


# Memorandum



**Date:** December 11, 2019

**To:** Edward Randolph, Deputy Executive Director  
Energy Division

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

**SUBJECT:** SOUTHERN CALIFORNIA EDISON COMPANY ADVICE LETTER 4046-E  
FINDINGS ON QUARTERLY ENERGY PROCUREMENT COMPLIANCE REPORT  
FOR THE SECOND QUARTER OF 2019

The Utility Audit, Finance and Compliance Branch (UAFCB) issues this memorandum containing its findings on Southern California Edison Company (SCE) Quarterly Energy Procurement Compliance Report (QCR) filed in Advice Letter No. (AL) 4046-E. The findings are based on the results of UAFCB's performed procedures to assess SCE's compliance. UAFCB assesses SCE's compliance in accordance with agreed-upon procedures (AUP) with Energy Division (ED) and does not assess the compliance with all aspects of the procurement-related state law and procurement-related directives mandated by the California Public Utilities Commission (CPUC). In addition, SCE's transactions conducted in the Integrated Forward Market and the Residual Unit Commitment Market are outside the scope of the agreed-upon procedures engagement.

The AUP engagement was conducted in accordance with Public Utilities Code (PUC) Sections 451, 454.5 (c)(3), and 454.5 (d)(2). UAFCB was not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on SCE's QCR filed in AL 4046-E. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to ED.

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

## A. Finding Summary

**SCE failed to demonstrate compliance with Decision (D.) 02-10-062, Appendix B, and PUC Section 581.** In its second quarter of 2019 (Q2 2019) QCR, SCE made reporting errors in Attachments B, D and H. On November 14, 2019, SCE submitted the amended Attachments B, D and H to correct the reporting errors in response to UAFCB's finding.

## B. Recommendation

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

## C. Background

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

## D. Finding Detail

**SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PUC Section 581.** In its Q2 2019 QCR, SCE made reporting errors in Attachments B, D and H. The reporting errors are described in detail below:

- a. In Attachment B, SCE incorrectly reported the credit mechanism of one counterparty that it executed a contract with. Moreover, SCE failed to report the credit mechanism of another counterparty with which it executed a contract.
- b. In Attachment D, SCE incorrectly reported the volume, average price and deal number of two financial gas sales categories: "Over-The-Counter Option-Location" and "Henry Hub Futures."
- c. In Attachment H, SCE incorrectly reported the delivery terms of a request for offer contract (RFO) and the volume and notional value of an electronic solicitation contract.

### Criteria:

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

### SCE's response:

- a. On November 14, 2019, SCE submitted the amended Attachments B, D and H via a supplemental Q2 19 QCR advice letter to correct the above-mentioned reporting errors.

- b. On August 16, 2019 and September 6, 2019, SCE provided the following responses to the findings:
- i. In Q2 2019, the incorrect and missing credit mechanisms in Attachment B was due to a formula issue with Excel, which displayed the oldest collateral instrument and not the most current.
  - ii. The corrective action to address reporting errors in Attachment B is to make sure that the formula in the Excel file will capture the most current collateral type to ensure that SCE includes the correct and complete credit mechanism information. In addition, SCE will have a secondary review and confirm that the information is accurate and complete before submitting Attachment B.
  - iii. The reporting errors in Attachment D was due to the formula in the Excel summary sheet referenced the wrong cells from another working sheet. The formula was corrected to get the correct values.
  - iv. A new reporting system has been implemented this quarter which will automate much of the reporting, and SCE will also implement a rigorous management review for the reporting.
  - v. The reporting errors in Attachment H was due to data entry errors. SCE will update its reporting and review processes to ensure accurate information is captured and reported.

cc: See next page.

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