

# Memorandum



**Date:** December 30, 2015

**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 "Kajopaiye", is written over the typed name of the Branch Chief.

**Subject:** Southern California Edison Advice Letter 3253-E  
Quarterly Procurement Plan Compliance Report for the Second Quarter of 2015

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) 3253-E. The procurement transactions that SCE executed during the second quarter of 2015 (Q2), that UAFCB examined demonstrated compliance, in all material respects, with certain aspects of procurement-related state law and California Public Utilities Commission (Commission or CPUC) 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. Summary of Negative Audit Findings:

1. **SCE failed to demonstrate that it was in compliance with D.07-12-052, Ordering Paragraph (OP) 7.** SCE posted incorrect Procurement Review Group (PRG) meeting information on its public website.
2. **UAFCB is unaware of any specific requirement established by the Commission, which requires the investor-owned-utilities (IOU) to include standard enabling agreements (or master agreements) that define the general rights and responsibilities of involved parties in their Quarterly Procurement Plan Compliance Report (QCR) filing.** In Q2, SCE included its standard enabling agreements along with other transactions that are less than five years in duration in AL 3253-E QCR filing. These standard enabling agreements have not been approved through any other advice letters or applications except that they are included as part of SCE's bundled procurement plan (BPP) approved by the Commission.

## B. Recommendations:

1. **SCE should ensure that PRG meeting information posted on its public website is correct and accurate.**
2. **The Commission should provide clarification as to whether the IOU are required to report standard enabling (master) agreements as part of their compliant transactions to be included in their advice letters of QCR filing for the Commission's approval when the enabling agreements are already part of the IOU's BPP approved by the Commission.**

### **C. Background:**

As required by D.02-10-062, OP 8 and clarified in D.03-12-062, Pacific Gas & Electric (PG&E), San Diego Gas & Electric (SDG&E), and SCE must each submit 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 agreed-upon procedures. ED specified which aspects of the utilities' Commission-approved procurement plans, AB 57 procurement rules and several procurement-related rulings and decisions to test for compliance. The directives of the decisions and rulings ED chose to test for compliance include, but are not limited to, D.02-10-062, D.03-06-076, D.03-12-062, D.04-12-048, D.07-12-052, D.08-11-008, and D.12-01-033. UAFCB, however, does not test all of the transactions that the utilities include in their QCR.

### **D. Findings:**

**Finding 1: SCE failed to demonstrate that it was in compliance with D.07-12-052, OP 7.** SCE did not post correct PRG meeting information on its public website for the May 20, 2015 regular PRG meeting. Instead, SCE incorrectly posted the May 19, 2015 Cost Allocation Mechanism (CAM) PRG meeting information under the link for the May 20, 2015 regular PRG meeting.

**Criteria:** D. 07-12-052, OP 7 requires PG&E, SCE, and SDG&E to publicly post accurate PRG meeting information on their web-based calendars including, but not limited to, PRG meeting dates, time, duration, meeting summaries, attendees, topics and information requested or offered after the meeting.

**SCE's Response:** SCE asserts that the aforementioned incorrect posting of PRG meeting information was due to its inadvertent administrative error. After the UAFCB informed SCE the finding regarding the incorrect PRG meeting information on the public website, SCE took immediate action to replace the May 19, 2015 CAM PRG meeting information with the May 20, 2015 regular PRG meeting information on the public website.

**UAFCB's Rebuttal:** SCE should strictly implement and enforce internal controls to ensure that its PRG meeting information is accurately and correctly posted on the public website in accordance with D.07-12-052, OP 7. This is not the first time that SCE posted incorrect PRG meeting information on its public website. SCE also had the same finding in the first quarter of 2015 and the first quarter of 2010.

**Finding 2: UAFCB is unaware of any specific requirement established by the Commission regarding, which requires the IOU to include standard enabling agreements (or master agreements) that define the general rights and responsibilities of involved parties in their QCR filing.**

The three IOU have inconsistent interpretation of the Commission's requirement for standard enabling agreements (or master agreements). The standard enabling (master) agreements are part of the IOUs' BPP approved by the Commission but are not approved otherwise through any other advice letters or applications. SCE always includes standard enabling agreements executed with various counterparties in its advice letters of QCR filing. PG&E and SDG&E, on the other hand, do not believe that they need to report the standard enabling (master) agreements as part of compliant transactions to be

included in their advice letters of QCR filing because enabling agreements have already been pre-approved as part of their Commission-approved BPP.

**SCE's Response:** SCE believes that the Commission requires the IOUs to report standard enabling (master) agreements as part of compliant transactions to be included in the QCR filing for the Commission's approval.

**UAFCB's Rebuttal:** Due to the inconsistent interpretation of the Commission's requirement for standard enabling (master) agreements among the IOUs, the Commission needs to provide clarification as to whether the IOU are required to report standard enabling (master) agreements as part of compliant transactions to be included in the QCR filing for the Commission's approval. If the Commission determines that the IOU are required to report standard enabling (master) agreements in their QCR filings, it needs to provide specific guidance to the IOU and the UAFCB regarding the criteria that enabling agreements will be evaluated against for the Commission's approval.

**E. Conclusion:**

Except for the items noted in Section D above, SCE's Q2 procurement transactions for electricity and natural gas that the UAFCB examined were, in material respects, in compliance with the aspects of SCE's Commission-approved procurement plan and relevant Commission decisions that the UAFCB tested compliance with. SCE's Q2 transactions that the 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  
Simone Brant, Energy Division  
Yuliya Shmidt, Office of Ratepayer advocates  
Donna Wagoner, Division of Water and Audits  
Tracy Fok, Division of Water and Audits