

Memorandum



Date: December 20, 2013

To: Edward Randolph
Director of Energy Division

From: Public Utilities Commission—
San Francisco

Kayode Kajopaiye, Branch Chief
Division of Water and Audits

A handwritten signature in black ink, appearing to be "JK" or similar initials, located to the right of the name Kayode Kajopaiye.

Subject: Southern California Edison Advice Letter 2892-E
Quarterly Procurement Plan Compliance Report for the First Quarter of 2013

Based on the results of its audit, the Division of Water and Audits' Utility Audit, Finance and Compliance Branch (UAFCB) did not find any material reasons for Energy Division (ED) to deny the approval of Southern California Edison's (SCE) Advice Letter No. (AL) 2892-E. The SCE procurement transactions executed during the first quarter of 2013 (Q1) that UAFCB examined were, in all material respects, in compliance with SCE's Procurement Plan, as approved in Decision (D.) 12-01-033, Assembly Bill (AB) 57 procurement rules, and several procurement-related Commission directives. SCE's transactions conducted in the Integrated Forward Market (IFM) and the Residual Unit Commitment Market (RUC) are outside the scope of UAFCB's audits. This audit is limited in scope and does not provide full assurance to the reasonableness of SCE's Q1 Quarterly Compliance Report (QCR) filing or its Q1 transactions.

A. Negative Audit Finding:

SCE failed to demonstrate that it was in compliance with D. 02-12-074, Ordering Paragraph (OP) 24(b). SCE did not ensure that its employees who were transferred to Trading and Energy Operations (TEO) Department in Q1 signed and acknowledged SCE's Code of Conduct (COC) agreement within an appropriate timeframe.

B. Recommendations

SCE should require all of its new and transferred TEO employees to sign and acknowledge the COC in a timely manner.

C. Background:

As required by D.02-10-062, OP 8, and clarified in D.03-12-062, Pacific Gas and Electric Company (PG&E), San Diego Gas and Electric Company (SDG&E) and SCE must each submit a quarterly compliance report (QCR) for all transactions of less than five-years duration executed in the quarter. ED requested that the UAFCB conduct compliance audits of these utilities' quarterly procurement compliance filings.

The objective of these quarterly audits is to determine if the utilities were in compliance with their California Public Utilities Commission's (Commission) approved procurement plans, while complying with AB 57 procurement rules and several procurement-related regulatory rulings and decisions, including, but not limited to, D.02-10-062, D.03-06-076, D.03-12-062, D.04-12-048, D.07-12-052, D.08-11-008, and D.12-01-033.

D. Negative Findings

Finding: During Q1, three of SCE's existing employees who transferred to the TEO department did not sign and acknowledge SCE's COC agreement in a timely manner.

Criteria: In D. 02-12-074, OP 24(b), the Commission requires that each utility must adopt, actively monitor, and enforce compliance with a comprehensive code of conduct for all employees engaged in the utility's energy procurement process. It is a good management practice for an employee to sign COC agreement within two weeks of starting employment in SCE's TEO department. If any TEO employees sign COC agreement outside of this two-week timeframe, SCE's internal control risk in its TEO department can increase significantly because the TEO employees may violate SCE's COC rules without reviewing and understanding these rules.

SCE's Response: New employees hired by the TEO department are required to sign and acknowledge SCE's COC agreement within two calendar weeks of their employment start dates. The three transferred employees to the TEO department during Q1 were SCE's existing relevant employees who were only required to sign and acknowledge the COC agreement within six weeks of SCE's annual review of the COC package for existing employees. The TEO department has not yet conducted its annual review for such a package in 2013. Therefore, these three employees have not been asked to complete their COC acknowledgement forms. In addition, SCE has been upgrading its overall COC process into a Computer-Based Training (CBT) annual review. This CBT process improvement will be implemented soon. The three transferred employees will be included in that process and will be required to sign the COC Acknowledgement Form at that time.

UAFCB Rebuttal: SCE must modify its COC policy to require its existing employees who transfer to the TEO department sign and acknowledge the COC agreement within two weeks of their transfer dates. SCE's current practice that requires its TEO transfer employees sign and acknowledge the COC agreement within six weeks of SCE's annual COC review significantly increases SCE's internal control risk in the TEO department. The TEO transfer employees may violate SCE's COC rules without reviewing and understanding these rules in a timely manner.

E. Conclusion:

SCE's AL 2892-E and its Q1 procurement transactions for electricity and natural gas that UAFCB reviewed were, in material respects, in compliance with SCE's Commission-approved procurement plan and all relevant Commission decisions. SCE's Q1 transactions that UAFCB reviewed, in material respects, appear to be complete, accurate and properly authorized by management.

If you have any questions, please contact Tracy Fok at (415) 703-3122.

cc: Rami Kahlon, Director, Division of Water and Audits
Judith Ikle, Energy Division
Michele Kito, Energy Division
Lily Chow, Energy Division
Donna Wagoner, Division of Water and Audits
Tracy Fok, Division of Water and Audits