



QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

Southern California Edison Company

Third Quarter of 2022 - Advice Letter 4884-E

Utility Audits, Risk and Compliance Division
Utility Audits Branch
April 12, 2023



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Transmitted via e-mail

April 12, 2023

William V. Walsh, Vice President
Energy Procurement & Management
Southern California Edison Company
2244 Walnut Grove Avenue
183-A, Quad-1d, GO1
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 July 1, 2022, through September 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 third quarter of 2022 in Advice Letter (AL) 4884-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 4884-E with amended Attachments A, B and C, and the GHG emission deals workpaper of its QCR by May 3, 2023. Once SCE submits these documents, 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 July 1, 2022, through September 30, 2022 (Q3 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 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 San Diego Gas and Electric Company and Pacific Gas 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 Q3 2022 electric physical transaction details in Attachment A² contained any electronic solicitation or other competitive solicitation transactions, requiring performance of the audit procedures for Electronic Solicitation and Related Contracts.

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

2. Reconciled to determine whether the utility's Q3 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 D.02-10-062, Appendix B, and PU Code Section 581. SCE erroneously reported the power flow start date after the power flow end date in its electric transmission details in Attachment A for ■ transactions.

SCE's Response:

On January 10, 2023, SCE stated:

The start date value is incorrect for all of these ■ transactions. The query used to extract the data from the database had an error in the logic for certain types of deals (one-hour deals for hour 24).

The correct start date for all of these ■ deals should be the same as the end date (i.e., column J). For future transactions, SCE will QC (quality control) the report, to ensure that the power flow start/end date is accurately reported.

3. Reconciled to determine whether the utility's Q3 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 #2 – SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SCE overstated the total sum for notional value of its electric financial transactions by \$ ■ in Attachment C due to SCE's inadvertent exclusion of its correction in notional value of two electric financial transactions in Attachment A. SCE

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.

reported a total sum of \$ [REDACTED] for the notional value of all transactions in Attachment C instead of the correct total sum of \$ [REDACTED]

SCE's Response:

On January 10, 2023, SCE stated:

The value \$ [REDACTED] is based on the actual price not the average price for all deals. Attachment C's Notional Value is wrong. SCE will update how the notional value is calculated in Attachment C and will submit a revised Attachment C in a Supplemental Advice Letter.

On January 11, 2023, SCE stated:

The Notional Value in Attachment C is incorrect. The cause of the error is the way SCE calculated the notional value. In Attachment C, SCE calculated Notional Value based on the average price for all deals in Attachment C multiplied by the total volume for all deals. SCE's corrective action is to change how the Notional Value is calculated, to ensure that SCE includes correct and accurate information in future QCR Advice Letters.

Finding #3: SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SCE understated its volume and notional value of [REDACTED] of its electric financial transactions in both Attachments A and C.

For additional information of the finding, please see Finding #3 at procedure F.3 listed below.

SCE's Response: See F.3

4. Reconciled to determine whether the utility's Q3 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 Q3 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 Q3 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 erroneously reported the power flow start date after the power flow end date in its electric transmission details in Attachment A for [REDACTED] transactions.

For additional information about 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 overstated the total sum for notional value of its electric financial transactions by approximately \$ [REDACTED] in Attachment C.

For additional information about the finding, please see Finding #2 at Procedure A.3 listed above.

SCE's Response: See A.3.

Finding #3: SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SCE understated its volume and notional value of [REDACTED] of its electric financial transactions in Attachments A and C.

For additional information of the finding, please see Finding #3 at procedure F.3 listed below.

SCE's Response: See F.3

Finding #4: SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SCE understated the notional value of a Greenhouse Gas (GHG) Emission transaction by approximately \$ [REDACTED].

For additional information about the finding, please see Finding #4 at procedure E.11 listed below.

SCE's Response: See E.11.

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 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 or Broker Contracts

1. Inspected PRG meeting materials to ascertain that the utility consulted with its PRG for any contracts exceeding one calendar quarter before the contracts were executed.

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 that financial electric transactions had no 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 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. Greenhouse Gas Allowances (GHG)

1. Identified whether the utility procured GHG allowances, allowance futures and forwards, offsets, and offset forwards within separately calculated Direct Compliance Obligation Purchase Limits and Financial Exposure Purchase Limits, as set forth in Appendix I of D.12-04-046.

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

2. Inspected all GHG transactions to ascertain that the utility only procured offsets certified by the California Air Resources Board (CARB).

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

3. Totaled the volume of all offset transactions to determine whether the utility purchased no more than 8 percent of its compliance requirement in the form of offsets.

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

4. Inspected GHG offset contracts to determine whether the utility only purchased offsets when the seller contractually assumes the risk of invalidation.

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

5. Inspected the utility's GHG procurement supporting documentation to determine whether the utility procured allowances from the CARB or other processes approved by the CPUC.

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

6. Inspected relevant supporting documentation to determine that the utility applied its standard procurement credit and collateral requirements and, if appropriate, imposed additional credit and collateral requirements to those transactions, in which the utility procured allowances via forward contracts.

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

7. Inspected relevant supporting documentation to determine that the utility utilized a competitive request for offer process, consulted with their procurement review group, applied their approved procurement credit and collateral requirement, and applied the applicable affiliate transactions rules, if the utility procured authorized compliance instruments via bilateral/broker transactions.

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

8. If applicable, inspected the utility's one-time Tier 2 advice letter to ascertain that the utility submitted such a letter to the Commission when the utility procured GHG compliance instruments through the exchanges not approved by the Commission.

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

9. Inspected PRG meeting documentation to determine whether the utility reported GHG sales to its PRG if the utility resold GHG compliance instruments.

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

10. Inspected PRG meeting documentation and QCR attachments to determine whether the utility reported its forecast updates and corresponding revisions to the procurement limits, along with all GHG compliance instrument transactions in its quarterly PRG meetings and QCR filings.

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

- Traced and agreed greenhouse gas compliance instrument to invoices and payments to determine whether the utility correctly reported its greenhouse gas compliance instrument transactions.

Finding #4: SCE understated the notional value for a GHG Deal Number [REDACTED] by approximately \$ [REDACTED], as illustrated in the table below. SCE reported a notional value of \$ [REDACTED]. The correct value should be \$ [REDACTED].

Deal Number	Reported Notional Value (\$)	Audited Notional Value (\$)	Notional Value Understated (\$)
[REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

SCE’s Response:

On March 24, 2023, SCE stated:

The Price and Volume data reported for Deal # [REDACTED] are correct; however, the formula in the Notional Value cell, for this deal, did not get updated to report the corrected Notional Value. . . . SCE’s corrective action plan includes adding additional peer review of the value included in the GHG Emission Deals workpaper to ensure future reporting is correct and accurate. SCE will submit a Supplemental Advice Letter with an amended Q3-2022 GHG Emission Deals workpaper.

F. Financial Electric Transaction Deep Dive

- Selected a sample from the utility’s financial 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 twenty financial electric transactions, which covered 48% of the total population value. ED approved this sample on December 14, 2022.

- 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.

transactions to ascertain that transactions 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.