>	<p>SCE-1: SCE should formally document its determination of classifying an entity as an affiliate showing how it meets the criteria as defined in Rule I. SCE has implemented a more formal process in 2013 in the form of a new affiliate checklist.</p>
<p>SCE-2: The 2010 and 2011 list of affiliates had 13 affiliates classified as N/A rather than as Class A or B. At the time of creation, these entities did not meet the definition of an affiliate; however, SCE did not reclassify these entities once they did meet the definition of an affiliate.</p> <ul style="list-style-type: none"> <li>&gt; 4 should have been classified as Class A (note 3 of these were correctly classified as Class A on an Advice Letter to the CPUC, however Big Sky Wind was not. No transactions were done with Big Sky Wind during our audit period).</li> <li>&gt; 5 should have been classified as Class B.</li> <li>&gt; 4 were correctly classified as N/A, however since they are not affiliates, they should not be included on the affiliate listing.</li> </ul>	<p>SCE-2: SCE should not include entities that are not affiliates on its list of affiliates. All affiliates on the list should be classified as Class A (covered) or Class B (uncovered). Note: SCE updated their list of affiliates in November 2013.</p>
<p>CPUC-1: Rule I includes 7 key terms; however, there are many terms defined in other areas throughout the Rules. Some of these include:</p> <ul style="list-style-type: none"> <li>&gt; Rule II.B – defines which affiliates are covered by the Rules</li> <li>&gt; Rule V.D – defines permissible joint purchases</li> <li>&gt; Rule V.E – defines corporate support services that may be shared by the utility and its affiliates</li> <li>&gt; Rule VII.B – Defines “category,” “existing,” “products,” and “tariff” as they apply to Rule VII</li> </ul>	<p>CPUC-1: Rule I should be updated to include all the definitions used throughout the Rules.</p>
<p>CPUC-2: Many terms used throughout the Rules could be open to interpretation requiring SCE to define terms in their Compliance Plans. Some of these include:</p> <ul style="list-style-type: none"> <li>&gt; Class A Affiliates (covered by the Rules)</li> <li>&gt; Class B Affiliates (not covered by the Rules)</li> <li>&gt; Energy Marketing Affiliate</li> <li>&gt; Transactions</li> <li>&gt; Shared Office Space</li> <li>&gt; Shared Support Functions</li> <li>&gt; Base Annual Compensation (for transferred employees)</li> <li>&gt; Executive</li> <li>&gt; Employees involved in marketing</li> </ul>	<p>CPUC-2: Rule I should be updated to more clearly define certain terms to avoid misinterpretation by the utility.</p>

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## RULE I – DEFINITIONS

Observations	Recommendations
<p>CPUC-3: The Facilities Charge is a component of the Fully Loaded Cost defined in Rule I. The Facilities Charge is an annual calculated rate based on the composite average cost of operating and maintaining the various facilities, or office complexes, over total labor. Operation and Maintenance costs include Return on Investment of Furniture &amp; Equipment along with Structure &amp; Improvement, plus associated Depreciation, and other maintenance expenses such as Telephone, Electricity, Property Tax, Insurance, etc. SCE changed the methodology for the Facilities Loader in 2010 (effective October 2010). The changes include adding the following to the calculation:</p> <ul style="list-style-type: none"><li>&gt; New facilities that support activities associated with shared support (RiverGrade, IBC, IOC)</li><li>&gt; Capitalized software costs</li><li>&gt; Capitalized hardware costs</li></ul>	<p>CPUC-3: Rule I should be updated to clearly define the types of charges that should be included in “Fully Loaded Cost” and any changes to the methodologies used in “Fully Loaded Cost” should be approved by the CPUC.</p>

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## RULE I – DEFINITIONS

#	Observation	Rule Violation Potential Impact	Actual or Potential Harm to Ratepayers
SCE-1	SCE did not formally document its determination of classifying an entity as an affiliate.	N/A	N/A, process improvement which SCE implemented in 2013
SCE-2	The 2010 and 2011 list of affiliates had 13 affiliates classified as N/A rather than as Class A or B. Of these 4 should have been classified as Class A. 3 of these 4 were appropriately classified as Class A in Advice Letters, however, Big Sky Wind was not.	High	None, SCE had no transactions with Big Sky Wind that could have been passed on to ratepayers. However, potential harm to ratepayers could have been high due to mis-identified classifications of affiliates
CPUC-1	Rule I includes 7 key terms; however, there are many terms defined in other areas throughout the Rules that should be included in Rule I	N/A, recommendation for CPUC	N/A, recommendation for CPUC to update the Rule.
CPUC-2	Many terms used throughout the Rules could be open to interpretation requiring SCE to define terms in their Compliance Plans.	N/A, recommendation for CPUC	SCE could interpret a Rule differently than the CPUC intended causing more costs to go through to ratepayers, see observation #3 under Rule II for example
CPUC-3	The Facilities Charge is an annual calculated rate based on the composite average costs of various cost categories. SCE changed the methodology for the Facilities Loader in 2010 (effective October 2010). Rule I should be updated to clearly define the types of charges that should be included in "Fully Loaded Cost".	N/A, recommendation for CPUC	Additional costs could be included in the rate that are not appropriate.

***Selection criteria for observations***

SCE-2 Dollar amount of transactions between SCE and the misclassified affiliates  
 CPUC-2 SCE's interpretation of Rule definition  
 CPUC-3 Costs included in fully loaded costs defined in Rule I

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## RULE I – DEFINITIONS

### 1.0.0.3 – Procedures Performed

Baker Tilly performed the following procedures in its review of SCE's compliance with Rule I:

Procedures	
1.	Compared the definitions SCE has in its 2010 and 2011 ATR Manual to those in Rule I for consistency.
2.	Compared the definitions SCE has in its 2010 and 2011 Compliance Plans to those in Rule I for consistency.
3.	Reviewed training materials provided to SCE employees and affiliates to ensure terms used are consistent with those in Rule I.
4.	Reviewed listing of affiliates in SCE's 2010 and 2011 Compliance Plans and Annual Reports to ensure that all newly created affiliates were included.
5.	Reviewed SCE's process for determining if an entity is an affiliate as defined in Rule I.
6.	Reviewed types of costs included in "fully loaded costs" for appropriateness and viewed methodologies for rates used in 2010 and 2011 for consistency.

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## RULE II – APPLICABILITY

### 2.0 RULE II – APPLICABILITY

#### 2.0.0.0.1 – Background

#### Rules II.A through II.G

##### **II. Applicability**

*A. These Rules shall apply to California public utility gas corporations and California public utility electrical corporations, subject to regulation by the California Public Utilities Commission and with gross annual operating revenues in California of \$1 billion or more.*

*B. For purposes of a combined gas and electric utility, these Rules apply to all utility transactions with affiliates engaging in the provision of a product that uses gas or electricity or the provision of services that relate to the use of gas or electricity, unless specifically exempted below. For purposes of an electric utility, these Rules apply to all utility transactions with affiliates engaging in the provision of a product that uses electricity or the provision of services that relate to the use of electricity. For purposes of a gas utility, these Rules apply to all utility transactions with affiliates engaging in the provision of a product that uses gas or the provision of services that relate to the use of gas. However, regardless of the foregoing, where explicitly provided, these Rules also apply to a utility's parent holding company and to all of its affiliates, whether or not they engage in the provision of a product that uses gas or electricity or the provision of services that relate to the use of gas or electricity.*

*C. No holding company nor any utility affiliate, whether or not engaged in the provision of a product that uses gas or electricity or the provision of services that relate to the use of gas or electricity, shall knowingly:*

- 1. direct or cause a utility to violate or circumvent these Rules, including but not limited to the prohibitions against the utility providing preferential treatment, unfair competitive advantages or non-public information to its affiliates;*
- 2. knowingly aid or abet a utility's violation of these Rules; or*
- 3. be used as a conduit to provide non-public information to a utility's affiliate.*

*D. These Rules apply to transactions between a Commission-regulated utility and another affiliated utility, unless specifically modified by the Commission in addressing a separate application to merge or otherwise conduct joint ventures related to regulated services.*

*E. These Rules do not apply to the exchange of operating information, including the disclosure of customer information to its FERC-regulated affiliate to the extent such information is required by the affiliate to schedule and confirm nominations for the interstate transportation of natural gas, between a utility and its FERC-regulated affiliate, to the extent that the affiliate operates an interstate natural gas pipeline. These Rules do not apply to transactions between an electric utility and an affiliate providing transactions involving broadband over power lines (BPL).*

**F. Existing Rules:** *Existing Commission Rules for each utility and its parent holding company shall continue to apply except to the extent they conflict with these Rules. In such cases, these Rules shall supersede prior Rules and guidelines, provided that nothing herein shall supersede the Commission's regulatory framework for broadband over power lines (BPL) adopted in D.06-04-070 nor shall preclude (1) the Commission from adopting other utility-specific guidelines; or (2) a utility or its parent holding company from adopting other utility-specific guidelines, with advance Commission approval.*

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### RULE II – APPLICABILITY

*G. **Civil Relief:** These Rules shall not preclude or stay any form of civil relief, or rights or defenses thereto, that may be available under state or federal law. H. These Rules should be interpreted broadly, to effectuate our stated objectives of fostering competition and protecting consumer interests. If any provision of these Rules, or the application thereof to any person, company, or circumstance, is held invalid, the remainder of the Rules, or the application of such provision to other persons, companies, or circumstances, shall not be affected thereby.*

Rule II describes which affiliates the ATRs apply to. For SCE, “these Rules apply to all utility transactions with affiliates engaging in the provision of a product that uses gas or electricity or the provision of services that relate to the use of gas or electricity, unless specifically exempted.” SCE classifies its affiliates as Class A if they are covered under the Rules and Class B if they are not covered under the Rules. SCE’s definition of Class A and Class B affiliates per the 2011 Compliance plan is as follows:

Class A Affiliates: A Class A affiliate is one that meets the definition of Rule II.B – i.e., an entity engaged in the provision of a product that uses electricity or the provision of services that relate to the use of electricity, unless specifically exempted. In addition, SCE classifies as “Class A” certain affiliates that are directly involved in the management of their Class A affiliate subsidiaries or are intermediary holding companies, even though that affiliate does not, in its own name, engage in the provision of a product that uses electricity or the provision of services that related to the use of electricity.

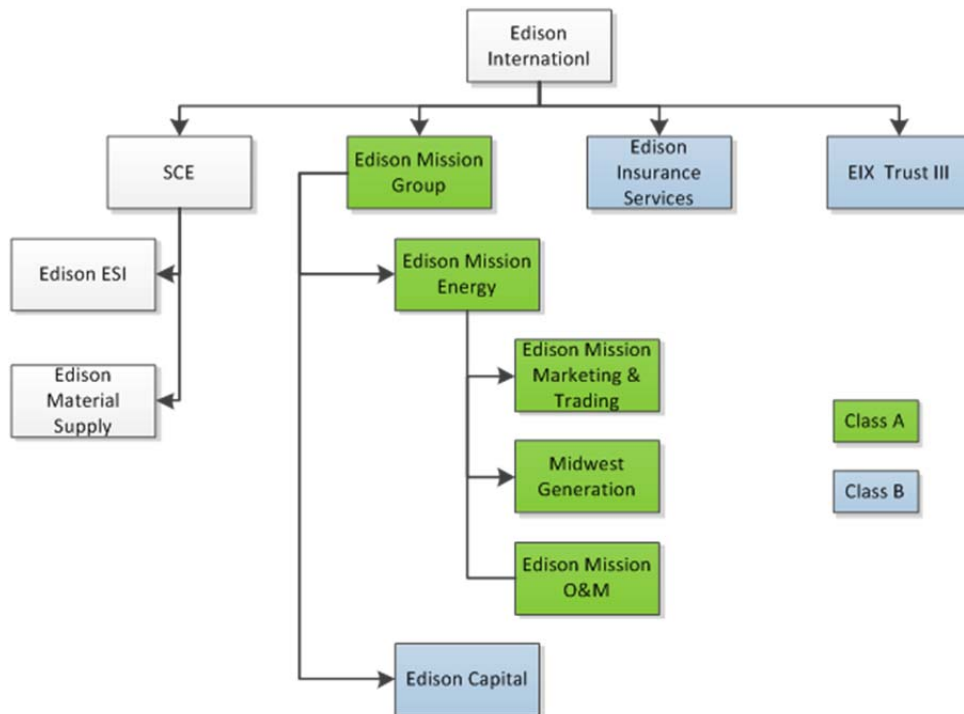
Class B Affiliates: All other affiliates are Class B affiliates. While Class B affiliates are not subject to the Affiliate Rules, they are subject to SCE’s Holding Company Conditions adopted in D. 88-01-063.

# CALIFORNIA PUBLIC UTILITIES COMMISSION

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## RULE II – APPLICABILITY

Below is SCE's holding company structure showing which affiliates are considered Class A affiliates and therefore covered by the Rules:



As shown above, all of SCE's Class A affiliates fall under the Edison Mission Group. In 2010 and 2011 SCE had 674 and 678 affiliates, respectively. Of the 674 affiliates in 2010, 233 were classified as Class A affiliates. Of the 678 affiliates in 2011, 257 were classified as Class A affiliates. Of the 49 affiliates created in 2010 and 2011 all were determined to be Class A affiliates.

As shown in the holding company structure on the previous page, during the audit period all of SCE's covered affiliates fell under Edison Mission Energy (EME). In December 2013, EME filed for bankruptcy and was deconsolidated from Edison International (EIX). On April 1, 2014 NRG Energy bought EME and all assets were divested. Due to the elimination of EME, SCE has updated its affiliate listing to show covered and uncovered affiliates as of April 1, 2014. Going forward, affiliates will be created and/or acquired under the EIX holding company. SCE has stated that they are working with EIX to ensure the proper procedures and controls are in place to comply with the ATRs.



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## RULE II – APPLICABILITY

### 2.0.0.0.2 – Observations and Recommendations

Observations	Recommendations
<p>SCE-3: SCE did not have formal documentation showing SCE’s determination of classifying affiliates as Class A or Class B during the audit period. Per SCE, all new affiliates came from Edison Mission Energy (EME) and were mostly wind farms with a substantial ownership percentage by EME, which made the classifications apparent and therefore no formal documentation process was felt to be necessary. However, Baker Tilly found 3 electric utility companies which met the criteria for Class A, but were incorrectly classified as Class B affiliates (1. Electricidad de La Paz S.A. (Electropaz), 2. Empresa de Luz y Fuerza Electrica de Oruro S.A. ("Elfeo"), 3. Empresa de Servicios Edeser S.A. ("Edeser")).</p>	<p>SCE-3: SCE should implement a more formal process for documenting whether an affiliate is classified as Class A or Class B which includes the criteria used to determine the classification.</p>
<p>SCE-4: SCE does not perform reviews of existing Class B affiliates to ensure their business activities have not changed.</p>	<p>SCE-4: A process should be put in place to periodically review the business activities of Class B affiliates to ensure they have not started to engage in activities that would make them covered under the Rules.</p>
<p>CPUC-4: Based on our discussion with SCE, their definition of an affiliate engaging in the provision of a product that uses gas or electricity or the provision of services that relate to the use of gas or electricity differs from Baker Tilly’s interpretation. This is evident in the 2013 Advice Letter 2937-E where SCE stated that Edison Commercial Energy Projects, LLC is not covered by the Rules since they will not be involved in the day-to-day operations of any solar projects but will be primarily focused on identifying and originating new solar project opportunities. SCE considers these activities more financial in nature. Baker Tilly would consider these activities to fall under the Affiliate Transaction Rules.</p>	<p>CPUC-4: Rule II should be updated to more clearly define what is considered an affiliate engaging in the provision of a product that uses gas or electricity or services that relate to the use of gas or electricity.</p>

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## RULE II – APPLICABILITY

Baker Tilly makes the following observations and recommendations regarding SCE’s compliance with Rule II:

#	Observation	Rule Violation Potential Impact	Actual or Potential Harm to Ratepayers
SCE-3	Baker Tilly found 3 electric utility companies which met the criteria for Class A, but were incorrectly classified as Class B. SCE has since updated their list of affiliates for further clarification.	High – These affiliates, although misclassified, did not have any transactions with SCE during 2010 and 2011.	Potential effect on ratepayers if misclassified affiliates exist that <i>are</i> transacting with SCE with costs being passed on to ratepayers.
SCE-4	SCE does not perform reviews of existing Class B affiliates to ensure their business activities have not changed.	N/A – Affiliates could change their business activities which would make them covered under the Rules.	SCE may be treating affiliates as not covered when in fact they should be covered under the Rules.
CPUC-4	SCE uses a definition of affiliates that does not necessarily meet the language in Rule II. Rule II should be updated to more clearly define what is considered an affiliate engaging in the provision of a product that uses gas or electricity or services that relate to the use of gas or electricity.	N/A - SCE has a differing interpretation of an “affiliate engaging in the provision of a product that uses gas or electricity or the provision of services that relate to the use of gas or electricity.”	SCE’s interpretation could potentially result in affiliates being misclassified and not treated as a “covered affiliate” when they do in fact engage in the provision of services that relate to the use of gas or electricity.

### ***Selection criteria for observations***

SCE-3, SCE-4 Dollar amount of transactions between SCE and the misclassified affiliates  
CPUC-4 Extent to which the affiliate engages in the provision of a product that uses electricity or the provision of services that relate to the use of electricity

### **2.0.0.0.3 – Procedures Performed**

Baker Tilly performed the following procedures in its review of SCE’s compliance with Rule II:

Procedures
1. Interviewed key personnel from this area to gain an understanding of SCE’s interpretation of Rule II and how they ensure compliance.
2. Examined SCE’s ATR Manual and Compliance Plans to ensure proper procedures are in place to comply with Rule II.
3. Reviewed training materials provided to SCE employees and affiliates to ensure employees are aware of who is considered a covered affiliate under the Rules.
4. Examined SCE’s Compliance Plan to ensure that SCE updated their definition of “creation” for new affiliates per recommendation from the prior audit.

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Procedures	
5.	Reviewed process documentation on methods used to track transactions between the Commission regulated utility and another affiliate utility and non-affiliates.
6.	Reviewed all new affiliates created in 2010 and 2011 to ensure proper classification per Rule II.
7.	Reviewed all affiliates classified by SCE as Class B in 2010-2011 to ensure there were none engaging in business activities related to the use of gas or electricity.

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## RULE III – NON-DISCRIMINATION

### 3.0 RULE III: NON-DISCRIMINATION

#### 3.A.0.0.0 – A. No Preferential Treatment Regarding Services Provided by the Utility

##### 3.A.0.0.1 – Background

###### Rule III.A.

###### **Rule III.A. No Preferential Treatment Regarding Services Provided by the Utility:**

*Unless otherwise authorized by the Commission or the FERC, or permitted by these Rules, a utility shall not:*

- 1. represent that, as a result of the affiliation with the utility, its affiliates or customers of its affiliates will receive any different treatment by the utility than the treatment the utility provides to other, unaffiliated companies or their customers; or*
- 2. provide its affiliates, or customers of its affiliates, any preference (including but not limited to terms and conditions, pricing, or timing) over non-affiliated suppliers or their customers in the provision of services provided by the utility.*

Rule III.A ensures that SCE does not favor or otherwise engage in preferential treatment of their affiliates or their affiliates' customers.

##### 3.A.0.0.2 – Observations and Recommendations

SCE is in compliance with Rule III.A.

##### 3.A.0.0.3 – Procedures Performed

Baker Tilly performed the following procedures in its review of SCE's compliance with Rule III.A:

Procedures
1. Interviewed key personnel from this area to gain an understanding of SCE's interpretation of Rule III.A and how they ensure compliance.
2. Examined SCE's ATR Manual and Compliance Plans to ensure proper procedures are in place to comply with Rule III.A.
3. Reviewed Customer Information Service Requests (CISRs) records to ensure no unauthorized information was given to affiliates during 2010-2011.
4. Reviewed SCE's Service Provider Lists to ensure no preferential treatment is given to affiliates.
5. Examined SCE's listing of counterparties with unsecured credit to confirm no affiliates were extended unsecured credit.

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## RULE III – NON-DISCRIMINATION

### Procedures

6. Reviewed support for Walnut Creek's collateral posted in 2011 for appropriateness including SCE's risk assessment of Walnut Creek.

## 3.B.0.0.0 – B. Affiliate Transactions

### 3.B.0.0.1 – Background

#### Rule III.B

##### **B. Affiliate Transactions:**

*Transactions between a utility and its affiliates shall be limited to tariffed products and services, to the sale of goods, property, products or services made generally available by the utility or affiliate to all market participants through an open, competitive bidding process, to the provision of information made generally available by the utility to all market participants, to Commission-approved resource procurement by the utility, or as provided for in Rules V D (joint purchases), V E (corporate support) and VII (new products and services) below.*

1. *Resource Procurement. No utility shall engage in resource procurement, as defined in these Rules, from an affiliate without prior approval from the Commission. Blind transactions between a utility and its affiliate, defined as those transactions in which neither party knows the identity of the counterparty until the transaction is consummated, are exempted from this Rule. A transaction shall be deemed to have prior Commission approval (a) before the effective date of this Rule, if authorized by the Commission specifically or through the delegation of authority to Commission staff or (b) after the effective date of this Rule, if authorized by the Commission generally or specifically or through the delegation of authority to Commission staff.*
2. *Provision of Supply, Capacity, Services or Information: Except as provided for in Rules V D, V E, and VII, a utility shall provide access to utility information, services, and unused capacity or supply on the same terms for all similarly situated market participants. If a utility provides supply, capacity, services, or information to its affiliate(s), it shall contemporaneously make the offering available to all similarly situated market participants, which include all competitors serving the same market as the utility's affiliates.*
3. *Offering of Discounts: Except when made generally available by the utility through an open, competitive bidding process, if a utility offers a discount or waives all or any part of any other charge or fee to its affiliates, or offers a discount or waiver for a transaction in which its affiliates are involved, the utility shall contemporaneously make such discount or waiver available to all similarly situated market participants. The utilities should not use the "similarly situated" qualification to create such a unique discount arrangement with their affiliates such that no competitor could be considered similarly situated. All competitors serving the same market as the utility's affiliates should be offered the same discount as the discount received by the affiliates. A utility shall document the cost differential underlying the discount to its affiliates in the affiliate discount report described in Rule III F 7 below.*
4. *Tariff Discretion: If a tariff provision allows for discretion in its application, a utility shall apply that tariff provision in the same manner to its affiliates and other market participants and their respective customers.*
5. *No Tariff Discretion: If a utility has no discretion in the application of a tariff provision, the utility shall strictly enforce that tariff provision.*

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## RULE III – NON-DISCRIMINATION

6. *Processing Requests for Services Provided by the Utility: A utility shall process requests for similar services provided by the utility in the same manner and within the same time for its affiliates and for all other market participants and their respective customers.*

Rule III.B discusses the requirements for affiliate transactions between SCE and its affiliates. Transactions between SCE and its affiliates should be at arm's length and should be limited to tariffed products and services, the sale of goods, property, products or services made generally available to all market participants through an open, competitive bidding process, or as provided for in Rules V.D, V.E, and VII.

### 3.B.0.0.2 – Observations and Recommendations

SCE is in compliance with Rule III.B

### 3.B.0.0.3 – Procedures Performed

Baker Tilly performed the following procedures in its review of SCE's compliance with Rule III.B:

Procedures
1. Interviewed key personnel from this area to gain an understanding of SCE's interpretation of Rule III.B and how they ensure compliance.
2. Examined SCE's ATR Manual and Compliance Plans to ensure proper procedures are in place to comply with Rule III.B.
3. Reviewed approvals for affiliate contracts in 2010-2011.
4. Examined winning affiliate bids to RFO's and RFP's to ensure no preferential treatment was given.
5. Confirmed that there was an Independent Evaluator and PRG practices were followed for RFO and RFP bid processes in 2010-2011.
6. Reviewed "shortlist" / distribution list for RFO/RFP opportunities for any signs of preferential treatment.
7. Confirmed that no natural gas transactions occurred with affiliates in 2010-2011.
8. Confirmed that SCE did not provide access to utility information, services, and unused capacity or supply except as allowed in ATR V.D, V.E, and VII.
9. Examined invoices with affiliates for discounts.
10. Reviewed sample of utility bills for any issues or discrepancies or discounts.
11. Reviewed sample of Customer Information Service Requests (CISRs) to ensure no preferential treatment is given when processing those requests

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## RULE III – NON-DISCRIMINATION

### 3.C.0.0.0 – C. Tying of Services Provided by a Utility Prohibited

#### 3.C.0.0.1 – Background

##### Rule III.C

###### **Rule III.C Tying of Services Provided by a Utility Prohibited:**

*A utility shall not condition or otherwise tie the provision of any services provided by the utility, nor the availability of discounts of rates or other charges or fees, rebates, or waivers of terms and conditions of any services provided by the utility, to the taking of any goods or services from its affiliates.*

#### 3.C.0.0.2 – Observations and Recommendations

SCE's affiliates did not serve retail customers during 2010-2011 so customers cannot be tied to affiliates.

#### 3.C.0.0.3 – Procedures Performed

Confirmed that no affiliates served retail customers during the 2010-2011 audit period.

### 3.D.0.0.0 – D. No Assignment of Customers

#### 3.D.0.0.1 – Background

##### Rule III.D

###### **Rule III.D No Assignment of Customers:**

*A utility shall not assign customers to which it currently provides services to any of its affiliates, whether by default, direct assignment, option or by any other means, unless that means is equally available to all competitors.*

#### 3.D.0.0.2 – Observations and Recommendations

SCE's affiliates did not serve retail customers during 2010-2011 so customers cannot be assigned to affiliates.

#### 3.D.0.0.3 – Procedures Performed

Confirmed that no affiliates served retail customers during the 2010-2011 audit period.

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## RULE III – NON-DISCRIMINATION

### 3.E.0.0.0 – E. Business Development and Customer Relations

#### 3.E.0.0.1 – Background

##### Rule III.E

###### **Rule III.E Business Development and Customer Relations:**

*Except as otherwise provided by these Rules, a utility shall not:*

- 1. provide leads to its affiliates;*
- 2. solicit business on behalf of its affiliates;*
- 3. acquire information on behalf of or to provide to its affiliates;*
- 4. share market analysis reports or any other types of proprietary or nonpublicly available reports, including but not limited to market, forecast, planning or strategic reports, with its affiliates;*
- 5. request authorization from its customers to pass on customer information exclusively to its affiliates;*
- 6. give the appearance that the utility speaks on behalf of its affiliates or that the customer will receive preferential treatment as a consequence of conducting business with the affiliates; or*
- 7. give any appearance that the affiliate speaks on behalf of the utility.*

#### 3.E.0.0.2 – Observations and Recommendations

SCE's affiliates did not serve retail customers during 2010-2011 so this Rule did not apply to SCE operations for this period.

#### 3.E.0.0.3 – Procedures Performed

Confirmed that no affiliates served retail customers during the 2010-2011 audit period. This was stated affirmatively by SCE. No information came to our attention that negates this statement by SCE.

### 3.F.0.0.0 – F. Affiliate Discount Reports

#### 3.F.0.0.1 – Background

##### Rule III.F

###### **Rule III.F Affiliate Discount Reports:**

*If a utility provides its affiliates a discount, rebate, or other waiver of any charge or fee associated with products or services provided by the utility, the utility shall, within 24 hours of the time at which the product or service provided by the utility is so provided, post a notice on its electronic bulletin board providing the following information:*

- 1. the name of the affiliate involved in the transaction;*
- 2. the rate charged;*
- 3. the maximum rate;*
- 4. the time period for which the discount or waiver applies;*
- 5. the quantities involved in the transaction;*
- 6. the delivery points involved in the transaction;*



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7. *any conditions or requirements applicable to the discount or waiver, and a documentation of the cost differential underlying the discount as required in Rule III B 2 above; and*
8. *procedures by which a nonaffiliated entity may request a comparable offer.*

*A utility that provides an affiliate a discounted rate, rebate, or other waiver of a charge or fee associated with services provided by the utility shall maintain, for each billing period, the following information:*

9. *the name of the entity being provided services provided by the utility in the transaction;*
10. *the affiliate's role in the transaction (i.e., shipper, marketer, supplier, seller);*
11. *the duration of the discount or waiver;*
12. *the maximum rate;*
13. *the rate or fee actually charged during the billing period; and*
14. *the quantity of products or services scheduled at the discounted rate during the billing period for each delivery point.*

*All records maintained pursuant to this provision shall also conform to FERC Rules where applicable.*

### **3.F.0.0.2 – Observations and Recommendations**

No discounts, rebates, or other waiver of any charge or fee associated with services provided by SCE were given to affiliates during 2010-2011. As such, no affiliate discount reports or postings were required by SCE.

### **3.F.0.0.3 – Procedures Performed**

Confirmed that no affiliates received any discounts, rebates, or other waiver of any charge or fee associated with services provided by SCE during the 2010-2011 audit period. This was stated affirmatively by SCE. No information came to our attention that negates this statement by SCE.

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## RULE IV – DISCLOSURE AND INFORMATION

### 4.0 RULE IV: DISCLOSURE AND INFORMATION

#### 4.A.0.0.0 – A. Customer Information

##### 4.A.0.0.1 – Background

###### Rule IV.A.

###### *Rule IV.A. Customer Information:*

*A utility shall provide customer information to its affiliates and unaffiliated entities on a strictly non-discriminatory basis, and only with prior affirmative customer written consent.*

Rule IV describes the requirements for disclosing and sharing customer information to affiliates. SCE must have customer consent to provide customer information to affiliates. SCE may make non-customer specific non-public information available to its affiliates only if the utility makes that information available to all other service providers and keeps the information open to the public. SCE may not provide its customers with any list of service providers, which includes or identifies the utility's affiliates, unless authorized by the Commission. SCE must also maintain affiliate transaction records.

To ensure compliance with Rule IV.A, SCE utilizes a Customer Information Service Request (CISR) form for the release of customer information to third-parties. This form is used for both affiliates and non-affiliates.

##### 4.A.0.0.2 – Observations and Recommendations

SCE is in compliance with Rule IV.A.

##### 4.A.0.0.3 – Procedures Performed

Baker Tilly performed the following procedures in its review of SCE's compliance with Rule IV.A:

Procedures
1. Interviewed key personnel from this area to gain an understanding of SCE's interpretation of Rule IV.A and how they ensure compliance.
2. Examined SCE's ATR Manual and Compliance Plans to ensure proper procedures are in place to comply with Rule IV.A.
3. Reviewed Customer Information Service Request (CISR) records for any information provided to affiliates
4. Reviewed a sample of completed CISR forms during the audit period for customer signature noting approval to release information.

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## RULE IV – DISCLOSURE AND INFORMATION

### 4.B.0.0.0 – B. Non-Customer Specific Non-Public Information

#### 4.B.0.0.1 – Background

##### Rule IV.B.

###### **Rule IV.B. Non-Customer Specific Non-Public Information:**

*A utility shall make non-customer specific non-public information, including but not limited to information about a utility's natural gas or electricity purchases, sales, or operations or about the utility's gas-related goods or services and electricity-related goods or services, available to the utility's affiliates only if the utility makes that information contemporaneously available to all other service providers on the same terms and conditions, and keeps the information open to public inspection. Unless otherwise provided by these Rules, a utility continues to be bound by all Commission-adopted pricing and reporting guidelines for such transactions. A utility is also permitted to exchange proprietary information on an exclusive basis with its affiliates, provided the utility follows all Commission-adopted pricing and reporting guidelines for such transactions, and it is necessary to exchange this information in the provision of the corporate support services permitted by Rule V E below. The affiliate's use of such proprietary information is limited to use in conjunction with the permitted corporate support services, and is not permitted for any other use. Nothing in this Rule precludes the exchange of information pursuant to D.97-10-031. Nothing in this Rule is intended to limit the Commission's right to information under Public Utilities Code Sections.*

Rule IV.B is designed to ensure that SCE does not provide preferential treatment to its affiliates by disclosing non-customer specific non-public information to them. All information provided to its affiliates must also be made available to non-affiliates and the public. If SCE inadvertently shares non-public information with affiliates, it notifies the public at SCE.com and gives the public the opportunity to request to see the information by contacting SCE.

Although SCE's affiliate Edison Mission Group attends the Joint EIX/SCE Board of Director meetings, SCE indicated that EMG is excused from the meeting when sensitive information is discussed. Baker Tilly reviewed the monthly meeting minutes for evidence of EMG dismissal during discussions of sensitive information. Although we noted instances of EMG being dismissed there were a few instances where EMG may have been present during discussions of sensitive information. See below for more information.

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## RULE IV – DISCLOSURE AND INFORMATION

### 4.B.0.0.2 – Observations and Recommendations

Baker Tilly makes the following observations and recommendations regarding SCE’s compliance with Rule IV.B:

Observations	Recommendations
<p>SCE-5: Review of Board of Director and Finance Committee meeting minutes identified instances when an affiliate may have been present during potentially sensitive discussions. See below for possible sensitive information that was discussed with an affiliate in attendance.</p>	<p>SCE-5: Additional controls should be put in place at Board of Directors and Finance Committee meetings to ensure that non-public information is not discussed with affiliates. At a minimum, meeting minutes should document:</p> <ol style="list-style-type: none"> <li>a. All attendees</li> <li>b. Whether the attendees are affiliates or not an affiliate</li> <li>c. Whether each agenda item is public or non-public information</li> <li>d. Whether meeting attachments are public or non-public information and what the distribution list was for that information</li> <li>e. The time affiliate attendees were dismissed from the meeting and discussion began for non-public information</li> <li>f. The closing time of the discussion for non-public information</li> <li>g. The time affiliate attendees returned to the meeting and discussion RE-commenced on public information</li> <li>h. Documentation should be made for reasons behind discussion of non-public SCE information when affiliates were present and how the information discussed was relevant to the affiliate</li> </ol>
<p>SCE-6: The EIX Risk Management Committee meeting minutes do not indicate all attendees or specific topics of discussion.</p>	<p>SCE-6: All meeting attendees and organizations present at Board of Director and Finance Committee meetings should be noted in the minutes along with a more detailed record of what is discussed during the meeting. This will allow for easier auditing to ensure sensitive information is not shared with affiliates at the meetings. Documentation of when certain parties are excused from the meeting should also be maintained.</p>
<p>SCE-7: We noted five instances of non-public information being shared with affiliates in 2010-2011. These were reported on SCE’s website. See below for details of information that was shared.</p>	<p>SCE-7: Although SCE appropriately reported these instances on their website, Baker Tilly recommends that SCE improve their processes and controls (including training) to prevent information from being shared to affiliates.</p>

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### RULE IV – DISCLOSURE AND INFORMATION

#### Potential Findings: Board of Director Meetings

1. 2/25/2010 Board Meeting
  - a. EMG present during potentially sensitive SCE discussions, including: SCE 5 Year Capital Plan and GRC Discussions. EMG was also present during the Finance Committee Report, which included a report on cost of capital, and the status of SCE's Tehachapi Renewable Transmission Project.
2. 4/22/2010 Board Meeting
  - a. EMG present during potentially sensitive SCE discussions, including: SCE Supplier Diversity Program and Bidding Process discussion and the Finance Committee Report, which included a review of SCE Enterprise Resource Planning; and a review of SCE's trust investments.
3. 9/22/2010 Board Meeting
  - a. EMG present during potentially sensitive SCE discussions, including: the SCE 2012 GRC Update; Discussion of SCE's renewable energy status related to state legislation; Discussion of potential sale of SCE's interest in the 4 Corner's Plant
4. 12/9/2010 Board Meeting
  - a. EMG present during potentially sensitive SCE discussions, including: 2011 Capital Budget and 5 Year Capital Plan; SCE Capital Forecasts; Edison Mission Energy Capital Forecasts; GRC conversations; potential concern of Finance Committee discussions, where 2011 EIX, SCE and EMG Financing Plans were reviewed
5. 2/24/2011 Board Meeting
  - a. EMG present during potentially sensitive SCE discussions, including: 2011 Goals and Resolutions; GRC Discussions; and Finance Committee Report - updates on SCE financing plans

#### Potential Findings: Finance Committee Meetings

1. 2/24/2010 Finance Meeting
  - a. SCE Cost of Capital Review
2. 12/8/2010 Finance Meeting
  - a. SCE 2011 Financing Plan – Capital Budget, Solar PV Spending Plan, Liquidity Plan
3. 2/23/2011 Finance Meeting
  - a. 2011 Financing Plan – SCE and SCE GRC discussions

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### RULE IV – DISCLOSURE AND INFORMATION

Although Baker Tilly did note instances of when EMG was dismissed during sensitive SCE discussions, there still appears to be a potential for sensitive information sharing as noted above.

#### Non-Public Information shared with affiliates and subsequently posted to SCE's website:

1. On January 4, 2010, the following disclosure was posted on sce.com: "On January 4, 2010, a Southern California Edison employee inadvertently emailed a document providing an overview of SCE's minimum purchase obligations at APS Four Corners to an employee of Edison Mission Group (EMG). This information can be obtained by contacting Zach Buhler at (626) 302-4813."
2. On June 9, 2011, the following disclosure was posted on sce.com: "On June 9, 2011, a Southern California Edison (SCE) employee inadvertently emailed SCE's negotiating position regarding Kern River Cogeneration Company's (KRCC's) contract extension to an attorney that represents KRCC. This information can be obtained by contacting Zach Buhler at (626) 302-4813."
3. The following notice was posted on sce.com on July 8, 2011: "At a meeting of executive management of Edison International and its subsidiaries on July 8, 2011, a presentation was made that included information related to SCE's future objectives, challenges and opportunities. This information can be obtained by contacting Zach Buhler at (626) 302-4813."
4. The following notice was posted on sce.com on October 4, 2011: "On the evening of Thursday, September 29, 2011, an employee of SCE inadvertently emailed an incorrect attachment of negotiated contractual terms with a third party to eight employees at one of SCE's Class A affiliates. SCE quickly learned of the error and instructed all affiliate recipients to delete the email and attachment, which was completed with written confirmation by all recipients."
5. On November 7, 2011, the following disclosure was posted on sce.com: "On Friday, November 4, 2011 an SCE employee included high level, summary information regarding the current status of SCE's telecommunications business in an email to an Edison Mission Group employee."

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## RULE IV – DISCLOSURE AND INFORMATION

#	Observation	Rule Violation Potential Impact	Actual or Potential Harm to Ratepayers
SCE-5	Affiliate may have been present during potentially sensitive discussions	Medium, Meeting minutes indicate a few instances where sensitive information may have been shared with affiliates	Potential advantage may have been given to affiliates that wasn't available to the public
SCE-6	EIX Risk Management Committee meeting minutes do not indicate all attendees or specific topics of discussion	N/A	N/A, process improvement based on observation SCE-5
SCE-7	We noted five instances of non-public information being shared with affiliates in 2010-2011. These were reported on SCE's website.	Low, although there were five instances where SCE discovered inadvertent sharing of information with affiliates, the instances were posted on SCE's website so the public could receive the same information	None, although sharing non-public information with affiliates could give them an advantage over non-affiliates, the fact that SCE promptly posted the information on its website removes this advantage.

### ***Selection Criteria for Observations***

SCE-5 Sensitive information that was potentially shared with affiliates  
SCE-7 Non-public information that was shared with affiliates

### **4.B.0.0.3 – Procedures Performed**

Baker Tilly performed the following procedures in its review of SCE's compliance with Rule IV.B:

Procedures
1. Interviewed key personnel from this area to gain an understanding of SCE's interpretation of Rule IV.B and how they ensure compliance.
2. Examined SCE's ATR Manual and Compliance Plans to ensure proper procedures are in place to comply with Rule IV.B.
3. Reviewed SCE's website for disclosure of instances where non-customer specific public information was shared with affiliates.
4. Examined Board of Director and Risk Management Committee Meeting Minutes to ensure no non-customer specific public information was shared with affiliates that were in attendance.

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For the period January 1, 2010 – December 31, 2011

## RULE IV – DISCLOSURE AND INFORMATION

### 4.C.0.0.0 – C. Service Provider Information

#### 4.C.0.0.1 – Background

##### Rule IV.C.

###### **Rule IV.C. Service Provider Information:**

*Except upon request by a customer or as otherwise authorized by the Commission, or approved by another governmental body, a utility shall not provide its customers with any list of service providers, which includes or identifies the utility's affiliates, regardless of whether such list also includes or identifies the names of unaffiliated entities.*

SCE maintains a list of contractors and other vendors that can provide services to its customers as part of its energy efficiency and demand response programs. This list is maintained at SCE.com and is updated on an ongoing basis.

#### 4.C.0.0.2 – Observations and Recommendations

SCE is in compliance with this Rule.

#### 4.C.0.0.3 – Procedures Performed

Baker Tilly performed the following procedures in its review of SCE's compliance with Rule IV.C:

Procedures
1. Interviewed key personnel from this area to gain an understanding of SCE's interpretation of Rule IV.C and how they ensure compliance.
2. Examined SCE's ATR Manual and Compliance Plans to ensure proper procedures are in place to comply with Rule IV.C.
3. Reviewed SCE's service provider list noting no affiliates were included.
4. Confirmed with the customer call center that the representatives do not refer customers to specific providers (refer customers to yellow pages).

### 4.D.0.0.0 – D. Supplier Information

#### 4.D.0.0.1 – Background

##### Rule IV.D.

###### **Rule IV.D. Supplier Information:**

*A utility may provide non-public information and data which has been received from unaffiliated suppliers to its affiliates or non-affiliated entities only if the utility first obtains written affirmative authorization to do so from the supplier. A utility shall not actively solicit the release of such information exclusively to its own affiliate in an effort to keep such information from other unaffiliated entities.*



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### 4.D.0.0.2 – Observations and Recommendations

SCE is in compliance with Rule IV.D.

### 4.D.0.0.3 – Procedures Performed

Baker Tilly performed the following procedures in its review of SCE's compliance with Rule IV.D:

Procedures
1. Interviewed key personnel from this area to gain an understanding of SCE's interpretation of Rule IV.D and how they ensure compliance.
2. Examined SCE's ATR Manual and Compliance Plans to ensure proper procedures are in place to comply with Rule IV.D.
3. Verified there was written authorization for information provided to affiliates from unaffiliated suppliers on a sample basis.

## 4.E.0.0.0 – E. Supplier Information

### 4.E.0.0.1 – Background

#### Rule IV.E.

##### *Rule IV.E Affiliate-Related Advice or Assistance:*

*Except as otherwise provided in these Rules, a utility shall not offer or provide customers advice or assistance with regard to its affiliates or other service providers.*

### 4.E.0.0.2 – Observations and Recommendations

SCE is in compliance with this Rule. Except as provided for in Rule IV.C., SCE does not provide advice or assistance with regard to its affiliates or other service providers. SCE's affiliates do not serve retail customers so SCE would not provide their customers with advice regarding their affiliates.

### 4.E.0.0.3 – Procedures Performed

Baker Tilly performed the following procedures in its review of SCE's compliance with Rule IV.E:

Procedures
1. Interviewed key personnel from this area to gain an understanding of SCE's interpretation of Rule IV.E and how they ensure compliance.
2. Examined SCE's ATR Manual and Compliance Plans to ensure proper procedures are in place to comply with Rule IV.E.

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### Procedures

- Confirmed that SCE's affiliates did not serve retail customers during the audit period.

## 4.F.0.0.0 – F. Record-Keeping

### 4.F.0.0.1 – Background

#### Rule IV.F.

##### **Rule IV.F. Record-Keeping:**

*A utility shall maintain contemporaneous records documenting all tariffed and non-tariffed transactions with its affiliates, including but not limited to, all waivers of tariff or contract provisions, and all discounts, and all negotiations of any sort between the utility and its affiliate whether or not they are consummated. A utility shall maintain such records for a minimum of three years and longer if this Commission or another government agency so requires. For consummated transactions, the a utility shall make such final transaction documents available for third party review upon 72 hours' notice, or at a time mutually agreeable to the utility and third party.*

*If D.97-06-110 is applicable to the information the utility seeks to protect, the utility should follow the procedure set forth in D.97-06-110, except that the utility should serve the third party making the request in a manner that the third party receives the utility's D.97-06-110 request for confidentiality within 24 hours of service.*

### 4.F.0.0.2 – Observations and Recommendations

Baker Tilly makes the following observation and recommendation regarding SCE's compliance with Rule IV.F:

Observations	Recommendations
SCE-8: Baker Tilly was unable to receive support for the Articles of Incorporation for a Bolivian affiliate that was nationalized in 2012 and exit interview documentation for a SCE employee that transferred to EIX in 2010.	SCE-8: Although this is not a direct violation of Rule IV.F as interpreted by SCE as they are not financial transactions and occurred more than 3 years ago, Baker Tilly recommends that SCE keep all affiliate records until the period in question has undergone an audit.

#	Observation	Rule Violation Potential Impact	Actual or Potential Harm to Ratepayers
SCE-8	Baker Tilly was unable to receive support for the Articles of Incorporation for a Bolivian affiliate that was nationalized in 2012 and exit interview documentation for a SCE employee that transferred to EIX in 2010.	N/A	N/A- process improvement

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### 4.F.0.0.3 – Procedures Performed

Baker Tilly performed the following procedures in its review of SCE’s compliance with Rule IV.F:

Procedures
1. Interviewed key personnel from this area to gain an understanding of SCE’s interpretation of Rule IV.F and how they ensure compliance.
2. Examined SCE’s ATR Manual and Compliance Plans to ensure proper procedures are in place to comply with Rule IV.F.
3. Selected a sample of employee transfers to ensure proper exit interview documentation was maintained by SCE.
4. Reviewed SCE’s record retention schedules to verify records are maintained for a minimum of three years.

### 4.G.0.0.0 – G. Maintenance of Affiliate Contracts and Related Bids

#### 4.G.0.0.1 – Background

##### Rule IV.G.

##### **Rule IV.G. Maintenance of Affiliate Contracts and Related Bids:**

*A utility shall maintain a record of all contracts and related bids for the provision of work, products or services between the utility and its affiliates for no less than a period of three years, and longer if this Commission or another government agency so requires.*

#### 4.G.0.0.2 – Observations and Recommendations

SCE is in compliance with this Rule.

#### 4.G.0.0.3 – Procedures Performed

Baker Tilly performed the following procedures in its review of SCE’s compliance with Rule IV.G:

Procedures
1. Interviewed key personnel from this area to gain an understanding of SCE’s interpretation of Rule IV.G and how they ensure compliance.
2. Examined SCE’s ATR Manual and Compliance Plans to ensure proper procedures are in place to comply with Rule IV.G.
3. Reviewed affiliate contracts and winning bid information for affiliate during 2010-2011.

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## RULE IV – DISCLOSURE AND INFORMATION

### **4.H.0.0.0 – H. FERC Reporting Requirements**

#### **4.H.0.0.1 – Background**

##### **Rule IV.H.**

##### ***Rule IV.H. FERC Reporting Requirements:***

*To the extent that reporting Rules imposed by the FERC require more detailed information or more expeditious reporting, nothing in these Rules shall be construed as modifying the FERC Rules.*

#### **4.H.0.0.2 – Observations and Recommendations**

Rule IV.H does not require any specific action by SCE.

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## RULE V – SEPARATION

### 5.0 RULE V: SEPARATION

#### 5.A.0.0.0 – A. Corporate Entities

##### 5.A.0.0.1 – Background

###### Rule V.A.

###### **Rule V. A. Corporate Entities:**

*A utility and its affiliates shall be separate corporate entities.*

##### 5.A.0.0.2 – Observations and Recommendations

SCE is in compliance with this Rule, though they were unable to provide the support for one of our sampled items, which was an affiliate nationalized (brought under control of the Bolivian government) in 2012..

##### 5.A.0.0.3 – Procedures Performed

Baker Tilly performed the following procedures in its review of SCE's compliance with Rule V.A:

Procedures
1. Interviewed key personnel from this area to gain an understanding of SCE's interpretation of Rule V.A and how they ensure compliance.
2. Examined SCE's ATR Manual and Compliance Plans to ensure proper procedures are in place to comply with Rule V.A.
3. Reviewed articles of incorporation and other supporting documentation (e.g., operating of limited partnership agreements, or certificates of organization) to find supporting language that shows that sampled affiliates were separate corporate entities.

#### 5.B.0.0.0 – B. Books and Records

##### 5.B.0.0.1 – Background

###### Rule V.B.

###### **Rule V. B. Books and Records:**

*A utility, its parent holding company, and its affiliates shall keep separate books and records.*

1. *Utility books and records shall be kept in accordance with applicable Uniform System of Accounts (USOA) and Generally Accepted Accounting Procedures (GAAP).*

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- The books and records of a utility's parent holding company and affiliates shall be open for examination by the Commission and its staff consistent with the provisions of Public Utilities Code Sections 314 and 701, the conditions in the Commission's orders authorizing the utilities' holding companies and/or mergers and these Rules.*

### 5.B.0.0.2 – Observations and Recommendations

SCE is in compliance with this Rule.

### 5.B.0.0.3 – Procedures Performed

Baker Tilly performed the following procedures in its review of SCE's compliance with Rule V.B:

Procedures	
1.	Interviewed key personnel from this area to gain an understanding of SCE's interpretation of Rule V.B and how they ensure compliance.
2.	Examined SCE's ATR Manual and Compliance Plans to ensure proper procedures are in place to comply with Rule V.B.
3.	Reviewed SCE's 2010 and 2011 Form 10-K filings to determine that books and records were kept in accordance with FERC USOA and US GAAP.
4.	Reviewed SCE's 2010 and 2011 ATR Manuals to ensure that the Commission has access to books and records of the holding company and each of its affiliates and their joint ventures, consistent with the requirements of Public Utilities Code Section 314.

## 5.C.0.0.0 – C. Sharing of Plant, Facilities, Equipment or Costs

### 5.C.0.0.1 – Background

#### Rule V.C.

#### **Rule V.C. Sharing of Plant, Facilities, Equipment or Costs:**

*A utility shall not share office space, office equipment, services, and systems with its affiliates, nor shall a utility access the computer or information systems of its affiliates or allow its affiliates to access its computer or information systems, except to the extent appropriate to perform shared corporate support functions permitted under Rule V E of these Rules. Physical separation required by this Rule shall be accomplished preferably by having office space in a separate building, or, in the alternative, through the use of separate elevator banks and/or security-controlled access. This provision does not preclude a utility from offering a joint service provided this service is authorized by the Commission and is available to all non-affiliated service providers on the same terms and conditions (e.g., joint billing services pursuant to D.97-05-039).*

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## RULE V – SEPARATION

### 5.C.0.0.2 – Observations and Recommendations

Baker Tilly makes the following observations and recommendations regarding SCE’s compliance with Rule V.C:

Observations	Recommendations
SCE-9: A transferred employee’s VPN access (SecurID) and email access (Domino Mail) were not disabled until the day after the effective transfer date. Further, while SCE’s termination process indicates that when someone in HR terminates an employee’s employment in SAP, thus triggering an auto-suspension of SCE’s network access (SCE-WIN2K), no evidence from the system was provided showing the actual suspension date of this transferring employee.	SCE-9: SCE should consider reviewing Rule sets pertaining to IT configurations on a semiannual basis to ensure current configurations restrict affiliate access to the SCE network and only allow execution of approved shared support services. In addition, SCE should reassess its current process for suspending affiliate access upon personnel transfers to and from affiliate entities to ensure access is disabled and provisioned timely.

#	Observation	Rule Violation Potential Impact	Actual or Potential Harm to Ratepayers
SCE-9	A transferred employee’s VPN access (SecurID) and email access (Domino Mail) were not disabled until the day after the effective transfer date. Further, while SCE’s termination process indicates that when someone in HR terminates an employee’s employment in SAP, thus triggering an auto-suspension of SCE’s network access (SCE-WIN2K), no evidence from the system was provided showing the actual suspension date of this transferring employee.	High – Although the severity depends on the level of access that an employee would have to SCE’s network access, in theory the employee could have had unauthorized access to SCE systems during his/her employment, this is a severe cyber-security breach.	Although, there appears to be no harm ratepayers in this instance as the transferring employee was an application developer within the IT CCIBP&T Enterprise Sys SAP Develop business unit while employed by SCE, this individual may have had authorized access to SCE’s systems. Further, this incident reflects a process deficiency in ensuring all forms of IT access for transferring employees are disabled or suspended timely.

***Selection Criteria for Observations***

SCE-9 Supporting documentation

### 5.C.0.0.3 – Procedures Performed

Baker Tilly performed the following procedures to determine whether logical access to SCE’s electronic data and information systems was restricted appropriately per Rule V.C:

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### Logical Affiliate Access to SCE's Information Systems

Procedures	
1. Network Security	<ul style="list-style-type: none"><li>a. Met with personnel in the Enterprise Security group to determine how access to SCE's network and information systems is secured:<ul style="list-style-type: none"><li>&gt; Noted that access to SCE's network is restricted by multi-layered firewalls. Affiliates who require access to SCE's network to perform approved shared support services gain access via "dedicated communication lines," or established firewall Rule sets. If affiliate users attempt to gain access to restricted areas, the firewall Rule sets will not allow them to do so.</li><li>&gt; Obtained several network diagrams depicting logical separation of affiliate and SCE networks; noted the depiction of an affiliate VPN tunnel controlled by firewall Rule sets to restrict access to SCE resources.</li><li>&gt; Obtained screenshot evidence of the configured firewall Rule sets to determine that affiliate users are restricted to specific servers within the SCE network.</li></ul></li></ul>
2. Affiliate Application Roles	<ul style="list-style-type: none"><li>a. Met with personnel in the Application Security group to determine how affiliate users who require access to SCE's SAP application to perform approved shared support functions are provisioned access:<ul style="list-style-type: none"><li>&gt; Noted that if there is a need to create an SAP role specifically for affiliate shared support functions, the SAP Security Group will design and test this role. The role is then approved by a member of the Affiliate Office prior to implementation into the production environment.</li></ul></li><li>b. Selected a sample of SAP roles designated for affiliate use; obtained supporting documentation and noted that all selected affiliate roles were tested and approved by the Affiliate Compliance Office prior to implementation into the SAP production environment.</li><li>c. Selected a sample of users with access to affiliate roles and obtained evidence of their current access rights in SAP; noted no affiliate users had access to any SAP roles beyond those designated for affiliate use.</li></ul>
3. Affiliate User Access Reviews	<ul style="list-style-type: none"><li>a. Met with personnel in the Application Security group to gain an understanding of the procedures in place to ensure affiliate personnel with access to SCE's network remain appropriate and that their access privileges are appropriately restricted. Noted that access reviews are conducted on an annual basis; if any changes are required, these changes are communicated to the Access Management group for resolution.</li><li>b. Obtained evidence of the annual user access reviews performed in 2010 and 2011; noted that affiliate user access was reviewed by management. In instances in which access changes were noted, management took follow up action to process the necessary changes.</li></ul>
4. Affiliate Transfers	<ul style="list-style-type: none"><li>a. Met with personnel in the Affiliate Compliance Office to gain an understanding of the process for ensuring that personnel who formally transfer between SCE and designated affiliate entities do not have concurrent access to both SCE and affiliate information systems.<ul style="list-style-type: none"><li>&gt; Obtained the Affiliate Approval Procedures policy and noted that once an employee transitions to or from an affiliate, the Affiliate Compliance Office completes a request to suspend the user's access and submits the request to the Access Management group. The Access Management group manually suspends the user's VPN access prior to the date of transfer.</li></ul></li><li>b. Obtained the population of personnel transferring to or from an affiliate during 2010 and 2011; randomly selected a sample for testing. For each sample selected, obtained screenshots showing when each user's access was suspended. Noted that for one sample network access was suspended the day after the effective transfer date. For all other samples tested, access was suspended on or prior to the effective transfer date.</li></ul>



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Baker Tilly performed the following procedures to determine whether access to SCE's physical technology infrastructure was secure:

### Physical Affiliate Access to Information Technology Infrastructure

Procedures	
1. Physical Perimeter (Facility) Security	
a. Met with personnel in the Facility Security group to gain an understanding of how SCE facilities are secured and visitor/affiliate access is restricted.	
> Obtained and reviewed the Visitor Access Policy to determine how physical access to the SCE Rosemead facility is secured.	
> Discussed perimeter security with the Facility Security group and performed a walkthrough of one of the buildings at the Rosemead facility (Building G04).	
> Observed that external access to the SCE facility is restricted via electronic badge. SCE's security management application allows the organization to add additional access privileges to employees' badges; as a result, access is further restricted internally, as employees may not access departments outside of their own. For example, employees in the Legal department do not have privileges on their key card that will allow them to gain entry to the Corporate Services department.	
> Observed that visitors may only access the facility at one location, which is the designated visitor access point. Upon entering the facility visitors are greeted by an armed security guard, at which point the visitors are required to provide photo identification and formally sign into a visitor access log. Once photo ID is provided and the visitor is signed in, the visitor is issued a visitor badge, which explicitly states the dual requires an SCE escort to access the facility. If affiliate employees need to access the SCE facility, they are treated as visitors.	
2. Physical Data Center Security	
a. Met with personnel in the Infrastructure Technology group to determine how access to the data center is secured.	
> Noted that access to SCE data centers is secured through the use of electronic ID badges. Only users who require data center access are provisioned this access on their ID badges. Access is further restricted by a numeric key code. Visitors to the data center must provide photo identification to the armed security guard at the entrance of the data center. Visitors are also required to formally sign in to the data center security log, at which point they will be issued a guest badge. All visitors must be escorted by SCE Infrastructure personnel at the management level; no other Infrastructure personnel may escort visitors.	
b. Obtained the list of personnel with access to the Rosemead and Irvine data centers during 2010-2011 and tested to see that no other affiliate personnel had access to these data centers during this time.	

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## RULE V – SEPARATION

### 5.D.0.0.0 – D. Joint Purchases

#### 5.D.0.0.1 – Background

##### Rule V.D.

###### **Rule V.D. Joint Purchases:**

*To the extent not precluded by any other Rule, the utilities and their affiliates may make joint purchases of goods and services, but not those associated with the traditional utility merchant function. For purpose of these Rules, to the extent that a utility is engaged in the marketing of the commodity of electricity or natural gas to customers, as opposed to the marketing of transmission and distribution services, it is engaging in merchant functions. Examples of permissible joint purchases include joint purchases of office supplies and telephone services. Examples of joint purchases not permitted include gas and electric purchasing for resale, purchasing of gas transportation and storage capacity, purchasing of electric transmission, systems operations, and marketing. The utility must insure that all joint purchases are priced, reported, and conducted in a manner that permits clear identification of the utility and affiliate portions of such purchases, and in accordance with applicable Commission allocation and reporting Rules.*

#### 5.D.0.0.2 – Observations and Recommendations

SCE is in compliance with this Rule.

#### 5.D.0.0.3 – Procedures Performed

Baker Tilly performed the following procedures in its review of SCE's compliance with Rule V.D:

Procedures
1. Interviewed key personnel from this area to gain an understanding of SCE's interpretation of Rule V.D and how they ensure compliance.
2. Examined SCE's ATR Manual and Compliance Plans to ensure proper procedures are in place to comply with Rule V.D
3. Reviewed supporting documentation for a sample of joint purchases from 2010-2011 (i.e., Affiliate Officer Contract Approval Ledger – Joint Purchase Transactions in 2010-2011) to ensure that the joint purchases were priced, reported, and conducted in a manner that permits clear identification of the utility and affiliate portions.

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## RULE V – SEPARATION

### 5.E.0.0.0 – E. Corporate Support

#### 5.E.0.0.1 – Background

##### Rule V.E.

###### **Rule V.E. Corporate Support:**

*As a general principle, a utility, its parent holding company, or a separate affiliate created solely to perform corporate support services may share with its affiliates joint corporate oversight, governance, support systems and personnel, as further specified below. Any shared support shall be priced, reported and conducted in accordance with the Separation and Information Standards set forth herein, as well as other applicable Commission pricing and reporting requirements.*

*As a general principle, such joint utilization shall not allow or provide a means for the transfer of confidential information from the utility to the affiliate, create the opportunity for preferential treatment or unfair competitive advantage, lead to customer confusion, or create significant opportunities for cross-subsidization of affiliates. In the compliance plan, a corporate officer from the utility and holding company shall verify the adequacy of the specific mechanisms and procedures in place to ensure the utility follows the mandates of this paragraph, and to ensure the utility is not utilizing joint corporate support services as a conduit to circumvent these Rules.*

*Examples of services that may be shared include: payroll, taxes, shareholder services, insurance, financial reporting, financial planning and analysis, corporate accounting, corporate security, human resources (compensation, benefits, employment policies), employee records, regulatory affairs, lobbying, legal, and pension management. However, if a utility and its parent holding company share any key officers after 180 days following the effective date of the decision adopting these Rule modifications, then the following services shall no longer be shared: regulatory affairs, lobbying, and all legal services except those necessary to the provision of shared services still authorized. For purposes of this Rule, key officers are the Chair of the entire corporate enterprise, the President at the utility and at its holding company parent, the chief executive officer at each, the chief financial officer at each, and the chief regulatory officer at each, or in each case, any and all officers whose responsibilities are the functional equivalent of the foregoing.*

*Examples of services that may not be shared include: employee recruiting, engineering, hedging and financial derivatives and arbitrage services, gas and electric purchasing for resale, purchasing of gas transportation and storage capacity, purchasing of electric transmission, system operations, and marketing. However, if a utility and its parent holding company share any key officers (as defined in the preceding paragraph) after 180 days following the effective date of the decision adopting these Rule modifications, then the following services shall no longer be shared: regulatory affairs, lobbying, and all legal services except those necessary to the provision of shared services still authorized.*

SCE utilizes a Shared Support Matrix which lists the allowable shared support functions, type of affiliate the services can be shared with (Class A, B, or both), the proper internal accounting and applicable allocation methodology for these services. Corresponding business process owners and accounting personnel are listed for each function as the resource to contact for questions. The document also includes a list of restricted services that should not be shared with affiliates. If any SCE organizational unit not included on the matrix wants to provide shared support with an affiliate, a Corporate Support Authorization form must be completed and approved to enable the tracking and appropriate charging of such support. Corporate Support Authorization forms are reviewed by the ACO and approved by SCE's Director of Regulatory Compliance.

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### 5.E.0.0.2 – Observations and Recommendations

Observations	Recommendations
SCE-10: Affiliate Transaction Rule training is not being provided across all shared support functions or to each SCE employee that provides shared support services.	SCE-10: Affiliate Transaction Rule training should be more formal and provided consistently across all shared support functions. Note: In 2013 SCE implemented a formalized affiliate Rules training program which established the frequency of trainings to be required for each organizational unit performing tasks relevant to the Rules. A training matrix was created which grouped organizational units into various tiers as they relate to the Rules (issue spotters, officers, shared support, customer-facing, subject specific) to identify and ensure that training is provided to all relevant personnel.

#	Observation	Rule Violation Potential Impact	Actual or Potential Harm to Ratepayers
SCE-10	Affiliate Rule training is not being provided across all shared support functions or to each SCE employee that provides shared support services.	N/A– SCE employees that were interviewed did not indicate that there was a lack of any formal training or information regarding the affiliate transaction Rules.	An employee may inadvertently violate ATRs if they are unknowledgeable about them.

#### ***Selection Criteria for Observations***

SCE-10 Interview discussions with SCE employees

Baker Tilly performed interviews with 42 SCE employees from various shared support functions to assess their knowledge of the Rules and ensure that restricted services are not being provided to affiliates. Of these 42 employees, all were aware of the affiliate Rules with varying degrees of knowledge that ranged from general awareness and understanding of Rules pertaining to their function, to a detailed understanding of the Rules and their relevance across the utility. There were eleven duals who, although familiar with the Rules, had not received any specific training on the affiliate Rules. These duals were from the following shared support functions:

- > Travel Services
- > Bid Processing/Contract Management
- > Human Resources
- > Learning & Development (Compliance Training)
- > Employee Information Center
- > Corporate Program Management & Application Governance
- > IT Vendor Management (2 individuals)
- > Server Management/Computer Services
- > Business Resiliency
- > Corporate Records Management

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Although no formal training was provided, these duals are made aware of the requirements under the Rules on the job and in some cases attend annual meetings with Audit Services to be made aware of any changes or updates of the Rules.

During discussions, 3 shared support employees mentioned their awareness of an affiliate Rule violation that had occurred. All of these were pertaining to information that was inadvertently shared with an affiliate through group emails. Baker Tilly verified that these incidents and the shared information were posted publicly, as required by the affiliate Rules under Rule IV.B.

For additional verification that only services allowed under the Rules were being shared with affiliates, Baker Tilly reviewed a sample of intercompany bills and supporting cost detail and charges to ensure that only authorized functions were performed. A sample of intercompany billings was selected and each labor cost object was traced to the authorized Shared Support Matrix, which details all authorized shared support functions. All labor cost objects reviewed were properly authorized.

All labor cost objects were either traced to the shared support matrix directly included in the report or were identified as allowable services, as detailed in the affiliate transaction Rules.

### 5.E.0.0.3 – Procedures Performed

Baker Tilly performed the following procedures in its review of SCE's compliance with Rule V.E:

Procedures	
1.	Interviewed key personnel from this area to gain an understanding of SCE's interpretation of Rule V.E and how they ensure compliance.
2.	Examined SCE's ATR Manual and Compliance Plans to ensure proper procedures are in place to comply with Rule V.E
3.	Reviewed a sample of 2010-2011 inter-affiliate bills and supporting cost detail to verify that only services allowed under Rule V.E were being shared with affiliates.
4.	Performed interviews with 33 SCE employees in various shared support functions to assess their knowledge of the Rules and ensure that restricted services are not being provided to affiliates.

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## RULE V – SEPARATION

### 5.F.0.0.0 – F. Corporate Identification and Advertising

#### 5.F.0.0.1 – Background

##### Rule V.F.

###### **Rule V.F. Corporate Identification and Advertising:**

1. *A utility shall not trade upon, promote, or advertise its affiliate's affiliation with the utility, nor allow the utility name or logo to be used by the affiliate or in any material circulated by the affiliate, unless it discloses in plain legible/ or audible language, on the first page or at the first point where the utility name or logo appears that*
  - a) *the affiliate "is not the same company as [i.e., PG&E, Edison, the Gas Company, etc.], the utility,";*
  - b) *the affiliate is not regulated by the California Public Utilities Commission; and*
  - c) *"you do not have to buy [the affiliate's] products in order to continue to receive quality regulated services from the utility." The application of the name/logo*
2. *A utility, through action or words, shall not represent that, as a result of the affiliate's affiliation with the utility, its affiliates will receive any different treatment than other service providers.*
3. *A utility shall not offer or provide to its affiliates advertising space in utility billing envelopes or any other form of utility customer written communication unless it provides access to all other unaffiliated service providers on the same terms and conditions.*
4. *A utility shall not participate in joint advertising or joint marketing with its affiliates. This prohibition means that utilities may not engage in activities which include, but are not limited to the following:*
  - a) *A utility shall not participate with its affiliates in joint sales calls, through joint call centers or otherwise, or joint proposals (including responses to requests for proposals (RFPs)) to existing or potential customers. At a customer's unsolicited request, a utility may participate, on a nondiscriminatory basis, in non-sales meetings with its affiliates or any other market participant to discuss technical or operational subjects regarding the utility's provision of transportation service to the customer;*
  - b) *Except as otherwise provided for by these Rules, a utility shall not participate in any joint activity with its affiliates. The term "joint activities" includes, but is not limited to, advertising, sales, marketing, communications and correspondence with any existing or potential customer;*
  - c) *A utility shall not participate with its affiliates in trade shows, conferences, or other information or marketing events held in California.*
5. *A utility shall not share or subsidize costs, fees, or payments with its affiliates associated with research and development activities or investment in advanced technology research.*

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## RULE V – SEPARATION

### 5.F.0.0.2 – Observations and Recommendations

SCE is in compliance with this Rule. During our interviews, SCE indicated that in 2010 and 2011, its affiliates were primarily focused on electric generation and thus SCE would not have jointly participated or jointly marketed with its affiliates in conferences, trade shows, and marketing events in California. In accordance with its ATR Manual, SCE does not jointly coordinate with its affiliates in participating in conferences, trade shows, and marketing events and avoids the appearance of utility employees speaking on behalf of an affiliate.

Further, SCE indicated that research and development activities during 2010 and 2011 were conducted through the Electric Power Research Institute (EPRI) and such activities were focused on enhancing SCE's business and not of its affiliates, which were generation-focused.

### 5.F.0.0.3 – Procedures Performed

Baker Tilly performed the following procedures in its review of SCE's compliance with Rule V.F:

Procedures
1. Interviewed key personnel from this area to gain an understanding of SCE's interpretation of Rule V.F and how they ensure compliance.
2. Examined SCE's ATR Manual and Compliance Plans to ensure proper procedures are in place to comply with Rule V.F.
3. Tested a sample of SCE's utility marketing documents used in 2010 and 2011 to ensure that SCE did not promote or advertise its affiliate's affiliation with SCE.
4. Reviewed the utility marketing documents to ensure no representation of preferential treatment of affiliates.
5. Reviewed the utility marketing documents to ensure that SCE did not provide its affiliates advertising space.
6. Reviewed utility marketing documents to ensure that SCE did not participate in joint advertising or joint marketing activities with its affiliates during the audit period.
7. Interviewed SCE personnel to confirm that SCE would not have offered similar products to its affiliates in 2010 and 2011 to which they would have jointly participated or jointly marketed in conferences, trade shows, and marketing events in California.
8. Interviewed SCE personnel to confirm that SCE's research and development activities or investments in advanced research technology in 2010 and 2011 are not shared or subsidized with its affiliates.

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## RULE V – SEPARATION

### 5.G.0.0.0 – G. Employees

#### 5.G.0.0.1 – Background

##### Rule V.G.1

###### *Rule V.G. Employees:*

1. Except as permitted in Rule V E (corporate support), a utility and its affiliates shall not jointly employ the same employees, This Rule prohibiting joint employees also applies to Board Directors, and corporate officers except for the following circumstances: In instances when this Rule is applicable to holding companies, any board member or corporate officer may serve on the holding company and with either the utility or affiliate (but not both) to the extent consistent with Rule V E (corporate support). Where the utility is a multi-state utility, is not a member of a holding company structure, and assumes the corporate governance functions for the affiliates, the prohibition against any board member or corporate officer of the utility also serving as a board member or corporate officer of an affiliate shall only apply to affiliates that operate within California. In the case of shared directors and officers, a corporate officer from the utility and holding company shall describe and verify in the utility's compliance plan required by Rule VI the adequacy of the specific mechanisms and procedures in place to ensure that the utility is not utilizing shared officers and directors as a conduit to circumvent any of these Rules. In its compliance plan, the utility shall list all shared directors and officers between the utility and affiliates. No later than 30 days following a change to this list, the utility shall notify the Commission's Energy Division and the parties on the service list of R.97-04-011/I.97-04-012 of any change to this list.

#### 5.G.0.0.2 – Observations and Recommendations

SCE is in compliance with this Rule.

#### 5.G.0.0.3 – Procedures Performed

Baker Tilly performed the following procedures in its review of SCE's compliance with Rule V.G.1:

Procedures
1. Interviewed key personnel from this area to gain an understanding of SCE's interpretation of Rule V.G.1 and how they ensure compliance.
2. Examined SCE's ATR Manual and Compliance Plans to ensure proper procedures are in place to comply with Rule V.G.1
3. Reviewed SCE's 2010 and 2011 Intercompany Service Request forms to determine that "blanket" requests were not being issued.

#### 5.G.0.0.1 – Background

##### Rule V.G.2.a-d

###### *Rule V.G. Employees:*

2. All employee movement between a utility and its affiliates shall be consistent with the following provisions:



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## RULE V – SEPARATION

a) A utility shall track and report to the Commission all employee movement between the utility and affiliates. The utility shall report this information annually pursuant to our Affiliate Transaction Reporting Decision, D.93-02-016, 48 CPUC2d 163, 171-172 and 180 (Appendix A, Section I and Section II H.).

b) Once an employee of a utility becomes an employee of an affiliate, the employee may not return to the utility for a period of one year. This Rule is inapplicable if the affiliate to which the employee transfers goes out of business during the one-year period. In the event that such an employee returns to the utility, such employee cannot be retransferred, reassigned, or otherwise employed by the affiliate for a period of two years. Employees transferring from the utility to the affiliate are expressly prohibited from using information gained from the utility in a discriminatory or exclusive fashion, to the benefit of the affiliate or to the detriment of other unaffiliated service providers.

c) When an employee of a utility is transferred, assigned, or otherwise employed by the affiliate, the affiliate shall make a one-time payment to the utility in an amount equivalent to 25% of the employee's base annual compensation, unless the utility can demonstrate that some lesser percentage (equal to at least 15%) is appropriate for the class of employee included. In the limited case where a rank-and-file (non-executive) employee's position is eliminated as a result of electric industry restructuring, a utility may demonstrate that no fee or a lesser percentage than 15% is appropriate. All such fees paid to the utility shall be accounted for in a separate memorandum account to track them for future ratemaking treatment (i.e. credited to the Electric Revenue Adjustment Account or the Core and Noncore Gas Fixed Cost Accounts, or other ratemaking treatment, as appropriate), on an annual basis, or as otherwise necessary to ensure that the utility's ratepayers receive the fees. This transfer payment provision will not apply to clerical workers. Nor will it apply to the initial transfer of employees to the utility's holding company to perform corporate support functions or to a separate affiliate performing corporate support functions, provided that that transfer is made during the initial implementation period of these Rules or pursuant to a § 851 application or other Commission proceeding. However, the Rule will apply to any subsequent transfers or assignments between a utility and its affiliates of all covered employees at a later time.

d) Any utility employee hired by an affiliate shall not remove or otherwise provide information to the affiliate which the affiliate would otherwise be precluded from having pursuant to these Rules.

The following table includes the total affiliate transfer fee payments made in 2010 and 2011.

#	Transfer from/to	Year	Affiliate Transfer Fee <sup>1</sup>	25% of Base Annual Compensation with interest <sup>2</sup>	Transfer Fee equal to 25% Base Annual Compensation?
1	SCE to EME	2010	\$35,361.54	\$35,361.54	Yes
2	SCE to EME	2010	\$36,298.82	\$36,298.82	Yes
3	SCE to EME	2011	\$253,034.31	\$213,184.30	Yes
4	SCE to EME	2011	N/A <sup>3</sup>	\$39,850.01	Yes
5	SCE to EME	2011	\$37,379.12	\$37,379.12	Yes
6	SCE to EME	2011	\$90,540.64	\$90,540.64	Yes
	TOTAL		\$452,614.43	\$452,614.43	

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## RULE V – SEPARATION

### Notes:

1. Affiliate Transfer Fee taken from the Affiliate Transfer Fee Memorandum Account (ATFMA) General Ledger Balances from 2010 and 2011; fee includes interest accrued monthly by applying one-twelfth of the Federal Reserve three-month Commercial Paper Rate.
2. Base annual compensation includes an employee's base pay, results sharing, bonus/incentives, lump sum, stock options, and benefits.
3. There were 2 employee transfers that occurred in January 2011, but only 1 transfer fee payment was booked in the Affiliate Transfer Fee Memorandum Account 2011 general ledger. However, the January 2011 general ledger equals the sum of the calculated 25% of compensation and benefits of these 2 employees.

### 5.G.0.0.2 – Observations and Recommendations

SCE is in compliance with this Rule.

### 5.G.0.0.3 – Procedures Performed

Baker Tilly performed the following procedures in its review of SCE's compliance with Rule V.G.2.a-d:

Procedures
1. Interviewed key personnel from this area to gain an understanding of SCE's interpretation of Rule V.G.2.a-d and how they ensure compliance.
2. Examined SCE's ATR Manual and Compliance Plans to ensure proper procedures are in place to comply with Rule V.G.2.a-d.
3. For testing adherence to Rule V.G.2.a, ensured that recording of employee transfers in the 2010 and 2011 annual Affiliate Employee Transfer reports was done in accordance with the Affiliate Transaction Reporting Decision, CPUC Decision D.93-02-019, 48 CPUC2d 163, 171-172 and 180 (Appendix A, Section I and Section II H.)
4. For testing adherence to Rule V.G.2.b, calculated the number of days between original end date with SCE or its affiliate and the new start with SCE or its affiliate from the employee transfer residency requirements in 2010 and 2011.
5. Compared the Affiliate Employee Transfer reports to the list of employee transfers reported in the 2010 and 2011 Annual Affiliate Transaction reports to ensure the report was complete.
6. For testing compliance with Rule V.G.2.c, calculated 25% of transferring employees' base annual compensation to ensure that the employee transfer fee was properly paid in the 2010 and 2011 Affiliate Transfer Fee Memorandum Accounts (ATFMA) General Ledger balances.
7. Interviewed SCE personnel to understand the interest rate being applied to the ATFMA General Ledger Balances to calculate the transfer payment.
8. Reviewed supporting documentation showing the transferring employees' acknowledgement of restrictions imposed by the Affiliate Transaction Rules.
9. For testing compliance to Rule V.G.2.d, reviewed the signed "Adherence to Affiliate Transaction Communication Policies" forms and the Affiliate Transfer process flows to ensure that transferring employees acknowledged the restrictions imposed by the Affiliate Transaction Rules.

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## RULE V – SEPARATION

### 5.G.0.0.1 – Background

#### Rule V.G.2.e

##### **Rule V.G. Employees:**

2. All employee movement between a utility and its affiliates shall be consistent with the following provisions:

*e) A utility shall not make temporary or intermittent assignments, or rotations to its energy marketing affiliates. Utility employees not involved in marketing may be used on a temporary basis (less than 30% of an employee's chargeable time in any calendar year) by affiliates not engaged in energy marketing only if:*

*i. All such use is documented, priced and reported in accordance with these Rules and existing Commission reporting requirements, except that when the affiliate obtains the services of a non-executive employee, compensation to the utility should be priced at a minimum of the greater of fully loaded cost plus 10% of direct labor cost, or fair market value. When the affiliate obtains the services of an executive employee, compensation to the utility should be priced at a minimum of the greater of fully loaded cost plus 15% of direct labor cost, or fair market value.*

*ii. Utility needs for utility employees always take priority over any affiliate requests;*

*iii. No more than 5% of full time equivalent utility employees may be on loan at a given time;*

*iv. Utility employees agree, in writing, that they will abide by these Affiliate Transaction Rules; and*

*v. Affiliate use of utility employees must be conducted pursuant to a written agreement approved by appropriate utility and affiliate officers.*

### 5.G.0.0.2 – Observations and Recommendations

SCE is in compliance with this Rule.

Observations	Recommendations
SCE-11: Currently, SCE has monthly loaned labor reports to track the hours that SCE employees perform work for affiliates, to ensure those hours account for no more than 30% of their chargeable time. However, there is no mechanism in place to track the 5% FTE provision in V.G.2.e.iii, which requires that "no more than 5% of full time equivalent utility employees may be on loan at a given time.	SCE-11: Though SCE in 2010-2011 was well below the 5% threshold of FTE employees being on loan at any given time, SCE should consider a simple control in their monthly loaned labor reports to ensure compliance with this provision on a real-time basis.

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## RULE V – SEPARATION

#	Observation	Rule Violation Potential Impact	Actual or Potential Harm to Ratepayers
SCE-11	Currently, SCE has monthly loaned labor reports to track the hours that SCE employees perform work for affiliates, to ensure those hours account for no more than 30% of their chargeable time. However, there is no mechanism in place to track the 5% FTE provision in V.G.2.e.iii, which requires that “no more than 5% of full time equivalent utility employees may be on loan at a given time.	N/A- In 2010-2011, SCE was well below the 5% threshold of FTE employees being on loan at any given time	Potentially harmful only if percentage of FTE SCE employees exceeded the 5% loan threshold and if loaned labor was not being accurately tracked.

***Selection Criteria for Observations***

SCE-11 Percentage of FTE SCE employees exceeding the 5% loan threshold

**5.G.0.0.3 – Procedures Performed**

Baker Tilly performed the following procedures in its review of SCE’s compliance with Rule V.G.2.e:

Procedures
1. Interviewed key personnel from this area to gain an understanding of SCE’s interpretation of Rule V.G.2.e and how they ensure compliance.
2. Examined SCE’s ATR Manual and Compliance Plans to ensure proper procedures are in place to comply with Rule V.G.2.e.
3. Tested a sample of SCE’s 2010 and 2011 monthly loaned labor reports and the 2010 and 2011 Form 10-K’s to determine compliance with the provisions of Rule V.G.2.e
4. For each of the sample loaned labor, tested the following attributes to document proper approval: <ul style="list-style-type: none"> <li>a. Labor was authorized by the Intercompany Service Request – Corporate Support Authorization (ISR – CSA) log</li> <li>b. Labor was authorized by Shared Support Matrix</li> </ul>
5. Tested the following attribute to provide support labor being charged properly to affiliates: <ul style="list-style-type: none"> <li>a. Labor traceable to Intercompany/ Affiliate Billing</li> </ul>
6. Tested the following attributes of the ISR samples: <ul style="list-style-type: none"> <li>a. An Intercompany Service Request form was completed</li> <li>b. Affiliate Approval</li> <li>c. SCE Department Approval</li> <li>d. Utility Employee Acknowledgement</li> <li>e. Affiliates Officer Approval</li> </ul>

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## RULE V – SEPARATION

Procedures
7. Tested the following attributes of the CSA samples: a. A Corporate Support Authorization form was completed b. Review of Affiliate Compliance Officer (ACO) notes on the Corporate Support Authorization form c. Approval of SCE’s Directory of Regulatory Compliance noted
8. Tested that the SCE employees not involved in marketing were used on a temporary basis (less than 30% of an employee’s chargeable time in any calendar year)
9. Tested that no more than 5% of full time equivalent SCE employees may be on loan to an affiliate at a given time

### 5.H.0.0.0 – H. Transfer of Goods and Services

#### 5.H.0.0.1 – Background

##### Rule V.H.

**Rule V.H. Transfer of Good and Services:**

*To the extent that these Rules do not prohibit transfers of goods and services between a utility and its affiliates, and except for as provided by Rule V.G.2.e, all such transfers shall be subject to the following pricing provisions:*

1. *Transfers from the utility to its affiliates of goods and services produced, purchased or developed for sale on the open market by the utility will be priced at fair market value.*
2. *Transfers from an affiliate to the utility of goods and services produced, purchased or developed for sale on the open market by the affiliate shall be priced at no more than fair market value.*
3. *For goods or services for which the price is regulated by a state or federal agency, that price shall be deemed to be the fair market value, except that in cases where more than one state commission regulates the price of goods or services, this Commission’s pricing provisions govern.*
4. *Goods and services produced, purchased or developed for sale on the open market by the utility will be provided to its affiliates and unaffiliated companies on a nondiscriminatory basis, except as otherwise required or permitted by these Rules or applicable law.*
5. *Transfers from the utility to its affiliates of goods and services not produced, purchased or developed for sale by the utility will be priced at fully loaded cost plus 5% of direct labor cost.*
6. *Transfers from an affiliate to the utility of goods and services not produced, purchased or developed for sale by the affiliate will be priced at the lower of fully loaded cost or fair market value.*

Baker Tilly identified all the following goods and services transferred in 2010 and 2011:

#	Property Transferred	Transfer from/to	Year	Transfer Price	Basis for Price	Compliant with pricing provisions?
1	Blackberry	SCE to EIX	2010	\$4.00	Market value	Yes
2	Printer	SCE to EIX	2010	\$1,561.17	Book value *	Yes
3	Laptop	SCE to EIX	2010	\$1,290.67	Book value *	Yes

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### RULE V – SEPARATION

#	Property Transferred	Transfer from/to	Year	Transfer Price	Basis for Price	Compliant with pricing provisions?
4	Blackberry	SCE to EIX	2011	\$90.00	Market value	Yes
5	Blackberry	SCE to EIX	2011	\$90.00	Market value	Yes
6	HP Printer	SCE to EIX	2011	\$93.27	Market value	Yes
7	Dell Laptop	SCE to EIX	2011	\$796.68	Book value *	Yes
8	Dell Laptop	SCE to EIX	2011	\$844.80	Book value *	Yes
9	Blackberry	SCE to EIX	2011	\$90.00	Market value	Yes
10	Dell Laptop	SCE to EIX	2011	\$1,018.17	Book value *	Yes
11	Blackberry	SCE to EIX	2011	\$20.00	Market value	Yes
12	Dell Laptop	SCE to EIX	2011	\$962.13	Book value *	Yes
13	Blackberry	SCE to EIX	2011	\$90.00	Market value	Yes
14	Dell Laptop	SCE to EIX	2011	\$985.60	Book value *	Yes
15	Blackberry Bold	SCE to EIX	2011	\$90.00	Market value	Yes
16	Dell Laptop	SCE to EIX	2011	\$732.61	Book value *	Yes
17	Blackberry	SCE to EIX	2011	\$90.00	Market value	Yes
	TOTAL	SCE to EIX		\$8,849.10		

\*Note: SCE opted to protect the ratepayers by charging the affiliates the higher of the book value or the market value when data are available.

#### 5.H.0.0.2 – Observations and Recommendations

SCE is in compliance with this Rule.

#### 5.H.0.0.3 – Procedures Performed

Baker Tilly performed the following procedures in its review of SCE’s compliance with Rule V.H:

Procedures
1. Interviewed key personnel from this area to gain an understanding of SCE’s interpretation of Rule V.H and how they ensure compliance.
2. Examined SCE’s ATR Manual and Compliance Plans to ensure proper procedures are in place to comply with Rule V.H.
3. Tested all property transfers (i.e., goods and services) that took place in 2010 and 2011 between SCE and its affiliates to determine that transfer prices were appropriately priced per the pricing provisions of Rule V.H.

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## RULE VI – REGULATORY OVERSIGHT

### 6.0 – RULE VI: REGULATORY OVERSIGHT

#### 6.A.0.0.0 – A. Compliance Plans

##### 6.A.0.0.1 – Background

###### Rule VI.A.

###### **Rule VI.A. Compliance Plans:**

*No later than June 30, 2007, each utility shall file a compliance plan by advice letter with the Energy Division of the Commission. The compliance plan shall include:*

- 1. A list of all affiliates of the utility, as defined in Rule I A of these Rules, and for each affiliate, its purpose or activities, and whether the utility claims that Rule II B makes these Rules applicable to the affiliate;*
- 2. A demonstration of the procedures in place to assure compliance with these Rules.*

Under Rule VI.A, SCE is required to develop and file a compliance plan to the CPUC on an annual basis. This compliance plan should demonstrate to the CPUC that there are adequate procedures in place that will preclude the sharing of prohibited information with its affiliates.

##### 6.A.0.0.2 – Observations and Recommendations

Baker Tilly makes the following observations and recommendations regarding SCE's compliance with Rule VI.A:

Observations	Recommendations
SCE-12: The 2010 and 2011 Compliance plans did include a list of all affiliates and their classifications, however, classifications for 12 affiliates on these lists were not accurate because SCE did not update the lists to reflect changes in classifications. (See also Observation 2 under Rule 1.0.0.0.2)	SCE-12: SCE should create a checklist for the annual Compliance Plan process to ensure that the list of affiliates is updated to reflect any affiliate and/or classification changes.
SCE-13: SCE does not include any detail explaining their compliance with Rule VIII in the Compliance Plans. All that is noted is "SCE maintains appropriate procedures and mechanisms to ensure compliance with this Rule."	SCE-13: SCE should expand on the processes and controls in place to ensure compliance with Rule VIII, including (1) complaints procedures and (2) conduct of the utility in preventing and identifying violations.

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## RULE VI – REGULATORY OVERSIGHT

#	Observation	Rule Violation Potential Impact	Actual or Potential Harm to Ratepayers
SCE-12	The 2010 and 2011 Compliance plans did include a list of all affiliates and their classifications, however, classifications for 12 affiliates on these lists were not accurate because SCE did not update the lists to reflect changes in classifications. <i>(See also Observation 2 under Rule 1.0.0.0.2)</i>	NA – process improvement	N/A, Reporting
SCE-13	SCE does not include any detail explaining their compliance with Rule VIII in the Compliance Plans. All that is noted is “SCE maintains appropriate procedures and mechanisms to ensure compliance with this Rule.”	NA – process improvement	N/A, Reporting

### 6.A.0.0.3 – Procedures Performed

Baker Tilly performed the following procedures in its review of SCE’s compliance with Rule VI.A:

Procedures
1. Interviewed key personnel from this area to gain an understanding of SCE’s interpretation of Rule VI.A and how they ensure compliance.
2. Reviewed SCE’s 2010 and 2011 Compliance Plans to ensure they were filed by June 30 <sup>th</sup> .
3. Examined the 2010 – 2011 Compliance Plans to ensure SCE has demonstrated that they have proper procedures in place to assure compliance with the Rules.



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## RULE VI – REGULATORY OVERSIGHT

### 6.B.0.0.0 – B. New Affiliate Compliance Plans

#### 6.B.0.0.1 – Background

##### Rule VI.B.

##### *Rule VI.B. New Affiliate Compliance Plans:*

*Upon the creation of a new affiliate the utility shall immediately notify the Commission of the creation of the new affiliate, as well as posting notice on its electronic bulletin board. No later than 60 days after the creation of this affiliate, the utility shall file an advice letter with the Energy Division of the Commission, The advice letter shall state the affiliate’s purpose or activities, whether the utility claims that Rule II B makes these Rules applicable to the affiliate, and shall include demonstration to the Commission that there are adequate procedures in place that will ensure compliance with these Rules.*

Rule VI.B requires SCE to notify the CPUC of the creation of a new affiliate. SCE had 29 new affiliates in 2010 and 20 new affiliates in 2011, all of which are Class A affiliates and therefore covered under the Rules. Below is a list of all new affiliates in 2010 and 2011:

Affiliate Notification Log - 2010						
Affiliate Name	Date Incorporated	Date ACO Notified	Notification to Energy	Advice Letter		Date Affiliates List posted to sce.com
				Number	Date	
Mission Wind Laredo, Inc.	3/9/2010	3/10/2010	3/11/2010	2471-E	5/13/2010	3/10/2010
Laredo Ridge Wind, LLC (formerly Cedar Creek Wind, LLC)	Acquired 100% 5/27/10 (previously owned 5%)	5/28/2010	6/1/2010	2480-E	6/3/2010	6/1/2010
Mission Wind Boquillas, Inc	6/1/2010	6/2/2010	6/2/2010	2480-E	6/3/2010	6/2/2010
Latin American Power Ventures, LLC.	6/30/2010	7/2/2010	7/2/2010	2488-E	7/7/2010	6/21/2011
Community Wind North, LLC	9/27/2010	9/30/2010	10/1/2010	2518-E	10/6/2010	10/1/2010
North Community Turbines LLC	9/27/2010	9/30/2010	10/1/2010	2518-E	10/6/2010	10/1/2010
North Wind Turbines LLC	9/27/2010	9/30/2010	10/1/2010	2518-E	10/6/2010	10/1/2010
Community Wind North 1 LLC	9/27/2010	9/30/2010	10/1/2010	2518-E	10/6/2010	10/1/2010
Community Wind North 2 LLC	9/27/2010	9/30/2010	10/1/2010	2518-E	10/6/2010	10/1/2010
Community Wind North 3 LLC	9/27/2010	9/30/2010	10/1/2010	2518-E	10/6/2010	10/1/2010
Community Wind North 4 LLC	9/27/2010	9/30/2010	10/1/2010	2518-E	10/6/2010	10/1/2010
Community Wind North 5 LLC	9/27/2010	9/30/2010	10/1/2010	2518-E	10/6/2010	10/1/2010
Community Wind North 6 LLC	9/27/2010	9/30/2010	10/1/2010	2518-E	10/6/2010	10/1/2010
Community Wind North 7 LLC	9/27/2010	9/30/2010	10/1/2010	2518-E	10/6/2010	10/1/2010
Community Wind North 8 LLC	9/27/2010	9/30/2010	10/1/2010	2518-E	10/6/2010	10/1/2010
Community Wind North 9 LLC	9/27/2010	9/30/2010	10/1/2010	2518-E	10/6/2010	10/1/2010
Community Wind North 10 LLC	9/27/2010	9/30/2010	10/1/2010	2518-E	10/6/2010	10/1/2010
Community Wind North 11 LLC	9/27/2010	9/30/2010	10/1/2010	2518-E	10/6/2010	10/1/2010
Community Wind North 12 LLC	9/27/2010	9/30/2010	10/1/2010	2518-E	10/6/2010	10/1/2010
Community Wind North 13 LLC	9/27/2010	9/30/2010	10/1/2010	2518-E	10/6/2010	10/1/2010
Community Wind North 14 LLC	9/27/2010	9/30/2010	10/1/2010	2518-E	10/6/2010	10/1/2010
Community Wind North 15 LLC	9/27/2010	9/30/2010	10/1/2010	2518-E	10/6/2010	10/1/2010
Aurora Starlight Wind, LLC	11/9/2010	11/11/2010	11/15/2010	2527-E	11/17/2010	11/15/2010
Mission Wind Aurora Starlight, Inc.	11/9/2010	11/11/2010	11/15/2010	2527-E	11/17/2010	11/15/2010
Pioneer Trail Wind, LLC	11/17/2010	11/22/2010	11/23/2010	2532-E	12/1/2010	11/23/2010
Wildorado Interconnect, LLC	9/30/2010	12/3/2010	12/6/2010	2535-E	12/8/2010	12/6/2010
Edison Mission Walnut Creek, Inc.	12/9/2010	12/17/2010	12/17/2010	2539-E	12/21/2010	12/17/2010
Mission Wind Pinnacle, Inc.	12/16/2010	12/17/2010	12/17/2010	2539-E	12/21/2010	12/17/2010
AES Walnut Creek, LLC	Acquisition of 49% of existing company effective 12/13/2010	12/23/2010	12/23/2010	2541-E	12/29/2010	12/23/2010

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## RULE VI – REGULATORY OVERSIGHT

Affiliate Notification Log - 2011						
Affiliate Name	Date Incorporated	Date ACO Notified	Notification to Energy Division	Advice Letter		Date Affiliates List posted to sce.com
				Number	Date	
Bloomfield Hills Wind, LLC	2/24/2011	3/1/2011	3/3/2011	2561-E	3/8/2011	3/2/2011
Mission Wind Bloomfield Hills, Inc.	2/24/2011	3/1/2011	3/3/2011	2561-E	3/8/2011	3/2/2011
South Texas Wind, LLC	3/1/2011	3/3/2011	3/3/2011	2561-E	3/8/2011	3/3/2011
Edison Mission Huntington Beach, LLC	3/8/2011	3/10/2011	3/14/2011	2562-E	3/16/2011	3/14/2011
Mineral County Transportation, LLC	3/11/2011	3/14/2011	3/14/2011	2562-E	3/16/2011	3/14/2011
North Wind Cooperative	9/27/2010	5/9/2011	5/9/2011	2584-E	5/12/2011	5/9/2011
Mission Procurement, LLC	5/16/2011	5/18/2011	5/24/2011	2586-E	5/26/2011	7/21/2011
WCEP Holdings, LLC	5/31/2011	6/1/2011	6/2/2011	2589-E	6/7/2011	6/2/2011
Edison Mission Arroyo Nogales, Inc.	6/13/2011	6/14/2011	6/16/2011	2595-E	6/20/2011	6/15/2011
Edison Mission Walnut Creek II, LLC	7/11/2011	7/12/2011	7/13/2011	2603-E	7/15/2011	6/15/2011
Mission Wind Broken Bow, Inc.	7/15/2011	7/18/2011	7/18/2011	2605-E	7/20/2011	7/18/2011
	Acquired 5% interest					
Broken Bow Wind II, LLC	7/11/11	7/26/2011	7/29/2011	2614-E	8/1/2011	7/28/2011
Mission Wind Terra Investments, LLC	8/15/2011	8/16/2011	8/16/2011	2618-E	8/19/2011	8/16/2011
Tapestry Wind, LLC	9/26/2011	9/28/2011	9/29/2011	2634-E	10/3/2011	9/29/2011
Capistrano Wind Holdings, Inc.	9/28/2011	10/3/2011	10/4/2011	2636-E	10/6/2011	10/4/2011
Capistrano Wind, Inc.	9/28/2011	10/3/2011	10/4/2011	2636-E	10/6/2011	10/4/2011
Capistrano Wind, LLC	9/28/2011	10/3/2011	10/4/2011	2636-E	10/6/2011	10/4/2011
Capistrano Wind II, LLC	9/28/2011	10/3/2011	10/4/2011	2636-E	10/6/2011	10/4/2011
Capistrano Wind Partners, LLC	9/28/2011	10/3/2011	10/4/2011	2636-E	10/6/2011	10/4/2011
Mission Mountain Wind, LLC	11/18/2011	11/21/2011	11/21/2011	2663-E	11/30/2011	11/18/2011

### 6.B.0.0.2 – Observations and Recommendations

Baker Tilly makes the following observations and recommendations regarding SCE's compliance with Rule VI.B:

Observations	Recommendations
SCE-14: SCE did not submit an advice letter notifying the CPUC of 3 new affiliates within 60 days.	SCE-14: SCE should develop and implement controls to ensure that new affiliate notification by advice letter occurs on time.
SCE-15: Thirty-six new affiliates were not posted to SCE.com within 3 days. Note: SCE interprets this requirement to mean 3 days from the time SCE is notified of a new acquisition from an affiliate, not 3 days from the actual creation/acquisition date of the affiliate.	SCE-15: SCE should develop and implement controls to ensure that new affiliate notification is posted to the website on time. SCE should also develop a formal process with its affiliates to ensure they are notified immediately when an affiliate creates or acquires a new affiliate.
SCE-16: The CPUC was not immediately notified of new affiliates within 3 days for 35 new affiliates. Note: SCE interprets this requirement to mean 3 days from the time SCE is notified of a new acquisition from an affiliate, not 3 days from the actual creation/acquisition date of the affiliate.	SCE-16: SCE should develop a formal process with its affiliates to ensure they are notified immediately when an affiliate creates or acquires a new affiliate. This will ensure that SCE can comply with this Rule.

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## RULE VI – REGULATORY OVERSIGHT

#	Observation	Rule Violation Potential Impact	Actual or Potential Harm to Ratepayers
SCE-14	SCE did not submit an advice letter notifying the CPUC of 3 new affiliates within 60 days.	Medium – These affiliates did not have any transactions with SCE between the time of creation and the advice letter filing to the CPUC	Potential effect on ratepayers if unreported affiliates exist that are transacting with SCE with costs being passed on to ratepayers
SCE-15	Thirty-six new affiliates were not posted to SCE.com within 3 days.	Medium – These affiliates did not have any transactions with SCE between the time of creation and posting of affiliate to sce.com.	Potential effect on ratepayers if unreported affiliates exist that <i>are</i> transacting with SCE with costs being passed on to ratepayers
SCE-16	The CPUC was not immediately notified of new affiliates within 3 days for 35 new affiliates. Note: SCE interprets this requirement to mean 3 days from the time SCE is notified of a new acquisition from an affiliate, not 3 days from the actual creation/acquisition date of the affiliate.	Medium – Of the 35 affiliates that the CPUC did not receive immediate notification for, 33 were still within 10 business days of creation	Potential effect on ratepayers if unreported affiliates exist that <i>are</i> transacting with SCE with costs being passed on to ratepayers

### ***Selection Criteria for Observations***

SCE-14, SCE-15, SCE-16 Elapsed time between formation and notification, Dollar amount of transactions

### **6.B.0.0.3 – Procedures Performed**

Baker Tilly performed the following procedures in its review of SCE’s compliance with Rule VI.B:

Procedures
1. Interviewed key personnel from this area to gain an understanding of SCE’s interpretation of Rule VI.B and how they ensure compliance.
2. Reviewed the New Affiliate Notification Log from the Affiliate Compliance Office and ensured that all new affiliates were included in the 2010-2011 Compliance Plans.
3. Calculated the elapsed time from Affiliate creation/acquisition and notification to the CPUC of the new affiliate to ensure that the CPUC was immediately notified in writing within 3 days.
4. Calculated the elapsed time from Affiliate creation/acquisition and submission of the Advice Letter notifying the CPUC of the new affiliate to ensure that the CPUC was notified with 60 days.
5. Calculated the elapsed time from Affiliate creation/acquisition and the posting of the new affiliate on sce.com to ensure that the new affiliate was posted within 60 days.
6. Reviewed corresponding written immediate notification and Advice Letter to confirm that the CPUC was properly notified of the new affiliate.

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## RULE VI – REGULATORY OVERSIGHT

### Procedures

7. Reviewed the Annual Report to ensure creation date agrees with the Advice Letter and New Affiliate Notification Log.

## 6.C.0.0.0 – C. Affiliate Audit

### 6.C.0.0.1 – Background

#### Rule VI.C.

##### *Rule VI.C. Affiliate Audit:*

*The Commission's Energy Division shall have audits performed biennially by independent auditors. The audits shall cover the last two calendar years which ends on December 31, and shall verify that the utility is in compliance with the Rules set forth herein. The Energy Division shall post the audit reports on the Commission's web site. The audits shall be at shareholder expense.*

### 6.C.0.0.2 – Observations and Recommendations

SCE is in compliance with this Rule. SCE has an established cost center specifically for recording costs associated with the external Affiliate Transaction Rules audits. The cost center records to account 426.500 which is a below-the-line shareholder expense.

### 6.C.0.0.3 – Procedures Performed

Baker Tilly performed the following procedures in its review of SCE's compliance with Rule VI.C:

### Procedures

1. Interviewed key personnel to gain an understanding of how SCE ensures that audit expenses are passed along to the Shareholders and not the Ratepayers.
2. Obtained and reviewed general ledger support for audit charges from the previous and current audit to ensure that costs were recorded to a shareholder expense account.

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## RULE VI – REGULATORY OVERSIGHT

### 6.D.0.0.0 – D. Witness Availability

#### 6.D.0.0.1 – Background

##### Rule VI.D.

###### **Rule VI.D. Witness Availability:**

*Affiliate officers and employees shall be made available to testify before the Commission as necessary or required, without subpoena, consistent with the provisions of Public Utilities Code Section 314 and 701, the conditions in the Commission's orders authorizing the utilities' holding companies and/or mergers and these Rules.*

#### 6.D.0.0.2 – Observations and Recommendations

SCE is in compliance with Rule VI.D. SCE states in their Compliance Plans and ATR Manual that they will comply with Rule VI.D. There were no instances in 2010 or 2011 where an affiliate officer or employee was requested to testify before the Commission.

#### 6.D.0.0.3 – Procedures Performed

### 6.E.0.0.0 – E. Officer Certification

#### 6.E.0.0.1 – Background

##### Rule VI.E.

###### **Rule VI.E. Officer Certification.**

*No later than March 31 of each year, the key officers of a utility and its parent holding company, as defined in Rule V E (corporate support), shall certify to the Energy Division of the Commission in writing under penalty of perjury that each has personally complied with these Rules during the prior calendar year. The certification shall state:*

*I, [name], hold the office of [title] at [name of utility or holding company], and occupied this position from January 1, [year] to December 31[year],*

*I hereby certify that I have reviewed the Affiliate Transaction Rules Applicable to Large California Energy Utilities of the California Public Utilities Commission and I am familiar with the provisions therein. I further certify that for the above period, I followed these Rules and am not aware of any violations of them, other than the following: [list or state "none"].*

*I swear/affirm these representations under penalty of perjury of the laws of the State of California.*

\_\_\_\_\_  
[Signature]  
Executed at \_\_\_\_\_ [City], County of \_\_\_\_\_, on \_\_\_\_\_ [Date ]

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## RULE VI – REGULATORY OVERSIGHT

### 6.E.0.0.2 – Observations and Recommendations

Observations	Recommendations
<p>SCE-17: The Officer Certification forms utilized by SCE have been altered with the following footnote:</p> <p><i>“This certificate is based upon information and belief and does not include violations, if any, already reported to the Commission and/or publicly posted during the reporting period consistent with the utilities’ CPUC affiliate compliance plans. This certificate also excludes audits or investigations, if any, still in progress at the end of the reporting period. If violations are ultimately found, they will be posted and/or reported consistent with the utilities’ CPUC affiliate compliance plans.”</i></p> <p>This footnote alters the requirement originally imposed by this Rule and allows the officers to exclude violations from being reported.</p>	<p>SCE-17: SCE should remove the footnote from their Officer Certification forms and require officers to document and report all violations of which they are aware, on the certification form. Violations previously reported to the CPUC could be documented with a reference to the advice letter. For any investigations/audits that are still in progress, officers should report the violations that they know have been confirmed.</p>

#	Observation	Rule Violation Potential Impact	Actual or Potential Harm to Ratepayers
SCE-17	The Officer Certification forms utilized by SCE have been altered with a standard footnote as noted above.	Medium	<p>Potential effect on ratepayers if violations involving monetary transactions were not reported in a timely manner due to an ongoing investigation or audit.</p> <p>Key officers are not reviewing ATR violation which could result in cross-subsidization or impact the competitive energy market</p>

***Selection criteria for observations***

SCE-17 The likelihood of unreported violations

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## RULE VI – REGULATORY OVERSIGHT

### 6.E.0.0.3 – Procedures Performed

Baker Tilly performed the following procedures in its review of SCE’s compliance with Rule VI.E:

Procedures
1. Interviewed key personnel from this area to gain an understanding of SCE’s interpretation of Rule VI.E and how they ensure compliance.
2. Examined SCE’s ATR Manual and Compliance Plans to ensure proper procedures are in place to comply with Rule VI.E.
3. Verified that the Officer Certifications were filed by March 31 <sup>st</sup> of the following year.
4. Ensured that each of the key officers has signed off.
5. Compared the wording of the certification to the wording in Rule VI.E to ensure they match.
6. Verified that the certification was signed after the period of compliance.
7. Ensured that the key officers held their positions for the length of the compliance period.

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## RULE VII – UTILITY PRODUCTS AND SERVICES

### 7.0 – RULE VII: UTILITY PRODUCTS AND SERVICES

#### 7.A.0.0.0 – A. General Rule

##### 7.A.0.0.1 – Background

###### Rule VII.A.

###### *Rule VII.A. General Rule:*

*Except as provided for in these Rules, new products and services shall be offered through affiliates.*

##### 7.A.0.0.2 – Observations and Recommendations

SCE is in compliance with this Rule. No new products and services were offered during the audit period, except as provided for in these Rules.

#### 7.B.0.0.0 – B. General Rule

##### 7.B.0.0.1 – Background

###### Rule VII.B.

###### *Rule VII.B. Definitions:*

*The following definitions apply for the purposes of Rule VII.*

- 1. "Category" refers to a factually similar group of products and services that use the same type of utility assets or capacity. For example, "leases of land under utility transmission lines" or "use of a utility repair shop for third party equipment repair" would each constitute a separate product or service category.*
- 2. "Existing" products and services are those which a utility is offering on the effective date of these Rules.*
- 3. "Products" include use of property, both real and intellectual, other than those uses authorized under General Order 69-C.*
- 4. "Tariff" or "tariffed" refers to rates, terms and conditions of services as approved by this Commission or the Federal Energy Regulatory Commission (FERC), whether by traditional tariff, approved contract or other such approval process as the Commission or the FERC may deem appropriate.*

##### 7.B.0.0.2 – Observations and Recommendations

Rule VII.B is definitional in nature and requires no action by SCE.



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## RULE VII – UTILITY PRODUCTS AND SERVICES

### 7.C.0.0.0 – C. Utility Products and Services

#### 7.C.0.0.1 – Background

##### Rule VII.C.

###### **Rule VII.C.: Utility Products and Services:**

*Except as provided in these Rules, a utility shall not offer non-tariffed products and services. In no event shall a utility offer natural gas or electricity commodity service on a non-tariffed basis. A utility may only offer for sale the following products and services:*

1. Existing products and services offered by the utility pursuant to tariff;
2. Unbundled versions of existing utility products and services, with the unbundled versions being offered on a tariffed basis;
3. New products and services that are offered on a tariffed basis; and
4. Products and services which are offered on a non-tariffed basis and which meet the following conditions:
  - a. The non-tariffed product or service utilizes a portion of a utility asset or capacity;
  - b. such asset or capacity has been acquired for the purpose of and is necessary and useful in providing tariffed utility services;
  - c. the involved portion of such asset or capacity may be used to offer the product or service on a non-tariffed basis without adversely affecting the cost, quality or reliability of tariffed utility products and services;
  - d. the products and services can be marketed with minimal or no incremental ratepayer capital, minimal or no new forms of liability or business risk being incurred by utility ratepayers, and no undue diversion of utility management attention; and
  - e. The utility's offering of such non-tariffed product or service does not violate any law, regulation, or Commission policy regarding anticompetitive practices.

Rule VII.C describes the types of products and services the utility may offer. SCE may offer non-tariffed products and services as long as they meet the conditions set forth in Rule VII.C.4. SCE offered the following non-tariff products and services during the audit period:

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Product/Service Category	
Secondary Use of Transmission: Right of Ways and Land	Secondary Use of Distribution: Rights of Ways, Land, Facilities and Substations
Secondary Use of Utility - Owned Generation Facilities and Land	Secondary use of Utility - Owned Office Building and Offices
Use of Transmission Towers, Distribution Poles, Facilities, Conduits, Ducts and Streetlight Poles	Use of Communications and Computing Systems
License of Utility Software	Licensing of utility-Held Patents
Property Management, Property Maintenance, and Real Property Brokerage Services	Recreation, Fish and Wildlife Activities
Sales of Timber Stands on Utility-Owned Property	Use of Customer Technology Application Center (CTAC) and Agricultural Technology Application Center (AgTAC) Facilities
Electric Vehicle (EV), Battery, and Charger-related Services	Energy Efficiency Engineering, Consulting and Technical Services
Billing and Customer Communication Center Services for Non-ESP	Meter Reading and Field Services for Non-ESP's
Bill Payment Options	Vehicle Maintenance and Repair
Transportation and Disposal of Hazardous Materials	Use of Heavy Equipment and Machinery
Operation, Maintenance and Repair of Generation, Transmission and Distribution Related Facilities and Equipment	Advanced Testing of Hydraulic Pumps
Equipment and Machinery Repair, Testing, Maintenance, and Calibration	Geographical Information Systems (GIS) Services
Tariff Sheet Sales	Recycling Services
Training and Technical Certification Services	Material Procurement and Purchasing Services

The non-tariffed products and services offered during the audit period were approved by the Commission in Advice Letter 1286-E dated April 5, 2000. Baker Tilly reviewed this advice letter and confirmed that all products and services offered by SCE were included.

### 7.C.0.0.2 – Observations and Recommendations

SCE is in compliance with Rule VII.C

### 7.C.0.0.3 – Procedures Performed

Baker Tilly performed the following procedures in its review of SCE's compliance with Rule VII.C:

Procedures
1. Interviewed key personnel from this area to gain an understanding of SCE's interpretation of Rule VII.C and how they ensure compliance.
2. Examined SCE's ATR Manual and Compliance Plans to ensure proper procedures are in place to comply with Rule VII.C.
3. Reviewed Advice Letter 1286-E-A to ensure that the non-tariff products and services offered by SCE meet the criteria of Rule VII.C.
4. Examined the types of NTP&S contracts SCE entered into in 2010-2011 to ensure the service provided meets the criteria of Rule VII.C.4.

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## RULE VII – UTILITY PRODUCTS AND SERVICES

### Procedures

5. Reviewed marketing materials related to NTP&S to ensure ratepayers are not paying for advertising costs that should be paid by the shareholders.  
There was a total of \$74,400 spent on marketing for NTP&S in 2010 and 2011. Of this, \$15,000 was not considered incremental. These non-incremental charges were for advertising for Camp Edison. Per SCE, Camp Edison is supported by ratepayers in the GRC and the revenues associated with the campground are treated as a NTP&S. Under the “but for” test, ratepayers would still incur these advertising costs and also share 30% of the gross revenues from the Recreations, Fish and Wildlife category.

## 7.D.0.0.0 – D. Conditions Precedent to Offering New Products and Services

### 7.D.0.0.1 – Background

#### Rule VII.D.

##### **Rule VII.D.: Conditions Precedent to Offering New Products and Services:**

*This Rule does not represent an endorsement by the Commission of any particular non-tariffed utility product or service. A utility may offer new non-tariffed products and services only if the Commission has adopted and the utility has established:*

- 1. A mechanism or accounting standard for allocating costs to each new product or service to prevent cross-subsidization between services a utility would continue to provide on a tariffed basis and those it would provide on a non-tariffed basis;*
- 2. A reasonable mechanism for treatment of benefits and revenues derived from offering such products and services, except that in the event the Commission has already approved a performance-based ratemaking mechanism for the utility and the utility seeks a different sharing mechanism, the utility should petition to modify the performance-based ratemaking decision if it wishes to alter the sharing mechanism, or clearly justify why this procedure is inappropriate, rather than doing so by application or other vehicle.*
- 3. Periodic reporting requirements regarding pertinent information related to non-tariffed products and services; and*
- 4. Periodic auditing of the costs allocated to and the revenues derived from non-tariffed products and services.*

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### RULE VII – UTILITY PRODUCTS AND SERVICES

Rule VII.D states that SCE must have a mechanism in place for allocating costs to new products or services to prevent cross-subsidization between tariffed services and non-tariffed services. This Rule also states that SCE must perform periodic reporting of pertinent information related to non-tariffed products and services and must have periodic audits of the costs allocated to and the revenues derived from non-tariffed products and services.

In CPUC Decision 99-09-070, the Commission adopted a gross revenue sharing mechanism to be used to share revenues from non-tariffed products and services between ratepayers and shareholders. After reaching the annual threshold amount of \$16.7 million, ratepayers receive 10% of gross revenues from NTP&S activities classified as “active” and 30% of gross revenues from activities classified as “passive.” The table below shows how each of the NTP&S categories are classified for revenue sharing purposes:

Category	Classification
Secondary Use of Transmission: Right of Ways and Land	Passive
Secondary Use of Distribution: Rights of Ways, Land, Facilities and Substations	Passive
Secondary Use of Utility - Owned Generation Facilities and Land	Passive
Secondary use of Utility - Owned Office Building and Offices	Passive
Use of Transmission Towers, Distribution Poles, Facilities, Conduits, Ducts and Streetlight Poles	Passive
Use of Communications and Computing Systems	Active
License of Utility Software	Passive
Licensing of utility-Held Patents	Passive
Property Management, Property Maintenance, and Real Property Brokerage Services	Passive
Recreation, Fish and Wildlife Activities	Passive
Sales of Timber Stands on Utility-Owned Property	Passive
Use of Customer Technology Application Center (CTAC) and Agricultural Technology Application Center (AgTAC) Facilities	Passive
Electric Vehicle (EV), Battery, and Charger-related Services	Active
Energy Efficiency Engineering, Consulting and Technical Services	Passive
Billing and Customer Communication Center Services for Non-ESP	Active
Meter Reading and Field Services for Non-ESP's	Active
Bill Payment Options	Passive
Vehicle Maintenance and Repair	Passive
Transportation and Disposal of Hazardous Materials	Active
Use of Heavy Equipment and Machinery	Passive
Operation, Maintenance and Repair of Generation, Transmission and Distribution Related Facilities and Equipment	Active
Advanced Testing of Hydraulic Pumps	Passive

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Category	Classification
Equipment and Machinery Repair, Testing, Maintenance, and Calibration	Active
Geographical Information Systems (GIS) Services	Passive
Tariff Sheet Sales	Passive
Recycling Services	Passive
Training and Technical Certification Services	Passive
Material Procurement and Purchasing Services	Passive

The breakdown of how the gross revenues from NTP&S were allocated between shareholders and ratepayers during the audit period is as follows:

	2010	%	2011	%
Revenues allocated to Shareholders	\$ 62,100,000	68%	\$ 68,400,000	69%
Revenues allocated to Ratepayers	\$ 29,200,000	32%	\$ 30,200,000	31%
Total Gross Revenue	\$ 91,300,000	100%	\$ 98,600,000	100%

Although a portion of the gross revenues from NTP&S are allocated to the ratepayers, all of the incremental costs associated with each NTP&S are paid by the shareholders. Per SCE,

*The term “incremental cost” as used in Decision 99-09-070 applies to the capital and operating costs incurred in the process of offering a NTP&S which are directly attributable to offering that product or service. Costs that would not be incurred “but for” offering the NTP&S are clearly incremental. Use of temporarily available capacity (or “down time”) of the utility’s existing assets and personnel that does not result in an increase in utility costs is not considered incremental.*

The total incremental costs from NTP&S in 2010 and 2011 were \$47,421,000 and \$49,344,000, respectively. The incremental costs and gross revenues for each NTP&S category are shown in the Annual NTP&S Report to the Commission. This report is discussed in more detail under Rule 7.H. Periodic Reporting of Non-tariffed Products and Services.

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## RULE VII – UTILITY PRODUCTS AND SERVICES

### 7.D.0.0.2 – Observations and Recommendations

Baker Tilly makes the following observations and recommendations regarding SCE’s compliance with Rule VII.D:

Observations	Recommendations
SCE-18: The Gross Revenue Sharing Mechanism spreadsheet for 2011 included a formula error. This error occurred in January before the \$16.7 million threshold was reached so had no effect on the revenue sharing calculation, however, the error indicates a possible control weakness in the Gross Revenue Sharing process.	SCE-18: SCE should develop and implement controls to ensure that the Gross Revenue Sharing Mechanism is reviewed for accuracy (with a signature sign off showing review).
SCE- 19:SCE relies on the ATR auditing requirement in Rule VI.C to satisfy the requirement of Rule VII.D.4 for periodic auditing of the cost allocated to and the revenues derived from the NTP&S.	SCE-19: SCE’s Internal Audit function should periodically review the revenues and costs from NTP&S for accuracy.

#	Observation	Rule Violation Potential Impact	Actual or Potential Harm to Ratepayers
SCE-18	The Gross Revenue Sharing Mechanism spreadsheet for 2011 included a formula error. This error occurred in January before the \$16.7 million threshold was reached so had no effect on the revenue sharing calculation, however, the error indicates a possible control weakness in the Gross Revenue Sharing process.	N/A – process improvement	Although this was an immaterial error and the impact on ratepayers was low, the error exposed an SCE weakness in controls in the preparation of this report.  In 2014, SCE strengthened controls in this area of report information assembly
SCE-19	SCE relies on the ATR auditing requirement in Rule VI.C to satisfy the requirement of Rule VII.D.4 for periodic auditing of the cost allocated to and the revenues derived from the NTP&S.	N/A – process improvement	Reporting information only

***Selection criteria for observations***

SCE-18 Accuracy of the Gross Revenue Sharing Mechanism showing the amount of revenues passed on to ratepayers

### 7.D.0.0.3 – Procedures Performed

Baker Tilly performed the following procedures in its review of SCE’s compliance with Rule VII.D:

Procedures
1. Interviewed key personnel from this area to gain an understanding of SCE’s interpretation of Rule VII.D and how they ensure compliance.
2. Examined SCE’s ATR Manual and Compliance Plans to ensure proper procedures are in place to comply with Rule VII.D.
3. Reviewed SCE’s classifications of NTP&S categories to ensure they were correctly classified as “active” or “passive” as approved in Decision 99-09-070 and Advice Letter 1286-A-E.

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## RULE VII – UTILITY PRODUCTS AND SERVICES

Procedures
4. Recalculated the calculations used in the Gross Revenue Sharing Mechanism for accuracy.
5. Traced a sample of NTP&S revenues to SAP general ledger detail for accuracy.
6. Reviewed contracts with affiliates for NTP&S services for proper approval and to ensure all costs were paid by the shareholders and not the ratepayers. – Waiting on info for part of this yet.
7. Reviewed marketing materials related to NTP&S to ensure ratepayers are not paying for advertising costs that should be paid by the shareholders. There was a total of \$74,400 spent on marketing for NTP&S in 2010 and 2011. Of this, \$15,000 was not considered incremental. These non-incremental charges were for advertising for Camp Edison. Per SCE, Camp Edison is supported by ratepayers in the GRC and the revenues associated with the campground are treated as a NTP&S. Under the “but for” test, ratepayers would still incur these advertising costs and also share 30% of the gross revenues from the Recreations, Fish and Wildlife category.

### 7.E.0.0.0 – E. Requirement to File an Advice Letter

#### 7.E.0.0.1 – Background

##### Rule VII.E.

###### **Rule VII.E.: Requirement to File an Advice Letter:**

*Prior to offering a new category of non-tariffed products or services as set forth in Rule VII C above, a utility shall file an advice letter in compliance with the following provisions of this paragraph.*

1. *The advice letter shall:*
  - a. *demonstrate compliance with these Rules;*
  - b. *address the amount of utility assets dedicated to the non-utility venture, in order to ensure that a given product or service does not threaten the provision of utility service, and show that the new product or service will not result in a degradation of cost, quality, or reliability of tariffed goods and services;*
  - c. *address the potential impact of the new product or service on competition in the relevant market including but not limited to the degree in which the relevant market is already competitive in nature and the degree to which the new category of products or services is projected to affect that market.*
  - d. *be served on the service list of Rulemaking 97-04-011/Investigation 97-04-012, as well as on any other party appropriately designated by the Rules governing the Commission’s advice letter process.*
2. *For categories of non-tariffed products or services targeted and offered to less than 1% of the number of customers in the utility’s customer base, in the absence of a protest alleging non-compliance with these Rules or any law, regulation, decision, or Commission policy, or allegations of harm, the utility may commence offering the product or service 30 days after submission of the advice letter. For categories of non-tariffed products or services targeted and offered to 1% or more of the number of customers in the utility’s customer base, the utility may commence offering the product or service after the Commission approves the advice letter through the normal advice letter process.*
3. *A protest of an advice letter filed in accordance with this paragraph shall include:*
  - a. *An explanation of the specific Rules, or any law, regulation, decision, or Commission policy the utility will allegedly violate by offering the proposed product or service, with reasonable factual detail; or*
  - b. *An explanation of the specific harm the protestant will allegedly suffer.*

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4. *If such a protest is filed, the utility may file a motion to dismiss the protest within 5 working days if it believes the protestant has failed to provide the minimum grounds for protest required above. The protestant has 5 working days to respond to the motion.*
5. *The intention of the Commission is to make its best reasonable efforts to Rule on such a motion to dismiss promptly. Absent a ruling granting a motion to dismiss, the utility shall begin offering that category of products and services only after Commission approval through the normal advice letter process.*

### 7.E.0.0.2 – Observations and Recommendations

SCE is in compliance with Rule VII.E. SCE was not required to file any advice letters under this Rule during the audit period as they did not offer any new categories of NTP&S. No information came to our attention that would refute this assertion by SCE.

### 7.E.0.0.3 – Procedures Performed

Baker Tilly performed the following procedures in its review of SCE’s compliance with Rule VII.E:

Procedures
1. Interviewed key personnel from this area to gain an understanding of SCE’s interpretation of Rule VII.E and how they ensure compliance.
2. Examined SCE’s ATR Manual and Compliance Plans to ensure proper procedures are in place to comply with Rule VII.E.
3. Confirmed that no new categories of NTP&S were offered in 2010-2011.

## 7.F.0.0.0 – F. Existing Offerings

### 7.F.0.0.1 – Background

#### Rule VII.F.

##### **Rule VII.F. Existing Offering:**

*Unless and until further Commission order to the contrary as a result of the advice letter filing or otherwise, a utility that is offering tariffed or non-tariffed products and services, as of the effective date of this decision, may continue to offer such products and services, provided that the utility complies with the cost allocation and reporting requirements in this Rule. No later than January 30, 1998, each utility shall submit an advice letter describing the existing products and services (both tariffed and non-tariffed) currently being offered by the utility and the number of the Commission decision or advice letter approving this offering, if any, and requesting authorization or continuing authorization for the utility’s continued provision of this product or service in compliance with the criteria set forth in Rule VII. This requirement applies to both existing products and services explicitly approved and not explicitly approved by the Commission.*



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Rule VII.F did not require any action by SCE during the audit period. SCE filed Advice Letter 1286-E on January 30, 1998 establishing their existing tariffed and non-tariffed products and services. SCE then filed an updated Advice Letter (1286-E-A) on April 5, 2000. This Advice Letter was approved by the CPUC on September 29, 2003 retroactive to May 15, 2003. Information submitted in this advice letter includes: a description of the product or service offered, a description of the market the product or service is being sold, a description of how the utility's entry into the market has affected the relevant marketplace, and a summary of the various types, quantities, and costs of utility resources used to develop and sell the NTP&S. SCE evaluated the impact on competition in the relevant marketplace using the Five Forces Model of Competition developed by Michael Porter. Per Appendix D of Advice Letter 1286-E-A:

*The Five Forces Model helps identify an industry's structure; provides a helpful tool to explain a firm's role in the industry; and helps explain how a firm's presence affects the industry. According to the model, the nature and extent of competition in an industry are determined by 5 forces:*

- *Threat of new entrants;*
- *Bargaining power of customers;*
- *Bargaining power of suppliers;*
- *Threat of substitute products; and*
- *Jockeying among current firms in the market*

See Appendix C for a summary of the evaluation performed by SCE for their existing NTP&S.

### 7.F.0.0.2 – Observations and Recommendations

SCE is in compliance with Rule VII.F. No action was required by SCE during the audit period as this Rule relates to products and services existing at the time the Rules were drafted. The Commission may want to consider removing Rule VII.F as it is no longer applicable.

### 7.F.0.0.3 – Procedures Performed

Baker Tilly performed the following procedures in its review of SCE's compliance with Rule VII.F:

Procedures	
1.	Interviewed key personnel from this area to gain an understanding of SCE's interpretation of Rule VII.F and how they ensure compliance.
2.	Examined SCE's ATR Manual and Compliance Plans to ensure proper procedures are in place to comply with Rule VII.F.
3.	Reviewed the data supplied to the Commission in Advice Letter 1286-E-A to gain an understanding of SCE's evaluation of how the existing NTP&S categories impact the marketplace.

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## RULE VII – UTILITY PRODUCTS AND SERVICES

### 7.G.0.0.0 – G. Section 851 Application

#### 7.G.0.0.1 – Background

##### Rule VII.G.

###### **Rule VII.G. Section 851 Application:**

*A utility must continue to comply fully with the provisions of Public Utilities Code Section 851 when necessary or useful utility property is sold, leased, assigned, mortgaged, disposed of, or otherwise encumbered as part of a non-tariffed product or service offering by the utility. If an application pursuant to Section 851 is submitted, the utility need not file a separate advice letter, but shall include in the application those items which would otherwise appear in the advice letter as required in this Rule.*

SCE submitted two 851 Advice Letters and three 851 Applications as required by Rule VII.G during the 2010-2011 audit period. All five of these pertained to lease agreements and none were with affiliates.

#### 7.G.0.0.2 – Observations and Recommendations

SCE is in compliance with Rule VII.G.

#### 7.G.0.0.3 – Procedures Performed

Baker Tilly performed the following procedures in its review of SCE's compliance with Rule VII.G:

Procedures	
1.	Interviewed key personnel from this area to gain an understanding of SCE's interpretation of Rule VII.G and how they ensure compliance.
2.	Examined SCE's ATR Manual and Compliance Plans to ensure proper procedures are in place to comply with Rule VII.G.
3.	Gained an understanding of the requirements by reviewing the California Public Utilities Code Section 851.
4.	Reviewed the two Advice Letters and three applications submitted in 2010-2011 for compliance with Section 851.
5.	Examined the 851 Advice Letters filed during the audit period for CPUC approval.
6.	Confirmed with SCE management, that SCE had no property sales, mortgages, or assignments during the 2010-2011 audit period.

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## RULE VII – UTILITY PRODUCTS AND SERVICES

### 7.H.0.0.0 – H. Periodic Reporting of Non-tariffed Products and Services

#### 7.H.0.0.1 – Background

##### Rule VII.H.

###### **Rule VII.H. Periodic Reporting of Non-tariffed Products and Services:**

*Any utility offering non-tariffed products and services shall file periodic reports with the Commission's Energy Division twice annually for the first two years following the effective date of these Rules, then annually thereafter unless otherwise directed by the Commission. The utility shall serve periodic reports on the service list of this proceeding. The periodic reports shall contain the following information:*

- 1. A description of each existing or new category of non-tariffed products and services and the authority under which it is offered;*
- 2. A description of the types and quantities of products and services contained within each category (so that, for example, "leases for agricultural nurseries at 15 sites" might be listed under the category "leases of land under utility transmission lines," although the utility would not be required to provide the details regarding each dual lease);*
- 3. The costs allocated to and revenues derived from each category; and*
- 4. Current information on the proportion of relevant utility assets used to offer each category of product and service.*

Rule VII.H requires SCE to submit NTP&S reports on an annual basis. Although this Rule doesn't state a specific due date for the report submission, SCE has committed in its Compliance Plan and ATR Manual to submit their reports by June 1<sup>st</sup>, reporting for the previous calendar year. In 2010, SCE originally submitted their NTP&S report on 4/6/11 with a revised report submitted on 7/18/11 due to an overstatement of incremental costs reported of \$921,000.

#### 7.H.0.0.2 – Observations and Recommendations

Baker Tilly makes the following observations and recommendations regarding SCE's compliance with Rule VII.H:

Observations	Recommendations
SCE-20: SCE had 5 errors in the amount of incremental costs reported on the 2010 NTP&S report and 3 errors on the amount of incremental costs reported on the 2011 NTP&S report. These errors had a net effect of \$8,676,000 of incremental costs being under-reported in the 2010 and 2011 NTP&S reports. See below for details of these errors.	SCE-20: SCE should perform a reconciliation of the cost reported in the NTP&S report to the costs recording in the general ledger. SCE should also compare cost center detail to prior years, get an explanation for large variances, and ensure the cost centers are excluded from the General Rate Case (GRC) forecasts. Baker Tilly recommends that SCE update its 2010 and 2011 NTP&S reports and resubmit them to the Commission.

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Observations	Recommendations
CPUC-5: Rule VII.H does not specify a due date for submission of the NTP&S reports.	CPUC-5: Rule VII.H should be updated to specify when the annual NTP&S reports need to be submitted.
SCE-21: SCE inappropriately included incremental costs (\$258,545) in determining the revenue requirement for its 2015 General Rate Case (GRC). See next page for details of these errors.	SCE-21: Although SCE's 2015 GRC revenue requirement has not yet been approved by the CPUC for inclusion in rates, Baker Tilly recommends that in addition to removing the recorded 2012 NTP&S incremental costs from SCE's 2015 GRC forecast that SCE should perform a detailed review the costs included in future GRC forecasts to ensure all incremental costs are excluded. In addition, Baker Tilly recommends that all incremental costs be recorded in separate accounts from non-incremental costs to more easily exclude incremental costs from the GRC. Note: In 2014, SCE had indicated that they were looking into alternative processes to mitigate this type of issue moving-forward.

Incremental Cost errors identified in the 2010/2011 NTP&S Reports:

Description	2010	2011	Comments
Under-reporting: Cost Center F515137 (CRE)	\$ 405,554	\$ -	Cost Center not reported in 2010, but reported in 2011
Over-reporting: Cost Element 6112035 (ESI)	(200,000)	-	Warranty expense credit which offset incremental costs not reported
Under-reporting: Cost Center F515237 (CRE)	-	29,352	(\$211.37) reported instead of \$29,145.66
Under-reporting Cost Element 8030027 (T&D)	3,455	-	Two cost elements recorded on 12/31/10 not reported
Under-reporting CRE Litigation Expense	4,814,465	3,606,704	Misreported CRE Litigation Expenses
Under-reporting: ECS Litigation Expense	2,975	13,669	Misreported ECS Litigation Expenses
Total:	\$ 5,026,449	\$ 3,649,730	

The above errors had a net effect of \$8,676,000 of incremental costs being under-reported in the 2010 and 2011 NTP&S reports. This represents approximately 9% of the \$96.8 million of incremental costs incurred in 2010 and 2011. These costs were appropriately recorded to the general ledger, however, SCE did not include all of the accounts/cost centers that it should have when developing the NTP&S reports. Since these are incremental costs that should be excluded from the general rate case, these errors should have no impact to ratepayers.

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To ensure all incremental costs are paid by shareholders and not the ratepayers, Baker Tilly reviewed the final cost centers for these incremental costs to ensure they were excluded from the GRC. In review of the incremental costs included in the 2015 GRC, it was revealed that some incremental costs were inappropriately included in the revenue requirement. The table below shows the final cost centers and recorded NTP&S incremental costs in 2012 that were inappropriately included in the 2015 GRC. Note: The 2015 GRC uses 2012 costs to determine the revenue requirement. The previous GRC was in 2012 which used 2009 costs for determining the revenue requirement.

Final Cost Center used in 2012/ Description of NTP&S Category	Recorded Incremental Cost	Inappropriately Included / Excluded?	Comments
F514247 (Corporate Real Estate)	\$0	Included	
F514248 (Corporate Real Estate)	\$9,253	Included	
F514250 (Corporate Real Estate)	\$4,820	Included	
F514253 (Corporate Real Estate)	\$0	Included	
F514260 (Corporate Real Estate)	\$29,410	Included	
F514262 (Corporate Real Estate)	\$12,239	Included	
F514290 (Corporate Real Estate)	\$18,520	Included	
F514292 (Corporate Real Estate)	\$10,346	Included	
F520037 (T&D)	\$36,930	Included	Joint Pole related
F520197 (T&D)	\$65,018	Included	Pole maps
F525180 (ECS)	\$10,035	Included	ECS Legal Costs
F525180 (CRE)	\$61,974	Included	Outside Legal costs for NTP&S litigation
<b>Total:</b>	<b>\$258,545</b>		

As shown in the table above, \$258,545 of incremental costs were inappropriately included in the 2015 GRC. Per SCE, they “will be filing errata to its 2015 GRC forecast to exclude these costs. Since SCE’s 2015 GRC revenue requirement has not yet been approved by the CPUC for inclusion in rates, SCE’s ratepayers have not been charged for these NTP&S incremental costs.” The filing will be done on September 15, 2014 with SCE’s rebuttal testimony.

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#	Observation	Rule Violation Potential Impact	Actual or Potential Harm to Ratepayers
SCE-20	SCE had 5 errors in the amount of incremental costs reported on the 2010 NTP&S report and 3 errors on the amount of incremental costs reported on the 2011 NTP&S report.	Medium	Although this was an immaterial error and none of the incremental costs were passed on to ratepayers, the error exposed an SCE weakness in controls in the preparation of this report.
CPUC-5	Rule VII.H does not specify a due date for submission of the NTP&S reports.	N/A	Reporting information only
SCE-21	SCE inappropriately included incremental costs in determining the revenue requirement for its 2015 General Rate Case (GRC).	Medium	Although SCE's 2015 GRC revenue requirement has not yet been approved by the CPUC for inclusion in rates and hence ratepayers have not been charged yet for these NTP&S incremental costs, this misappropriation exposed the possibility of the cost centers not being properly reviewed to ensure inclusion/exclusion from general rate case forecasts.

***Selection criteria for observations***

SCE-20 and 21: Incremental costs that were incorrectly reported and passed on to ratepayers

### **7.H.0.0.3 – Procedures Performed**

Baker Tilly performed the following procedures in its review of SCE's compliance with Rule VII.H:

Procedures
1. Interviewed key personnel from this area to gain an understanding of SCE's interpretation of Rule VII.H and how they ensure compliance.
2. Examined SCE's ATR Manual and Compliance Plans to ensure proper procedures are in place to comply with Rule VII.H.
3. Reviewed the 2010 and 2011 NTP&S Reports to ensure the inclusion of the data required under Rule VII.H.
4. Traced the incremental costs and gross revenues reported in the 2010 and 2011 NTP&S reports to general ledger detail to ensure accuracy of reporting.
5. Traced the final cost centers used to record NTP&S incremental costs to ensure that these costs are excluded from SCE's general rate cases.

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### RULE VII – UTILITY PRODUCTS AND SERVICES

#### 7.1.0.0.0 – I. Offering of Non-tariffed Products and Services to Affiliates

##### 7.1.0.0.1 – Background

###### Rule VII.I.

###### **Rule VII.I Offering of Non-tariffed Products and Services to Affiliates:**

*Non-tariffed products and services which are allowed by this Rule may be offered to utility affiliates only in compliance with all other provisions of these Affiliate Rules. Similarly, this Rule does not prohibit affiliate transactions which are otherwise allowed by all other provisions of these Affiliate Rules.*

SCE entered into the following NTP&S contracts with affiliates in 2010 and 2011:

Review Date	Utility Department or Subsidiary	Contact	EIX-Affiliated Company	Contract Amount	Scope of Work	Contract	Review	Contract Dates
3/23/2010	ESI	P. Downey	Watson Cogen	\$ 2,000	Repair and calibration of one protection relay	Switchgear Maintenance and Testing Agreement dated 09/23/88	ZWB	3-24-10-4-02-10
03/30/10	ESI	P. Downey	Midway Sunset	\$ 4,500	Vibration Training	Time and Material Bid	ZWB	03/30/10 - 04/16/10
08/11/10	ESI	P. Downey	Midway Sunset	\$ 7,500	Vibration Training and Program Audit	Time and Material Bid	ZWB	8/9/10 - 8/30/10
08/18/10	ESI	P. Downey	Edison Mission O&M	\$ 2,000	Technical Consultation to advise on transformer issues	Work Authorization Form	ZWB	8/19/2010 - 8/19/2010
10/05/10	ESI	P. Downey	Watson Cogen	\$ 5,000	Emergency work to troubleshoot and repair a 230kV breaker	Work Authorization Form	ZWB	10/5/2010 - 10/7/2010
02/17/11	ESI	P. Downey	Watson Cogen	\$ 25,872	Annual breaker and relay testing	WAF	ZWB	5-1-11 through 8-31-11
03/09/11	ESI	p. Downey	Midway Sunset	\$ 3,000	Trim balance SCR vaporizer fans	WAF	ZWB	3-9-11 through 3-16-2011
06/16/11	ESI	P. Downey	Watson Cogen	\$ 35,000	Perform relay testing	Time and Material Bid, awarded via email	ZWB	10-31-11 through 11-30-11
7/15/2011	ESI	P. Downey	Watson Cogen	\$ 25,000	Repair EM motor exciter stator	WAF	ZWB	7-15-11 through 7-21-11

All of the above contracts with affiliates fall under the NTP&S category “Equipment and Machinery Repair, Testing, Maintenance and Calibration” and are performed by Edison ESI. Edison ESI is a regulated subsidiary of SCE that provides operations, maintenance, and repair services for large electrical equipment.

##### 7.1.0.0.2 – Observations and Recommendations

SCE is in compliance with Rule VII.I.

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### 7.1.0.0.3 – Procedures Performed

Baker Tilly performed the following procedures in its review of SCE's compliance with Rule VII.I:

Procedures	
1.	Interviewed key personnel from this area to gain an understanding of SCE's interpretation of Rule VII.I and how they ensure compliance.
2.	Examined SCE's ATR Manual and Compliance Plans to ensure proper procedures are in place to comply with Rule VII.I.
3.	Reviewed contracts and Work Authorization Forms with affiliates to ensure the dates, amounts, and scope of work matches the contracts listed in the Annual Report.
4.	Reviewed approval of work by the Directory of Regulatory Compliance for all NTP&S contracts entered into with affiliates during the audit period.



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## RULE VIII – COMPLAINT PROCEDURES AND REMEDIES

### 8.0 – RULE VIII: COMPLAINT PROCEDURES AND REMEDIES

#### 8.A.0.0.0 – 8.C.1.0.0 – C. Procedure

##### 8.A.0.0.1 – 8.C.1.0.0 – Background

###### **Rule VIII.A:**

*The Commission shall strictly enforce these Rules. Each act or failure to act by a utility in violation of these Rules may be considered a separate occurrence.*

###### **Rule VIII.B Standing:**

1. Any person or corporation as defined in Sections 204, 205, and 206 of the California Public Utilities Code may complain to the Commission or to a utility in writing, setting forth any act or thing done or omitted to be done by any utility or affiliate in violation or claimed violation of any Rule set forth in this document.
2. "Whistle blower complaints" will be accepted and the confidentiality of complainant will be maintained until conclusion of an investigation or indefinitely, if so requested by the whistle blower. When a whistleblower requests anonymity, the Commission will continue to pursue the complaint only where it has elected to convert it into a Commission-initiated investigation. Regardless of the complainant's status, the defendant shall file a timely answer to the complaint.

###### **Rule VIII.C.1 Procedure:**

1. All complaints shall be filed as formal complaints with the Commission and complainants shall provide a copy to the utility's designated officer (as described below) on the same day that the complaint is filed

##### 8.A.0.0.2 – 8.C.1.0.2 – Observations and Recommendations

Rules VIII.A, VIII.B, and VIII.C.1 do not require any specific action by SCE.

#### 8.C.2.0.0 – 8.C.4.0.0 – C. Procedure

##### 8.C.2.0.1 – 8.C.4.0.1 – Background

###### **Rule VIII.C.2 – VIII.C.4**

###### **VIII.C.2**

*Each utility shall designate an Affiliate Compliance Manager who is responsible for compliance with these affiliate Rules and the utility's compliance plan adopted pursuant to these Rules. Such officer shall also be responsible for receiving, investigating, and attempting to resolve complaints. The Affiliate Compliance Manager may, however, delegate responsibilities to other officers and employees.*

- a. The utility shall investigate and attempt to resolve the complaint. The resolution process shall include a meet-and-confer session with the complainant. A Commission staff member may, upon request by the utility or the complainant, participate in such meet-and-confer sessions and shall participate in the case of a whistleblower complaint.

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## RULE VIII – COMPLAINT PROCEDURES AND REMEDIES

*A party filing a complaint may seek a temporary restraining order at the time the formal complaint is filed. The defendant utility and other interested parties may file responses to a request for a temporary restraining order within 10 days of the filing of the request. An assigned commissioner or administrative law judge may shorten the period for responses, where appropriate. An assigned commissioner or administrative law judge, or the Commission shall act on the request for a temporary restraining order within 30 days. The request may be granted when: (1) the moving party is reasonably likely to prevail on the merits, and (2) a temporary restraining order relief is necessary to avoid irreparable injury, will not substantially harm other parties, and is consistent with the public interest.*

*A notice of temporary restraining order issued by an assigned commissioner or administrative law judge will only stay in effect until the end of the day of the next regularly-scheduled Commission meeting at which the Commission can issue a temporary restraining order or a preliminary injunction. If the Commission declines to issue a temporary restraining order or a preliminary injunction, the notice of temporary restraining order will be immediately lifted. Whether or not a temporary restraining order or a preliminary injunction is issued, the underlying complaint may still move forward.*

- b. *The utility shall prepare and preserve a report on each complaint, all relevant dates, companies, customers and employees involved, and if applicable, the resolution reached, the date of the resolution and any actions taken to prevent further violations from occurring. The report shall be provided to the Commission and all parties within four weeks of the date the complaint was filed. In addition, to providing hard copies, the utility shall also provide electronic copies to the Commission and to any party providing an e-mail address.*
- c. *Each utility shall file annually with the Commission a report detailing the nature and status of all complaints.*
- d. *The Commission may, notwithstanding any resolution reached by the utility and the complainant, convert a complaint to an investigation and determine whether the utility violated these Rules, and impose any appropriate penalties under Section VIII.D or any other remedies provided by the Commission's Rules or the Public Utilities Code.*

### **Rule VIII.C.3**

*The utility will inform the Commission's Energy Division and Consumer Services Division of the results of this dispute resolution process. If the dispute is resolved, the utility shall inform the Commission staff of the actions taken to resolve the complaint and the date the complaint was resolved.*

### **Rule VIII.C.4**

*If the utility and the complainant cannot reach a resolution of the complaint, the utility will so inform the Commission's Energy Division. It will also file an answer to the complaint within 30 days of the issuance by the Commission's Docket Office of instructions to answer the original complaint. Within 10 business days of notice of failure to resolve the complaint, Energy Division staff will meet and confer with the utility and the complainant and propose actions to resolve the complaint. Under the circumstances where the complainant and the utility cannot resolve the complaint, the Commission shall strive to resolve the complaint within 180 days of the date the instructions to answer are served on the utility.*

Rule VIII.C.2 through Rule VIII.C.4 describes the requirements of SCE for ensuring compliance with these Rules. SCE has an Affiliate Compliance Manager responsible for ensuring that the Rules in the ATR Manual and Compliance Plan are interpreted and implemented correctly. The Affiliate Compliance Manager is also responsible for investigating and reporting all complaints the Affiliate Compliance Office receives.

### **8.C.2.0.2 – 8.C.4.0.2 – Observations and Recommendations**

SCE is in compliance with Rules VIII.C.2 – VIII.C.4. No complaints were filed in 2010 or 2011.

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## RULE VIII – COMPLAINT PROCEDURES AND REMEDIES

### 8.C.2.0.3 – 8.C.4.03 – Procedures Performed

Baker Tilly performed the following procedures in its review of SCE's compliance with Rule VIII.C.2 – VIII.C.4:

Procedures
1. Interviewed key personnel from this area to gain an understanding of SCE's interpretation of Rule VIII.C.2 – VIII.C.4 and how they ensure compliance.
2. Examined SCE's ATR Manual and Compliance Plans to ensure proper procedures are in place to comply with Rule VIII.C.2 – VIII.C.4.
3. Confirmed with the Affiliate Compliance Manager that no complaints were filed in 2010 or 2011.
4. Reviewed the Helpline Log to ensure there were no affiliate Rule complaints or violations logged in 2010-2011.

### 8.C.5.0.0 – C. Procedure

#### 8.C.5.0.1 – Background

##### **Rule VIII.C.5**

*The Commission shall maintain on its web page a public log of all new, pending and resolved complaints. The Commission shall update the log at least once every week. The log shall specify, at a minimum, the date the complaint was received, the specific allegations contained in the complaint, the date the complaint was resolved and the manner in which it was resolved, and a description of any similar complaints, including the resolution of such similar complaints.*

#### 8.C.5.0.2 – Observations and Recommendations

Rule VIII.C.5 does not require any specific action by SCE.

### 8.C.6.0.0 – C. Procedure

#### 8.C.6.0.1 – Background

##### **Rule VIII.C.6 Preliminary Decisions:**

- a. *Prior to filing a formal complaint, a potential complainant may contact the responsible utility officer and/or the Energy Division to inform them of the possible violation of the affiliate Rules. If the potential complainant seeks an informal meeting with the utility to discuss the complaint, the utility shall make reasonable efforts to arrange such a meeting. Upon mutual agreement, Energy Division staff and interested parties may attend any such meeting.*

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- b. *If a potential complainant makes an informal contact with a utility regarding an alleged violation of the affiliate transaction Rules, the utility officer in charge of affiliate compliance shall respond in writing to the potential complainant within 15 business days. The response would state whether or not the issues raised by the potential complainant require further investigation. (The potential complainant does not have to rely on the responses in deciding whether to file a formal complaint.)*

### 8.C.6.0.2 – Observations and Recommendations

SCE is in compliance with Rule VIII.C.6. SCE did not receive any complaints regarding the Affiliate Transaction Rules in 2010 or 2011.

### 8.D.1.0.0 – D. Remedies

#### 8.D.1.0.1 – Background

##### **Rule VIII.D. Remedies**

##### **Rule VIII.D.1**

*When enforcing these Rules or any order of the Commission regarding these Rules, the Commission may do any or all of the following:*

- a. *Order a utility to stop doing something that violates these Rules;*
- b. *Prospectively limit or restrict the amount, percentage, or value of transactions entered into between the utility and its affiliate(s);*
- c. *Assess fines or other penalties;*
- d. *Prohibit the utility from allowing its affiliate(s) to utilize the name and logo of the utility, either on a temporary or a permanent basis;*
- e. *Apply any other remedy available to the Commission.*

##### **Rule VIII.D.2**

*Any public utility which violates a provision of these Rules is subject to a fine of not less than five hundred dollars (\$500), nor more than \$20,000 for each offense. The remainder of this subsection distills the principles that the Commission has historically relied upon in assessing fines and restates them in a manner that will form the analytical foundation for future decisions in which fines are assessed. Before discussing those principles, reparations are distinguished.*

- a. *Reparations*

*Reparations are not fines and conceptually should not be included in setting the amount of a fine. Reparations are refunds of excessive or discriminatory amounts collected by a public utility. PU Code §7 34. The purpose is to return funds to the victim which were unlawfully collected by the public utility. Accordingly, the statute requires that all reparation amounts are paid to the victims. Unclaimed reparations generally escheat to the state, Code of Civil Procedure § 1519. 5, unless equitable or other authority directs otherwise, e.g., Public Utilities Code §394. 9.*

- b. *Fines:*

*The purpose of a fine is to go beyond restitution to the victim and to effectively deter further violations by this perpetrator or others. For this reason, fines are paid to the State of California, rather than to victims.*

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*Effective deterrence creates an incentive for public utilities to avoid violations. Deterrence is particularly important against violations which could result in public harm, and particularly against those where severe consequences could result. To capture these ideas, the two general factors used by the Commission in setting fines are: (1) severity of the offense and (2) conduct of the utility. These help guide the Commission in setting fines which are proportionate to the violation.*

### *i. The Severity of the Offense:*

*The severity of the offense includes several considerations. Economic harm reflects the amount of expense which was imposed upon the victims, as well as any unlawful benefits gained by the public utility. Generally, the greater of these two amounts will be used in establishing the fine. In comparison, violations which caused actual physical harm to people or property are generally considered the most severe, with violations that threatened such harm closely following.*

*The fact that the economic harm may be difficult to quantify does not itself diminish the severity or the need for sanctions. For example, the Commission has recognized that deprivation of choice of service providers, while not necessarily imposing quantifiable economic harm, diminishes the competitive marketplace such that some form of sanction is warranted.*

*Many potential penalty cases before the Commission do not involve any harm to consumers but are instead violations of reporting or compliance requirements. In these cases, the harm may not be to consumers but rather to the integrity of the regulatory processes. For example, compliance with Commission directives is required of all California Public Utilities:*

*"Every public utility shall obey and comply with every order, decision, direction, or Rule made or prescribed by the Commission in the matters specified in this part, or any other matter in any way relating to or affecting its business as a public utility, and shall do everything necessary or proper to secure compliance therewith by all of its officers, agents, and employees." Public Utilities Code §702. Such compliance is absolutely necessary to the proper functioning of the regulatory process. For this reason, disregarding a statutory or Commission directive, regardless of the effects on the public, will be accorded a high level of severity. The number of the violations is a factor in determining the severity. A series of temporally distinct violations can suggest an on-going compliance deficiency which the public utility should have addressed after the first instance. Similarly, a widespread violation which affects a large number of consumers is a more severe offense than one which is limited in scope. For a "continuing offense," PU Code §2108 counts each day as a separate offense.*

### *ii. Conduct of the Utility*

*This factor recognizes the important role of the public utility's conduct in (1) preventing the violation, (2) detecting the violation, and (3) disclosing and rectifying the violation. The public utility is responsible for the acts of all its officers, agents, and employees:*

*"In construing and enforcing the provisions of this part relating to penalties, the act, omission, or failure of any officer, agent or employee of any public utility, acting within the scope of his [or her] official duties or employment, shall in every case be the act, omission, or failure of such public utility." Public Utilities Code §2109.*

- 1) The Utility's Actions to Prevent a Violation. Prior to a violation occurring, prudent practice requires that all public utilities take reasonable steps to ensure compliance with Commission directives. This includes becoming familiar with applicable laws and regulations, and most critically, the utility regularly reviewing its own operations to ensure full compliance. In evaluating the utility's advance efforts to ensure compliance, the Commission will consider the utility's past record of compliance with Commission directives.*

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2) *The Utility's Actions to Detect a Violation. The Commission expects public utilities to monitor diligently their activities. Where utilities have for whatever reason failed to meet this standard, the Commission will continue to hold the utility responsible for its actions. Deliberate as opposed to inadvertent wrong-doing will be considered an aggravating/actor. The Commission will also look at the management's conduct during the period in which the violation occurred to ascertain particularly the level and extent of involvement in or tolerance of the offense by management personnel. The Commission will closely scrutinize any attempts by management to attribute wrong-doing to rogue employees. Managers will be considered, absent clear evidence to the contrary, to have condoned day-to-day actions by employees and agents under their supervision.*

3) *The Utility's Actions to Disclose and Rectify a Violation: When a public utility is aware that a violation has occurred, the Commission expects the public utility to promptly bring it to the attention of the Commission. The precise timetable that constitutes "prompt" will vary based on the nature of the violation. Violations which physically endanger the public must be immediately corrected and thereafter reported to the Commission staff. Reporting violations should be remedied at the earliest administratively feasible time. Prompt reporting of violations furthers the public interest by allowing for expeditious correction. For this reason, steps taken by a public utility to promptly and cooperatively report and correct violations may be considered in assessing any penalty.*

### *iii. Financial Resources of the Utility:*

*Effective deterrence also requires that the Commission recognize the financial resources of the public utility in setting a fine which balances the need for deterrence with the constitutional limitations on excessive fines. Some California utilities are among the largest corporations in the United States and others are extremely modest, one-person operations. What is accounting rounding error to one company is annual revenue to another. The Commission intends to adjust fine levels to achieve the objective of deterrence, without becoming excessive, based on each utility's financial resources.*

### *iv. Totality of Circumstances in Furtherance of the Public Interest*

*Setting a fine at a level which effectively deters further unlawful conduct by the subject utility and others requires that the Commission specifically tailor the package of sanctions, including any fine, to the unique facts of the case. The Commission will review facts which tend to mitigate the degree of wrongdoing as well as any facts which exacerbate the wrongdoing. In all cases, the harm will be evaluated from the perspective of the public interest.*

### *v. The Role of Precedent*

*The Commission adjudicates a wide range of cases which involve sanctions, many of which are cases of first impression. As such, the outcomes of cases are not usually directly comparable. In future decisions which impose sanctions the parties and, in turn, the Commission will be expected to explicitly address those previously issued decisions which involve the most reasonably comparable factual circumstances and explain any substantial differences in outcome.*

Rule VIII.D.1 through VIII.D.2.b.i discusses the fines and reparations that the Commission may assess for violations of the Affiliate Transaction Rules. Rule VIII.D.2.b.ii discusses SCE's role in preventing violations, detecting violations, and disclosing and rectifying violations. Rules VIII.D.2.b.iii through VIII.D.2.b.v further discusses fines the Commissions may assess for violations.

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SCE has processes and procedures in place to help prevent and detect Rule violations. One of the key procedures is use of their Internal Audit Function. SCE performed an internal audit in 2012 to determine whether there were sufficient controls in place to prevent violations of the Rules. Based on their risk assessment, the audit focused on the following Rules:

- VI.B Disclosure & Information- Non-Customer Specific Non-Public Information
- IV.F Record Keeping
- V.C Separation-Sharing of Plant, Facilities, Equipment or Costs
- V.E Separation- Corporate Support, Shared Corporate Support Functions
- VI.B Regulatory Oversight New Affiliate Notification to CPUC and Bulletin Board

The scope of the internal audit included the years ending 2009 and 2010, and the first quarter of 2011. The results of that internal audit with observations and recommendations made by SCE's Audit Services Department and actions taken by SCE's Affiliate Compliance Office to remediate those findings are as follows:

#	Observation	Recommendation	Actions Taken	Documentation Received Shows Appropriate Actions Taken?
<b>Observation #1: Inconsistent Compliance with Affiliate Transaction Rules</b>				
	1. The Affiliate Compliance Office (ACO) accurately reported to the CPUC all twelve employee transfers from SCE to an affiliate during 2009, with the exception of one employee, Sastry Balakrishna. In 2010, the ACO reported all seven employee transfers without exception. During 2009, Sastry Balakrishna transferred to an affiliate and worked for a period of six months. In January 2010, he left the affiliate after three weeks and applied for a new job at SCE. The Human Resources Department (HR) at SCE hired Sastry Balakrishna as a new employee; however, HR did not report his return from the affiliate	1. ASD recommends the following: a) ACO re-assess the process of employee movement between the utility and affiliates to ensure HR and any other organizations involved have a clear understanding of the requirements necessary for the ACO to determine employee movement eligibility. b) HR develops a procedure to ensure its consultants review the time spent at all EIX affiliated companies to determine compliance with Rule V.G.2.	1.a) Affiliate Compliance Office (ACO) met with HR staffing management and discussed all aspects of the employee transfer process. Auditor verified the meeting notices and meeting attendees for all of these meeting. ACO's response was provided on 4/23. A supplemental response was provided on 5/25. 1.b)1. The "As-Is" flowcharts provided by ACO to auditor on 4/23. The auditor considers the client's response/action plan for 1b1 to be adequate. 1.b)2. ACO provided the "to-be" process flow charts for all employee transfer processes. 1.b)3. ACO revised all employee transfer documentation. 1.b)4. ACO revised the Affiliate Compliance Manual to reflect the revised employee transfer process. 1.b)5. The ACO provided training to HR Staffing on 4/26. The training presentation and sign-in sheet were provided to	Yes, employee transfer process was modified and training to HR Staffing was conducted on 04/26/12 through receipt of training presentation and sign-in sheet.

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### RULE VIII – COMPLAINT PROCEDURES AND REMEDIES

#	Observation	Recommendation	Actions Taken	Documentation Received Shows Appropriate Actions Taken?
	to the ACO.		ASD on 5/25. 1.b)6. HR Compliance incorporated the employee transfer process into the HR Policy.	
	2. Audits selected ten of the 48 newly created affiliates to review. The ACO did not send notification to the CPUC for one of the newly created affiliates, North Wind Turbines LLC.	2. ASD recommends ACO reinforce the importance of complying with ATR Rule VI.B to the affiliates' staff involved in the employee movement process.	2. Auditor reviewed the documentation provided by John Quinlan to close this part of the observation.	No, a copy of an email addressed to the ASD supports the acknowledgement of the Audit Service Department's observations/recommendations regarding the notification of a new affiliate, but it does not support actions (i.e., change in processes or controls) taken to remediate the findings. The ASD's observation is consistent with Baker Tilly's observations in Rule VI.B.
<b>Observation #2: Non-compliance with Internal Policy and Procedures</b>				
	1. Based on Audit Services Department's (ASD) review of the new affiliates created during 2009, 2010 and the first quarter of 2011: a. The Affiliate Compliance Office (ACO) did not notify the CPUC of the creation of five new affiliates- Mission CWN Holdings, Inc., Cedro Hill Wind, LLC, Aurora Starlight Wind, LLC, Pioneer Trail Wind, LLC, and Bloomfield Hills Wind, LLC within three business days of their creation. b. The ACO did not post the creation of seven new affiliates- Mission CWN Holdings, Inc., Willow Springs Solar, LLC,	1. The ACO provide training to the relevant parties highlighting the importance of their compliance with the Affiliate Rules when creating new affiliate companies.	2.1: On April 4, 2012, the ACO revised the Section 16.03, New Affiliates Reporting, of the Affiliate Compliance Manual to be consistent with SCE's Compliance Plan. The revised Affiliate Compliance Manual was posted to the portal on the same day.	Yes, the 2012 Affiliate Compliance Manual was provided that shows the revision of the appropriate section on new affiliate reporting.



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#	Observation	Recommendation	Actions Taken	Documentation Received Shows Appropriate Actions Taken?
	Cedro Hill Wind, LLC, North Wind Turbines LLC, Aurora Starlight Wind LLC, Pioneer Trail Wind, LLC, and Bloomfield Hills Wind, LLC on SCE's affiliate website within three business days of their creation.			
	2. Corporate Security did not consistently follow its own policy and procedures outlined in its document "Security General Office Complex Access Control." Affiliate employees and officers did not consistently sign the Guest Register nor did they receive an escort to their destination when entering the General Office building from the underground parking.	2. The Corporate Security Office, in collaboration with the ACO, review the efficacy of its GO1 access procedures. Corporate Security updates its current documentation to reflect an enhanced access process requiring SCE and affiliate employee card swipes for garage entrance.	2.2: Corporate Security (CS) assessed the cost and feasibility of implementing enhanced employee access control technology in the G01 garage to monitor the ingress and egress of affiliates in the building. Based on the results of the assessment, this project will not be pursued further at this time. CS reviewed procedures related to affiliate access and made appropriate updates and improved visitor log requirements for affiliate employees.	Yes, a copy of the SDS Work Instruction document was provided which details procedures related to affiliate access.

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#	Observation	Recommendation	Actions Taken	Documentation Received Shows Appropriate Actions Taken?
	<p>3. Based on ASD's review of the ISR approval and monitoring processes:</p> <p>a) Management approved four out of twelve ISRs after the employees started their temporary assignment.</p> <p>b) Three out of the twelve temporarily assigned employees did not have hours charged against the associated Internal Order numbers noted in the ISR.</p>	<p>3. a) The ACO perform a comprehensive review of its ISR creation and monitoring procedures, with the goal of enhancing the effectiveness of controls to ensure the appropriate and timely approval of ISRs.</p> <p>b) Corporate Accounting use the appropriate SAP reports to enhance the tracking, monitoring, and oversight of compliance with the 30 percent Rule and develop procedures to validate inactivity on Internal Orders for active ISRs.</p>	<p>2.3a: After a review of the ISR process, the ACO implemented the following improvements:</p> <p>1) The ISR form was redesigned to allow approval signatures be collected in parallel.</p> <p>2) The ACO revised the ISR tracking log. The ISR tracking log contains two worksheets, the first worksheet contains all active ISRs and the second worksheet contains all executed ISR dating date to 2006.</p> <p>3) The ISR tracking log was placed on the shared drive and Corporate Accounting was given read-only access to the tracking log. Corporate Accounting uses the ISR tracking log to verify all ISR accounting on a monthly basis.</p> <p>4) All executed ISRs are now retained in folders, by calendar year, on the shared drive.</p> <p>2.3b: On a monthly basis, Corporate Accounting (CA) reviews the ISR tracking log which is developed and maintained by the Affiliate Compliance Office (ACO). CA views the ISR tracking log on the CA share drive. CA incorporates the ISR list into the Loaned Labor Report (LLR).</p>	<p>Yes, a copy of the revised ISR form was provided as well as a copy of the ISR tracking log.</p>

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### RULE VIII – COMPLAINT PROCEDURES AND REMEDIES

#	Observation	Recommendation	Actions Taken	Documentation Received Shows Appropriate Actions Taken?
<b>Observation #3: Lack of Formal Procedures to Support Compliance with Rule IV.B</b>				
	<p>Audit Services Department (ASD) reviewed seven Board of Director meeting agendas. One meeting may have inadvertently resulted in a violation of Rule IV.B. At the Board meeting on October 22, 2009, the President of Edison Mission Group (EMG) was present during the SCE report, during which presentations and discussions took place regarding the performance of SCE's San Onofre Nuclear Generating Station (SONGS), the operating status of SONGS, and the Steam Generator Replacement (SGR) project. Although ASD had the opportunity to review only the meeting agendas, the information disclosed may have not been publicly available.</p>	<p>ASD recommends Corporate Governance, in consultation with the ACO, develop formal procedures regarding Board of Directors' meetings to address Affiliate Transaction Rule IV.B.</p>	<p>Corporate Governance prepared and provided the distribution sheet showing which officers will receive Board and Committee Materials. Further, they provided the revised attendance sheets for each Board and Committee meeting. The attendance sheet shows the agenda topics, and if applicable, which EMG officers will not attend. Attendance is documented in the minutes. ACO reviewed the process and was comfortable with that and related back up documentation.</p>	<p>Yes, a copy of the board and committee member meeting notes from 2010 and 2011 were provided, which provided visibility into the meeting agenda and duals in attendance.</p>
<b>Observation #4: Lack of Formal Procedures for Affiliate Billing</b>				
	<p>1. Corporate Accounting personnel were unable to provide documented policies and procedures relating to affiliate transaction billings and charges when requested by Audit Services Department.</p>	<p>1. Corporate Accounting formalize an affiliate transaction policy and procedures with sufficient documentation readily understood by staff and auditors.</p>	<p>4.1: Corporate Accounting (CA) prepared step by step (desktop procedure) for recording the affiliate billing and posted to its share drive under "I:\FEA\GLSCE\COPORATE ACCTING\Affiliates Billing\Procedure for ASD\Monthly Recon All.xlsx"</p>	<p>Yes, a step-by-step procedure for recording the affiliate billing created by SCE's Corporate Accounting was provided.</p>

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#	Observation	Recommendation	Actions Taken	Documentation Received Shows Appropriate Actions Taken?
	2. Corporate Accounting is using leased space data from EIX as a source of information to charge EIX based on no interaction with or confirmation by Corporate Resources.	2. a) Corporate Resources develop procedures to provide updated information regarding EIX leased space (e.g. square footage by location) to Corporate Accounting on a regular basis. b) The Affiliate Compliance Office provide affiliate Rules training specifically relating to those Rules impacting Corporate Resources.	4.2a: Corporate Resources added the "EIX Space Charge Back Report" to its "Analyzing Space Management Reports" procedure.  4.2b: The ACO contacted the OS CR Space and Operational Planning Manager and identified the appropriate employees for the Affiliate Rules Training. On March 26, 2012, the ACO provided training to the Corporate Resources' employees. The ACO training presentation and the sign-in sheet listing all of the employees who attended the training was provided.	Yes, a copy of the "Analyzing Space Management Reports" procedure that includes the "EIX Space Charge Back Report" procedure and a copy of the ACO training presentation that occurred on 03/26/2012 and the sign-in sheet listing all of the employees who attended the training were provided.

#### 8.D.0.0.2 – Observations and Recommendations

Rules VIII.D through VIII.D.2.b.i and Rules VIII.D.2.b.iii through VIII.D.2.b.v do not require any specific action by SCE, however, Baker Tilly makes the following observations and recommendations regarding SCE's compliance with Rule VIII.D.2.b.ii:

Observations	Recommendations
SCE-22: Baker Tilly identified several Rule violations throughout this report indicating that SCE may not have the proper procedures and controls in place to prevent and detect Rule violations.	SCE-22: SCE should implement the recommendations provided in this report to help reduce the number of non-compliance issues with the Rules in the future.
SCE-23: SCE has a large internal audit function, however, only one internal audit report during 2010-2011 related to the Affiliate Transaction Rules.	SCE-23: Annual internal audits of various portions of the Affiliate Transaction Rules should be part of SCE's annual internal audit plan.
SCE-24: SCE did not require union employees to complete the Code of Conduct form during 2010-2011. Per SCE, "such a requirement would be a mandatory subject of bargaining with the unions, and the Collective Bargaining Agreements (CBA's) were not open for bargaining at the time."	SCE-24: All employees (including union employees) should complete the code of conduct form. Per SCE, the Collective Bargaining Agreements are now open for bargaining and SCE plans to discuss with the unions the participation of their members in completing the annual code certification going forward.

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#	Observation	Rule Violation Potential Impact	Actual or Potential Harm to Ratepayers
SCE-22	Baker Tilly identified several Rule violations throughout this report indicating that SCE may not have the proper procedures and controls in place to prevent and detect Rule violations.	Medium	Potential effect on the ratepayers in general if violations of the Rules are not being properly identified by SCE and affiliates are given an unfair competitive advantage and/or ratepayers are unknowingly subsidizing affiliate activities.
SCE-23	SCE has a large internal audit function, however, only one internal audit report during 2010-2011 related to the Affiliate Transaction Rules.	N/A – Process improvement	Potential control weaknesses could not be detected that could lead to Rule violations, impacting ratepayers
SCE-24	SCE did not require union employees to complete the Code of Conduct form during 2010-2011. Per SCE, "such a requirement would be a mandatory subject of bargaining with the unions, and the Collective Bargaining Agreements (CBA's) were not open for bargaining at the time."	N/A – Process improvement	All employees should complete the Code of Conduct form. As CBA's are negotiated, this requirement should be included to contracts.

### ***Selection criteria for observations***

SCE-22 Severity of findings

### **8.D.0.0.3 – Procedures Performed**

Baker Tilly performed the following procedures in its review of SCE's compliance with Rule VIII.D:

Procedures
1. Interviewed key personnel from this area to gain an understanding of SCE's interpretation of Rule VIII.D and how they ensure compliance.
2. Examined SCE's ATR Manual and Compliance Plans to ensure proper procedures are in place to comply with Rule VIII.D.
3. Selected a sample of employees during 2010 – 2011 and reviewed signed Code of Conduct forms for completion to ensure the employees verified whether or not they were aware of any regulatory violations.
4. Reviewed exceptions to question 3 (regarding knowledge of Rule violations) of the Code of Conduct from 2010 and 2011 to review for any responses related to ATR violations.
5. Reviewed the internal audit report titled "Affiliate Rules Compliance" dated February 28, 2012 for violations identified and management's response to those violations
6. Reviewed documentation which supports appropriate actions by SCE to remediate the findings in the internal audit report
7. Reviewed 2010-2011 helpline logs for calls related to "Legal or Regulatory Violations" to ensure that there were no complaints or reports of violations with the affiliate Rules.

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## RULE IX – PROTECTING THE UTILITY’S FINANCIAL HEALTH

### 9.0 – RULE IX: PROTECTING THE UTILITY’S FINANCIAL HEALTH

#### 9.0.0.0.0 – Protecting the Utility’s Financial Health

##### 9.0.0.0.1 – Background

###### **Rule IX.A: Information from Utility on Necessary Capital.**

Each utility shall provide to the Commission on the last business day of (November of each year a report with the following information:

1. the utility's estimate of investment capital needed to build or acquire long-term assets (i.e. greater than one year), such as operating assets and utility infrastructure, over each of the next five years.
2. the utility's estimate of capital needed to meet resource procurement goals over each of the next five years.
3. the utility's policies concerning dividends, stock repurchase and retention of capital for each year .
4. the names of duals involved in deciding corporate policies for the utility's dividends, stock repurchase and retention of capital;
5. the process by which corporate policies concerning dividends. Stock repurchase and retention of capital are implemented; and
6. how the utility expects or intends to meet its investment capital needs.

###### **Rule IX.B. Restrictions on Deviations from Authorized Capital Structure.**

A utility shall maintain a balance capital structure consistent with that determined to be reasonable by the Commission in its most recent decision on the utility's capital structure. The utility's equity shall be retained such that the Commission's adopted capital structure shall be maintained on the average over the period the capital structure is in effect for Rulemaking purposes. Provided, however, that a utility shall file an application for a waiver, on a case by case basis and in a timely manner, of this Rule if an adverse financial event at the utility reduces the utility's equity ratio by 1% or more. In order to assure that regulatory staff has adequate time to review and assess the application and to permit the consideration of all relevant facts, the utility shall not be considered in violation of this Rule during the period the waiver is pending resolution. Nothing in this provision creates a presumption of either reasonableness or unreasonableness of the utility's actions which may have caused the adverse financial event.

###### **Rule IX. C. Ring-fencing.**

Within three months of the effective date of the decision adopting the amendment to the Rules, a utility shall obtain a non-consolidation opinion that demonstrates that the ring-fencing around the utility is sufficient to prevent the utility from being pulled into bankruptcy of its parent holding company. The utility shall promptly provide the opinion to the Commission. If the current ring-fencing provisions are insufficient to obtain a non-consolidation opinion, the utility shall promptly undertake the following actions:

1. notify the Commission of the inability to obtain a non-consolidation opinion;
2. propose and implement, upon Commission approval, such ring-fencing provisions that are sufficient to prevent the utility from being pulled into bankruptcy of its parent holding company; and then
3. obtain a non-consolidation opinion.

###### **Rule IX. D. Changes to Ring-Fencing Provisions.**

A utility shall notify the Commission of any changes made to its ring-fencing provisions within 30 days.

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## RULE IX – PROTECTING THE UTILITY’S FINANCIAL HEALTH

### 9.0.0.0.2 – Observations and Recommendations

Baker Tilly makes the following observations and recommendations regarding SCE’s compliance with Rule IX:

Observations	Recommendations
SCE-25: The last non-consolidating opinion was obtained by SCE in 2007, which was shortly after Rule IX was implemented.	SCE-25: To maintain the relevance of the non-consolidating opinion, SCE should seek an updated Non-consolidated Opinion every audit period, or in the event of significant parent company corporate restructuring or significant bankruptcy proceeding occurring within the corporation. We also recommend that SCE provide the detailed calculation of the capital structure in the Rule IX report to provide complete disclosure of compliance with CPUC authorized capital structure.

#	Observation	Rule Violation Potential Impact	Actual or Potential Harm to Ratepayers
SCE-25	The last non-consolidating opinion was obtained by SCE in 2007, which was shortly after Rule IX was implemented.	N/A	N/A, recommendation is given in this report to provide more information to CPUC, no impact to ratepayers; the potential impact is high if SCE is not able to obtain the non-consolidating opinion to properly insulate ratepayers per the current Rule language

### 9.0.0.0.3 – Procedures Performed

Baker Tilly performed the following procedures in its review of SCE’s compliance with Rule IX:

Procedures
1. Interviewed key personnel from this area to gain an understanding of SCE’s interpretation of Rule IX and how they ensure compliance.
2. Reviewed SCE’s ATR Manual and Compliance Plans to ensure proper procedures are in place to comply with Rule IX.
3. Examined the 2010 and 2011 reports filed by SCE ensuring they included the requirements listed in Rule IX.A and that they were filed by November 30 <sup>th</sup> .
4. Reviewed Decision 07-12-049 noting CPUC authorization of SCE’s capital structure.
5. Verified that SCE obtained a non-consolidation opinion that demonstrates that the ring fencing around the utility is sufficient to prevent the utility from being pulled into bankruptcy of its parent holding company.

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### APPENDIX A – DATA REQUESTED

### APPENDIX A – DATA REQUESTED

Data Request Batch #	Item #	Item Requested
BT_01	1	Provide a listing of all internal audit reports for January 1, 2010 – December 31, 2011 test period. Provide any and all reports prepared by internal audit in regards to the Affiliate Transaction Rules.
BT_01	2	Provide an organization chart for SCE and each affiliate which provides/receives services from SCE.
BT_01	3	Provide SCE's shared support matrix.
BT_01	4	Provide listing of all Class A and Class B affiliates that had transactions in 2010 and 2011 with an explanation stating the difference between Class A and Class B affiliates.
BT_01	5	Provide the following information regarding fully loaded costs for 2010 and 2011:
		a. Define how you calculate fully loaded costs b. What are the cost components included? c. Provide the calculation for 2010 and 2011
BT_01	6	Provide a copy of SCE's Affiliate Transaction Rules (ATR) manual that documents SCE's ATR policies and procedures. Highlight changes made in 2010 and 2011.
BT_01	7	Provide documentation on methods used to track transactions between the Commission regulated utility and affiliates; documentation should include (but is not limited to) policies and procedures, system documentation, personnel duties, internal and external reporting, and Compliance Plan.
BT_01	8	Provide chart of accounts and documentation showing how accounts are mapped to track affiliate and non-affiliate transactions.
BT_01	9	Provide Advice Letters and Stars Alliance Applications filed by the utility requesting exemption from any Rules for the 2010–2011 examination period under Rule II.G.
BT_01	10	Provide listing of all tariffed products and services provided to affiliates in 2010 and 2011.
BT_01	11	Provide policies and procedures used by SCE for competitive bid services of affiliates.
BT_01	12	Provide all records of competitively bid products or services in 2010–2011 to and from SCE to its affiliates.
BT_01	13	Provide database of all winning bids in 2010 and 2011 (see #13 above) including documentation for scoring of bids.
BT_01	14	Provide documentation of business process for the credit approval process for affiliates.
BT_01	15	Provide listing of approved vendor credit limits in 2010 and 2011 for affiliates.
BT_01	16	What is the process that SCE uses for providing customer information to affiliates?
BT_01	17	Provide listing of available records which document all tariffed and NTP&S transactions with affiliates in 2010 and 2011
BT_01	18	Provide SCE's Annual Reports (including 10-K reports) for 2010 and 2011.
BT_01	19	Provide listing of the number of and dollar value of joint purchases made by the utility and an affiliate in 2010 and 2011.



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### APPENDIX A – DATA REQUESTED

Data Request Batch #	Item #	Item Requested
BT_01	20	Provide cost allocation methodologies for allocating joint corporate services in 2010 and 2011.
BT_01	21	Please respond whether there are shared officers under Rule V E in 2010 and 2011.
BT_01	22	Provide listing of utility marketing documents used in 2010 and 2011, including the following:
		a. Utility bill inserts
		b. Safety information
		c. Energy efficiency marketing documents
		d. Any other form of utility customer written communication (note: this language is taken from Rule V, part F)
BT_01	23	Provide listing of trade shows, conferences, or other marketing events that were attended by utility employees in 2010 and 2011.
BT_01	24	Provide general ledger account/cost center/activity used to track marketing expenses in 2010 and 2011. This should include all expenses that roll up to Ferc accounts 911 – 917 or their equivalent.
BT_01	25	Provide listing of transfers of goods and services in 2010 and 2011 under Rule V H.
BT_01	26	Provide documentation that key officers of the utility and the parent holding company certified to the ED their personal compliance with the Rules during the prior calendar year for 2010 and 2011.
BT_01	27	Provide listing of reports to Commission on NTP&S in 2010 and 2011.
BT_01	28	Provide listing of utility property sales, leases, assignments, mortgages, disposed of or encumbered by affiliates or NTP&S.
BT_01	29	Provide listing of complaints for 2010–2011 from utility filed reports with the Commission under Rule VIII.
BT_01	30	Provide annual reports filed with the Commission for the nature and status of all complaints in 2010 and 2011 under Rule VIII.
BT_01	31	Provide reports provided to the Commission’s ED and Consumer Services Division of the results of the dispute resolution process in 2010 and 2011 under Rule VIII.
BT_01	32	Provide the annual report due to the Commission by the last business day of November each year (2010 and 2011) that reports:
		a. Utility’s estimate of investment capital needed to build or acquire long-term assets for each of the next five years
		b. Utility’s estimate of capital needed to meet resource procurement goals over each of the next five years
		c. Items 3–6 under Rule IX A
BT_01	33	Provide documentation on SCE's current “Ring-Fencing” arrangements; provide a recent opinion from an independent party as to the sufficiency of current arrangements.
BT_01	34	Provide a complete listing of all documents and information requested in the previous ATR audit conducted by Northstar and copies of responses provided in the 2006 audit and unrestricted access to manual, reports, files or other materials provided.
BT_01	35	Provide a copy of all relevant Commission decisions related to SCE’s affiliate transactions.

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### APPENDIX A – DATA REQUESTED

Data Request Batch #	Item #	Item Requested
BT_01	36	Provide any advice letters filed by SCE with the Commission identifying the creation of new affiliates in 2010 and 2011.
BT_01	37	Provide access to article of incorporation for all SCE affiliates.
BT_01	38	Provide any advice letters filed by SCE with the Commission identifying violations of the ATRs in 2010 and 2011.
BT_01	39	Provide the names of any SCE officers that were also officers of Edison (EIX) or any affiliates during 2010 and 2011
BT_01	40	Provide a copy of or access to any Service Agreements or Contracts between SCE and its affiliates (Master Services Agreements) during 2010 and 2011.
BT_01	41	For each affiliate entity that provides/receives services to/from SCE, provide a brief explanation of the type of business performed by the affiliate and the nature of services provided by/to SCE to/from each affiliate for 2010 and 2011.
BT_01	42	Provide access to the minutes of the 2010 and 2011 meetings of the SCE Board of Directors, the EIX Board of Directors, Audit Committee of SCE Board of Directors, and the Audit Committee of the EIX Board of Directors.
BT_01	43	Provide any materials or documents related to Affiliate Compliance from Audit Committee meetings when Affiliate compliance was discussed.
BT_02	1	Provide a written overview of SCE's information technology environment, specifically the computer system structure.
BT_02	2	Provide a copy of the following internal audit reports (these are from the listing provided in ATA Audit-SCE-BT_01 Q.001 Attachment – Audits 2010-2011):
		<ul style="list-style-type: none"> <li>a. Y11-70110 Cybersecurity Strategy and Roadmap 1/12/12</li> <li>b. Y11-75010 Identification and Authentication Security 3/29/12</li> <li>c. Y11-76060 Grid Systems IT Security 9/14/12</li> <li>d. Y11-77120 Citrix Virtual Desktop Infrastructure 5/4/12</li> </ul>
BT_02	3	Provide the policy that governs the request and approval process to provision/administer IT access rights to all utility computer systems.
BT_02	4	Provide the list of all employee transfers among Edison and affiliates during 2010 and 2011. This list should identify the employees' name, title, transfer date and the department "from and to" location.
BT_02	5	For each person identified in the request above who transferred from SCE to an affiliate, provide the following dates:
		§ Physically departed from position at utility
		§ Physically reported to position at affiliate
		§ IT access to utility network terminated
		§ IT access to utility email terminated
		§ Remote access to utility network terminated (if applicable)
§ IT access to affiliate network initiated		

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### APPENDIX A – DATA REQUESTED

Data Request Batch #	Item #	Item Requested
		§ IT access to affiliate email initiated
		§ Remote access to affiliate network initiated (if applicable)
BT_02	6	For each person identified in the request above who transferred from an affiliate to SCE, provide the following dates: § Physically departed from position at affiliate § Physically reported to position at utility § IT access to affiliate network terminated § IT access to affiliate email terminated § Remote access to affiliate network terminated (if applicable) § IT access to utility network initiated § IT access to utility email initiated § Remote access to utility network initiated (if applicable)
BT_02	7	Provide the Vendor Master File and Customer Master File from SAP. These files should identify all SCE affiliates and provide evidence that affiliates have been identified as such, or “trading partners,” in SAP. This request is intended to identify the mechanism SCE uses to identify affiliated transactions in SAP. Are affiliates identified via the “Trading Partner” designation, or are they identified another way? Ultimately, how can we identify all organizations which are configured as affiliates in SAP?
BT_02	8	Provide evidence of any Vendor Master File and Customer Master Files reviews that were executed during 2010 and 2011.
BT_02	9	Provide SCE’s data backup and retention policy.
BT_02	10	Provide a comprehensive list of application controls in place (if any) to identify joint purchases
BT_03	1	Provide the affiliate transaction Rules training packages used for new employees.
BT_03	2	Provide a copy of the following internal audit reports (these are from the listing provided in ATA Audit-SCE-BT_01 Q.001 Attachment – Audits 2010-2011): a. Y12-21102 EME Procurement Process (Vendor Selection and Vendor Master File) b. Y11-11102 Supply Chain Process – Bidding through Contract Administration c. Y11-11599 Contract Pre-execution Reviews and Follow-up
BT_03	3	Provide a screenshot or link to notice of creation of new affiliates posted to the electronic bulletin board.
BT_03	4	Provide supporting documentation showing the determination of assigning a utility as Class A or Class B. Is there support to show that affiliate xx is correctly classified as A vs. B (% ownership, voting rights, types of products)?
BT_03	5	In Data Request #1, question 5 (ATA Audit-SCE-BT_01 Q.005 Attachment Q.5 Loaders Calc and Wksht.xls), we received a sample of a calculation of fully loaded labor for services provided to affiliates. What is SCE’s fully loaded labor costs (not for affiliates)?

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Audit of Southern California Edison Affiliate Transactions  
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### APPENDIX A – DATA REQUESTED

Data Request Batch #	Item #	Item Requested
BT_03	6	Provide support for the following 2010 and 2011 rates used to calculate fully loaded labor for affiliates and internally (if different):
		a. Paid Absence – (2010: 21.6%, 2011: 20.2%)
		b. Payroll Taxes – (2010: 7.36%, 2011: 7.43%)
		c. Pension & Benefits (2010: 21.3%, 2011: 25.83%) d. Worker’s Compensation (2010: 1.41%, 2011: 1.09%)
		e. Labor Mark-up (5%, 10%, 15%) – Rule V.H.5 – where does it discuss the 10% and 15%?
		f. Facility Costs (2010: 30.89%, 2011: 35.17%)
BT_03	7	Provide a listing of all CISR forms executed in 2010 and 2011. We will select a sample from this listing for additional testing.
BT_03	8	What types of customer information is provided to 3 <sup>rd</sup> parties (either affiliate or non-affiliate) that do not require the customer consent form (CISR)?
BT_03	9	Was any service provider information provided to any customers (whether requested by customer or authorized by the Commission) in 2010 and 2011? If so, please provide documentation showing the information that was provided.
BT_03	10	Provide support showing what non-customer specific, non-public information was provided to affiliates in 2010 and 2011.
BT_03	11	Did SCE provide any information received from unaffiliated suppliers to its affiliates in 2010 and 2011? If so, please provide documentation showing the information provided.
BT_03	12	Provide the following records for all tariffed and NTP&S transactions with affiliates from 2010 through 2011:
		1. Tariff sheets
		2. Bills/invoices
		3. Contract agreements
		4. Email requests for affiliate work
		5. Payment documentation
		6. Tracer Project Management System (open job form)
		7. Work Authorization forms
		8. Affiliate Compliance Office review and approval documentation
BT_04	1	Provide supporting documentation for the two joint purchases listed in the attached document.
BT_04	2	Provide the CPUC authorized capital structure decisions for 2010 and 2011.
BT_04	3	Please provide a list of final cost centers that relate to affiliate charges during 2010 and 2011 as well as the related affiliates and total charges for these cost centers, if possible. (Is each final cost center related to one Affiliate, as a one-to-one relationship?)
BT_04	4	Please provide supporting marketing documents for the attached sample of bill inserts/onserts and marketing events.

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### APPENDIX A – DATA REQUESTED

Data Request Batch #	Item #	Item Requested
BT_04	5	Please provide all invoices and supporting documentation sent to all Class A affiliates during the audit period.
BT_04	6	Data request 1, question 24 included the general ledger detail for FERC accounts 911 through 917. Please provide a trial balance for 2010 and 2011 that would tie to the total of the detail received so we can verify the completeness of the general ledger information received.
BT_04	7	Provide Advice Letter 1286-E, filed 1/30/1998 listing all existing utility products and services (tariffed and non-tariffed).
BT_04	8	Provide Energy Division Approval – 9/29/03, letter approval by Energy Division of Advice 1286-E-A effective 5/15/00.
BT_04	9	Provide the Decision 99-09-070 adopting the Gross Revenue Sharing Mechanism.
BT_04	10	Provide the general ledger detail for the Gross Revenue Sharing Tracking Account Memorandum Account for 2010 and 2011.
BT_04	11	Provide the Document titled “Incremental Costs Pertaining to Non-Tariffed Products & Services Accounting and Ratemaking Guidelines” listed in the NTP&S presentation.
BT_04	12	Slide 18 of the “Overview of Non-Tariffed Products & Services” presentation has the Gross Revenue Sharing Mechanism listed. Could we get this in Excel?
BT_04	13	All Intercompany Service Requests (ISRs) and extensions granted in 2010 and 2011 for Directly Requested Services with proper approvals.
BT_04	14	Provide the monthly Loaned Labor Reports for 2010 and 2011.
BT_04	15	Provide support showing review of residency requirement for employee transfers in 2010 and 2011.
BT_04	16	Provide general ledger detail for the Affiliate Transfer Fee Memorandum Account for 2010 and 2011.
BT_04	17	Provide support showing approval of property transfers in 2010 and 2011.
BT_04	18	Provide support showing employee acknowledgement in writing that they understood the restrictions imposed by the Affiliate Transaction Rules for all employees transferring from SCE in 2010 and 2011.
BT_04	19	Provide the 16 “As-Is” and “To-Be” process flows developed on the employee transfer process in 2012.
BT_04	20	Provide the Utility Entity List that is distributed on a semiannual basis to SCE, EIX and selected affiliate officers and employees in 2010 and 2011.
BT_04	21	Provide support for the required notices listed below during 2010 and 2011
		a. Notice of Disclosure of Non-Public Utility Information as required per Rule IV.B
		b. Notice of Shared Directors and Officers as required per Rule V.G.1
BT_04	22	Provide a list of all EIX helpline calls in audit period by category (calls).
BT_04	23	Provide process and control documentation around the 3rd party EIX helpline procedures during the audit period.
BT_04	24	Provide training materials used around NTP&S during the audit period.

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### APPENDIX A – DATA REQUESTED

Data Request Batch #	Item #	Item Requested
BT_04	25	Provide the list of attendees in all ATR related training sessions during the audit period.
BT_04	26	In Data Request #3, Question 12 (3), we received all NTP&S contracts during 2010 and 2011 (9 for Midwest Sunset, 24 for Watson Cogen). Were there any other contracts with affiliates (NTP&S or otherwise) during the audit period? If so, please provide.
BT_04	27	As noted in the Affiliate Compliance Office Procedure, Rule IX Report, Description of the process Item 7. Final approval is noted by a sign off from the Director of Regulatory Compliance. Please provide support of the Director of Regulatory Compliance's final approval of the Rule IX Report for 2010 and 2011.
BT_04	28	Please provide supporting documentation/invoices for the attached sample of transactions obtained from the information provided in data request one, question 24 (marketing costs).
BT_05	1	The system-generated list of users with access to the following roles:
		§ BH503_0000 –BO Executive Comp Report
		§ EH560_EMGX - Personal Data Maintainer - All EMG
		§ EH442_PWTN Payroll Reporter - Powerton Station
		§ EH502: Pay Educational Reimbursement Approver
		§ EH562_EMGX TWA Reporter - All EMG
		§ EX019_EMGX Access to PFAL Transaction - EMG
		§ EH500_WLRG Time Data Maintainer - EMG - Wind - Laredo Ridge
		§ EH442_WCDH Payroll Reporter – Wind – Cedro Hill
		§ EH421_PEMG Compensation Configurer – EMG
		§ EH416_EMGA Employee Data Maintainer – EMG
§ (EO100_0000) ECC Crystal Developer		
§ (EO991_0000) ECC BO End User Role		
BT_05	2	The organizational chart for the Technology Delivery and Maintenance department (specific focus on the SAP group)
BT_05	3	An SAP landscape diagram showing all instance of SAP
BT_05	4	Any network / IT infrastructure diagrams available for the SAP environment (with affiliate relationships depicted, if possible)
BT_05	5	Copies of the affiliate user ID / user access reviews conducted during 2010 and 2011
BT_05	6	A copy of the SAP system development lifecycle (SDLC) and change management procedures
BT_05	7	The Excel-based allocation process for NTP&S revenue sharing
BT_06	1	It was noted in data request 1, question 15 that none of the affiliates were of investment grade status or received unsecured credit limits in 2010 or 2011. Please provide a listing of all entities that received unsecured credit limits during the period. In addition, please provide a listing of affiliates that posted collateral.

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### APPENDIX A – DATA REQUESTED

Data Request Batch #	Item #	Item Requested
BT_06	2	<p>According to the New Affiliates Notifications Log, the following new affiliates were not posted to sce.com and/or the Advice Letter was not filed with the CPUC within 60 days of incorporation/acquisition. Please provide an explanation and support for these late notifications.</p> <p>2010:</p> <ul style="list-style-type: none"> <li>• Latin American Power Ventures, LLC.</li> <li>• Wildorado Interconnect, LLC</li> </ul> <p>2011:</p> <ul style="list-style-type: none"> <li>• North Wind Cooperative</li> <li>• Mission Procurement, LLC</li> </ul>
BT_06	3	Please explain why AES Walnut Creek, LLC, a new affiliate acquired 12/13/10, was not listed in the 2010 Annual Report.
BT_06	4	Please provide supporting documentation and justification for the STARS Alliance exemption.
BT_06	5	In the 2010 and 2011 Annual Code Certification, question 3 asks, “Within the past 12 months, to the best of your knowledge, have you been involved in or become aware of any situation in which the California Public Utilities Commission or Federal Energy Regulatory Commission Rules, standards, or codes governing transactions among Southern California Edison and other Edison International companies were not followed?” Please provide all exceptions to question #3 in the code of conduct in 2010 and 2011.
BT_06	6	Provide complete employee listings as of 12/31/2010 and 12/31/2011 showing the employee ID and company code the employee works in.
BT_06	7	Provide a listing of all employees during 2010 and 2011 that charged time to FERC accounts 911-917.
BT_07	1	In accordance with Rule IX B please provide the calculation of capital structure for 2010 and 2011 and a reconciliation of the capital structure to tie to the annual 10-K report. This calculation should support SCE's compliance with its CPUC authorized capital structure.
BT_07	2	Please provide supporting documentation/invoices for the attached sample of transactions obtained from the information provided in data request one, question 24 - supplemental (marketing costs). See the attached Excel file “Marketing Sample.xls” for selected items (2 tabs).
BT_07	3	Provide the current log or any other type of tracking that the ACO department uses to track inquiries/requests for advice that required further investigation regarding the ATRs and how issues were resolved.
BT_07	4	Please provide the “training matrix” as discussed during our interview with John Quinlan on 10/15/13. If not available during the audit period, please provide the current matrix that is being used.
BT_07	5	Please provide a copy of the articles of incorporation for the sample of affiliates selected. See the attached Excel file "Articles of Incorporation Sample" for selected items.
BT_08	1	Please provide a copy of the audited, reviewed or compiled financial statements including the notes to the financial statements and the independent auditor's opinion for the sample of affiliates selected. See the attached Excel file "Financial Statements for affiliates Sample" for selected affiliates.

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### APPENDIX A – DATA REQUESTED

Data Request Batch #	Item #	Item Requested		
BT_08	2	The “Officer Certificates of Compliance with ATR Rules” for 2011 (submitted 3/20/12) did not include the CEO of SCE. Please confirm that the President, Ronald Litzinger, was the acting CEO during 2011.		
BT_08	3	Regarding the 2010 “Officer Certificates of Compliance with ATR Rules” — John R. Fielder and Alan J. Fohrer signed off for January 1, 2010 - December 31, 2010 before the end of the compliance period (12/23/10). If these officers left the company on or prior to 12/23/10, please provide evidence of their date of termination with the utility. Otherwise, please provide explanation for the early signoff.		
BT_08	4	Please provide the Intercompany Billing accounting workbooks used to create the following invoices:		
		1. 01-10-3090 12. 01-11-3010		
		2. 01-10-3040 13. 02-11-3090		
		3. 03-10-3002 14. 03-11-ICC3002		
		4. 04-10-3050 15. 05-11-3040		
		5. 05-10-3002 16. 06-11-3060		
		6. 07-10-3050 17. 07-11-3050		
BT_08	4	7. 08-10-3080 18. 08-11-3080		
		8. 09-10-3010 19. 09-11-3060		
		9. 11-10-3080 20. 09-11-3050		
		10. 12-10-3060 21. 12-11-3010		
		11. 12-10-3010 22. 11-11-ICC3002		
		BT_08	5	Please provide the allocation/overhead percentages used for Intercompany Billings for the months listed to allow for recalculation of affiliate invoices. Please also provide the inputs used and the calculation of the allocation percentages. For example, it was mentioned that one allocation was calculated on a 12-month rolling average on a two month lag. In that instance, please provide the prior allocations used in the average calculation and the inputs used to calculate the monthly percentages.
				Please provide for the following months:
January 2010 – January 2011				
March 2010 – February 2011				
April 2010 – March 2011				
May 2010 – May 2011				
July 2010 – June 2011				
August 2010 – July 2011				
September 2010 – August 2011				
November 2010 – September 2011				
December 2010 – November 2011				



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### APPENDIX A – DATA REQUESTED

Data Request Batch #	Item #	Item Requested
BT_08	6	Please provide the Intercompany Billings Reconciliation completed for the following months. January 2010 January 2011 March 2010 February 2011
		April 2010 – March 2011 May 2010 – May 2011 July 2010 – June 2011
		August 2010 – July 2011 September 2010 – August 2011 November 2010 – September 2011
		December 2010 – November 2011
BT_08	7	Please provide the reference document used to determine the “Dept” from the “Partner object” in the KSB1 report used to prepare the affiliate invoices. The document was mentioned in the billing interview on 10/16 with Jacquelyn Nguyen.
BT_08	8	Please provide current ring fencing policies and procedures in place to ensure adequate separation between SCE and its affiliates in the case of bankruptcy within the company as intended by Rule IX.C.3 Ring-fencing
BT_08	9	Provide information about how often the current ring fencing non-consolidation opinion is required to be updated per SCE policies and procedures
BT_08	10	Provide the signed Ethics and Compliance Certification forms for the sampled employees in the attached spreadsheet “Employee Sample.” Note that there are two tabs (one for 2010 sample and one for 2011 sample).
BT_08	11	In the 2011 Compliance Plan there is a table which lists the affiliates as Class A, Class B, or N/A. Please provide an explanation as to why the following affiliates are classified as N/A instead of as A or B:
		a. Big Sky Wind, LLC (Delaware LLC)
		b. Corporations for Affordable Housing LP GP
		c. Corporations for Affordable Housing LP II GP
		d. Corporations for Affordable Housing LP III GP
		e. ECH Investor Partners VI-A LP
		f. ECH Investor Partners VI-B LP
		g. Edison International
		h. Foresight Flying M, LLC (Grapevine) (Delaware LLC)
		i. Guadalupe Mountains Wind, LLC (Delaware LLC)
		j. Owaissa Wind Ranch, LLC (Delaware LLC)
		k. Stony Brook Wind, LLC (Delaware LLC)
		l. Sunshine Arizona Wind Energy, LLC (Delaware LLC)
m. Walnut Ridge Wind, LLC (Delaware LLC)		

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### APPENDIX A – DATA REQUESTED

Data Request Batch #	Item #	Item Requested
BT_09	1	During the review of SCE's compliance with Rule IX the following has been noted: The CPUC has authorized the following capital structure (per DR-4, Q002): Total Debt 43% Preferred Stock 9% Common Stock 48%
		The capital structure maintained during 2010 was (per DR-7, Q001): Total Debt 45% Preferred Stock 5% Common Stock 49%
		The capital structure maintained during 2011 was (per DR-7, Q001): Total Debt 46% Preferred Stock 6% Common Stock 48%
		Please respond to the following questions regarding SCE's compliance with Rule IX B: a) The Rule states, "A utility shall maintain a balanced capital structure consistent with that determined to be reasonable by the Commission in its most recent decision on the utility's capital structure." How has SCE maintained compliance with this provision, when comparing the authorized capital structure to the capital structure maintained during the audit period? b) The Rule also states, "A utility shall file an application waiver, on a case by case basis and in a timely manner, of this Rule if an adverse financial event at the utility reduces the utility's equity ratio by 1% or more." What would SCE consider an adverse financial event? Were any such events that occurred during the audit period?
BT_09	2	Per response in BT_08, question 10, represented employees are not required to complete a Code of Conduct form. Please provide evidence of union membership for all represented employees in the sample selected. Refer to "BT_09 Q2 Attachment - CONFIDENTIAL Employee Sample.xlsx." Also, if available, please provide related policy stating that only non-represented employees must complete the Code of Conduct.
BT_09	3	Exceptions to question 3 of the Code of Conduct were reviewed (BT_06 Q5). Please provide additional information related to the following concern, and the actions and resolution by the Affiliate Compliance Office:
		· Exception 12 in 2011: "A project manager stated he was often uncomfortable with the support provided to Edison Mission Group (EMG) even though his management had told him that this support had been approved. There was no basis for any further action by the Ethics and Compliance Office (E&C) and both matters were closed."
BT_09	4	Please provide evidence of SCE written notification to CPUC of new affiliates in 2010 and 2011. Please note that this is not a request for the Advice Letters, but for the written notification which is required within 3 business days of creation of the new affiliate (as required in Resolution E-3539).
BT_09	5	Please explain why immediate notification (within 3 days) was not given to the CPUC for the new affiliates listed in attachment "BT_09 Q5 Attachment - 3 Day New Affiliate Notification Exceptions."
BT_09	6	Per response in BT_08, Question 002, SCE's CEO position has been vacant since January 1, 2011. Was there an dual performing the duties of CEO for SCE from January 1, 2011- December 31, 2011?
BT_09	7	Please provide the Corporate Support Authorization/ Intercompany Service Request Form for each item selected from the ISR/CSA log:
		· 2010, Brendan Bond, Marketing Strategy & Resource Planning

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### APPENDIX A – DATA REQUESTED

Data Request Batch #	Item #	Item Requested
		<ul style="list-style-type: none"> <li>· 2010, Mark Minick, PPBU</li> <li>· 2011, Alex Herrera, Contract Audit Services</li> <li>· 2011, Lorene Miller, Customer Communication</li> <li>· 2011, Davis Asti, Corporate Environmental Policy</li> <li>· 2011, Edward Kjaer, Advance Technology</li> <li>· 2011, Ivan O'Neil, Strategic Alliance Management</li> <li>· 2011, Ana Santana, Reg Ops</li> </ul>
BT_09	8	According to the New Affiliates Notifications Log, the Advice Letter for Mission Wind Laredo, Inc. was not filed with the CPUC within 60 days of creation. Please provide an explanation and support for this late notification.
BT_09	9	What is the process for submitting all the required reports, plans, advice letters, etc. to the CPUC? Is this done electronically as an upload to the CPUC website, electronically through email, hardcopy through the mail, or otherwise? How can we determine the date in which SCE actually submitted these documents?
BT_09	10	<p>Based on question 9 above, please provide evidence showing the date SCE submitted the following reports during the audit period:</p> <ul style="list-style-type: none"> <li>· Annual Affiliate Transactions Report</li> <li>· Compliance Plan</li> <li>· NTP&amp;S Report Rule</li> <li>· Rule IX Report</li> <li>· Annual Officer Certifications</li> </ul>
BT_09	11	Based on the billing walkthrough completed with Jackie Nguyen on 11/7/13 please provide the excel spreadsheet for EME3010 June 2010 which was used.
BT_09	12	<p>Please provide DCC, IO data and direct journal entries which were utilized to create affiliate billings for the following two months:</p> <ul style="list-style-type: none"> <li>· June 2010</li> <li>· November 2011</li> </ul>
BT_09	13	<p>Based on the sample provided in DR#8 Q4, please provide detail of the specific labor charges being used to calculate the various loaders:</p> <ol style="list-style-type: none"> <li>1. 01-10-3040 10. 03-11-ICC3002</li> <li>2. 03-10-3002 11. 05-11-3040</li> <li>3. 05-10-3002 12. 06-11-3060</li> <li>4. 11-10-3080 13. 07-11-3050</li> <li>5. 12-10-3060 14. 08-11-3080</li> <li>6. 12-10-3010 15. 09-11-3060</li> <li>7. 01-11-3010 16. 09-11-3050</li> </ol>

## CALIFORNIA PUBLIC UTILITIES COMMISSION

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### APPENDIX A – DATA REQUESTED

Data Request Batch #	Item #	Item Requested
		8. 02-11-3090 17. 12-11-3010
		9. 11-11-ICC3002
BT_09	14	The following cost centers identified on the Loaned Labor Report were not able to be traced to the Shared Support Services Matrix or the CSR/ISR report:
		EH&S Audits Charges to EME - CS
		Tax Department Charges to EIX - CS
		Tax Department Charges to EMG - CS
		Tax Department Charges to EME - CS
		EH & S Audits Charges to EME
Tax Dept Charges to SSR - CS		
Tax Department Charges to OMS - CS		
Tax Dept - Mission Land - CS		
Tax Dept Charges to SSR - CS		
Tax Department Charges to Ed Cap - CS		
		Please provide support for how these cost objects are allowable loaned labor under Rule V.
BT_09	15	Please provide support for testing the 30% Rule on the loaned labor report for January 2010 and November 2011.
BT_09	16	Please provide 2010 and 2011 GL detail that can be reconciled to the NTP&S annual reports for both incremental costs AND Total Gross Revenues for each dual category, The Revenue Sharing Excel - Based Allocation spreadsheet (provided in DR#5, Question 7) includes the gross revenues account totals by month but I would like to see the detail behind these values and be able to reconcile which SAP revenue accounts get applied to which category on the NTP&S Annual Report. No GL detail has been provided for the incremental costs. Please provide GL detail by account for all those costs included as an incremental cost for each dual NTP&S category as well.
BT_09	17	Please provide a more detailed SAP GL Description for each of the following accounts included on The Revenue Sharing Excel - Based Allocation spreadsheet.
		1. 4186520
		2. 4862135
		3. 4862125
		4. 4862130
		5. 4863120
		6. 4863110
		7. 4863115
		8. 4863125
		9. 4864120
10. 4184516		

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### APPENDIX A – DATA REQUESTED

Data Request Batch #	Item #	Item Requested
BT_09	18	Please provide the 5 Lease Agreement Section 851 Applications listed on Response to Question 28 on BT Data Request #1.
BT_10	1	We have randomly selected the following sample of SAP affiliate users. For these users, and specifically for the SAP roles noted in the third column above, we are looking to obtain evidence of the following approvals: -The President of the affiliate company or his or her designee -SCE's Affiliate Officer or his or her designee -The managers of the department(s) who own the application(s) being requested -The supervisor or manager of Network Operations
BT_10	2	Any screenshot evidence available to show that affiliate employee access is restricted within the SCE network via "dedicated communication lines" (page 171 of the 2011 ATR Compliance Manual).
BT_10	3	We have randomly selected the following sample of 2010 and 2011 employee transfers between SCE and affiliates. For these users we are looking to obtain either ticket or screenshot evidence of the date the user's network access was terminated at SCE.
BT_10	4	Screenshot evidence showing how frequently SAP servers are scheduled to execute data backups.
BT_10	5	Evidence of any data restoration tests executed at SCE during 2010 and 2011 (restoration activities performed during any disaster recovery exercises will certainly suffice).
BT_11	1	Per response in BT_08 Q10, represented employees are not required to complete a Code of Conduct form. Please explain why it would not be relevant and/or why it is not required for these employees.
BT_11	2	Please provide billing and payment source documentation to support the tariff billing and payment transactions selected in the sample attached on the excel document "Sample Selected – Tariff Transactions".
BT_11	3	Rule IV.F requires SCE make such records available for third party review upon 72 hours' notice, or at a time mutually agreeable to SCE and the third party. Did SCE receive any formal third party requests for information at any point during 2010 and 2011? And if so, please provide support to confirm such records were available within time requirement.
BT_11	4	Please provide any marketing/advertising materials used for NTP&S by SCE for 2010 and 2011. Also, please itemize the costs by NTP&S category associated with developing and distributing these materials.
BT_11	5	Please provide all contracts entered into in 2010 and 2011 with the sampled affiliates listed on "Class B Affiliates."
BT_11	6	Please provide the office location where each of the employees worked on the attached spreadsheet titled "2011 Employee Listing."
BT_11	7	Provide the signed CISR forms for the sample selected on the spreadsheet titled "CISR Sample."

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### APPENDIX A – DATA REQUESTED

Data Request Batch #	Item #	Item Requested
BT_11	8	<p>Please provide the following contracts which were entered into with affiliates in 2010 and 2011:2010 – 1. KERNRIVER COGENERATION–RAP ID NO. 28012. WATSON COGENERATION–RAP ID NO. 20533. SYCAMORE COGENERATION–RAP ID NO. 20584. MIDWAY SUNSET COGENERATION COMPANY–QFID NO. 20765. WATSON COGENERATION COMPANY – CONTRACT TM-204, EDISON ESI JOB #5941-266726. WATSON COGENERATION COMPANY – CONTRACT TM-204, EDISON ESI JOB #5941-293537. MIDWAY SUNSET COGENERATION – PURCHASE ORDER 11788.1, EDISON ESI JOB #5929-293778. EDISON MISSION O&amp;M, WORK AUTHORIZATION FORM DATED 8/18/2010, EDISON ESI JOB #5929-302889. MIDWAY SUNSET COGENERATION – PURCHASE ORDER 12097, WORK AUTHORIZATION FORM DATED 8/6/10, EDISON ESI JOB #5929-30363</p>
		<p>2011 –</p> <ol style="list-style-type: none"> <li>1. KERN RIVER COGENERATION–RAP ID NO. 2801</li> <li>2. WATSON COGENERATION–RAP ID NO. 2053</li> <li>3. SYCAMORE COGENERATION–RAP ID NO. 2058</li> <li>4. Walnut Creek Energy, LLC (Edison Mission Energy)</li> <li>5. MIDWAY SUNSET COGENERATION – PURCHASE ORDER 12097, EDISON ESI JOB #5929-30363</li> <li>6. WATSON COGENERATION COMPANY – CONTRACT TM-204 WORK AUTHORIZATION FORM DATED 10/05/10 EDISON ESI JOB #5922-30576</li> <li>7. WATSON COGENERATION COMPANY – CONTRACT TM-204 WORK AUTHORIZATION FORM DATED 02/03/11 EDISON ESI JOB #5999-31537</li> <li>8. MIDWAY SUNSET COGENERATION – PURCHASE ORDER 12659, EDISON ESI JOB #5929-31626</li> <li>9. MIDWAY SUNSET COGENERATION – PURCHASE ORDER 12831, EDISON ESI JOB #5929-32091</li> <li>10. WATSON COGENERATION COMPANY – CONTRACT TM-204 WORK AUTHORIZATION FORM DATED 07/15/11 EDISON ESI JOB #5925-32578</li> <li>11. SUNRISE POWER COMPANY, LLC</li> </ol>
BT_12	1	<p>While attempting to recalculate SCE charges to EMOM on bill 01-10-3090 provided in DR8#4, it appears that loaders (payroll tax, benefits, workers compensation, facility cost and OH Labor Markup 1) were not applied to items with partner object number 200402. Please provide additional support and/or explanation why these charges are not subject to these loading charges.</p>
BT_12	2	<p>While attempting to recalculate SCE charges to Midwest Generation on bill 09-11-3050 provided in DR8#4, it appears that loaders (payroll tax, benefits, workers compensation, facility cost and OH Labor Markup 1) were not applied to items with partner object number 201580. Please provide additional support and/or explanation why these charges are not subject to these loading charges.</p>
BT_12	3	<p>Please provide detail to support how SCE loading charges to Edison International on bills 03-10-3002, 03-11-3002, 05-11-3002, 11-11-3002 provided in DR8#4 are calculated.</p>
BT_12	4	<p>If available, please provide emails submitted to the ACO email box during 2010-2011.</p>
BT_12	5	<p>Provide support for Walnut Creek's collateral requirement noted in DR06_001 (\$26,238,240 in 2011). Please provide the specific calculation and supporting worksheets as it relates to the Credit Risk Management Policy.</p>
BT_12	6	<p>Counterparty review and approval packages for Walnut Creek and other Affiliates per the Credit Risk Management Policy (Departmental Group Review) in 2010 and 2011.</p>

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### APPENDIX A – DATA REQUESTED

Data Request Batch #	Item #	Item Requested
		a. Please provide any Affiliate Officer or other specific affiliate transaction approvals for counterparties
BT_12	7	Please confirm the following:
		7a. No other affiliates besides Walnut Creek were provided secured credit in 2010 or 2011 7b. There are no differences in: 1) Counterparty review or approval or 2) collateral requirement calculations between affiliates and non-affiliates.
BT_12	8	For the Affiliate Transactions provided in DR#3_12, please provide the following information as available:
		a. Affiliate Transaction Review Checklist Performed for Contract / Transaction
		b. CPUC Approval for Contract / Transaction
		c. Documentation of Public Bidding Process for each Contract / Transaction
		d. Documentation of Transaction Information Made Generally Available to Public
		e. Confirmation if any Discounts were Applied to Contracts
f. Documentation of Any Legal Reviews Provided for Contracts, if Applicable		
BT_12	9	Please provide the following reports related to Non-Discrimination:
		a. "3B Reports" completed during 2010 and 2011 for Supply, Capacity, Services Offered to Affiliates
		b. "3F Reports" completed during 2010 and 2011 for Discounts Provided to Affiliates
		c. Please confirm / provide assurance if no instances occurred that would require 3B or 3F Reports
		d. No postings currently appear on the SCE website electronic bulletin board for these areas, please confirm if any instances have been omitted or past instances removed
BT_12	10	Please provide system documentation of any bilateral wholesale electric transactions with affiliates during 2010 and 2011. BT will sample from this listing if applicable to review appropriate approvals and adherence to ATRs.
BT_12	11	Please provide documentation of natural gas contracts and transactions with affiliates during the audit period or confirmation that none occurred.
BT_12	12	Please provide a listing of energy procurement programs and opportunities that would have been available to affiliates in 2010-2011.
		a. If possible, for each program/opportunity, document if affiliate participation occurred
		b. Please document if any affiliates were selected for the opportunity
		c. Please provide evidence of Independent Evaluator Reports or Approval for each opportunity (solicitation document approval and selection approval if appropriate).
		d. Provide evidence of PRG review / approval of solicitation documents and selection approval if appropriate)
		Example programs should include, but not be limited to the following:
		· Combined Heat and Power
· RAM Renewable Energy		

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## APPENDIX A – DATA REQUESTED

Data Request Batch #	Item #	Item Requested																		
		<ul style="list-style-type: none"> <li>· SPVP Rooftop Solar</li> <li>· Other</li> </ul>																		
BT_12	13	<p>We received the audit report titled “Affiliate Rules Compliance” that was performed by the Audit Services Department in February 2012.</p> <ul style="list-style-type: none"> <li>· How often does Audit Services perform reviews over the Affiliate Rules?</li> <li>· Are the Rules tested in the internal report rotated each time?</li> <li>· Has there been a more recent Affiliate Rules Compliance audit? If so, please provide.</li> </ul>																		
BT_12	14	<p>For NTP&amp;S, provide the following:</p> <ul style="list-style-type: none"> <li>a. What are the components of incremental cost for labor?</li> <li>b. If labor costs are charged to NTP&amp;S are related employee overhead loadings for benefits included?</li> <li>c. How are the expense accounts set up to split costs between incremental and non-incremental on a specific purchase order?</li> </ul>																		
BT_12	15	<p>Please provide process and control procedures around the Gross Revenue Sharing Mechanism:</p> <ul style="list-style-type: none"> <li>d. Who prepares the GRSM worksheet?</li> <li>e. Where do the inputs come from?</li> <li>f. Who reviews the preparer’s work?</li> <li>g. What type of review is done to ensure completeness and accuracy of worksheet?</li> <li>h. How often is this worksheet completed?</li> <li>i. Does internal audit review this process?</li> </ul>																		
BT_12	16	<p>We noted the following revenues were classified as “Active” or “Passive” in the 2010 and 2011 Gross Revenue Sharing Mechanism as follows:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: #008080; color: white;"> <th style="text-align: left;">SAP GL Account</th> <th style="text-align: left;">SAP GL Description</th> <th style="text-align: left;">Active/ Passive</th> </tr> </thead> <tbody> <tr> <td>4862120</td> <td>ECS - Transmission Right of Way</td> <td>A</td> </tr> <tr> <td>4862125</td> <td>ECS - Cell Site Rent and Use (Active)</td> <td>A</td> </tr> <tr> <td>4862130</td> <td>ECS - Cell Site Reimbursable (Active)</td> <td>A</td> </tr> <tr> <td>4863110</td> <td>ECS - Cell Site Rent and Use (Passive)</td> <td>P</td> </tr> <tr> <td>4863115</td> <td>ECS - Cell Site Reimbursable (Passive)</td> <td>P</td> </tr> </tbody> </table> <p>Please provide support showing the types of revenue included in these accounts and why they are classified as “Active” or “Passive.”</p>	SAP GL Account	SAP GL Description	Active/ Passive	4862120	ECS - Transmission Right of Way	A	4862125	ECS - Cell Site Rent and Use (Active)	A	4862130	ECS - Cell Site Reimbursable (Active)	A	4863110	ECS - Cell Site Rent and Use (Passive)	P	4863115	ECS - Cell Site Reimbursable (Passive)	P
SAP GL Account	SAP GL Description	Active/ Passive																		
4862120	ECS - Transmission Right of Way	A																		
4862125	ECS - Cell Site Rent and Use (Active)	A																		
4862130	ECS - Cell Site Reimbursable (Active)	A																		
4863110	ECS - Cell Site Rent and Use (Passive)	P																		
4863115	ECS - Cell Site Reimbursable (Passive)	P																		
BT_12	17	<p>On the files titled “NTP&amp;SContracts2010” and “NTP&amp;SContracts2011” we received in DR#1, Question 7, there is a listing of NTPS Contracts. Are there actual contracts for these or just Work Authorization Forms? If so, could you provide these? If not, could you provide an explanation for why a contract is not needed for these projects?</p>																		
BT_12	18	<p>Could you provide the NTP&amp;S Category that the Contracts in #17 above fit in?</p>																		
BT_12	19	<p>Could you provide all costs related to the contracts referred to in #17 above? We would like to determine which costs were considered incremental vs. non-incremental for these.</p>																		
BT_12	20	<p>On the Gross Revenue Sharing Mechanism worksheet, how are the revenue accounts set up to ensure proper inclusion or exclusion from the worksheet?</p>																		



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### APPENDIX A – DATA REQUESTED

Data Request Batch #	Item #	Item Requested
BT_12	21	In our meeting with Brian Gatus on 1/15/14, he mentioned a Request For Contract Tool/Checklist used by his group. Could we get a copy/screenshot of this tool?
BT_12	22	Please provide additional invoice support for DR07 Question 2 Sample 2011-19 documentation received states records reside in A/P. We would like to view the documentation to complete our testing.
BT_12	23	Related to wholesale generation scheduling, can you provide evidence that affiliate generation is not provided preferential treatment in dispatching activities?
BT_12	24	Please provide a log of correspondence from wholesale energy division with trading partners. Baker Tilly will select a sample from this log to review.
BT_12	25	Please provide documentation / evidence of IE and PRG approval of 2010 and 2011 RFP and RFO processes noted in DR01_12
BT_12	26	Below is a sample of Class B affiliates whose business activity was listed as “inactive.” Please provide their previous business activity as well as an explanation for why they are classified as Class B.
		· Edison First Power Holdings II (UK company)
		· Edison First Power Limited (Guernsey company)
		· First Hydro Renewables Limited
		· Mission Energy Wales Company
BT_12	27	Please provide the policy and procedure document(s) for the ATR complaints process.
BT_12	28	Please provide a listing of all Class B affiliates that were created in 2010 and 2011 along with the advice letters to the CPUC which shows the business activity description indicating that these affiliates should not be covered by the Rules.
BT_12	29	Please provide system documentation (or other official documentation) of salaries for employees that transferred from SCE to a covered affiliate in 2010 and 2011. Also provide calculation of “base salary” as used to determine for the affiliate’s transfer fee.
BT_13	1	In SCE response to DR1 Q5, SCE explains the paid absence rate is calculated in advance from Jan. - Nov. with a true up rate in Dec. to arrive at the effective rate used in the calculation. - 21.6% for 2010 and 20.2% for 2011. The Summary Level support documentation provided by SCE in response to DR3 Q6 confirms the effective rates explained above (21.6% for 2010 and 20.2% for 2011). However, the paid absence rate used in SCE's sample calculation (attachment to DR_01 Q5) uses the Historical Paid Absence Rate for the period Jan - Nov. (17.8% and 19.9% for 2010 and 2011, respectively). It appears SCE applied the advanced Jan. - Nov. rates in the sample calculation and not the effective rate considering the Dec. true up. Is that correct? If so, please provide an explanation for using the historical rate rather than the effective rate.
BT_13	2	In response to DR1, Q5, the fully loaded labor cost components (payroll tax, benefits, worker’s comp, and facilities) are stated as being an annual calculated rate, however, it appears as though these rates changed multiple times throughout 2010 and 2011 (see “Overhead Rates” attachment). Please provide an explanation for how often and why these rates change.
BT_13	3	Please provide explanations for the following questions related to the payroll tax ratio used in the 2010 and 2011 labor loadings:

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### APPENDIX A – DATA REQUESTED

Data Request Batch #	Item #	Item Requested										
		<p>a. Why is 2007 data used to calculate the rate used for January and February 2010?</p> <p>b. The 2007 calculation (used for January and February 2010) has “Results Sharing Adjustment” and “VRO Adjustment” included in its calculation while the 2008, 2009, and 2010 calculations do not. What are these adjustments and why were they only applicable in 2007?</p>										
BT_13	4	<p>For the Worker’s Compensation rate, it appears that the Net Labor Base used in the calculation is different in 2007 and 2008 compared to the calculation used in 2009 and 2010:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: left; font-weight: normal;">Net Labor Base Calculation Used - See Related Amounts in Table to the Right</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">2007</td> <td>Net Labor Base = O&amp;M Labor Line 65 + Other Labor Accounts Line 95</td> </tr> <tr> <td style="text-align: center;">2008</td> <td>Net Labor Base = O&amp;M Labor Line 65 + Other Labor Accounts Line 95</td> </tr> <tr> <td style="text-align: center;">2009</td> <td>Net Labor Base = O&amp;M Labor Line 65 + Construction Labor Line 71 + Other Labor Accounts Line 95</td> </tr> <tr> <td style="text-align: center;">2010</td> <td>Net Labor Base = O&amp;M Labor Line 65 + Construction Labor Line 71 + Other Labor Accounts Line 95</td> </tr> </tbody> </table> <p>Please provide an explanation for why construction labor is included in 2009 and 2010 and not included in prior years.</p>	Net Labor Base Calculation Used - See Related Amounts in Table to the Right		2007	Net Labor Base = O&M Labor Line 65 + Other Labor Accounts Line 95	2008	Net Labor Base = O&M Labor Line 65 + Other Labor Accounts Line 95	2009	Net Labor Base = O&M Labor Line 65 + Construction Labor Line 71 + Other Labor Accounts Line 95	2010	Net Labor Base = O&M Labor Line 65 + Construction Labor Line 71 + Other Labor Accounts Line 95
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2010	Net Labor Base = O&M Labor Line 65 + Construction Labor Line 71 + Other Labor Accounts Line 95											
BT_13	5	<p>The 2009 facilities rate calculation (used from October 2010 – December 2011) appears to include more costs than the 2008 calculation (used from January 2010 – September 2010). Please provide an explanation for the change in this calculation and why it included the following costs in 2009 and not 2008:</p> <p>a. Rent Expense (RiverGrade)</p> <p>b. Capitalized Software &amp; Hardware Loader</p> <p>a. Return on Investment</p> <p>b. Book Depreciation Expense</p> <p>c. Gross up for Income Taxes</p> <p>d. Total Company salaries, wages, and compensation</p> <p>e. Capitalized software and hardware rate</p>										
BT_13	6	<p>Follow up from phone interview between Dena and Gwen on 1/24/14. Please provide support for the 12.03% loader agreement related to DR02 Q2, Sample 2011-25 invoice to allow for recalculation of charge to partner object.</p>										
BT_13	7	<p>Were any affiliate officers or employees asked to testify before the Commission at any point during 2010 or 2011? If yes, please provide information regarding the issue as well as the dual(s) that was asked to testify and whether they did so consistent with the provisions of Public Utilities Code Section 314.</p>										
BT_13	8	<p>In SCE Response to DR1 Q25, SCE states that Requirement C of Volume III of SCE’ 2010 and 2011 Annual Reports on Subsidiary, Affiliate, and Holding Company Transactions provides a list of Utility Provision of Goods and Services to Affiliates.</p> <p>As it relates to Rule V.H, was any transfer of goods or services from SCE to its affiliates in 2010 and 2011 subject to the pricing provisions per V.H.3 or V.H.4? If yes, please provide information that shows how these transfer of goods or services in 2010 and 2011 adhered to the pricing provisions per V.H.3 or V.H.4.</p>										
BT_13	9	<p>There are three Class B affiliates which appear to be utility companies. What is the reason these are classified as Class B?</p>										

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### APPENDIX A – DATA REQUESTED

Data Request Batch #	Item #	Item Requested
		a. Electricidad de La Paz S.A. (Electropaz) b. Empresa de Luz y Fuerza Electrica de Oruro S.A. ("Elfeo") c. Empresa de Servicios Edeser S.A. ("Edeser")
BT_13	10	For the Affiliate Transaction Rule audit performed by Audit Services in 2011 (and provided in DR01 Q1), please provide client action taken and date closed for each observation/recommendation.
BT_13	11	The ATR Manual (pg 53 in 2011 ATR Manual) includes the following language in supplier contracts: "Supplier hereby grants to SCE the right to disclose to any and all affiliated companies the offer price and other terms contained herein, and hereby offers to sell to such affiliates on such same terms and conditions."
		Please explain why this language is included in the supplier contracts and address why this does not cause a compliance issue with Rule IV.D stating "A utility shall not actively solicit the release of such information (Supplier Information) exclusively to its own affiliate in an effort to keep such information from other unaffiliated entities."
BT_13	12	We have randomly selected the following sample of SAP affiliate users: For these users, please provide the comprehensive list of roles to which they have access in SAP.
BT_13	13	Please provide the list of users with access to both the Rosemead and Irvine data centers.
BT_13	14	We have randomly selected the following Class A affiliates: Affiliate
		Big Sky Wind, LLC Carstensen Wind, LLC Midwest Peaker Holdings, Inc. Sierra Wind, LLC Wind Family Turbine, LLC For each selection, please provide evidence that the organization has been classified as an intercompany entity in SAP.
BT_13	15	In addition to the salary data provided in DR12 Q29, please provide (for the applicable 2010-2011 employee transfers) system data of benefit, vacation, and any other inputs that are used in the calculation of "base annual compensation" for the 25% transfer fee charged to Class A affiliates.
		If still available, please also provide spreadsheets showing the full calculations for each of the 2010-2011 transfer fees.
BT_13	16	Please provide insight into the "Provision of Goods and Services From the Utility to its Affiliated Entities" chart listed in Requirement C of the 2010 and 2011 annual reports.
		<ul style="list-style-type: none"> <li>· Would any of these accounts be relevant to (1) Goods/services for which the price is regulated by a state or a federal agency or (2) Goods/services produced, purchased, or developed for sale on the open market?</li> <li>· Is there more detailed support that could be provided to identify what goods/services are included in each of these accounts?</li> </ul>
BT_13	17	In regards to Rule IV.F Recordkeeping:

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### APPENDIX A – DATA REQUESTED

Data Request Batch #	Item #	Item Requested
		<p>a. Does SCE have a Records Retention Schedule? If so, please provide the schedule that was in use during 2010-2011.</p> <p>b. For maintaining contemporaneous (one per month) records, does SCE prepare preliminary Affiliate Transaction reports by month? If no, are you able to? I would like to get comfort that affiliate transactions are recorded in a timely basis.</p>
BT_14	1	<p>In SCE’s response to DR#12, Question 15, SCE stated that the inputs for the Gross Revenue Sharing Mechanism come from an SAP “Balancing Account Activity Report” and that a review is performed to ensure that the amounts on the Gross Revenue Sharing Mechanism spreadsheet ties to the Balancing Account Activity Report. Could you provide the following:</p> <p>a. The reconciliation showing that the Balancing Account Activity Report ties to the Gross Revenue Sharing Mechanism spreadsheet for 2010 and 2011.</p> <p>b. Support which shows the review of the Gross Revenue Sharing Mechanism spreadsheet by the Manager of the Revenue Accounting Group (Is there a signature for review/approval)?</p> <p>c. The Sox testing results around the review of the Gross Revenue Sharing Mechanism process for 2010 and 2011.</p>
BT_14	2	<p>In SCE’s response to DR#12, Question 19, SCE stated that all costs associated with the affiliate contracts for NTP&amp;S services were incremental and charged to Edison ESI. Could you provide support showing that these costs were paid by the shareholders and not the ratepayers?</p>
BT_14	3	<p>SCE’s policy concerning facility perimeter security, as well as SCE’s policy concerning visitor access to SCE facilities.</p>
BT_14	4	<p>SCE’s policy concerning high availability of organizational data (disaster recovery).</p>
BT_14	5	<p>As it relates to the pricing provision of Rule V.H.1, for several properties transferred in 2010 and 2011 as a result of employee transfers from SCE to EIX, why is the transfer price taken as the book value instead of the market value? (See Spreadsheet DR14 Questions 6 &amp; 7 Sample.xls, tab 1).</p>
BT_14	6	<p>Who was the independent firm used to determine the fair market value of 2010-2011 property transfers in accordance with Rule V.H? Please provide support for how the fair market value is determined for the sample list of property transfers that occurred in 2010 and 2011. (See Spreadsheet DR14 Questions 6 &amp; 7 Sample.xls, tab 2).</p>
BT_14	7	<p>Rule III.E states that market analysis reports or other non-public reports including, market, forecast, planning or strategic reports shall not be shared with affiliates. Can you confirm that these reports are not shared with affiliates? Is there a distribution list for these reports? If so, please provide for 2010-2011.</p>
BT_14	8	<p>In response to DR#7, Question 5, SCE states the following: “Documentation for Compañía Administradora de Empresas Bolivia S.A. (Cade) is unavailable. The company was nationalized in 2012.” Was this an SCE affiliate in 2010 - 2011? Are the articles of incorporation available from this period?</p>

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### APPENDIX A – DATA REQUESTED

Data Request Batch #	Item #	Item Requested
BT_15	1	<p>In response to BT13 Q10, SCE provided an Excel attachment of the actions it had undertaken to address the observations and recommendations of the Affiliate Transaction Rule audit performed by SCE's Audit Services department. Please provide the following documents that showcase that actions have been made to address each of the following Audit Services Department's observations:</p> <p>Observation #1: Inconsistent Compliance with Affiliate Transaction Rules</p> <p>1) A copy of the presentation and sign-in sheet of ACO's training to HR Staffing that occurred on 04/26/2012.</p> <p>2) Documentation that would support the closing of the Audit Services' observations (i.e., The ACO did not send notification to the CPUC for one of the newly created affiliates, North Wind Turbines LLC)</p> <p>Observation #2: Non-compliance with Internal Policy and Procedures</p> <p>3) A copy of the procedures related to affiliate access and documentation showing appropriate updates and improved visitor log requirements for affiliate employees.</p> <p>4) A copy of the revised ISR form (if any update was made to any of the forms provided in response to BT_04 Q13)</p> <p>5) A copy of the ISR tracking log</p> <p>Observation #4: Lack of Formal Procedures for Affiliate Billing</p> <p>6) A copy of the "Analyzing Space Management Reports" procedure that includes the "EIX Space Charge Back Report"</p> <p>7) A copy of the ACO training presentation that occurred on 03/26/2010 and the sign-in sheet listing all of the employees who attending the training.</p>
BT_15	2	<p>In response to BT13 Q12, SCE provided a full list of SAP User Access tracked for 5 sample affiliate employees. There was one particular role ID (BF581_000) that pertains to the role name (BI – Payroll Postings Reporter) that was not listed in the document entitled CONFIDENTIAL Master List of Approved EMG SAP Roles provided in response to DR01 Q07. Baker Tilly observed a similar role ID (BR581_EMGA) that pertains to a similar role name (BI Payroll Postings Reporter(Data Role) – EMG Full Access) corresponding to the same user on the same access date in the master list of approved EMG SAP roles document. Can SCE please confirm whether the role ID (BF581_000) is an approved EMG SAP role?</p>

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### APPENDIX A – DATA REQUESTED

Data Request Batch #	Item #	Item Requested																																																																																										
BT_15	3	<p>Data Request 14, Question 2 asks for SCE to provide support showing that all costs associated with the 2010 and 2011 affiliate contracts for NTP&amp;S services were incremental and paid by the shareholders and not the ratepayers. SCE’s response was high-level and states that the costs are initially recorded to final cost center F502790 and zeroed out when billed to Edison ESI. The incremental costs for Edison ESI are included in FERC account 418100. Could you provide more detail on these specific costs and show the g/l detail (transaction flows) of these going to F502790 and then to FERC 418100? I’d like to be able to see support for the transaction flows of the specific amounts below from the original recording to the final settlement in FERC 418100:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Review Date</th> <th style="text-align: center;">Utility Department or Subsidiary</th> <th style="text-align: center;">Contact</th> <th style="text-align: center;">EIX-Affiliated Company</th> <th style="text-align: center;">Contract Amount</th> <th style="text-align: center;">Scope of Work</th> <th style="text-align: center;">Contract</th> <th style="text-align: center;">Review</th> <th style="text-align: center;">Contract Dates</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">3/23/2010</td> <td style="text-align: center;">ESI</td> <td style="text-align: center;">P. 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BT_16	1	"In response to BT_04 Q3 SCE provided a list of final cost centers that relate to all affiliate charges during 2010 and 2011 showing the total charges for these cost centers (affiliates). The affiliate names noted on the tabs in the provided spreadsheets (ATA Audit-SCE-BT_04 Q.003 Attachment - 2010 CPUC FERC All Wshts.xlsx and ATA Audit-SCE-BT_04 Q.003 Attachment - 2011 CPUC FERC All Wshts.xlsx) are abbreviated. Please provide clarification on which affiliates are being referred to on each tab.																																																																																										
BT_16	2	Similar to the list of charges provided in BT_04 Q3, please provide a list of transactions between SCE and its affiliates in 2010 and 2011, but for payments that were billed to SCE by its affiliates (BT_04 Q3 only includes payments billed to affiliates by SCE).																																																																																										
BT_16	3	Policy and procedure documents around ensuring that ATR audits are conducted at shareholder expense and do not get passed on to ratepayers																																																																																										
BT_16	4	Evidence showing how the expenses related to this audit (if billed yet) and the previous audit will not/did not get passed on to ratepayers, but was expensed to the shareholders.																																																																																										
BT_16	5	Baker Tilly observed in 2010 there was one affiliate transfer, Abhijit Ganguly, whose SCE Network Access was not disabled until the day after the transfer date. Can SCE provide us with what information this employee had access to in SCE's network and whether it would pose a significant impact to SCE ratepayers?																																																																																										
BT_16	6	In Data Request #13, Question 13, we received lists of users that have access to both Rosemead and Irvine data centers. These lists were as of 2/20/14. Is it possible to get these user access lists for December 31, 2010 and December 31, 2011? If so, please provide.																																																																																										
BT_16	7	On the attached "Interview List" please provide the number of years the interviewees have been working at SCE (column C). Note: We will need this information for all interviews going forward.																																																																																										

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## APPENDIX A – DATA REQUESTED

Data Request Batch #	Item #	Item Requested
BT_17	1	In regards to the 35 day back-up procedure, what if someone accidentally deleted some critical files from the system 3 months ago, and you don't find that out until now (after the 35 days have passed). Would that information be recoverable?

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### APPENDIX B – INTERVIEW LIST

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Date	Interviewee	Years at SCE	Topics Discussed
9/17/2013	Randy Lisbin - Principal Manager, Energy Regulation Compliance	32.78	History of Affiliate Rules
9/17/2013	Janine Watkins-Ivie, Director of Regulatory Compliance	17.62	Corp. Structure & Compliance Program Overview
9/17/2013	Jeff Duran, Assistant Controller	11.74	Role of the Affiliate Controller
9/17/2013	Randy Lisbin - Principal Manager, Energy Regulation Compliance	32.78	Non-Tariffed Products & Services (NTP&S)
9/18/2013	John Quinlan - Manager, Affiliate Compliance Office	32.51	Affiliate Compliance Overview
9/18/2013	Randy Loughlin - Principal Manager	25.84	Corporate Accounting Compliance Overview
9/18/2013	Dena Berkin, Manager G/L Governance and Data Management	17.64	Overview of SAP Cost Flows
9/18/2013	Jeff Balaban, Principal Manager / Gary Bell, Principal Manager	16.39	IT Overview & Security
10/11/2013	Jennifer Hasbrouck, Assistant General Counsel	14.63	Shared Support - Legal - knowledge of ATRs and how they affect the Legal function
10/15/2013	John Quinlan - Manager, Affiliate Compliance Office	32.51	Classification of Class A/Class B Affiliates, Discussion about ATR Exemptions and STARS Alliance, Methods used to track transactions between utility and affiliates, Developing and filing the annual compliance plan, Creation of new affiliates, ATR Training
10/15/2013	Janine Watkins-Ivie, Director of Regulatory Compliance	17.62	Complaint process including Help Line processes, Activities performed to prevent and detect/monitor compliance with Commission directives (e.g. staying informed of applicable laws/regs., operational compliance reviews, day-to-day monitoring and management oversight etc.)
10/15/2013	Peter Veeravalli, SAP Security Manager	9.55	SAP role creation process, specifically the required testing and approval procedures required for the creation of affiliate roles
10/15/2013	Frank Li - Enterprise Security Architect	4.32	SCE network access and restrictions to unauthorized affiliate use
10/15/2013	Lieselotte Bryant, Senior Information Technology Specialist/Engineer	8.98	Determine whether affiliate user access is being reviewed on an annual basis to ensure affiliate access is limited to the least privileges needed to execute job functions.
10/16/2013	Jerry Mandich - Infrastructure Technology Specialist 4	8.91	Data Center security
10/16/2013	Solomon Benudiz - Manager, Brennan Thompson - Security Specialist	2.77	Facility Perimeter Security
10/16/2013	Jackie Nguyen, Manager of Corporate Accounting	13.2	Shared Support - Corporate Accounting - knowledge of ATRs and how they affect the Corporate Accounting function



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10/17/2013	Fred Nandy, Director of Operational Audit	41.73	Shared Support- Internal Audits - knowledge of ATRs and how they affect the Internal Audit function
10/17/2013	Grant Littman - Project Manager	6.77	Shared Support - E-Commerce/Digital Communication - knowledge of ATRs and how they affect the E-Commerce/Digital Communication Function
10/17/2013	Kristi Campbell - Principal Manager	25.23	Shared Support - Equal Opportunity Operations - knowledge of ATRs and how they affect the Equal Opportunity Operations function
10/17/2013	Kimberly Garcia, Ethics Program Manager	6.71	Shared Support - Ethics and Compliance - knowledge of ATRs and how they affect the Ethics and Compliance function
10/17/2013	Gloria Quinn, Director of Communications	18.4	Shared Support - Corporate Communications - knowledge of ATRs and how they affect the Corporate Communications function
10/17/2013	Mike Hertel - Director of Corporate Environmental Policy	40.7	Shared Support - Corporate Environmental Policy - knowledge of ATRs and how they affect the Corporate Environmental Policy function
10/30/2013	Eva Jiminez - Business Resources Manager	31.23	Shared Support - Corporate Travel - knowledge of ATRs and how they affect the Corporate Travel function
10/30/2013	Doug Olivieri - HR Communications Manager	17.05	Shared Support - HR Communications - knowledge of ATRs and how they affect the HR Communications function
10/30/2013	Trish Smith- Project Manager in IT	15.36	Shared Support -IT Vendor Management - knowledge of ATRs and how they affect the IT Vendor Management function
11/6/2013	Art Tomura - Principal Manager	14.15	Shared Support - Tax - knowledge of ATRs and how they affect the Tax function
11/6/2013	Steve Conroy, Manager of Media Relations	29.14	Shared Support - Media Relations - knowledge of ATRs and how they affect the Media Relations function
11/6/2013	Tammy Tumbling - Director	16.03	Shared Support - Philanthropic Programs and Service - knowledge of ATRs and how they affect the Philanthropic Programs and Service function
11/6/2013	Jerry Mandich - Manager of Server Infrastructure	8.91	Shared Support - Server Management/Computer Services - knowledge of ATRs and how they affect the Philanthropic Programs and Service function
11/7/2013	Laurie Padilla - Manager of Human Resources	22.39	Shared Support - Human Resources - knowledge of ATRs and how they affect the Human Resources function
11/7/2013	Darla Forte - Manager of Corporate Governance	16.38	Shared Support-Ethics and Compliance - administration of affiliates - knowledge of ATRs and how it affects the Ethics and Compliance and administration of affiliates function
11/7/2013	Tom Dougher - IT Manager	25.9	Shared Support - Corporate Program Management & Application Governance - knowledge of ATRs and how they affect the Corporate Program Management & Application Governance function

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11/7/2013	Randy Lisbin - Principal Manager, Energy Regulation Compliance	32.78	Shared Support - Regulatory Compliance - knowledge of ATRs and how they affect the Regulatory Compliance function
1/13/2014	Mark Bennett, Senior Manager, Benefits	6.79	Shared Support - Benefits Strategy & Operations - knowledge of ATRs and how they affect the Benefits Strategy & Operations function
1/14/2014	Zanku Armenian, Local Public Affairs Manager	8.04	Shared Support - Ethics and Compliance - knowledge of ATRs and how they affect the Ethics and Compliance function
1/14/2014	Scott Cunningham - Edison International Investor Spokesman	7.02	Shared Support - Investor Relations - knowledge of ATRs and how they affect the Ethics and Compliance function
1/15/2014	Terry Dunn - Manager	5.85	Shared Support - IT Service Center/Desktop Support - knowledge of ATRs and how they affect the IT Service Center/Desktop Support function
1/15/2014	Randy Lisbin - Principal Manager, Energy Regulation Compliance	32.78	Non-Tariffed Products & Services (NTP&S)
1/15/2014	Jesse Bryson, Manager of Origination	11.46	Energy Procurement
1/15/2014	Dana Kracke - Vice President	24.23	Oversight role of ATR compliance
1/15/2014	Brian Gatus - Sr Mgr Acquisition Planning and Company Stewardship	3.65	Procurement (other than energy) in context of ATR compliance
1/15/2014	Bill Messner - Director of Corporate Employee Health and Safety	11.53	Shared Support - Employee Health and Safety - knowledge of ATRs and how they affect the Employee Health and Safety function
1/16/2014	Mike Bushey - Principal Manager of Operations	21.7	Call Center activities related to ATR compliance
1/16/2014	John Quinlan - Manager, Affiliate Compliance Office	32.51	Class A/Class B, New Affiliate Notification, ATR Review, ACO Email Box, Process Improvements/Changes, Communications with Affiliates
1/16/2014	Kathleen Chaney, Manager of HR IT Systems	28.02	Shared Support - Employee Information Center - knowledge of ATRs and how they affect the Employee Information Center function
1/16/2014	Randy Lisbin - Principal Manager, Energy Regulation Compliance	32.78	Discussion of possible Rule modifications
1/17/2014	Tom Cohenno - Director of Learning & Development	30.36	Shared Support - Learning & Development, compliance training - knowledge of ATRs and how they affect the Learning & Development function
1/24/2013	Dena Berkin, Manager G/L Governance and Data Management	17.64	Marketing
1/27/2014	Sharri Schuffels - Senior Manager of Supply Management	21.83	Shared Support - Bid Processing/Contract Mgt - knowledge of ATRs and how they affect the Bid Processing/Contract Mgt function
1/27/2014	Cary Wiener, Principal Project Manager	9.28	Shared Support - Center for Continuous Improvement (CCI)/Enterprise - knowledge of ATRs and how they affect the CCI/Enterprise function

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1/27/2014	Tom Jacobus - Principal Manager	10.95	Shared Support - Business Resiliency - knowledge of ATRs and how they affect the Business Resiliency function
1/28/2014	Francisco Oliveros, Principal Payroll Manager	22.62	Shared Support - Payroll - knowledge of ATRs and how they affect the payroll function
1/28/2014	Gregory Henry - Manager	16.22	Shared Support - Retirement Plan Management/Executive Compensation - knowledge of ATRs and how they affect the Retirement Plan Management/Executive Compensation function
2/3/2014	Bill James - SAP System Technician/Manager	11.64	Shared Support - Mainframe/Distributed Services - knowledge of ATRs and how they affect the Mainframe/Distributed Services function
2/4/2014	Patricia Flores - Principal Manager	1.82	Shared Support - Performance Assessment & Testing - knowledge of ATRs and how they affect the Performance Assessment & Testing function
2/6/2014	David Garcia - Director of Investigations and Helpline	16.89	Helpline
2/11/2014	Randy Lisbin - Principal Manager, Energy Regulation Compliance	32.78	Discussion of misclassified affiliates on listing.
2/12/2014	Zach Buhler - Project Manager	17.54	NTP&S - Incremental Costs and Gross Revenue Sharing Mechanism
2/12/2014	Sol Benundiz - Manager 1, IT	2.82	Physical Security and Walk-through
2/12/2014	Brennan Thompson, Security Specialist 2, IT	1.37	Physical Security and Walk-through
2/13/2014	Ed Laus - Manager 1, IT	18.14	Firewalls/Access restriction of affiliates
2/13/2014	Bill James - SAP System Technician/Manager, IT	11.70	SAP Back-up procedures
2/13/2014	Don Piwnica, Principal Manager, IT	16.03	Data Center Walk-through
4/2/2014	Randy Loughlin - Principal Manager, General Acct, Analysis & Reporting	25.90	How SCE maintains contemporaneous records
4/2/2014	Nathan Todaro - Project Manager, Advanced Technology Portfolio Management	4.82	Determine whether SCE shares/subsidizes RD&D activities or invests in advanced technology research with affiliates
4/3/2014	Steve Conroy - SCE Corporate Communications	29.19	Confirm that SCE does not participate with affiliates in trade shows.
4/3/2014	David Lover, Technical Specialist - Physical Security Protection Systems	21.00	User access to Rosemead and Irvine data centers.
4/3/2014	Randy Lisbin - Principal Manager, Energy Regulation Compliance	32.78	How Class B affiliates may fall under a Class A affiliate; Procedures in place to ensure affiliate audits are charged To shareholders; Confirm no new product (categories) were offered through SCE.
4/3/2014	Doug Snow - Director, Ratemaking Strategy	20.38	Understand basis for interest rate applied to ATFMA
4/3/2014	Michael Henry - Senior Attorney	10.06	EME bankruptcy affecting ring fencing provision

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Date	Interviewee	Years at SCE	Topics Discussed
4/8/2014	Albert Acosta - Procurement Agent, Materials/Hardware Supply Management	4.68	Shared Support - Materials/Hardware Supply Management
4/8/2014	George DeMaria - Human Resources Consultant	30.51	Shared Support - Human Resources Employee Compensation programs.
4/8/2014	Shelley Lin - Accountant, Corporate Accounting	7.69	Shared Support - Corporate Accounting – Intercompany Invoices and Monthly Reconciliations.
4/9/2014	Lois Pitter-Bruce - Manager, News Bureau and Crisis Communications, Corp. Comm	5.98	Shared Support - Corporate Communications
4/9/2014	Dean Yoshitani - Manager, Web Development/Programs, Corporate Communications	8.40	Shared Support - Corporate Communications
4/9/2014	Edward Espinosa - Desktop Support Specialist, IT	8.34	Shared Support - IT
4/10/2014	Betsy Woodford - Corporate Communications, Project Manager	15.79	Shared Support - Corporate Communications
4/16/2014	Murthy Vijjapu - Corporate Records Management, Project Manager	2.64	Shared Support - Corporate Records Management
4/17/2014	Tim Tawning - Accounts Payable, Project Manager II	34.02	Shared Support - Accounts Payable

# CALIFORNIA PUBLIC UTILITIES COMMISSION

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## APPENDIX C – NON-TARIFF PRODUCTS AND SERVICES

### APPENDIX C – NON-TARIFF PRODUCTS AND SERVICES

Below shows information on the different NTP&S offered by SCE. This information was obtained from various Advice Letters and Commission Decisions and includes a description of the product or service, a description of the market it is offered, effect on the market due to SCE's entry, and the resources used to develop and sell the NTP&S.

#### **Secondary Use of Transmission: Right of Ways and Land**

**Description of Service:** The services provided under the Secondary Use of Transmission Right of Ways and Land category all involve compatible secondary uses of available transmission-related right-of-ways and land. Secondary compatible uses include, but are not limited to: placement of communication equipment, conduit, and cable; agricultural/horticultural uses; storage facilities; parking lots; vehicle storage; billboard placements; stables; parks and recreation; and film production locations

**Market Description:** The leasing of vacant land in California is a highly competitive market with many large and small players. Several of the large land development firms operating in Southern California include The Irvine Company, The Koll Company, and OPUS.

**SCE Entry Effect on the Market:** Due to the large number of participants in this market and SCE's relatively limited availability of property suitable for third party use, SCE's offering of Secondary Use of Transmission Right-of-Ways and Land does not adversely affect the rivalry among firms in the relevant market.

**Resources Used to Develop and Sell:** Land and easements used to access and house SCE's transmission lines and related facilities.

#### **Secondary Use of Distribution: Rights of Ways, Land, Facilities and Substations**

**Description of Service:** The services provided under the Secondary Use of Distribution Right of Ways, Land, Facilities and Substations category all involve compatible secondary uses of available land, distribution right of ways, facilities, and substations

**Market Description:** The leasing of vacant land in California is a highly competitive market with many large and small players. Several of the large land development firms operating in Southern California include The Irvine Company, The Koll Company, and OPUS.

**SCE Entry Effect on the Market:** Because of these physical and/or use restrictions, SCE's distribution right of ways and land are typically considered less than "prime" and are clearly less attractive than unencumbered property in the market.

**Resources Used to Develop and Sell:** Land and easements used to access and house SCE's transmission lines and related facilities.

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#### **Secondary Use of Utility – Owned Generation Facilities and Land**

**Description of Service:** The services provided under the Secondary Use of Utility-Owned Generation Facilities and Land category all involve compatible secondary uses of available land, buildings, and facilities. Secondary compatible uses include, but are not limited to: placement of communications equipment, conduit, and cable; sale of excess water and mineral rights; agricultural/horticultural uses; parks and recreation; stables; parking lots; vehicle storage; billboard placements; and film production locations.

**Market Description:** The leasing of vacant land in California is a highly competitive market with many large and small players. SCE's remaining generation-related real estate assets is primarily vacant land or forests associated with SCE's hydro-generation.

**SCE Entry Effect on the Market:** In summary, SCE's generation land and facilities represent less than 0.03 percent of the land in SCE's service territory.

**Resources Used to Develop and Sell:** Land and easements used to access and house SCE's transmission lines and related facilities.

#### **Secondary Use of Utility – Owned Office Building and Offices**

**Description of Service:** The services provided under the Secondary Use of Utility-Owned Buildings and Offices category all involve compatible secondary uses of various buildings and offices.

**Market Description:** Secondary Use of Utility-Owned Buildings and Offices is part of the multi-billion dollar, highly competitive Southern California commercial real estate market.

**SCE Entry Effect on the Market:** Due to the large number of participants in this market and SCE's relatively limited availability of property suitable for third party use, SCE's offering of Secondary Use of Utility-Owned Buildings and Offices does not adversely affect the rivalry among firms in the relevant market.

**Resources Used to Develop and Sell:** General Purpose Utility Buildings and Offices (e.g. General Office Complex in Rosemead, IT Service Center in Irvine, and Gateway Business Center in Irwindale)

#### **Use of Transmission Towers, Distribution Poles, Facilities, Conduits, Ducts, and Streetlight Poles**

**Description of Service:** The services provided under the Use of Transmission, Distribution Poles, Facilities, Conduits, Ducts and Streetlight Poles all involve compatible secondary uses.

**Market Description:** The market is consolidated and there is limited rivalry. There are approximately 1.5 million poles in SCE's service territory of these approximately 865,000 are jointly owned. All poles are owned by SCE and/or telecommunication companies and cities.

**SCE Entry Effect on the Market:** Due to the relatively limited number of attachments that are not covered by Joint Pole Agreements or D. 98-10-058, SCE's involvement in the market does not adversely affect the rivalry among firms.

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**Resources Used to Develop and Sell:** Transmission Towers, Distribution Poles, Facilities, Conduits, Ducts and Streetlight Poles

#### Use of Communications and Computing Systems

**Description of Service:** SCE provides a variety of communications and computing related services including, circuits; wavelengths; fiber optic capacity; installation, maintenance and support of communications and computing equipment and capacity; and infrastructure-related telecommunication services.

**Market Description:** SCE's Carrier Solutions is entering a very competitive telecommunications market in California. SCE will enhance competition through the lease of in-place utility assets, which allows other CLCs and wireless carriers to build their networks in an expedient manner on SCE poles, ducts, and transmission towers.

**SCE Entry Effect on the Market:** Fierce competition among these industry giants and attacks from many start-ups is driving prices down, albeit slowly. SCE helps meet the intense and growing demand for telecommunications services and maintain stable prices for customers

**Resources Used to Develop and Sell:** Fiber optic cables and other communication transmission systems, Communication towers, Poles, facilities, conduits

#### License of Utility Software

**Description of Service:** Providing software to third parties under the Use of Utility Software category involves the compatible secondary use of intellectual property and licenses.

**Market Description:** SCE's offering of this service does not adversely impact competition in the software market as evaluated based upon the Five-Forces Model of Competition developed by Michael Porter.

**SCE Entry Effect on the Market:** SCE's limited involvement in the software market does not alter the threat of substitutes.

**Resources Used to Develop and Sell:** Utility software

#### Licensing of utility-Held Patents

**Description of Service:** Providing patents to third parties under the Use of Utility Held Patents category involves the compatible secondary use of intellectual property and licenses.

**Market Description:** There is no one single market for patents. The market is dependent on the type of intellectual property that is patented.

**SCE Entry Effect on the Market:** SCE's involvement in any of the relevant markets is extremely limited and SCE's involvement would not adversely impact the rivalry among firms in those markets.

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**Resources Used to Develop and Sell:** Intellectual Property  
**Property Management, Property Maintenance, and Real Property Brokerage Services**

**Description of Service:** The primary asset utilized in the offering of Property Management, Property Maintenance and Real Property Brokerage Services, is SCE's employees who provide these services for utility purposes.

**Market Description:** The market for commercial and industrial property management and brokerage services within SCE's service territory is extremely large and highly competitive  
**SCE Entry Effect on the Market:** SCE's involvement in the brokerage market is insignificant.

**Resources Used to Develop and Sell:** Software Applications

**Recreation, Fish and Wildlife Activities**

**Description of Service:** Providing recreation and camping areas under the Recreation, Fish and Wildlife Activities category involves the compatible secondary use of lands, lakes, and streams.

**Market Description:** SCE's camping and outdoor recreation offering is centered on the Big Creek, Shaver Lake area of the Sierra Nevada.

**SCE Entry Effect on the Market:** Due to the availability of other private and public campgrounds in the general region, SCE's offering of Recreation, Fish and Wildlife Activities does not adversely affect rivalry among firms in the relevant market

**Resources Used to Develop and Sell:** Land, Lakes, Streams, Utility Vehicles

**Sales of Timber Stands on Utility-Owned Property**

**Description of Service:** Sales of timber from utility owned land is typically incidental to and enhancing of efficient utility operations

**Market Description:** In 1998 California timber production was approximately 2 billion board feet (Source: State Board of Equalization)

**SCE Entry Effect on the Market:** Due to the size of competitors in the market and SCE's relatively small size, SCE's offering of Sales of Timber Stands on Utility-Owned Property does not adversely affect the rivalry among firms in the relevant market.

**Resources Used to Develop and Sell:** Land, Trees

**Use of Customer Technology Application Center (CTAC) and Agricultural Technology Application Center (AgTAC) Facilities**

**Description of Service:** Providing the use of facilities under the Use of Customer Technology Application Center and Agricultural Technology Application Center Facilities category involves the compatible secondary use of utility facilities and equipment.



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**Market Description:** Rivalry among current firms in this market is very strong. The main competitors are hotels, convention centers, and restaurants.

**SCE Entry Effect on the Market:** Due to the large number of participants in this market and the limited scope and scale of CTAC and AgTAC, SCE's offering of Use of Customer Technology Application Center (CTAC) and Agricultural Technology Application Center (AgTAC) Facilities does not adversely affect the rivalry among firms in the relevant market.

**Resources Used to Develop and Sell:** CTAC and AgTAC Facilities (conference rooms, display areas, and office space)

#### **Electric Vehicle (EV), Battery, and Charger-related Services**

**Description of Service:** The services provided under the Electric Vehicle (EV), Battery, and Charger-Related Services category all involve compatible secondary uses of electric vehicles, chargers, and SCE's electric vehicles and battery testing center.

**Market Description:** The market for electric vehicle and battery testing is very small. Many firms that produce vehicles or batteries have their own testing facilities

**SCE Entry Effect on the Market:** Due to the unique nature of the electric vehicle and battery market, SCE's involvement in this market does not adversely affect the rivalry among firms in the relevant market.

**Resources Used to Develop and Sell:** Electric Vehicle and Battery Testing Center, Meters, Magna Charger, Etc.

#### **Energy Efficiency Engineering, Consulting and Technical Services**

**Description of Service:** Providing services to third parties under the Energy Efficiency Engineering, Consulting and Technical Services category involves the compatible secondary use of utility personnel and energy efficiency testing equipment.

**Market Description:** The market for energy efficiency engineering, design and testing services is very large and highly competitive. There are many large and small firms competing in the market on both a national and region scale. These firms include architecture and engineering (A&E) firms, laboratories, universities, Energy Service companies, and specialized energy efficiency firms. The sales alone for A&E firms are in excess of \$100 billion a year.

**SCE Entry Effect on the Market:** Due to the large number of participants in this market and SCE's relatively small scope and scale of services, SCE's offering of Energy Efficiency Engineering, Consulting and Technical Services does not adversely affect the rivalry among firms in the relevant market.

**Resources Used to Develop and Sell:** Refrigeration Testing Lab, Misc. Others

#### **Billing and Customer Communication Center Services for Non-ESP**

**Description of Service:** The utility assets and capacity used to offer the products and services for this category primarily involves SCE's customer care systems, personnel, and processes.

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**Market Description:** Firms compete not only on price, but with novel, innovative ways to meet business needs. Technological changes such as the Internet, improved communications, and developments in computer hardware and software have revolutionized the delivery of many business services including billing and customer communication. Many major firms with strengths in communications, computers, and the Internet have or are entering the billing service market. Firms who traditionally have done print and mail billing service are expanding to E-billing service.

**SCE Entry Effect on the Market:** Due to the large number of participants in this market, SCE's offering of Billing and Customer Communication Center Services for Non-ESPs does not adversely affect the rivalry among firms in the relevant market.

**Resources Used to Develop and Sell:** VRU, ACD, Inbound telephone lines, etc.

#### **Meter Reading and Field Services for Non-ESP's**

**Description of Service:** As described above, the utility assets and capacity used to offer the products and services for this category primarily involve SCE's customer care systems, personnel, and processes.

**Market Description:** Meter reading firms compete for customers. Jobs are generally awarded through RFPs, and this creates rivalries among firms. Firms with strengths in communications, computers, and the Internet have or are entering the meter reading business, and will try to take away customers receiving traditional meter reading service.

**SCE Entry Effect on the Market:** Due to the large number of participants in this market, SCE's offering of Meter Reading and Field Services for Non-ESPs does not adversely affect the rivalry among firms in the relevant market.

**Resources Used to Develop and Sell:** Miscellaneous hardware (printers, network cards, workstations mounting terminals for MDT Microtech Probes for the Wireless Units, Radios for Dispatch). CSS, Itron

#### **Bill Payment Options**

**Description of Service:** SCE provides a variety of alternate bill payment options (e.g., QuickCheck, Pay-by-Phone, Pay-by-Internet, and Direct Payment)

**Market Description:** Providing additional bill payment options to customers does not affect the cost, quality, or reliability of tariffed utility services.

**SCE Entry Effect on the Market:** Providing additional bill payment options to customers does not affect the cost, quality, or reliability of tariffed utility services.

**Resources Used to Develop and Sell:** CSS, OSA, Software Apps

#### **Vehicle Maintenance and Repair**

**Description of Service:** The services provided under the Vehicle Maintenance and Repair category all involve compatible secondary uses of temporarily available capacity of SCE's fleet maintenance and repair shops for utility vehicles.

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**Market Description:** Rivalry among established firms is relatively low. There are relatively few non-captive providers in this particular sector - most utilities and municipalities operate their own internal garages to perform maintenance and repair work for their own vehicles.

**SCE Entry Effect on the Market:** Due to the large number of firms in the market for general vehicle repair services and the number of in-house providers of specialized utility vehicle repairs, SCE's involvement in this market does not adversely affect the rivalry among firms in the relevant market.

**Resources Used to Develop and Sell:** Facilities, tools, VIS, FMS

#### Transportation and Disposal of Hazardous Materials

**Description of Service:** The services provided under the Transportation and Disposal of Hazardous Waste category all involve compatible secondary uses of hazardous waste assets.

**Market Description:** The current hazardous waste transportation and disposal market for utility hazardous waste is fragmented.

**SCE Entry Effect on the Market:** Since SCE is a relatively small player in this market and due to the current competition in this market, SCE's involvement in the market will not change the rivalry among firms in the relevant market.

**Resources Used to Develop and Sell:** CHWMS (Centralized Hazardous Waste Management Service)

#### Use of Heavy Equipment and Machinery

**Description of Service:** The services provided under the Use of Heavy Equipment and Machinery category all involve compatible secondary uses of utility assets such as cranes, trucks and helicopters.

**Market Description:** Rivalry is fragmented in the equipment rental market, but highly consolidated in the area of heavy haul and rigging.

**SCE Entry Effect on the Market:** Since SCE is a relatively small player in the heavy equipment and machinery market, its involvement in the market does not adversely affect the rivalry among firms in the relevant market.

**Resources Used to Develop and Sell:** Heavy Equipment

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#### **Operation, Maintenance and Repair of Generation, Transmission and Distribution Related Facilities and Equipment**

**Description of Service:** The services provided under the Operation, Maintenance, and Repair of Generation, Transmission and Distribution Related Facilities and Equipment category involve customer on-site services that utilize available capacity of utility assets used in the operation and maintenance of other core utility assets. These services include, but are not limited to: distribution apparatus repair; large electrical apparatus repair; apparatus testing; field repair, maintenance, electrical engineering and consulting services; meter engineering and system analysis; submetering; meter testing and repair; testing, and repair of measuring and test equipment for power generation facilities; motor and generator repair services; valve repair services; tool repair services; precision dimensional measurement and testing of all types of physical equipment and objects; reverse engineering; precision dimensional measurement consulting and engineering; repair of mechanical equipment for power generation facilities; mechanical equipment and system consulting and engineering; repair and installation of transmission and distribution power lines; repair and maintenance of substation equipment; operation and maintenance of power generation facilities; engineering, consulting, and auditing of power generation facilities equipment and quality systems; engineering, consulting, and auditing of electrical and mechanical equipment and quality systems for fossil fuel, hydro, nuclear power generation facilities; and nuclear decommissioning consulting and engineering; and operation and maintenance of streetlights.

**Market Description:** SCE is primarily in the business of providing customer on-site repair, calibration, testing, operation and maintenance, engineering, and consulting services. These services are bid to customers in a highly competitive environment. There are many large and small qualified suppliers in this market. SCE's bid to award ratio is approximately three to one.

**SCE Entry Effect on the Market:** Due to the large number of participants in the market and SCE's relatively small size in the market, SCE's involvement in the market does not adversely affect the rivalry among firms in the relevant market.

**Resources Used to Develop and Sell:** Miscellaneous equipment

#### **Advanced Testing of Hydraulic Pumps**

**Description of Service:** The services provided under the Advanced Testing of Hydraulic Pumps category all involve uses of available capacity in testing equipment. These uses include, but are not limited to testing of hydraulic pumps.

**Market Description:** The market for advance testing of hydraulic pumps is extremely small. It is a small, niche business in which no firms other than SCE actively participate. Only SCE actively provides the advanced testing services. The few firms who have the capability to perform such tests, do not participate in the market, but rather compete for the maintenance, repair, and new pump sales that result from testing. SCE's involvement in advanced pump testing provides an unbiased alternative for determining the condition of their pumps and identifying any needed repairs.

**SCE Entry Effect on the Market:** Only SCE actively provides the advanced testing services.

**Resources Used to Develop and Sell:** CSI Analyzers, Heat Gun, Ohm Meter, Etc.

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### Equipment and Machinery Repair, Testing, Maintenance, and Calibration

**Description of Service:** The services provided under the Equipment and Machinery Repair, Testing, Maintenance and Calibration category all involve use of available capacity in SCE's shop repair facilities. The types of repair services on customer-owned equipment performed at SCE shop service locations include but are not limited to: distribution apparatus repair; large electrical apparatus repair; apparatus testing; electrical engineering and consulting services; meter engineering and system analysis; meter testing and repair; testing, calibration, and repair of measuring and test equipment for power generation facilities; motor and generator repair services; tool repair services; precision dimensional measurement and testing of all types of physical equipment and objects; reverse engineering; precision dimensional measurement consulting and engineering; repair of mechanical equipment for power generation facilities; mechanical equipment and system consulting and engineering; repair and maintenance of substation equipment; engineering, consulting, and auditing of power generation facilities equipment and quality systems; engineering, consulting, and auditing of electrical and mechanical equipment and quality systems for power generation facilities; and nuclear decommissioning consulting and engineering.

**Market Description:** SCE is primarily in the business of providing repair, calibration, testing, operation and maintenance, engineering, and consulting services for equipment and machinery utilizing the available capacity at SCE's repair shops. These services are bid to customers in a highly competitive environment. There are many qualified suppliers in this market. SCE's bid to award ratio is approximately 3 to 1.

**SCE Entry Effect on the Market:** Due to the large number of participants in the market and SCE's relatively small size in the market, SCE's involvement in the market does not adversely affect the rivalry among firms in the relevant market.

**Resources Used to Develop and Sell:** Miscellaneous equipment

### Geographical Information Systems (GIS) Services

**Description of Service:** The services provided under the Geographic Information Systems Services category involve use of available capacity of SCE employees and computer software and equipment. These services include, but are not limited to: providing maps of SCE's transmission and distribution poles and towers to developers and independent agencies; and the graphical presentation of various information to assist cities and other agencies.

**Market Description:** The market is highly consolidated. SCE is the only participant in the market of providing electrical transmission and distribution system maps within SCE's territory.

**SCE Entry Effect on the Market:** There is no rivalry with other firms that offer mapping services because their products do not include data on the electric utility systems.

**Resources Used to Develop and Sell:** Software Applications

### Tariff Sheet Sales

**Description of Service:** Providing tariff sheets to third parties under the Tariff Sheet Sales category involves selling hard copies of SCE's existing tariff sheets.

**Market Description:** The selling of tariff sheets has no effect on utility operations and does not affect the cost, quality, or reliability of services either related or unrelated to the tariff sheets.

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**SCE Entry Effect on the Market:** The selling of tariff sheets has no effect on utility operations and does not affect the cost, quality, or reliability of services either related or unrelated to the tariff sheets.

**Resources Used to Develop and Sell:** Tariff Sheets

#### Recycling Services

**Description of Service:** Selling recycled waste to third parties under the Recycling Services category allows SCE to sell some of its waste products.

**Market Description:** Due to the limited scope and nature of SCE's involvement in this market, evaluating the competition of the recycling market with the Five Force Model of Competition is not relevant.

**SCE Entry Effect on the Market:** Due to the limited scope and nature of SCE's involvement in this market, evaluating the competition of the recycling market with the Five Force Model of Competition is not relevant.

**Resources Used to Develop and Sell:** Waste Materials

#### Training and Technical Certification Services

**Description of Service:** The services provided under the Training and Technical Certification Services category involve compatible secondary uses of SCE employees, facilities, and equipment.

**Market Description:** There is little competition in this market. The majority of the utilities do their own training in-house. Most of the larger utilities have their own facilities and training catered specifically to their organizations.

**SCE Entry Effect on the Market:** SCE is not competing with other firms for market share in the training market, but is only offering limited space in existing training classes for a small number of people for distinctive, industry-specific training.

**Resources Used to Develop and Sell:** General Facilities, Materials, Human Assets

#### Material Procurement and Purchasing Services

**Description of Service:** The services provided under the Material Procurement and Purchasing Services category all involve uses of SCE personnel and its supply chain. These uses include, aggregated procurement and purchasing services of machinery, materials, equipment, tools, parts, office equipment, and supplies.

**Market Description:** Rivalry among firms is at best fragmented. There are currently a small number of firms that provide procurement services. Today, most companies perform their procurement and material management functions in-house.

**SCE Entry Effect on the Market:** Due to the limited scope and nature of SCE's involvement in this market, evaluating the competition of the recycling market with the Five Force Model of Competition is not relevant.

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**Resources Used to Develop and Sell:** PAWS, MMS

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## APPENDIX D – DISCUSSION OF ATRS AND POSSIBLE MODIFICATIONS

### APPENDIX D – DISCUSSION OF ATRS AND POSSIBLE MODIFICATIONS

Baker Tilly's recommendations regarding modifying the Affiliate Transactions Rules are detailed in the Executive Summary of this report, with support for those recommendations in the corresponding Rule testing details in the report.

On February 11, 2014, Baker Tilly and the CPUC met with the Regulatory Compliance Department at SCE to discuss SCE's suggestions for modifying the Rules. SCE was given the opportunity by the Commission Project Manager to include their suggested modifications in this report.

Baker Tilly does not endorse the following recommendations, but we have several comments following each grouping.

SCE identified four types of issues with the Rules and provided examples. Below are SCE's suggested modifications to the Affiliate Transaction Rules:

1. Housekeeping Issues
  - a. Redundant and/or outdated text/requirements, Commission revisions not reflected in text; vague or ambiguous language
    - i. Redundant Rules – Rules that are specific examples of preferential treatment already covered by Rule III.A
      1. Offering discounts: Rules III.B.2 &3
      2. Tariff discretion: Rules III.B 4&5
      3. Processing requests for utility services: Rule II.B.6
    - ii. Multiple references to sharing of nonpublic utility information in Rules II.C.3, III.B.2, III.E.4 &5
  - b. Commission approved changes/clarification not reflected in text
    - i. Shortened Disclaimer language
    - ii. Exemption of disclaimer for uniforms, building signage, work vehicles customer premise equipment
    - iii. Size and location requirements for Disclaimer
    - iv. Definition of "immediately" for purposes of new affiliate notifications
  - c. Reporting requirements buried in definitions or other Rules
    - i. Reporting requirements related to the Compliance Plan in Rules I.A, V.E & V.G
  - d. Outdated, obsolete or one-time requirements
    - i. Rule IX.C: Non-consolidating opinion
    - ii. Rule VII.F: Existing Offerings
    - iii. Rule II.E: Reference to broadband over power lines
  - e. Vague or ambiguous references
    - i. Rule II.B regarding what are covered affiliates
    - ii. Rule III.E.6&7 regarding "speaking on behalf of"
    - iii. Rule IV.C regarding "advice and assistance"

***Baker Tilly general comments on 1ei – both the users and reviewers of the Rules would benefit from a detailed list of services that make an affiliate covered or not covered***



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***Baker Tilly general comments on 1eii*** – *it would be difficult to craft a Rule to foresee every circumstance that could arise regarding “speaking on behalf of”. We feel the Rule does cover the required behavior.*

- f. Undefined terms or definitions not included in Rule I
  - i. Energy Marketing Affiliate
  - ii. Marketing Employees
  - iii. Traditional Utility Merchant Function
  - iv. Key Officers (should be moved from Rule V.E)

***Baker Tilly general comments on 1 a – f above:***

*We would agree that there are areas of the Affiliate Transaction Rules that are redundant and/or vague in their content. We would agree with the above statements and incorporate those comments into an overall recommendation for an in-depth review of the language of the Rules with an objective of reducing redundancy, ambiguity, and clarify roles and responsibilities.*

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2. Rules that Outlived the Intended Purpose
  - a. Requirements meant to mitigate a perceived concern that has not materialized or no longer needs to be mitigated
    - i. Rule IV.A (Customer Information)
      1. CPUC has promulgated separate set of Rules for release of customer information

***Baker Tilly general comments:*** *The ATR Rules should be compared to other CPUC Rules in this area to determine if there is overlap or redundancy*

- ii. Rule V.D (Joint Purchases) prohibiting joint purchasing of certain electricity related goods and services
        1. Broadly drawn restriction of activities that do not create an unfair competitive advantage for affiliates, and that create economies of scale that may benefit ratepayers.

***Baker Tilly general comments:*** *This request is appropriate. However, additional Rules should be drafted that address cost allocations between entities and ensure that costs for supply chain and other overheads are not unfairly shifted to ratepayers or away from affiliates, creating an advantage for the affiliate.*

- iii. Rule VI.B (Notification of New Affiliates): notification within 3 days of creating new affiliates.
        1. SCE has never received any inquiries based on these notifications

***Baker Tilly general comments:*** *While inquiries have not occurred, this Rule or some variation thereof is needed to track the formation of affiliates.*

- iv. Rule IX (Utility Financial Health)
        1. Capital structure regulated by Commission in other proceedings

***Baker Tilly general comments:*** *The ATR Rules should be compared to other CPUC Rules in this area to determine if there is overlap or redundancy. However, the intent of the Rule and application of capital structure benchmark measures and ring-fence provisions are needed.*

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3. Rules that Discriminate Against Affiliates
  - a. Requirements discriminate against affiliates and create an un-level playing field
    - i. Rule IV.C (Service Provider Information) prohibits affiliates from being on utility lists of service providers even if utility does not mislead customers or provide preferential treatment to affiliates

**Baker Tilly general comments:** *The intent of this request is reasonable. Procedures/Rules still need to be in place to ensure preferential treatment is not given to affiliates. If listed, affiliates should be identified as affiliates of the Company.*

- ii. Rule IV.D (Supplier Information) prohibits utility from sharing nonpublic supplier information with affiliates even if the supplier has not contractually or through an NDA restricted such disclosure

**Baker Tilly general comments:** *The intent of this Rule is still appropriate. These should be arms-length disclosures between supplier and affiliate.*

- iii. Rule V.G.2.b (Employees) employees would not be restricted by a residency requirement if they left the utility to work for a competitor of an affiliate

**Baker Tilly general comments:** *We would disagree with this requested change. The residency requirement is an appropriate safeguard in the situation described here.*

## CALIFORNIA PUBLIC UTILITIES COMMISSION

Audit of Southern California Edison Affiliate Transactions  
For the period January 1, 2010 – December 31, 2011

### APPENDIX D – DISCUSSION OF ATRS AND POSSIBLE MODIFICATIONS

4. Rules that are overly broad/restrictive
  - b. Effects extend beyond Commission's legitimate concerns about separation, nondiscrimination, and cross-subsidization
    - i. Rule II.B does not differentiate between affiliates operating in California and outside of California

**Baker Tilly general comments:** *The company should further explain their concerns in this area and show data as to how affiliates are disadvantaged by this Rule.*

- ii. Rule IV.B (Non-Customer Specific Non-Public Information) prohibition of sharing all nonpublic utility information is vague and overbroad; restricts information that would have no impact on the competitive market

**Baker Tilly general comments:** *It would be difficult to craft a Rule that would be event specific. A broad Rule in this area is appropriate as there is not a need for interpretation on a case by case basis. The company should further explain their concerns in this area and show data and examples as to how affiliates are disadvantaged by this Rule.*

- iii. Rule V.C (Sharing of Plant, Facilities, Equipment or Costs) prevents utilities from achieving economies of scale by sharing computing systems with appropriate firewalls and cost allocations
      - iv.

**Baker Tilly general comments:** *We agree with this request. SAP has the appropriate firewalls embedded in its structure that will allow separation of data. The ATR audit should test this Rule as part of each audit. The Rule could include a provision that an SSAE 16 report be obtained annually by the Company that tests and opines whether appropriate firewalls and controls are in place and operating effectively.*

- v. Rule V.F (Corporate Identification) requires disclaimer on all usages even if the customers are not misled into believing utility and affiliate are same company

**Baker Tilly general comments:** *It is not clear how compliance with this request could be documented. How would it be measured and documented that customers were not misled, whether they obtained services or just awareness of services?*

- vi. Rule VII limits the utilities' abilities to offer new products and services quickly in response to changing needs to its customers

**Baker Tilly general comments:** *The company should further explain their concerns in this area and show data and examples as to how affiliates are disadvantaged by this Rule. There is a stated process to offering new products and services. It is not clear how the Rule restricts the Company's speed of entry into the market.*