



# Memorandum

**Date:** June 26, 2018

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

**From:** **Public Utilities Commission—**  
**San Francisco** Tracy Hok, Program and Project Supervisor  
Utility Audit, Finance and Compliance Branch

**Subject:** Southern California Edison Company Advice Letter 3735-E  
Quarterly Procurement Plan Compliance Report for the Fourth Quarter of 2017  
Summary of Negative Findings

The Utility Audit, Finance and Compliance Branch (UAFCB) issues this memorandum containing its negative findings on Southern California Edison Company's (SCE) Quarterly Procurement Plan Compliance Report (QCR) filed by Advice Letter No.(AL) 3735-E. The negative findings are based on the results of UAFCB's performed procedures to assess SCE's compliance. UAFCB assesses SCE's compliance in accordance with agreed-upon procedures (AUP) with Energy Division (ED) and does not assess the compliance with all aspects of the procurement-related state law and procurement-related directives mandated by the California Public Utilities Commission (CPUC or Commission). In addition, SCE's transactions conducted in the Integrated Forward Market (IFM) and the Residual Unit Commitment Market (RUC) are outside the scope of the agreed-upon procedures engagement.

## A. Summary of Negative Findings:

SCE failed to demonstrate that it was in compliance with Decision (D.)02-10-062, Appendix B, and Public Utilities Code (PUC) §581. In its fourth quarter of 2017 (Q4) QCR, SCE made reporting errors in Attachment H. On May 24, 2018, SCE submitted an amended Attachment H to correct its reporting errors in response to UAFCB's findings.

## B. Recommendations:

Before submitting its QCR and related attachments, SCE should thoroughly review them and ensure that all documents are correct and accurate. SCE needs to strengthen its internal controls and implement an effective review process to ensure reporting accuracy of its QCR and related attachments before submitting them to the Commission.

## C. Background:

As required by D.02-10-062, Ordering Paragraph (OP) 8 and clarified in D.03-12-062, SCE, Pacific Gas & Electric Company (PG&E), and San Diego Gas and Electric (SDG&E) must each submit a QCR for all transactions of less than five years duration executed in the quarter. UAFCB conducts the quarterly procurement engagements based on the scope specified by ED, using procedures

agreed upon between ED and UAFCB. ED specified which aspects of the utilities' Commission-approved procurement plans, Assembly Bill (AB) 57 procurement rules and several procurement-related rulings and decisions to test for compliance. The decisions and rulings that ED chose directives from 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, D.12-01-033, D.15-10-031 and D.16-01-015. Based on our understanding with ED, UAFCB does not test all of the transactions that the utilities include in their QCR.

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

**SCE failed to demonstrate that it was in compliance with D.02-10-062, Appendix B, and PUC §581.** In its Q4 QCR, SCE made reporting errors in Attachment H. SCE reported incorrect delivery terms for two (2) Resource Adequacy contracts.

On May 24, 2018, SCE submitted an amended Attachment H to correct the aforementioned reporting errors.

#### **Criteria:**

1. In Appendix B of D.02-10-062, the Commission requires that each utility file each quarter's energy procurement transactions of less than five years duration with a QCR filing by an advice letter. The QCR filing must contain, among other things, information that is complete and accurate and include, but not limited to, the number and volume of transactions.
2. PUC §581 requires that every public utility receiving from the commission any blanks with directions to fill them shall answer fully and correctly each question propounded therein, and if it is unable to answer any question, it shall give a good and sufficient reason for such failure.

#### **SCE's response:**

On April 12, 2018, SCE recognizes that the presentation of two contracts mentioned in the findings were inconsistent from the other three contracts reported in Attachment H. SCE stated that it would be better to be consistent in the presentation of the term, and will commit to presenting the term as a single term, not broken out into multiple parts. Accordingly, SCE revised Attachment H, which shows the single term for the bilateral contracts.

On May 24, 2018, SCE filed a revised Attachment H to correct the reporting errors via a supplemental advice letter.

**UAFCB's Rebuttal:** SCE needs to vigorously strengthen internal controls to ensure the accuracy of its QCR and related attachments before submitting them to the Commission.

**E. Conclusion:**

UAFCB was not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on SCE's QCR filed in AL 3735-E. 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 memo is intended solely for the information and use of ED and should not be used by anyone other than ED or for any purpose.

cc: Barbara Owens, Risk and Compliance Officer  
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