

SOUTHERN CALIFORNIA EDISON COMPANY

Audit Report

AFFILIATE TRANSACTION RULES

January 1, 2020, through December 31, 2021



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

December 2024



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

December 6, 2024

Ms. Rachel Peterson, Executive Director
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Dear Ms. Peterson:

The State Controller's Office, pursuant to an Interagency Agreement with the California Public Utilities Commission, audited the Southern California Edison Company (Utility) for the period of January 1, 2020, through December 31, 2021. The objective of our audit was to determine whether the Utility complied with Affiliate Transaction Rules (ATRs) I. through IX.

Our audit found that the Utility:

- Did not comply with ATRs IV. and V. in certain instances, as described in Findings 1 through 4;
- Did not have adequate controls in place to ensure compliance with certain aspects of ATRs IV. and V., as described in Findings 1 through 4;
- Identified three instances of noncompliance with ATRs IV. and V., as described in Findings 1 and 3, but indicated that it is taking action to correct the deficiencies; and
- Applied corrective actions to eight (89%) of the nine audit findings reported in the prior ATR audit report.

The details associated with our findings are included in the accompanying audit report.

If you have any questions regarding this report, please contact Roochel Espilla, Chief, State Agency Audits Bureau, by telephone at 916-323-5744. Thank you.

Sincerely,

Original signed by

Kimberly A. Tarvin, CPA
Chief, Division of Audits

Ms. Rachel Peterson

December 6, 2024

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KAT/rs

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Ms. Rachel Peterson

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Audit Report

Executive Summary

The State Controller's Office (SCO) audited the Southern California Edison Company (Utility) for the period of January 1, 2020, through December 31, 2021. The objective of our audit was to determine whether the Utility complied with Affiliate Transaction Rules (ATRs) I. through IX. We completed our audit fieldwork on November 9, 2023.

Our audit found that the Utility:

- Did not comply with ATRs IV. and V. in certain instances, as described in Findings 1 through 4;
- Did not have controls in place to ensure compliance with certain aspects of ATRs IV. and V., as described in Findings 1 through 4;
- Identified three instances of noncompliance with ATRs IV. and V., as described in Findings 1 and 3, but indicated that it is taking action to correct the deficiencies; and
- Applied corrective actions to eight (89%) of the nine audit findings reported in the prior ATR audit report.

Background

The California Public Utilities Commission (CPUC) is led by five Commissioners, who are appointed by the Governor of California. In the late 1980s and early 1990s, various energy utilities filed applications with the CPUC to reorganize under a holding company structure. The CPUC approved applications for several energy utilities under its authority. However, the Commissioners were concerned that energy companies would be able to manipulate prices and charge higher prices to some consumers through transactions with their unregulated affiliates. The Commissioners imposed rules governing transactions between the utilities and their affiliates to address these concerns; the rules are known as the ATRs. The ATRs are intended to ensure that utilities: (1) meet their public service obligations at the lowest reasonable cost; and (2) do not engage in preferential treatment of their affiliates.

Since inception of the ATRs in 1993, the Commissioners have periodically revised the ATRs in response to new or revised legislation. In 2005, the Commissioners issued Decision (D.) 06-12-029 in Rulemaking 05-10-030 in response to the Energy Policy Act of 2005, which repealed the Public Utility Holding Company Act of 1935. This decision reviewed existing regulations to determine whether changes or additions to the ATRs were required. The Commissioners made revisions to improve internal consistency and to delete outdated provisions concerning initial compliance with the original ATRs.

The ATRs applicable for the audit period are set forth in D. 06-12-029, Attachment 1, Appendix A-3. Each investor-owned utility must annually submit a Compliance Plan that describes the mechanisms and procedures in place enabling the investor-owned utilities to comply with the ATRs. Each investor-owned utility is also required to designate an Affiliate Compliance Manager to ensure that these mechanisms and procedures

conform to the ATRs. In addition, investor-owned utilities are required to submit annual affiliate transaction reports to disclose affiliate activities. Pursuant to ATR VI. C., the Commissioners require ATR audits to be performed biennially by independent auditors. The SCO conducted an ATR audit of the Utility for the period of January 1, 2016, through December 31, 2017, and issued a report on December 9, 2020. The report disclosed nine findings.

Southern California Edison Company

The Utility is a CPUC-regulated public utility. In 2015, the Utility provided electricity to 15 million people in Central, Coastal, and Southern California. The Utility's service area spans 50,000 square miles. The Utility has 1,235 miles of transmission lines and 91,375 miles of distribution lines; 1,433,336 electric poles; 720,800 distribution transformers and 2,959 substation transformers.

At the time of the issuance of the Utility's calendar year (CY) 2020 Compliance Plan, the Utility reported 42 affiliates, of which 15 were "covered" affiliates, meaning that these affiliates were subject to the ATRs.

The Utility was responsible for ensuring compliance with the ATRs during the audit period. The Utility has established policies, procedures, and processes for its business functions to ensure that affiliate interactions and business transactions are conducted in accordance with the ATRs.

Audit Authority

We conducted this audit at the request of the CPUC, in accordance with an interagency agreement between the SCO and the CPUC.

Objective, Scope, and Methodology

The objective of our audit was to determine whether the Utility complied with ATRs I. through IX. for CY 2020 and CY 2021. Specifically, we conducted this audit to determine whether the Utility:

- Complied with the ATRs;
- Had adequate controls in place to ensure compliance with the ATRs;
- Identified instances of noncompliance with the ATRs, and used effective methods to identify, assess, and correct deficiencies; and
- Applied corrective action to audit findings reported in the prior ATR audit report.

The audit period was January 1, 2020, through December 31, 2021.

To achieve our objective, we performed the following procedures.

General

- We gained an understanding of the Utility's policies and procedures in place during the audit period for each ATR to determine whether the Utility's internal controls were adequately designed.

- When applicable, we conducted walkthroughs to determine whether key internal controls were operating as designed.
- When applicable, we tested key internal controls to determine whether the Utility had adequate internal controls in place to ensure compliance with the ATRs.
- We requested a list of all instances of noncompliance identified by the Utility during the audit period, and determined the methods by which the Utility identified, assessed, and corrected the deficiencies it identified.
- We assessed the reliability of computer-processed data on ATR-related transactions by interviewing the Utility officials knowledgeable about the data; reviewing existing information about the data and the system that produced it; and tracing data to source documents, based on judgmental sampling. We determined that the data was sufficiently reliable for the purposes of this report.

ATR I. – Definitions

ATR I. provides key terms that the Utility must use to define its business and activities related to its affiliate transactions. We performed the following procedures to determine whether the Utility’s interpretation and application of these definitions was consistent with ATR I.:

- We reviewed training materials provided to Utility employees and affiliates to ensure that the definition of an “affiliate” is being properly conveyed.
- We ensured consistency between ATR I. “Definitions” and the definitions described in the ATR Compliance Plans and Annual Reports.
- We reviewed the Utility’s process for determining whether an entity is an affiliate as defined in ATR I.

ATR II. – Applicability

ATR II. provides criteria that describe which affiliates are covered by the rules. These rules apply to affiliates that engage in the provision of products that use gas or electricity, or services that relate to the use of gas or electricity, unless specifically exempt. We performed the following procedures to determine whether the Utility appropriately classified each affiliate based on its business activity:

- We reviewed training materials provided to Utility employees and affiliates to ensure that the Utility is providing guidance on which affiliates are considered covered affiliates under the ATRs.
- We reviewed documentation to support that three of four (75%) affiliates created in CY 2020 and CY 2021 were properly classified as affiliates covered, or not covered, in accordance with ATR II.
- We inquired with the Utility and confirmed that no affiliates were reclassified during the audit period.

- We reviewed procedures and mechanisms to ensure that the Utility's holding company (Edison International) is not used as a conduit to provide nonpublic utility information to covered affiliates.

ATR III. – Nondiscrimination

ATR III. A. – No Preferential Treatment Regarding Services Provided by the Utility

ATR III. A. requires affiliates to be treated on a nondiscriminatory basis, just as non-affiliated companies would be treated. We performed the following procedures to determine whether any affiliates received preferential treatment from the Utility:

- We reviewed procedures and training materials to ensure that they convey the principle of non-discrimination.
- We reviewed the Customer Call Center (CCC) diagram, which shows the different employee functions and responsibilities, and explains how these functions and responsibilities prevent preferential treatment from occurring in communication between the Utility, customers, and affiliates.
- We reviewed the policies and procedures in place to verify that CCC employees were not instructed to recommend covered affiliates to customers.
- We examined a list of solar contractors used by Utility customers during the audit period to determine whether Utility customers used the services of Utility affiliate solar contractors substantially more than non-affiliated solar contractors.
- We reviewed the grid interconnection process to verify that the Utility did not provide preferential treatment to covered affiliates when interconnecting and transmitting power to the grid.

ATR III. B. – Affiliate Transactions

ATR III. B. identifies transactions permitted between the Utility and its affiliates, including tariffed products and services; the sale of goods, property, products, or services made generally available by the Utility or affiliate to all market participants through an open, competitive bidding process; the provision of information made generally available by the Utility to all market participants; and Commissioner-approved resource procurement by the Utility, or as provided for in ATRs V. D. (Joint Purchases), V. E. (Corporate Support), and VII. (Utility Products and Services). We performed the following procedures to determine whether transactions between the Utility and its affiliates were permissible:

- We reviewed procedures and training materials to verify that Utility policies and instructions to its employees regarding affiliate transactions were intended to limit transactions to those allowable under the ATRs.
- We reviewed a detailed transaction history report of all transactions between the Utility and its affiliates to ensure that the transactions were permitted by the ATRs.

- We reviewed procedures and training materials to ensure that resource procurement procedures were compliant with ATR III. B. 1.
- We reviewed all competitive bids for contracts, products, and services during the audit period between the Utility and its affiliates, and confirmed that no covered affiliates sent bids for contracts, products, or services.
- We reviewed the Utility's records and confirmed that the Utility did not engage in any blind transactions with its covered affiliates.
- We reviewed procedures and training materials to verify that the Utility's policies and instructions direct employees to provide access to Utility information and services, and unused electrical power or gas capacity or supply, in a nondiscriminatory manner.
- We reviewed all notices of availability that were posted on the Utility's website to determine whether they were made contemporaneously available to all market participants.
- We reviewed procedures and training materials to ensure that policies and instructions to Utility employees on offering discounts are compliant with ATR III. B. 3.
- We reviewed all postings of discounts on the Utility's website to determine whether they were made contemporaneously available to all market participants.
- We reviewed procedures and training materials to verify that the Utility's policies are adequate to ensure that the Utility does not provide preferential treatment to affiliates when tariff provisions allow for discretion in their application.
- We reviewed a list of all tariffed products and services that the Utility provided to its covered affiliates, and confirmed that no covered affiliates received any tariff products or services during the audit period.
- We reviewed the Utility's website to determine whether the Utility applied tariff provisions in the same manner to its affiliates and other market participants, and found no evidence that the Utility used discretion when applying any tariff provisions.
- We reviewed procedures and training materials to verify that the Utility's policies are adequate to ensure that it processes requests for services in a nondiscriminatory manner.

ATR III. C. – Tying of Services Provided by a Utility Prohibited

ATR III. C. prohibits the Utility from tying the provision of services it provides to the taking of goods or services from its affiliates. We performed the following procedures to determine compliance with ATR III. C.:

- We reviewed procedures and training materials to ensure that the Utility's procedures prevent tying the provision of services it provides to the taking of goods or services from its affiliates.

- We reviewed all marketing materials to determine whether the tying of goods or services from an affiliate was implied, offered, or provided. We found no evidence of the Utility tying services.

ATR III. D. – No Assignment of Customers

ATR III. D. prohibits the Utility from assigning its current customers to its affiliates under any circumstances unless the same opportunity is also available to all competitors. We reviewed procedures and training materials to ensure that the Utility instructs its employees not to assign customers to its affiliates.

ATR III. E. – Business Development and Customer Relations

ATR III. E. identifies certain actions that the Utility must not engage in related to business development and customer relations. We performed the following procedures to determine whether the Utility provided business development or customer relations services to its affiliates:

- We reviewed procedures and training material to verify that the Utility's policy is to refrain from engaging in business development and customer-relations activities with its affiliates.
- We identified affiliates that provided products and services to the Utility's customers and reviewed marketing materials to determine whether there were any instances in which the Utility had provided assistance on business development and/or customer relations to its affiliates.

ATR III. F. – Affiliate Discount Reports

ATR III. F. states that if the Utility provides an affiliate with a discount, rebate, or other waiver of any charge or fee for products and services, the Utility must post a notice on its electronic bulletin board within 24 hours identifying the affiliate; the volume, value, and rate charged; the maximum rate; and the means by which non-affiliates can seek a similar offer. We reviewed the Utility's policies and procedures to verify that they ensure compliance with ATR III. F. We reviewed the Utility's website and verified that the Utility provided no special discounts to its affiliates during the audit period.

ATR IV. – Disclosure and Information

ATR IV. provides the requirements the Utility must follow in disclosing information, including customer, non-customer-specific, non-public, service provider, and supplier information. The rule also provides guidelines for affiliate-related advice or assistance, record-keeping, maintenance of affiliates' contracts and related bids, and Federal Energy Regulatory Commission reporting requirements. We performed the following procedures to determine whether the Utility: (1) provided customer information to its affiliates exclusively, or without consent; (2) made non-customer specific non-public information available to its affiliates contemporaneously with all other service providers; (3) included an affiliate on any service provider list made available by the Utility to its customers; (4) provided its customers advice or assistance with regard to

its affiliates or other service providers; and (5) maintained appropriate affiliate transaction records:

- We identified and reviewed 40 of 1,710 (2.3%) active and approved Customer Information Service Requests (CISRs) completed by customers during the audit period and verified that two of the CISRs were from affiliates.
- We determined whether CISRs provided to affiliates were processed in a nondiscriminatory manner, with prior written consent from the customer.
- We determined whether the Utility released customer information to covered affiliates prior to posting electronic notices on its website.
- We reviewed the Utility's website for disclosure of instances in which non-customer specific non-public information was shared with affiliates.
- We reviewed the minutes for all 24 joint meetings between the Utility's Audit Committee and the holding company's Board of Directors to determine whether affiliate representatives were present during potentially sensitive discussions, and to ensure that non-customer-specific non-public information was not shared with affiliate representatives who were in attendance.
- We requested service provider lists that were distributed or made available to the public during the audit period in order to review them and determine whether any affiliates were listed.
- We inquired about the type of information that CCC representatives are permitted to release to customers.
- We requested written authorization for information provided to affiliates by unaffiliated suppliers.
- We confirmed that the Utility's affiliates did not serve retail customers during the audit period.
- We noted any instances in which our requests for records for this audit were unsuccessful.
- We requested any existing contracts that had been jointly negotiated by the Utility and affiliates in prior years but were still in effect during CY 2020 and CY 2021, and confirmed that no such contracts were in effect during the audit period.

ATR V. – Separation

ATR V. A. – Corporate Entities

ATR V. A. requires the Utility, its holding company, and its affiliates to be separate corporate entities. We performed the following procedures to ensure that the Utility, its holding company, and its affiliates are separate corporate entities:

- We reviewed the Utility's CY 2020 and CY 2021 Annual Reports, its holding company's CY 2020 and CY 2021 Form 10-K reports, and

- organization charts of covered affiliates to ensure that the Utility, its holding company, and its affiliates are separate corporate entities.
- We reviewed the Utility's CY 2020 and CY 2021 Compliance Plans to ensure that proper procedures are in place to ensure compliance with this ATR.
 - We reviewed all four newly created affiliates and requested the articles of formation for the affiliates created during CY 2020 and CY 2021.

ATR V. B. – Books and Records

ATR V. B. requires the Utility, its holding company, and its affiliates to maintain separate books and records in accordance with the Federal Energy Regulatory Commission-established Uniform System of Accounts and with generally accepted accounting principles. We performed the following procedures to ensure that the Utility's records were consistent with reporting requirements:

- We reviewed the Utility's CY 2020 and CY 2021 Form 10-K report filings to determine whether books and records are kept in accordance with generally accepted accounting principles.
- We reviewed the Utility's CY 2020 and CY 2021 Annual Reports to determine whether books and records are kept in accordance with the Uniform System of Accounts.
- We verified that all accounting records of the Utility, its holding company, and its affiliates were open and available for review and analysis by the CPUC consistent with the requirements of Public Utilities Code (PUC) sections 314 and 701.

ATR V. C. – Sharing of Plant, Facilities, Equipment or Costs

ATR V. C. requires the Utility and its affiliates to maintain physical separation and prohibits the Utility from sharing office space, office equipment, services, and systems such as computers and information systems with its affiliates. We performed the following procedures to determine whether the Utility maintained distinct and unshared space and resources:

- We examined the facilities of the Utility's headquarters in Rosemead, California and reviewed policies and procedures to ensure that the Utility and affiliate did not share office space and that the Utility did not offer affiliate employees access to the Utility's facilities.
- We confirmed that affiliate representatives are treated as visitors and are required to be escorted by a Utility employee.
- We observed that visitors to the Utility's headquarters in Rosemead, California are greeted by an armed security guard, and are required to provide photo identification and sign a visitor's log before Utility employees are contacted to escort the visitors.
- We obtained a list of employees who transferred between the Utility and its affiliates during the audit period, and tested the single covered affiliate transfer (out of 37 affiliate transfers) to verify that the employee's physical and system access was terminated concurrent

with the date of transfer; and that the Utility or affiliate that received the transferred employee did not grant access to the employee before the employee's physical and system access was terminated, to prevent the transferred employee from having concurring access to the Utility's and the affiliate's locations and systems.

- We obtained a network diagram depicting logical separation of affiliate and Utility networks, and determined whether affiliate virtual private network tunnels are protected by firewalls to restrict access to Utility resources.

ATR V. D. – Joint Purchases

ATR V. D. prohibits joint purchases of traditional utility merchant products and services by the Utility and its affiliates. We performed the following procedures to determine whether the Utility engaged in joint purchases for these products and services with its affiliates:

- We gained an understanding of what type of joint purchases the Utility engaged in with its affiliates.
- We inquired whether the Utility engaged in any joint purchases (whether energy or non-energy related) during the audit period. The Utility stated that it did not jointly purchase any goods or services with its covered affiliates during the audit period.

ATR V. E. – Corporate Support

ATR V. E. identifies corporate support services that may and may not be shared between the Utility and its affiliates. We performed the following procedures to determine whether the Utility shared with its affiliates information about employee recruiting, engineering, hedging, financial derivatives, arbitrage services, gas and electric purchasing for resale, purchasing of gas transportation and storage capacity, purchasing of electric transmission, system operations, or marketing:

- We interviewed Utility employees in various shared support functions to assess their knowledge of the ATRs and ensure that restricted services were not provided to affiliates.
- We examined the Utility's list of permitted and non-permitted shared services identified in the "Permissible and Non-Permissible Shared Support Matrix" in the ATR Compliance Plans and listings in the Utility's CY 2020 and CY 2021 *Affiliate Compliance Handbooks*.
- We examined the Utility's processes and procedures for intercompany billing and cost allocation methodologies.
- We documented the controls implemented by the Utility to ensure compliance with the accounting requirements of the ATRs, including, but not limited to, ensuring that approvals, authorizations, verifications, cost loaders, and fees were correctly developed and applied; and ensuring that applicable costs were appropriately allocated to affiliates.

- During the audit period, the Utility reported inter-affiliate monthly invoices of \$9,201,079 in CY 2020 and \$5,927,426 in CY 2021.
 - We were not able to identify whether the invoices were from covered or non-covered affiliates. As an alternative, we reviewed a judgmental sample of eight inter-affiliate monthly invoices, totaling \$5,123, that were issued in April and December 2020 and April and December 2021.
 - We verified that inter-affiliate monthly invoices were accurately produced in a timely manner.

ATR V. F. – Corporate Identification and Advertising

ATR V. F. prohibits shared advertising between the Utility and its affiliates, and provides guidelines for corporate identification. To determine whether the Utility and its affiliates shared advertising and corporate identification, we reviewed the Utility's marketing documents used during the audit period to ensure that:

- There was no representation of preferential treatment of affiliates;
- The Utility did not provide advertising space to its affiliates; and
- The Utility did not participate in joint advertising or joint marketing activities with its affiliates during the audit period.

ATR V. G. – Employees

ATR V. G. prohibits joint employment between the Utility and its affiliates. Additionally, it provides guidelines for employee movement between the Utility and its affiliates. We performed the following procedures to determine whether the Utility and its affiliates shared employees or complied with the provisions of ATR V. G. for all employee movement:

- We determined whether any employees served as board members or corporate officers for the holding company, the Utility, and/or an affiliate simultaneously.
- We confirmed that corporate officers from the Utility and the holding company are appropriately described in the CY 2020 and CY 2021 Compliance Plans, and ensured that the Utility does not share officers and directors as a conduit to circumvent any of the ATRs.
- We verified that the Utility appropriately notified the CPUC's Energy Division of any changes to its list of shared officers and directors within 30 days.
- We verified that the Utility reported all employee movements to or from affiliates in its Annual Reports.
- We reviewed records for all 21 employee transfers to verify that: (1) employees who transferred to an affiliate did not return to the Utility for a period of one year; (2) if an employee returned to the Utility, the employee was not retransferred, reassigned, or otherwise employed by an affiliate for two years; and (3) the Utility's holding company was not used as a conduit to circumvent the required transfer fees.

- We confirmed that the transfer fee of 25% of an employee's base annual compensation was properly recorded in the Affiliate Transfer Fee Memorandum Accounts' General Ledger balances for all 21 transferred employees.
- We reviewed the signed Adherence to Affiliate Transaction Communication Policies forms and the affiliate transfer process flows to ensure that transferring employees acknowledged the restrictions imposed by the ATRs.
- We reviewed all eight Intercompany Service Requests to determine whether the Utility made temporary or intermittent assignments or rotations to its energy marketing affiliates. We also verified that all fields were completed and approved.
- We tested all eight Intercompany Service Requests provided by the Utility for the employees' reported hours during the audit period, and traced the hours charged to the monthly Loaned Labor Reports to verify that only employees not involved in marketing were used on a temporary basis and that their chargeable time in any calendar year was less than 30%.
- We tested the Loaned Labor Report to verify that no more than 5% of full-time equivalent Utility employees were on loan.
- We determined how the hours of services of temporary or intermittent assignments were recorded, priced, and charged to affiliates.

ATR V. H. – Transfer of Goods and Services

ATR V. H. identifies types and values of transferred goods and services between the Utility and its affiliates. We performed the following procedures to determine whether the Utility and its affiliates complied with the provisions of ATR V. H. for transfers of goods and services:

- We inquired with Utility staff members and confirmed that ATRs V. H. 1., 2., 3., 4., and 6. were not applicable during the audit period.
- For ATR V. H. 5., the Utility reported providing \$9,201,079 of goods and services to its affiliates in CY 2020 and \$5,927,426 of goods and services to its affiliates in CY 2021. Of the \$15,128,505 transferred during the two years, the Utility reported a total of \$7,739,462 (\$3,665,819 CY 2020 and \$4,073,643 CY 2021) in transfers from the Administrative and General Salaries Account and the Employee Pension and Benefits Account. We reviewed a judgmental selection, totaling \$2,251 for CY 2020 and \$4,791 for CY 2021, of these transfers.
- We determined whether transfer prices complied with the provisions of ATR V. H.

ATR VI. – Regulatory Oversight

ATR VI. provides the requirements for Utility compliance with regulatory oversight. We performed the following procedures to determine whether the Utility complied with the regulatory oversight requirement:

- We reviewed the Utility’s CY 2020 and CY 2021 Compliance Plans to ensure that they were filed annually by June 30.
- We observed the Utility’s creation of a report listing all affiliates and all affiliate activity (i.e., current affiliates, newly formed, newly acquired, dissolved, sold, etc.) with dates of activity during CY 2020 and CY 2021, and compared the report to the CY 2020 and CY 2021 Compliance Plans for completeness.
- We examined the CY 2020 and CY 2021 Compliance Plans to ensure that the Utility demonstrated that it has proper procedures in place to ensure compliance with the ATRs.
- We observed the creation of a report from the Utility’s SharePoint database listing all affiliates formed or acquired during CY 2020 and CY 2021, and compared the report to the CY 2020 and CY 2021 Compliance Plans to ensure that all new affiliates were included in the Compliance Plans and to confirm the population.
- We selected all four new affiliates and calculated the elapsed time between affiliate creation or acquisition and:
 - Notification to the CPUC of the new affiliate, to ensure that the CPUC was notified before the Advice Letter was received;
 - Posting of the new affiliate on the Utility’s website, to ensure that the new affiliate was posted before the Advice Letter was received by the CPUC; and
 - Submission of the Advice Letter notifying the CPUC of the new affiliate, to ensure that the CPUC was notified within 60 days.
- We examined the dates on the certificates of formation and the certificates of amendment for all four new affiliates to confirm creation and/or acquisition dates, in order to establish dates for our calculations and to compare them to the dates in the documentation provided to the CPUC.
- We obtained and examined documentation for all four new affiliates from the Utility’s website showing when the new affiliate notifications were posted.
- We examined the Advice Letters to determine whether they state the affiliate’s purpose or activities; whether the Utility claims that ATR II. B. makes these ATRs applicable; and whether the letters demonstrate to the Commissioners that there are adequate procedures in place to ensure compliance with the ATRs.
- We obtained and examined the transaction detail, journal entries, and invoice support for the audit charges from the previous audit to ensure that costs were at shareholder expense.

- We discussed with Utility staff members any instances in which affiliate officers and/or employees were not made available to testify before the CPUC.
- We discussed with CPUC representatives any instances in which affiliate officers and/or employees were not made available to testify before the CPUC.
- We obtained officer certifications for CY 2020 and CY 2021 and confirmed that:
 - All key officers, as defined in ATR V. E., submitted certifications to the CPUC;
 - The executives' names and titles on the certifications match the names and titles reported in the holding company's CY 2020 and CY 2021 Form 10-K report filing with the Securities and Exchange Commission; and
 - The language within the certifications complies with the specific ATR VI. E. language.

ATR VII. – Utility Products and Services

ATR VII. provides the accounting and reporting requirements for additional approved products and services that the Utility may offer. We performed the following procedures to determine whether the Utility complied with the accounting and reporting requirements for these products and services:

- We requested that the Utility identify any new non-tariffed products and services (NTP&S) categories for the audit period.
- We reviewed CPUC correspondence and applicable Advice Letters to ensure that the NTP&S offered by the Utility meet the criteria of ATR VII. C.
- We inquired with the Utility and confirmed that it had no PUC section 851 applications during the audit period.
- We reviewed NTP&S Periodic Reports to ensure that the data required under ATR VII. H. was included.
- We traced the incremental costs and gross revenue to SAP Enterprise Resource Planning general ledger details to ensure accuracy of reporting.

ATR VIII. – Complaint Procedures and Remedies

ATR VIII. provides the requirements for resolving complaints regarding ATR violations, and requires specific compliance actions by the Utility in preventing, detecting, and disclosing violations. We performed the following procedures to determine whether the Utility complied with requirements for resolving and reporting instances of ATR violations:

- We requested copies of filed complaints.
- We inquired with the Utility's Affiliate Compliance Office (ACO) and confirmed that no complaints were filed during the audit period.

- We verified the types of policies, procedures, and processes in place for preventing, detecting, and reporting ATR violations.
- We examined all three of the Utility's self-reported ATR violations and its Responsive Action Plan to address future compliance.

ATR IX. – Protecting the Utility's Financial Health

ATR IX. requires the Utility to submit an annual report with financial data and projections on necessary capital annually by November 30. This rule also requires the Utility to obtain a non-consolidation opinion from an external consultant demonstrating that the Utility has appropriate provisions in place to protect its assets, should its holding company enter into Chapter 11 bankruptcy. We performed the following procedures to determine whether the Utility was in compliance with this rule:

- We examined the ATR IX. Annual Reports filed by the Utility to ensure that the reports included the requirements listed in ATR IX. A., and that they were filed by November 30.
- We verified that the Utility maintained a balanced capital structure consistent with CPUC D. 19-12-056 and D. 20-05-005 during the audit period.
- We determined whether there were any instances in which the Utility's equity ratio fell by 1% or more from its adopted capital structure and, if so, whether the Utility filed an application for a waiver.
- We determined whether the Utility obtained and filed a non-consolidation opinion, within three months of CPUC D. 06-12-029, demonstrating that provisions to separate the Utility's assets or operations from the holding company (known as "ring-fencing") are sufficient to prevent the Utility from being pulled into a bankruptcy of its holding company.
- If the current ring-fencing provisions were insufficient to obtain a non-consolidation opinion, we determined whether the Utility: (1) notified the Commissioners of its inability to obtain a non-consolidation opinion; (2) proposed and implemented, upon Commissioner approval, ring-fencing provisions that were sufficient to prevent the Utility from being pulled into a bankruptcy of its holding company; and (3) obtained a non-consolidation opinion.
- We determined whether any changes were made to the Utility's ring-fencing provisions. If any changes were made, we determined whether they were made within the required 30 days.

PUC section 583 requires the Utility to ensure the confidentiality of non-public information, such as ratepayers' protected personal information, and ensure that such information is available and disseminated only through the Utility's Affiliate Compliance Manager. All information requested by the SCO was approved by the Utility's ACO.

We limited our review of the Utility's internal controls to gaining an understanding of the internal controls design in order to develop appropriate auditing procedures and limited testing of key internal controls related to ensuring ATR compliance.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Conclusion

We found that the Utility did not comply with all of the ATRs, did not have adequate controls in place to ensure compliance with the ATRs, and identified instances of noncompliance with the ATRs. We noted the following circumstances:

- We found instances of noncompliance with ATRs IV. and V. Refer to Findings 1 through 4 in the Findings and Recommendations section.
- We found internal control deficiencies in areas related to ATRs IV. and V. that make it possible for instances of noncompliance to occur and/or go undetected. Refer to Findings 1 through 4 in the Findings and Recommendations section.
- The Utility identified three instances of noncompliance with ATRs IV. and V. We found that the methods by which the Utility identified and assessed the instances of noncompliance were effective. The Utility indicated that it is taking action to correct the deficiencies. Refer to Findings 1 and 3 in the Findings and Recommendations section.
- We found that the Utility resolved eight (89%) of the nine audit findings reported in the prior ATR audit report. Finding 1 of this audit report resulted from the uncorrected finding. Refer to the Appendix.

Views of Responsible Officials

We issued a draft audit report on April 4, 2024. The Utility's representative responded by letter dated April 17, 2024. The Utility agreed with the audit results except for Findings 2 and 4. We have revised the first three list items in the Executive Summary section and our recommendation for Finding 3 for clarity. We disagree with the Utility that the final list item in the Executive Summary section should be removed or changed, as one of the audit findings reported in the prior ATR audit report remains unresolved; see Finding 1 of this audit report. This final audit report includes the Utility's response as an attachment.

Restricted Use

This report is solely for the information and use of the Utility, the CPUC, and the SCO; it is not intended to be, and should not be, used by anyone other than these specified parties. This restriction is not intended to limit distribution of this audit report, which is a matter of public record.

Original signed by

Kimberly A. Tarvin, CPA
Chief, Division of Audits

December 6, 2024

**Schedule—
Summary of Audit Results
January 1, 2020, through December 31, 2021**

Affiliate Transaction Rule	Section	Rule Description	Compliance	Finding	Reference
I – Definitions	A	“Affiliate”	Yes		
I – Definitions	B-H	[Various definitions]	No activity		
II – Applicability	A	[Applicability]	No activity		
II – Applicability	B	[Utility transactions with affiliates]	Yes		
II – Applicability	C	[No violating or circumventing the ATRs]	Yes		
II – Applicability	D-H	[Applicability coverage]	No activity		
III – Nondiscrimination	A	No Preferential Treatment Regarding Services Provided by the Utility	Yes		
III – Nondiscrimination	B	Affiliate Transactions	No activity		
III – Nondiscrimination	B.1	Resource Procurement	No activity		
III – Nondiscrimination	B.2	Provision of Supply, Capacity, Services or Information	No activity		
III – Nondiscrimination	B.3	Offering of Discounts	No activity		
III – Nondiscrimination	B.4	Tariff Discretion	No activity		
III – Nondiscrimination	B.5	No Tariff Discretion	No activity		
III – Nondiscrimination	B.6	Processing Requests for Services Provided by the Utility	No activity		
III – Nondiscrimination	C	Tying of Services Provided by a Utility Prohibited	No activity		
III – Nondiscrimination	D	No Assignment of Customers	No activity		
III – Nondiscrimination	E	Business Development and Customer Relations	Yes		
III – Nondiscrimination	F	Affiliate Discount Reports	No activity		

Schedule (continued)

Affiliate Transaction Rule	Section	Rule Description	Compliance	Finding	Reference
IV – Disclosure and Information	A	Customer Information	Yes		
IV – Disclosure and Information	B	Non-Customer Specific Non-Public Information	No	<i>Non-public information shared with affiliates.</i>	Finding 1
IV – Disclosure and Information	C	Service Provider Information	No	<i>List of service providers included a covered affiliate.</i>	Finding 2
IV – Disclosure and Information	D	Supplier Information	No activity		
IV – Disclosure and Information	E	Affiliate-Related Advice or Assistance	Yes		
IV – Disclosure and Information	F	Record-Keeping	Yes		
IV – Disclosure and Information	G	Maintenance of Affiliate Contracts and Related Bids	No activity		
IV – Disclosure and Information	H	FERC [Federal Energy Regulatory Commission] Reporting Requirements	No activity		
V – Separation	A	Corporate Entities	Yes		
V – Separation	B	Books and Records	Yes		
V – Separation	C	Sharing of Plant, Facilities, Equipment or Costs	Yes		
V – Separation	D	Joint Purchases	No activity		
V – Separation	E	Corporate Support	Yes		
V – Separation	F	Corporate Identification and Advertising	Yes		
V – Separation	F.1	[Advertising]	Yes		
V – Separation	F.2	[Different treatment]	Yes		

Schedule (continued)

Affiliate Transaction Rule	Section	Rule Description	Compliance	Finding	Reference
V – Separation	F.3	[No affiliate advertising space on utility billing envelopes]	Yes		
V – Separation	F.4	[No joint advertising or marketing]	Yes		
V – Separation	F.5	[No research and development subsidization]	Yes		
V – Separation	G.	Employees	No		
V – Separation	G.1	[No joint employees]	No	<i>Notification of a change in the list of shared officers not made in a timely manner.</i>	Finding 3
V – Separation	G.2.a	[Tracking employee movement]	Yes		
V – Separation	G.2.b	[Transfer residency requirements]	Yes		
V – Separation	G.2.c	[Transfer payments]	Yes		
V – Separation	G.2.d	[No release of information by transfer employees]	No	<i>Exit interview documentation was not retained for one employee.</i>	Finding 4
V – Separation	G.2.e	[Loaned labor guidelines]	Yes		
V – Separation	H	Transfer of Goods and Services	Yes		
VI – Regulatory Oversight	A	Compliance Plans	Yes		
VI – Regulatory Oversight	B	New Affiliate Compliance Plans	Yes		
VI – Regulatory Oversight	C	Affiliate Audit	Yes		
VI – Regulatory Oversight	D	Witness Availability	Yes		
VI – Regulatory Oversight	E	Officer Certification	Yes		
VII – Utility Products and Services	A	General Rule	No activity		
VII – Utility Products and Services	B	Definitions	No activity		
VII – Utility Products and Services	C	Utility Products and Services	Yes		

Schedule (continued)

Affiliate Transaction Rule	Section	Rule Description	Compliance	Finding	Reference
VII – Utility Products and Services	D	Conditions Precedent to Offering New Products and Services	Yes		
VII – Utility Products and Services	D.1	[Allocating costs to prevent cross-subsidization]	Yes		
VII – Utility Products and Services	D.2	[Performance-based ratemaking mechanism]	Yes		
VII – Utility Products and Services	D.3	[Periodic reporting]	Yes		
VII – Utility Products and Services	D.4	[Periodic auditing]	Yes		
VII – Utility Products and Services	E	Requirement to File an Advice Letter	No activity		
VII – Utility Products and Services	F	Existing Offerings	No activity		
VII – Utility Products and Services	G	[Public Utilities Code] Section 851 Application	No activity		
VII – Utility Products and Services	H	Periodic Reporting of Nontariffed Products and Services	Yes		
VII – Utility Products and Services	I	Offering of Nontariffed Products and Services to Affiliates	No activity		
VIII – Complaint Procedures and Remedies	A	[CPUC strictly enforces the ATRs]	No activity		
VIII – Complaint Procedures and Remedies	B	Standing	No activity		
VIII – Complaint Procedures and Remedies	C	Procedure	Yes		
VIII – Complaint Procedures and Remedies	D	Remedies	Yes		

Schedule (continued)

Affiliate Transaction Rule	Section	Rule Description	Compliance	Finding	Reference
IX – Protecting the Utility’s Financial Health	A	Information from Utility on Necessary Capital	Yes		
IX – Protecting the Utility’s Financial Health	B	Restrictions on Deviations from Authorized Capital Structure	Yes		
IX – Protecting the Utility’s Financial Health	C	Ring-Fencing	Yes		
IX – Protecting the Utility’s Financial Health	D	Changes to Ring-Fencing Provisions	Yes		

Findings and Recommendations

FINDING 1— Non-public information shared with affiliates

The Utility's internal controls did not operate effectively to ensure compliance with rules for disclosing non-customer specific non-public information. During the audit period, the Utility discovered and disclosed on its website two instances of non-public information that had been improperly shared with a covered affiliate. These instances are described as follows:

- In April 2020, a Utility employee inadvertently sent COVID-19 Daily Reports, which contained non-public Utility information, to a Utility covered affiliate. The Utility posted this instance to its website on July 27, 2020.
- On February 7, 2020, a holding company employee inadvertently sent an email that included non-public Utility information to an employee of a Utility covered affiliate. The email included a list of Utility and holding company employee questions for management. The Utility posted this instance to its website on February 14, 2020.

Although the Utility's internal controls were adequately designed to ensure compliance with ATR IV. B., we determined that the controls did not operate as designed in these two instances.

ATR IV. B., "Non-Customer Specific Non-Public Information," states:

A utility shall make non-customer specific non-public information, including but not limited to information about a utility's natural gas or electricity purchases, sales, or operations or about the utility's gas-related goods or services and electricity-related goods or services, available to the utility's affiliates only if the utility makes that information contemporaneously available to all other service providers on the same terms and conditions, and keeps the information open to public inspection. Unless otherwise provided by these Rules, a utility continues to be bound by all [Commissioner-adopted] pricing and reporting guidelines for such transactions. A utility is also permitted to exchange proprietary information on an exclusive basis with its affiliates, provided the utility follows all [Commissioner-adopted] pricing and reporting guidelines for such transactions, and it is necessary to exchange this information in the provision of the corporate support services permitted by Rule V E below. The affiliate's use of such proprietary information is limited to use in conjunction with the permitted corporate support services, and is not permitted for any other use. Nothing in this Rule precludes the exchange of information pursuant to D.97-10-031. Nothing in this Rule is intended to limit the Commission's [the CPUC's five-member governing body] right to information under Public Utilities Code Sections 314 and 581.

The Utility's CY 2020 and CY 2021 Compliance Plans state:

SCE [the Utility] has included a discussion of the restrictions on non-customer-specific, nonpublic information imposed by this Rule in its Affiliate Rules training material, *Affiliate Compliance Handbook*, and online resources including the posting of inadvertent disclosures of nonpublic utility information on SCE's Internet website, sce.com.

In order to help ensure that EIX [Edison International] is not used as a conduit to provide nonpublic SCE information to Class A affiliates, SCE

may include the following legend on documents provided to EIX that contain nonpublic SCE information: “This document contains NONPUBLIC SCE INFORMATION. Do not share with Class A affiliates.” This legend serves as a reminder to EIX and SCE employees regarding the sharing of nonpublic SCE information and the no conduit rule.

SCE has developed a procedure for governing email forwarding in situations when a SCE employee transfers to EIX, Class B, or Class A affiliates. SCE employees who transfer to EIX or a Class B affiliate are allowed a period during which their SCE emails may be forwarded. However, the policy prohibits the forwarding of emails for SCE employees transferring to Class A affiliates. This includes employees who are seconded from Edison Energy Support Services to Class A affiliates.

SCE and EIX have implemented procedures to help ensure a consistent process to maintain accurate records for when Class A affiliate employees attend EIX/SCE Board of Directors and Board committee meetings. For Board of Directors and Board committee meetings, SCE’s Corporate Governance maintains meeting minutes that identify each attendee and reflect when Class A affiliates are present. SCE’s Corporate Governance also maintains a distribution log and access list that indicates which meeting materials were distributed and whom they were distributed to, including Class A affiliate employees.

Recommendation

We recommend that the Utility:

- Follow its policies and procedures related to ATR IV. B.; and
- Establish and implement additional security measures within its information systems to prevent non-public information from being shared with affiliates.

FINDING 2— List of service providers included a covered affiliate

The Utility’s policies and procedures failed to ensure that service provider listings published on its website did not include affiliates.

We received eight quarterly website verification files related to service providers for CY 2020 and CY 2021. We tested four quarterly website verification files, including two files for CY 2020 and two files for CY 2021. We determined that, in a quarterly website verification file dated October 13, 2020, a Class A covered affiliate was listed on the Charge Ready Program’s vendor and network provider lists published on the Utility’s website, in violation of ATR IV. C.

ATR IV. C., “Service Provider Information,” states:

Except upon request by a customer or as otherwise authorized by the Commission or another governmental body, a utility shall not provide its customers with any list of service providers, which includes or identifies the utility’s affiliates, regardless of whether such list also includes or identifies the names of unaffiliated entities.

The Utility’s CY 2020 Compliance Plan states, in part:

In implementing this Rule, SCE understands the term “service providers” to mean providers of gas-related, electricity-related, or other

utility-related goods and services, including the utility's affiliates. This Rule does not prohibit SCE from compiling lists of service providers, and providing such lists to customers who request them, as long such lists do not contain SCE Class A Affiliates. The Customer Service Quality Assurance group quarterly monitors its service provider lists and other forms of content that may list Class A Affiliates to validate compliance with Rule IV.C.

Competitive Market Information Generally: This Rule does not prohibit SCE from providing information about Direct Access or other competitive markets to its customers.

Commission Resources: In Resolution E-3539, Finding of Fact No. 49, the Commission confirmed that SCE may direct customers who request information about Energy Service Providers to the Commission's website. In addition, this Rule does not prohibit SCE from providing a copy of the Commission's service provider list to customers who request it. In accordance with these Rules, in no case does SCE emphasize the inclusion of any affiliate appearing on the Commission's list. The list is located at www.cpuc.ca.gov/esp/.

The Utility's CY 2021 Compliance Plan states, in part:

In implementing this Rule, SCE understands the term "service providers" to mean providers of gas-related, electricity-related, or other utility-related goods and services, including the utility's affiliates. This Rule does not prohibit SCE from compiling lists of service providers, and providing such lists to customers who request them, as long such lists do not contain SCE Class A Affiliates. SCE developed and implemented a comprehensive service provider list monitoring and retention process in late 2018. Each quarter, Customer Service Operating Unit's Customer Service Quality Assurance team sends a communication to internal stakeholders to prompt a review and validate the external facing websites do not contain SCE Class A affiliates. The screenshots of the service provider lists of programs that are posted publicly are captured as evidence and archived in the Customer Service Quality Assurance team's Microsoft SharePoint for retention. After completion of the validations from internal stakeholders, the Customer Service Quality Assurance team validates the results of the submissions on the SharePoint site to ensure the service provider lists do not contain SCE Class A affiliates pursuant to Rule IV.C.

Competitive Market Information Generally: This Rule does not prohibit SCE from providing information about Direct Access or other competitive markets to its customers.

Commission Resources: In Resolution E-3539, Finding of Fact No. 49, the Commission confirmed that SCE may direct customers who request information about Energy Service Providers to the Commission's website. In addition, this Rule does not prohibit SCE from providing a copy of the Commission's service provider list to customers who request it. In accordance with these Rules, in no case does SCE emphasize the inclusion of any affiliate appearing on the Commission's list. The list is located at www.cpuc.ca.gov/esp/.

Recommendation

We recommend that the Utility follow its policies and procedures to ensure compliance with ATR IV. C.

Utility's Response

SCE disagrees with Finding 2. As noted in the auditors' Draft Report, Rule IV.C. explicitly allows utilities to include covered affiliates in service provider lists when the Commission authorizes it. Before including the covered affiliate in a service provider list, SCE notified the Commission of its intent to include the affiliate because SCE interpreted the Commission's Charge Ready decision as authorizing SCE to do so. A copy of the letter to the Commission was provided to auditors. SCE completely followed its controls, policies and procedures related to Rule IV.C.

SCO Comment

Our finding remains unchanged. Based on the Utility's August 26, 2020 notification to the CPUC of its intent to reinstate a Class A covered affiliate on the Charge Ready service provider list, the Utility interpreted the Charge Ready Decision (D. 16-01-023) as authorizing it to include Class A covered affiliates in its list of qualified vendors. However, ATR IV. C., "Service Provider Information," states:

Except upon request by a customer or as otherwise authorized by the Commission or another governmental body [emphasis added], a utility shall not provide its customers with any list of service providers, which includes or identifies the utility's affiliates, regardless of whether such list also includes or identifies the names of unaffiliated entities.

Therefore, without documented CPUC authorization for listing a Class A covered affiliate as a service provider, the Utility violated ATR IV. C.

FINDING 3— Notification of a change in the list of shared officers not made in a timely manner

On May 11, 2022, the Utility notified the CPUC's Energy Division that, effective July 26, 2021, the Utility's controller and vice president was no longer in this position, and was therefore no longer a shared officer. ATR V. G. 1. requires notification of a change in the list of shared officers and directors within 30 days of a change to this list. The Utility did not provide notification of this change in shared officers until May 2022 because the ACO was first informed of the change in late April 2022. As mentioned in the Utility's notification to the Energy Division, the ACO worked with the Human Resources Division to develop appropriate controls to ensure that the ACO will be promptly notified of any future changes in shared officers.

ATR V. G. 1. states:

Except as permitted in Rule V. E (corporate support), a utility and its affiliates shall not jointly employ the same employees. This Rule prohibiting joint employees also applies to Board Directors, and corporate officers except for the following circumstances: In instances when this Rule is applicable to holding companies, any board member or corporate officer may serve on the holding company and with either the utility or affiliate (but not both) to the extent consistent with Rule V. E (corporate support). Where the utility is a multi-state utility, is not a member of a holding company structure, and assumes the corporate governance functions for the affiliates, the prohibition against any board member or corporate officer of the utility also serving as a board member or corporate officer of an affiliate shall only apply to

affiliates that operate within California. In the case of shared directors and officers, a corporate officer from the utility and holding company shall describe and verify in the utility's compliance plan required by Rule VI the adequacy of the specific mechanisms and procedures in place to ensure that the utility is not utilizing shared officers and directors as a conduit to circumvent any of these Rules. In its compliance plan, the utility shall list all shared directors and officers between the utility and affiliates. No later than 30 days following a change to this list, the utility shall notify the [CPUC's] Energy Division and the parties on the service list of R.97-04-011/I.97-04-012 of any change to this list.

The Utility's CY 2020 and CY 2021 Compliance Plans states:

SCE does not jointly employ any employees with Class A Affiliates. SCE reaffirms its compliance with Rule V.G through its Employment Policy by specifically stating that "employees moving within the Edison family of companies, to or from SCE, must adhere to all Affiliate Transactions Rules." Shared officers between SCE and EIX are limited to those categories that are within the scope of permitted shared activities described in Rule V.E. This Rule does not prohibit shared officers or directors from having access to any information necessary to fulfill their oversight and governance responsibilities, as long as they do not serve as conduits for impermissible information transfer. SCE follows its "Notification of Shared Directors or Shared Officers" procedure when notifying the CPUC Energy Division of any change to its shared directors or officers in accordance with Rule V.G.1.

Lists of Shared Officers and Directors: SCE's lists of shared officers and shared directors are attached to this document as Appendices C and D, respectively.

No-Conduit Procedures: For oversight and governance activities in which directors, officers, or other employees of the utility, its parent holding company, or its affiliates are participants, SCE takes appropriate steps to caution those participants about the importance of complying with all applicable Affiliate Rules regarding nonpublic utility information, nondiscrimination, and prohibitions on use of the holding company or non-covered affiliates as conduits to circumvent the Rules. SCE's affiliate compliance web-based training provides guidance to SCE employees regarding the no-conduit rule. SCE also provides in-person training to SCE Directors and Officers, and EIX personnel. In-person training is also provided to all new Class A affiliate employees on a quarterly basis.

Separation of Key Officers: As of June 12, 2007, SCE does not share with its parent holding company any of the following key officers: Chair of the entire enterprise, the President at the utility and its holding company parent, the Chief Executive Officer at each, the Chief Financial Officer at each, and the Chief Regulatory Officer at each, or in each case, any and all officers whose responsibilities are the functional equivalent of the foregoing.

Recommendation

We recommend that the Utility:

- Follow its policies and procedures designed to ensure compliance with ATR V. G. 1.;
- Develop appropriate controls to ensure notification of the ACO regarding any changes in shared officers in a timely manner;

- Revise the Human Resources Division’s business partners checklist to include prior approval from the ACO as part of processing any changes in shared officers; and
- Notify the ACO via email of any changes in shared officers.

**FINDING 4—
Exit interview
documentation was
not retained for one
employee**

The Utility failed to retain its exit interview documentation for one employee who transferred to a covered affiliate. If retained, such exit documentation would support that the Utility had followed its policies and procedures to ensure compliance with ATR V. G. 2. d. Without the completed exit documentation for this employee, we could not confirm that the Utility consistently followed its policies and procedures to ensure compliance.

The discussion items informing employees of the ATRs and potential consequences of not complying with the ATRs, as well as the verification of removal of access to non-public information, are significant internal controls for preventing ATR violations. If the exit interviews do not take place, the topics that can deter transferring an employee from acting as a conduit of non-public information are not discussed with the transferring employee and may not be understood by the employee.

We believe that the Utility’s internal controls are adequately designed to ensure compliance with ATR V. G. 2. d. However, we were unable to determine whether the controls operated as designed because the Utility did not retain documentation.

ATR V. G. 2. d. states:

Any utility employee hired by an affiliate shall not remove or otherwise provide information to the affiliate which the affiliate would otherwise be precluded from having pursuant to these Rules.

The Utility’s CY 2020 and CY 2021 Compliance Plans states, in part:

Tracking Employee Movement: SCE’s Human Resources Organizational Unit tracks and processes the movement of SCE employees to Class A Affiliates, Class B Affiliates, and EIX. The tracking of employee movement includes obtaining acknowledgment by the employee of restrictions pertaining to use of nonpublic utility information and the residency requirements. Exit interviews are conducted by HR and the Affiliate Compliance Office for all departing SCE employees. SCE’s Affiliate Compliance Office reviews the paperwork for such employees to help ensure conformity to these Rules. All employee movement from SCE to EIX or affiliates is reviewed and approved by SCE’s Affiliates Officer.

Section 3.8, “Adherence to Affiliate Transaction Rules,” of the Utility’s Employee Transfers Procedures states:

During the exit interview, the ACO will meet with the employee to provide an overview of the Affiliate Transaction Rules with the emphasis on Rules V. G. 2. b and V. G. 2. d which establish restrictions surrounding non-public utility information. An SCE employee is prohibited from using non-public utility information to the benefit of the affiliate or to the detriment of unaffiliated third-parties.

- A. The employee will acknowledge that he/she has been informed [of] the rules governing the information restrictions from SCE to an affiliate by signing the “Adherence to Affiliate Transaction Rules” form. . . .

Recommendation

We recommend that the Utility retain documentation to support that it followed its policies and procedures designed to ensure compliance with ATR V. G. 2. d.

Utility’s Response

SCE disagrees with Finding 4. The finding incorrectly implies noncompliance with the Rules. The auditors did not conclude that an SCE employee hired by an affiliate removed or provided SCE information to the affiliate in violation of Rule V.G.2.d. The finding merely points to a failure of SCE to document, in the auditors’ words, “a significant internal control,” namely exit interview documentation. Exit interview documentation is not required by Rule V.G.2.d.

The Rules do not require that a utility specifically create documentation of all its processes that support compliance with the Rules. However, the Rules do require that if such documents are created, that they be retained for future review in an audit. SCE’s affiliate transfer process requires SCE employees transferring to covered affiliates to undergo affiliate rules training. SCE has every confidence that the training did take place, but unfortunately, none of the employees involved with the transfer are either with the company at this time or in an affiliate transfer role.

Notwithstanding the above, SCE has supplemented its affiliate transfer procedures so that the signed affiliate transfer form is stored and retained by HR for future audits.

SCO Comment

Our finding remains unchanged. As described in the finding, we could not confirm that the Utility consistently followed its policies and procedures to ensure compliance with ATR V. G. 2. d. because it did not retain documentation.

**Appendix—
Summary of Prior Audit Findings
January 1, 2016, through December 31, 2017**

Prior Audit Finding	Current Status
<p>Finding 1— Notice of release of customer information not posted to Utility [Southern California Edison Company] website prior to release of information to affiliate.</p> <p>The Utility’s policies failed to ensure that a separate Notice of Release of Customer Information to Affiliates was posted to its website for one of eight approved Customer Information Service Requests (CISRs) during the audit period. In addition, the Utility could not provide documentation to support that it posted the notice prior to releasing customer information for two CISRs.</p>	Fully resolved
<p>Finding 2— Non-public information shared with affiliates.</p> <p>During the audit period, the Utility discovered and disclosed on its website two instances of non-public information that had been improperly shared with covered affiliates.</p>	<p>Not resolved; see Finding 1</p> <p>During the current audit period, the Utility discovered and disclosed on its website two instances of non-public information that had been improperly shared with a covered affiliate.</p>
<p>Finding 3— Utility did not retain records to substantiate compliance with ATR [Affiliate Transaction Rule] IV. C.</p> <p>Although the Service Provider Lists as currently presented on the Utility’s website do not include any of the covered affiliates identified during the audit period, we could not determine whether Utility affiliates were reported in the Utility’s Service Provider Lists during the audit period. We could not determine whether any of the Utility’s covered affiliates were included on the Utility’s Service Provider Lists during the audit period because the Utility did not retain the lists as they were presented on its website during the audit period.</p>	Fully resolved

Appendix (continued)

Prior Audit Finding	Current Status
<p>Finding 4— Unapproved affiliate access to non-public utility information through the Utility’s SAP Enterprise Resource Planning system.</p> <p>The Utility did not adhere to its internal control policies and procedures intended to prevent affiliate access to non-public Utility information through its information systems. As a result, 10 affiliate users of the Utility’s SAP ERP [Enterprise Resource Planning] information system had access to non-public Utility information during the audit period.</p>	Fully resolved
<p>Finding 5— General Office visitor logs not retained during the audit period.</p> <p>The Utility failed to retain visitor logs for their General Office for the first 15 months of the 24-month audit period. The Utility stated that its retention schedule for the General Office visitor logs was shorter than that required for ATR compliance-related documents. As a result, all General Office visitor logs between January 2016 and April 2017 were destroyed. We were unable to review the destroyed visitor logs to verify that the Utility restricted covered affiliates’ physical access in accordance with ATR V. C.</p>	Fully resolved
<p>Finding 6— Unreported employee transfer.</p> <p>The Utility did not report one of the 17 employee transfers during the audit period in Section H of the Annual Report. The employee transferred from the Utility to the holding company on January 10, 2016. The employee transfer was inadvertently excluded from the report.</p>	Fully resolved

Appendix (continued)

Prior Audit Finding	Current Status
<p>Finding 7— Incorrect transfer fee calculation.</p> <p>The Utility incorrectly calculated transfer fees for one of six employees, resulting in an underpayment from the affiliate to the Utility in the amount of approximately \$22,232.</p>	Fully resolved
<p>Finding 8— Untimely reporting of new affiliates.</p> <p>The Utility’s internal control policies and procedures failed to ensure that its new affiliates are reported in a timely manner, in accordance with ATR VI., resulting in delayed reporting of new affiliates to the CPUC [California Public Utilities Commission] and in the Utility’s CY [calendar year] 2016 Compliance Plan.</p>	Fully resolved
<p>Finding 9— Portions of CY 2012 and CY 2013 audit costs not at shareholder expense.</p> <p>The Utility’s internal control policies and procedures failed to ensure that all ATR audit costs were charged to the appropriate expense account. As a result, portions of the CY 2012 and CY 2013 ATR audit costs were charged to a non-shareholder funded account.</p>	Fully resolved

**Attachment—
Southern California Edison Company's Response to
Draft Audit Report**



Michael Backstrom
Southern California Edison
Affiliates Officer

4/17/2024

Mr. Roochell Espilla
Chief, State Agency Audits Bureau
Division of Audits
State Controller's Office
P.O. Box 942850
Sacramento, CA 94250-5874

Re: Southern California Edison Response to the California State Controller's Draft Audit Report entitled, "Southern California Edison Audit Report, Affiliate Transaction Rules, January 1, 2020, through December 31, 2021"

Dear Mr. Espilla:

On April 4, 2024, Southern California Edison Company (SCE) received a copy of the Draft Audit Report entitled, "Southern California Edison Audit Report, Affiliate Transaction Rules, January 1, 2020, through December 31, 2021" (Draft Report) dated April 2024. SCE respectfully provides detailed comments on the executive summary, the auditors' assessment of the prior audit findings and observations, and each of the four findings and recommendations contained in the Draft Report. SCE reserves the right to submit additional comments to the Final Report if there are other comments or input that change or add to the findings or recommendations found in the Draft Report.

SCE appreciates the opportunity to review and provide comments on the Draft Report. We are happy to discuss our comments in more detail with the State Controller's Office or the California Public Utilities Commission if you feel that such a discussion would be beneficial. If you have any questions, please feel free to contact Patrick Nandy at (626) 302-2049 or Patrick.Nandy@sce.com.

Best regards,

Michael Backstrom
Encl.

DocuSigned by:
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**Southern California Edison Company
2020-2021 Affiliate Transactions Audit
Response to Draft Audit Report Dated April 2024**

I. Introduction

SCE appreciates the opportunity to work with outside auditors to demonstrate and improve its compliance practices. SCE believes that the findings and recommendations contained in the 2020-2021 Affiliate Transactions Audit (2020-2021 ATA) Draft Report (Draft Report) are very minor, with minimal to no impact to customers or other electric market participants. Even though the auditors found SCE had internal control policies and procedures that are adequately designed to ensure compliance, SCE will continue to look for opportunities to reinforce and strengthen our internal controls to enhance our overall compliance with the Commission's Affiliate Transaction Rules (Rules or ATRs).

We greatly appreciate the professional manner in which the State Controller's Office (SCO) conducted the 2020-2021 ATA.

II. General Characterization of the Audit Findings

In the Executive Summary of the Draft Report, the auditors summarize their audit findings by stating that SCE:

- "Did not comply with ATRs IV. and V.;
- Did not have adequate controls in place to ensure compliance with ATRs IV. and V.;
- Identified three instances of noncompliance with ATRs IV. and V., but indicated that it is taking action to correct the deficiencies; and
- Applied corrective actions to eight of nine (89%) audit findings reported in the prior ATR audit report."

As discussed below, the characterizations above are incorrect. These statements should be corrected or clarified in the final audit report.

A. SCE Substantially Complied with ATRs IV and V.

SCE disagrees with the first two statements in the Draft Audit's Executive Summary.

First, these statements, as written, are overstatements. The first statement implies SCE failed entirely with regard to both rules, which is not accurate. The second statement similarly implies that SCE failed entirely to have adequate controls in place to ensure compliance with ATRs IV and V, which is also not accurate. In reality, auditors identified just two findings for each rule. Thus, even if auditors decide to keep these first two statements, SCE requests the language be changed to reflect the results of the audit more accurately (e.g., "SCE did not comply with ATRs IV. and V. in certain isolated incidents" and "SCE did not have adequate controls in place to ensure compliance with ATRs IV. and V. in certain isolated incidents, but indicated that...").

Second, SCE substantively disagrees with the Draft Report statement above that SCE, "Did not comply with ATRs IV. and V" because, as detailed below, SCE does not consider the actions described in Findings 2 and 4 to be violations of the ATRs.

B. SCE Applied Corrective Actions to all of the Findings from the Prior ATR Audit Report

The fourth bullet in the summary of the auditors' findings states that SCE applied corrective actions for all but one of the findings from the prior ATR audit report. The finding noted as unresolved, however, is based solely on a repeat instance of a prior finding in which the auditors previously found SCE had adequate internal controls in place. Given that the auditors found SCE had adequate internal controls for this finding in the prior audit report, and that SCE did implement the controls and policies in place as recommended by the auditors, it is not correct to state that SCE did not apply corrective actions simply because there was a repeat of the instance—especially given that, as discussed below, when SCE became aware of this instance it promptly posted notice of availability in full compliance with Rule IV.B. and SCE's internal controls.

For that reason, the fourth bullet in the Executive Summary should be either deleted or changed to correctly characterize the auditors' findings.

III. Comments on Each of the 2020-2021 Audit Findings and Recommendations

The Draft Report contains 4 findings and recommendations. SCE has carefully reviewed the findings and recommendations in the Draft Report. Below are SCE's response to each

of the findings and recommendations. We do not repeat the entire text of the findings, in order to minimize the length of this response.

Finding 1: Non-public information shared with affiliates

The Utility's internal controls did not operate effectively to ensure compliance with rules for disclosing non-customer specific non-public information. During the audit period, the Utility discovered and disclosed on its website two instances of non-public information that had been improperly shared with a covered affiliate. These instances are described as follows:

- *In April 2020, a Utility employee inadvertently sent COVID-19 Daily Reports, which contained non-public Utility information, to a Utility covered affiliate. The Utility posted this instance to its website on July 27, 2020.*
- *On February 7, 2020, a holding company employee inadvertently sent an email that included non-public Utility information to an employee of a Utility covered affiliate. The email included a list of Utility and holding company employee questions for management. The Utility posted this instance to its website on February 14, 2020.*

Recommendation 1:

We recommend that the Utility:

- *Follow its policies and procedures related to ATR IV. B.; and*
- *Establish and implement additional security measures within its information systems to prevent non-public information from being shared with affiliates.*

SCE Response to Finding 1 and Recommendation 1:

SCE agrees with Finding 1 and Recommendation 1, but notes that in the two instances referenced, the nonpublic information was inadvertently sent to individuals at the affiliate and SCE posted notice of availability in compliance with Rule IV.B. as soon as it became aware of the emails. Therefore, there was no issue of noncompliance related to Rule IV.B., but rather an issue of internal control weakness. Additionally, since there are no system measures that prevent inadvertent emails, SCE will continue to ensure that our existing internal control policies and procedures continue to operate as designed, including providing affiliate transactions training to help avoid future, inadvertent disclosures of non-public utility information to affiliates.

Finding 2: Non-public information shared with affiliates

The Utility's policies and procedures failed to ensure that service provider listings published on its website did not include affiliates. We received eight quarterly website verification files related to service providers for CY 2020 and CY 2021. We tested four quarterly website verification files, including two files for CY 2020 and two files for CY 2021. We determined that, in a quarterly website verification file dated October 13, 2020, a Class A covered affiliate was listed on the Charge Ready Program's vendor and network provider lists published on the Utility's website, in violation of ATR IV. C.

Recommendation 2:

We recommend that the Utility follow its policies and procedures to ensure compliance with ATR IV. C.

SCE Response to Finding 2 and Recommendation 2:

SCE disagrees with Finding 2. As noted in the auditors' Draft Report, Rule IV.C. explicitly allows utilities to include covered affiliates in service provider lists when the Commission authorizes it. Before including the covered affiliate in a service provider list, SCE notified the Commission of its intent to include the affiliate because SCE interpreted the Commission's Charge Ready decision as authorizing SCE to do so. A copy of the letter to the Commission was provided to auditors. SCE completely followed its controls, policies and procedures related to Rule IV.C.

Finding 3: Utility did not retain records to substantiate compliance with ATR IV. C

On May 11, 2022, the Utility notified the CPUC's Energy Division that, effective July 26, 2021, the Utility's controller and vice president was no longer in this position, and was therefore no longer a shared officer. ATR V. G. 1 requires notification of a change in the list of shared officers and directors within 30 days of a change to this list. The Utility did not provide notification of this change in shared officers until May 2022 because the ACO was first informed of the change in late April 2022. As mentioned in the Utility's notification to the Energy Division, the ACO worked with the Human Resources Division to develop appropriate controls to ensure that the ACO will be promptly notified of any future changes in shared officers.

Recommendation 3:

We recommend that the Utility:

- *Follow its policies and procedures designed to ensure compliance with ATR V. G. 1.;*
- *Develop appropriate controls to ensure notification of the ACO regarding any changes in shared officers in a timely manner;*
- *Revise the Human Resources Division's business partners checklist to include prior approval from the ACO as part of processing any new officer position; and*
- *Notify the ACO via email of any officer movement between the Utility and its affiliates.*

SCE Response to Finding 3 and Recommendation 3:

SCE agrees with Finding 3. However, SCE notes that the third and fourth recommendations proposed for this finding would not have informed the ACO in this situation because there was no new shared officer and no officer movement between the utility and its affiliates. Instead, the Affiliate Compliance Office is now notified of all executive changes enterprise-wide to ensure notification is delivered to the CPUC within 30 days of such changes to shared officers/directors.

Finding 4: Exit interview documentation was not retained for one employee

The Utility failed to retain its exit interview documentation for one employee who transferred to a covered affiliate. If retained, such exit documentation would support that the Utility had followed its policies and procedures to ensure compliance with ATR V. G. 2. d. Without the completed exit documentation for this employee, we could not confirm that the Utility consistently followed its policies and procedures to ensure compliance.

The discussion items informing employees of the ATRs and potential consequences of not complying with the ATRs, as well as the verification of removal of access to non-public information, are significant internal controls for preventing ATR violations. If the exit interviews do not take place, the topics that can deter transferring an employee from acting as a conduit of non-public information are not discussed with the transferring employee and may not be understood by the employee.

We believe that the Utility's internal controls are adequately designed to ensure compliance with ATR V. G. 2. d. However, we were unable to determine whether the controls operated as designed because the Utility did not retain documentation.

Recommendation 4:

We recommend that the Utility retain documentation to support that it followed its policies and procedures designed to ensure compliance with ATR V.G.2.d.

SCE Response to Finding 4 and Recommendation 4:

SCE disagrees with Finding 4. The finding incorrectly implies noncompliance with the Rules. The auditors did not conclude that an SCE employee hired by an affiliate removed or provided SCE information to the affiliate in violation of Rule V.G.2.d. The finding merely points to a failure of SCE to document, in the auditors' words, "a significant internal control," namely exit interview documentation. Exit interview documentation is not required by Rule V.G.2.d.

The Rules do not require that a utility specifically create documentation of all its processes that support compliance with the Rules.¹ However, the Rules do require that if such documents are created, that they be retained for future review in an audit. SCE's affiliate transfer process requires SCE employees transferring to covered affiliates to undergo affiliate rules training. SCE has every confidence that the training did take place, but unfortunately, none of the employees involved with the transfer are either with the company at this time or in an affiliate transfer role.

Notwithstanding the above, SCE has supplemented its affiliate transfer procedures so that the signed affiliate transfer form is stored and retained by HR for future audits.

¹ Rule IV.F. states: "A utility shall maintain contemporaneous records documenting all tariffed and nontariffed transactions with its affiliates, including but not limited to, all waivers or tariffed or contract provisions, all discounts, and all negotiations of any sort between the utility and its affiliate whether or not they are consummated." This Rule does not require utilities to document every process or procedure used to ensure compliance with the Rules.

IV. SCE's Response to Auditors' Assessment of the Prior Audit Findings and Observations

As part of their audit, the auditors assessed SCE's corrective actions in response to the recommendations from the 2016-2017 ATR performed by the State Controller's Office. In the Executive Summary of the Draft Report, the auditors state that SCE "resolved eight of the nine (89%) findings reported in the prior ATR audit." As noted above, SCE disagrees with this assessment since we applied corrective actions to all findings in response to the prior audit.

The one finding noted as unresolved is a repeat instance in the current audit where the auditors found SCE had adequate internal controls in place with regards to Rule IV.B., Non-Customer Specific Non-Public Information. Given that the auditors found SCE has adequate internal controls for this finding, it is not correct to imply that SCE did not apply corrective actions to the prior audit findings and observations simply because there was a repeat of the instance.

As stated in Section II, the fourth bullet in the Executive Summary should be either deleted or revised to correctly characterize the auditors' findings.

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