



Memorandum

Date: April 21, 2017

To: Edward Randolph
Director of Energy Division

From: **Public Utilities Commission—** Kayode Kajopaiye, Branch Chief
San Francisco Utility Audit, Finance and Compliance Branch

Subject: Southern California Edison Company Advice Letter 3495-E
Quarterly Procurement Plan Compliance Report for the Third Quarter of 2016
Summary of Negative Findings

The Utility Audit, Finance and Compliance Branch (UAFCB) hereby issues this memorandum containing its negative findings on Southern California Edison Company's (SCE) Quarterly Procurement Plan Compliance Report (QCR) filed by Advice Letter (AL) 3495-E. The negative findings are based on the results of UAFCB's performed procedures to assess SCE's compliance. UAFCB assesses SCE's compliance in accordance with agreed-upon procedures with Energy Division (ED) and does not assess the compliance with all aspects of the procurement-related state law and procurement-related directives mandated by the California Public Utilities Commission (Commission). In addition, SCE's transactions conducted in the Integrated Forward Market (IFM) and the Residual Unit Commitment Market (RUC) are outside the scope of the agreed-upon procedures engagement. The agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA).

A. Summary of Negative Findings:

SCE failed to demonstrate compliance with Decision (D.) 02-10-062, Appendix B and Public Utilities Code (PUC) §581. SCE made two reporting errors in Attachment C of its third quarter of 2016 (Q3) QCR. SCE incorrectly reported the volume and deal count of its Q3 Day Ahead (DA) on-peak electric financial transactions traded in the spot market. On November 4, 2016, SCE submitted an amended Attachment C to correct the aforementioned reporting errors.

B. Recommendations:

SCE should strengthen its review of the information included in its QCR to ensure the accuracy of such information before submitting the QCR to the Commission.

C. Background:

As required by D.02-10-062, Ordering Paragraph (OP) 8 and clarified in D.03-12-062, Pacific Gas & 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. UAFCB conducts the quarterly procurement engagements based on the scope specified by ED, using procedures agreed upon between ED and UAFCB. ED specified which aspects of the utilities' Commission-approved procurement plans, Assembly Bill (AB) 57 procurement rules and several procurement-

related rulings and decisions to test for compliance. The decisions and rulings that ED chose directives from to test for compliance include, but are not limited to, D.02-10-062, D.03-06-076, D.03-12-062, D.04-12-048, D.07-12-052, D.08-11-008, D.12-01-033, D.15-10-031 and D.16-01-015. Based on our understanding with ED, UAFCB does not test all of the transactions that the utilities include in their QCR.

D. Negative Findings:

SCE failed to demonstrate compliance with D.02-10-062, Appendix B and PUC §581. In Attachment C of its Q3 QCR, SCE incorrectly reported the volume and deal count of its DA on-peak electric financial transactions traded in the spot market.

Criteria:

In Appendix B of D.02-10-062, the Commission requires that each utility file each quarter's energy procurement transactions of less than five years duration with a QCR filing by an advice letter. The QCR filing must contain, among other things, information that is complete and accurate, including but not limited to, the number and volume of transactions.

PUC §581 requires that "every public utility receiving from the commission any blanks with directions to fill them shall answer fully and correctly each question propounded therein, and if it is unable to answer any question, it shall give a good and sufficient reason for such failure."

SCE's Response:

On November 4, 2016, SCE submitted a revised Attachment C to correct the aforementioned reporting errors and also asserted the following:

The primary variance is due to Attachment C having incorrect values for DA On-Peak "Energy:GWh" and "Number of Deals". This then resulted in the Subtotal and Total values being incorrect. The detailed transactions file in Attachment A is correct.

The values for the Total Energy and Number of Deals in Attachment C were incorrectly reported because the pivot table that calculates those values inadvertently did not include the full range of transactions. SCE's action plan to correct this going forward is to add a step in the Attachment C procedures that ensures the pivot table that calculates those values includes the full range of transactions.

UAFCB's Rebuttal: None.

E. Conclusion:

UAFCB was not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on SCE's QCR filed in AL 3495-E. 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.

This memo is intended solely for the information and use of ED and should not be used by anyone other than ED or for any other purpose.

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