



Memorandum

Date: November 15, 2018

To: Edward Randolph
Director of Energy Division

Barbara Owens

From: **Public Utilities Commission—
San Francisco** Barbara Owens, Risk and Compliance Officer
Utility Audit, Finance and Compliance Branch

Subject: Southern California Edison Company Advice Letter 3794-E
Quarterly Procurement Plan Compliance Report for the First Quarter of 2018
Summary of Negative Findings

The Utility Audit, Finance and Compliance Branch (UAFCB) issues this memorandum containing its negative findings on Southern California Edison Company (SCE) Quarterly Procurement Plan Compliance Report (QCR) filed by Advice Letter No. (AL) 3794-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 (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 or 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.

A. Summary of Negative Findings:

1. **SCE failed to demonstrate compliance with Decision (D.) 02-12-074, Ordering Paragraph (OP) 24(b).** SCE did not ensure that the one (1) employee who transferred to the Energy Procurement (EP) department during the first quarter of 2018 (Q1) completed its Code of Conduct (COC) Training within an appropriate timeframe.
2. **SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PUC §581.** In its Q1 2018 QCR, SCE made a reporting error in Attachment B. On July 23, 2018, SCE submitted an amended Attachment B to correct the reporting error in response to UAFCB's finding.

B. Recommendations:

1. SCE should strengthen the internal controls of its onboarding and training automated systems to enforce its mandatory COC training for all its new and transferred EP employees within an appropriate timeframe.
2. Before submitting its QCR and related attachments, SCE should thoroughly review them and ensure that all documents are correct and accurate. SCE needs to strengthen its internal control and implement an effective review process to ensure the reporting accuracy of its QCR and related attachments before submitting them to the Commission.

C. Background:

As required by D.02-10-062, OP 8 and clarified in D.03-12-062, SCE, Pacific Gas & Electric Company (PG&E), and San Diego Gas and Electric Company (SDG&E) 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, 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:

1. **SCE failed to demonstrate compliance with D.02-12-074, OP 24(b).** SCE did not ensure that the one employee transferred to the EP department during Q1 2018 completed its COC training within two weeks of employment start date. The transferred employee completed its COC training more than five weeks after the start date. Completion of COC training served as the purpose of acknowledging 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: On May 24, 2018 and June 4, 2018, SCE asserted the following:

- In the early 2018, SCE changed its COC training process, which had been a manual process (further, it was a manually intensive process), to an automated process that includes a weekly report that is generated identifying new employees in the Energy Procurement & Management (EPM) organizational unit. At the time, the employee moved into EPM, and actual start date was not captured by the automation in that week's report. It was not captured by the automation until many weeks later.
- SCE has revised its automation process so that start dates are accurately captured in the weekly report, which will ensure timely completion of COC training.
- Employee completed COC training within one day of showing up on the automated report.

- It is incorrect for SCE, or any party, to assert this activity was not in compliance with D.02-12-074 OP 24(b) because there is no time deadline requirement in this CPUC decision / ordering paragraph.

On July 23, 2018, SCE submitted an amended Attachment B to correct the reporting error in response to UAFCB's finding.

UAFCB's Rebuttal: None.

2. **SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PUC §581.** In its Q1 2018 QCR, SCE made a reporting error in Attachment B. SCE incorrectly reported the collateral type/credit mechanism on one of the counterparties in Attachment B.

Criteria:

- In Appendix B of D.02-10-062, the Commission 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.
- PUC §581 requires that 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: On June 21, 2018, SCE asserted the following:

- SCE will file a supplemental advice letter with a revised Attachment B reflecting the correct collateral type for the counterparty.
- SCE's action plan to correct this going forward is to add a step in the Attachment B procedures that ensures a complete review of counterparty's current collateral status.

UAFCB's Rebuttal: None.

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 3794-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.

SCE QCR Agreed-Upon Procedures Engagement
First Quarter of 2018
November 15, 2018

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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