



QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

Southern California Edison Company
Second Quarter of 2022 - Advice Letter 4839-E

Utility Audits, Risk and Compliance Division
Utility Audits Branch
December 12, 2022



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A digital copy of this report can be found at:

[Audit Reports by Industry \(ca.gov\)](#)

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Transmitted via e-mail

December 12, 2022

William V. Walsh, Vice President
Energy Procurement & Management
Southern California Edison Company
2244 Walnut Grove Avenue
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Rosemead, CA 91770

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 April 1, 2022, through June 30, 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 second quarter of 2022 in Advice Letter (AL) 4839-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 4839-E with amended Congestion Revenue Rights (CRR) and Long-Term Congestion Revenue Rights (LTCRRs) information, Attachments B and C of its QCR by December 30, 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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Energy Procurement & Management
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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 April 1, 2022, through June 30, 2022 (Q2 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), except for obtaining an external peer review. UAB was unable to obtain an external peer review timely due to delays caused by the COVID-19 pandemic. However, this does not affect UAB's adherence to all other GAGAS requirements and the results of procedures performed. 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 Q2 2022 electric physical transaction details in Attachment A² contained any electronic solicitation or other competitive solicitation transactions, requiring additional performance of the audit procedures for Electronic Solicitation and Related Contracts.

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

2. Reconciled to determine whether the utility's Q2 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 #1: SCE failed to demonstrate compliance with SCE Bundled Procurement Plan (BPP), D.21-12-015, D.02-10-062, Appendix B, and PU Code Section 581. SCE erroneously included seven (7) electric physical transactions in Attachments A and C for CPUC's approval via the Quarterly Compliance Report (QCR) advice letter filing process. The seven (7) electric physical transactions were also included in Attachment B – Counterparty Information.

Those transactions should not have been included in the SCE Q2 2022 QCR advice letter filing for the CPUC's approval because they were not procured pursuant to SCE's BPP authority, rather the transactions were procured pursuant to D.21-12-015 that authorizes a separate approval process for these transactions.

SCE's Response:

On September 12, 2022, SCE stated:

SCE will remove these seven (7) transactions from their Q2-2022 QCR submittal and submit an amended Attachment A excluding the seven (7) referenced transactions.

On November 1, 2022, SCE stated:

SCE will submit an amended Attachment B & C in a Q2-2022 QCR supplemental Advice Letter.

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.

On November 8, 2022, SCE stated:

SCE will take corrective action in the form of reinforcing quality checking processes to ensure that SCE includes correct and accurate information in future QCRs.

3. Reconciled to determine whether the utility's Q2 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: We found no exceptions as a result of this procedure.

4. Reconciled to determine whether the utility's Q2 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 Q2 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 Q2 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 SCE BPP, D.21-12-015, D.02-10-062, Appendix B, and PU Code Section 581. SCE erroneously included seven (7) electric physical transactions in Attachments A, B and C.

SCE's Response: See A.2.

Finding #2: SCE failed to demonstrate compliance with D.02-10-062, Appendix B, PU Code Section 581, and Resolutions E-4134 and E-4117. The Congestion Revenue Rights (CRR) and Long-Term Congestion Revenue Rights (LTCRRs) detailed information provided in the QCR filing was incomplete and did not meet all the requirements set forth in CPUC Resolutions E-4134 and E-4117, as follows:

- The CRR information did not include the monthly and annual CRR past performance, bid price, and description of the underlying energy supply arrangement that the CRR will hedge, as required per CPUC Resolution E-4134.
- The required LTCRRs information, including, at a minimum, the term, source and sink, relation to grid use, expected value, and past performance, was not included in the QCR, as required per CPUC Resolution E-4117.

SCE's Response:

On October 13, 2022, SCE stated:

...In the Q2-22 CRR workpaper, SCE submitted the filing declarations but inadvertently omitted the appropriate data tables. The quality control process for this workpaper has been adjusted to account for this potential error in the future. SCE will amend its CRR workpaper and submit it in a supplemental Q2-22 advice letter.

...UAB provided clarification on 10/12/22 of what type of LTCRR information SCE is required to submit. For example, if SCE acquired LTCRRs eight years ago, and the terms (e.g., 2015-2024) of these LTCRRs cover Q2 2022, then SCE is required to report LTCRR information containing the following:

- Source
- Sink
- Relation to Grid Use (e.g., CAISO Resource ID)
- Description of the underlying energy supply arrangement that the CRR will hedge
- Term
- Expected Value
- Past Performance

SCE notes that the annual and long-term CRR process occurs in Q4 of each year and SCE has not participated in long-term CRR allocation for the last few years; however, based on the LTCRR clarifications provided by UAB, SCE will amend its CRR workpaper and submit it in a supplemental Q2-22 advice letter.

Finding #3: SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SCE incorrectly reported [REDACTED], an investment grade counterparty, as a non-investment grade counterparty in Attachment B.

SCE's Response: See D.6.

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 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 prices of bilateral contracts for non-standard products in Attachment A, which 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 prices 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 prices of bilateral contracts for non-standard products in Attachment H, which 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 prices 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 prices 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 prices 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. Bilateral and Broker Contracts

1. Inspected PRG meeting materials to determine whether the utility consulted with its PRG before the contracts were executed if any contract terms were over 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 Time to Expiration Value at Risk (TeVAR).

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

5. Identified any contract related to a new fossil generation or Power Purchase 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.

6. Traced and agreed all bilateral and broker 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 #3: SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SCE reported incorrect information in Attachment B. [REDACTED] is an Investment Grade counterparty but is reported as a Non-Investment Grade Counterparty in Attachment B.

SCE's Response:

On October 13, 2022, SCE stated:

Attachment B is compiled through a manual process by comparing multiple lists of data and [REDACTED] was mistakenly added as a non-investment grade counterparty.

SCE has developed a new process to automate the manual comparisons to ensure accuracy and efficiency in creating Attachment B for future requests.

SCE will amend Attachment B and submit a supplemental advice letter with this amendment.

E. Request for offers (RFO)/Proposal (RFP) - Other Market Participants

1. Identified whether the utility participated in any RFO/RFP process of any market participants and whether any contracts were executed between the utility and the market participants who issued RFO/RFP.

Finding: We found the utility participated in a RFO process of a market participant and executed one (1) contract.

2. Inspected PRG meeting documentation to ascertain that the utility consulted with its PRG for the contracts derived from the RFO/RFP issued by other market participants with contract duration longer than one calendar quarter.

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

3. Inspected counterparties' credit supporting documentation to validate that the contracts 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. Inspected the utility's IE report to determine whether IE evaluated any contracts executed with affiliate(s) regardless of contract duration.

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

5. Inquired of 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.

6. 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.

7. Traced and agreed contracts/contract confirmations/trade confirmations and/or other supporting documents to determine whether all contracts executed from the competitive solicitations issued by other market participants during the quarter are correctly and completely reported in attachments of Utility's QCR.

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

F. Code of Conduct (COC)

1. Requested and inspected the utility's current COC manual to determine whether the utility adopts, actively monitors, and enforces compliance with a comprehensive COC for all employees engaged in the procurement process.

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

2. Inspected relevant supporting documentation to determine whether all employees included in the utility's energy procurement organizational chart as of Q2 2022 acknowledged the utility's COC or completed COC training within one month after the date of hire or transfer.

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

3. Inspected relevant supporting documentation to validate that all new employees who were hired or transferred during the past year (Q3 2021 through Q2 2022) and involved in energy procurement activities acknowledged the utility's COC agreement or completed the utility's COC training within one month after the date of hire or transfer.

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

4. Inquired the utility to ascertain that the utility has an ongoing process in reviewing and updating its COC and related issues to reinforce these mandatory rules of conduct.

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

5. Inquired the utility to ascertain that the utility has additional obligations, besides its COC, that employees must adhere to prove their compliance with confidentiality requirements at different level of transactions in accordance with D.02-12-074, OP 24 b.2.2.

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

6. Inquired the utility to ascertain that the utility has a process in place where energy procurement employees become legally compelled by a deposition to disclose any confidential procurement documents.

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

7. Inquired the utility to ascertain that the utility has a control process to prevent employee's misuse of confidential procurement information during and after their employment.

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