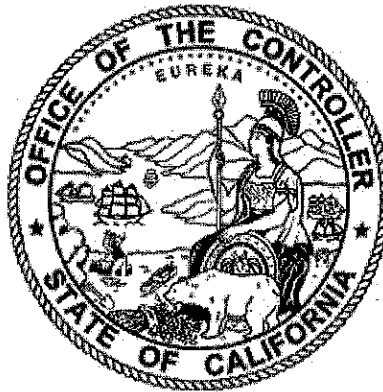


# **SOUTHERN CALIFORNIA EDISON**

Audit Report

## **AFFILIATE TRANSACTION RULES**

*For Calendar Years 2012 and 2013*



**BETTY T. YEE**  
California State Controller

March 2018



**BETTY T. YEE**  
California State Controller

March 5, 2018

Timothy J. Sullivan, Executive Director  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102

Dear Mr. Sullivan:

The State Controller's Office, pursuant to an Interagency Agreement with the California Public Utilities Commission (CPUC), conducted an audit of Southern California Edison (SCE)—an Investor Owned Utility (IOU)—for calendar year (CY) 2012 and CY 2013. The purpose of the audit was to determine whether SCE's interactions and business activities with its related entities (affiliates) are in accordance with the Affiliate Transaction Rules (ATRs) established by the five-member Commission, the members of which sit on the CPUC.

The ATRs define standards of conduct governing relationships between IOUs and their affiliated, unregulated entities. These rules are established to ensure that IOUs avoid cross-subsidization of activities and foster market competition. These standards of conduct ensure that utilities:

- Meet their obligation to provide energy at the lowest reasonable cost; and
- Do not favor or otherwise engage in preferential treatment of their affiliates.

Our audit determined that SCE substantially complied with the ATRs; however, we noted several instances of non-compliance that did not significantly impact SCE's ability to conform to the ATRs. Regardless, SCE is required to report all instances of non-compliance, with remedies, to the CPUC for approval.

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, by telephone at (916) 324-6310.

Sincerely,

A handwritten signature in blue ink, which appears to read "Jeffrey V. Brownfield CPA". Below the signature, the initials "FJR" are written in blue ink.

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/ljs

cc: Michael Picker, President \*

California Public Utilities Commission

Carla J. Peterman, Commissioner

California Public Utilities Commission

Martha Guzman Aceves, Commissioner

California Public Utilities Commission

Liane M. Randolph, Commissioner

California Public Utilities Commission

Clifford Rechtschaffen, Commissioner

California Public Utilities Commission

# Contents

## Audit Report

<b>Summary</b> .....	1
<b>Background</b> .....	1
<b>Objective, Scope, and Methodology</b> .....	3
<b>Conclusion</b> .....	4
<b>Follow-up on Prior Audit Findings</b> .....	4
<b>Views of Responsible Officials</b> .....	5
<b>Restricted Use</b> .....	5
<b>Summary of Audit Results</b> .....	6
<b>Heat Map—Graphical Representation of Instances of Non-Compliance</b> .....	8
<b>Findings and Recommendations</b> .....	9
<b>Observation and Recommendation</b> .....	44
<b>Attachment 1—SCO’s Analysis of SCE’s Compliance with the Affiliate Transaction Rules I through IX</b> .....	46
<b>Attachment 2—SCE’s Response to Draft Audit Report</b> .....	64

# Audit Report

## Summary

The State Controller's Office (SCO), pursuant to an Interagency Agreement 14IA5019 with the California Public Utilities Commission (CPUC), conducted an audit of Southern California Edison (SCE)—an Investor Owned Utility (IOU)—for calendar year (CY) 2012 and CY 2013. The purpose of the audit was to determine whether SCE's interactions and business activities with its related entities (affiliates) are in accordance with the Affiliate Transaction Rules (ATRs) established by the five-member Commission (Commission), the members of which sit on the CPUC.

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- Meet their obligation to provide energy at the lowest reasonable cost; and
- Do not favor or otherwise engage in preferential treatment of their affiliates.

Our audit determined that SCE substantially complied with the ATRs; however, we noted several instances of non-compliance that did not significantly impact SCE's ability to conform to the ATRs. Regardless, SCE is required to report all instances of non-compliance, with remedies, to the CPUC for approval.

## Background

As a result of the deregulation of utility service providers in the late 1980s and early 1990s, the Commission gave IOUs the authority to reorganize under a holding company structure (parent company and subsidiaries) rather than remain an integrated series of producers and suppliers of energy-related products and services.

The IOUs argued that deregulation would allow them the flexibility to invest their profits more efficiently; however, the Commission expressed concerns about the potential for the preferential treatment and cross-subsidization of nonregulated affiliates. To mitigate these concerns, the Commission imposed the ATRs. Since inception of the ATRs in 1993, the Commission has periodically revised the ATRs in response to new or revised legislation.

For example, in 2005, the Commission 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. Revisions were made to improve internal consistency or to delete outdated provisions concerning initial compliance with the original ATRs.

The ATRs, as most recently set forth in D.06-12-029, Attachment 1, Appendix A-3, are applicable for the audit period. Each IOU must annually submit a compliance plan that describes the mechanisms and procedures in place enabling the IOU to comply with the ATRs. Also, each IOU is required to designate an Affiliate Compliance Manager to ensure that these mechanisms and procedures conform to the ATRs. In addition, as required, the IOU submits an annual affiliate transaction report to disclose affiliate activities.

### **Southern California Edison**

SCE is a CPUC-regulated public utility. SCE supplies electricity to an area of approximately 50,000 square miles in Central, Coastal, and Southern California. As of 2015, SCE delivered more than 87 billion kilowatt hours of electricity to 15 million people, including 5,000 large businesses and 280,000 small businesses. Between 75 and 79% of the power delivered to SCE customers during the audit period was purchased, and SCE generated the remaining 21 to 25%.

SCE monitors and maintains a vast electricity system that includes thousands of miles of transmission and distribution lines, over one million electric poles, several hundred thousand distribution transformers, and thousands of substation transformers.

Edison International (EIX) is the parent company of SCE. At the end of 2013, EIX had over 600 subsidiaries, SCE's affiliates, with various business activities. About 240 of SCE's affiliates were designated as "covered" affiliates, meaning that these affiliates and transactions were subject to the ATRs.

Prior to December 17, 2012, EIX had a competitive power-generation segment, the majority of which consisted of its indirectly wholly-owned subsidiary, Edison Mission Energy (EME). EME was a holding company with subsidiaries and affiliates engaged in developing, acquiring, owning or leasing, operating, and selling energy and capacity from independent power-production facilities. EME filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in December 2012. A year later, EME submitted its Plan of Reorganization, which included the sale of nearly all of its assets to NRG Energy, Inc., and the transfer of ownership of EME to unsecured creditors.

During the audit period, SCE provided services to, and received services from, covered affiliates. Several of SCE's covered affiliates own and operate power-generation facilities or projects in California and, thus, provided energy and capacity to SCE through Power Purchase Agreements (PPAs). SCE provided various services to covered affiliates including shared support, electric service under SCE's tariff schedule, nontariffed products and services (NTP&S), transmission service under Federal Energy Regulatory Commission (FERC) Large Generator Interconnection Agreements (LGIA), and a facilities studies agreement. In addition, EIX exchanged shared support services with SCE.

In August 2013, EIX acquired SoCore Energy, a distributed solar company that installs solar photovoltaic panels on commercial customer rooftops. SoCore Energy was the first non-utility covered affiliate to offer retail services to SCE's customers in over 10 years.

During the audit period, SCE employed between 13,500 and 16,500 employees. SCE 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.

### **Prior Review**

Pursuant to ATR VI.C, the Commission requires affiliate transaction audits to be performed biennially by independent auditors. The firm Baker Tilly conducted an audit of SCE's CY 2010 and CY 2011 affiliate activities. The report, issued in August 2014, contained 25 observations that included 12 instances of non-compliance.

## **Objective, Scope, and Methodology**

The objective of our audit was to determine whether SCE complied with ATRs I through IX for CY 2012 and CY 2013. Specifically, we conducted this audit to determine whether:

- SCE's Annual Affiliate Transaction Compliance Plans (Compliance Plans) were in accordance with the ATRs;
- SCE has adequate systems in place to enforce the ATRs;
- SCE applied the ATR I.A definition of the term "affiliate" correctly (5% or more of outstanding securities owned by the IOU or by any of its subsidiaries);
- SCE properly classified affiliates as "covered" or "non-covered" according to ATR II.B; and
- SCE complied with ATR VII regarding utility products and services—NTP&S.

To achieve our audit objective, we:

- Reviewed the prior ATR report for CY 2010 and CY 2011, issued by Baker Tilly on August 19, 2014, to gain an understanding of prior audit issues and corrective action plans;
- Reviewed Compliance Plans and related policies and procedures;
- Reviewed annual reports on affiliate transactions to identify the extent of affiliate activities;
- Inquired with key SCE staff to gain an understanding of the organization, affiliates, and functional areas subject to the ATRs;
- Conducted walk-throughs with employees responsible for affiliate-related functional areas in order to gain an understanding of the internal controls, policies, procedures, processes, and administrative and accounting functions in place; and

- Based on our walkthroughs, conducted tests of relevant internal controls and tests of transactions for each applicable rule (see Attachment 1 for procedures performed).

For each affiliate transaction activity examined, the total population – such as shared corporate support service with affiliates – was not defined. For this reason, instances of noncompliance could not be projected to the population.

Public Utilities Code section 583 requires each IOU to ensure the confidentiality of non-public information, such as a ratepayers' protected personal information, and that such information is available and disseminated only through an IOU's Affiliate Compliance Manager. All information requested by the SCO was approved by SCE's Affiliate Compliance Office (ACO).

We conducted this performance audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

We did not audit SCE's financial statements. We limited our scope to planning and performing audit procedures necessary to gain an understanding of the policies, procedures, processes, and administrative and accounting functions in effect for the audit period, and determine whether they were operating as designed to ensure that transactions between the utility and its affiliates conformed to the ATRs.

## **Conclusion**

Except for the instances of non-compliance noted in the Findings and Recommendations section of this report, SCE complied with ATRs I through IX for CY 2012 and CY 2013. The instances of non-compliance noted in the accompanying findings did not significantly impact SCE's ability to substantially comply with the ATRs.

As requested by the Commission, a description of the test procedures performed by the SCO, and the results, accompany this report (Attachment 1 – SCO's Analysis of SCE's Compliance with the Affiliate Transaction Rules I through IX).

## **Follow-up on Prior Audit Findings**

The prior audit report for CY 2010 and CY 2011 issued by Baker Tilly, was dated August 19, 2014, which was subsequent to our audit period. Therefore, we neither evaluated nor reported on the status of prior audit findings.

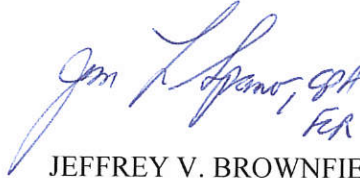


**Views of  
Responsible  
Officials**

We issued a draft audit report on November 17, 2017. J.P. Shotwell, Director of Corporation Compliance and Information Governance at SCE, responded by letter dated December 13, 2017 (Attachment 2). SCE agreed with Findings 3 through 5 and 7 through 15; partially agreed with Findings 2 and 16; and disagreed with Findings 1 and 6, and the Observation.

**Restricted Use**

This report is solely for the information and use of SCE, 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 final report, which is a matter of public record.



JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

March 5, 2018

## Summary of Audit Results

Affiliate Transaction Rule	Section	Rule Description	Compliance (Yes / No / No Activity)	Finding	Reference
I		<b>Definitions</b>			
	A	"Affiliate"	No	Insufficient documentation to substantiate entities' ownership interest.	Finding 1
	B-H	Various Definitions	No Activity <sup>1</sup>		
II		<b>Applicability</b>			
	A	Applicability	No Activity <sup>1</sup>		
	B	Transactions/Coverage	No	Improper reclassification of covered affiliates	Finding 2
	C	Violate/Circumvent Rules	Yes		
	D-H	Applicability Coverage	No Activity <sup>1</sup>		
III		<b>Nondiscrimination</b>			
	A	Preferential Treatment	No	Lack of sufficient records to substantiate absence of affiliate preferential treatment	Finding 3
	B	Affiliate Transactions	No	Affiliate Transactions not disclosed in Section D of the Annual Report	Finding 4
	B.1	Resource Procurement	Yes		
	B.2	Provision of Supply, Capacity, Services, or Info	Yes		
	B.3	Offering Discounts	Yes		
	B.4	Tariff Discretion	Yes		
	B.5	No Tariff Discretion	Yes		
	B.6	Processing Requests for Services Provided by the Utility	Yes		
	C	No Tying of Services	Yes		
	D	No Assignment of Customers	Yes		
E	No Business Development	Yes			
F	Affiliate Discount Reports	Yes			
IV		<b>Disclosure and Information</b>			
	A	Customer Information	No	Improper release of customer information to a covered affiliate before posting a required electronic notice	Finding 5
	B	Non-Customer Specific Non-Public Information	No	Covered affiliate employees likely present during discussions of sensitive and non-public information at SCE/BLX board meetings	Finding 6
				Non-public information shared with affiliates	Finding 7
	C	Service Provider Information			
	D	Supplier Information	No	Lack of written affirmative authorization from suppliers	Finding 8
	E	Affiliate Advice/Assistance	Yes		
	F	Record-Keeping	No	Unavailable external records to support separate corporate entities	Findings 3, 9
V		<b>Separation</b>			
	A	Corporate Entities	Yes		
	B	Separate Books and Records	Yes		
	C	Shared Plant and Facilities	Yes		
	D	Joint Purchases	Yes		
	E	Corporate Support	Yes		
	F.1	Corporate ID and Advertising	No	Improper corporate advertising	Finding 10
	F.2	Different Treatment	Yes		
	F.3	No Utility Billing Envelope Advertising Space to Affiliates	Yes		
F.4	No Joint Advertising or Marketing	Yes			

## Summary of Audit Results (continued)

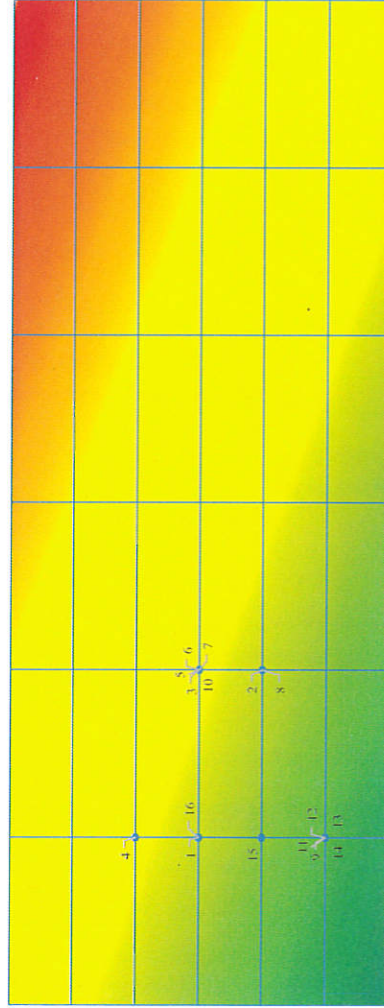
Affiliate Transaction Rule	Section	Rule Description	Compliance (Yes / No / No Activity)	Finding	Reference
V	G.1	No Joint Employees	No	Untimely notification of shared officers to CPUC	Finding 11
	G.2.a	Tracking Employee Movement	No	Undisclosed employee transfer	Finding 12
	G.2.b	Transfer Residency Requirements	Yes		
	G.2.c	Transfer Payments	Yes		
	G.2.d	No Transfer Release of Information	Yes		
	G.2.e	Loaned Labor Guidelines	Yes		
	H	Transfer of Goods and Services	Yes		
<b>Regulatory Oversight</b>					
VI	A	Compliance Plans	No	Entities improperly reported as affiliates in CY 2012 and CY 2013 Compliance Plans	Findings 1, 13
	B	New Affiliate Notifications	No	Untimely three-day new affiliate notification Two non-covered affiliates not reported to the CPUC	Finding 14 Finding 15
	C	Affiliate Audit	Yes		
	D	Witness Availability	Yes		
	E	Officer Certifications	Yes	Annual Officer Certification inconsistent with the required language	Observation
<b>Utility Products and Services (NTP&amp;S)</b>					
VII	A	General Rule	No Activity <sup>1</sup>		
	B	NTP&S Definitions	No Activity <sup>1</sup>		
	C	Utility Products and Services	Yes		
	D.1	Precedent Conditions	Yes		
	D.2	Precedent Conditions	Yes		
	D.3	Precedent Conditions	Yes		
	D.4	Precedent Conditions	Yes		
	E	Advice Letter Requirements	Yes		
	F	Existing Offerings	Yes		
	G	Section 851 Application	Yes		
H	Periodic Reporting NTP&S	Yes			
I	NTP&S to Affiliates	Yes			
<b>Complaint Procedures and Remedies</b>					
VIII	A	CPUC strictly enforces ATRs	Yes		
	B	Standing	Yes		
	C	Complaint Filing Procedure	Yes		
	D	Remedies: Commission Enforcement	No	Non-conformance and remedies	Finding 16
<b>Protecting the Utility's Financial Health</b>					
IX	A	Utility Capital Information	Yes		
	B	Capital Deviations/Reporting	Yes		
	C	Ring-Fencing	Yes		
	D	Changes to Ring-Fencing	Yes		

<sup>1</sup>Rule is definitional in nature; no specific action was required of SCE.

# Heat Map— Graphical Representation of Instances of Non-Compliance



SCE Rule Non-Compliance Potential Impact



- Disregard for Compliance with Rule
- Incorrect Interpretation of the Rules
- Inadequate and/or Incorrect Controls
- Error Due to Unfollowed Procedures/System Error
- Oversight

Severity of Potential Harm

Finding Reference	Severity of Potential Harm	Non-Compliance Magnitude	Affiliate Transaction Rule	Finding Description
1	1	3	I.A./VI.A	Insufficient documentation to substantiate entities' ownership interest
2	2	2	II.B	Improper reclassification of covered affiliates
3	2	3	III.A	Lack of sufficient records to substantiate absence of affiliate preferential treatment
4	1	4	III.B	Affiliate Transactions not disclosed in Section D of the Annual Report
5	2	3	IV.A	Improper release of customer information to a covered affiliate before posting a required electronic notice
6	2	3	IV.B	Covered affiliate employees likely present during discussions of sensitive and non-public information at SCE/EIX board meetings
7	2	3	IV.B	Non-public information shared with affiliates
8	2	2	IV.D	Lack of written affirmative authorization from suppliers
9	1	1	IV.F	Unavailable external records to support separate corporate entities
10	2	3	V.F.1	Improper corporate advertising
11	1	1	V.G.1	Untimely notification of shared officers to CPUC
12	1	1	V.G.2.a	Undisclosed employee transfer
13	1	1	VI.A	Entities improperly reported as affiliates in CY 2012 and CY 2013 Compliance Plans
14	1	1	VI.B	Untimely three-day new affiliate notification
15	1	2	VI.B	Two non-covered affiliates not reported to the CPUC
16	1	3	VIII.D/VI.A	Non-conformance and remedies

# Findings and Recommendations

**FINDING 1—  
Insufficient  
documentation to  
substantiate  
entities' ownership  
interest**

During the audit period, SCE did not document its determination of how an entity met the criteria of an “affiliate,” as defined in ATR I. In CY 2012 and CY 2013, SCE had an informal process for obtaining information about new affiliates. When the ACO received notification that a new affiliate was created or acquired by EIX, SCE’s process was to gather information about the intended business activity and the ownership share of the new affiliate. However, SCE did not document its determination of each affiliate’s ownership share. Consequently, we could not evaluate SCE’s determination of how an affiliate met one of the three criteria of ATR I.A, or whether an entity not classified as an affiliate met one of the following criteria:

- EIX must own, control, or hold with power to vote, 5% or more of the entity’s outstanding securities.
- EIX exerts substantial control over the operations of the entity.
- EIX has substantial financial interest in the entity through means other than ownership.

As a result of recommendations from its CY 2010 and CY 2011 ATR Audit, SCE developed and implemented a new procedure in CY 2015, called the New Affiliate Notification, to document its affiliate classification process in classifying affiliates. Part of the procedure includes completing a New Affiliate Classification Form upon the creation or acquisition of a new affiliate. The form specifies how an entity meets the criteria of ATR I.A, “affiliate” by identifying percent ownership, controlling interests, or financial interests. In addition, the form indicates if the new affiliate is classified as a covered Class A affiliate, or an uncovered Class B affiliate, based on the intended business activity. SCE’s Corporate Governance department, EIX’s Strategic Planning department, or an SCE affiliate completes the form and submits it to the ACO for further review. According to SCE, use of this form will document the classification of affiliates in which EIX may have less than a 5% ownership share but still meet one of the criteria for classification as an affiliate under ATR I.A.

Although the New Affiliate Classification Form was developed in 2013, SCE did not formally implement the process until after issuance of the prior final audit report. Therefore, we found that SCE lacked sufficient documentation to substantiate entities’ ownership interest during the audit period.

Furthermore, as SCE was in the process of developing and implementing the above-mentioned mechanisms and procedures for affiliate classification, these processes were not specified in the annual Compliance Plans.

SCE's CY 2012 and CY 2013 Compliance Plans, ATRs I.A through I.H state:

SCE applies these definitions in the administration of its procedures, mechanisms and policies for ensuring compliance with these rules.

The introductory sentence to D.06-12-029, Attachment 1, Appendix A-3, ATR I.A states:

"Affiliate" means any person, corporation, utility, partnership, or other entity 5 per cent or more of whose outstanding securities are owned, controlled, or held with power to vote, directly or indirectly either by a utility or any of its subsidiaries, or by that utility's controlling corporation and/or any of its subsidiaries as well as any company in which the utility, its controlling corporation, or any of the utility's affiliates exert substantial control over the operation of the company and/or indirectly have substantial financial interests in the company exercised through means other than ownership. For purposes of these Rules, "substantial control" includes, but is not limited to, the possession, directly or indirectly and whether acting alone or in conjunction with others, of the authority to direct or cause the direction of the management or policies of a company. A direct or indirect voting interest of 5% or more by the utility in an entity's company creates a rebuttable presumption of control.

ATR II.B states:

For purposes of a combined gas and electric utility, these Rules apply to all utility transactions with affiliates engaging in the provision of a product that uses gas or electricity or the provision of services that relate to the use of gas or electricity, unless specifically exempted below. For purposes of an electric utility, these Rules apply to all utility transactions with affiliates engaging in the provision of a product that uses electricity or the provision of services that relate to the use of electricity. For purposes of a gas utility, these Rules apply to all utility transactions with affiliates engaging in the provision of a product that uses gas or the provision of services that relate to the use of gas. However, regardless of the foregoing, where explicitly provided, these Rules also apply to a utility's parent holding company and to all of its affiliates, whether or not they engage in the provision of a product that uses gas or electricity or the provision of services that relate to the use of gas or electricity.

ATR VI.A states:

No later than June 30, 2007, each utility shall file a compliance plan by advice letter with the Energy Division of the Commission. The compliance plan shall include...

2. A demonstration of the procedures in place to assure compliance with these Rules.

#### Recommendation

We recommend that SCE comply with ATRs I.A and VI.A by specifying the above-mentioned mechanisms and procedures in its future Compliance Plans, and conforming to these mechanisms and procedures in the future to determine and document affiliate classification.

### SCE Response

SCE disagrees with Finding 1. The finding incorrectly implies a noncompliance with the Rules. The auditors did not conclude that SCE incorrectly identified any entities either as an affiliate or a non-affiliate. The finding merely points to a failure of SCE to document its determination of whether an entity meets the definition of an Affiliate as set forth in Rule I.A.

The Rules do not require that a utility specifically create documentation of all of its processes that support compliance with the Rules<sup>1</sup>. However, the Rules do require that if such documents are created, that they be retained for future review in an audit. In most cases, the determination of whether an entity is an affiliate is very straight forward, since Edison International (EIX) generally has an ownership interest that is greater than the 5% threshold outlined in the Rule. Thus, these entities are clearly an affiliate under Rule I.A and documenting that determination is not necessary. It is only for these few entities (5 total to date), when the ownership stake is less than 5%, where it is relevant for SCE to look at the other criteria set forth in Rule I.A in determining if an entity is an affiliate. It is in these limited instances where it is important to document the determination.

In responding to its 2010-2011 Affiliate Transactions Audit, SCE implemented in 2015 a "New Affiliate Classification Form" that documents its determination of an affiliate. In addition, starting in May 2013, SCE began providing (as part of its New Affiliate Advice Letters required by Rule VI.B) the Energy Division additional information supporting SCE's determination of each new affiliate and classification as covered or not covered by the Rules. Thus, SCE has already implemented changes that fully document its determination of an affiliate and its classification as "covered" or "not covered."<sup>2</sup>

<sup>1</sup> Rule IV.F states: "A utility shall maintain contemporaneous records documenting all tariffed and nontariffed transactions with its affiliates, including by not limited to, all waivers of tariff 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.

<sup>2</sup> SCE refers to affiliates covered by the Rules as "Class A Affiliates" and those not covered by the Rules as "Class B Affiliates."

### SCO Comment

Our finding remains unchanged.

Without documentation to support the utility's determination of whether an entity should be classified as an affiliate, we cannot determine whether the utility properly classified the entity in accordance with ATR I.A. In addition, documentation to support the utility's determination of the entities must have existed at some point. If not, the utility would not have had a basis for their classification.

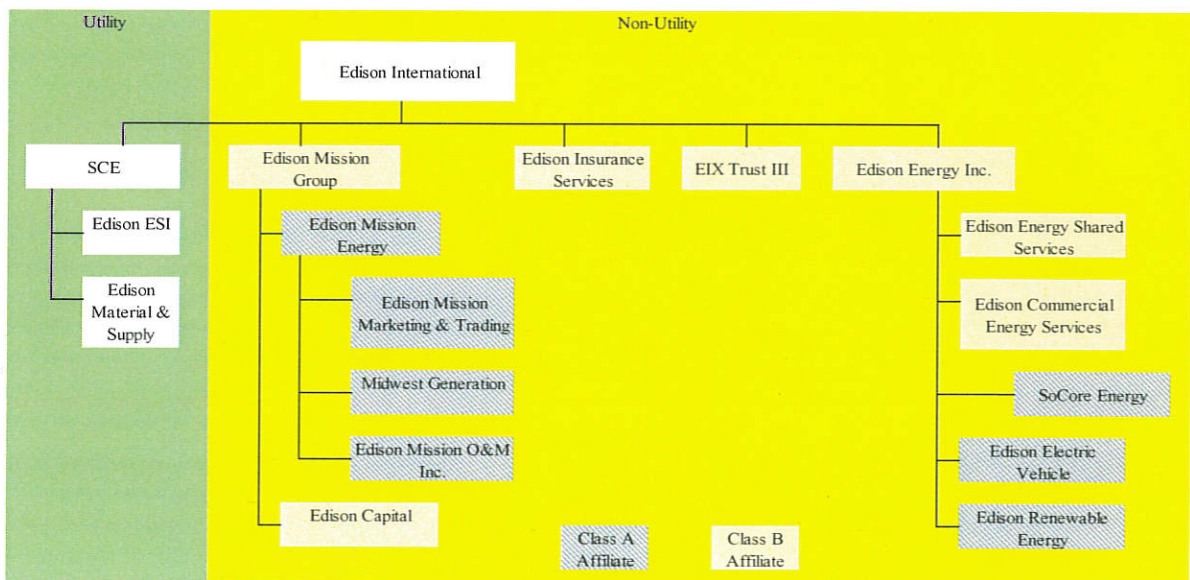
In response to SCE's claims associated with corrective actions taken in 2015, these corrective actions were outside of the engagement period. Therefore, we did not verify whether these processes were implemented in the stated period of time.



**FINDING 2—  
Improper  
reclassification of  
covered affiliates**

SCE incorrectly reclassified two of its nine affiliate holding companies in CY 2012 and CY 2013. The two affiliates, Edison Mission Group (EMG) and Edison Energy, Inc. (EEI), were reclassified from covered affiliates to non-covered affiliates during the audit period. SCE attests that these holding companies do not provide day-to-day management of the affiliates under its holding company structure; and that therefore, they are not subject to the ATRs. However, these reclassified holding companies appear to manage their subsidiaries, which offer products or services related to electricity.

According to SCE, the reclassified holding companies did not sell or offer products or services under their own names during CY 2012 and CY 2013; however, they remained the holding companies for subsidiaries classified as covered affiliates that engaged in the provision of products that use electricity or the provision of services that relate to the use of electricity. The following illustration depicts a high-level overview (provided by SCE) of EIX's organizational structure as of December 2013:



According to SCE, the restructured holding companies were as follows:

EMG – SCE classified EMG as a covered affiliate because EMG's officers were also officers at EME and they were involved in the day-to-day operations of EME. On July 1, 2012, all of the EME officers were removed from EMG. The reorganization of officers removed EMG from the day-to-day operations of EME. On December 17, 2012, EME filed for bankruptcy. On December 11, 2012, SCE reclassified EMG from a Class A affiliate to a Class B affiliate because EMG did not sell products or services under its own name and EMG was no longer involved in the day-to-day operations of EME. Once EME entered bankruptcy, EIX and EMG no longer had control of EME and its subsidiaries. Even though EIX and EMG still had ownership of EME and its subsidiaries, the bankruptcy court and the creditors' committee had control of EME and its subsidiaries.

EEI – SCE classified Edison Energy, Inc. as a Class A affiliate because at the time of its creation, SCE identified its business activity as a "holding company for unregulated renewable energy business." At the



time it was unclear whether or not it would be offering products or services directly under its own name. On March 5, 2013, after consultation with EIX management, the SCE Corporate Secretary, the SCE Affiliate Counsel, and outside counsel it was confirmed that Edison Energy, Inc.'s business activity would remain unchanged and that it would not offer products or services directly under its own name. And thus it was reclassified as a Class B affiliate.

SCE's 2013 Annual Report on subsidiary, affiliate, and holding company transactions revealed that SCE provided shared support services to EEI and EMG; however, the report did not reveal any other types of affiliate transactions. SCE asserted that there were no changes in SCE's transactions with EEI and EMG from CY 2012 to CY 2013, and that the affiliate's access to SCE's systems did not change as a result of the reclassifications. However, due to the classification change, officers and directors shared by EIX and SCE were able to extend their positions to EMG and EEI as follows:

- Theodore F. Craver, Jr. – The Chairman for EIX Board and SCE Board of Directors also became Chairman of the Board at EEI.
- Mark C. Clarke – The Vice President and Controller at EIX and SCE became the President, CFO, Treasurer, and Assistant Secretary of EMG in 2013.

In addition to sharing officers, EEI maintained shared directors and an officer with its covered affiliate subsidiaries after the reclassification. Therefore, EEI was involved in the management of its covered affiliate subsidiaries to the extent presented below.

#### Directors:

- Robert L. Adler – Director, EEI; Edison Electric Vehicles, Inc.; and Edison Renewable Energy, Inc.
- W. James Scilacci – Director, EEI; Edison Electric Vehicles, Inc.; and Edison Renewable Energy, Inc.
- Bertrand A. Valdman – Director, EEI; SoCore Energy; Edison Electric Vehicles, Inc.; and Edison Renewable Energy Inc.

#### Officers:

- Bertrand A. Valdman – President and Treasurer for EEI and Edison Electric Vehicles, Inc.; Chairman of the Board for SoCore Energy, LLC; President at Edison Renewable Energy, Inc.; and President, Treasurer, and Secretary of Edison Energy Newco 1, LLC.

SCE's CY 2012 Compliance Plan specifies that affiliates involved in the management of their covered affiliate subsidiaries are to be classified as covered even if these affiliates do not, in their own names, engage in the provision of products that use electricity or services that are related to the use of electricity. Therefore, EEI should have remained a covered affiliate.

The FERC defines “holding company” to mean:

Any company that directly or indirectly owns, controls, or holds, with power to vote, 10% or more of the outstanding voting securities of public utility company or of a holding company of any public utility company....

As depicted in the illustration on page 12, the reclassified holding companies EMG and EEI appear to directly control covered affiliates as follows:

- EMG as a holding company for EME; and
- EEI as a holding company for SoCore Energy, Edison Electric Vehicles, Inc., and Edison Renewable Energy, Inc.

Subsequent to the reclassification, EMG maintained its own officers and directors and was not involved with day-to-day operations of EME. However, the perceived organizational structure provides EMG with opportunities that could potentially result in preferential treatment, unfair competitive advantages, and sharing of non-public utility information with covered affiliates.

SCE’s CY 2012 Compliance Plan states, in part:

These rules apply to transactions between SCE and its covered affiliates governed by Rule II.B. SCE classifies all affiliates that are covered by these rules as “Class A Affiliates.” Those affiliates not covered by these rules are classified as “Class B Affiliates.” Both Class A and Class B Affiliates are subject to SCE’s Holding Company Conditions adopted in D.88-01-063. As discussed further below, Edison International (EIX), SCE’s parent company, is subject only to those rules that specifically apply to the parent holding company. Thus, SCE does not classify EIX as either a Class A or Class B Affiliate. Therefore, any reference to an “affiliate” in this 2013 Compliance Plan is intended to mean a “Class A affiliate,” unless otherwise stated. SCE maintains a current list of all Class A and Class B Affiliates on both its Affiliate Compliance intranet webpage and on its external website ([https://www.sce.com/nrc/aboutsce/regulatory/affiliatenotices/SCE\\_Affiliates.pdf](https://www.sce.com/nrc/aboutsce/regulatory/affiliatenotices/SCE_Affiliates.pdf)). SCE reserves the right to reclassify an affiliate as the activities of the affiliate require.

Class A Affiliates: A Class A affiliate is one that meets the definition of Rule II.B – i.e., an entity engaged in the provision of a product that uses electricity or the provision of services that relate to the use of electricity, unless specifically exempted. In addition, SCE classifies as “Class A” certain affiliates that are directly involved in the management of their Class A affiliate subsidiaries or are intermediary holding companies, even though that affiliate does not, in its own name, engage in the provision of a product that uses electricity or the provision of services that are related to the use of electricity.

Class B Affiliates: All other affiliates are Class B affiliates. While Class B affiliates are not subject to the Affiliate Rules, they are subject to SCE’s Holding Company Conditions adopted in D.88-01-063.

SCE's CY 2013 Compliance Plan states, in part:

Class A Affiliates: A Class A Affiliate is one that meets the definition of Rule II.B – i.e., an entity engaged in the provision of a product that uses electricity or the provision of services that relate to the use of electricity, unless specifically exempted. In addition, SCE classifies as “Class A” certain affiliates that are directly involved in the day-to-day management of their Class A Affiliate subsidiaries or are intermediary holding companies, even though that affiliate does not, in its own name, engage in the provision of a product that uses electricity or the provision of services that are related to the use of electricity.

Class B Affiliates: All other affiliates are Class B Affiliates. While Class B Affiliates are not subject to the Affiliate Rules, they are subject to SCE's Holding Company Conditions adopted in D.88-01-063.

ATR II.B states:

For purposes of a combined gas and electric utility, these Rules apply to all utility transactions with affiliates engaging in the provision of a product that uses gas or electricity or the provision of services that relate to the use of gas or electricity, unless specifically exempted below. For purposes of an electric utility, these Rules apply to all utility transactions with affiliates engaging in the provision of a product that uses electricity or the provision of services that relate to the use of electricity. For purposes of a gas utility, these Rules apply to all utility transactions with affiliates engaging in the provision of a product that uses gas or the provision of services that relate to the use of gas. However, regardless of the foregoing, where explicitly provided, these Rules also apply to a utility's parent holding company and to all of its affiliates, whether or not they engage in the provision of a product that uses gas or electricity or the provision of services that relate to the use of gas or electricity.

ATR II.C states:

No holding company nor any utility affiliate, whether or not engaged in the provision of a product that uses gas or electricity or the provision of services that relate to the use of gas or electricity, shall knowingly:

1. direct or cause a utility to violate or circumvent these Rules, including but not limited to the prohibitions against the utility providing preferential treatment, unfair competitive advantages or non-public information to its affiliates;
2. aid or abet a utility's violation of these Rules; or
3. be used as a conduit to provide non-public information to a utility's affiliate.

ATR V.G 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)....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 Commission'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.

ATR VIII.D.2.b.ii.(3) states:

When a public utility is aware that a violation has occurred, the Commission expects the public utility to promptly bring it to the attention of the Commission. The precise timetable that constitutes "prompt" will vary based on the nature of the violation. Violations which physically endanger the public must be immediately corrected and thereafter reported to the Commission staff. Reporting violations should be remedied at the earliest administratively feasible time.

Prompt reporting of violations furthers the public interest by allowing for expeditious correction. For this reason, steps taken by a public utility to promptly and cooperatively report and correct violations may be considered in assessing any penalty.

#### Recommendation

We recommend that SCE comply with ATR II.B by consistently classifying affiliates according to the rules and SCE's Compliance Plans.

We also recommend that SCE request that CPUC evaluate SCE's definition of a covered affiliate to determine if the added day-to-day provision is appropriate and consistent with the spirit of the ATRs.

#### SCE Response

SCE partially agrees with Finding 2 and Recommendation 2. In response to its 2006 ATA, SCE voluntarily agreed to classify a holding company that does not offer any products or services as a covered affiliate if the management of the holding company was involved in the day-to-day management of a covered affiliate. This situation arises when the officers or employees of the holding company are also officers of the covered affiliate. This practice goes beyond what is required by Rule II.B. SCE has consistently reflected this practice in its Annual Compliance Plans since 2007, all of which has been approved by the Commission<sup>3</sup>.

SCE agrees that the reclassification of Edison Energy was not consistent with the Company's stated practice in its Commission-approved Compliance Plans. This is because an officer at Edison Energy, the holding company, was simultaneously serving as an officer at covered subsidiaries. However, SCE disagrees with the SCO's position that Edison Mission Group (EMG) was incorrectly reclassified. At the time EMG was reclassified, all of the Edison Mission Energy (a covered affiliate) officers that were previously officers of EMG had been removed as officers of EMG. This was in anticipation of the bankruptcy of EME and its subsidiaries that occurred in December 2012. Once EME entered into bankruptcy, EIX and EMG no longer had any control over EME. Instead, the creditor committee and the bankruptcy court had control of EME<sup>4</sup>.

In addition, SCE disagrees with the auditor's position that a holding company, such as EMG, which only shares directors with its covered subsidiaries, necessarily creates a perceived organizational structure which "controls" a covered affiliate and should therefore itself be classified as a covered affiliate. This is not specified by nor envisioned in Rule II.B, and it would constitute a change to the Rule. Rule II.B solely defines an affiliate as covered or not covered based on the products or services it offers. Since most holding companies do not offer products and services to the market, they would be classified as not covered under Rule II.B. Any change to Rule II.B as suggested by the auditor needs to be approved by the Commission through the appropriate procedure, and not through an audit recommendation.

SCE also disagrees with the placement of Finding 2 on the Heat Map. SCE agrees that the Severity of Actual Harm for Finding 2 should be *Unintended Preferential Treatment (2)*, but that the Non-Compliance Magnitude should be an *Error Due to Unfollowed Procedure (2)* instead of *Incorrect Interpretation of the Rules (4)*. As discussed above, SCE did have a practice for classifying holding companies that do not offer products or services themselves as covered affiliates if the management of the holding company was involved in the day-to-day management of the covered affiliate. However, in the case of Edison Energy, SCE did not follow its own practice and incorrectly reclassified it as a non-covered affiliate.

<sup>3</sup> SCE most recent annual compliance plan for 2017 was submitted on June 30, 2017 (Advice 3625-E) and approved by the Energy Division on August 2, 2017.

<sup>4</sup> Even though EIX no longer had "control" of EME and its subsidiaries, SCE continued to classify EME and its subsidiaries as covered or Class A Affiliates during the bankruptcy.

### SCO Comment

Our finding and recommendation remain unchanged.

The reclassification of EEI and EMG was not consistent with SCE's stated practice in its 2012 Commission-approved Compliance Plan for ATR II.B. SCE reclassified EMG as a non-covered affiliate on December 11, 2012. However, EME remained a covered affiliate until after its bankruptcy was settled in 2014. According to SCE, EMG still had ownership of EME and its subsidiaries during the bankruptcy, and shared directors with its covered subsidiaries. SCE's 2012 Compliance Plan specifies that affiliates involved in the management of their covered affiliate subsidiaries are to be classified as covered even if these affiliates do not, in their own names, engage in the provision of products that use electricity or services that are related to the use of electricity. Furthermore, EME filed for bankruptcy six days after the reclassification of EMG.

We reviewed SCE's response regarding the placement of Finding 2 on the Heat Map. The SCO agreed with SCE and revised the Non-Compliance Magnitude to reflect Error Due to Unfollowed Procedure (2) instead of Incorrect Interpretation of the Rules (4).

**FINDING 3—  
Lack of sufficient  
records to  
substantiate  
absence of affiliate  
preferential  
treatment**

SCE did not maintain the following records for CY 2012 and CY 2013:

- Call recordings with customers from the Customer Call Center (CCC) and processes, procedures, and training materials for handling solar-related calls for CCC;
- Contract-related affiliate correspondence related to Combined Heat and Power Request for Offers (RFO) 1 and 2 in the Wholesale Energy System;
- Service Provider Lists maintained on SCE's website;
- Notices of Availability; and
- Promotional material used at trade shows in 2013.

Therefore we could not determine the extent of affiliate transactions made with preferential treatment that remained unknown and undetected by SCE's management.

We attempted to perform audit procedures to test SCE's degree of compliance to ensure that there was no indication of preferential treatment between SCE and covered affiliates. Our audit identified a lack of adequate records for the following affiliate transactions:

**Customer Call Center Records**

In August 2013, EIX acquired SoCore Energy, a distributed solar company that installs solar photovoltaic panels on rooftops. SoCore Energy was the only non-utility covered affiliate to offer retail services to SCE customers. We were not able to determine the existence or absence of preferential treatment between SCE and SoCore Energy in our review of the CCC activities due to lack of customer call center recordings. SCE maintains only 12 months of call recordings; calls more than 12 months old are automatically purged. As SCE did not maintain these records, we could not confirm that there were appropriate mechanisms and procedures in place during the audit period to prevent preferential treatment between SCE and SoCore Energy.

**Resource Procurement**

Covered affiliates submitted bids for SCE's CY 2011 and CY 2013 Combined Heat and Power (CHP) RFO as potential sellers. As a result, SCE entered into PPAs with a covered affiliate during the audit period. The CPUC requires the use of an Independent Evaluator to monitor the RFO process after each solicitation to ensure that the process is undertaken in a fair, consistent, and unbiased manner and that the best resources are selected and acquired consistent with the solicitation process. Both the CY 2011 and CY 2013 CHP RFOs were monitored by an Independent Evaluator. However, we were not able to independently verify the presence or lack of preferential treatment in the communication between SCE and its affiliates during the solicitation process because contract-related affiliate correspondence for CHP RFO 1 and CHP RFO 2 was not available for review.

### **Service Provider Lists**

As part of its energy efficiency and demand response programs, SCE maintained a list of contractors and other vendors that provided services to customers. This list was maintained on SCE's website and updated frequently. SCE maintains only the most current vendor list, and does not archive historical lists; as a result, we were not able to verify that no covered affiliates were included on the Service Provider List during the audit period.

### **Notices of Availability**

SCE has dedicated portions of its website for external-facing webpages on which customers can access information about SCE's products and services. However, these webpages are updated on a regular basis and SCE does not retain historical copies to indicate when information was made available to the public. Furthermore, SCE did not provide the requested transaction details demonstrating what date SCE and affiliates may have engaged in such transactions. As a result, we could not determine the extent to which preferential treatment may have existed between SCE and affiliates.

### **Promotional Materials**

SCE made available its Events Marketing Group's promotional materials used at trade shows for CY 2012 only. The promotional materials did not reveal instances of preferential treatment; however, due to organizational changes in CY 2013, this function group was disbanded and SCE did not retain the promotional materials. As a result, we could not determine if the CY 2013 promotional materials included non-permissible affiliate information.

ATR III.A of SCE's CY 2013 Compliance Plan states, in part:

SCE's dedicated Affiliate Compliance Office and Affiliates Compliance Oversight Team provide advice and counsel regarding SCE's provision of services to its Class A Affiliates. SCE's training materials and Affiliate Compliance Manual reinforces the nondiscrimination and non-preferential restrictions of Rules III.A.1 and III.A.2. In addition, organizational units that provide services to affiliates and other customers have processes and procedures in place to ensure compliance with Rule III.A.

ATRs IV.F and IV.G of SCE's CY 2012 and CY 2013 Compliance Plans state, in part:

SCE's training materials and Affiliate Compliance Manual state that transactions with SCE's affiliates must be documented, including all contracts and bids. Each organization conducting affiliate transactions is responsible for maintaining documentation for the required three-year period. The documentation and disclosure requirements of this rule apply to all transactions between SCE and Class A Affiliates, including those related to services permitted by Rule V.E.

SCE's corporate policy on Records Management reinforces its compliance with Rule IV.F and IV.G. SCE and EIX are required to manage all records consistent with SCE's recordkeeping, legal hold requirements and applicable law. These recordkeeping requirements are designed to ensure that records are appropriately accessible, complete, managed, preserved, retained, and disposed of in accordance with business and applicable legal requirements. SCE's Record Management Policy is available to all SCE employees through its intranet website.

ATR III.A states:

Unless otherwise authorized by the Commission or the FERC, or permitted by these Rules, a utility shall not:

1. represent that, as a result of the affiliation with the utility, its affiliates or customers of its affiliates will receive any different treatment by the utility than the treatment the utility provides to other, unaffiliated companies or their customers; or
2. provide its affiliates, or customers of its affiliates, any preference (including but not limited to terms and conditions, pricing, or timing) over nonaffiliated suppliers or their customers in the provision of services provided by the utility.

ATR 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 of tariff or contract provision, all discounts, and all negotiations of any sort between the utility and its affiliate whether or not they are consummated. A utility shall maintain such records for a minimum of three years and longer if this Commission or another government agency so requires. For consummated transactions, the utility shall make final transaction documents available for third party review upon 72 hours' notice, or at a time mutually agreeable to the utility and third party.

If D.97-06-110 is applicable to the information the utility seeks to protect, the utility should follow the procedure set forth in D.97-06-110, except that the utility should serve the third party making the request in a manner that the third party receives the utility's D.97-06-110 request for confidentiality within 24 hours of service.

Recommendation

We recommend that SCE comply with ATRs III.A and IV.F by ensuring that records are maintained to substantiate that no preferential treatment occurred in utility and affiliate transactions.

SCE Response

SCE agrees with certain aspects of Finding 3 and Recommendation 3, but, generally disagrees with their conclusions. In general, SCE believes that many of the transactions SCO claimed that it could not review are not actually affiliate transactions at all.

The SCO claims that SCE did not maintain all of the records related to certain transactions during the 2012-2013 audit period. SCO further claims that, as a consequence, it was not able to determine whether these transactions might have been subject to preferential treatment being provided by SCE to a covered affiliate.



The SCO cites five information areas that it could not adequately review for affiliate transactions purposes:

- (1) SCE's Customer Call Center (CCC) recordings of customer calls as well as related processes, procedures, and training material. SCO cites that they specifically wanted to review SCE's handling of customer inquiries related to solar energy providers.
- (2) Contract-related emails and correspondence related to Combined Heat and Power (CHP) Request for Offers (RFOs).
- (3) Service Provider Lists of energy efficiency and demand response program contractors vendors maintained on SCE.com.
- (4) Notices of Availability of supply, capacity, or services posted on SCE.com which are made available to other market participants that are offered to covered affiliates under the same terms and conditions.
- (5) Promotional Material that SCE used at trade shows in 2013. SCO reviewed this information for 2012 and determined that there were no instances of preferential treatment. Due to an SCE organizational change, the 2013 material was inadvertently not retained.

SCE agrees that the Service Provider List shown on SCE.com should be retained for each year, not just the most recent list of providers. Toward that end, SCE is developing internal processes for retaining and storing this information that should be in place by the beginning of 2018. This also means that the Service Provider List information will not be complete for the recorded years 2014-2017, and future affiliate audits of that period will need to reflect this.

SCE does not believe that most of the SCE services and offerings information contained in the Notices of Availability list shown on SCE.com relate at all to affiliate transactions. Nevertheless, SCE is also developing an internal process for storing all of this information, not just the most recent information. Again, this process should be in place by the beginning of 2018. It will not be available for the 2014-2017 audit years.

The promotional material that SCO is referring to is related to the promotion of various SCE programs and safety-related messages that are directed at SCE customers. They are not tools to promote or otherwise advertise affiliate services. Thus, SCE believes that, other than certain promotional material that would require the disclaimer language on it, this information should not be construed as related to affiliate transactions. Nevertheless, SCE is developing an internal process to help ensure that all SCE promotional material is maintained for review in future audits.

SCE believes that the emails and communications related to resource procurement that the SCO claimed it could not adequately review are better suited for review in proceedings and by entities that have been specifically established to independently review such information. Reviewing this material as part of an affiliate audit is duplicative and unnecessary. In fact, as a matter of practice, the Commission requires that SCE use an Independent Evaluator (IE) for resource procurement solicitations that involve an affiliate. The purpose of the IE is to make sure that the solicitation process is undertaken in a fair, consistent, unbiased, and objective manner. In other words, to help ensure all participants are treated equally so that the best resource are selected, consistent with the solicitation requirements. The IE specifically monitors emails and communications between SCE and affiliates during the solicitation. The IE provides an independent report to the

Commission after each solicitation. Among other things, the IE reports describe whether and how SCE's outreach activities resulted in a robust response in terms of the number of respondents as well as the quantity and quality of proposals received.

The IE specifically reported that SCE did not provide preferential treatment to any affiliates that participated in SCE's 2011 RFO and 2013 RFO. SCE provided these IE reports to the auditor during the audit. A review of SCE's historical RFOs or other resource procurement activities as part of the ATA is untimely, and results in conclusions that are of very limited usefulness and which might be at odds with the earlier conclusions of the IE or conclusions reached in another regulatory proceeding. Lastly, as a result of this finding, we confirmed that all substantive emails between SCE and affiliates related to resource procurement solicitations are archived and can be produced if requested.

SCE disagrees that customer calls coming through SCE's Customer Call Centers are affiliate transactions. SCE does not provide any customer communication or contact services to its affiliates. SCE has procedures and training in place at its call centers that specifically instruct its representatives to not provide any information about its affiliates, even if asked by a customer. These procedures and training were provided to the auditors during the audit.

SCE receives in excess of 15 million calls from customers each year, of which approximately 40% are handled by a representative.<sup>5</sup> These calls relate to routine utility activities such as turn on/turn off service, outage information, bill payment options, SCE customer programs, etc. For quality control and training purposes, SCE retains calls that come into its call centers for one year.<sup>6</sup> Retaining the calls handled by SCE employees that come into SCE's call centers for more than 1 year will cost approximately \$100,000 per year.<sup>7</sup> Thus, to retain one year's worth of these calls for up to 5 years could run in excess of an additional \$400,000.

The sole affiliate compliance purpose of retaining calls is to confirm that SCE did not provide any preferential treatment to its affiliates when handling routine utility customer transactions. In prior affiliate transactions audits, the auditors have confirmed this by reviewing SCE's procedures and training that were in-force during the audit period, interviewing call center employees and management, and listening to current calls. This approach is much more efficient than retaining millions of calls for each two-year audit period. However, if instructed by the Energy Division to retain historical call centers calls, SCE proposes that a random sampling of calls handled by SCE employees be retained, rather than all of the calls. SCE will commence retaining a random sampling of the calls handled by SCE employees starting January 2018, until we hear otherwise from the Energy Division.

<sup>5</sup> Approximately 60% of the calls are handled by the Interactive Voice Response system and do not involve a representative.

<sup>6</sup> SCE uses a third-party call center for handling calls related to turn-ons, outage information and credit inquiries. These calls amount to approximately 50% of SCE's call volume that requires interaction with a representative.

<sup>7</sup> This estimate does not include calls handled by the third-party call center. Employees of the third-party call center are not aware of SCE's affiliates and thus cannot provide any preferential treatment or information.

SCO Comment

Our finding and recommendation remain unchanged.

Our audit scope and methodology included reviewing and testing utility records and procedures to ensure that the utility had adequate systems in place to enforce the ATRs. Each of the five areas referenced in Finding 3 were either at risk of having, or historically had been reviewed for, affiliate transactions. In addition, listening to calls made during the audit period is more effective and appropriate audit evidence to meet the audit objectives than listening to calls made outside of the audit period. We did not exclude any utility activities from our audit of SCE's affiliate transactions.

In response to SCE's claims associated with corrective actions taken, these corrective actions were outside of the engagement period. Therefore, we did not verify whether these processes were implemented in the stated period of time.

**FINDING 4—  
Affiliate  
Transactions not  
disclosed in  
Section D of the  
Annual Report**

During our review of the list of procurement transactions, we noted that SCE engaged in resource procurement with its covered affiliates, but did not include these transactions in the Annual Report of Affiliate Transactions on Significant Utility-Affiliate Transactions (Annual Report), Section D.

SCE did not provide accounting records (specifically, transaction details) of the PPAs from the following covered affiliates identified in Section B in the Annual Report:

Affiliate Entity	Renewable and Alternative Power Identification	2012	2013
Kern River Cogeneration Company	2801	\$ 64,716,158	\$ 37,154,239
Kern River Cogeneration Company	2811/2821	-	39,906,213
Sycamore Cogeneration Company	2058	67,407,664	38,864,888
Sycamore Cogeneration Company	2810/2820	-	42,495,972
Walnut Creek Energy, LLC		-	89,854,000
Watson Cogeneration Company	2053	102,309,388	109,406,619
Watson Cogeneration Company	2809	-	27,102,161

ATR VIII.D.2.b.i states that a utility "shall obey and comply with every order, decision, direction, or rule made or prescribed by the Commission in the matters specified in this part, or any other matter in any way relating to or affecting its business as a public utility."

D.93-02-019 states, in part:

I.6. (m) "Transaction" means that the provision of any good, property, service, privilege, [\*36] or acts between any two parties for which compensation normally would be provided if each party was independent of the other and acting in its best financial interest.

### II.C. Utility Provision of Goods and Services to its Affiliated Entities

- Using the format of Table II-C-1, each utility shall report any goods and/or services that the utility provided to any of its affiliated entities during the period covered by the Annual Report of Affiliate Transactions. All goods and/or services shall be reported regardless of whether or not the utility was reimbursed.

### II.D. Affiliated Entities Provision of Goods and Services to the Utility

- Section C required each utility to report goods and/or services that it provided to its affiliated entities. This section (Section D), requires the reporting of all goods and/or services that the affiliated entities provided to the utility.

ATR III.B of SCE's CY 2012 and CY 2013 Compliance Plans states, in part:

In D.93-02-019, the Commission adopted reporting requirements for the reporting of transactions between utilities and their affiliates. The Commission defined "transaction" as "the provision of any good, property, service, privilege, or act between any two parties from which compensation normally would be provided if each party was independent of the other and acting in its best financial interest.

ATR III.B states, in part:

Transactions between a utility and its affiliates shall be limited to tariffed products and services, to 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, to the provision of information made generally available by the utility to all market participants, to Commission approved resource procurement by the utility, or as provided for in Rules V D (joint purchases), V E (corporate support) and VII (new products and services) below.

### Recommendation

We recommend that SCE comply with ATR III.B by reporting all required transactions between SCE and affiliates in Schedule D of the Annual Report in accordance with D.93-02-019 and its Compliance Plans.

### SCE Response

SCE agrees with Finding 4 and Recommendation 4. It did not include energy procurement transactions in Section D of the 2012 and 2013 Annual Affiliate Transactions Reports. However, this information was included in Section B of those years' reports, so the Commission was made aware of the information.

Because there were no energy purchase transactions with affiliates in 2016, SCE provided a footnote clarifying this fact in Schedule D of its 2017 Annual Affiliate Transactions Report. In future Annual Affiliate Transactions Reports, SCE will include any energy procurement transactions with affiliates in Schedule D.

SCE agrees that the Severity of Harm for this finding should be *No Significant Impact* (1). However, the Non-Compliance Magnitude should be *Oversight* (1) instead of *Incorrect Interpretation of the Rules*

(4). When SCE prepared its Annual Affiliate Transactions report, it fully included the costs of affiliate energy transactions in Appendix B of the report. It was an oversight that these costs were also not included in Appendix D.

#### SCO Comment

Our finding and recommendation remain unchanged.

SCE is required by D.93-02-019 when completing its Annual Report to report energy procurement transactions in the required section.

In response to SCE's claims associated with corrective actions taken, these corrective actions were outside of the engagement period. Therefore, we did not verify whether these processes were implemented in the stated period of time.

#### **FINDING 5— Improper release of customer information to a covered affiliate before posting a required electronic notice**

SCE released customer information to a covered affiliate, SoCore Energy, prior to posting an electronic notice as required by Commission Resolution E-3539. SCE received a Customer Information Service Request (CISR) to release customer information to SoCore Energy during the audit period. SCE received the CISR from the customer on December 18, 2013, and sent the customer information to SoCore Energy on December 24, 2013. However, SCE did not post the Notice of Release of Customer Information to Affiliates until April 1, 2014.

ATR IV.A of SCE's CY 2012 and CY 2013 Compliance Plans states, in part:

...SCE has a protocol by which customer information is released to third parties on a nondiscriminatory basis, with the customer's written consent. This protocol is described in the Requests for Customer Information Policy. In addition, SCE's training materials and Affiliate Compliance Manual emphasize that customer information is confidential and can be released only under SCE's established protocol.

Customer Information Service Request ("CISR"): Customers may authorize the release of their information to third parties by executing a CISR form. By submitting this form, the customer designates a third party as its agent to receive specified service account information for designated accounts and/or to act on its behalf to accomplish certain initiatives. As required by Resolution E-3539, Ordering Paragraph 11, SCE posts a notice of intent to release customer information to a Class A Affiliate on SCE's affiliate internet website prior to release. SCE procedures are in place specifying the form and content of the information posted on the website. SCE understands that information released pursuant to a signed customer authorization in compliance with Rule IV.A is not subject to the information release requirements of Rule III.B.2 – i.e., the information cannot be made available to nonaffiliated market participants on the same terms, because SCE does not have the customer's permission to release information to any party other than the one named on the CISR form.

ATR IV.A states:

A utility shall provide customer information to its affiliates and unaffiliated entities on a strictly non-discriminatory basis, and only with prior affirmative customer written consent.

Commission Resolution E-3539 states, in part:

To ensure that customer information is made available on a nondiscriminatory fashion, SCE is required to post a notice of intent to release customer information to an affiliate, on SCE's affiliate transaction website, prior to the actual transaction.

### Recommendation

We recommend that SCE comply with ATR IV.A by providing customer information to covered affiliates on a non-discriminatory basis, pursuant to mechanisms and procedures specified its Compliance Plans and in accordance with Commission Resolution E-3539.

### SCE Response

SCE agrees with Finding 5 and Recommendation 5. SCE improperly released customer information to a Class A affiliate as part of its Customer Information Service Request (CISR) process. While SCE followed all of the standard steps of its CISR process, it did not follow the unique step related to releasing customer information to affiliates. In the instance cited by the auditor, SoCore Energy was provided customer information prior to SCE posting electronic notice of its release as required by the Rules.

All other aspects of the CISR process were correctly followed. As part of the CISR process, a customer designates to whom they want their information sent. In this case, the customer *identified SoCore Energy* as their energy information recipient. Therefore, no other market participants were adversely impacted by the release of this specific customer's information to SoCore Energy prior to the placement of the electronic notification. SCE has already modified its CISR procedures to help ensure that the customer information release notice is posted electronically prior to release information to a covered affiliate.

### **FINDING 6— Covered affiliate employees likely present during discussions of sensitive and non- public information at SCE/EIX board meetings**

The review of SCE/EIX Board of Director and Finance Committee meeting minutes revealed that in 2012, representatives of EMG, a covered affiliate, appeared to have been present during potentially sensitive and non-public discussions related to SCE. We selected available minutes from 12 board meetings to review. Of these board meeting minutes, we noted that EMG representatives were present for five of the joint meetings between SCE and EIX.

The minutes outline the topics of discussion and do not provide detail on each subject discussed; consequently, we could not determine the extent of sensitive and non-public information discussed.

Although SCE indicated that EMG employees were excused for certain discussion topics, due to the limited contents of these minutes, we could not determine the extent to which the covered affiliate was present and privy to non-permissible affiliate transaction-related information. Furthermore, it was not evident that the discussions were necessary for permissible shared support or corporate governance. Therefore, we could not verify that SCE did not inappropriately share non-public SCE information with EMG/EME at the meetings. In addition, if such information was shared with EMG/EME, we could not confirm that SCE made the information contemporaneously available to all other service providers on the same terms and conditions.

ATR IV.B of SCE's CY 2012 and CY 2013 Compliance Plans states, in part:

Interpretation in Relation to Other Rules: This rule does not prohibit the exchange of public information. This rule permits the exclusive exchange of nonpublic information when necessary in the provision of permitted corporate governance and shared support activities under Rule V.E. This rule permits the exclusive exchange of nonpublic information if it is provided as part of a Rule VII nontariffed service offered to all market participants. This rule permits the exclusive exchange of nonpublic information to affiliated generators for system reliability purposes. Any such disclosure would be limited to ensure local reliability and would apply as with any similarly situated third-party generator.

Interpretation in Relation to Holding Company Activities: This rule does not prohibit the exclusive exchange of nonpublic information with EIX if EIX is not used as a conduit to provide that information to a Class A Affiliate. In the context of permitted corporate governance activity for EIX, SCE may share non-customer-specific nonpublic information with senior affiliate officers. Any such information shared with senior affiliate officers for permitted corporate governance activities would not directly identify or reveal customer information (as governed by Rule IV.A) or activities that are expressly prohibited by Rules V.D and V.E (such as sharing "gas and electric purchasing for resale, purchasing of gas transportation and storage capacity, purchasing of electric transmission, system operations, and marketing."). SCE's making such information available in this context does not prejudice ratepayers or advantage any affiliate in any way.

ATR IV.B 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 Commission-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 Commission-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 right to information under Public Utilities Code Sections 314 and 581.

### Recommendation

We recommend that SCE comply with ATR IV.B by establishing additional mechanisms and procedures in its Compliance Plans, and conducting joint Board meetings pursuant to mechanisms and procedures specified in future Compliance Plans.

### SCE Response

SCE disagrees with Finding 6. The auditors claim that of the 12 EIX Board of Directors and Finance Committee meetings that they sampled for review during the audit period, 5 of the meetings appeared to have a member of a covered affiliate (EMG) in attendance during discussions involving non-public information. The audit report goes on to say, "Although SCE indicated that EMG employees were excused from certain topics, due to the limited contents of these minutes, we could not determine the extent to which the covered affiliate were present and privy to non-permissible affiliate transaction-related information."

In response to this finding, SCE reviewed the minutes of each of the 12 meetings. Like the auditors' conclusion, SCE also determined that an EMG employee was in attendance during 5 of the meetings. However, SCE also determined that for each of the 5 meetings where the EMG employee was in attendance, there is a footnote in the meeting minutes which explains the employee's attendance. For each meeting, this footnote clearly indicates the portion of the meeting, and the topics discussed, where the EMG employee was excused from the meeting and thus was not privy to the ensuing discussion.

In reviewing all of the meeting minutes as well as supporting materials or presentations for the topics discussed, SCE determined there was only one instance where non-public information may have been inappropriately shared with a covered affiliate employee. This Board meeting was held on June 21, 2012. While the minutes show the EMG employee stepping out of the meeting for 4 of the 7 topics, he is shown as being present for a discussion on SCE's strategy regarding the Chino Hills Transmission Line which is a short segment through the city of Chino Hills. On November 20, 2017, SCE provided a summary table to the auditor that identified the topics of each meeting and when the EMG employee was excused.

SCE agrees with Recommendation 6, and in late 2016 it implemented enhanced processes related to how Board of Director meetings would be monitored to prevent the release of non-public SCE information to covered affiliates.

### SCO Comment

Our finding remains unchanged.

SCE did not provide supporting materials or presentations to demonstrate that all topics discussed in the SCE/EIX Board of Director and Finance Committee meeting minutes were permitted by the ATRs. While we did



receive a summary table that identified the topics of each meeting and when the affiliate employee was excused, we did not receive source documentation that would have allowed us to determine the extent to which the covered affiliate was present and privy to non-permissible affiliate transaction-related information. Furthermore, if EMG representatives were present for discussion of non-public information, we could not confirm that SCE made the information contemporaneously available to all other service providers on the same terms and conditions.

In response to SCE's claims associated with corrective actions taken in 2016, these corrective actions were outside of the engagement period. Therefore, we did not verify whether these processes were implemented in the stated period of time.

**FINDING 7—  
Non-public  
information shared  
with affiliates**

During CY 2012 and CY 2013, SCE discovered and disclosed on its website seven instances of improper non-public utility information that was shared with covered affiliates:

- On May 21, 2012, a Southern California Edison employee disclosed certain generalized but non-public information regarding SCE's nuclear generation to senior financial employees of Edison Mission Group.
- On Thursday, August 16, 2012, a Southern California Edison employee inadvertently disclosed a Workers Comp new incident report to an Edison Mission Energy employee.
- On Tuesday, September 11, 2012, a Southern California Edison (SCE) employee inadvertently sent to an employee of an affiliate an email that discussed SCE's negotiation strategy with a different, affiliate generator. The mistake occurred because the employee of the affiliate and the intended recipient at SCE share the same first and last name.
- On October 1, 2012, Southern California Edison provided non-public utility information regarding construction schedules and current operating performance for three SCE-owned solar projects to an affiliate.
- On January 25, 2013 a Southern California Edison employee inadvertently sent an email that included non-production Information Technology (IT) system testing data to employees of an SCE affiliate.
- On February 15, 2013 a Southern California Edison employee inadvertently sent an email that included non-public information regarding an ongoing FERC audit to an employee of an SCE affiliate.
- On August 21, 2013 an SCE employee inadvertently sent an email that included non-public information regarding an invoice for Reliability Services cost billings to an employee of an SCE affiliate.

ATR IV.B of SCE's CY 2012 Compliance Plan states, in part:

SCE maintains appropriate procedures and mechanisms for handling proprietary and confidential information to ensure compliance with Rule IV. B. SCE has included in its training materials and online resources a discussion of the restrictions on non-customer specific, non-public information imposed by this rule.

ATR IV.B of SCE's CY 2012 and CY 2013 Compliance Plans states, in part:

SCE has included a discussion of the restrictions on non-customer-specific, nonpublic information imposed by this rule in its training material, Affiliate Compliance Manual, and online resources including the posting of inadvertent disclosures of non-public utility information on SCE.com.

ATR IV.B 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 Commission-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 Commission-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 right to information under Public Utilities Code Sections 314 and 581.

#### Recommendation

We recommend that SCE establish and implement sufficient mechanisms and procedures to ensure compliance with ATR IV.B.

#### SCE Response

SCE agrees with Finding 7 but believes that Recommendation 7 is unnecessary. SCE simply notes that in most of the instances referenced, the non-public information sent to covered affiliates were inadvertent emails sent to individuals at the affiliate that have the same name as a utility employee. As soon as SCE became aware that these inadvertent emails occurred, a notice of availability of the information was posted on SCE.com as required by Rule IV.B. Commencing in late 2014, SCE made certain changes to its email system that separated the SCE and affiliate email directories. This minimized the possibility of this problem happening again. In fact, there have been no instances of this situation occurring since these changes to the email system were implemented.

SCO Comment

Our finding and recommendation remain unchanged.

Not all instances of improper non-public information shared with covered affiliates during the audit period were the result of inadvertent emails having been sent.

In addition, SCE's claimed corrective actions taken in 2014 were outside of the scope of the engagement period. Therefore, we did not verify whether these processes were implemented in the stated period of time, or whether any additional instances of improper non-public information was shared with covered affiliates subsequent to application of the claimed corrective actions.

**FINDING 8—  
Lack of written  
affirmative  
authorization from  
suppliers**

SCE did not provide evidence of required written affirmative authorization from suppliers prior to releasing non-public supplier information to its affiliates for joint procurement contracts. SCE asserts that the only non-public information provided to affiliates was directly related to joint procurements.

During CY 2012 and CY 2013, SCE entered into 16 joint procurement contracts with affiliates. The ATRs permit the following three types of purchasing arrangements under which SCE and its covered affiliates are allowed to jointly purchase goods and services from third-party suppliers:

- Joint negotiations/separate contracts;
- Joint contract/joint usage; and
- Single party contract/joint usage.

SCE and affiliates engaged in Joint Negotiation/Separate Contract and Single Party Contract/Joint Usage arrangements. During the audit period, SCE asserted that it had a procedure for joint procurement contracts, which included obtaining written affirmative authorization (the Joint Procurement Permission Letter) from suppliers prior to releasing non-public information to its affiliates or non-affiliates pursuant to ATR IV.D. We requested all permission letters, but SCE provided only one Joint Procurement Permission Letter for the audit period. SCE did not provide the remaining letters because SCE's Supply Management Group had decided that the letters were no longer necessary.

In addition to the permission letter, SCE includes in its joint procurement contracts language by which suppliers grant SCE the right to share the supplier non-public information with EIX and any affiliates that wish to purchase similar goods or services from the supplier. SCE submitted to us for review the contracts (master agreements) for four joint purchasing arrangements that included disclosure language for releasing pricing and other terms to affiliates of EIX. The remaining contracts were not available for review.

SCE's explanation for the missing joint procurement documentation is as follows:

After conducting an extensive search, it has been determined that SCE is missing much of its internal approval documentation for the joint purchases in 2012-2013 (e.g. Joint Procurement Notification Form, Joint Procurement Permission Letter and Evidence of Affiliate Officer Approval). SCE's Supply Management department stopped using the Joint Procurement Notification Form sometime prior to 2012-2013 because it was believed that the form was no longer necessary. Also, many of the agents responsible for retaining the Permission Letters and Affiliate Officer Approvals are no longer with the company, and there was no central repository used to store these documents.

ATR IV.D of SCE's CY 2012 Compliance Plan states, in part:

If a supplier requests release of its information to affiliates or nonaffiliates, or inquires about release of its information to affiliates or nonaffiliates, SCE provides the requesting supplier with a copy of the text of this rule, as well as requiring the supplier to provide written authorization prior to release of its information to an SCE affiliate or nonaffiliated company. Such written authorization is also documented via SCE's Joint Procurement Notification and Approval Form, with approved copies of this form retained by SCE's Affiliate Compliance Office.

ATR IV.D of SCE's CY 2013 Compliance Plan states, in part:

Before SCE releases non-public supplier information to its affiliates or non-affiliates, SCE requires the supplier to provide written permission to SCE. Supply Chain Management provides a standard release of vendor information letter to each supplier before SCE begins negotiations with a supplier on behalf of, or jointly with, one or more of the Edison International Companies. Such written authorization is also documented via SCE's Joint Procurement Notification and Approval Form, with approved copies of this form retained by SCE's Affiliate Compliance Office.

ATR IV.D states:

A utility may provide non-public information and data which has been received from unaffiliated suppliers to its affiliates or non-affiliated entities only if the utility first obtains written affirmative authorization to do so from the supplier. A utility shall not actively solicit the release of such information exclusively to its own affiliate in an effort to keep such information from other unaffiliated entities.

#### Recommendation

We recommend that SCE comply with ATR IV.D by obtaining written authorization from its suppliers prior to providing non-public information to its covered affiliates.

SCE Response

SCE agrees with Finding 8 and Recommendation 8. Subsequent to the 2012-2013 audit period, SCE implemented a new procurement platform to manage and record its non-energy procurement activities. As part of its capabilities, SCE obtains and records prior written authorization from suppliers for joint procurements. This system also requires approval of the Affiliate Compliance Office which provides an additional verification that the proper written authorization has been obtained.

By way of clarification, it should be noted SCE's Supply Chain Management did not decide that Permission Letters were no longer necessary, as noted in the auditor's report. SCE continues to use Permission Letters as part of its joint procurement process. Rather, Supply Chain stopped using its Joint Procurement Notification Form sometime prior to 2012-2013.

**FINDING 9—  
Unavailable  
external records to  
support separate  
corporate entities**

SCE did not make available articles of incorporation for the sampled affiliates, identified below. Several of the affiliates below were either acquired or created during the audit period; therefore, we were not able to verify that the new affiliates had been established as separate corporate entities.

Affiliates
Lakota Ridge LLC
Edison Mission Solar, Inc.
Big Wind Sky, LLC
Mission Energy Westside
Edison Mission Asset Services, Inc.
EME Western Holding Co.
Mission Kern River Holdings, Inc.
Mission Midway-Sunset Holding, Inc.
Mission Sycamore Holdings, Inc.
Mission Watson Holdings, Inc.
Walnut Creek, LLC

SCE's explanation for the missing governance documentation is as follows:

Governance documents for the above affiliates were maintained by Edison Mission Energy prior to entering bankruptcy in December 2012 and directly transferred to NRG immediately after the sale of assets in April 2014. Thus, SCE does not have these documents and cannot provide copies.

ATRs IV.F and IV.G of SCE's CY 2012 Compliance Plan state, in part:

Each organization conducting affiliate transactions is responsible for maintaining documentation for the required three-year period, and is responsible for forwarding that documentation, or summaries thereof, to SCE's Affiliate Compliance Office for preparation of SCE's annual report on affiliate transactions. The documentation and disclosure requirements of this rule apply to all transactions between SCE and Class A affiliates, including those related to services permitted by Rule V.E.

## ATR IV.F and IV.G of SCE's CY 2013 Compliance Plan state, in part:

Each organization conducting affiliate transactions is responsible for maintaining documentation for the required three-year period. The documentation and disclosure requirements of this rule apply to all transactions between SCE and Class A Affiliates, including those related to services permitted by Rule V.E.

SCE's corporate policy on Records Management reinforces its compliance with Rule IV.F and IV.G. SCE and EIX are required to manage all records consistent with SCE's recordkeeping, legal hold requirements and applicable law. These recordkeeping requirements are designed to ensure that records are appropriately accessible, complete, managed, preserved, retained, and disposed of in accordance with business and applicable legal requirements. SCE's Record Management Policy is available to all SCE employees through its intranet website.

## ATR 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 of tariff or contract provision, all discounts, and all negotiations of any sort between the utility and its affiliate whether or not they are consummated. A utility shall maintain such records for a minimum of three years and longer if this Commission or another government agency so requires. For consummated transactions, the utility shall make final transaction documents available for third party review upon 72 hours' notice, or at a time mutually agreeable to the utility and third party.

If D.97-06-110 is applicable to the information the utility seeks to protect, the utility should follow the procedure set forth in D.97-06-110, except that the utility should serve the third party making the request in a manner that the third party receives the utility's D.97-06-110 request for confidentiality within 24 hours of service.

## ATR V.A states:

A utility, its parent holding company, and its affiliates shall be separate corporate entities.

Recommendation

We recommend that SCE comply with ATR IV.F by maintaining all records for affiliate transactions for a minimum of three years pursuant to the mechanisms and procedures specified in its Compliance Plan.

SCE Response

SCE agrees with Finding 9 and Recommendation 9. The lack of records and articles of incorporation for certain Class A affiliates referenced in this finding were directly a consequence of a unique situation that existed in this audit period. Corporate governance documents related to Edison Mission Energy (EME) and its affiliates have historically been maintained and available from EME. However, with the bankruptcy of EME in December, 2012, followed by its asset sale to NRG Energy in August, 2014, these documents were transferred to the new owner.

Beginning in May, 2013, SCE modified its new affiliate creation process. From that point forward, not only does SCE make sure that it receives copies of the affiliate formation documents, it also provides them to the Energy Division as part of its New Affiliate Advice Letter required by Rule VI.B.

**FINDING 10—  
Improper  
corporate  
advertising**

In 2013, SCE placed an advertisement in the *Orange County Business Journal* that included a reference to a covered affiliate, SoCore Energy. The advertisement did not include the required disclaimer language pursuant to ATR V.F.1.

ATR V.F.1 states:

1. A utility shall not trade upon, promote, or advertise its affiliate's affiliation with the utility, nor allow the utility name or logo to be used by the affiliate or in any material circulated by the affiliate, unless it discloses in plain legible or audible language, on the first page or at the first point where the utility name or logo appears that:
  - a) the affiliate "is not the same company as [i.e. PG&E, Edison, the Gas Company, etc.], the utility,";
  - b) the affiliate is not regulated by the California Public Utilities Commission; and
  - c) "you do not have to buy [the affiliate's] products in order to continue to receive quality regulated services from the utility." The application of the name/logo disclaimer is limited to the use of the name or logo in California.

Recommendation

We recommend that SCE comply with ATR V.F.1 by including the required disclaimer language in advertisements that reference an affiliate.

SCE Response

SCE agrees with Finding 10 but believes that Recommendation 10 is unnecessary. Since SCE already mitigated the issue and informed the Commission as soon as it became aware of the violation, there is no further action to take.

On September 27, 2013, SCE became aware of an SCE advertisement in the *Orange County Business Journal* that referenced SoCore Energy (a covered affiliate) but did not include the affiliate disclaimer required by Rule V.F.1. SCE immediately took steps to remediate this situation including purchasing all of the copies that were available on newsstands. On October 2, 2013, SCE self-reported this situation to the Commission and subsequently met with Commission staff to discuss the situation, and outline SCE's remediation steps and plan to implement new internal controls to prevent this situation from happening again. On January 31, 2014, the Commission's Safety & Enforcement Division accepted SCE's Responsive Action Plan and determined that no further action would be taken by the Commission.

SCO Comment

Our finding and recommendation remain unchanged.

As indicated in SCE's response, CPUC was notified of the violation and corrective action was taken for the instance of non-compliance. However, our recommendation is to comply with ATR V.F.1 by including the required disclaimer language in advertisements that reference an affiliate in the future, not to take corrective action on the instance reported in the finding.

**FINDING 11—  
Untimely  
notification of  
shared officers to  
CPUC**

SCE did not provide documentation to support that it notified the CPUC of two of the four changes in SCE and EIX shared officers in a timely manner.

SCE identified the following officer changes:

- Janet Clayton, Senior Vice President of Corporate Communications for SCE and EIX; and
- Gaddi Vasquez, Senior Vice President of Public Affairs for SCE and EIX

SCE did not have a record of the notifications sent to the CPUC's Energy Division for the above two officers shared by SCE and EIX effective April 25, 2013. At the time of the required April notification, a regular SCE employee was on leave. Filling in for her was an assistant from another department who did not remember whether she had sent the April notification. Because no record of the notification was found on the employee's computer, SCE submitted a notification to the CPUC in June 2013.

Although SCE has a procedure in place entitled "Notification of Changes in Shared Officers and Directors," SCE does not specify procedures or mechanisms to comply with the provisions of ATR V.G.1 in its Compliance Plans.

ATR V.G.1 states, in part:

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 Commission's Energy Division and the parties on the service list of R.97-04-011/L.97-04-012 of any change to this list.

Recommendation

We recommend that SCE comply with ATR V.G.1 by identifying and notifying CPUC of changes to shared officers within 30 days of the change.

SCE Response

SCE agrees with Finding 11 and Recommendation 11. SCE has reinforced its existing process for such notifications.



**FINDING 12—  
Undisclosed  
employee transfer**

SCE did not disclose one of the 31 employee transfers; this position was identified as “Investigator 2,” in Section H of the Annual Report. The employee transferred from SCE to EIX on September 12, 2012. The employee transfer was inadvertently excluded from the report.

ATR V.G.2 of SCE’s CY 2012 Compliance Plan states, in part:

SCE maintains appropriate procedures and mechanisms to ensure compliance with Rule V.G.2. SCE includes this information in its Annual Affiliate Transactions Report filed each year on May 1.

ATR V.G.2 of SCE’s CY 2013 Compliance Plan states, in part:

SCE maintains appropriate procedures and mechanisms to ensure compliance with Rule V.G.2. SCE includes this information in its Annual Affiliate Transactions Report filed each year on May 1. Before an employee transfers from SCE to EIX or to an affiliate, SCE’s Affiliate Compliance Office performs an exit interview with the employee to discuss the prohibition of the use of non-public utility information to the benefit of the affiliate and the no-conduit rule. SCE also identifies any SCE property that the employee requests to take to the affiliate. Any property permitted to be transferred is priced pursuant to the Rules and is reviewed and approved by SCE’s Affiliates Officer.

ATR V.G.2.a states:

All employee movement between a utility and its affiliates shall be consistent with the following provisions:

A utility shall track and report to the Commission all employee movement between the utility and affiliates. The utility shall report this information annually pursuant to our Affiliate Transaction Reporting Decision, D.93-02-016, 48 CPUC2d 163, 171-172 and 180 (Appendix A, Section I and Section II.H.).

D.93-02-019, section H.1 states:

The utility shall report any employee who transferred from the utility to any of its affiliated entities during the period covered by the Annual Report of Affiliate Transactions....

Recommendation

We recommend that SCE comply with ATR V.G.2.a by ensuring that all employee movements between SCE and its affiliates are properly reported in its Annual Report.

SCE Response

SCE agrees with Finding 12 but believes that Recommendation 12 is unnecessary. Of the 40 employees transferring between SCE and EIX during the 2012-2013 audit period, there was a single employee that SCE inadvertently excluded from the employee transfer list in the Annual Affiliate Transactions Report. All other processes and procedures related to the transfer of this employee were appropriately followed and in accordance with the transfer rule. Thus, SCE does not believe that any additional processes or procedures are necessary.

SCO Comment

Our finding and recommendation remain unchanged.

Although we identified only one instance of an SCE employee not being included on the employee transfer list in the Annual Report, whether inadvertent or intentional, the error occurred.

**FINDING 13—  
Entities improperly  
reported as  
affiliates in  
CY 2012 and  
CY 2013  
Compliance  
Plans**

SCE reported 646 and 625 affiliates in the CY 2012 and CY 2013 Compliance Plans, respectively. Among those listed were the following entities:

CY 2012			
Affiliate Name	Classification	Reason for Removal	Current Status
Berry Avenue Associates GP	Non-covered	Sold April 30, 2012	Removed from the List of Affiliates on February 14, 2013
Centro Partners LP	Non-covered	Sold January 1, 2012	Removed from the List of Affiliates on February 14, 2013
Colina Vista LP	Non-covered	Sold January 1, 2012	Removed from the List of Affiliates on February 14, 2013
Cypress Cove Associates GP	Non-covered	Sold March 31, 2012	Removed from the List of Affiliates on February 14, 2013
LINC-Bristol Associates I, GP	Non-covered	Sold April 12, 2012	Removed from the List of Affiliates on February 1, 2013
MAS-WT, LP	Non-covered	Foreclosure effective February 13, 2012	Removed from the List of Affiliates on July 12, 2013
Mid-Peninsula Century Village Associates GP	Non-covered	Sold January 31, 2012	Removed from the List of Affiliates on February 14, 2013
Riverside/Liebrandt Partners LP	Non-covered	Sold January 1, 2012	Removed from the List of Affiliates on February 14, 2013
Round Walk Village Apartments GP	Non-covered	Sold April 12, 2012	Removed from the List of Affiliates on February 14, 2013
Shaokatan Hills LLC	Covered	Sold January 31, 2012	Removed from the List of Affiliates on January 3, 2013
Tioga Gardens LLP	Non-covered	Sold March 6, 2012	Removed from the List of Affiliates on February 14, 2013

CY 2013			
Affiliate Name	Classification	Reason for Removal	Current Status
Boquillas Wind, LLC	Non-covered	Sold March 1, 2013	Removed from the List of Affiliates on March 25, 2014
Fairview Village Associates LP	Non-covered	Sold effective July 5, 2012, completed December 4, 2012	Removed from the List of Affiliates on July 14, 2013
Garnet Housing Associates LP	Non-covered	Transferred December 24, 2012	Removed from the List of Affiliates on July 12, 2013
MAS-WT, LP	Non-covered	Foreclosure effective February 13, 2012	Removed from the List of Affiliates on July 12, 2013

The identified entities were not affiliates as defined by ATR I.A.

ATR VI.A of SCE's CY 2012 and CY 2013 Compliance Plans states, in part:

SCE's Affiliate Compliance Office is responsible for maintaining and updating this compliance plan. If changes are determined to be necessary to ensure compliance, the Affiliate Compliance Office revises this plan and files updates annually and/or as needed. SCE maintains a current list of affiliates that is attached to this document as Appendix B. In addition, SCE maintains the affiliate list on both its internet and intranet websites.

If the Commission modifies or stays any part of the Affiliate Rules in a manner that necessitates changes to this plan, SCE will file an updated plan for those rules affected within 60 days of the Commission's decision, or as otherwise directed.

ATR VI.A states, in part:

Compliance Plans: No later than June 30, 2007, each utility shall file a compliance plan by advice letter with the Energy Division of the Commission. The compliance plan shall include:

1. A list of all affiliates of the utility, as defined in Rule I.A of these Rules, and for each affiliate, its purpose or activities, and whether the utility claims that Rule II.B makes these Rules applicable to the affiliate;

#### Recommendation

We recommend that SCE comply with ATR VI.A by establishing mechanisms and procedures to ensure that its Compliance Plans contain only entities that are affiliates, as defined in ATR I.A.

#### SCE Response

SCE agrees with this Finding 13 and Recommendation 13. A limited number of almost entirely former non-covered affiliates were erroneously included in the 2012 and 2013 Affiliate Compliance Plans when they should have been removed, since they had been sold or otherwise dissolved. Given that these entities were no longer considered affiliates, there was no harm created by their inclusion in the list of affiliates submitted with the annual Compliance Plan.

**FINDING 14—  
Untimely three-day  
new affiliate  
notification**

During CY 2012 and CY 2013, the CPUC was not immediately notified of one of the 44 new affiliates within the required three days. SCE learned of the new covered affiliate, EME Western Holdings Co., on October 16, 2012, but did not notify the CPUC until October 23, 2012.

Commission Resolution E-3539 states, in part:

The utility shall immediately notify the Commission of the creation of the new affiliate, as well as posting notice on its electronic bulletin board....To be clear, the utility will notify the Energy Division in writing, within three business days of its creation, of the new affiliate's name, headquarters, primary officers, contract person for the Commission, and its intended function.

ATR VI.B of SCE's CY 2012 Compliance Plan states, in part:

SCE maintains appropriate procedures and mechanisms to ensure compliance with Rule IV.B. As noted in the discussion of Rule II.B, SCE has identified the existing affiliates covered by these rules. SCE will notify the Commission in writing within three (3) business days of receiving notification that a new affiliate has been created or acquired. This notice will include the affiliate's name, headquarters, primary officers, contact person for the Commission, and intended function. SCE will also post the updated list electronically, on its internet website, within three (3) business days of SCE receiving notification that a new affiliate has been created or acquired. SCE's Affiliate Compliance Office is responsible for these notices and for filing advice letters required by this rule. Where procedures for implementing the rules with respect to the new affiliate do not deviate from this compliance plan, such advice letters will refer to this plan or its most current update.

ATR VI.B of SCE's CY 2013 Compliance Plan states:

As noted in the discussion of Rule II.B, SCE has identified the existing affiliates covered by these rules. SCE has a process established to notify the Commission in writing within three (3) business days of receiving notification that a new affiliate has been created or acquired. This notice includes the affiliate's name, headquarters, primary officers, contact person for the Commission, and intended function. SCE also has a process in place to post the updated list electronically, on its internet website, within three (3) business days of SCE receiving notification that a new affiliate has been created or acquired. SCE's Affiliate Compliance Office is responsible for these notices and for filing advice letters required by this rule. Where procedures for implementing the rules with respect to the new affiliate do not deviate from this compliance plan, such advice letters will refer to this plan or its most current update.

ATR VI.B states:

New Affiliate Compliance Plans: Upon the creation of a new affiliate, the utility shall immediately notify the Commission of the creation of the new affiliate, as well as posting notice on its electronic bulletin board. No later than 60 days after the creation of this affiliate, the utility shall file an advice letter with the Energy Division of the Commission. The advice letter shall state the affiliate's purpose or activities, whether the utility claims that the Rule II.B makes these Rules applicable to the affiliate, and shall include demonstration to the Commission that there are adequate procedures in place that will ensure compliance with these Rules.

### Recommendation

We recommend that SCE comply with ATR VI.B by conforming to its Compliance Plans to ensure immediate notification to the CPUC of the creation of new affiliates.

### SCE Response

SCE agrees with Finding 14 and Recommendation 14. While the EME Western Holdings Company affiliate was created as a Class A affiliate on October 16, 2012, SCE did not notify the Commission until October 23, 2012. Because weekend days are not counted in the required three day Commission notification period, SCE actually missed the requirement by only two business days. This is the only instance out of 42 notifications during the audit period that SCE did not submit on time.

### **FINDING 15— Two non-covered affiliates not reported to the CPUC**

During CY 2012 and CY 2013, SCE did not report two of 44 new affiliates to the CPUC. SCE did not inform CPUC of the two newly created affiliates within the required three-day period, and did not send the new affiliate advice notification letters within the required 60-day period. In addition, SCE did not post the affiliate information as required on its electronic bulletin board. SCE was unaware of the new affiliates created by EME, an affiliate of SCE.

The following non-covered affiliates were created on December 29, 2013, and were not reported to the CPUC:

- Midwest Generation Holding II Inc.
- Mission Midwest Coal Inc.

Although SCE was not notified by EME that the affiliates had been created, and the entities were affiliates only between December 29, 2013, through April 11, 2014, the ATRs require SCE to immediately notify the Commission when new affiliates are created. Consequently, SCE did not conform to the ATRs, as it failed to provide the required notification for newly-created affiliates.

ATR IV.B of SCE's CY 2012 and CY 2013 Compliance Plans states, in part:

As noted in the discussion of Rule II.B, SCE has identified the existing affiliates covered by these rules. SCE has a process established to notify the Commission in writing within three (3) business days of receiving notification that a new affiliate has been created or acquired. This notice includes the affiliate's name, headquarters, primary officers, contact person for the Commission, and intended function. SCE also has a process in place to post the updated list electronically, on its internet website, within three (3) business days of SCE receiving notification that a new affiliate has been created or acquired. SCE's Affiliate Compliance Office is responsible for these notices and for filing advice letters required by this rule. Where procedures for implementing the rules with respect to the new affiliate do not deviate from this compliance plan, such advice letters will refer to this plan or its most current update.

ATR VI.B states:

New Affiliate Compliance Plans: Upon the creation of a new affiliate, the utility shall immediately notify the Commission of the creation of the new affiliate, as well as posting notice on its electronic bulletin board. No later than 60 days after the creation of this affiliate, the utility shall file an advice letter with the Energy Division of the Commission. The advice letter shall state the affiliate's purpose or activities, whether the utility claims that the Rule II.B makes these Rules applicable to the affiliate, and shall include demonstration to the Commission that there are adequate procedures in place that will ensure compliance with these Rules.

Recommendation

We recommend that SCE comply with ATR VI.B by providing the required notification for newly created affiliates pursuant to its Compliance Plans.

SCE Response

SCE agrees with Finding 15 but finds Recommendation 15 unnecessary. SCE failed to report 2 of the 44 affiliates created during the 2012-213 [sic] audit period. Because of the EME bankruptcy that was transpiring during that period, EME created these two affiliates specifically to facilitate the bankruptcy process. These affiliates did not provide any products or services and did not take any services from SCE. In all of the activity surrounding the bankruptcy, EME failed to notify SCE of these specially created affiliates. Hence, this was a very unique situation which would be unlikely to happen again, thereby making Recommendation 15 unnecessary.

SCO Comment

Our finding and recommendation remain unchanged.

Although the instances of non-compliance noted were due to unusual circumstances, the two newly created affiliates were not reported to the CPUC in accordance with ATR VI.B.

**FINDING 16—  
Non-conformance  
and remedies**

SCE did not have effective processes in place to report to the CPUC the instances of non-compliance with the ATRs reported in Findings 7, 13, and 15.

In addition, SCE's Compliance Plans do not specify formal policies, procedures, or mechanisms for reporting instances of non-compliance to the CPUC.

ATR VIII of SCE's CY 2012 and CY 2013 Compliance Plans states:

The Affiliate Compliance Manager, as defined in section VIII.C.2 of this rule, is the Affiliates Officer, and is responsible for receiving, investigating, and attempting to resolve complaints as defined in this Rule. Any complaints brought under this rule would ordinarily be handled under SCE's existing compliance investigation and remediation procedures, under the direction of the Affiliates Officer. In addition, SCE

maintains an Ethics and Compliance Helpline for employees to confidentially report wrongdoing or ask for advice about ethics and compliance issues, including complaints as defined by this rule. Callers may remain anonymous. Retaliation against callers for reporting their concerns will not be tolerated.

ATR VIII.D.2.b.ii.(3) states:

When a public utility is aware that a violation has occurred, the Commission expects the public utility to promptly bring it to the attention of the Commission. The precise timetable that constitutes "prompt" will vary based on the nature of the violation. Violations which physically endanger the public must be immediately corrected and thereafter reported to the Commission staff. Reporting violations should be remedied at the earliest administratively feasible time.

Prompt reporting of violations furthers the public interest by allowing for expeditious correction. For this reason, steps taken by a public utility to promptly and cooperatively report and correct violations may be considered in assessing any penalty.

#### Recommendation

We recommend that SCE comply with ATR VIII.D by implementing policies and procedures for reporting affiliate rule non-compliance to the CPUC, and including these mechanisms and procedures in its Compliance Plans.

#### SCE Response

SCE partially agrees with Finding 16 and Recommendation 16, but only where they apply to the Findings and Recommendations above where SCE is in agreement with the SCO. As such, Finding 16 and Recommendation 16 amount to a "double counting" of all previous Findings and Recommendations made by the SCO. As a practical matter, Finding 16 and Recommendation 16 serve no purpose as a guide to either the Commission of SCE regarding Rules compliance.

#### SCO Comment

Our finding and recommendation remain unchanged.

The recommendation for Finding 16 is associated with implementing policies and procedures to *report* affiliate rule non-compliances to the CPUC, and including those mechanisms and procedures in SCE's Compliance Plans. The recommendations for Findings 7, 13, and 15 were to implement changes to ensure that similar instances do not occur in the future.

# Observation and Recommendation

**OBSERVATION—  
Annual Officer  
Certification  
inconsistent with the  
required language**

SCE submitted the required annual Officer Certifications for CY 2012 and CY 2013 on time. Consistent with previous annual Officer Certifications, SCE included a disclosure on the certification in addition to the standard and required language specified in ATR VI.E. The disclosure, as specified in the Annual Compliance Plan, states:

This certificate does not include violations, if any, already reported to the Commission during the reporting period. This certificate also excludes audits or investigations, if any, still in progress at the end of the reporting period. If violations are ultimately found, they will be reported consistent with SCE's affiliate compliance plans.

ATR VI.E of SCE's CY 2012 Compliance Plan states:

SCE maintains appropriate procedures and mechanisms in place to ensure compliance with Rules VI.D and VI.E. SCE's officer certification does not include violations, if any, already reported to the Commission during the reporting period. This certification also excludes audits or investigations, if any, still in progress at the end of the reporting period. If violations are ultimately found, they will be reported consistent with this plan.

ATR V.E defines key officers as:

The Chair of the entire corporate 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 any case, any and all officers whose responsibilities are the functional equivalent of the foregoing.

ATR VI.E of SCE's CY 2013 Compliance Plan states, in part:

SCE's Affiliate Compliance Office is responsible for coordinating and obtaining the Officer Certifications from the "key officers." Rule V.E lists the key officers as "the Chair of the entire corporate 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 any case, any and all officers whose responsibilities are the functional equivalent of the foregoing." Officer Certifications are obtained for those key officers where those positions exist. For example, as of the date of this Compliance Plan, there is no CEO position at SCE.

ATR VI.E states:

Officer Certification. No later than March 31 of each year, the key officers of a utility and its parent holding company, as defined in Rule V.E (corporate support), shall certify to the Energy Division of the Commission in writing under penalty of perjury that each has personally complied with these Rules during the prior calendar year. The certification shall state:

I, [name], hold the office of [title] at [name of utility or holding company], and occupied this position from January 1, [year] to December 31 [year],



I hereby certify that I have reviewed the Affiliate Transaction Rules Applicable to Large California Energy Utilities of the California Public Utilities Commission and I am familiar with the provisions therein. I further certify that for the above period, I followed these Rules and am not aware of any violations of them, other than the following: [list or state "none"].

I swear/affirm these representations under penalty of perjury of the laws of the State of California.

\_\_\_\_\_[Signature]  
Executed at \_\_\_\_\_ [City], County of \_\_\_\_\_, on  
\_\_\_\_\_ [Date]

ATR V.E states, in part:

For purposes of this Rule, key officers are the Chair of the entire corporate enterprise, the President at the utility and at 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.

Although the annual Officer Certifications have been submitted to the CPUC in a timely manner and are consistent with the Annual Affiliate Compliance Plan, it is unclear whether the added disclosure meets the requirements of ATR VI.E.

#### Recommendation

We recommend that the CPUC evaluate SCE's submitted annual Officer Certifications to determine whether the added disclosure meets the requirements of ATR VI.E.

#### SCE Response

SCE disagrees with Observation I and the associated recommendation. SCE has included this footnote on its officer certifications since 2007 when this requirement became effective. In addition, this observation has been raised in multiple Affiliate Transactions Audits. To date, SCE has not received any direction regarding this footnote and will continue to include it unless directed otherwise by the Commission.

#### SCO Comment

The SCO will defer to the Commission for a final decision on the matter.

**Attachment 1—  
SCO's Analysis of SCE's Compliance with the  
Affiliate Transaction Rules I through IX**

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## General

We designed, developed, and performed the following procedures in order to determine whether SCE complied with each of the subsections of ATRs I through IX. We performed test procedures on selected accounting records, administrative documents<sup>1</sup>, and internal control standards for the audit period.

For ATRs I through IX, we:

- Interviewed SCE personnel regarding the utility's training programs, processes, and procedures for ensuring compliance with the ATRs;
- Identified all prior ATR-related audit findings and recommendations, as well as the utility's response to each, for consideration in planning the audit;
- Reviewed SCE's CY 2012 and CY 2013 Compliance Plans and Annual Reports to ensure that proper policies and procedures were in place to comply with the ATRs;
- Reviewed Annual Reports to gain an understanding of affiliate activities;
- Identified utility non-compliance postings and self-reporting to the CPUC for any ATR violations;
- Analyzed discrepancies between the Compliance Plans and any audit/review findings regarding actual behavior and actions of the utility in preventing, detecting, and reporting instances of non-compliance; and
- Assessed whether instances of ATR non-compliance identified caused actual or potential harm to the ratepayers.

### Conclusion

SCE's Compliance Plans and Annual Reports provide policies and procedures to ensure that affiliate activities are conducted in accordance with the ATRs. During the audit period, SCE exchanged services with covered affiliates. Several of SCE's covered affiliates own and operate power-generation facilities or projects in California, and thus provided energy and capacity to SCE through PPAs. SCE provided various services to covered affiliates including shared support, electric service under SCE tariff schedules, NTP&S, transmission service under the FERC LGIA, and a facilities studies agreement. In addition, EIX exchanged shared support services with SCE.

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<sup>1</sup>Administrative documents include advice letters, which are filed for authorization by and are the required communication between the utility and the CPUC. These documents are filed for various purposes including submission of required Compliance Plans, and changes and additions to tariffed and other utility products and services.

SCE's training strategy guides the ACO's training activities, and establishes customized affiliate compliance curricula and training frequencies for targeted SCE, EIX, and affiliate employee audiences. The training curricula addresses fundamental topics of affiliate compliance, including core principles of the ATRs, the prohibition on preferential treatment of affiliates, the proper pricing and reporting of all utility-affiliate transactions, and the protection of non-public utility information.

SCE's ACO ensures that SCE employees conform to the ATRs. Instances of non-compliance discovered by the ACO during the audit period were disclosed to the SCO. These instances are discussed in the Findings and Recommendations section of this report.

See the following analyses for ATRs I through IX

## **Affiliate Transaction Rule I**

### **Definitions**

ATR I provides key terms that the utility must use to define its business and activities. We performed the following procedures to determine whether SCE was in compliance in its interpretation and application of the definitions related to its affiliate transactions:

- Reviewed training materials provided to SCE employees and affiliates to ensure that the definition of an "affiliate" is being properly conveyed;
- Reviewed SCE's process for determining whether an entity is an affiliate as defined in ATR I;
- Ensured consistency between ATR I "Definitions" and the definitions described in the ATR Compliance Plans and Annual Reports;
- Requested accounting records, source documents, and third-party documents to substantiate the reported list of affiliates based on the criteria of ATR I.A; and
- Reviewed the lists of affiliates in the CY 2012 and CY 2013 Compliance Plans and Annual Reports to ensure that all newly created affiliates were included.

### Conclusion

Based on the information provided and procedures performed, we concluded that SCE did not comply with ATR I.A (see Finding 1).

## **Affiliate Transaction Rule 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 electricity, or services that relate to the use of electricity, unless specifically exempt. We performed the following procedures to determine whether SCE appropriately classified each affiliate based on its business activity:

- Reviewed training materials provided to SCE employees and affiliates to ensure that SCE is providing guidance on who is considered a covered affiliate under the ATRs;
- Reviewed all 44 new affiliates created or acquired, and verified the utility's assessment of the affiliate as "covered" or "non-covered" with advice letters, business descriptions, and other research as necessary to ensure proper classifications per ATR II; and
- Examined all nine instances in which affiliates were reclassified during the audit period to ensure that the utility properly reassessed the business activity based on the utility's reassessment files, advice letters, business descriptions, and other research.

### Conclusion

Based on the information provided and procedures performed, we concluded that SCE did not comply with ATR II.B (see Finding 2).

## **Affiliate Transaction Rule III**

### **Non-discrimination**

#### **Affiliate Transaction Rule 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. The following procedures were performed to determine whether any affiliates received preferential treatment regarding services provided by SCE:

- Reviewed the training strategy and training materials to ensure that the principle of non-discrimination was conveyed;
- Calculated the processing time for CISRs to ensure that the forms were processed in a consistent and nondiscriminatory manner;
- Verified whether the utility had an adequate process in place to remove new affiliates from the Service Provider Lists and requested all Services Provider Lists distributed by SCE during the audit period;
- Examined CCC operations, and requested copies of processes and procedures in place to prevent preferential treatment from occurring in communications between SCE, customers, and affiliates;
- Examined the list of solar contractors used by SCE customers during the audit period for evidence that customers preferred an SCE affiliate over other service providers;

- Reviewed the list of winning bids for evidence of preferential treatment;
- Requested all Notices of Availability for the audit period;
- Reviewed the process for assigning major account services to determine whether they were assigned on a non-discriminatory basis;
- Examined the grid interconnection process for evidence that SCE provided preferential treatment to covered affiliates while interconnecting and transmitting power to the grid;
- Reviewed four Independent Evaluator Reports for each bid in which an affiliate participated to determine whether the independent evaluator discovered that affiliates received preferential treatment;
- Reviewed the shortlists for RFO opportunities for any indication of preferential treatment for affiliates; and
- Requested all correspondence between SCE personnel and affiliates between the period of advertisement of the RFO and receipt of the affiliate's offer concerning SCE's RFO for generating resources.

### Conclusion

Based on the information provided and procedures performed, we concluded that SCE did not comply with ATR III.A (see Finding 3).

### **Affiliate Transaction Rule III.B – Affiliate transactions**

ATR III.B identifies transactions permitted by the ATRs 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 Commission-approved resource procurement by the utility, or as provided for in ATRs V.D (joint purchases), V.E (corporate support), and VII (new products and services).

We performed the following procedures to determine whether transactions between SCE and its affiliates were permissible:

- Requested a detailed transaction history report of all transactions between SCE and affiliates during the audit period and:
  - Traced the detail transaction history report to the Annual Report, Schedule C to confirm that transactions are reported completely;
  - Reviewed transaction account descriptions in the Annual Report, Schedule C (utility to affiliates) and Schedule D (affiliate to utility) to identify the nature of transactions and to determine whether these transactions were allowable; and
  - Selected a sample of 26 affiliate transactions, and reviewed supporting documents to determine whether transactions were limited to:
    - 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
  - Commission-approved resource procurement by the utility, or as provided for in ATRs V.D (joint purchases), V.E (corporate support), and VII (new products and services).
- Identified the type of resource procurement (as defined in ATR I.H) activities the utility engaged in with affiliates during the audit period. Obtained a listing of resource procurement contracts and confirmed that the utility received Commission approval;
  - Requested a listing of all resource procurement transactions with covered affiliates to determine whether the Annual Report contained the entire population of transactions with affiliates;
  - Obtained records maintained by the ACO showing that contracts between SCE and its affiliates were reported and approved by the Affiliates Officer;
  - Verified that SCE followed its established processes for RFO opportunities bid on by affiliates, and that an Independent Evaluator was involved in the process;
  - Requested all Notices of Availability completed and posted during the audit period;
  - Verified that SCE did not provide access to utility information, services, and unused capacity or supply except as allowed for in ATRs V.D, V.E, and VII;
  - Inquired about all discounts, rebates, or waivers of the charges or fees associated with services provided by SCE to affiliates, and confirmed that there were none;
  - Identified tariffed services offered to affiliates and examined a sample of four affiliate invoices to ensure that tariffed products and services were billed in accordance with the CPUC-approved rates; and
  - Identified requests for services processed by SCE to affiliates and its respective customers, and ensured that requests were processed for affiliates in the same manner and within the same time frame as for all other market participants.

#### Conclusion

Based on the information provided and procedures performed, we concluded that SCE did not comply with ATR III.B (see Finding 4).

Affiliate activities were as follows:

Covered Affiliate	Services SCE Provided to Affiliates	Services Affiliates Provided to SCE
Edison Mission Energy	Shared Support Non-Tariffed Products and Services Facilities Studies Agreement	None
Kern River Cogeneration Company	Large Generator Interconnection Agreements Non-Tariffed Products and Services	Power Purchase Agreements
Midway Sunset	Non-Tariffed Products and Services	None
Sycamore Cogeneration Company	Large Generator Interconnection Agreements Non-Tariffed Products and Services	Power Purchase Agreements
Walnut Creek Energy	SCE Tariff Large Generator Interconnection Agreements	Power Purchase Agreements
Watson Cogeneration Company	SCE Tariff Large Generator Interconnection Agreements Non-Tariffed Products and Services	Power Purchase Agreements
Non-covered Affiliate	Services SCE Provided to Affiliates	Services Affiliates Provided to SCE
Edison Capital	Shared Support	None
Edison Energy, Inc.	Shared Support	None
Edison Enterprises/Edison Source	Shared Support	None
Edison Insurance Services	Shared Support	Insurance
Edison Mission Group	Shared Support	None
Mission Land Company	Shared Support	None

Shared Support – SCE reported shared support services provided to its affiliates in the Annual Report.

NTP&S – SCE provided NTP&S to covered affiliates as shown above.

LGIA – SCE provided transmission services under the FERC LGIA Transmission Owner Tariff.

Facilities Studies Agreement – SCE provided a Facilities Studies Agreement to EME.

PPAs – Covered affiliates provided energy/capacity to SCE through PPAs.

Insurance – EIX’s Risk Management Department coordinates the purchase for EIX of “Global” liability, property, and other insurance policies covering EIX and its subsidiaries, including SCE.

#### **Affiliate Transaction Rule III.C – Tying of services provided by a utility prohibited**

ATR III.C prohibits SCE from tying the provision of services that it provides to the taking of any goods or services from its affiliates. We reviewed all SCE marketing materials to determine whether the tying of any purchase of goods or services from an affiliate was implied, offered, or provided.

#### Conclusion

Based on the information provided and procedures performed, we concluded that SCE complied with ATR III.C.



In 2012, SCE did not have any affiliates that offered retail services to its customers; therefore, customers could not be tied to SCE affiliates. However, in August 2013, EIX acquired SoCore Energy, the first affiliate to offer retail services to SCE customers in over 10 years. After the acquisition of SoCore Energy, SCE released an enterprise-wide communication and training plan to inform employees who interact with customers of the compliance requirements associated with the acquisition, including the prohibition of tying utility services with the taking of affiliate goods or services.

#### **Affiliate Transaction Rule III.D – No assignment of customers**

ATR III.D prohibits the utility from assigning its current customers to its affiliates under any circumstance unless the same opportunity is also available to all competitors. To determine whether SCE improperly assigned customers to its affiliates, we obtained a listing of customers who installed solar systems during the audit period and examined it for evidence that customers purchased systems from Class A affiliates over other service providers.

#### Conclusion

Based on the information provided and procedures performed, we concluded that SCE complied with ATR III.D.

With the acquisition of SoCore Energy, the risk of SCE assigning customers to its affiliates increased because SoCore Energy was the first non-utility affiliate to operate in SCE's service territory and market to its customers in over a decade.

To identify the presence of preferential treatment for SoCore Energy, we requested a log of SCE customers who installed solar systems during the audit period to determine if there was any evidence that SoCore Energy was the preferred solar contractor among SCE customers. We found that SCE customers installed 40,932 solar systems; however, SoCore Energy was not the solar contractor for any of those systems.

#### **Affiliate Transaction Rule 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 SCE provided business development or customer relations activities to its affiliates:

- Identified affiliates that provided products and services to SCE's customers;
- Reviewed advertisement material, bill inserts, and other sales and marketing material for evidence that SCE assisted with the business development of affiliates, specifically, SoCore Energy;
- Attempted to monitor customer-service calls during the audit period; and

- Identified instances of SCE providing assistance on business development, market evaluations, or any other information to affiliates.

#### Conclusion

Based on the information provided and procedures performed, we concluded that SCE complied with ATR III.E. Since the acquisition of SoCore Energy, SCE has designed additional training for employees who interact with customers to ensure that SCE does not provide information to or promote affiliate businesses.

#### **Affiliate Transaction Rule III.F – Affiliate discount reports**

ATR III.F states that if the utility provides an affiliate a discount, rebate, or other waiver of any charge or fee for products and services, the utility shall 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 performed the following procedures to determine whether SCE posted the Affiliate Discount Reports in a timely manner:

- Requested all Notices of Discounts provided to affiliates during the audit period; and
- Reviewed 14 affiliate invoices for evidence of discounts.

#### Conclusion

Based on the information provided and procedures performed, we concluded that SCE complied with ATR III.F, as it did not provide its affiliates a discount, rebate, or other waiver of any charge or fee associated with its products or services.

### **Affiliate Transaction Rule IV**

ATR IV provides the requirements that 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 FERC reporting requirements. We performed the following procedures to determine whether SCE (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:

- Verified whether CISRs provided to affiliates were processed in a nondiscriminatory manner, with prior affirmative customer written consent;
- Verified whether SCE released customer information to covered affiliates prior to posting electronic notices in the single instance of a CISR form between SCE and an affiliate;

- Reviewed a sample of 24 completed CISR forms between SCE and customers to ensure that SCE provided customer information to its affiliates and non-affiliated entities on an equal basis and with written customer consent;
- Reviewed SCE's website for disclosure of instances where non-customer-specific public information was shared with affiliates;
- Reviewed available minutes from 12 Board of Directors and Finance Committee meetings to identify whether affiliates were present during potentially sensitive discussions;
- Requested service provider lists that were distributed or made available to the public during the audit period to review them for affiliates;
- Inquired about the type of information that CCC representatives are permitted to release to customers;
- Requested written authorization for information provided to affiliates from unaffiliated suppliers;
- Noted instances in which requests for records for this audit were unsuccessful; and
- Reviewed 11 affiliate contracts and winning bid information for affiliates to ensure that SCE maintained records for the required three-year period.

#### Conclusion

Based on the information provided and procedures performed, we concluded that SCE did not comply with ATR IV.A, B, D, and F (see Findings 5 through 9).

## **Affiliate Transaction Rule V**

### **Separation**

#### **Affiliate Transaction Rule V.A – Corporate entities**

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

- Reviewed SCE's CY 2012 and CY 2013 Annual Reports, EIX's CY 2012 and CY 2013 10-K Reports, and Organization Charts of covered affiliates to ensure that SCE, its parent company, and its affiliates are separate corporate entities;
- Reviewed 11 Advice Letters identifying the creation of new affiliates and requested the Articles of Incorporation for these affiliates;
- Reviewed organizational charts and employee listings to determine whether SCE and its covered affiliates had separate employees, directors, and officers; and

- Reviewed Commission Resolution E-3539 regarding the provision for certain corporate officers to be shared between the utility and its affiliates.

#### Conclusion

Based on the information provided and procedures performed, we concluded that SCE complied with ATR V.A.

#### **Affiliate Transaction Rule V.B – Books and records**

ATR V.B requires the utility, its parent holding company, and its affiliates to maintain separate books and records in accordance with FERC established Uniform System of Account (USOA) and Generally Accepted Accounting Principles (GAAP). We performed the following procedures to ensure that SCE's records were consistent with reporting requirements:

- Reviewed SCE's CY 2012 and CY 2013 Form 10-K filings to determine whether books and records were kept in accordance with US GAAP;
- Reviewed SCE's CY 2012 and CY 2013 Annual Reports to determine whether books and records were kept in accordance with applicable USOA; and
- Verified that accounting records of EIX and affiliates were open and made available for review pursuant to Public Utilities Code sections 314 and 701.

#### Conclusion

Based on the information provided and procedures performed, we concluded that SCE complied with ATR V.B.

#### **Affiliate Transaction Rule 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 or information systems with its affiliates. We performed the following procedures to determine whether SCE maintained distinct and unshared space and resources:

- Examined policies and procedures to ensure that the utility and affiliates do not share:
  - Physical perimeter (facility) security
  - Physical data center security
  - Office space;
- Observed that visitors at SCE'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 an SCE employee is contacted to escort the visitor. Confirmed that affiliates are treated as visitors and are required to be escorted by an SCE employee;

- Reviewed SCE's policies and procedures related to computer and information-systems access;
- Obtained a list of employees who transferred from SCE to affiliates during the audit period, and confirmed that system access was terminated concurrent with the date of transfer;
- Obtained a network diagram depicting logical separation of affiliate and SCE networks, and determined whether affiliate virtual private network (VPN) tunnels are controlled by firewalls to restrict access to SCE resources;
- Traced seven transferred employees' suspension of access to the IT Access Request Log to verify that employees requested VPN access subsequent to their transfer dates;
- Confirmed that there were no covered affiliate IT Access Requests for the audit period;
- Selected a sample of 14 Systems, Applications, and Products (SAP) roles designated for affiliate use and obtained documentation that selected roles were approved by the ACO;
- Verified that the Washington, D.C. building had appropriate controls in place to ensure that EMG and SCE did not share office space; and
- Obtained evidence of the annual user access reviews performed during the audit period.

### Conclusion

Based on the information provided and procedures performed, we concluded that SCE complied with ATR V.C. SCE had appropriate procedures and mechanisms in place to prevent the sharing of office space, office equipment, services, and systems with its covered affiliates during the audit period.

### **Affiliate Transaction Rule V.D – Joint purchases**

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

- Gained an understanding of what type of joint purchases the utility engages in with its affiliates;
- Reviewed 17 joint purchasing agreements to determine that products or services associated with traditional utility merchant functions were not included;
- Reviewed SCE's procurement process, and requested supporting documentation for all 17 joint purchases to ensure that they were priced, reported, and conducted in a manner that permits clear identification of the utility and affiliate portions; and

- Requested the following documents for six joint purchasing arrangements:
  - Joint Purchase Notification Form
  - Joint Procurement Permission Letter
  - Master Agreement
  - Signed Purchase Order
  - Evidence of Affiliate Officer Approval

#### Conclusion

Based on the information provided and procedures performed, we concluded that SCE complied with ATR V.D. All joint purchase arrangements reviewed for the audit period were permissible joint purchases.

#### **Affiliate Transaction Rule 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 SCE shared with its affiliates 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, and marketing:

- Reviewed the training program implemented as a result of a prior audit recommendation, and obtained evidence that appropriate training was provided;
- Examined CY 2012 and CY 2013 Compliance Plans for evidence of corporate officer verifications;
- Identified shared officers as defined by ATR V.E;
- Examined SCE's list of shared services identified in the Corporate Support Matrix and reviewed 12 shareable functions, their detailed descriptions, and the allocation methodology used for corporate support;
- Examined SCE's processes and procedures for intercompany billing and cost allocation; and
- Reviewed a sample of 12 inter-affiliate bills and supporting cost details to verify that only services allowed under ATR V.E were being shared with affiliates.

#### Conclusion

Based on the information provided and procedures performed, we concluded that SCE complied with ATR V.E.

**Affiliate Transaction Rule V.F – Corporate identification and advertising**

ATR V.F prohibits shared advertising between the utility and its affiliates, and provides guidelines for corporate identification. We performed the following procedures to determine whether SCE and its affiliates shared advertising and corporate identification:

- Selected and reviewed all of SCE’s utility marketing documents to ensure that SCE did not:
  - Promote or advertise its affiliates’ affiliation with SCE
  - Represent preferential treatment of affiliates
  - Provide its affiliates with advertising space
  - Participate in joint advertising with affiliates;
- Verified whether SCE and covered affiliates jointly participated in conferences, trade shows, and marketing events in California;
- Examined SCE’s single self-reported incident of non-compliance with ATR V.F; and
- Confirmed that SCE’s research and development activities or investments in advanced research technology were not shared with or subsidized by its affiliates.

**Conclusion**

Based on the information provided and procedures performed, we concluded that SCE did not comply with ATR V.F.1 (see Finding 10).

**Affiliate Transaction Rule 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 SCE and its affiliates shared employees and complied with the provisions of ATR V.G for all employee movement:

- Verified whether any employee served as a board member or corporate officer for the holding company, the utility, and an affiliate simultaneously;
- Verified whether SCE jointly employed any employees with an affiliate other than those who perform allowed shared services;
- Confirmed that corporate officers from the utility and the holding company are appropriately described in the CY 2012 and CY 2013 Compliance Plans, and ensured that the utility is not sharing officers and directors as a conduit to circumvent any of the ATRs;
- Verified whether SCE appropriately notified the Commission’s Energy Division of any changes to its list of shared officers and directors within 30 days;

- Ensured that SCE reported all employee movement with affiliates in the Annual Reports, Schedule H;
- Reviewed the list of all transfers to ensure 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, then the employee was not retransferred, reassigned, or otherwise employed by an affiliate for two years; and (3) EIX was not used as a conduit to circumvent the required transfer fees;
- Confirmed that the transfer fee of 25% of an employee's base annual compensation was properly paid in the Affiliate Transfer Fee Memorandum Accounts' General Ledger balances;
- 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;
- Tested the Loaned Labor Report (LLR) for evidence that SCE implemented prior audit recommendations, and that no more than 5% of full-time equivalent utility employees were on loan during the audit period;
- Verified whether the utility made temporary or intermittent assignments or rotations to its energy marketing affiliates;
- Tested SCE's LLRs to determine if blanket requests were being made; and
- Tested all of SCE's monthly LLRs to determine compliance with the provisions of ATR V.G.2.e.

#### Conclusion

Based on the information provided and procedures performed, we concluded that SCE did not comply with ATRs V.G.1 and V.G.2.a (see Findings 11 and 12).

#### **Affiliate Transaction Rule 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 on the transfers of goods and services between SCE and its affiliates to determine whether they were allowable and priced accordingly:

- Examined all 27 property transfers (i.e., goods and services) between SCE and its affiliates to determine whether transfer prices were appropriately priced per the pricing provisions of ATR V.H; and
- Selected and examined affiliate invoices to determine whether tariffed services were priced in accordance with the CPUC-approved tariffed rates.



### Conclusion

Based on the information provided and procedures performed, we concluded that SCE complied with ATR V.H. In total, SCE transferred 54 pieces of property to EIX at book value, including office equipment, laptops, phones, and computer equipment.

## **Affiliate Transaction Rule VI**

### **Regulatory oversight**

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

- Reviewed SCE's CY 2012 and CY 2013 Compliance Plans to ensure that they were filed annually by June 30;
- Verified whether the Compliance Plans contained a list of all SCE affiliates specifying for each affiliate its purpose or activities, and whether the ATRs are applicable to the affiliate based on its classification;
- Confirmed that the Compliance Plans contained a demonstration of the procedures to ensure compliance with the ATRs;
- Reviewed the New Affiliate Notification Log from SCE's ACO to ensure that all new affiliates were included in the Compliance Plans;
- Reviewed the Affiliate Notification Log and calculated the elapsed time from the date the ACO was notified and:
  - The submission of Advice Letters notifying the CPUC of new affiliates, to ensure that the CPUC was notified with 60 days
  - The notification to the CPUC of new affiliates, to ensure that SCE complied with the three-day requirement;
- Requested that SCE provide evidence of the posting of all new affiliates on its website to ensure that new affiliates were posted within three days;
- Reviewed 11 Advice Letters to confirm that the CPUC was properly notified of new affiliates;
- Obtained and reviewed general ledger support for audit charges from the previous and current audit to ensure that costs were recorded to a shareholder expense account;
- Verified whether officers and employees were made available to testify before the Commission as necessary or required;
- Verified that Officer Certifications were filed annually by March 31 of the following year;
- Confirmed that each of the key officers has signed off and verified that certifications were signed after the period of compliance; and

- Compared the wording of the certifications to the wording in ATR VI.E and verified that SCE included the disclaimer for the audit period.

#### Conclusion

Based on the information provided and procedures performed, we concluded that SCE did not comply with ATR VI.A and B (see Findings 13 through 15).

## **Affiliate Transaction Rule 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 SCE complied with the accounting and reporting requirements for these products and services:

- Requested that SCE identify any new NTP&S categories for the audit period;
- Reviewed CPUC correspondence, Advice Letter 1286-E-A, to ensure that NTP&S offered by SCE meet the criteria of ATR VII.C;
- Examined the types of NTP&S contracts SCE entered into to ensure that the service provided meets the criteria of ATR VII.C;
- Reviewed the data supplied to the Commission in Advice Letter 1286-E-A to gain an understanding of SCE's evaluation of how existing NTP&S categories impact the marketplace;
- Reviewed all marketing materials related to NTP&S to ensure that ratepayers are not paying for advertising costs that should be paid for by the shareholders;
- Reviewed SCE's classifications of NTP&S categories to ensure that they were correctly classified as "active" or "passive" as approved in Advice Letter 1286-A-E and D.99-09-070;
- Inquired and confirmed that SCE had no property transfers with any affiliates for NTP&S;
- Reviewed all 11 NTP&S related advice letters/applications that SCE submitted to determine compliance with Public Utilities Code section 851; and
- Reviewed the NTP&S Periodic Reports to ensure that data required under ATR VII.H was included. Traced incremental costs and gross revenues to SAP General Ledger Details to ensure accuracy of reporting.

#### Conclusion

Based on the information provided and procedures performed, we concluded that SCE complied with ATR VII.

## **Affiliate Transaction Rule VIII**

### **Complaint procedures and remedies**

ATR VIII provides 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 SCE complied with requirements for resolving and reporting instances of rule violations:

- Requested copies of filed complaints;
- Inquired and confirmed with SCE's ACO that no complaints were filed during the audit period;
- Verified whether the CPUC imposed any enforcement remedies in conjunction with ATR VIII during the audit period;
- Verified the type of policies, procedures, and processes in place for preventing, detecting, and reporting ATR violations; and
- Examined SCE's single self-reported violation of the ATRs and its Responsive Action Plan to address future compliance.

### Conclusion

Based on the information provided and procedures performed, we concluded that SCE did not comply with ATR VIII.D (see Finding 16).

## **Affiliate Transaction Rule 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, conducted by an external consultant, that demonstrates that the utility has appropriate provisions in place to protect its assets should its parent company enter into chapter 11 bankruptcy. We performed the following procedures determine whether SCE is in compliance with this rule:

- Examined the ATR IX Annual Reports filed by SCE to ensure that they included the requirements listed in ATR IX.A, and that they were filed by November 30;
- Reviewed D.07-12-049 noting authorization of SCE's capital structure;
- Verified that SCE obtained a non-consolidation opinion demonstrating that SCE's ring-fencing provisions are sufficient to prevent SCE from being pulled into bankruptcy of its parent holding company;
- Verified that there were no applications for temporary waivers related to SCE's capital structure requirements filed for the audit period; and
- Verified that no changes had been made to the ring-fencing provisions.

### Conclusion

Based on the information provided and procedures performed, we concluded that SCE complied with ATR IX.

**Attachment 2—  
SCE's Response to  
Draft Audit Report**

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J. P. Shotwell  
Director  
Corporate Compliance &  
Information Governance

December 13, 2017

Mr. Andrew Finlayson  
Chief, State Agency Audits Bureau  
State Controller's Office  
P.O. Box 942850  
Sacramento, CA 94250-5874

**Re: Response to Draft Southern California Edison Audit Report on Affiliate Transaction Rules for Calendar Years 2012 and 2013 conducted by the California State Controller**

Dear Mr. Finlayson:

On November 17, 2017, Southern California Edison Company (SCE) received a copy of the Draft Audit Report entitled, "Southern California Edison Audit Report, Affiliate Transaction Rules for Calendar Years 2012 and 2013" (Draft Report) dated November, 2017. SCE respectfully provides detailed comments on each of the sixteen findings and recommendations and the one observation 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 would be 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 discussion would be beneficial. If you have any questions, please feel free to contact Randy Lisbin at (626) 302-2088 or [Randy.Lisbin@sce.com](mailto:Randy.Lisbin@sce.com).

Best regards,

A handwritten signature in black ink, appearing to read 'J.P. Shotwell', written over a printed name.

J.P. Shotwell

JPS:ads  
Encl.

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cc by email: Mr. Kenneth Corbridge, SCO (KCorbridge@sco.ca.gov)  
Mr. Jonathan Tom, CPUC (jonathan.tom@cpuc.ca.gov)

**Southern California Edison Company  
2012-2013 Affiliate Transactions Audit  
Response to Draft Audit Report Dated November 2017**

**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 2012-2013 Affiliate Transactions Audit (2012-2013 ATA) Draft Report (Draft Report) are generally minor, with minimal to no impact to customers or other electric market participants. Nonetheless, the Company has already commenced correcting the identified deficiencies where it is in agreement with the auditors, and will put in place additional or improved processes and procedures that will improve our monitoring and enhance our overall compliance with the Commission's Affiliate Transaction Rules (Rules).

SCE greatly appreciates the professional manner in which the State Controller's Office (SCO) conducted the 2012-2013 ATA.

**II. Audit Timeline**

The 2012-2013 ATA officially commenced with an entrance conference with the SCO on August 17, 2015. Field testing was completed in February, 2017, and an exit conference with the SCO took place on March 21, 2017. The Draft Report was received on November 17, 2017.

It took over two years to complete this audit. This time frame was longer than necessary and far longer than previous audits have taken. This led to an audit that was more costly and required more effort to support than previous such audits. Given the length of time to conduct this audit, it is now almost four years since the end of the audit period. The delay in conducting these audits makes responding to data requests more difficult, since pertinent subject matter experts may have left the Company or their recollections of specific situations may have faded. In addition, the delay in completing these audits means that any corrective actions implemented in response to the audit is also significantly delayed. Ideally, these audits should commence no later than several months following the close of the audit record period, and be completed within one year.

Below, we outline several opportunities to expedite future audits:

- ATA auditors should not independently evaluate energy procurement activities that have previously been reviewed by the Commission or an Independent Evaluator. Given all of the Commission oversight, as well as the requirement that an Independent Evaluator oversee any energy procurement solicitations involving

an affiliate, there is no need for the auditors to provide an additional review of those transactions to make sure that there was no preferential treatment. The nature of energy procurement is very complex and time-consuming for auditors to evaluate if they are not familiar with the industry and its practices and procedures. In addition, since the Independent Evaluator participates in communications on a real-time basis, their assessment is more relevant than an external auditor's assessment conducted two or more years after the fact.

- Instead of requiring the auditor to evaluate compliance with each and every Rule, the Commission should look at the current regulatory and business environment and have the auditor evaluate compliance with those Rules whose violation pose the greatest risk to ratepayers or the competitive market. The Rules were adopted almost 20 years ago, and the competitive energy market has changed significantly since then. Thus, auditing compliance with the Rules on a risk-adjusted basis should lead to a more efficient audit that is less time-consuming and less expensive to complete.
- In order to have the audit periods reviewed in a timely manner, the Commission should commence in early to mid-2018 an audit of the 2014 – 2017 period, or perhaps skip the 2014 – 2015 period and audit the 2016 – 2017 period.

### **III. Graphical Depiction of the Potential Impact of SCE Rule Violations**

The Draft Report includes a graphical depiction of the sixteen audit findings in terms of Severity of Potential Harm (shown on the horizontal axis) and Non-Compliance Magnitude (shown on the vertical axis). This graph has been commonly referred to as a "Heat Map."

SCE does not disagree with the scales for the vertical and horizontal axis of the Heat Map. However, when assessing the Severity of Harm and the Non-Compliance Magnitude, it should be based on the "actual" harm or severity and not the "potential" since the findings all relate to actual transactions. In addition, it would be beneficial to have an explanation of how the auditors define each of the 5 classifications on each of the axes (e.g., *Oversight, No Significant Impact, etc.*).

SCE disagrees with the placement on the Heat Map of Findings 2 and 4, and believes that Finding 1 should be changed to an observation and removed from the heat map. SCE's position is discussed in the sections below regarding the specific findings.

### **IV. Comments on Each of the 2012-2013 Audit Findings and Recommendations**

The Draft Report contains 16 findings and recommendations and 1 observation. SCE has carefully reviewed the findings and recommendations in the Draft Report. Below are SCE's response to each of the findings and recommendations. SCE does not repeat the text of the findings, in order to minimize the length of this response.



**Finding 1: Insufficient documentation to substantiate entities' ownership interest**

**Recommendation 1:**

*We recommend that SCE comply with ATRs I.A and VI.A by specifying the above-mentioned mechanisms and procedures in its future compliance plans, and conforming to these mechanisms and procedures in the future to determine and document affiliate classification.*

**SCE Response to Finding 1 and Recommendation 1:**

SCE disagrees with Finding 1. The finding incorrectly implies a noncompliance with the Rules. The auditors did not conclude that SCE incorrectly identified any entities either as an affiliate or a non-affiliate. The finding merely points to a failure of SCE to document its determination of whether an entity meets the definition of an Affiliate as set forth in Rule I.A.

The Rules do not require that a utility specifically create documentation of all of its processes that support compliance with the Rules.<sup>1</sup> However, the Rules do require that if such documents are created, that they be retained for future review in an audit. In most cases, the determination of whether an entity is an affiliate is very straight forward, since Edison International (EIX) generally has an ownership interest that is greater than the 5% threshold outlined in the Rule. Thus, these entities are clearly an affiliate under Rule I.A and documenting that determination is not necessary. It is only for those few entities (5 total to date), when the ownership stake is less than 5%, where it is relevant for SCE to look at the other criteria set forth in Rule I.A in determining if an entity is an affiliate. It is in these limited instances where it is important to document the determination.

In responding to its 2010-2011 Affiliate Transactions Audit, SCE implemented in 2015 a "New Affiliate Classification Form" that documents its determination of an affiliate. In addition, starting in May 2013, SCE began providing (as part of its New Affiliate Advice Letters required by Rule VI.B) the Energy Division additional information supporting SCE's determination of each new affiliate and classification as covered or not covered by the Rules. Thus, SCE has already implemented changes that fully document its determination of an affiliate and its classification as "covered" or "not covered."<sup>2</sup>

<sup>1</sup> 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 of tariff 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.

<sup>2</sup> SCE refers to affiliates covered by the Rules as "Class A Affiliates" and those not covered by the Rules as "Class B Affiliates."

For all of these reasons, this Finding should be reclassified as an "Observation" and removed from the Heat Map.

**Finding 2: Improper reclassification of covered affiliates**

**Recommendation 2:**

*We recommend that SCE comply with ATR II.B by consistently classifying affiliates according to the rules and SCE's Compliance Plans.*

*We also recommend that SCE request that CPUC evaluate SCE's definition of a covered affiliate to determine if the added day-to-day provision is appropriate and consistent with the spirit of the ATRs.*

**SCE Response to Finding 2 and Recommendation 2:**

SCE partially agrees with Finding 2 and Recommendation 2. In response to its 2006 ATA, SCE voluntarily agreed to classify a holding company that does not offer any products or services as a covered affiliate if the management of the holding company was involved in the day-to-day management of a covered affiliate. This situation arises when the officers or employees of the holding company are also officers of the covered affiliate. This practice goes beyond what is required by Rule II.B. SCE has consistently reflected this practice in its Annual Compliance Plans since 2007, all of which have been approved by the Commission.<sup>3</sup>

SCE agrees that the reclassification of Edison Energy was not consistent with the Company's stated practice in its Commission-approved Compliance Plans. This is because an officer at Edison Energy, the holding company, was simultaneously serving as an officer at covered subsidiaries. However, SCE disagrees with the SCO's position that Edison Mission Group (EMG) was incorrectly reclassified. At the time EMG was reclassified, all of the Edison Mission Energy (a covered affiliate) officers that were previously officers of EMG had been removed as officers of EMG. This was in anticipation of the bankruptcy of EME and its subsidiaries that occurred in December 2012. Once EME entered into bankruptcy, EIX and EMG no longer had any control over EME. Instead, the creditor committee and the bankruptcy court had control of EME.<sup>4</sup>

In addition, SCE disagrees with the auditor's position that a holding company, such as EMG, which only shares directors with its covered subsidiaries, necessarily creates a perceived organizational structure which "controls" a covered affiliate and should therefore itself be classified as a covered affiliate. This is not specified by nor envisioned

<sup>3</sup> SCE most recent annual compliance plan for 2017 was submitted on June 30, 2017 (Advice 3625-E) and approved by the Energy Division on August 2, 2017.

<sup>4</sup> Even though EIX no longer had "control" of EME and its subsidiaries, SCE continued to classify EME and its subsidiaries as covered or Class A Affiliates during the bankruptcy.

in Rule II.B, and it would constitute a change to the Rule. Rule II.B solely defines an affiliate as covered or not covered based on the products or services it offers. Since most holding companies do not offer products and services to the market, they would be classified as not covered under Rule II.B. Any change to Rule II.B as suggested by the auditor needs to be approved by the Commission through the appropriate procedure, and not through an audit recommendation.

SCE also disagrees with the placement of Finding 2 on the Heat Map. SCE agrees that the Severity of Actual Harm for Finding 2 should be *Unintended Preferential Treatment* (2), but that the Non-Compliance Magnitude should be an *Error Due to Unfollowed Procedure* (2) instead of *Incorrect Interpretation of the Rules* (4). As discussed above, SCE did have a practice for classifying holding companies that do not offer products or services themselves as covered affiliates if the management of the holding company was involved in the day-to-day management of the covered affiliate. However, in the case of Edison Energy, SCE did not follow its own practice and incorrectly reclassified it as a non-covered affiliate.

**Finding 3: Lack of sufficient records to substantiate absence of affiliate preferential treatment**

**Recommendation 3:**

*We recommend that SCE comply with ATRs III.A and IV.F by ensuring that records are maintained to substantiate that no preferential treatment occurred in utility and affiliate transactions.*

**SCE Response to Finding 3 and Recommendation 3:**

SCE agrees with certain aspects of Finding 3 and Recommendation 3, but, generally disagrees with their conclusions. In general, SCE believes that many of the transactions SCO claimed that it could not review are not actually affiliate transactions at all.

The SCO claims that SCE did not maintain all of the records related to certain transactions during the 2012-2013 audit period. SCO further claims that, as a consequence, it was not able to determine whether these transactions might have been subject to preferential treatment being provided by SCE to a covered affiliate.

The SCO cites five information areas that it could not adequately review for affiliate transactions purposes:

- (1) SCE's Customer Call Center (CCC) recordings of customer calls as well as related processes, procedures, and training material. SCO cites that they specifically wanted to review SCE's handling of customer inquiries related to solar energy providers.

- (2) Contract-related emails and correspondence related to Combined Heat and Power (CHP) Request for Offers (RFOs).
- (3) Service Provider Lists of energy efficiency and demand response program contractors vendors maintained on SCE.com.
- (4) Notices of Availability of supply, capacity, or services posted on SCE.com which are made available to other market participants that are offered to covered affiliates under the same terms and conditions.
- (5) Promotional Material that SCE used at trade shows in 2013. SCO reviewed this information for 2012 and determined that there were no instances of preferential treatment. Due to an SCE organizational change, the 2013 material was inadvertently not retained.

SCE agrees that the Service Provider List shown on SCE.com should be retained for each year, not just the most recent list of providers. Toward that end, SCE is developing internal processes for retaining and storing this information that should be in place by the beginning of 2018. This also means that the Service Provider List information will not be complete for the recorded years 2014-2017, and future affiliate audits of that period will need to reflect this.

SCE does not believe that most of the SCE services and offerings information contained in the Notices of Availability list shown on SCE.com relate at all to affiliate transactions. Nevertheless, SCE is also developing an internal process for storing all of this information, not just the most recent information. Again, this process should be in place by the beginning of 2018. It will not be available for the 2014-2017 audit years.

The promotional material that SCO is referring to is related to the promotion of various SCE programs and safety-related messages that are directed at SCE customers. They are not tools to promote or otherwise advertise affiliate services. Thus, SCE believes that, other than certain promotional material that would require the disclaimer language on it, this information should not be construed as related to affiliate transactions. Nevertheless, SCE is developing an internal process to help ensure that all SCE promotional material is maintained for review in future audits.

SCE believes that the emails and communications related to resource procurement that the SCO claimed it could not adequately review are better suited for review in proceedings and by entities that have been specifically established to independently review such information. Reviewing this material as part of an affiliate audit is duplicative and unnecessary. In fact, as a matter of practice, the Commission requires that SCE use an Independent Evaluator (IE) for resource procurement solicitations that involve an affiliate. The purpose of the IE is to make sure that the solicitation process is undertaken in a fair, consistent, unbiased, and objective manner. In other words, to help ensure all participants are treated equally so that the best resources are selected, consistent with the solicitation requirements. The IE specifically monitors emails and communications between SCE and affiliates during the solicitation. The IE provides an independent report

to the Commission after each solicitation. Among other things, the IE reports describe whether and how SCE's outreach activities resulted in a robust response in terms of the number of respondents as well as the quantity and quality of proposals received.

The IE specifically reported that SCE did not provide preferential treatment to any affiliates that participated in SCE's 2011 RFO and 2013 RFO. SCE provided these IE reports to the auditor during the audit. A review of SCE's historical RFOs or other resource procurement activities as part of the ATA is untimely, and results in conclusions that are of very limited usefulness and which might be at odds with the earlier conclusions of the IE or conclusions reached in another regulatory proceeding. Lastly, as a result of this finding, we confirmed that all substantive emails between SCE and affiliates related to resource procurement solicitations are archived and can be produced if requested.

SCE disagrees that customer calls coming through SCE's Customer Call Centers are affiliate transactions. SCE does not provide any customer communication or contact services to its affiliates. SCE has procedures and training in place at its call centers that specifically instruct its representatives to not provide any information about its affiliates, even if asked by a customer. These procedures and training were provided to the auditors during the audit.

SCE receives in excess of 15 million calls from customers each year, of which approximately 40% are handled by a representative.<sup>5</sup> These calls relate to routine utility activities such as turn on/turn off service, outage information, bill payment options, SCE customer programs, etc. For quality control and training purposes, SCE retains calls that come into its call centers for one year.<sup>6</sup> Retaining the calls handled by SCE employees that come into SCE's call centers for more than 1 year will cost approximately \$100,000 per year.<sup>7</sup> Thus, to retain one year's worth of these calls for up to 5 years could run in excess of an additional \$400,000.

The sole affiliate compliance purpose of retaining calls is to confirm that SCE did not provide any preferential treatment to its affiliates when handling routine utility customer transactions. In prior affiliate transactions audits, the auditors have confirmed this by reviewing SCE's procedures and training that were in-force during the audit period, interviewing call center employees and management, and listening to current calls. This approach is much more efficient than retaining millions of calls for each two-year audit period. However, if instructed by the Energy Division to retain historical call center calls, SCE proposes that a random sampling of calls handled by SCE employees be retained, rather than all of the calls. SCE will commence retaining a random sampling of the calls

<sup>5</sup> Approximately 60% of the calls are handled by the Interactive Voice Response system and do not involve a representative.

<sup>6</sup> SCE uses a third-party call center for handling calls related to turn-ons, outage information and credit inquiries. These calls amount to approximately 50% of SCE's call volume that requires interaction with a representative.

<sup>7</sup> This estimate does not include calls handled by the third-party call center. Employees of the third-party call center are not aware of SCE's affiliates and thus cannot provide any preferential treatment or information.

handled by SCE employees starting January 2018, until we hear otherwise from the Energy Division.

**Finding 4: Affiliate Transactions not disclosed in Section D of the Annual Report**

**Recommendation 4:**

*We recommend that SCE comply with ATR III.B by reporting all required transactions between SCE and affiliates in Schedule D of the Annual Report in accordance with D.95-02-019 and its Compliance Plans.*

**SCE Response to Finding 4 and Recommendation 4:**

SCE agrees with Finding 4 and Recommendation 4. It did not include energy procurement transactions in Section D of the 2012 and 2013 Annual Affiliate Transactions Reports. However, this information was included in Section B of those years' reports, so the Commission was made aware of the information.

Because there were no energy purchase transactions with affiliates in 2016, SCE provided a footnote clarifying this fact in Schedule D of its 2017 Annual Affiliate Transactions Report. In future Annual Affiliate Transactions Reports, SCE will include any energy procurement transactions with affiliates in Schedule D.

SCE agrees that the Severity of Harm for this finding should be *No Significant Impact (1)*. However, the Non-Compliance Magnitude should be *Oversight (1)* instead of *Incorrect Interpretation of the Rules (4)*. When SCE prepared its Annual Affiliate Transactions Report, it fully included the costs of affiliate energy transactions in Appendix B of the report. It was an oversight that these costs were also not included in Appendix D.

**Finding 5: Improper release of customer information to a covered affiliate before posting a required electronic notice**

**Recommendation 5:**

*We recommend that SCE comply with ATR IV.A by providing customer information to covered affiliates on a non-discriminatory basis, pursuant to mechanisms and procedures specified in its compliance plan and in accordance with Commission Resolution E-3539*

**SCE Response to Finding 5 and Recommendation 5:**

SCE agrees with Finding 5 and Recommendation 5. SCE improperly released customer information to a Class A affiliate as part of its Customer Information Service Request (CISR) process. While SCE followed all of the standard steps of its CISR process, it did not follow the unique step related to releasing customer information to affiliates. In the

Instance cited by the auditor, SoCore Energy was provided customer information prior to SCE posting electronic notice of its release as required by the Rules.

All other aspects of the CISR process were correctly followed. As part of the CISR process, a customer designates to whom they want their information sent. In this case, the customer *identified SoCore Energy* as their energy information recipient. Therefore, no other market participants were adversely impacted by the release of this specific customer's information to SoCore Energy prior to the placement of the electronic notification. SCE has already modified its CISR procedures to help ensure that the customer information release notice is posted electronically prior to releasing information to a covered affiliate.

**Finding 6: Covered affiliate employees likely present during discussions of sensitive and non-public information at SCE/EIX board meetings**

*The review of SCE/EIX Board of Director and Finance Committee meetings minutes revealed that in 2012, a Class A affiliate, Edison Mission Group (EMG), appeared to have been present during potentially sensitive and non-public discussions. Of the 12 sampled board minutes examined, we noted that EMG was present for 5 of the joint meetings of SCE and EIX.*

**Recommendation 6:**

*We recommend that SCE comply with ATR IV.B by establishing additional mechanisms and procedures in its Compliance Plans, and conducting joint Board meetings pursuant to mechanisms and procedures specified in future compliance plans.*

**SCE Response to Finding 6 and Recommendation 6:**

SCE disagrees with Finding 6. The auditors claim that of the 12 EIX Board of Directors and Finance Committee meetings that they sampled for review during the audit period, 5 of the meetings appeared to have a member of a covered affiliate (EMG) in attendance during discussions involving non-public information. The audit report goes on to say, "Although SCE indicated that EMG employees were excused from certain topics, due to the limited contents of these minutes, we could not determine the extent to which the covered affiliate was present and privy to non-permissible affiliate transaction-related information."

In response to this finding, SCE reviewed the minutes of each of the 12 meetings. Like the auditors' conclusion, SCE also determined that an EMG employee was in attendance during 5 of the meetings. However, SCE also determined that for each of the 5 meetings where the EMG employee was in attendance, there is a footnote in the meeting minutes which explains the employee's attendance. For each meeting, this footnote clearly

indicates the portion of the meeting, and the topics discussed, where the EMG employee was excused from the meeting and thus was not privy to the ensuing discussion.

In reviewing all of the meeting minutes as well as supporting materials or presentations for the topics discussed, SCE determined there was only one instance where non-public information may have been inappropriately shared with a covered affiliate employee. This Board meeting was held on June 21, 2012. While the minutes show the EMG employee stepping out of the meeting for 4 of the 7 topics, he is shown as being present for a discussion on SCE's strategy regarding the Chino Hills Transmission Line which is a short segment through the city of Chino Hills. On, November 20, 2017, SCE provided a summary table to the auditor that identified the topics of each meeting and when the EMG employee was excused.

SCE agrees with Recommendation 6, and in late 2016 it implemented enhanced processes related to how Board of Director meetings would be monitored to prevent the release of non-public SCE information to covered affiliates.

**Finding 7: Non-public information shared with affiliates**

*During CY 2012 and CY 2013, SCE discovered and disclosed on their website – SCE.com – seven instances of improper non-public utility information that was shared with Class A affiliates.*

**Recommendation 7:**

*We recommend that SCE establish and implement sufficient mechanisms and procedures to ensure compliance with ATR IV.B.*

**SCE Response to Finding 7 and Recommendation 7:**

SCE agrees with Finding 7 but believes that Recommendation 7 is unnecessary. SCE simply notes that in most of the instances referenced, the non-public information sent to covered affiliates were inadvertent emails sent to individuals at the affiliate that have the same name as a utility employee. As soon as SCE became aware that these inadvertent emails occurred, a notice of availability of the information was posted on SCE.com as required by Rule IV.B. Commencing in late 2014, SCE made certain changes to its email system that separated the SCE and affiliate email directories. This minimized the possibility of this problem happening again. In fact, there have been no instances of this situation occurring since these changes to the email system were implemented.



**Finding 8: Lack of written affirmative authorization from suppliers**

**Recommendation 8:**

*We recommend that SCE comply with ATR IV.D by obtaining written authorization from its suppliers prior to providing non-public information to its covered affiliates.*

**SCE Response to Finding 8 and Recommendation 8:**

SCE agrees with Finding 8 and Recommendation 8. Subsequent to the 2012-2013 audit period, SCE implemented a new procurement platform to manage and record its non-energy procurement activities. As part of its capabilities, SCE obtains and records prior written authorization from suppliers for joint procurements. This system also requires approval of the Affiliate Compliance Office which provides an additional verification that the proper written authorization has been obtained.

By way of clarification, it should be noted that SCE's Supply Chain Management did not decide that Permission Letters were no longer necessary, as noted in the auditor's report. SCE continues to use Permission Letters as part of its joint procurement process. Rather, Supply Chain stopped using its Joint Procurement Notification Form sometime prior to 2012-2013.

**Finding 9: Unavailable external records to support separate corporate entities**

**Recommendation 9:**

*We recommend that SCE comply with ATR IV.F by maintain all records for affiliate transactions for a minimum of three years pursuant to the mechanisms and procedures specified in its compliance plan.*

**SCE Response to Finding 9 and Recommendation 9:**

SCE agrees with Finding 9 and Recommendation 9. The lack of records and articles of incorporation for certain Class A affiliates referenced in this finding were directly a consequence of a unique situation that existed in this audit period. Corporate governance documents related to Edison Mission Energy (EME) and its affiliates have historically been maintained and available from EME. However, with the bankruptcy of EME in December, 2012, followed by its asset sale to NRG Energy in August, 2014, these documents were transferred to the new owner.

Beginning in May, 2013, SCE modified its new affiliate creation process. From that point forward, not only does SCE make sure that it receives copies of the affiliate formation documents, it also provides them to the Energy Division as part of its New Affiliate Advice Letter required by Rule VI.B.

**Finding 10: Improper corporate advertising**

**Recommendation 10:**

*We recommend that SCE comply with ATR V.F.1 by including the required disclaimer language in advertisements that reference an affiliate.*

*SCE informed the CPUC of the violation, therefore no further follow up is necessary.*

**SCE Response to Finding 10 and Recommendation 10:**

SCE agrees with Finding 10 but believes that Recommendation 10 is unnecessary. Since SCE already mitigated the issue and informed the Commission as soon as it became aware of the violation, there is no further action to take.

On September 27, 2013, SCE became aware of an SCE advertisement in the Orange County Business Journal that referenced SoCore Energy (a covered affiliate) but did not include the affiliate disclaimer required by Rule V.F.1. SCE immediately took steps to remediate this situation including purchasing all of the copies that were available on newsstands. On October 2, 2013, SCE self-reported this situation to the Commission and subsequently met with Commission staff to discuss the situation, and outline SCE's remediation steps and plan to implement new internal controls to prevent this situation from happening again. On January 31, 2014, the Commission's Safety & Enforcement Division accepted SCE's Responsive Action Plan and determined that no further action would be taken by the Commission.

**Finding 11: Untimely notification of shared officers to CPUC**

**Recommendation 11:**

*We recommend that SCE comply with ATR V.G.1 by identifying and notifying CPUC of changes to shared officers within 30 days of the change.*

**SCE Response to Finding 11 and Recommendation 11:**

SCE agrees with Finding 11 and Recommendation 11. SCE has reinforced its existing process for such notifications.

**Finding 12: Undisclosed employee transfer**

**Recommendation 12:**

*We recommend that SCE comply with ATR V.G.2.a by ensuring that all employee movements between SCE and its affiliates are properly reported in its Annual Report.*

**SCE Response to Finding 12 and Recommendation 12:**

SCE agrees with Finding 12 but believes that Recommendation 12 is unnecessary. Of the 40 employees transferring between SCE and EIX during the 2012-2013 audit period, there was a single employee that SCE inadvertently excluded from the employee transfer list in the Annual Affiliate Transactions Report. All other processes and procedures related to the transfer of this employee were appropriately followed and in accordance with the transfer rule. Thus, SCE does not believe that any additional processes or procedures are necessary.

**Finding 13: Entities Improperly reported as affiliates in CY 2012 and CY 2013 Compliance Plans**

**Recommendation 13:**

*We recommend that SCE comply with ATR VI.A by establishing mechanisms and procedures to ensure that its Compliance Plan contains only entities that are affiliates, as defined in ATR I.A.*

**SCE Response to Finding 13 and Recommendation 13:**

SCE agrees with this Finding 13 and Recommendation 13. A limited number of almost entirely former non-covered affiliates were erroneously included in the 2012 and 2013 Affiliate Compliance Plans when they should have been removed, since they had been sold or otherwise dissolved. Given that these entities were no longer considered affiliates, there was no harm created by their inclusion in the list of affiliates submitted with the annual Compliance Plan.

**Finding 14: Untimely three-day new affiliate notification**

**Recommendation 14:**

*We recommend that SCE comply with ATR VI.B by conforming to its Compliance Plans to ensure immediate notification to the CPUC of the creation of new affiliates.*

**SCE Response to Finding 14 and Recommendation 14:**

SCE agrees with Finding 14 and Recommendation 14. While the EME Western Holdings Company affiliate was created as a Class A affiliate on October 16, 2012, SCE did not notify the Commission until October 23, 2012. Because weekend days are not counted in the required three day Commission notification period, SCE actually missed the requirement by only two business days. This is the only instance out of 42 notifications during the audit period that SCE did not submit on time.

**Finding 15: Two non-covered affiliates not reported to the CPUC**

**Recommendation 15:**

*We recommend that SCE comply with ATR VI.B by providing the required notification for newly created affiliates pursuant to its compliance plans.*

**SCE Response to Finding 15 and Recommendation 15:**

SCE agrees with Finding 15 but finds Recommendation 15 unnecessary. SCE failed to report 2 of the 44 affiliates created during the 2012-213 audit period. Because of the EME bankruptcy that was transpiring during that period, EME created these two affiliates specifically to facilitate the bankruptcy process. These affiliates did not provide any products or services and did not take any services from SCE. In all of the activity surrounding the bankruptcy, EME failed to notify SCE of these specially created affiliates. Hence, this was a very unique situation which would be unlikely to happen again, thereby making Recommendation 15 unnecessary.

**Finding 16: Non-conformance and remedies**

**Recommendation 16:**

*We recommend that SCE comply with ATR VIII.D by implementing policies and procedures to report affiliate rule non-compliance to the CPUC, and including these mechanisms and procedures in its compliance plans.*

**SCE Response to Finding 16 and Recommendation 16:**

SCE partially agrees with Finding 16 and Recommendation 16, but only where they apply to the Findings and Recommendations above where SCE is in agreement with the SCO. As such, Finding 16 and Recommendation 16 amount to a "double counting" of all previous Findings and Recommendations made by the SCO. As a practical matter, Finding 16 and Recommendation 16 serve no purpose as a guide to either the Commission or SCE regarding Rules compliance.

**Observation 1: Annual Officer Certification inconsistent with the required language**

**Recommendation 1:**

*We recommend that the CPUC evaluate SCE's submitted annual Officer Certifications to determine whether the added disclosure meets the requirements of ATR VI.E.*

**SCE Response to Observation 1 and Recommendation Related to Observation 1:**

SCE disagrees with Observation 1 and the associated recommendation. SCE has included this footnote on its officer certifications since 2007 when this requirement became effective. In addition, this observation has been raised in multiple Affiliate Transactions Audits. To date, SCE has not received any direction regarding this footnote and will continue to include it unless directed otherwise by the Commission.

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