



QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

Southern California Edison Company
Third Quarter of 2019 - Advice Letter 4097-E

Utility Audits, Risk and Compliance Division
Utility Audits Branch
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Acknowledgement

The following California Public Utilities Commission staff contributed to the completion of this report:

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I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Utility Audits, Risk and Compliance Division's (UARCD) Utility Audits Branch (UAB) performed the agreed-upon procedures (AUP) enumerated in "II. Procedures and Findings" of this report for the compliance reporting period of July 1, 2019 through September 30, 2019 (Q3 2019). These procedures were agreed to between Energy Division (ED) and the UAB solely to assist ED in determining whether the three large investor owned electric utilities are in compliance with certain energy procurement-related state law and California Public Utilities Commission (CPUC) energy procurement directives. Southern California Edison Company (SCE or the utility) is one of these utilities.¹ SCE is responsible for complying with the energy procurement-related state laws and the CPUC's energy procurement directives.

The agreed-upon procedures engagement was conducted in accordance with attestation standards established by the generally accepted government auditing standards (GAGAS). The sufficiency of these procedures is solely the responsibility of ED. 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 also detailed in "II. Procedures and Findings" 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.

This report is intended solely for the information and use of ED. 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.

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

¹ San Diego Gas & Electric Company and Pacific Gas & Electric Company are the other two electric utilities subject to the agreed-upon procedures engagements.

II. PROCEDURES AND FINDINGS

The AUP performed by UAB and associated findings are summarized below. 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. Verified whether the utility's Q3 2019 electric physical transaction details (Attachment A)² agreed to the corresponding transaction summary (Attachment C).

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

2. Confirmed whether the utility's Q3 2019 electric financial transaction details (Attachment A) agreed to the corresponding transaction summary (Attachment C).

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

3. Ascertained whether the utility's Q3 2019 gas physical transaction details (Attachment A) agreed to the corresponding transaction summary (Attachment D).

Finding: **SCE failed to demonstrate compliance with Decision (D.) 02-10-062, Appendix B, and Public Utilities Code (PUC) Section 581.** SCE incorrectly reported the Total Deal Volume and Average Price for physical gas transactions in Attachment A and the corresponding summary in Attachment D. This finding is also mentioned in procedure B.1.

SCE Response:

On April 10, 2020, SCE provided the following responses to the finding:

SCE implemented a new Energy Trading and Risk Management system in 2019, and the Q3 2019 Quarterly Compliance Report was the first report using a new query to extract data from the new system. In November 2019 SCE was notified that there was an issue with some of the prices in the Q3 report. SCE determined that the query extracting physical gas deal detail data was incorrectly representing deals with a duration of more than 1 day. SCE was able to correct the query to properly represent the gas prices and quantities for deals with durations greater than one day. SCE has corrected the Q3 2019 physical gas detail and summary files and resubmitted them to the CPUC. SCE has implemented a new confirmation process where the gas operations group will check a sample of individual deal data and confirm the total volumes and dollars for the quarter against their own records.

On March 27, 2020, SCE submitted the amended Attachments A and D via a supplemental Q3 2019 QCR advice letter to correct the above-mentioned reporting errors.

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.

4. Determined whether the utility's Q3 2019 gas financial transaction details (Attachment A) agreed to the corresponding transaction summary (Attachment D).

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

5. Determined whether the utility's Q3 2019 transport, storage, park and lend transaction details (Attachment A) agreed to the corresponding transaction summary (Attachment D).

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

B. Quarterly Compliance Report (QCR)

1. Confirmed whether the quarterly advice letter filing, including the attachments of supporting documentation, was accurate and complete.

Finding: **SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PUC Section 581.** In its Q3 2019 QCR, SCE made reporting errors in Attachments A, D and H. For detail information of the finding, please see procedures A.3 and E.7.

SCE Response:

On March 27, 2020, SCE submitted the amended Attachments A, D and H via a supplemental Q3 2019 QCR advice letter to correct the above-mentioned reporting errors.

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. Verified 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. Determined whether the utility explained or justified the timing of its transactions.

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

5. Affirmed 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. Ascertained whether the utility provided a copy of any data of forecasts used by the utility to analyze transactions.

Finding: We found that the utility provided a copy of forecast data used to analyze transactions.

7. Validated whether the utility provided a copy of each of the utility's procurement contracts reported in Attachment H of the utility's QCR.

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

8. Ascertained 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. Confirmed 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. Ascertained 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. Validated whether the utility provided average price information for non-standard transactions.

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

12. Determined 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. Affirmed whether any transactions subject to strong showing justification in Attachment A of the utility's QCR were properly justified in Attachment M.

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

2. Ascertained whether any transactions subject to strong showing justification included in Attachment H of the utility's QCR were properly justified in Attachment M.

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

3. Verified whether any other transactions included in the utility's QCR are subject to strong showing justification and if any, whether they are properly justified in Attachment M.

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

D. Bilateral Contracts

1. Evaluated whether the utility consulted with its PRG in a timely manner for contracts exceeded one calendar quarter.

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

2. Validated whether 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. If the counterparty was an affiliate, determined whether the utility's independent evaluator (IE) had evaluated the counterparty regardless of contract duration.

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

4. Evaluated whether the contracts had any impact on the overall Time to Expiration Value at Risk (TeVAR).

Finding: No contracts had any impact on the overall TeVAR.

5. Identified whether any contract related to a new fossil generation or power purchase agreement was less than 5 years.

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

6. Verified whether the bilateral contracts executed during the quarter were correctly reported in the utility's QCR.

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

E. Electronic Solicitation and Related Contracts

1. If any contract term was over one calendar quarter, validated whether the utility consulted with its PRG in a timely manner.

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

2. Ascertained whether the utility's IE evaluated the contracts with terms greater than 2 years.

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

3. Determined whether 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.

4. If the counterparty was an affiliate, affirmed whether IE has evaluated the counterparty regardless of contract duration.

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

5. Evaluated whether the contracts had any impact on the overall TeVAR.

Finding: No contracts had any impact on the overall TeVAR. .

6. Determined whether any contract related to a new fossil generation or PPA that was less than 5 years.

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

7. Verified whether all electronic solicitation contracts executed during the quarter were correctly and completely reported in attachments of the utility's QCR.

Finding: **SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PUC Section 581.** SCE made reporting errors in Attachment H as detailed below.

SCE incorrectly reported the delivery periods of two contracts reported on Attachment H when compared to the Confirmation Letters of [REDACTED]. This finding is also mentioned in procedure B.1.

SCE Response:

On February 13, 2020, SCE provided the following response to the finding:

SCE's corrective action is to update its internal procedures and approval process to ensure complete and accurate data.

On March 27, 2020, SCE submitted the amended Attachment H via a supplemental Q3 2019 QCR advice letter to correct the above-mentioned reporting error.