



Memorandum

Date: August 19, 2011

To: Julie Fitch
Director of Energy Division

From: **Public Utilities Commission—** Kayode Kajopaiye, Branch Chief
San Francisco Division of Water and Audits

Subject: Southern California Edison Advice Letter 2578-E
Quarterly Procurement Plan Compliance Report for the First Quarter of 2011

Based on the results of its audit, the Division of Water and Audits' Utility Audit, Finance and Compliance Branch (UAFCB) did not find any material reasons for Energy Division (ED) to deny the approval of Southern California Edison's (SCE) Advice Letter No. (AL) 2578-E. SCE's audited procurement transactions during the first quarter of 2011 (Q1) were, in all material respects, in compliance with SCE's procurement plan, as approved in Decision (D.) 07-12-052, Assembly Bill (AB) 57 procurement rules and procurement-related Commission directives.

A. Summary of Audit Findings:

SCE failed to demonstrate that it was in compliance with D. 02-10-062, Appendix B. SCE failed to correctly report Attachment C of its Q1 Quarterly Procurement Plan Compliance Report (QCR) filing.

In response to UAFCB's finding, SCE filed its amended Attachment C with its correction on May 13, 2011.

B. Recommendations:

Before submitting its QCR, SCE should thoroughly review and correct its QCR and related attachments to ensure that its QCR reporting is accurate.

C. Background:

As required by D.02-10-062, Ordering Paragraph (OP) 8, and clarified in D.03-12-062, Pacific Gas and Electric Company (PG&E), San Diego Gas and Electric (SDG&E), and SCE must each submit a QCR for all transactions of less than five years duration executed in the quarter. ED requested that the UAFCB conduct compliance audits of these utilities' quarterly procurement compliance filings.

The objective of these quarterly audits is to determine if the utilities were in compliance with their California Public Utilities Commission's (Commission) approved procurement plans, while complying with all AB 57 procurement rules and several procurement-related rulings and decisions, including, but not limited to, D.02-10-062, D.03-06-076, D.03-12-062, D.04-12-048, D.07-12-052, and D.08-11-008.

D. Findings

Errors in the QCR:

Criteria: In Appendix B of D.02-10-062, the Commission requires that utilities file each quarter's transactions by advice letter. The advice letter must contain, among other things, information that is complete and accurate, including, but not limited to, the number and volume of transactions.

Finding: SCE did not correctly report Attachment C, Summary of Electric Physical Transactions, of its Q1 QCR filing. In Attachment C, SCE understated the amount reported by \$2,928,544 for its electric physical sales.

SCE's Response: SCE asserts that the understatement of \$2,928,544 in its electric physical sales was due to a data entry error. On May 13, 2011, SCE filed its amended Attachment C with its correction.

UAFCB's Rebuttal: None.

E. Conclusion

Except for the item noted in Section D above, SCE's AL 2578-E and its Q1 procurement transactions for electricity and natural gas were, in material respects, in compliance with SCE's Commission-approved procurement plan and all relevant Commission decisions. SCE's transactions, in material respects, appear to be complete, accurate and properly authorized by its management.

This audit is limited in scope and does not provide full assurance to the reasonableness of SCE's Q1 QCR filing or its Q1 transactions.

If you have any questions on UAFCB's audit, please contact Tracy Fok at (415) 703-3122.

cc: Rami Kahlon, Director, Division of Water and Audits
Judith Ikle, Energy Division
Sarita Sarvate, Energy Division
Lily Chow, Energy Division
Donna Wagoner, Division of Water and Audits
Tracy Fok, Division of Water and Audits