



QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

Southern California Edison Company

Second Quarter of 2021 - Advice Letter 4549-E

Utility Audits, Risk and Compliance Division
Utility Audits Branch
December 23, 2021



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A digital copy of this report can be found at:

[Audit Reports by Industry \(ca.gov\)](#)

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Transmitted via e-mail

December 23, 2021

William V. Walsh, Vice President
Energy Procurement & Management
Southern California Edison Company
2244 Walnut Grove Avenue
183-A, Quad-1d, GO1
Rosemead, CA 91770

Dear Mr. Walsh:

Final Report Transmittal Letter – Agreed-Upon Procedures Engagement of Southern California Edison Company’s Quarterly Energy Procurement Compliance Report for the period of April 1, 2021, through June 30, 2021

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its agreed-upon procedures (AUP) engagement of Southern California Edison Company’s (SCE) Quarterly Energy Procurement Compliance Report (QCR) filed for its Second Quarter of 2021 in Advice Letter 4549-E. The final AUP report is enclosed.

SCE’s responses to the AUP report findings are incorporated into this report. As required by Public Utilities Code Section 454.5(g), the confidential market sensitive information contained in the AUP report is redacted. We will post the final redacted audit report on our website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

A Corrective Action Plan addressing the findings is required. However, SCE has already provided the information regarding its corrective actions planned and implemented in its response to the AUP report findings. Therefore, no additional information is needed at this time.

We appreciate SCE’s assistance and cooperation during the engagement. If you have any questions regarding this report, please contact Tracy Fok, Program and Project Supervisor, at (415) 703-3122 or tracy.fok@cpuc.ca.gov.

Sincerely,

Angie Williams for

Angie Williams, Director
Utility Audits, Risk and Compliance Division
cc: See next page

Mr. William V. Walsh, Vice President
Energy Procurement and Management
Southern California Edison Company
December 23, 2021
Page 2

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TABLE OF CONTENTS

I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. PROCEDURES AND FINDINGS	2
A. TRANSACTION RECONCILIATION/ANALYSIS.....	2
B. QUARTERLY COMPLIANCE REPORT (QCR).....	3
C. STRONG SHOWING JUSTIFICATION	5
D. ELECTRONIC SOLICITATION PROCESS AND RELATED CONTRACTS.....	6
E. BILATERAL AND BROKER CONTRACTS.....	9
F. REQUEST FOR OFFERS/PROPOSAL (RFO/RFP)– OTHER MARKET PARTICIPANTS	11
G. CODE OF CONDUCT (COC).....	11
H. GAS FINANCIAL TRANSACTION DEEP DIVE.....	12

I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) performed the agreed-upon procedures (AUP) enumerated in Procedures and Findings section of this report for the Southern California Edison Company's (SCE or the utility) compliance reporting period of April 1, 2021, through June 30, 2021 (Q2 2021). These procedures were agreed to between CPUC's Energy Division (ED) and UAB solely to assist ED in determining whether the three large investor-owned electric utilities are in compliance with certain energy procurement-related state law and CPUC energy procurement directives. SCE is one of these utilities.¹ SCE is responsible for complying with the energy procurement-related state laws and the CPUC's energy procurement directives.

UAB conducted the AUP engagement in accordance with attestation standards established by the generally accepted government auditing standards. The sufficiency of these procedures is solely the responsibility of ED. Consequently, we make no representation regarding the sufficiency of the procedures described herein either for the purpose for which this report has been requested or for any other purpose. The results of the engagement are also detailed in Procedures and Findings section of this report.

We were not engaged to, and did not, perform an examination or review of the subject matter, the objective of which would be the expression of an opinion on SCE's compliance with the energy procurement-related state laws and the CPUC's energy procurement directives. 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.

The purpose of this report is to communicate to ED the utility's compliance and the results of the AUP performed. The report may not be suitable for any other purposes. The procedures performed may not address all the items of interest to users other than ED and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

In accordance with CPUC Decision (D.) 12-04-046, Ordering Paragraph (OP) 13, this report shall be made public. As required by Public Utilities (PU) Code Section 454.5(g), the confidential market sensitive information contained in the AUP report is redacted. The redacted report can be found on the CPUC public website through the following link: [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

Alasha Vorobyeva for

Angie Williams, Director
Utility Audits, Risk and Compliance Division

¹ San Diego Gas & Electric Company and Pacific Gas and Electric Company are the other two electric utilities subject to the agreed-upon procedures engagements.

II. PROCEDURES AND FINDINGS

Below are the results of the AUP performed and associated findings. The sufficiency of these procedures is solely the responsibility of ED. Thus, UAB makes no representation regarding the sufficiency of the following procedures used for this engagement for the purposes for which this report has been requested.

A. Transaction Reconciliation/Analysis

1. Ascertained whether the utility's Q2 2021 electric physical transaction details in Attachment A² contained any electronic solicitation or other competitive solicitation transactions, requiring additional review in the audit procedures for Electronic Solicitation and Related Contracts indicated in Section D of this report.

Finding: We found no exceptions as a result of this procedure.

2. Verified whether the utility's Q2 2021 electric physical transaction details in Attachment A agreed to the corresponding transaction summary in Attachment C. Performed mathematical re-calculation and an analysis of 100% of transactional average prices, volumes, and notional values for the detection of a reporting anomaly.

Finding: We found no exceptions as a result of this procedure.

3. Confirmed whether the utility's Q2 2021 electric financial transaction details in Attachment A agreed to the corresponding transaction summary in Attachment C. Performed mathematical re-calculation and an analysis of 100% of transactional average prices, volumes, and notional values for the detection of a reporting anomaly.

Finding: We found no exceptions as a result of this procedure.

4. Ascertained whether the utility's Q2 2021 gas physical transaction details in Attachment A agreed to the corresponding transaction summary in Attachment D. Performed mathematical re-calculation and an analysis of 100% of transactional average prices, volumes, and notional values for the detection of a reporting anomaly.

Finding #1: SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SCE incorrectly reported Q2 2021 physical gas transactions in Attachment A. SCE reported an incorrect total deal volume in the amount of [REDACTED] MMBtu for ten physical gas transactions and corresponding incorrect notional value totaling [REDACTED]. Further, the corresponding summary of total deal volume and notional values in Attachment D was also incorrectly reported. The accurate total deal volume that SCE should have reported for the ten physical gas transactions is [REDACTED] MMBtu and the corresponding accurate notional value is [REDACTED].

² All references to attachments in the list of Procedures and Findings are to the attachments to the utility's Quarterly Compliance Report subject to this engagement.

In addition, SCE incorrectly reported fourteen physical Baseload transactions in Attachments A and D totaling deal volume in the amount of [REDACTED] MMBtu. The accurate total deal volume that SCE should have reported is [REDACTED] MMBtu.

SCE's Response: On December 6, 2021, SCE stated:

This error in reporting these Total Deal Volumes is due to a query error that was corrected in Q3 2021. SCE will revise Total Deal Volumes and Notional Values for these deals and submit a supplemental Q2-2021 QCR advice letter with a (1) revised physical gas transactions file and a (2) revised attachment D.

5. Determined whether the utility's Q2 2021 gas financial transaction details in Attachment A agreed to the corresponding transaction summary in Attachment D. Performed mathematical re-calculation and an analysis of 100% of transactional average prices, volumes, and notional values for the detection of a reporting anomaly.

Finding: We found no exceptions as a result of this procedure.

6. Determined whether the utility's Q2 2021 transport, storage, park and lend transaction details in Attachment A agreed to the corresponding transaction summary in Attachment D.

Finding: We found no exceptions as a result of this procedure.

B. Quarterly Compliance Report

1. Confirmed whether the quarterly advice letter filing, including the attachments of supporting documentation, was accurate and complete.

Finding #1: SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SCE incorrectly reported Q2 2021 physical gas transactions detail in Attachment A and total deal volume and notional values in the physical gas transactions summary in Attachment D. For additional information about the finding, please see Finding #1 at procedure A.4 listed above.

SCE's Response: See A.4.

Finding #2: SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SCE incorrectly included an investment-grade counterparty in Attachment B – Counterparties Information. For additional information about the finding, please see Finding #2 at procedure D.29 listed below.

SCE's Response: See D.29.

Finding #3: SCE failed to demonstrate compliance with Section 8.1 and Appendix B of the Contract Confirmation between SCE and [REDACTED] [REDACTED] [REDACTED] [REDACTED] SCE failed to obtain a full amount of collateral from the counterparty as required by the contract provision. For additional information about the finding, please see Finding #3 at procedure E.2 listed below.

SCE Response: See E.2.

Finding #4: SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SCE incorrectly reported the delivery period of a broker contract in the utility's QCR Attachment H – Contracts Executed/Contracts Amended. For additional information about the finding, please see Finding #4 at procedure E.6 listed below.

SCE's Response: See E.6.

Finding #5: SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SCE failed to report three non-investment grade counterparties in Attachment B as required. For additional information about the finding, please see Finding #5 at procedure E.6 listed below.

SCE's Response: See E.6.

2. Identified any of the utility's authorized decision-makers that were not listed in the QCR.

Finding: We did not find any of the utility's authorized decision-makers that were not listed in the QCR.

3. Verified whether the utility provided its descriptions of and justifications for its procurement processes used to select the transactions.

Finding: We found no exceptions as a result of this procedure.

4. Determined whether the utility explained or justified the timing of its transactions.

Finding: We found no exceptions as a result of this procedure.

5. Affirmed whether the utility discussed the system load requirements/conditions underlying the need for the quarter's transactions.

Finding: We found no exceptions as a result of this procedure.

6. Ascertained whether the utility provided a copy of any data of forecasts used by the utility to analyze transactions.

Finding: We found the utility provided a copy of forecast data used to analyze transactions.

7. Validated whether the utility provided a copy of each of the utility's procurement contracts reported in Attachment H.

Finding: We found no exceptions as a result of this procedure.

8. Ascertained whether the utility provided a reasonable number of analyses, as requested by the CPUC or the Procurement Review Group (PRG) and provided the resulting outputs.

Finding: We found no exceptions as a result of this procedure.

9. Confirmed whether the utility's QCR included its briefing package provided to the ultimate decision maker.

Finding: We found no exceptions as a result of this procedure.

10. Ascertained whether the utility provided the break-even spot prices equivalent to the contracts.

Finding: We found no exceptions as a result of this procedure.

11. Validated whether the utility provided average price information for non-standard transactions.

Finding: We found no exceptions as a result of this procedure.

12. Determined whether the utility provided California Independent System Operator electricity procurement information in the utility's QCR.

Finding: We found no exceptions as a result of this procedure.

C. Strong Showing Justification

1. Affirmed whether any transactions subject to strong showing justification in Attachment A of the utility's QCR were properly justified in Attachment M – Transactions Subject to Strong Showing.

Finding: We found no exceptions as a result of this procedure.

2. Ascertained whether the price of bilateral contracts for non-standard products that are waived from strong showing justification under D. 03-06-067, OP 3(d) in Attachment A, is reasonable based on available and relevant market data. Compared the buy and sell average price paid or sold in Attachment A to the market high and low prices to ensure a reasonable deal was completed.

Finding: We found no exceptions as a result of this procedure.

3. Ascertained whether any transactions subject to strong showing justification included in Attachment H of the utility's QCR were properly justified in Attachment M.

Finding: We found no exceptions as a result of this procedure.

4. Affirmed whether the price of bilateral contracts for non-standard products that are waived from strong showing justification under D.03-06-067, OP 3(d) in Attachment H, is reasonable based on available and relevant market data. Compared the buy and sell average price paid or sold in Attachment H to the market high and low prices to ensure a reasonable deal was completed.

Finding: We found no exceptions as a result of this procedure.

5. Verified whether all other transactions included in the utility's QCR are subject to strong showing justification and if any, whether they are properly justified in Attachment M.

Finding: We found no exceptions as a result of this procedure.

6. Ascertained whether the price of all other bilateral transactions and contracts for non-standard products that are waived from strong showing justification under D.03-06-067, OP 3(d) is reasonable based on available and relevant market data. Compared the buy and sell average price paid or sold to the market high and low prices to ensure a reasonable deal was completed.

Finding: We found no exceptions as a result of this procedure.

D. Electronic Solicitation Process and Related Contracts

1. Assessed whether the utility developed its bid documents under oversight of its independent evaluator (IE), vetted through the PRG and any differences were resolved by ED staff prior to administering the solicitation.

Finding: We found no exceptions as a result of this procedure.

2. Determined whether the utility consulted with its IE, PRG and ED to outline its plans and solicited feedback prior to drafting solicitation bid document so that the solicitation process was improved by the identification of data gaps, confirmation of the fairness of the confidential components of the solicitation, and in compliance with the letter and spirit of CPUC policies on competitive solicitations.

Finding: We found no exceptions as a result of this procedure.

3. Ascertained whether the electronic solicitation process was competitive and consistent with the spirit of competitive solicitation.

Finding: We found no exceptions as a result of this procedure.

4. Confirmed whether the electronic solicitation bid criteria included the measures recommended by the CPUC and were consistent with the CPUC's requirements.

Finding: We found no exceptions as a result of this procedure.

5. Validated whether the electronic solicitation bid criteria were clearly described and defined.

Finding: We found no exceptions as a result of this procedure.

6. Evaluated whether the rationale for the electronic solicitation bid criteria was clearly explained.

Finding: We found no exceptions as a result of this procedure.

7. Verified whether project viability was part of the electronic solicitation bid criteria.

Finding: We found no exceptions as a result of this procedure.

8. Ascertained whether the utility presented its electronic solicitation candidates in its PRG meetings for feedback from PRG members, ED staff, and IE.

Finding: We found no exceptions as a result of this procedure.

9. Determined whether the utility addressed any concerns raised by its PRG members, ED staff, and IE regarding the electronic solicitation process.

Finding: We found no exceptions as a result of this procedure.

10. Ascertained whether the electronic solicitation process optimized the energy value of the products being solicited.

Finding: We found no exceptions as a result of this procedure.

11. Determined whether the bid evaluation process was transparent and the circumstances, under which the bid results could be rejected, were well understood by potential bidders in advance of the solicitation.

Finding: We found no exceptions as a result of this procedure.

12. Validated whether all bids considered were submitted solely via the electronic solicitation process.

Finding: We found no exceptions as a result of this procedure.

13. Identified any pre-bid and post-bid negotiations.

Finding: We found no exceptions as a result of this procedure.

14. Confirmed whether the award decision was communicated within the timeframe of the electronic solicitation.

Finding: We found no exceptions as a result of this procedure.

15. Determined whether the utility created any false barriers to participation in the electronic solicitation or attempted to limit the competitive process by manipulating the products and/or process.

Finding: We found no exceptions as a result of this procedure.

16. Assessed whether the utility issued an electronic solicitation seeking bids for both Power Purchase Agreement (PPA) and Utility Owned Generation (UOG).

Finding: We found no exceptions as a result of this procedure.

17. Determined whether the electronic solicitation process solicited fossil-fuel generation contracts less than five years and evaluated whether the utility considered the use of Brownfield sites first and took full advantage of their location before it considered building new generation on Greenfield site.

Finding: We found no exceptions as a result of this procedure.

18. Confirmed whether the electronic solicitation involved affiliates or utility bidders and attested whether the electronic solicitation was evaluated by an IE regardless of contract duration.

Finding: We found no exceptions as a result of this procedure.

19. Identified whether the electronic solicitation solicited PPAs less than five years and appraised whether the utility recognized the effects of debt equivalence (DE) when comparing PPA against PPAs in their bid evaluations, but not when a UOG project was being considered.

Finding: We found no exceptions as a result of this procedure.

20. Confirmed whether the winning contract met the utility's electronic solicitation evaluation criteria.

Finding: We found no exceptions as a result of this procedure.

21. Verified whether the utility's decisions to accept and reject offers were clearly provided.

Finding: We found no exceptions as a result of this procedure.

22. Verified whether the utility's Q2 2021 electric physical transaction details in Attachment A contained any electronic solicitation or other competitive solicitation transactions.

Finding: We found no exceptions as a result of this procedure.

23. Validated whether the utility consulted with its PRG in a timely manner if any contract term was over one calendar quarter.

Finding: We found no exceptions as a result of this procedure.

24. Ascertained whether the utility's IE evaluated the contracts with terms greater than two years.

Finding: We found no exceptions as a result of this procedure.

25. Determined whether the contracts derived from the electronic solicitation selection process were executed with investment-grade counterparties or non-investment grade counterparties that were supported with surety bonds, guarantee, collateral, etc.

Finding: We found no exceptions as a result of this procedure.

26. Determined whether IE had evaluated the counterparty regardless of contract duration if the counterparty was an affiliate.

Finding: We found no exceptions as a result of this procedure.

27. Evaluated whether the contracts had any impact on the overall Time to Expiration Value at Risk (TeVAR).

Finding: We found no contracts had any impact on the overall TeVAR.

28. Identified any contract related to a new fossil generation or PPA that was less than five years.

Finding: We did not identify any contract related to a new fossil generation or PPA that was less than five years.

29. Verified whether all electronic solicitation contracts executed during the quarter were correctly and completely reported in attachments of the utility's QCR.

Finding #2: SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SCE incorrectly included an investment grade counterparty of an electronic solicitation contract, [REDACTED], in Attachment B. The investment grade counterparty should not be included in this attachment.

SCE's Response: On November 2, 2021, SCE stated:

This was due to a manual entry error. SCE will amend Attachment B to correct Finding #2 and submit a supplemental advice letter with this amendment. Additional checks have been instituted to ensure this does not happen going forward.

E. Bilateral and Broker Contracts

1. Ascertained whether the utility consulted with its PRG in a timely manner for contracts exceeding one calendar quarter.

Finding: We found no exceptions as a result of this procedure.

2. Validated whether the contracts executed bilaterally with investment-grade counterparties or non-investment grade counterparties that were supported with surety bonds, guarantee, collateral, etc.

Finding #3: SCE failed to demonstrate compliance with Section 8.1 and Appendix B of the Contract Confirmation between SCE and [REDACTED] SCE failed to obtain a full amount of collateral from [REDACTED] as required by the contract provision. The required collateral amount for the contract is [REDACTED] according to SCE's response dated 11/2/2021. [REDACTED] had made a cash payment in the amount of [REDACTED] on 06/21/2021. SCE had mistakenly believed [REDACTED] was still holding onto a [REDACTED] Letter of Credit (LC) which would have covered the remaining collateral due, but shortly discovered that the LC had already expired on 02/01/2020. Consequently, the collateral amount due was not fully covered.

SCE Response: On November 2, 2021, SCE stated:

SCE's previous credit risk management system [REDACTED] requires a user to manually inactivate a LC once it expires in the system for it not to be included in net exposure calculations. If an LC is mistakenly not inactivated upon termination, the net exposure calculation will be understated. In August of 2021, SCE upgraded the credit risk management system to [REDACTED] which has the improved functionality of automatically inactivating LCs once the termination date becomes effective.

3. Determined whether the utility's IE had evaluated the counterparty regardless of contract duration if the counterparty was an affiliate.

Finding: We found no exceptions as a result of this procedure.

4. Evaluated whether the contracts had any impact on the overall TeVAR.

Finding: We found no contracts had any impact on the overall TeVAR.

5. Identified any contract related to a new fossil generation or PPA that was less than five years.

Finding: We did not identify any contract related to a new fossil generation or PPA that was less than five years.

6. Verified whether the bilateral and broker contracts executed during the quarter were correctly reported in the utility's QCR.

Finding #4: SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SCE incorrectly reported the delivery period of a broker contract with [REDACTED] as 09/01/2021 – 09/30/2022 in Attachment H. The correct delivery period should be 09/01/2021 – 09/30/2021 as shown in the contract confirmation.

SCE Response: On November 2, 2021, SCE stated:

The discrepancy in contract term length that appears between the Confirmation Letter and Attachment H in regards to the broker contract with [REDACTED] was due to manual entry error. SCE will amend Attachment H to correct Finding #4 and submit a supplemental advice letter with this amendment.

Finding #5: SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SCE failed to report three non-investment grade counterparties in Attachment B for one bilateral contract executed with [REDACTED] and two broker contracts executed with [REDACTED] and [REDACTED].

SCE Response: On November 2, 2021, SCE stated:

This was due to a manual entry error. Additional checks have been instituted to ensure this does not happen going forward. SCE will amend Attachment B to correct Finding #5 and submit a supplemental advice letter with this amendment.

F. Request for Offers/Proposal (RFO/RFP) – Other Market Participants

1. Determined whether the utility participated in any RFO/RFP process of any market participants and whether any contracts were executed between the utility and the market participants who issued RFO/RFP.

Finding: We found no exceptions as a result of this procedure.

2. Evaluated whether the utility consulted with its PRG for the contracts derived from the RFO/RFP issued by other market participants with contract duration longer than one calendar quarter.

Finding: We found no exceptions as a result of this procedure.

3. Validated whether the contracts executed with investment-grade counterparties or non-investment grade counterparties that were supported with surety bonds, guarantee, collateral, etc.

Finding: We found no exceptions as a result of this procedure.

4. Verified whether the contracts executed from the RFO/RFP issued by other market participants during the quarter were correctly reported in the utility's QCR.

Finding: We found no exceptions as a result of this procedure.

G. Code of Conduct (COC)

1. Reviewed the utility's energy procurement chart as of Q2 2021 and determined whether all employees included in the chart acknowledged the utility's COC in a timely manner.

Finding: We found no exceptions as a result of this procedure.

2. Validated whether all new employees who were hired or transferred during the past year Q3 2020 through Q2 2021 and involved in energy procurement activities acknowledged the utility's COC agreement or completed the utility's COC training in a timely manner.

Finding: We found no exceptions as a result of this procedure.

3. Determined whether the utility has an ongoing process in reviewing and updating its COC and related issues to reinforce these mandatory rules of conduct.

Finding: We found no exceptions as a result of this procedure.

4. Verified whether the utility has additional obligations, besides its COC, that employees must adhere to prove their compliance with confidentiality requirements at different level of transactions in accordance with D.02-12-074, OP 24 b.2.2.

Finding: We found no exceptions as a result of this procedure.

5. Identified whether the utility has a process in place where energy procurement employees become legally compelled by a deposition to disclose any confidential procurement documents.

Finding: We found no exceptions as a result of this procedure.

6. Determined whether the utility has a control process to prevent employee's misuse of confidential procurement information during and after their employment.

Finding: We found no exceptions as a result of this procedure.

H. Gas Financial Transaction Deep Dive

1. Determined whether the utility executed the transactions with adequate justifications (e.g., fulfilling its net residual open positions and using the least-cost-best-fit approach).

Finding: We found no exceptions as a result of this procedure.

2. Verified transaction volumes, prices, and notional values to invoices and trade blotters (confirmations).

Finding: We found no exceptions as a result of this procedure.

3. Evaluated whether the sampled transactions had any impact on the overall TeVAR.

Finding: We found that fixed gas financial transactions decreased the overall TeVAR.

4. Verified that the product types, transaction processes, brokers and exchanges used for procurement during the quarter were approved in SCE's Bundled Procurement Plan. Ascertained that PRG consultation properly took place for transactions with terms over 90 days. Confirmed that transactions did not have terms longer than five years and did not involve affiliates of SCE.

Finding: We found no exceptions as a result of this procedure.

5. Confirmed whether quarter's transactions were executed with investment-grade counterparties or non-investment grade counterparties that were supported with surety bonds, guarantees, collateral, etc.

Finding: We found no exceptions as a result of this procedure.

6. Determined whether the utility demonstrated that prices of OTC transactions were equivalent to exchanges.

Finding: We found no exceptions as a result of this procedure.

7. Determine whether the utility executed its gas financial transactions in compliance with its approved gas hedging plan.

Finding: We found no exceptions as a result of this procedure.