



# QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

Southern California Edison Company  
First Quarter of 2020 - Advice Letter 4203-E

Utility Audits, Risk and Compliance Division  
Utility Audits Branch  
October 30, 2020



## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



Transmitted via e-mail

October 30, 2020

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 Quarterly Energy Procurement Compliance Report for the period of January 1, 2020 through March 31, 2020**

The Utility Audits Branch of the California Public Utilities Commission (CPUC) has completed its agreed-upon procedures (AUP) engagement of Southern California Edison's (SCE) First Quarter of 2020 Quarterly Energy Procurement Compliance Report -Advice Letter 4203-E. The final AUP report is enclosed.

SCE's response to the AUP report findings is incorporated into this report. We will post the final audit report on our website at <https://www.cpuc.ca.gov/utilityaudits/>.

A Corrective Action Plan (CAP) addressing the findings was included in SCE's response to the respective findings in the audit report.

We appreciate SCE's assistance and cooperation during the engagement, and its willingness to implement corrective actions. 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](mailto:tracy.fok@cpuc.ca.gov) or Tim Baumgardner, Senior Management Auditor, at (916) 894-5603 [tim.baumgardner@cpuc.ca.gov](mailto:tim.baumgardner@cpuc.ca.gov).

Sincerely,

*Angie Williams*

Angie Williams, Director  
Utility Audits, Risk and Compliance Division  
cc: See next page

Mr. William V. Walsh  
Vice President  
Southern California Edison Company  
October 30, 2020  
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cc: Rachel Peterson, Acting Executive Director, CPUC (via email)  
Edward Randolph, Deputy Executive Director, Energy Division (via email)  
Pete Skala, Director of Efficiency, Electrification, and Procurement, Energy Division (via email)  
Judith Ikle, Program Manager, Energy Division (via email)  
Michele Kito, Program & Project Supervisor, Energy Division (via email)  
Nick Dahlberg, Public Utilities Regulatory Analyst, Energy Division (via email)  
Mitchell Shapson, Public Utilities Counsel IV, CPUC (via email)  
Masha Vorobyova, Assistant Director, Utility Audits Branch (via email)  
Tracy Fok, Program & Project Supervisor, Utility Audits Branch (via email)  
Tim Baumgardner, Senior Management Auditor, Utility Audits Branch (via email)  
Keen Banh, Staff Service Management Auditor, Utility Audits Branch (via email)

**MEMBERS OF THE TEAM**

**Angie Williams  
Director**

**Masha Vorobyova  
Assistant Director**

**Tracy Fok aka Tracy Yeh, CPA  
Program and Project Supervisor**

**Tim Baumgardner  
Lead**

**Keen Banh  
Staff**

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

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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 the Southern California Edison Company's (SCE or the utility) compliance reporting period of January 1, 2020 through March 31, 2020 (Q1 2020). 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 law and CPUC energy procurement directives. SCE is one of these utilities.<sup>1</sup> SCE is responsible for complying with the energy procurement-related state laws and the CPUC's energy procurement directives.

UAB conducted the AUP engagement 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 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.

In accordance with CPUC Decision 12-04-046, Ordering Paragraph 13, this report shall be made public. The report can be found on the CPUC public website through the following link:  
<https://www.cpuc.ca.gov/utilityaudits/>

*Angie Williams*

Angie Williams, Director  
Utility Audits, Risk and Compliance Division

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<sup>1</sup> 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

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Below is the summary of the AUP performed and associated findings noted if any. 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 Q1 2020 electric physical transaction details (Attachment A)<sup>2</sup> 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 Q1 2020 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 Q1 2020 gas physical transaction details (Attachment A) agreed to the corresponding transaction summary (Attachment D).

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

4. Determined whether the utility's Q1 2020 gas financial transaction details (Attachment A) agreed to the corresponding transaction summary (Attachment D).

**Finding #1: SCE failed to demonstrate compliance with Decision (D.) 02-10-062, Appendix B, and Public Utilities Code (PUC) Section 581.** In its Q1 2020 Quarterly Compliance Report (QCR) Filing, SCE incorrectly reported product information on Attachment D. The gas financial transactions on attachment D were listed as “OTC Options-Location” instead of “Swing Futures.” Secondly, SCE incorrectly reported gas financial transactions on attachment D as “Swing Futures” instead of “Index Futures.”

**SCE Response:** On August 25, 2020, SCE asserted:

SCE will amend Attachment D and submit a supplemental advice letter with this amendment. When preparing Attachment D, the numbers only from the final work sheet were copied and pasted to the Attachment D template.

5. Determined whether the utility's Q1 2020 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.

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<sup>2</sup> 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.

## B. Quarterly Compliance Report (QCR)

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

**Finding #1: SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PUC Section 581.** In its Q1 2020 QCR, SCE made reporting errors in Attachments D. For detail information on the finding, please see Finding 1 at procedure A.4 listed above.

**SCE Response:** See A.4 above.

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 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 – Contracts Executed/Contracts Amended in 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 – Transactions Subject to Strong Showing.

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

2. Ascertained whether the price of bilateral contracts for non-standard products that are waived from strong showing justification under D.03-06-067, Ordering Paragraph (OP) 3(d) in Attachment A, is reasonable based on available and relevant market data. Compared the buy and sell average price 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. 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.

4. Affirmed whether the price of bilateral contracts for non-standard products that are waived from strong showing justification under D.03-06-067, OP 3(d) in Attachment H, is reasonable based on available and relevant market data. Compared the buy and sell average price 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.

5. 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.

6. Ascertained whether the price of bilateral contracts for non-standard products that are waived from strong showing justification under D.03-06-067, OP 3(d) in other transactions, is reasonable based on available and relevant market data. Compared the buy and sell average price 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.

## D. Greenhouse Gas Allowances (GHG)

1. Determined whether the utility procured GHG allowances, allowance futures and forwards and 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. Assured whether 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. Assessed 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. Confirmed whether the utility only purchased offsets if the seller contractually assumes the risk of invalidation.

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

5. Attested whether the utility procured allowances from the CARB.

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

6. If the utility procured allowances via forward contracts, determined whether the utility applied its standard procurement credit and collateral requirements to these transactions, and if appropriate, imposed additional credit and collateral requirements.

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

7. If the utility procured authorized compliance instruments via bilateral transactions, verified whether 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.

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

8. If the utility did not procure GHG compliance instruments on the Commission-approved exchanges, determined whether the utility submitted a one-time Tier 2 advice letter to the Commission.

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

9. If the utility resold GHG compliance instruments, ascertained whether the utility reported any such sales to its PRG.

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

10. Assured whether the utility reported its forecast updates and corresponding revisions to the procurement limits, along with all GHG compliance instrument transactions at its quarterly PRG meetings and QCR filings.

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

## E. Brokered Contracts

1. Ascertained 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 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.

3. Determined whether the utility's Independent Evaluator (IE) had evaluated the counterparty regardless of contract duration if the counterparty was an affiliate.

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: We found no contracts had any impact on the overall TeVAR.

5. Identified whether any contract related to a new fossil generation or Power Purchase Agreement (PPA) that was less than 5 years.

Finding: We did not identify any contract related to a new fossil generation or PPA that was less than 5 years.

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

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

## F. Request for offers (RFO) and Related Contracts

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

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

2. Assessed 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. Validated whether the contracts derived from the RFO 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, determined whether IE had 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. Identified whether any contract related to a new fossil generation or PPA was less than 5 years.

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

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

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

## G. Procurement Review Group (PRG)

1. Ascertained whether the utility held a regular PRG meeting at least once in Q1 2020.

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

2. Assessed whether the utility implemented the requirements indicated in D.12-04-046, OP 14 and D. 07-12-052, OP 7 and Findings of Fact # 54.

**Finding #2: SCE failed to demonstrate compliance with D.02-10-062, Appendix B, D.07-12-052, OP 7, Findings of Fact # 54 and PUC Section 581.** SCE did not have an up to date PRG web-based calendar, listing meeting dates, attendees, agendas, and summaries. On July 23, 2020 UAB reviewed the SCE PRG website calendar and found that it only contained 2019 information. UAB submitted this information to SCE through a data request and SCE subsequently updated the website.

**SCE Response:** On September 29, 2020, SCE asserted:

As demonstrated at this link <https://www.sce.com/procurement/review-group-info>, SCE's PRG calendar is up to date. Additionally, SCE's Energy Procurement web-based forum maintains both the PRG calendar, and links to specific solicitations where the expected solicitation milestones can be found (see screenshot below). The latter is the more appropriate venue for PRG participants to review solicitation specific milestones such as RFO launch, offer submittal, and shortlist notifications. Therefore, SCE respectfully requests that UAB remove finding #2, that SCE's web-based calendar is not up to date, from the record of the Q1-20 QCR.



## UAB Rebuttal:

The PRG calendar is required to be maintained up to date. D. 07-12-052, page 279 Findings of Fact # 54 requires SCE to “maintain a web-based PRG calendar that can be accessed and updated by a representative of each IOU.” The UAB reviewed the online PRG calendar at a specific point in time during the audit and found that it did not contain any updated information for calendar year 2020. Therefore, this finding remains unchanged. Although SCE has updated the calendar during the audit, UAB is requesting that SCE maintain a current PRG calendar on a timely basis for public access on its web page.

3. Determined whether the utility made a list of non-confidential discussion topics of the regular PRG meetings publicly available.

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

4. Verified whether the utility's PRG meeting summaries were distributed (or made publicly available) on the earlier of a) 14 days after the procurement review group meeting, or b) 48 hours before the next regularly scheduled PRG meeting.

**Finding #3: SCE failed to demonstrate compliance with D.02-10-062, Appendix B, D. 12-04-046, OP 14 and PUC Section 581.** SCE did not make three of its PRG meeting summaries available in a timely manner, based on the earlier of a) 14 days after the PRG meeting or b) 48 hours before the next regular scheduled PRG meeting.

**SCE Response:** On September 29, 2020, SCE asserted:

SCE will continue to focus on the distribution of its summaries to ensure it complies with D.12-04-046 OP 14. Specifically, the procurement review group summaries will be distributed a) 14 days after the procurement review group meeting, or b) 48 hours before the next regularly scheduled procurement review group meeting.