

# Memorandum



**Date:** October 2, 2019

**To:** Edward Randolph, Director  
Energy Division

**From:** Angie Williams, Director *AW*  
Utility Audit, Finance and Compliance Branch  
Enterprise Risk and Compliance Office

**SUBJECT:** SOUTHERN CALIFORNIA EDISON COMPANY ADVICE LETTER 3995-E  
FINDINGS ON QUARTERLY ENERGY PROCUREMENT COMPLIANCE REPORT  
FOR THE FIRST QUARTER OF 2019

The Utility Audit, Finance and Compliance Branch (UAFCB) issues this memorandum containing its findings on Southern California Edison Company (SCE) Quarterly Energy Procurement Compliance Report (QCR) filed in Advice Letter No. (AL) 3995-E. The 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). In addition, SCE's transactions conducted in the Integrated Forward Market and the Residual Unit Commitment Market are outside the scope of the agreed-upon procedures engagement.

The AUP engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. 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 3995-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.

## A. Finding Summary

**SCE failed to demonstrate compliance with Decision (D).02-10-062, Appendix B, and Public Utilities Code (PUC) Section 581.** In its first quarter of 2019 (Q1 2019) QCR, SCE made a reporting error in Attachment B. On September 27, 2019, SCE submitted an amended Attachment B to correct the reporting error in response to UAFCB's finding.

## B. Recommendation

Before submitting its QCR and related attachments, SCE should thoroughly review them and ensure that all documents are correct and accurate.

### C. Background

As required by D.02-10-062, Ordering Paragraph (OP) 8 and clarified in D.03-12-062, SCE, Pacific Gas and Electric Company and San Diego Gas and Electric 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' CPUC-approved procurement plans, Assembly Bill 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. Finding Detail

**SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PUC Section 581.** In its Q1 2019 QCR, SCE made a reporting error in Attachment B. Specifically, SCE incorrectly reported the credit mechanism information for one (1) non-investment grade counterparty.

#### Criteria:

- a. In Appendix B of D.02-10-062, the CPUC 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 Section 581 requires that every public utility receiving from the CPUC 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:

An amended Attachment B was submitted on September 27, 2019 via a supplemental Q1-19 QCR advice letter to correct the credit mechanism description as Cash and Letter of Credit for [REDACTED]

In addition, SCE asserted the following in response to the finding on June 25, 2019:

- a. Starting the 1st quarter of 2019, there is letter of credit issued for [REDACTED]. The reporting error to show only cash as a collateral type is mainly due to a formula issue in the excel file that pulling only one collateral instrument.
- b. The corrective action is to make sure the formula in the excel file will capture all collateral types to ensure that SCE includes the correct credit mechanism information on Attachment B in its future QCR submittals.

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**UAFCB's Rebuttal: None.**

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