



Memorandum

Date: November 30, 2016

To: Edward Randolph
Director of Energy Division

From: **Public Utilities Commission—** Kayode Kajopaiye, Branch Chief
San Francisco Utility Audit, Finance and Compliance Branch

Subject: Southern California Edison Company Advice Letter 3400-E
Quarterly Procurement Plan Compliance Report for the First Quarter of 2016
Summary of Negative Findings

Based on the results of its performed procedures to assess compliance, the Utility Audit, Finance and Compliance Branch (UAFCB) is issuing its negative findings on Southern California Edison Company's (SCE) Quarterly Procurement Plan Compliance Report (QCR) filed by Advice Letter (AL) 3400-E. UAFCB assesses compliance in accordance with agreed-upon procedures with Energy Division (ED) and does not assess compliance with all aspects of the procurement-related state law or procurement-related directives mandated by the California Public Utilities Commission (Commission). In addition, SCE's transactions conducted in the Integrated Forward Market (IFM) and the Residual Unit Commitment Market (RUC) are outside the scope of the agreed-upon procedures engagement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA).

A. Summary of Negative Findings:

SCE failed to demonstrate compliance with pages 8 and 9 of Decision (D.) 06-12-009, Appendix B of D.02-10-062, Ordering Paragraph (OP) 27 of D.07-12-052 and Public Utilities Code (PUC) §581. In the first quarter of 2016 (Q1), SCE renewed six of its bilateral gas transportation contracts with Southern California Gas Company. SCE erroneously reported these contract renewals as new contracts executed during Q1 in Attachment H of its Q1 QCR for the Commission's approval. Pursuant to D.06-12-009, pages 8 and 9, SCE should not have filed the contract renewals (amendments) for approval in the QCR. On October 26, 2016, SCE submitted amended Attachment H removing the six contract renewals from the Q1 QCR. However, SCE should have disclosed those six contracts in the Informational Purposes Only section of the amended Attachment H.

B. Recommendations:

SCE must not submit any contract renewals for the Commission's approval as part of its QCR. Pursuant to PUC §581 and the QCR template issued by ED in 2008 in response to OP 27 of D.07-12-052, SCE must disclose contract renewals in the Information Purposes Only section of its QCR Attachment H. SCE should submit an amended Attachment H for Q1, adding the six contract renewals in the Information Purposes Only section.

C. Background:

As required by D.02-10-062, OP 8 and clarified in D.03-12-062, Pacific Gas & Electric Company (PG&E), San Diego Gas and Electric (SDG&E), and SCE 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' Commission-approved procurement plans, AB 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. Negative Findings:

SCE failed to demonstrate compliance with pages 8 and 9 of D.06-12-009, Appendix B of D.02-10-062, the QCR template issued by ED in 2008 in response to OP 27 of D.07-12-052 and PUC §581. In Q1, SCE renewed six of its bilateral gas transportation contracts with Southern California Gas Company. Most of these contracts were renewed for three additional years and one of the contracts was renewed for two additional years. SCE erroneously reported all the contract renewals as newly-executed contracts in Attachment H of its Q1 QCR for the Commission's approval. SCE should not have included these contract renewals in the Q1 QCR for the Commission's approval. SCE should have disclosed them in the QCR for information purposes only.

On October 26, 2016, SCE submitted an amended Attachment H removing the six contract renewals from the Q1 QCR. However, SCE failed to disclose them in the Information Purposes Only section of the amended Attachment H.

Criteria:

1. Pages 8 and 9 of D.06-12-009 states:

However, the PTQCR (Procurement Transaction Quarterly Compliance Reports) is not the appropriate vehicle for requesting approval of contract amendments and modifications. The PTQCR is a compliance filing that explains a why and how a utility enters into a contract. As such, the PTQCR is not an appropriate vehicle for an approval request. **The PTQCR serves a specific purpose as defined in D.04-10-062, Conclusion of Law 7. That purpose is not compatible with a request for contract modifications. PG&E should file a separate advice letter when seeking Commission approval for contract amendments and modifications.** The requirement that PG&E not use the PTQCR for contract approval request is not intended to limit or hinder PG&E's management from exercising their discretion in managing the procurement contracts on a day-to-day basis.

Nor is PG&E prevented from filing pre-approval requests via an application or a separate advice letter as deemed appropriate by PG&E management. [Emphasis added]

Previously, the annual ERRA reasonableness application process was used to seek approval of contract amendments and modifications, and we do not object to its continued use for such purpose.

2. In Appendix B of D.02-10-062, the Commission requires that each utility report on each quarter's energy procurement transactions of less than five years duration in a QCR submitted by an advice letter. The QCR must contain, among other things, information that is complete and accurate, including but not limited to, the number and volume of transactions.
3. In D.07-12-052, OP 27, the Commission delegated authority to ED to authorize the implementation of a reformatted and streamlined QCR and to make ministerial changes to the content and format of the report as needs arise. Subsequently in 2008, ED issued a reformatted standardized QCR template for utilities to comply with when compiling their QCR to submit with their quarterly advice letters. In the standardized template, Attachment H, in a section labeled "Information Purposes Only", is to include a summary of contracts/amendments executed during the quarter filed via separate applications or advice letters.
4. PUC §581 states:

Every public utility shall furnish to the commission in such form and detail as the commission prescribes all tabulations, computations, and all other information required by it to carry into effect any of the provisions of this part, and shall make specific answers to all questions submitted by the commission. Every public utility receiving from the commission 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:

In its response dated September 8, 2016 to the above-mentioned finding, SCE asserts the following:

Each of the natural gas transportation agreements includes a provision for automatic renewal. For example, the Master Services Contract – Schedule A for [REDACTED] effective February 1, 2013, for an initial term of 3 years ending effective February 1, 2016, contains on page 2, in the Billing Schedule Sequence box, the following language: "The term of this sequence is for 3 Year(s), and shall automatically continue thereafter on the Otherwise Applicable Rate Schedule specified with automatic renewal periods of 3 Year(s)." The agreement was not terminated and as a result was allowed to automatically renew for another 3 year term. SCE believes it correctly classified and reported these gas transportation contract renewals in

the New Bilaterals tab of Attachment H, as it has done so in past QCRs that have been approved (e.g., Q3-14 QCR). Please note the QCR Reporting Template does not address how to report contract renewals. Please see the attached automatic renewal confirmation email from SoCalGas.

In its response dated September 27, 2016 to the above-mentioned finding, SCE asserts the following:

For the reasons discussed in greater detail below, SCE is not required to have new contract documents for the automatic renewal of the four peaker, [REDACTED] gas transportation agreements. In fact, these agreements likely should not have been included in the Q1 2016 QCR because they are not new contracts executed in the quarter. All six of these contracts were offered, accepted, entered into, executed, and approved by the Commission as meeting the upfront standards set forth in SCE's AB 57 Bundled Procurement Plan (BPP) in either 2010 or 2013. No new contracts were created by SCE's exercise of the option to automatically renew these contracts. In fact, the Commission-approved SoCalGas tariffs governing these contracts provide that SCE and SoCalGas – the parties to these agreements – are not required to enter into new contracts unless there is a rate or monthly scheduled quantity change. That tariff provision is not surprising given that the automatic renewal creates no new terms or conditions. Absent such changes, there is no new bargained for exchange; rather there is a continuing performance obligation under the terms of the existing contracts that the Commission already approved. SCE included these renewals, perhaps over inclusively, in its Q1 2016 QCR merely to notify the Commission that the contracts were continuing. If you like, in the interest of efficiency, SCE can amend the Q1 2016 QCR filing to remove the renewals given that they are not new contracts executed during the quarter.

In conclusion, SCE only filed these renewals in the Q1 2016 QCR so that the Commission would be aware of the renewal. In retrospect, doing so was likely over inclusive. To avoid burdening the Commission's resources and in the interest of efficiency, SCE is willing to file an amended Q1 2016 QCR that removes these contracts.

In its response dated October 18, 2016 to the above-mentioned finding, SCE asserts the following:

SCE and staff from the Utility Audit, Finance and Compliance Branch of the CPUC held a conference call on October 20 to discuss the six SoCalGas gas transportation automatically-renewed contracts. It was suggested that the Information Only tab of Attachment H might be the proper category to place these auto-renewals. However, the CPUC's QCR Reporting template requires that the Information Only tab reports a "A summary of the contracts executed during the quarter filed via separate applications or advice letters" (emphasis added). These auto-renewals do not qualify because they were not "contracts executed during the quarter"; they simply automatically renewed. Both

parties agreed this issue will be resolved by SCE filing a Q1-16 QCR supplement that includes a revised Attachment H that has the six SoCalGas gas transportation automatically-renewed contracts removed from it. SCE is targeting the week of October 24 for the supplemental filing. The auto-renewals will continue to be reflected in SCE's annual ERRA filing.

On October 26, 2016, SCE submitted an amended Attachment H in which it removed the six contract renewals from its Q1 QCR but failed to disclose them in the Information Purposes Only section of Attachment H. SCE asserts that it will file the six contract renewals via its Energy Resource Recovery Account (ERRA) proceeding.

UAFCB's Rebuttal: Pursuant to Appendix B of D. 02-10-062, OP 27 of D.07-12-052 and PUC §581, SCE is required to report, in the Information Purposes Only section of Attachment H, a summary of contracts/amendments executed during the quarter filed via separate applications or advice letters. The automatic renewals of the bilateral gas transportation contracts are considered contract amendments because SCE, by not terminating the agreement at the end of the original term, exercised its option to extend the contract term for additional time and such extensions are changes to the original contract terms. Moreover, SCE executed the contract renewals during the quarter and will file them via an ERRA proceeding for the Commission's approval. Thus, SCE should disclose the contract renewals in the Information Purposes Only section of Attachment H.

E. Conclusion:

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 3400-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.

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