

Memorandum



Date: May 9, 2014
To: Edward Randolph
Director of Energy Division
From: **Public Utilities Commission—** Kayode Kajopaiye, Branch Chief
San Francisco Division of Water and Audits
Subject: Southern California Edison Advice Letter 2956-E
Quarterly Procurement Plan Compliance Report for the Third Quarter of 2013

Based on the results of its audit, the Utility Audit, Finance and Compliance Branch (UAFCB) of the Division of Water and Audits did not find any material reasons for Energy Division (ED) to deny the approval of Southern California Edison's (SCE) Advice Letter No. (AL) 2596-E. The procurement transactions that SCE executed during the third quarter of 2013 (Q3) and UAFCB examined demonstrated, in all material respects, compliance with certain aspects of procurement-related state law and Commission directives. The UAFCB assesses compliance in accordance with agreed-upon procedures with ED and does not assess compliance with all aspects of the procurement-related state law or those directives. In addition, 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.

A. Negative Audit Finding:

SCE failed to demonstrate that it was in compliance with D.02-10-062, Appendix B. In its Q3 Quarterly Compliance Report (QCR) filing, SCE made reporting errors in Attachment A.

B. Recommendations:

Before submitting its QCR filings, SCE should thoroughly review its QCR and related attachments to ensure that all documents are correct and accurate.

C. Background:

As required by D.02-10-062, Ordering Paragraph (OP) 8 and clarified in D.03-12-062, Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), and SCE must each submit a 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' QCR filings.

UAFCB conducts the quarterly procurement audits based on procedures specified by ED, and as such these examinations are by design agree-upon procedures. ED specified which aspects of the utilities' California Public Utilities Commission's (Commission) approved procurement plans, AB 57 procurement rules and several procurement-related rulings and decisions to test compliance. The directives of the decisions and rulings ED chose to test compliance include, 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. UAFCB, however, does not test all of the transactions that the utilities include in their QCR.

D. Findings:

SCE failed to demonstrate that it was in compliance with D.02-10-062, Appendix B. In Attachment A of its Q3 QCR filing, SCE incorrectly reported start power flow hours for its electric physical transactions executed in the spot market. However, the corresponding transaction volume and values were correctly reported.

Criteria: In Appendix B of D.02-10-062, the Commission requires that each utility file each quarter's energy procurement transactions of less than five years duration with a QCR filing by an advice letter. The QCR filing must contain, among other things, information that is complete and accurate, including, but not limited to, the number and volume of transactions.

SCE's Response: The errors were due to formula reference errors occurred for the electric physical trades. SCE submitted revised electric physical transaction detail with correct start power flow hours and indicated that it will file amended Attachment A by May 16, 2014. SCE further asserts that it has taken steps going forward to further enhance controls to validate the information to source as well as enhance its spreadsheet controls.

UAFCB's Rebuttal: SCE needs to tighten its quality control related to transferring trade data from its trade system to spreadsheets and ensure that all transactions reported in the spreadsheets that are to be included its QCR filings are correct and complete. SCE should fully enforce its internal controls for checking its QCR filings and related attachments for accuracy before submitting them to the Commission.

E. Conclusion:

Except for the item noted in Section D above, SCE's Q3 procurement transactions for electricity and natural gas that UAFCB examined were, in material respects, in compliance with the aspects of SCE's Commission-approved procurement plan and relevant Commission decisions that UAFCB tested compliance with. SCE's Q3 transactions that UAFCB examined, in material respects, appear to be complete, accurate and properly authorized by its management.

If you have any questions concerning UAFCB's audit, 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