



QUARTERLY ENERGY PROCUREMENT COMPLIANCE AGREED-UPON PROCEDURES ENGAGEMENT

Southern California Edison Company

Fourth Quarter of 2023 - Advice Letter 5214-E

Utility Audits, Risk and Compliance Division
Utility Audits Branch
June 28, 2024



PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



Transmitted via e-mail

June 28, 2024

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 William 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, 2023, through December 31, 2023

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 2023 in Advice Letter (AL) 5214-E. The final AUP report is enclosed.

SCE’s response to the AUP report findings is 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 in the report. However, SCE is still required to file a supplemental AL 5214-E with an amended Attachment H by July 12, 2024. 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 or 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
June 28, 2024
Page 2

cc: Jabari Martin, Senior Manager, Power Supply Compliance, SCE
Elizabeth Leano, Senior Manager, SCE
Selene Willis, Regulatory Affairs & Compliance, Principal Manager, SCE
Heidi Lopez, Regulatory Affairs & Compliance Advisor, SCE
Christopher Porras, Power Supply Compliance, Regulatory Compliance Advisor, SCE
Patrick Nandy, External Regulatory Advisor, SCE
Rachel Peterson, Executive Director, CPUC
Kristin Stauffacher, Deputy Executive Director, Office of the Commission, CPUC
Pete Skala, Director, Energy Division (ED), CPUC
Meredith "Molly" Sterkel, Program Manager, ED, CPUC
Jaime Gannon, Program & Project Supervisor, ED, CPUC
Eric Dupre, Public Utilities Regulatory Analyst, ED, CPUC
Theresa Buckley, Staff Attorney, CPUC
Masha Vorobyova, Assistant Director, UAB, CPUC
Tracy Fok, Program & Project Supervisor, UAB, CPUC
Tim Baumgardner, Senior Management Auditor, UAB, CPUC
Judith Mason, Financial Examiner IV, UAB, CPUC
Keen Banh, Associate Management Auditor, UAB, CPUC
Paulina Zepeda Gomez, Associate Management Auditor, UAB, CPUC

MEMBERS OF THE TEAM

Angie Williams, Director

Masha Vorobyova, Assistant Director

Tracy Fok aka Tracy Yeh, CPA, Supervisor

Tim Baumgardner, Lead

Judith Mason, Lead

Keen Banh, Staff

Paulina Zepeda Gomez, Staff

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:

**California Public Utilities Commission
Utility Audits, Risk and Compliance Division
400 R Street, Suite 221
Sacramento, CA 95811**

TABLE OF CONTENTS

I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES.....	1
II. PROCEDURES AND FINDINGS.....	3
A. TRANSACTION RECONCILIATION/ANALYSIS	3
B. QUARTERLY COMPLIANCE REPORT (QCR).....	4
C. STRONG SHOWING JUSTIFICATION.....	6
D. BILATERAL AND BROKER CONTRACTS	6
E. REQUEST FOR OFFERS (RFO) CONTRACTS	7
F. CONGESTION REVENUE RIGHTS (CRR) AND LONG TERM CRR (LTCRR).....	8

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

The 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 (SCE or the utility) energy procurement compliance reporting period of October 1, 2023, through December 31, 2023, (Q4 2023.) 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). 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 the 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 2023 electric physical (and transmission) transaction details in Attachment A² contained any electronic solicitation or other competitive solicitation transactions, requiring performance of the audit procedures under Section E - Request for Offer (RFO).

Finding #1: SCE failed to demonstrate compliance with D.02-10-062 - Appendix B and PU Code Section 581. SCE incorrectly reported ■ electric physical transactions in Attachment A where the method of transaction was reported as bilateral but should have been reported as RFO. For additional information about the finding, please see Finding #1 at procedure B.1.

SCE's Response: See B.1.

2. Reconciled to determine whether the utility's Q4 2023 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 percent 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 2023 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 percent 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 2023 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 percent 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.

² All references to attachments in the list of Procedures and Findings are to the attachments filed with the utility's Quarterly Compliance Report subject to this engagement.

5. Reconciled to determine whether the utility's Q4 2023 gas financial transaction details in Attachment A agreed to the corresponding transaction summary in Attachment D. Performed mathematical recalculation and an analysis of 100 percent 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.

6. Reconciled to determine whether the utility's Q4 2023 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.

7. Compared the utility's spot market (i.e., Day-Ahead, Hour-Ahead, and Real-Time energy) electric physical purchases to its monthly retail energy needs, or energy physical purchase requirement, to determine whether the spot market purchases exceed five percent of the monthly retail energy needs, or energy physical purchase requirement.

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

B. Quarterly Compliance Report (QCR)

1. Inspected 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 incorrectly reported ■ electric physical transactions in Attachment A where the method of transaction was reported as bilateral but should have been reported as RFO.

Bilateral transactions and RFO transactions are subject to different compliance criteria. Therefore, incorrectly identifying these transaction methods can mislead CPUC and other users of the QCR information and thus may lead to circumvention of proper regulatory review.

SCE's Response:

On June 12, 2024 SCE stated:

SCE inadvertently identified the method of transaction for the above ■ electric physical transactions in Attachment A as bilateral; however, these ■ transactions should have been reported as RFO, as the correct method of transaction in Attachment A. SCE's corrective action will be taken in the form of reinforcing quality-check processes to ensure that SCE includes correct and accurate information in future QCRs.

Finding #2: SCE failed to demonstrate compliance with D.02-10-062 – Appendix B and PU Code Section 581. SCE made a reporting error in Attachment H – Contracts Executed/Contracts Amended. For additional information about the finding, please see Finding #2 at procedure D.5.

SCE's Response: See D.5.

2. Identified any of the utility's authorized decision-makers that were not listed in QCR.
Finding: We did not find any of the utility's authorized decision-makers that were not listed in 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.
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 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 System Independent Operator (CAISO) 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 for any transactions subject to strong showing justification and inspected Attachment M – Transactions Subject to Strong Showing 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 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 for any transactions subject to strong showing justification and inspected Attachment M 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 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 QCR for any transactions subject to strong showing justification and inspected Attachment M 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 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 quarter 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 were executed bilaterally with investment-grade counterparties or non-investment grade counterparties that were supported with credit protection such as surety bonds, guarantee, collateral, and net provision.

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

3. Inquired with 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.

4. Identified any contract related to a new fossil-fuel generation or Power Purchase Agreement (PPA) that was less than five years.

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

5. 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 #2: SCE failed to demonstrate compliance with D.02-10-062 - Appendix B and PU Code Section 581. SCE improperly included the contract with [REDACTED] in Attachment H, which was terminated on [REDACTED]. SCE should not include this contract in Attachment H for CPUC's approval. This finding demonstrates deficiencies in SCE's internal review process, which should have timely detected and removed terminated contracts from its QCR and related attachments.

SCE's Response:

On June 12, 2024 SCE stated:

[REDACTED] was executed on [REDACTED], but then terminated on [REDACTED] by SCE's Contract Management team. The contract's information was still included in SCE's data system's downloaded report as an executed contract for Q4-2023, due to its unconventional early termination so close to the end of the quarter. Preparation for the Q4 QCR Attachment H typically begins the first week of the following quarter. Mid-January 2024, notification of the contract's termination was provided only to those impacted by the termination, which the Attachment H compliance team was not notified, as terminations are usually sent out through a conventional process. SCE's corrective action will be taken in the form of reinforcing quality-check processes to ensure that SCE includes correct and accurate information in future QCRs.

E. 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 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.

3. Inspected counterparties' credit supporting documentation to validate that the contracts derived from the RFO selection process were executed with investment-grade counterparties or non-investment grade counterparties that were supported with credit protection such as surety bonds, guarantee, collateral, and net provision.

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

4. Inquired with 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-fuel generation or PPA with a term of less than five years.

Finding: We did not identify any contract related to a new fossil-fuel 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.

F. Congestion Revenue Rights (CRR) and Long Term CRR (LTCRR)

1. Inquired with the utility and inspected evidence to determine whether it consulted with ED and its PRG regarding its annual CRR nominations prior to submitting those nominations and participating in the CAISO's CRR nomination process.

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

2. Inquired with the utility and inspected evidence to determine whether it consulted with ED and its PRG regarding CRRs having a term greater than one calendar quarter prior to execution of such CRR.

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

3. Inquired with the Utility and inspected relevant evidence to determine whether the utility, prior to the PRG meeting, provided a list of proposed annual CRR and LTCRR nominations for allocation and auction, showing source (generation), sink (load), Megawatt (MW) quantity, term, expected value, past performance (if applicable), bid price, and a description the underlying arrangement that the CRR will hedge.

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

4. Inquired with the utility and inspected evidence to determine whether it consulted with ED and its PRG to review of its CRR position during the periodic position update discussions and provided the

PRG with information regarding the CRR, including but not limited to source, sink, MW quantity, term, expected value, past performance (if applicable), price and a description of the underlying arrangement that the CRR will hedge (or in the case of a CRR sale, no longer hedge).

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

5. Inquired with the utility whether it limits candidate CRRs to those CRRs with a source at which utility reasonably expects to procure power.

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

6. Inspected QCR to determine whether the utility reports CRRs, which contains, at minimum, for each CRR, source, sink, MW quantity, term, expected value, past performance (if applicable), bid price (for CRR auctions or secondary market transactions), and a description of the underlying energy supply arrangement that the CRR will hedge.

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

7. Inquired with the utility and inspected evidence to determine whether it consulted with ED and its PRG regarding its' LTCRR nominations prior to submitting those nominations and participating in the CAISO's LTCRR nomination process.

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

8. Inquired with the utility and inspected evidence to determine whether it provided periodic updates at least quarterly to the PRG on how its previously obtained LTCRRs were performing. The PRG update should contain, at minimum, for each LTCRR, the term, source and sink, relation to grid use, expected value, and past performance.

Finding#3: SCE failed to demonstrate compliance with Resolution E-4117. SCE failed to provide periodic updates at least quarterly to the PRG on how its previously obtained LTCRR performed. The updates should contain, at minimum, for each LTCRR, the term, source and sink, relation to grid use, expected value, and past performance.

The Resolution E-4117 states, in part, that:

SCE shall provide periodic updates at least quarterly to the PRG on how its previously obtained LTCRRs are performing. SCE shall also report these transactions in its QCR. The Commission expects that the QCRs and PRG presentation will contain, at a minimum, for each LTCRR, the term, source, sink, relation to grid use, expected value, and past performance.

SCE's Response:

On May 10, 2024, SCE stated:

In the Q3-2023 QCR data request, Data Request (DR)-005 Follow Up #1, SCE responded to UAB's QCR finding, on March 26, 2024, with the following response, which provided both a brief explanation for the "non-compliance and corrective

actions to ensure that SCE provide periodic updates at least quarterly to the PRG on how its previously obtained LTCRRs are performing in future PRG meetings”:

Some of the reporting requirements for CRRs were updated in 2014. 2015 was the last year SCE participated in the long term CRR process. Previous reporting on the individual nominations would have included past performance data for the long term CRRs. However, it appears that SCE stopped including information on its individual LT CRRs in PRG updates when it stopped participating in the LT process. SCE continues to provide the PRG an overall CRR portfolio update and aggregate performance analysis during the quarterly PRG deep dive. This performance information includes the LT CRRs but does not individually identify them. For reference, SCE’s existing LT CRRs account for approximately [REDACTED] MWs, which is approximately [REDACTED] of SCE’s ~[REDACTED] MW CRR portfolio for the remainder of 2024.

Corrective Action: SCE will provide an additional slide within the quarterly PRG deep dive for individual LT CRR performance including the term, source and sink, relation to grid use, expected value, and past performance, until such time as SCE has no more LT CRRs in its portfolio, which will occur at the end of 2024.

SCE has not held a quarterly PRG deep dive since March 26, 2024. SCE’s next PRG deep dive meeting is scheduled for May 15, 2024 (Q2-2024). Since SCE has not held a PRG deep dive meeting since SCE responded to the Q3-2023 data request, in March 2024, SCE has not had a chance to exercise its corrective action of providing an additional slide in the next quarterly PRG deep dive.

For the reasons and circumstances provided above, SCE respectfully requests that this Finding be withdrawn from the record of SCE’s Q4-23 QCR.

UAB’s Rebuttal:

It is noted that SCE is required to provide LTCRR past performance update on a quarterly basis. Although SCE asserts that it provided such an update for Q1 2024 in the May 15, 2024 PRG meeting, it still missed the Q4 2023 LTCRR past performance update. UAB inspected its Quarterly Deep Dive PRG materials on 5/15/2024 and noted that SCE provided its Q1 2024 LTCRR update but did not provide its Q4 2023 LTCRR update; therefore, UAB noted this as a finding for Q4 2023.

Since SCE took the action to remediate the non-compliance for Q1 2024 in the May 15, 2024 PRG meeting, UAB will not note this finding for the Q1 2024 QCR audit.

9. Inspected QCR to determine whether the utility reported LTCRR, which should contain at a minimum, for each LTCRR, the term, source and sink, relation to grid use, expected value, and past performance.

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