

Memorandum



Date: April 29, 2016

To: Edward Randolph
Director of Energy Division

From: Public Utilities Commission —
San Francisco

Dona Wagers, for
Kayode Kajopaiye, Branch Chief
Division of Water and Audits

Subject: Southern California Edison Advice Letter 3302-E
Quarterly Procurement Plan Compliance Report for the Third Quarter of 2015

Based on the results of its audit, the Utility Audit, Finance and Compliance Branch (UAFCB), of the Division of Water and Audits, recommends that unless Southern California Edison (SCE) amends its Advice Letter (AL) 3302-E to remove the transactions mentioned in Sections A and D below, Energy Division (ED) should not approve AL 3302-E. Otherwise, UAFCB did not find any material reasons for ED to deny the approval of SCE's AL 3302-E. Except for the findings mentioned below, the procurement transactions that SCE executed during the second quarter of 2015 (Q2) and UAFCB examined demonstrated compliance, in all material respects, with certain aspects of procurement-related state law and California Public Utilities Commission (Commission or CPUC) directives. The UAFCB assesses compliance in accordance with agreed-upon procedures with ED and does not assess compliance with all aspects of the procurement-related state law or those directives. In addition, SCE's transactions conducted in the Integrated Forward Market (IFM) and the Residual Unit Commitment Market (RUC) are outside the scope of UAFCB's audits.

A. Summary of Negative Audit Findings:

SCE failed to demonstrate that it was in compliance with Decision (D.) 07-12-052, Ordering Paragraph (OP) 9, D.08-11-008, OP 1.e, and D.12-01-033, OP 18. SCE did not hire an independent evaluator (IE) to oversee its competitive solicitation process for its non-California Independent System Operator (CAISO) electricity transmission products and sales of forward energy from resources located outside of CAISO. The executed contracts related to the non-CAISO electricity transmission products and the forward energy sales are more than two years in duration.

B. Recommendations:

1. SCE must remove its non-compliant contracts related to the aforementioned non-CAISO electricity transmission products and forward energy sales from AL 3302-E and the associated Q3 Quarterly Compliance Report (QCR) Filing.
2. The Commission needs to provide guidance regarding how SCE should seek the Commission's approval on the aforementioned non-compliant contracts, which must be separated from the QCR review and approval process.

C. Background:

As required by D.02-10-062, OP 8 and clarified in D.03-12-062, Pacific Gas & Electric (PG&E), San Diego Gas & Electric (SDG&E), and SCE must each file a QCR report with the ED for all transactions of less than five years duration executed in the quarter. ED requested that the UAFCB conduct

compliance audits of these utilities' QCR filings.

UAFCB conducts the quarterly procurement audits based on procedures specified by ED, and as such these examinations are by design agreed-upon procedures. 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 directives ED chose 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, and D.12-01-033. UAFCB, however, does not test all of the transactions that the utilities include in their QCR filings.

D. Findings:

SCE failed to demonstrate that it was in compliance with D.07-12-052, OP 9, D.08-11-008, OP 1.e, and D.12-01-033, OP 18. SCE did not utilize an IE to oversee the whole competitive solicitation process for its non-CAISO electricity transmission products and sales of forward energy from resources located outside of CAISO. As a result of its competitive solicitation process, SCE executed three Caithness Shepherds Flat (CSF) wind energy sale contracts and two related non-CAISO transmission sale contracts with Shell Energy North America (US), L.P. The aforementioned energy sale contracts and related transmission contracts are each four years and eleven months in duration. SCE is required to have utilized an IE to oversee and evaluate the competitive solicitation process for these contracts because the solicitation was seeking for contracts with terms longer than two years.

Criteria:

1. D.07-12-052, OP 9 requires PG&E, SCE, and SDG&E to use an IE for all competitive Request for Offers (RFOs) seeking products greater than three months in length regardless of the bidders. Competitive RFOs include RFOs issues to satisfy service area need and supply side resources not including Energy Efficiency (EE) and Demand Response (DR).
2. D.08-11-008, OP 1.e modified D.07-12-052, OP 9, requiring that an Investor-Owned-Utility (IOU) must retain the services of an IE to RFO that seeks products two years or greater in duration.
3. D.12-01-033, OP 18 requires that other than auctions, an IE must be utilized for any competitive electronic solicitation that seeks products two years or greater in duration and that do not involve utility-owned resources.

SCE's Response:

The CSF energy sale and related non-CAISO transmission contracts were bilaterally negotiated as non-standard products permitted under SCE's Bundled Procurement Plan. The IE requirement does not apply to these contracts because it only applies to RFO contracts.

UAFCB's Rebuttal:

SCE utilized a solicitation to survey the market bilaterally for bids by reaching out to active counterparties through electronic communication. The process is considered as a competitive electronic solicitation process. In fact, the process is similar to a RFO process. The solicitation is to seek energy and transmission contracts that are more than two years in duration. As such, SCE is required to use an IE to evaluate the whole solicitation process in accordance with D.07-12-052, OP 9, D.08-11-008, OP 1.e, and D.12-01-033, OP 18.

E. Conclusion:

Except for the items noted in Section D above, SCE's Q3 procurement transactions for electricity and natural gas that the UAFCB examined were, in material respects, in compliance with the aspects of SCE's Commission-approved procurement plan and relevant Commission decisions that the UAFCB tested compliance with. SCE's Q3 transactions that the UAFCB examined, in material respects, appear to be complete, accurate and properly authorized by its management.

If you have any questions concerning UAFCB's audit, please contact Tracy Fok at (415) 703-3122.

cc: Rami Kahlon, Director, Division of Water and Audits
Judith Ikle, Energy Division
Michele Kito, Energy Division
Simone Brant, Energy Division
Yuliya Shmidt, Office of Ratepayer advocates
Donna Wagoner, Division of Water and Audits
Tracy Fok, Division of Water and Audits