

Memorandum



Date: August 7, 2017

To: Edward Randolph
Director, Energy Division

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

Subject: Southern California Edison Advice Letter 3548-E
Quarterly Procurement Plan Compliance Report for the Fourth Quarter of 2016
Summary of Negative Findings

The Utility Audit, Finance and Compliance Branch (UAFCB) issues this memorandum containing its negative findings on Southern California Edison Company's (SCE) Quarterly Procurement Plan Compliance Report (QCR) filed by Advice Letter (AL) 3548-E. The negative 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 with Energy Division (ED) and does not assess compliance with all aspects of 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 Decision (D) 02-10-074, Ordering Paragraph (OP) 24(b). SCE did not ensure that one of its employees in Energy Procurement (EP) department completed its Code of Conduct (COC) training within an appropriate time frame.

B. Recommendations:

SCE should enforce its mandatory COC training for all of its new and transferred employees in the EP department within an appropriate time frame.

C. Background:

As required by D.02-10-062, OP 8 and clarified in D.03-12-062, Pacific Gas and Electric Company (PG&E), SCE, and Southern California Edison (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 by ED and UAFCB. ED specified which aspects of the utilities' Commission-approved procurement plans, Assembly Bill (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 Decision (D) 02-10-074, OP 24(b). SCE did not ensure that an employee who returned to the EP department completed the COC training within two weeks of his employment start date. The employee completed the COC training four to five weeks after his return to the EP department. Completion of COC training serves as an acknowledgment of SCE's COC agreement.

Criteria: In D. 02-12-074, OP 24(b), the Commission requires that each utility must adopt, actively monitor, and enforce compliance with a comprehensive code of conduct for all employees engaged in the utility's energy procurement process. It is a good management practice for an employee to sign COC agreement within two weeks of starting employment in SCE's EP department. If any EP employees sign COC agreement outside of this two-week timeframe, SCE's internal control risk in its EP department can increase significantly because the EP employees may violate SCE's COC rules without reviewing and understanding these rules.

SCE's response:

In its response dated February 21, 2017 to the finding, SCE asserts the following:

Southern California Edison (SCE) believes that Kien Co did, in fact, review and re-sign the Code of Conduct (CoC) in a timely manner. D.02-12-074 does not provide a deadline for employees to re-sign the CoC. Rather, D.02-12-074 provides that the CoC should be signed once. At the time of Kein Co returning to employment with SCE, the SCE policy was for returning employees to re-sign the CoC before the end of their first calendar quarter back. As Kein Co returned to SCE on October 10, 2016 and completed his training on November 8, 2016, Mr. Co reviewed and re-signed the Code of Conduct (CoC) in a timely manner upon his return to SCE.

While SCE disagrees that it is out of compliance with D.02-12-074, SCE does agree that it would be an improved practice to require all employees - new, transferees, and returning - to sign the CoC within two weeks of their start date in the relevant organization. SCE agrees to modify its CoC policy to require all new, transferee, and returning employees to physically sign or electronically acknowledge their agreement to abide by the CoC, within two weeks of their start date in the relevant organization.

Accordingly, SCE requests that UAFCB remove this issue as a 'Finding.'

UAFCB's Rebuttal: Because the returning employee did not complete the COC training within the reasonable timeframe, the finding is not removed. However, SCE's effort to improve its future COC training and acknowledgment practice for all its new, transferees, and returning employees is greatly appreciated.

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 Advice Letter (AL) 3548-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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