

# Memorandum



A handwritten signature in black ink, appearing to be "Y0", is located to the right of the seal.

**Date:** September 16, 2015

**To:** Edward Randolph  
Director of Energy Division

**From:** **Public Utilities Commission—** Kayode Kajopaiye, Branch Chief  
**San Francisco** Division of Water and Audits

**Subject:** Southern California Edison Advice Letter 3211-E  
Quarterly Procurement Plan Compliance Report for the First Quarter of 2015

**Based on the results of its audit, the Utility Audit, Finance and Compliance Branch (UAFCB), of the Division of Water and Audits, did not find any material reasons for Energy Division (ED) to deny the approval of Southern California Edison's (SCE) Advice Letter No. (AL) 3211-E.** The procurement transactions that SCE executed during the first quarter of 2015 (Q1), that UAFCB examined demonstrated, in all material respects, compliance with certain aspects of procurement-related state law and California Public Utilities Commission (Commission or CPUC) directives. The UAFCB assesses compliance in accordance with agreed-upon procedures with ED and does not assess compliance with all aspects of the procurement-related state law or those directives. In addition, SCE's transactions conducted in the Integrated Forward Market (IFM) and the Residual Unit Commitment Market (RUC) are outside the scope of UAFCB's audits.

## **A. Summary of Negative Audit Findings:**

- 1. SCE failed to demonstrate that it was in compliance with D.07-12-052, Ordering Paragraph (OP) 7.** SCE posted incorrect Procurement Review Group (PRG) meeting information on its public website.
- 2. UAFCB is unaware of any specific requirements established by the Commission regarding how the investor-owned-utilities (IOU) should seek and obtain approval from the Commission for standard enabling agreements (or master agreements) that define the general rights and responsibilities of involved parties.** SCE seeks the Commission's approval for its standard enabling agreements via its QCR filing. However, other IOU do not believe that they need to seek the Commission's approval for standard enabling agreements as enabling agreements have already been pre-approved as part of the IOU's bundled procurement plan (BPP) approved by the Commission.

## **B. Recommendations:**

- 1. SCE should ensure that PRG meeting information posted on its public website is correct and accurate.**
- 2. The Commission should provide clarification as to whether the IOU are still required to seek the Commission's approval for standard enabling agreements even though enabling agreements are part of the IOU's BPP approved by the Commission.**

## **C. Background:**

As required by D.02-10-062, OP 8 and clarified in D.03-12-062, Pacific Gas and Electric Company

(PG&E), San Diego Gas & Electric Company (SDG&E), and SCE must each submit a Quarterly Compliance Report (QCR) for all transactions of less than five years duration executed in the quarter. ED requested that the UAFCB conduct compliance audits of these utilities' QCR filings.

UAFCB conducts the quarterly procurement audits based on procedures specified by ED, and as such these examinations are by design agreed-upon procedures. ED specified which aspects of the utilities' Commission-approved procurement plans, AB 57 procurement rules and several procurement-related rulings and decisions to test for compliance. The directives of the decisions and rulings ED chose 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, and D.12-01-033. UAFCB, however, does not test all of the transactions that the utilities include in their QCR.

#### **D. Findings:**

**Finding 1: SCE failed to demonstrate that it was in compliance with D.07-12-052, OP 7.** SCE did not post correct PRG meeting information on its public website as detailed below:

1. SCE did not post the January 29, 2015 PRG meeting information on its public website. Instead, SCE incorrectly posted the December 18, 2014 PRG meeting information under the link for the January 29, 2015 PRG meeting.
2. SCE erroneously indicated February 12, 2014 as the date of February 12, 2015 PRG meeting on its public web-based calendar.

**Criteria:** D. 07-12-052, OP 7 requires PG&E, SCE, and SDG&E to publicly post accurate PRG meeting information on their web-based calendars including, but not limited to, PRG meeting dates, time, duration, meeting summaries, attendees, topics and information requested or offered after the meeting.

**SCE's Response:** SCE asserts that the aforementioned incorrect posting of PRG meeting information was due to its inadvertent administrative error. After the UAFCB informed SCE the finding regarding the incorrect PRG meeting information on the public website, SCE took immediate action to replace the December 18, 2014 PRG meeting information with the January 29, 2015 meeting information and corrected the PRG meeting date from February 12, 2014 to February 12, 2015 on the public website.

**UAFCB's Rebuttal:** SCE should strictly implement and enforce internal controls to ensure that its PRG meeting information is accurately and correctly posted on the public website in accordance with D.07-12-052, OP 7.

**Finding 2: UAFCB is unaware of any specific requirements established by the Commission regarding how the IOU should seek and obtain approval from the Commission for standard enabling agreements (or master agreements) that define the general rights and responsibilities of involved parties.**

The three energy utilities inconsistently seek the Commission's approval for their standard enabling agreements (or master agreements). SCE always reports standard enabling agreements executed with various counterparties as agreements filed for the Commission's approval via QCR filing. PG&E and SDG&E, on the other hand, do not believe that they need to seek the Commission's approval for standard enabling agreements via their QCR filing because enabling agreements have already been approved as part of their Commission-approved BPP.

**SCE's Response:** SCE believes that the Commission requires the IOU to file standard enabling agreements via QCR filing for approval.

**UAFCB's Rebuttal:** The Commission needs to provide clarification as to whether the IOU are required to file standard enabling agreements for the Commission's approval as part of the IOU's Commission-approved BPP or within the QCR filing. If the Commission determines that the IOU are required to file standard enabling agreements via QCR filing for approval, it needs to provide specific guidance to the IOU and the UAFCB regarding the criteria that enabling agreements will be measured against for the Commission's approval.

**E. Conclusion:**

Except for the items noted in Section D above, SCE's Q1 procurement transactions for electricity and natural gas that the UAFCB examined were, in material respects, in compliance with the aspects of SCE's Commission-approved procurement plan and relevant Commission decisions that the UAFCB tested compliance with. SCE's Q1 transactions that the UAFCB examined, in material respects, appear to be complete, accurate and properly authorized by its management.

If you have any questions concerning UAFCB's audit, please contact Tracy Fok at (415) 703-3122.

cc: Rami Kahlon, Director, Division of Water and Audits  
Judith Ikle, Energy Division  
Michele Kito, Energy Division  
Lily Chow, Energy Division  
Yuliya Shmidt, Office of Ratepayer advocates  
Donna Wagoner, Division of Water and Audits  
Tracy Fok, Division of Water and Audits