



QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

Southern California Edison Company
Fourth Quarter of 2022 - Advice Letter 4960-E

Utility Audits, Risk and Compliance Division
Utility Audits Branch
June 26, 2023



PUBLIC UTILITIES COMMISSION

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Transmitted via e-mail

June 26, 2023

William V. Walsh, Vice President
Energy Procurement & Management
Southern California Edison Company
2244 Walnut Grove Avenue
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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 October 1, 2022, through December 31, 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 fourth quarter of 2022 in Advice Letter (AL) 4960-E. The final AUP report is enclosed.

SCE’s response 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 4960-E with amended Attachment A and D of its QCR by July 10, 2023. Once SCE submits the supplemental AL, 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

William V. Walsh, Vice President
Energy Procurement & Management
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A digital copy of this report can be found at:

[Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry)

You can contact our office at:

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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 October 1, 2022, through December 31, 2022 (Q4 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 COVID19 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 Pacific Gas & Electric Company and San Diego Gas and 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 Q4 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 exceptions as a result of this procedure.

2. Reconciled to determine whether the utility's Q4 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: We found no exceptions as a result of this procedure.

3. Reconciled to determine whether the utility's Q4 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: We found no exceptions as a result of this procedure.

4. Reconciled to determine whether the utility's Q4 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 #1: SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. Our reconciliation initially revealed that SCE overstated the deal volume of two transactions by [REDACTED] MMBtu and the corresponding notional value by [REDACTED] in both Attachment A and D as illustrated in the table below:

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.

Deal Number	Reported Deal Volume (MMBtu)	Audited Deal Volume (MMBtu)	Deal Volume Overstated (MMBtu)	Audited Average Price (\$/MWh)	Reported Notional Value (\$)	Audited Notional Value (\$)	Notional Value Overstated (\$)
██████	██████	██████	██████	██████	██████	██████	██████
██████	██████	██████	██████	██████	██████	██████	██████
Total	██████	██████	██████		██████	██████	██████

We asked SCE to investigate the entire physical gas population for additional errors and provide revised Attachments A and D to correct all errors in the population. Per SCE’s revised Attachment A and D, SCE overstated the total actual deal volume and the total notional value by ██████ MMBtu and ██████ respectively, as illustrated in the table below:

	Reported Deal Volume (MMBtu)	Audited Deal Volume (MMBtu)	Deal Volume Overstated (MMBtu)	Reported Notional Value (\$)	Audited Notional Value (\$)	Notional Value Overstated (\$)
Total	██████	██████	██████	██████	██████	██████

SCE’s Response:

On April 18, 2023, SCE stated:

Deal # ██████ should only be listed once. The second deal entry is a duplicate and should not have been included in the Q4-2022 Physical Gas Deals transaction workpaper. SCE inadvertently reported this deal (#) twice. SCE inadvertently reported the wrong actual volume for Deal # ██████. The correct actual volume for this deal is ██████ MMBtu.

On May 2, 2023, SCE stated:

SCE reviewed all of the physical gas transactions for Q4-2022 and updated the actual volume data for some of the reported Physical Gas Deals. Attachment A and D have been revised. SCE’s corrective action to ensure that SCE includes correct and accurate information in its future QCR submittals includes updating the queries that are used to extract data for both the physical gas and financial gas deals.

5. Reconciled to determine whether the utility's Q4 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 #2: SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SCE failed to provide correct transacted prices for 170 deals in both Attachment A and D. SCE incorrectly reported settled prices for ten deals and did not provide the transacted prices for another 160 deals in Attachment A. Consequently, the average prices were also incorrectly reported in Attachment D as illustrated in the table below:

Deal Number	Reported Average Price (MMBtu)	Audited Average Price (MMBtu)	Average Price Overstated (MMBtu)
Basis Swap Futures	■	■	■
Index Swap	■	■	■
Swap Future	■	■	■

SCE's Response:

On April 18, 2023, SCE stated:

SCE reported the settled prices for these ten purchase transactions. SCE should have reported the transacted prices instead. SCE did not provide the average prices for some of the deals reported in Attachment A because SCE was reporting the settled prices for these deals which was not available at the time of reporting. SCE should have reported the transacted prices for these deals instead of the settled prices. SCE will submit a revised Q4-22 Financial Gas Deals workpaper with the transacted prices for each of these deals.

On May 2, 2023, SCE stated:

SCE has updated all Q4-22 financial gas deals to show the transacted price. Attachment A and D have been revised accordingly. SCE will submit a supplemental advice letter with amended Attachment A and D. SCE's corrective action to ensure that SCE includes correct and accurate information in its future QCR submittals includes updating the queries that are used to extract data for both the physical gas and financial gas deals.

6. Reconciled to determine whether the utility's Q4 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 overstated the total deal volume and the total notional value in both Attachment A and D.

For additional information about the finding, please see Finding #1 at Procedure A.4 listed above.

SCE's Response: See A.4

Finding #2: SCE failed to demonstrate compliance with D.02-10-062, Appendix B, and PU Code Section 581. SCE failed to provide transacted prices for 170 deals. SCE incorrectly reported settled prices for ten deals and did not provide the transacted prices for another 160 deals in Attachment A. Consequently, the average prices were also incorrectly reported in Attachment D.

For additional information about the finding, please see Finding #1 at Procedure A.5 listed above.

SCE's Response: See A.5

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 price 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 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. 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 price 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 price 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 price 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 Broker Contracts

1. Inspected PRG meeting materials to determine whether the utility consulted with its PRG for any contracts with terms over one calendar month before they 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 no contracts had any impact on the overall TeVAR.

5. Identified any contract related to a new fossil generation or Purchase Power 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. Request for offers (RFO) Process

Requested and inspected copies of RFO documents, criteria, evaluation supporting documentation, bids received, and other relevant supporting documentation:

1. Ascertained that the utility developed its RFO bid documents under oversight of its IE, vetted through the PRG and any differences were resolved by ED staff in advance of public issuance of the RFO bid document.

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

2. Ascertained that the utility consulted with its IE, PRG and ED to outline its plans and solicited feedback prior to drafting RFO bid document so that the RFO process was improved by the identification of data gaps, confirmation of the fairness of the confidential components of the RFO, and in compliance with the letter and spirit of CPUC policies on procurement practices.

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

3. Ascertained that the RFO went through a competitive bidding process.

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

4. Validated that the RFO bid criteria included the measures recommended by the CPUC and were consistent with the CPUC's requirements.

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

5. Validated that the RFO bid criteria were clearly described and defined.

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

6. Ascertained that the rationale for the RFO bid criteria was clearly explained.

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

7. Ascertained that project viability was part of the RFO bid criteria.
Finding: We found no exceptions as a result of this procedure.
8. Ascertained that the winning contract met the utility's RFO evaluation criteria.
Finding: We found no exceptions as a result of this procedure.
9. Ascertained that the utility's decisions to accept and reject offers are clearly provided.
Finding: We found no exceptions as a result of this procedure.
10. Ascertained that the utility presented its RFO candidates in its PRG meetings for feedback from PRG members, ED staff, and IE.
Finding: We found no exceptions as a result of this procedure.
11. Ascertained that the utility addressed any concerns raised by its PRG members, ED staff, and IE regarding the RFO.
Finding: We found no exceptions as a result of this procedure.
12. Identified whether the utility created any false barriers to participation in the RFO or to attempt to limit the competitive process by manipulating the RFO products and/or process.
Finding: We found no exceptions as a result of this procedure.
13. Identified whether the utility issued RFO seeking bids for both PPAs and utility build bids.
Finding: We found no exceptions as a result of this procedure.
14. Ascertained that the utility considered the use of Brownfield sites first and took full advantage of their location before it considered building new generation on Greenfield site in those cases when the RFO solicited fossil-fuel generation contracts less than five years.
Finding: We found that the RFO did not solicit fossil-fuel generation contracts less than five years.
15. Ascertained that the RFO was evaluated by an IE regardless of contract duration if the RFO involved affiliates or utility bidders.
Finding: We found no exceptions as a result of this procedure.
16. Ascertained that the utility recognized the effects of debt equivalence when comparing PPA against PPAs in their bid evaluations, but not when a utility-owned generation project was being considered, in those cases when the RFO solicited PPA with a term of less than five years.
Finding: We found that the RFO did not solicit PPA with a term of less than five years.

F. Request for offers (RFO) Contracts

1. Inspected PRG meeting documentation to ascertain that 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. Inspected the utility's 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.

3. Inspected counterparties' credit supporting documentation to validated that 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. Inquired the utility as to whether the contracts had any impact on the overall TeVAR.

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

5. Identified any contract related to a new fossil generation or PPA with a term of less than five years.

Finding: We did not identify any contract related to a new fossil generation or PPA with a term of less than five years.

6. Traced and agreed all RFO 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.

G. Inspection of Utility's Internal Audit Reports

1. Requested and inspected the utility's internal audit reports of the past two calendar years, which may have had an impact on the utility's transactions reported in QCR, including, but not limited to, the following aspects: Contracting Process, Credit Department, QCR Preparation and Reporting Process, Spot/Trade Floor Transaction Process, Competitive Solicitation Process, Bilateral Trading Process, Congestion Revenue Rights, [REDACTED], [REDACTED], and Convergence Bidding.

Finding: The utility did not perform any in-house audits pertaining to any energy procurement aspects during 2021 and 2022 record period.

2. Inspected the internal audit reports provided by the utility to determine whether any deficiencies may have led to the utility's non-compliance with the Commission's requirements with respect to QCR transactions and document these deficiencies.

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

3. Requested and inspected related documentation provided by the utility to determine whether the utility had corrective action plans in place to mitigate and eliminate the deficiencies from the internal audit report(s).

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

4. Requested and inspected related documentation provided by the utility to determine whether the utility had implemented the corrective action plans to mitigate and eliminate the deficiencies.

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

5. Requested and inspected related documentation provided by the utility to determine whether the results of implementation of corrective action plans were effective.

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