



QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

Southern California Edison Company
Fourth Quarter of 2019 - Advice Letter 4149-E

Utility Audits, Risk and Compliance Division
Utility Audits Branch
July 31, 2020



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

The Utility Audits Branch (UAB) performed the agreed-upon procedures (AUP) enumerated in the Procedures and Findings section of this report for the Southern California Edison's (SCE or the utility) compliance reporting period of October 1, 2019 through December 31, 2019 (Q4 2019). These procedures were agreed to between 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 California Public Utilities Commission (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 agreed-upon procedures engagement in accordance with attestation standards established by the generally accepted government auditing standards (GAGAS). 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.

This report is intended solely for the information and use of ED. 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 12-04-046, Ordering Paragraph 13 this report shall be made public. The report can be found on the CPUC public website through the following link:

<https://www.cpuc.ca.gov/utilityaudits/>

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

Sincerely,

Angie Williams

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

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

cc: Alice Stebbins, Executive Director, CPUC (via email)
Edward Randolph, Deputy Executive Director, Energy Division (via email)
Pete Skala, Director of Efficiency, Electrification, and Procurement, Energy Division (via email)
Judith Ikle, Program Manager, Energy Division (via email)
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Keen Banh, Auditor, Utility Audits Branch (via email)

II. PROCEDURES AND FINDINGS

Below is the summary of the AUP performed and associated findings noted if any. 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. Verified whether the utility's Q4 2019 electric physical transaction details (Attachment A)² agreed to the corresponding transaction summary (Attachment C) and the accuracy of the reported Notional Value.

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

2. Confirmed whether the utility's Q4 2019 electric financial transaction details (Attachment A) agreed to the corresponding transaction summary (Attachment C) and the accuracy of the reported Notional Value.

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

3. Ascertained whether the utility's Q4 2019 gas physical transaction details (Attachment A) agreed to the corresponding transaction summary (Attachment D) and the accuracy of the reported Total Deal Volume, Average Price, and Notional Value.

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

4. Determined whether the utility's Q4 2019 gas financial transaction details (Attachment A) agreed to the corresponding transaction summary (Attachment D) and the accuracy of the reported Total Deal Volume, Average Price, and Notional Value.

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

5. Determined whether the utility's Q4 2019 transport, storage, park and lend transaction details (Attachment A) agreed to the corresponding transaction summary (Attachment D).

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

B. Quarterly Compliance Report (QCR)

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

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.

Findings: SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PUC Section 581. In its Q4 2019 QCR, SCE made reporting errors in Attachments H. For detail information of the finding, please see procedures D.6 and E.7.

SCE Response: On July 23, 2020, SCE submitted an amended Attachment H to correct the aforementioned reporting errors with a supplemental advice letter.

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 that 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 of the utility's QCR.

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.

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

2. 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.

3. Verified whether any 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.

D. Bilateral Contracts

1. Ascertained whether the utility consulted with its PRG in a timely manner for contracts that exceeded 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: We found no exceptions as a result of this procedure.

3. Determined whether independent evaluator (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 Time to Expiration Value at Risk (TeVAR).

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

5. Identified whether any contract related to a new fossil generation or Power Purchase Agreement (PPA) was less than 5 years.

Finding: We did not find any contract related to a new fossil generation or PPA that was less than 5 years.

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

Findings: SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PUC Section 581. SCE made reporting errors in Attachment H as detailed below:

- i. SCE incorrectly reported the delivery term of a broker contract reported on Attachment H. The delivery term reported on Attachment H for the broker contract with [REDACTED] was 12/31/2020 – 01/01/2020, but the Confirmation Letter shows the correct delivery term of 01/01/2020 – 12/31/2020.
- ii. SCE incorrectly reported the bilateral contract [REDACTED] on Attachment H. This contract is not a part of the QCR process and is secured through a separate Advice Letter.

SCE Response:

On May 15, 2020, SCE provided the following response to finding i:

“SCE will update their processes to ensure accurate information is captured and reported.”

On June 18, 2020, SCE provided the following response to finding ii:

SCE submitted separate Advice Letter 4184-E on April 6, 2020 requesting approval of four bilateral Resource Adequacy (RA) contracts, including this [REDACTED] contract. The advice letter is still under consideration by the commission, so a Resolution has not been issued yet.

On July 23, 2020, SCE submitted an amended Attachment H to correct the aforementioned reporting errors with a supplemental advice letter.

E. Electronic Solicitation and Related Contracts

1. 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.

2. Ascertained whether the utility's IE evaluated the contracts with terms greater than 2 years.

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

3. 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.

4. 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.

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

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

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

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

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

Findings: SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PUC Section 581. SCE made reporting discrepancies in Attachment H as detailed below.

- i. Contract with [REDACTED] had a difference of \$90,000 in the nominal value between what was listed in Attachment H and the amount UAB verified and calculated.
- ii. Contract with [REDACTED] had a difference of \$172,742 in the nominal value between what was listed in Attachment H and the amount UAB verified and calculated.

SCE Response:

On June 11, 2020, SCE provided the following response to the finding:

The reason for the error was a data entry error from the lengthy number of inputs for the individual 34 months of the deliver terms during the calculation of the Notional Value dollar amount, which resulted in the wrong Notional Value dollar amount. SCE will update its processes to ensure accurate calculations are made going forward.

On July 23, 2020, SCE submitted an amended Attachment H to correct the aforementioned reporting errors with a supplemental advice letter.