



Memorandum

Date: December 27, 2018

To: Edward Randolph
Director of Energy Division

From: **Public Utilities Commission—** Tracy Fok, Program & Project Supervisor
San Francisco Utility Audit, Finance and Compliance Branch

Subject: Southern California Edison Company Advice Letter 3830-E
Quarterly Procurement Plan Compliance Report for the Second 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) 3830-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.) 02-10-062, Appendix B, and Public Utilities Code (PUC) §581.** In its second quarter of 2018 (Q2 2018) QCR, SCE made reporting errors on Attachment D. SCE incorrectly reported the notional value and number of deals for its physical gas commodity sales on Attachment D.
2. **SCE failed to demonstrate compliance with PUC §581 and D.02-12-074, Ordering Paragraph (OP) 24(b).** SCE failed to report to UAFCB regarding an employee that was hired in the third quarter of 2017 (Q3 2017) and involved in energy procurement activities. During the AUP engagement of SCE's Q2 2018 QCR, UAFCB discovered this reporting failure from its review of SCE's employee organizational chart. UAFCB also found that the unreported employee did not complete Code of Conduct (COC) training in a timely manner, which was 26 days after the employee's start date. Completion of COC training served as the purpose of acknowledging SCE's COC agreement.

B. Recommendations:

1. 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 quality review control and process to ensure the reporting accuracy of its QCR and related attachments.

2. SCE should strengthen its internal controls and implement an effective review process to ensure that all its newly hired energy procurement employees are reported to UAFCB in a timely manner.
3. SCE should strengthen the internal controls of its onboarding and training automated systems to ensure that its mandatory COC training is timely enforced for all new and transferred energy procurement employees. If any energy procurement employees complete the COC training outside of the two-week timeframe, SCE's internal control risk in its Energy Procurement department can increase significantly because the employees may violate SCE's COC rules without reviewing and understanding these rules

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.02-10-062, Appendix B, and PUC §581.** In its Q2 2018 QCR, SCE made reporting errors on Attachment D. SCE incorrectly reported the notional value and number of deals for its physical gas commodity sales on Attachment D.

Criteria:

- a. 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.
- b. 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:

- a. On September 6, 2018 and October 12, 2018, SCE submitted its revised Attachment D and supplemental QCR advice letter respectively.
- b. SCE asserted that the summary sheet that created Attachment D did not reference the correct cells in SCE's working file. SCE corrected the cell references to get the correct numbers in the summary sheet.
- c. On September 10, 2018, SCE asserted that it will implement new internal controls including a quality control check of the summary table's cell references for its future filings.

UAFCB's Rebuttal: None.

2. **SCE failed to demonstrate compliance with PUC §581 and D.02-12-074, OP 24(b).** SCE failed to report to UAFCB regarding an employee that was hired in Q3 2017 and involved in energy procurement activities. UAFCB discovered this reporting failure from its review of SCE's employee organizational chart during the Q2 2018 AUP engagement of SCE's Q2 2018 QCR. UAFCB also found that the unreported employee did not complete COC training in a timely manner, which was 26 days after the employee's start date. Completion of COC training served as the purpose of acknowledging SCE's COC agreement.

Criteria:

- a. 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.
- b. D.02-12-074, OP 24(b) 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 Energy Procurement department. If any energy procurement employees sign COC agreement outside of this two-week timeframe, SCE's internal control risk in its Energy Procurement department can increase significantly because the energy procurement employees may violate SCE's COC rules without reviewing and understanding these rules.

SCE's response:

- a. On September 6, 2018, SCE asserted the following:
 - i. The reason for the failure to report the newly hired employee to UAFCB was due to an oversight by SCE.
 - ii. SCE's action plan to ensure completeness and timeliness in reporting newly hired Energy Procurement employees is to have additional SCE personnel verify the information in the QCR.

- b. On October 24, 2018, SCE also asserted the following:
 - i. In D.02-12-074 OP 24(b), there is no time deadline requirement in this ordering paragraph. Accordingly, it is not possible that SCE "failed to demonstrate that it was in compliance with D.02-12-074 OP 24(b)" and there is no cause to make this issue a "finding". This Finding is not valid and should be withdrawn and deleted from the record of the Q2-18 QCR as filed in AL 3830-E.

UAFCB's Rebuttal:

SCE should strengthen the internal controls of its onboarding and training automated systems to ensure that its mandatory COC training is timely enforced for all new and transferred energy procurement employees. Even though D.02-12-074 OP 24(b) does not explicitly indicate the time frame of acknowledging COC agreement or completing COC training, which utilities need to abide by, the spirit of the decision encourage utilities' good business practice in this respect. If any energy procurement employees complete the COC training outside of the two-week timeframe, SCE's internal control risk in its Energy Procurement department can increase significantly because the employees may violate SCE's COC rules without reviewing and understanding these rules.

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 3830-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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