



QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

Southern California Edison Company

Fourth Quarter of 2021 – Advice Letter 4703-E

Utility Audits, Risk and Compliance Division
Utility Audits Branch
June 23, 2022



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Transmitted via e-mail

June 23, 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 October 1, 2021, through December 31, 2021

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 Fourth Quarter of 2021 in Advice Letter (AL) 4703-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 4703-E with amended Attachments A, C and H of its QCR. 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 or tracy.fok@cpuc.ca.gov.

Sincerely,

Masha Vorobyeva for 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 (SCE or the utility) energy procurement compliance reporting period of October 1, 2021, through December 31, 2021 (Q4 2021). 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 San Diego Gas and Electric Company and Pacific 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 \(ca.gov\)](#).

Masha Verbyeva for 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 the utility's Q4 2021 electric physical transaction details in Attachment A² to determine whether they contained any electronic solicitation or other competitive solicitation transactions, requiring additional performance of 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 Q4 2021 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 D.02-10-062, Appendix B, and PU Code Section 581. SCE incorrectly reported the notional value of physical electric transmission transactions in Attachment A. The table below indicates the reported and the correct amounts of notional value:

Transmission Transactions	Reported Amount	Correct Amount	Difference
Notional Value	\$592,683	\$1,035,591	\$442,908

SCE's Response: On May 16, 2022, SCE stated:

A query column formatting issue caused these three deals to be dropped from the total. The notional value column is formatted as character not as a number in the query. The three deals that got dropped from the total are the only deals with notional value that is more than 5 digits. The pivot table did not recognize these as numbers with commas in the wrong place. The incorrect column format was "99,99,99,999."

The query has been fixed in Q1/2022 by changing the column format to a number. The Electric Transmission Deals file reported in the Q1-22 QCR submitted May 2 has correct Notional Value data for all deals and a correct Total Transacted.

SCE will submit an amended electric transmission deals file via a supplemental advice letter. The amended file will have in the (1) Transmission Details tab, the Notional Value for these

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.

three deals reported correctly as a number and (2) Transmissions Summary tab, the correct Total Transacted for the Notional Value in cell E20.

3. Reconciled to determine whether the utility's Q4 2021 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 Q4 2021 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 Q4 2021 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 Q4 2021 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 Q4 2021 notional value of physical electric transmission transactions in Attachment A. For additional information of the finding, please see Finding #1 at procedure A.2 listed above.

SCE's Response: See A.2.

Finding #2: SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SCE incorrectly reported Q4 2021 total nominal value of an electronic solicitation contract in Attachment H of the utility's QCR. For additional information of the finding, please see Finding #2 at procedure D.8 listed below:

SCE Response: See D.8.

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 (CAISO) 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 in Attachment A 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 in Attachment A to the market high and low prices to ensure reasonable deals were 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 in Attachment H 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 in Attachment H to the market high and low prices to ensure reasonable deals were 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 reasonable deals were completed.

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

D. Electronic Solicitation Contracts

1. Inspected the utility's Q4 2021 electric physical transactions included in Attachment A to determine if there are any electronic solicitation or other competitive solicitation transactions.

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

2. Traced and agreed each contract to contract/trade confirmations for the type of contract, contract term, counterparty, product type, total volume, and total cost.

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

3. Inspected PRG meeting materials to determine whether the utility consulted with its PRG before the contracts were executed if any contract term was over one calendar quarter.

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. 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.

6. Inquired of 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.

7. 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.

8. 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 #2 – SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SCE incorrectly reported nominal value of the electronic solicitation contract executed with [REDACTED] in Attachment H of the utility's QCR as shown in the table below.

Electronic Solicitation Contract	Reported Amount	Correct Amount	Difference
Nominal Value	\$275,500	\$274,500	\$1,000

SCE's Response: On June 2, 2022, SCE stated the following:

The difference is due to a simple data entry error, where a "5" was entered instead of a "4" for the thousands place digit of the number.

SCE will amend Attachment H and submit a supplemental advice letter with this amendment. SCE will revise its procedures to include a quality control check of the calculation for all nominal values.

E. Bilateral and Broker Contracts

1. Traced and agreed each contract to contract/trade confirmations for the type of contract, contract term, counterparty, product type, total volume, and total cost.

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 before the contracts were executed if any contract term was over 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 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.

4. Inspected the utility's 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.

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 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.