



QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

Southern California Edison Company

First Quarter of 2022 - Advice Letter 4781-E

Utility Audits, Risk and Compliance Division
Utility Audits Branch
October 7, 2022



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Transmitted via e-mail

October 7, 2022

William V. Walsh, Vice President
Energy Procurement & Management
Southern California Edison Company
2244 Walnut Grove Avenue
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Dear Mr. Walsh:

Final Report Transmittal Letter – Agreed-Upon Procedures Engagement of Southern California Edison Company’s Quarterly Energy Procurement Compliance Report for the Period of January 1, 2022, through March 31, 2022

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its agreed-upon procedures (AUP) engagement of Southern California Edison Company’s (SCE) Quarterly Energy Procurement Compliance Report (QCR) filed for its first quarter of 2022 in Advice Letter (AL) 4781-E. The final AUP report is enclosed.

SCE’s responses to the AUP report findings are incorporated into this report. As required by Public Utilities Code Section 454.5(g), the confidential market sensitive information contained in the AUP report is redacted. We will post the final redacted audit report on our website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

A Corrective Action Plan addressing the findings is required. SCE has already provided the information regarding its corrective actions planned and those responses have been included into the report. However, SCE is still required to file a supplemental AL 4781-E with amended Attachment A and C of its QCR by October 17, 2022. Once SCE submits the supplemental AL, no further actions will be required.

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

Sincerely,

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: See next page

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

Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) performed the agreed-upon procedures (AUP) enumerated in Procedures and Findings section of this report for Southern California Edison Company's (SCE or the utility) energy procurement compliance reporting period of January 1, 2022, through March 31, 2022 (Q1 2022). These procedures were agreed to between CPUC's 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 laws and CPUC's energy procurement directives. SCE is one of these utilities¹ and is responsible for complying with the energy procurement requirements.

ED engaged UAB to perform this AUP engagement. UAB is required to be independent and to meet other ethical responsibilities in accordance with the relevant ethical requirements related to the AUP engagement. We conducted this engagement in accordance with attestation standards established by the generally accepted government auditing standards (GAGAS). The sufficiency of the AUP procedures is solely the responsibility of ED. ED has agreed to and acknowledged that the procedures performed are appropriate for the intended purpose of the AUP engagement. 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 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.

The purpose of this report is to communicate to ED the utility's compliance and the results of the AUP performed. 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.

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

In accordance with CPUC Decision (D.) 12-04-046, Ordering Paragraph (OP) 13, this report shall be made public. As required by Public Utilities (PU) Code Section 454.5(g), the confidential market sensitive information contained in the AUP report is redacted. The redacted report can be found on the CPUC public website through the following link: [Audit Reports by Industry \(ca.gov\)](#).

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

II. PROCEDURES AND FINDINGS

Below are the results of the AUP performed and associated findings. 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. Inspected whether the utility's Q1 2022 electric physical transaction details in Attachment A² contained any electronic solicitation or other competitive solicitation transactions, requiring additional review performed the audit procedures for Electronic Solicitation and Related Contracts indicated in Section D of this report.

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

2. Reconciled to determine whether the utility's Q1 2022 electric physical transaction details in Attachment A agreed to the corresponding transaction summary in Attachment C. Performed mathematical re-calculation and an analysis of 100% of transactional average prices, volumes, and notional values for the detection of a reporting anomaly.

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

3. Reconciled to determine whether the utility's Q1 2022 electric financial transaction details in Attachment A agreed to the corresponding transaction summary in Attachment C. Performed mathematical re-calculation and an analysis of 100% of transactional average prices, volumes, and notional values for the detection of a reporting anomaly.

Finding #1: SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and Public Utilities (PU) Code Section 581. SCE incorrectly reported the total notional value of electric financial transactions in Attachment C as \$ [REDACTED]. We verified and calculated the total notional value of electric financial transactions totaling \$ [REDACTED] in Attachment A. According to SCE, \$ [REDACTED] is the correct amount to be reported in Attachment C.

SCE's Response:

On August 1, 2022, SCE stated:

Attachment C has the wrong value. The correct value is \$ [REDACTED] million. The excel sheet had the wrong number for the sum of deals volume which resulted in the wrong number for notional value. The corrective action SCE will take is that we add another step to the process to make sure the volume cell is refreshed with correct value before we calculate the notional value. SCE will amend Attachment C and will submit a supplemental advice letter with this amendment.

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.

4. Reconciled to determine whether the utility's Q1 2022 gas physical transaction details in Attachment A agreed to the corresponding transaction summary in Attachment D. Performed mathematical re-calculation and an analysis of 100% of transactional average prices, volumes, and notional values for the detection of a reporting anomaly.

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

5. Reconciled to determine whether the utility's Q1 2022 gas financial transaction details in Attachment A agreed to the corresponding transaction summary in Attachment D. Performed mathematical re-calculation and an analysis of 100% of transactional average prices, volumes, and notional values for the detection of a reporting anomaly.

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

6. Reconciled to determine whether the utility's Q1 2022 transport, storage, park and lend transaction details in Attachment A agreed to the corresponding transaction summary in Attachment D.

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

B. Quarterly Compliance Report (QCR)

1. Inspected the QCR advice letter filing, including the attachments of supporting documentation, to determine whether the filing was accurate and complete.

Finding #1: SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SCE incorrectly reported the total notional value in Attachment C. For additional information about the finding, please see Finding #1 at procedure A.3 listed above.

SCE's Response: See A.3.

Finding #2: SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SCE reported incorrect data in the Power Flow columns in Attachment A. For additional information about the finding, please see Finding #2 at procedure F.2 listed below.

SCE's Response: See F.2.

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. Inspected QCR and associated attachments to determine 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. Inspected QCR and associated attachments to determine whether the utility explained or justified the timing of its transactions.

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

5. Inspected QCR and associated attachments to determine 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. Inspected QCR and associated attachments to determine whether the utility provided a copy of any data of forecasts used by the utility to analyze transactions.

Finding: We found the utility provided a copy of forecast data used to analyze transactions.

7. Inspected QCR and associated attachments to determine whether the utility provided a copy of each of the utility's procurement contracts reported in Attachment H – Contracts Executed/Contracts Amended.

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

8. Inspected QCR and associated attachments to determine 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. Inspected QCR and associated attachments to determine 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. Inspected QCR and associated attachments to determine 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. Inspected QCR and associated attachments to determine whether the utility provided average price information for non-standard transactions.

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

12. Inspected QCR and associated attachments to determine 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. Inspected Attachment A of the utility's QCR for any transactions subject to strong showing justification and inspected Attachment M – Transactions Subject to Strong Showing of the QCR to determine whether the transactions were properly justified in Attachment M.

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

2. Compared the price of bilateral contracts for non-standard products that are waived from strong showing justification under D. 03-06-067, OP 3(d) in Attachment A to the prices of relevant market supporting documentation to determine whether the bilateral contract prices are reasonable based on available and relevant market data. Compared the buy and sell average price paid or sold in Attachment A to the market high and low prices to ensure a reasonable deal was completed.

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

3. Inspected Attachment H of the utility's QCR for any transactions subject to strong showing justification and inspected Attachment M of the QCR to determine whether the transactions were properly justified in Attachment M.

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

4. Compared the price of bilateral contracts for non-standard products that are waived from strong showing justification under D. 03-06-067, OP 3(d) in Attachment H to the prices of relevant market supporting documentation to determine whether the bilateral contract prices are reasonable based on available and relevant market data. Compared the buy and sell average price paid or sold in Attachment H to the market high and low prices to ensure a reasonable deal was completed.

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

5. Inspected other bilateral transactions in the utility's QCR for any transactions subject to strong showing justification and inspected Attachment M of the QCR to determine whether the transactions were properly justified in Attachment M.

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

6. Compared the price of other bilateral contracts for non-standard products that are waived from strong showing justification under D. 03-06-067, OP 3(d) to the prices of relevant market supporting documentation to determine whether the bilateral contract prices are reasonable based on available and relevant market data. Compared the buy and sell average price paid or sold for other transactions to the market high and low prices to ensure a reasonable deal was completed.

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

D. Electronic Solicitation Contracts

1. Inspected the utility's Q1 2022 electric physical transactions included in Attachment A to find if there are any electronic solicitation or other competitive solicitation transactions.

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

2. Inspected PRG meeting materials to determine 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.

3. Inspected the utility's Independent Evaluator (IE) report to determine whether IE evaluated any contracts executed with affiliate(s) or any contracts with terms greater than two years.

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

4. Inspected counterparties' credit supporting documentation to validate that 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.

5. Inquired the utility as to 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.

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

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

7. Traced and agreed all electronic solicitation contracts executed during the quarter to supporting documentation to ensure that they were correctly and completely reported in attachments of the utility's QCR.

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

E. Bilateral and or Broker Contracts

1. Inspected PRG meeting materials to ascertain that the utility consulted with its PRG in a timely manner for contracts exceeding one calendar quarter.

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

2. Inspected counterparties' credit supporting documentation to validate that 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. Inspected the utility's Independent Evaluator (IE) report to determine whether IE evaluated any contracts executed with affiliate(s) or any contracts with terms greater than two years.

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

4. Inquired the utility as to whether the contracts had any impact on the overall TeVAR.

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

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

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

6. Traced and agreed all bilateral contracts executed during the quarter to supporting documentation to ensure that they were correctly and completely reported in attachments of the utility's QCR.

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

F. Physical Electric Transaction Deep Dive

1. Selected a sample from the Utility's physical electric transaction population on a judgmental basis covering all product types, various counterparties, purchases/sales, brokers/exchanges, locations, and transaction methods.

Finding: UAB selected a sample size of [REDACTED] physical electric transactions and [REDACTED] transmission transactions for a total of [REDACTED] transactions, which covered [REDACTED] of the total population value. ED approved this sample on June 27, 2022.

2. Obtained and inspected relevant supporting documentation to validate that the utility executed the transactions with adequate justifications (e.g., fulfilling its net residual open positions and using the least-cost-best-fit approach).

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

3. Traced and agreed transaction volumes, prices, notional values, and other related information to invoices and trade blotters (confirmations).

Finding #2: SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SCE reported incorrect data in the Power Flow columns in Attachment A as shown below:

1. For [REDACTED] daily electric physical transactions in the sample, the start hour was incorrectly reported as [REDACTED] in Attachment A. The correct start hour should be [REDACTED].
2. For [REDACTED] daily electric physical transactions in the sample, the start and end hours were incorrectly reported as [REDACTED] in Attachment A. The correct start and end hours should be [REDACTED] and [REDACTED] respectively.

3. For [REDACTED] transmission transactions in the sample, the start and end hours were incorrectly reported as [REDACTED] and [REDACTED] respectively, in Attachment A. The correct start and end hours should be [REDACTED] and [REDACTED] respectively.

SCE's Response:

On August 18, 2022, SCE stated:

The data reported in the "Start Power Flow (Hour Ending)" column is not correct. The query SCE used to extract the data from the system returned incorrect values. SCE has identified the issue in the query and has updated the query accordingly. SCE will amend Attachment A and will submit a supplemental advice letter with this amendment.

On September 19, 2022, SCE stated:

SCE will submit an amended Attachment A that has the correct start and end power flow data for all Q1 2022 Physical Power and Transmission transactions in the supplemental QCR advice letter. The query SCE used to extract the data from the system didn't return correct results. Corrective action will be taken in the form of updating the query and reinforcing quality-check processes to ensure that SCE includes correct and accurate information in the future QCRs.

4. Inquired the utility as to whether the sampled transactions had any impact on the overall TeVAR.

Finding: We found that transmission transactions did not have any impact on the overall TeVAR. We found that physical electric transactions reduced TeVAR.

5. Inspected relevant supporting documentation to ascertain that the product types, transaction processes, brokers and exchanges used for procurement during the quarter were approved in SCE's Bundled Procurement Plan (BPP). Inspected PRG meeting supporting documentation to ascertain that PRG consultation properly took place for transactions with terms over 90 days. Inspected transactions to ascertain that they did not have terms longer than five years and did not involve affiliates of SCE.

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

6. Inspected counterparties' credit supporting documentation to validate that quarter's transactions were executed with investment-grade counterparties or non-investment grade counterparties that were supported with surety bonds, guarantees, collateral, etc.

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

7. Inspected relevant supporting documentation to validate the utility demonstrated that prices of over the counter (OTC) transactions were equivalent to exchanges.

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

G. Physical Gas Transaction Deep Dive

1. Selected a sample from the Utility's physical gas transaction population on a judgmental basis covering all product types, various counterparties, purchases/sales, brokers/exchanges, locations, and transaction methods.

Finding: UAB selected a sample size of [REDACTED] physical gas transactions, which covered [REDACTED] of the total population value. ED approved this sample on June 27, 2022.

2. Inspected relevant supporting documentation to validate whether the utility executed the transactions with adequate justifications (e.g., fulfilling its net residual open positions and using the least-cost-best-fit approach).

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

3. Traced and agreed transaction volumes, prices, and notional values to invoices and trade blotters (confirmations).

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

4. Inquired the utility as to whether the sampled transactions had any impact on the overall TeVAR.

Finding: We found no physical gas transactions had any impact on the overall TeVAR.

5. Inspected relevant supporting documentation to ascertain that the product types, transaction processes, brokers and exchanges used for procurement during the quarter were approved in SCE's BPP. Inspected PRG meeting documentation to ascertain that PRG consultation properly took place for transactions with terms over 90 days. Inspected transaction to ascertain that they did not have terms longer than five years and did not involve affiliates of SCE.

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

6. Inspected counterparties' credit supporting documentation to validate that quarter's transactions were executed with investment-grade counterparties or non-investment grade counterparties that were supported with surety bonds, guarantees, collateral, etc.

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

7. Inspected relevant supporting documentation to validate the utility demonstrated that prices of OTC transactions were equivalent to exchanges.

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

H. Procurement Review Group

1. Inspected the utility's PRG meeting calendar to ascertain that the utility held a regular PRG meeting at least once in Q1 2022.

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

2. Inspected the utility's PRG supporting documentation to validate that the utility implemented the requirements indicated in D.07-12-052, OP 7.

Finding #3: SCE failed to demonstrate compliance with D.07-12-052, OP 7. SCE failed to disseminate its 2022 PRG meeting information on its web-based forum as of July 28, 2022. SCE did not timely post the PRG meeting dates, time, and duration on its web-based calendar publicly for the period of August 2021 through July 2022. In addition, SCE did not timely post the PRG meeting agendas, participating individuals, and organizations publicly for the period of August 2021 through July 2022.

SCE's Response:

On August 11, 2022, SCE stated:

SCE inadvertently failed to publish the PRG meeting information on its website during August 2021 through July 2022. SCE appreciates the CPUC UARCD bringing this to SCE's attention. This has been corrected and all PRG meeting information required by section 3.1.4 of D.07-12-052 has been added to SCE's PRG webpage. Additionally, SCE performed a "lessons learned exercise" including a review of relevant CPUC decisions and modified its desktop procedures to ensure timely dissemination of PRG information on a going-forward basis.

3. Inspected PRG meeting agendas to ascertain that the utility made a list of non-confidential discussion topics of the regular PRG meetings publicly available.

Finding: See H2, Finding #3 above.

SCE's Response: See H 2.

4. Inspected PRG meeting summary distribution information to validate that the utility's PRG meeting summaries were distributed (or made publicly available) on the earlier of a) 14 days after the procurement review group meeting, or b) 48 hours before the next regularly scheduled PRG meeting.

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

5. Inspected relevant supporting documentation to determine whether the utility's 95% TeVAR metric exceeded the established Customer Risk Tolerance (CRT). If yes, inspected PRG meeting material to determine whether the utility informed its PRG in a timely manner.

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