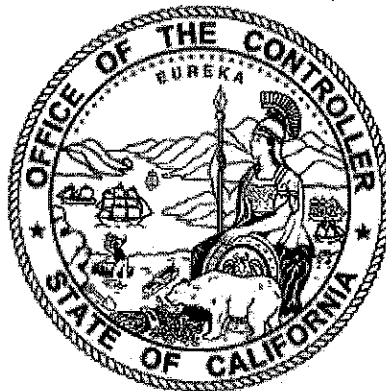


# **PACIFIC GAS AND ELECTRIC COMPANY**

Audit Report

## **AFFILIATE TRANSACTION RULES**

*For Calendar Years 2012 and 2013*



**BETTY T. YEE**  
California State Controller

January 2018



**BETTY T. YEE**  
California State Controller

January 3, 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 Pacific Gas and Electric Company (PG&E)—an Investor Owned Utility (IOU)—for calendar year (CY) 2012 and CY 2013. The purpose of the audit was to determine whether PG&E'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 PG&E has adequate mechanisms and procedures in place to ensure compliance with the ATRs; however, we noted several instances of non-compliance that did not significantly impact PG&E's ability to conform to the ATRs. Regardless, PG&E 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 that reads "Jeffrey V. Brownfield".

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/as

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

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# Audit Report

## Summary

The State Controller's Office (SCO), pursuant to Interagency Agreement No. 14IA5019 with the California Public Utilities Commission (CPUC), conducted an audit of Pacific Gas and Electric Company (PG&E)—an Investor Owned Utility (IOU)—for calendar year (CY) 2012 and CY 2013. The purpose of the audit was to determine whether PG&E'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.

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 PG&E has adequate mechanisms and procedures in place to ensure compliance with the ATRs; however, we noted several instances of non-compliance that did not significantly impact PG&E's ability to conform to the ATRs. Regardless, PG&E 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 (R.) 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 (CY 2012 and CY 2013). 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 select an Affiliate Compliance Manager to ensure that the mechanisms and procedures conform to the ATRs. In addition, as required, the IOU submits an annual affiliate transaction report to disclose affiliate activities.

### **Pacific Gas and Electric Company**

PG&E is a CPUC-regulated public utility. Incorporated in California in 1905, PG&E is one of the largest combined natural gas and electric energy companies in the United States. Based in San Francisco, the company is a subsidiary of PG&E Corporation.

PG&E provides natural gas and electricity service to approximately 16 million people throughout a 70,000 square mile service area in northern and central California. Its service area stretches from Eureka in the north to Bakersfield in the south, and from the Pacific Ocean in the west to the Sierra Nevada in the east. PG&E has 4.3 million natural gas customer accounts; 5.4 million electric customer accounts; 141,215 circuit miles of electric distribution lines; 18,616 circuit miles of interconnected transmission lines; 42,141 miles of natural gas distribution pipelines; and 6,438 miles of transportation pipelines.

PG&E Corporation is the parent (holding) company for its subsidiaries, which are all affiliates of PG&E. PG&E is a wholly owned subsidiary of PG&E Corporation, with 23 subsidiaries/affiliates of its own. Of the 23 affiliates, 11 are covered and 12 are non-covered per Rule II.B.

During the audit period, PG&E did not engage in any tariffed or non-tariffed transactions with affiliates. Recorded and reported transactions were for corporate support services between PG&E Corporation, PG&E, and their affiliates.

Approximately 24,000 employees were working for the PG&E Corporation during the audit period. The separation of PG&E from its affiliates is documented in its Annual Report on Significant Utility-Affiliate Transactions (Annual Report) submitted to the CPUC. Accordingly, PG&E maintains internal control standards to ensure compliance with the ATRs.

### **Prior Review**

Pursuant to Rule VI. C, the Commission requires that affiliate transaction audits be performed biennially by independent auditors. NorthStar Consulting Group conducted an audit of PG&E's CY 2010 and CY 2011 affiliate activities. The report, issued in August 2014, found that approximately 70 of 80 subsections of the ATRs were applicable to PG&E's affiliate activities.

## Objective, Scope, and Methodology

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

- PG&E's Annual Affiliate Transaction Compliance Plans (Compliance Plans) were in accordance with the ATRs;
- PG&E had adequate systems in place to enforce the ATRs;
- PG&E 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);
- PG&E properly classified affiliates as "covered" or "non-covered" according to ATR II.B; and
- PG&E complied with ATR VII regarding utility products and services—nontariffed products and services.

To achieve our audit objective, we:

- Reviewed the prior ATR report for CY 2010 and CY 2011, issued by NorthStar Consulting Group in August 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;
- Interviewed key PG&E 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 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 Appendix 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 rate-payer's protected personal information, and to ensure that such information is available and disseminated only through an IOU's Affiliate Compliance Manager. All information requested by the SCO was approved by PG&E's Affiliate Compliance Manager in its Regulatory Department (formerly known as the Ethics and Compliance Department).

We conducted this performance audit in accordance with *Generally Accepted 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 bases for our findings and conclusions based on our audit objective.

We did not audit PG&E's financial statements. We limited our scope to planning and performing audit procedures necessary to gain an understanding of the policies, procedures, processes, administrative and accounting functions in effect for the audit period 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, PG&E 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 PG&E's ability to substantially comply with the ATRs.

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

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

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

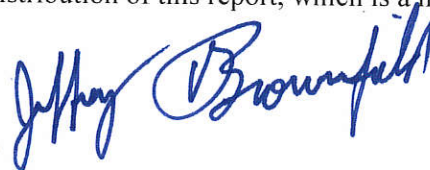
## **Views of Responsible Officials**

We issued a draft report on July 31, 2017. Sujata Pagedar, Director, General Counsel Risk and Compliance, PG&E, responded by letter dated August 18, 2017 (Attachment 2). Ms. Pagedar did not disagree with the audit results and stated that subsequent to the audit period, PG&E has implemented mechanisms and procedures to assure customer release of information only upon written customer request – Finding 2. PG&E did not respond to Findings 4, 5, 6, and 12.

As for complying with ATR III to disclose instances of non-compliance to CPUC, for Findings 1, 3, and 7 through 11, PG&E states that issuance of this final report to CPUC will satisfy the reporting requirement.

## **Restricted Use**

This report is solely for the information and use of PG&E, 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 report, which is a matter of public record.



JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

January 3, 2018



## Summary of Audit Results

Affiliate Rule	Section	Brief Rule Description	Compliance (Yes / No / No Activity)	Observation	Reference
<b>I</b>		<b>Definitions</b>			
	A	"Affiliate"	No	PG&E lacks formal policies and procedures or approval process to classify affiliates. PG&E failed to properly classify an affiliate as defined by Rule I.A.	Finding 1
	B-H	Definitions	No Activity <sup>1</sup>		
<b>II</b>		<b>Applicability</b>			
	A	Rules Applicability/Coverage	No Activity <sup>1</sup>		
	B	Applicability to Gas and Electric Products and Services	No	PG&E has inadequate procedures in place to properly categorize affiliates that are covered by Rule II.B, hereafter also referred as covered affiliates. We found that five affiliates, which the prior audit had determined to be improperly classified as non-covered affiliates, had remained misclassified for CY 2012 and CY 2013.	Finding 1
	C	Violate/ Circumvent Rules	Yes		
	D-H	Applicability Coverage	No Activity <sup>1</sup>		
<b>III</b>		<b>Nondiscrimination</b>			
	A	Nondiscrimination/Preferential Treatment	Yes		
	B	Affiliate Transactions	Yes		
	B.1	Resource Procurement	No Activity <sup>2</sup>		
	B.2	Provision of Supply, Capacity, Services or Info			
	B.3	Offering Discounts			
	B.4	Tariff Discretion			
	B.5	No Tariff Discretion			
	B.6	Processing Requests for Services Provided by the Utility			
	C	No Tying of Services	Yes		
	D	No Assignment of Customers	Yes		
	E	No Business Development	Yes		
	F	Affiliate Discount Reports	No Activity <sup>2</sup>		
<b>IV</b>		<b>Disclosure and Information</b>			
	A	Customer Information	No	PG&E released customer information without prior affirmative customer written consent.	Finding 2
	B	Non-Customer Specific Non-Public Information	No	PG&E inappropriately permitted an employee of a covered affiliate to have access to PG&E computer and information systems.	Finding 3
	C	Service Provider Information	Yes		
	D	Supplier Information	Yes		
	E	Affiliate Advise/Assistance	Yes		
	F	Record-Keeping	Yes		
	G	Maintenance of Affiliate Contracts and Related Bids	Yes		
	H	FERC Reporting Requirements	No Activity <sup>1</sup>		

## Summary of Audit Results (continued)

Affiliate Rule	Section	Brief Rule Description	Compliance (Yes / No / No Activity)	Observation	Reference
V	<b>Separation</b>				
	A	Corporate Entities	Yes		
	B	Separate Books and Records	Yes		
	C	Shared Plant and Facilities	No	Same as Rule IV.B. non-compliance; PG&E inappropriately permitted an employee of a covered affiliate to have access to PG&E computer and information systems.	Finding 3
	D	Joint Purchases	Yes		
	E	Shared Corporate Support	No	PG&E improperly billed a covered affiliate, Fuelco, LLC, for a fixed charge during CY 2013.	Finding 4
			No	PG&E provided \$85,975 for non-permitted recruitment services to a covered affiliate, PG&E Corporation Support Services, Inc.	Finding 5
	F.1	Corporate Identification and Advertising	Yes		
	F.2	Preferential Treatment	Yes		
	F.3	No Utility Billing Envelope Advertising Space to Affiliates	Yes		
	F.4	No Joint Advertising or Marketing	Yes		
	F.5	No Research and Development Subsidization	Yes		
	G.1	No Joint Employees	No	PG&E did not disclose a shared Director in the Compliance Plans for CY 2012 and CY 2013.	Finding 6
	G.2.a	Tracking Employee Movement	No	PG&E did not report 17 non-covered affiliate employee transfers to the utility in the CY 2012 Annual Report of Affiliate Transactions.	Finding 7
	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	No	\$803,442 of unreported loaned labor for affiliate STARS Alliance, LLC.	Finding 8	
H	Transfer of Goods and Services	Yes			
VI	<b>Regulatory Oversight</b>				
	A	Compliance Plans	Yes		
	B	New Affiliate Notifications	Yes		
	C	Affiliate Transactions Audit	Yes		
	D	Witness Availability	Yes		
E	Officer Certifications	No	Officer certification forms utilized by PG&E have been filed with a modified disclosure statement. PG&E did not make available a required shared officer certification for shared officer, Steven L. Kline, Chief Regulatory Officer for CY 2012.	Finding 9	
VII	<b>Utility Products and Services (Nontariffed product and services - NTP&amp;S)</b>				
	A	General Rule	No Activity <sup>1</sup>		
	B	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	No	PG&E did not perform periodic audits on new Nontariffed Products and Services (NTP&S) costs and revenues during CY 2012 and CY 2013.	Finding 10
	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			

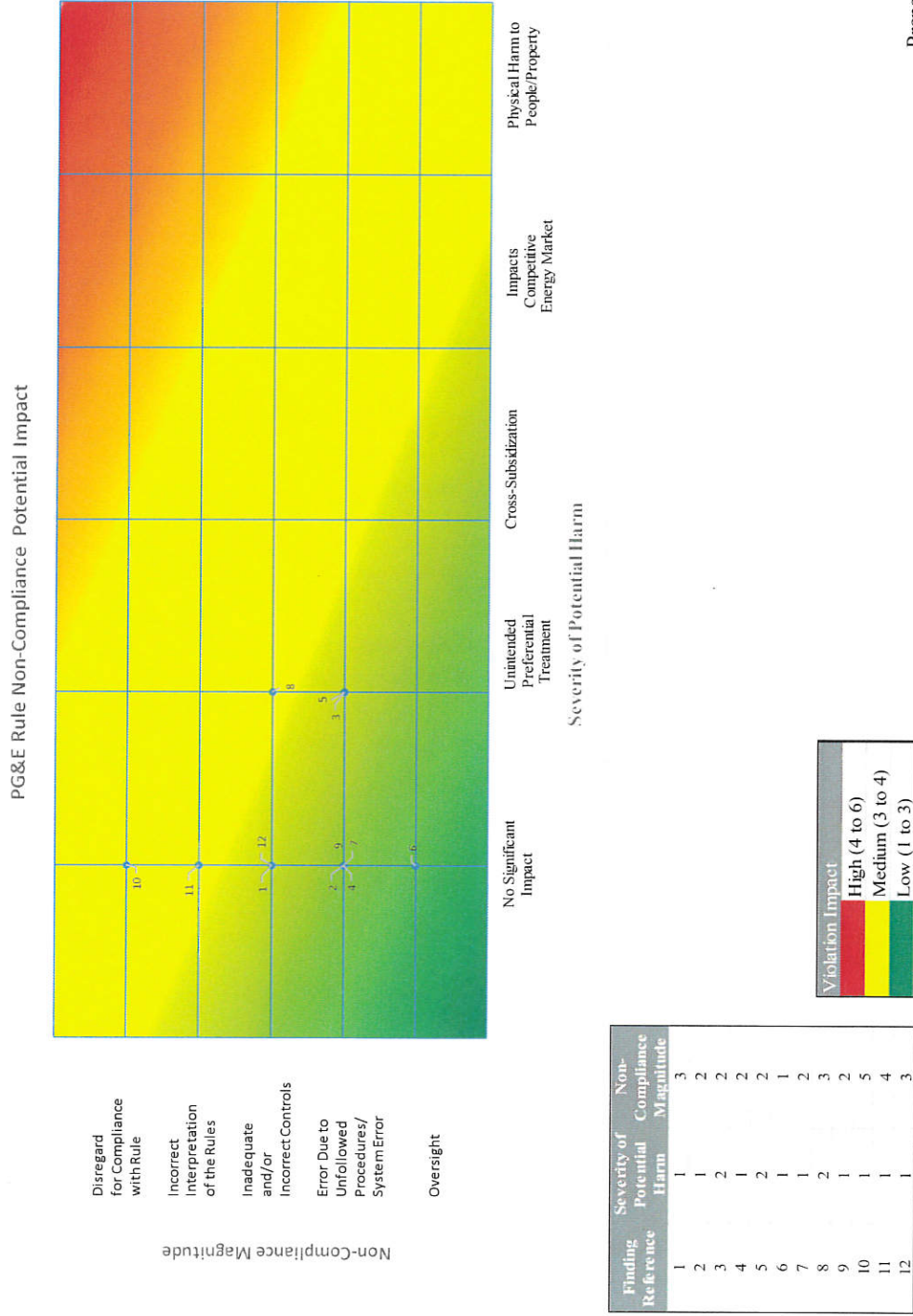
## Summary of Audit Results (continued)

Affiliate Rule	Section	Brief Rule Description	Compliance (Yes / No / No Activity)	Observation	Reference
VIII	<b>Complaint Procedures &amp; Remedies</b>				
	A	CPUC strictly enforce ATR's			
	B	Standing			
	C.1	Complaint Filing Procedure	No Activity <sup>1</sup>		
	C.2	Affiliate Compliance Manager Responsibilities	No	CY 2012 and CY 2013 Compliance Plans lacked affiliate Compliance Manager responsibilities; specifically, PG&E did not have policies and procedures to resolve affiliate-related complaints within the requirements of the ATRs.	Finding 11
	C.3	Inform Results of Dispute Resolution Process	No Activity <sup>2</sup>		
	C.4	Complaint Resolve Procedures	No Activity <sup>2</sup>		
	C.5	Complaint Report / Resolve	No Activity <sup>1</sup>		
	C.6	Preliminary Discussions: Compliant Contact/Meeting	Yes		
	D.1	Remedies: Commission Enforcement	No Activity <sup>1</sup>		
	D.2	Utility Violations & Fines, Reparations			
	D.2.a	Reparations			
	D.2.b	Fines			
	D.2.i	Severity of Offense	No	PG&E did not prevent, detect, or report to the CPUC the rule violations that were identified during this current audit.	Finding 12
	D.2.b.ii	Conduct of Utility			
D.2.b.iii	Financial Resources of Utility				
D.2.b.iv	Fine Level, Evaluation				
D.2.b.v	Role of Precedent				
IX	<b>Protecting the Utility's Financial Health</b>				
	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 PG&E.

<sup>2</sup>Based on the information PG&E made available, there was no affiliate activity.

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



# Findings and Recommendations

## **FINDING 1— Incorrectly classified affiliates**

In its CY 2012 and CY 2013 Compliance Plans, PG&E incorrectly classified affiliates not subject to the ATRs for CY 2012 and CY 2013. We noted that:

- The Merritt Community Capital Fund V, L.P., with an ownership interest of 2.41%, is a limited partnership venture with an unrelated entity, Merritt Community Capital Corporation. This entity is not an affiliate as defined by ATR I.A; however, PG&E reported it as such to remain consistent with its tax department's chart of holdings, PG&E Corporation and PG&E.
- Five covered affiliates were mistakenly classified as non-covered affiliates:
  - PG&E Capital, LLC
  - Calaska Energy Company
  - Alaska Gas Exploration
  - NGC Production Company
  - PG&E CalHydro, LLC

A similar instance of non-compliance was identified in the previous audit. The prior audit recommended that PG&E perform a comprehensive analysis of all affiliates and subsidiaries classified as non-covered, reapplying the rationale and definitions contained in ATR II. PG&E completed this corrective action in CY 2014 and CY 2015, subsequent to the current audit period.

We found that the Compliance Plans lack mechanisms and procedures to properly identify and classify affiliates. In addition, we noted a lack of alternative or compensating measures in place to detect a misclassified affiliate. If the misclassification is not detected in a timely manner, especially in the case of covered affiliates, erroneous transactions subject to the ATRs could also remain undetected.

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.

For purposes of this Rule, "affiliate" shall include the utility's parent or holding company, or any company which directly or indirectly owns, controls, or holds the power to vote 10% or more of the outstanding voting securities of a utility (holding company), to the extent the holding company is engaged in the provision of products or services as set out in Rule II B. However, in its compliance did not demonstrate both the specific mechanism and procedures that the utility and holding company have in place to assure that the utility is not utilizing the holding company or any of its affiliates not covered by these Rules as a conduit to circumvent any of these Rules. Examples include but are not limited to specific mechanisms and procedures to assure the Commission that the utility will not use the holding company, another utility affiliate not covered by these Rules, or a consultant or contractor as a vehicle to (1) disseminate information transferred to them by the utility to an affiliate covered by these Rules in contravention of these Rules, (2) provide services to its affiliates covered by these Rules in contravention of these Rules or (3) to transfer employees to its affiliates covered by these Rules in contravention of these Rules. In the compliance plan, a corporate officer from the utility and holding company shall verify the adequacy of these specific mechanisms and procedures to ensure that the utility is not utilizing the holding company or any of its affiliates not covered by these Rules as a conduit to circumvent any of these Rules. Regulated subsidiaries of a utility, defined as subsidiaries of a utility, the revenues and expenses of which are subject to regulation by the Commission and are included by the Commission in establishing rates for the utility, are not included within the definition of affiliate. However, these Rules apply to all interactions any regulated subsidiary has with other affiliated entities covered by these rules.

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:

- I. 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....

ATR VIII states:

A. The Commission shall strictly enforce these rules. Each act or failure to act by a utility in violation of these rules may be considered a separate occurrence....

D. Remedies....

ii. Conduct of the Utility

This factor recognizes the important role of the public utility's conduct in (1) preventing the violation, (2) detecting the violation, and (3) disclosing and rectifying the violation. The public utility is responsible for the acts of all its officers, agents, and employees.

"In construing and enforcing the provisions of this part relating to penalties, the act, omission, or failure of any officer, agent, or employee of any public utility, acting within the scope of his [or her] official duties or employment, shall in every case be the act, omission, or failure of such public utility." Public Utilities Code § 2109....

(3) The Utility's Actions to Disclose and Rectify a Violation. 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...

#### Recommendation

We recommend that PG&E comply with ATR I.A. and ATR II.B by (1) reporting these instances of non-compliance to the CPUC; (2) establishing mechanisms and procedures to properly access covered and non-covered affiliates; and (3) specifying these mechanisms and procedures for assessing entities subject to the ATRs.

#### PG&E's Response

PG&E did not disagree with the finding. PG&E claims that issuance of this final report to CPUC will serve its compliance requirement that it promptly report this instance of non-compliance. Refer to Attachment 2 – PG&E's Response to the Draft Audit Report.

#### SCO Comments

Our finding and recommendation remains unchanged. We agree that this final report to CPUC will disclose the instances of non-compliance. However, per ATR VIII, PG&E is required to disclose and rectify violations by promptly bringing them to the Commission's attention.

### **FINDING 2— Improper release of customer information**

For CY 2012 and CY 2013, our review of 44 out of 1,653 customer inquiries revealed the improper and unauthorized release of customer information. Sampled transactions revealed that:

- Customer account information was provided to a third party during a telephone inquiry with the customer call center.

- For two customers, 12-month utility usage information was provided to a third-party vendor during a telephone inquiry with PG&E's solar information representatives.

For each instance, we found that the customer information was released per verbal customer consent. Our inquiry with the customer call center revealed that verbal consent is electronically noted for each customer. Under the comment section, customer information and the individual/entity to whom authorized information will be released is identified. No customer information is released unless verbally authorized by the customer and noted by the customer call center.

PG&E's CY 2012 and CY 2013 Compliance Plans state:

Departments whose employees have access to customer information (such as Customer Care) have requirements that prohibit providing customer information to any person or entity, except the customer, without that customer's prior written consent. The use of PG&E's Standard Customer Release Information Form or an equivalent written consent is mandatory, except in the following situations:

- PG&E has received a subpoena that requires the release of information,
- As required under Section 588 of the California Public Utilities Code,
- As required by other state or federal law or regulation...

ATR IV states:

Disclosure and information,

A. Customer Information: 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.

### Recommendation

We recommend that PG&E comply with ATR IV.A by consistently applying the mechanisms and procedures to release authorized customer information. Complying with this rule will also require PG&E to report these instances of non-compliance per ATR VIII, and possibly to develop a compliance plan per ATR VI.A.

### PG&E's Response

The finding concerns customer information to a third party during a telephone inquiry, in which customer information was released with verbal customer consent. PG&E notes that this issue was also reported in the 2010-11 Affiliate Transaction Rules Audit as published in 2014. In response to the audit finding identified in the 2014 report, PG&E immediately updated its procedures as described below, and has been in compliance since that time. The audit finding reported for the 2012 and 2013 audit period reflects PG&E's processes from 2012 and 2013, before the corresponding internal processes were updated in 2014.



In response to the audit finding from the 2010-2011 Affiliate Transaction Rules Audit, PG&E amended its Customer Service Online General Reference Guide (GenRef) in 2014 to state the following:

Customer of Record (COR) wants Third Party to be able to receive account information or transact business on their behalf

- COR CAN NOT provide Verbal permission
  - It is NEVER permissible to note the account indicating COR has authorized someone to receive information
  - This includes written information (i.e. bill copies, etc.) without written consent
  - COR and Caller on the Telephone Should Remain on the Line Together (3 way call)
  - The customer MUST stay on the line at all times
  - During a call, after verifying you are speaking with the COR, if they ask you to talk with another individual, inform the customer we cannot provide their information to a third party without written consent
  - We can provide the information to the customer directly
  - Customer may utilize a conference line or speaker phone to have the other party on the line when the information is provided, as long as the customer
  - Remains on the line for the entire call
  - Is the one asking for the information
  - AND is the one receiving the information on the call
  - Example: the customer can ask the questions directly, or can ask the employee to provide the information in response to questions the third party asks while the customer remains on the line
  - Third Party/Contractor: Please provide the last 12 months usage
  - Employee: Mr/Mrs Customer would you like me to provide you with the last 12 months usage on your account?
  - Customer must verbally agree before providing information

PG&E believes that the amended GenRef guidance is fully compliant with Rule IV.E.

Within its Contact Centers, PG&E maintains a Quality Assurance and Compliance function, which on a monthly basis evaluates a limited number of customer calls to ensure compliance with regulatory requirements and internal policies. As part of this process, PG&E monitors for compliance with specific Affiliate Transaction Rules.

Finding 2 also includes a recommendation that PG&E self-report this instance of non-compliance to the CPUC. This issue was reported to the CPUC as part of the Affiliate Transaction Rules audit of the 2010-2011 period in 2014. In addition, under CPUC Rule 27 adopted by the CPUC subsequent to the Affiliate Rules, PG&E investigates data loss events involving Customer Energy Usage Data and determines whether the

events are reportable to the CPUC under Rule 27, including reporting through the Smart Grid Annual Privacy Report, as filed each year with the Commission. In addition, any data losses reportable under Rule 27 involving more than 1,000 customer are reported to the CPUC within two weeks of detection of the data loss.

### SCO Comments

Our finding and recommendation remains unchanged. PG&E alleges that in CY 2014, mechanisms and procedures to properly release customer information were updated subsequent to the audit period. We did not confirm those mechanisms to determine whether these procedures were implemented. We recommend that PG&E update future Compliance Plans to include the aforementioned mechanisms and procedures.

While PG&E may have reported instances of improper release of customer information during CY 2010 and CY 2011 to the Commission, similar instances of improperly released non-public information for the audit period were not disclosed to the Commission. PG&E is required to disclose and rectify violations by promptly bringing them to the Commission's attention. The ATRs do not provide CPUC Rule 27 – reportable data loss involving Customer Energy Usage Data – as an applicable reporting requirement in instances where ATRs have been violated. Even in instances where violations were reported pursuant to CPUC Rule 27, the ATRs do not exempt IOUs from disclosing instances of noncompliance if they have been reported under other directives.

PG&E should properly disclose the above-mentioned instances of noncompliance to the CPUC pursuant to ATR VIII.

### **FINDING 3— Unauthorized access to information systems**

PG&E inappropriately permitted an employee of a covered affiliate, PG&E Corporation Support Services, Inc., to have access to PG&E computer systems. An employee transferred to a position with the above-mentioned affiliate, but continued to have access to PG&E's computer systems from October 27, 2011, to September 12, 2012, due to a Human Resources process lapse. The employee's new and past responsibilities did not entail shared corporate services, for which access to PG&E's computer systems would have been appropriate. The employee's computer access remained in place until employment was terminated on September 5, 2012; computer system access was disabled a week later, on September 12, 2012. In order to protect confidential utility information, system access should have been disabled when employment was terminated.

PG&E's CY 2012 and CY 2013 Compliance Plans state:

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

PG&E issues an annual communication to employees of the Utility, PG&E Corporation and their subsidiaries governed by these Rules, which directs specific categories of employees to review this Rule (see Introduction). PG&E also provides training to targeted groups affected by this Rule.

PG&E maintains data network segmentation, which provides sufficient separation of facilities as mandated by this rule. PG&E uses the Information Technology Change Management Process Manual at [http://www/ISTS\\_TechLib/PM/PM\\_Change\\_Mgt.htm](http://www/ISTS_TechLib/PM/PM_Change_Mgt.htm) to monitor network segmentation.

As of the date of this Compliance Plan, no affiliate employees are located in Utility space.

ATR V.C states:

A utility shall not share systems with its affiliates or allow its affiliates to access its computer or information systems, except to the extent appropriate to perform shared corporate support functions permitted under Rule V.E.

#### Recommendation

We recommend that PG&E comply with ATR V.C. by consistently applying the mechanisms and procedures in future Compliance Plans and ensuring that affiliates do not have access to PG&E's computer or information systems, except to the extent appropriate and permitted for shared corporate functions. Complying with this rule will also require PG&E to report these instances of non-compliance per ATR VIII.

#### PG&E's Response

PG&E did not disagree with the finding. PG&E claims that issuance of this final report to CPUC will serve its compliance requirement that it promptly report this instance of non-compliance. Refer to Attachment 2 -- PG&E's Response to the Draft Audit Report.

#### SCO Comments

Our finding and recommendation remains unchanged. We agree that this final report to CPUC will disclose the instances of non-compliance. However, per ATR VIII, PG&E is required to disclose and rectify violations by promptly bringing them to the Commission's attention.

#### **FINDING 4— Duplicated shared corporate support costs**

PG&E improperly billed a covered affiliate, Fuelco, LLC, for fixed allocation costs. We tested 64 transactions valued at a combined \$2,219,737 out of a population of \$48,941,753. Two of the sampled transactions for January 2013, with values of \$3,280 and \$101, revealed that, due to a system error, the fixed allocation costs were double-charged and not adjusted because PG&E treated them as immaterial dollar amounts. It appears that PG&E identified these duplicated allocated costs in a timely manner. The ATRs do not set materiality guidelines; however, similar occurrences could lead to misstated operating expenses.

PG&E's CY 2012 and CY 2013 Compliance Plans state:

ATR V.E., Corporate Support,

The provision of corporate support services does not provide a means for the transfer of confidential non-public Utility information from the

costs of corporate services provided by PG&E. PG&E Corporation also is entitled to charge PG&E for services and support it provides to PG&E. PG&E considers that financial, accounting, and purchasing systems are included within sharable support systems. Affiliate employees sharing support systems with the Utility are not granted access to any confidential Utility information contained within those systems.

ATR V states:

D. Joint Purchases: To the extent not precluded by any other Rule, the utilities and their affiliates may make joint purchases of goods and services, but not those associated with the traditional utility merchant function. For purpose of these Rules, to the extent that a utility is engaged in the marketing of the commodity of electricity or natural gas to customers, as opposed to the marketing of transmission and distribution services, it is engaging in merchant functions. Examples of permissible joint purchases include joint purchases of office supplies and telephone services. Examples of joint purchases not permitted include gas and electric purchasing for resale, purchasing of gas transportation and storage capacity, purchasing of electric transmission, systems operations, and marketing. The utility must insure that all joint purchases are priced, reported, and conducted in a manner that permits clear identification of the utility and affiliate portions of such purchases, and in accordance with applicable Commission allocation and reporting rules.

E. Corporate Support: As a general principle, a utility, its parent holding company, or a separate affiliate created solely to perform corporate support services may share with its affiliates joint corporate oversight, governance, support systems and personnel, as further specified below. Any shared support shall be priced, reported and conducted in accordance with the Separation and Information Standards set forth herein, as well as other applicable Commission pricing and reporting requirements.

#### Recommendation

We recommend that, in future Compliance Plans, PG&E comply with ATR V.E by allocating the appropriate shared corporate costs in accordance with the mechanisms and procedures. Complying with this rule will also require PG&E to report these instances of non-compliance per ATR VIII.

#### SCO Comments

PG&E did not respond to this finding.

### **FINDING 5— Non-permitted recruitment services**

In February 2013, PG&E invoiced a covered affiliate, PG&E Corporation Support Services, Inc., \$85,975 for non-permitted recruitment services during the months of June and October 2010. These charges were eventually included as part of CY 2013 recruitment services. This non-compliance was identified during the previous audit. PG&E promptly corrected the non-compliance, and reported this instance of non-compliance to the CPUC in CY 2013.

We found that the error occurred because PG&E's internal identifying cost description does not describe the specific shared service being charged. A cost center description of "HR-Wide Support" will not identify and detect non-permissible services included in this cost center.

To prevent such transactions in the future, PG&E implemented an internal safeguard control, effective CY 2013, that does not allow the posting of positions external to PG&E on the utility's bulletin board. Hence, recruitment-related activities, if any, will be utility-related.

ATR V.E states, in part:

Examples of services that may not be shared include: employee recruiting...

#### Recommendation

PG&E has reported this instance of non-compliance. However, we recommend that PG&E implement additional safeguards to clarify the type of service provided to affiliates. A cost description of "HR-Wide Support" will not allow PG&E to detect in a timely manner that a non-permissible service is being provided. In addition, we recommend that PG&E specify these safeguards in future Compliance Plans.

#### SCO Comments

PG&E did not respond to this finding.

### **FINDING 6— Failure to disclose a shared Director**

PG&E did not disclose a shared Director concurrently serving the utility and a non-covered affiliate, PG&E National Energy Group, LLC, in its CY 2012 and CY 2013 Compliance Plans. The individual served the non-covered affiliate as Director from January 1, 2005; and served PG&E as a Key Officer, President, and Chief Executive Officer from August 1, 2009, and Director from February 17, 2010.

Because ATR V.G.1 does not exempt non-covered affiliates, the utility should list all shared directors and officers between the utility and all affiliates. PG&E's Compliance Plans provide no specific mechanisms and procedures to identify and disclose all shared directors.

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...

#### Recommendation

We recommend that PG&E comply with ATR V.G.1 by ensuring that all current and future shared directors are properly disclosed in accordance with the mechanisms and procedures in future Compliance Plans. Complying with this rule will also require PG&E to report these instances of non-compliance per ATR VIII.

#### SCO Comments

PG&E did not respond to this finding.

**FINDING 7—  
Failure to notify  
the CPUC of  
employee  
movements from  
non-covered  
affiliates to PG&E**

PG&E properly maintained and reported employee movements to affiliates, but did not report 17 non-covered affiliate employee transfers to the utility in its 2012 Annual Report. PG&E may have lacked mechanisms and procedures to identify all employee movements from non-covered affiliates to the utility. While there are mechanisms and procedures for utility employee transfers, such as the Departing Employee Checklist, such checklists are not maintained for employee transfers to the utility.

PG&E's CY 2012 and CY 2013 Compliance Plans state:

PG&E's Affiliated Company Transactions Standard (<http://PG&Eatwork/Guidance/RiskCompliance/Pages/default.aspx>) provides guidance for compliance with this Rule. This standard is updated at least every two years and communicated to relevant Utility personnel.

PG&E's HR/SAP system tracks this employee movement and is able to provide periodic reports.

PG&E will continue to report employee movement in its Annual Affiliate Transaction Report.

A "Checklist for Departing Employees" is a tool to help supervisors ensure that employees who leave Pacific Gas and Electric Company do not maintain access authorizations (e.g., building or network), intellectual property, or utility property upon their departure. The checklist and instructions are available on the Human Resources website: [http://pgeweb/services/ManagingNonrepresentedEmployees/Document/s/departing\\_employee.pdf](http://pgeweb/services/ManagingNonrepresentedEmployees/Document/s/departing_employee.pdf).

ATR V states:

- G. 2. All employee movement between a utility and its affiliates shall be consistent with the following provisions:
- a. 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.)...

Recommendation

We recommend that, in future Compliance Plans, PG&E comply with ATR V.G.2.a by properly identifying, maintaining records for, and reporting on employee movements from non-covered affiliates in accordance with the mechanisms and procedures. Complying with this rule will also require PG&E to report these instances of non-compliance per ATR VIII.

PG&E's Response

PG&E did not disagree with the finding. PG&E claims that issuance of this final report to CPUC will serve its compliance requirement that it promptly report this instance of non-compliance. Refer to Attachment 2 – PG&E's Response to the Draft Audit Report.

SCO Comments

Our finding and recommendation remains unchanged. We agree that this final report to CPUC will disclose the instances of non-compliance. However, per ATR VIII, PG&E is required to disclose and rectify violations by promptly bringing them to the Commission's attention.

**FINDING 8—  
Unreported loaned  
labor**

PG&E did not report, in its Annual Report, loaned labor costs associated with an employee loaned to a covered affiliate, STARS Alliance, LLC (STARS). Between October 2012 and December 2013, PG&E loaned the employee to STARS; STARS reimbursed PG&E for loaned salary and benefits totaling \$803,442.

PG&E did not report the loaned labor transactions in the CY 2012 and CY 2013 Annual Reports to the CPUC. PG&E explained that the transaction remained undetected because STARS is a partnership, not a consolidated company. Accounting for STARS transactions requires manual system queries to extract information, unlike automated programming of consolidated companies. PG&E realized these limitations and correctly reported its affiliate transactions for subsequent calendar years.

D.93-02-019 states:

1. 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. All goods and/or services shall be reported regardless of whether or not the utility was reimbursed.

Recommendation

We recommend that PG&E comply with D.93-02-019 by properly identifying manually processed affiliate transactions incurred for covered and non-covered affiliates in accordance with the mechanisms and procedures in future Compliance Plans. Complying with this rule will also require PG&E to report these instances of non-compliance ATR VIII.

PG&E's Response

PG&E did not disagree with the finding. PG&E claims that issuance of this final report to CPUC will serve its compliance requirement that it promptly report this instance of non-compliance. Refer to Attachment 2 – PG&E's Response to the Draft Audit Report.

SCO Comments

Our finding and recommendation remains unchanged. We agree that this final report to CPUC will disclose the instances of non-compliance. However, per ATR VIII, PG&E is required to disclose and rectify violations by promptly bringing them to the Commission's attention.

**FINDING 9—  
Missing required  
officer  
certification, and  
officer certification  
inconsistent with  
the required  
language**

Except for the Chief Regulatory Officer, PG&E submitted required officer certifications for CY 2012 and CY 2013 in a timely manner. There was no documented certification in CY 2012 for the Chief Regulatory Officer, employed by PG&E Corporation from September 18, 2009, to April 1, 2012.

Consistent with previous annual certifications, PG&E included disclosures, in addition to the standard and required certification language specified in ATR VI, which states:

The certification will not include violations, if any, already reported to the Commission or publicly posted during the reporting period. Nor will the certification include audits or investigations, if any, in progress at the end of the reporting period. If violations are found in ongoing audits or investigations, they will be posted or reported consistent with the Compliance Plan. PG&E complied with this Rule by submitting the most recent officer certifications to the Energy Division on March 27, 2013, and will continue to do so annually.

Although the officer certifications have been submitted to the CPUC consistent with the Compliance Plan, it is unclear whether the added disclosure meets the requirements of ATR VI.E.

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]

Recommendation

We recommend that PG&E comply with ATR VI.E by ensuring that all responsible officers submit the required annual certification. Furthermore, the CPUC should evaluate submitted annual officer certifications to determine whether the added disclosures meet the requirements of ATR VI.E. Complying with this rule will also require PG&E to report these instances of non-compliance per ATR VIII.



PG&E's Response

PG&E did not disagree with the finding. PG&E claims that issuance of this final report to CPUC will serve its compliance requirement that it promptly report this instance of non-compliance. Refer to Attachment 2 – PG&E's Response to the Draft Audit Report.

SCO Comments

Our finding and recommendation remains unchanged. We agree that this final report to CPUC will disclose the instances of non-compliance. However, per ATR VIII, PG&E is required to disclose and rectify violations by promptly bringing them to the Commission's attention.

**FINDING 10—  
Untimely audits of  
nontariffed  
products and  
services**

PG&E did not perform required periodic audits on Nontariffed Products and Services (NTP&S) costs and revenues. PG&E's internal audit department conducted an audit of the NTP&S in 2009 and as a result of prior audit recommendation, followed up with the most current audit conducted in 2016.

The Compliance Plans state:

- D. Conditions Precedent to Offering New Products and Services: This Rule does not represent an endorsement by the Commission of any particular nontariffed utility product or service. A utility may offer new nontariffed products and services only if the Commission has adopted and the utility has established:
4. Periodic auditing of the costs allocated to and the revenues derived from nontariffed products and services.

ATR VII.D states:

- Conditions Precedent to Offering New Products and Services:
4. Periodic auditing of the costs allocated to and the revenues derived from nontariffed products and services.

Recommendation

We recommend that PG&E comply with ATR VII.D.4 by ensuring that it conducts periodic audits of newly offered products and services. Complying with this rule will also require PG&E to report these instances of non-compliance per ATR VIII.

PG&E's Response

PG&E did not disagree with the finding. PG&E claims that issuance of this final report to CPUC will serve its compliance requirement that it promptly report this instance of non-compliance. Refer to Attachment 2 – PG&E's Response to the Draft Audit Report.

SCO Comments

Our finding and recommendation remains unchanged. We agree that this final report to CPUC will disclose the instances of non-compliance. However, per ATR VIII, PG&E is required to disclose and rectify violations by promptly bringing them to the Commission's attention.

**FINDING 11—  
Lack of defined  
responsibilities of  
the Affiliate  
Compliance  
Manager**

PG&E designated an Affiliate Compliance Manager to oversee the infrastructure for compliance with the ATRs. The responsibilities of the Affiliate Compliance Manager include:

- Submitting all filings, e.g., key officer certifications, annual Compliance Plans, reports on financial health, and ad hoc filings in a timely manner;
- Developing employee communications related to compliance;
- Maintaining an Intranet website with compliance resources;
- Working with PG&E organizations to ensure appropriate processes are in place to facilitate compliance with the ATRs;
- Maintaining training modules and working with lines of business representatives to provide annual training;
- Directing the posting of information on the Intranet website in accordance with the ATRs; and
- Overseeing activities related to the ATR audit.

However, as noted in the prior audit, the list of responsibilities did not include the responsibility for “receiving, investigating and attempting to resolve complaints” as specified in ATR VIII.C.2, which states:

Each utility shall designate an Affiliate Compliance Manager who is responsible for compliance with these affiliate rules and the utility’s compliance plan adopted pursuant to these rules. Such officer shall also be responsible for receiving, investigating and attempting to resolve complaints. The Affiliate Compliance Manager may, however, delegate responsibilities to other officers and employees.

According to PG&E, the Regulatory Department issued a Compliance and Ethics Tailboard to explain to employees what happens when complaints are made to the Compliance and Ethics Helpline, where ATR-related complaints are documented.

Complaints were most often investigated by Human Resources, the Equal Employment Opportunity/Employee Relations Office Investigations, or the Corporate Security Office, depending on the nature of the complaint. Each organization used the Human Resources Investigation Manual and the Corporate Security Manual for guidance during the audit period.

Although PG&E committed to complying with ATR VIII, it was not able to provide specific procedures or mechanisms related to complaints received through the hotline.

**Recommendation**

We recommend that, in future Compliance Plans, PG&E comply with ATR VIII.C.2 by defining the Affiliate Compliance Manager’s responsibilities to ensure that complaints are received, investigated, and resolved in accordance with the mechanisms and procedures. Complying with this rule will also require PG&E to report these instances of non-compliance per ATR VIII.

PG&E's Response

PG&E did not disagree with the finding. PG&E claims that issuance of this final report to CPUC will serve its compliance requirement that it promptly report this instance of non-compliance. Refer to Attachment 2 – PG&E's Response to the Draft Audit Report.

SCO Comments

Our finding and recommendation remains unchanged. We agree that this final report to CPUC will disclose the instances of non-compliance. However, per ATR VIII, PG&E is required to disclose and rectify violations by promptly bringing them to the Commission's attention.

**FINDING 12—  
Non-compliance  
and remedies**

ATR VIII recognizes the important role of PG&E in preventing, detecting, disclosing, and rectifying all affiliate rule violations and states that PG&E is responsible for the acts of its officers, agents, and employees. As also noted during the prior audit, PG&E lacked mechanisms and procedures to detect instances of non-compliance in a timely manner.

PG&E was not aware of, and therefore did not report to the CPUC, instances of non-compliance identified during the current audit. PG&E, however, did detect, rectify, and report one rule violation identified in the prior audit of CY 2010 and CY 2011. In February 2013, PG&E invoiced a covered affiliate, PG&E Corporation Support Services, Inc., \$85,975.12 for non-permitted recruitment services from June and October 2010.

We found that PG&E relies on annual ATR communications, training, and compliance plan measures for compliance with the ATRs. PG&E did not conduct any internal compliance audits during CY 2012 and CY 2013 that could have identified the instances of non-compliance identified during this audit.

Recommendation

We recommend that PG&E report instances of non-compliance to the CPUC in accordance with ATR VIII. D.2.b.ii. We also recommend that PG&E establish mechanisms and procedures, such as a departmental self-assessment program, to detect affiliate rule violations. The use of such programs and or compliance reviews can ensure compliance and reduce the risk of similar audit findings.

SCO Comments

PG&E did not respond to this finding.

**Attachment 1—  
SCO's Analysis of PG&E's Compliance with the  
Affiliate Transaction Rules**

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## General

The following procedures were designed, developed, and performed in order to determine if PG&E 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 PG&E personnel regarding the utility's training programs, processes and procedures for ensuring compliance with the ATRs;
- Identified all prior ATR related audit findings, recommendations, and the utility's response, for consideration in planning the audit;
- Reviewed PG&E's CY 2012 and CY 2013 Compliance Plans and CY 2012 and CY 2013 Annual Report 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 all utility non-compliance postings (one) 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 non-compliance caused actual or potential harm to the ratepayers from any identified ATR violations.

### Conclusion

See analyses to follow for ATRs I through IX.

PG&E provided Compliance Plans, mechanisms, and procedures in place to ensure affiliate activities were in accordance with the ATRs. During the audit period, PG&E did not engage in any tariffed or nontariffed transactions with affiliates. Recorded and reported transactions were for corporate support services between PG&E Corporation, PG&E, and affiliates. Approximately 24,000 employees worked for PG&E Corporation during the audit period; however, not all employees' functions entail affiliate transactions. PG&E provides annual training on interaction with customers and communication with affiliates for all employees engaged in these functions. PG&E employees interviewed during the course of this audit understood the purpose of the ATRs and acknowledged the extent of annual training they undergo to ensure that affiliate activities, if any, are in accordance with the ATRs.

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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, Annual Reports, and changes and additions to tariffed and other utility products and services.

PG&E's Regulatory Department ensures that PG&E employees comply with the ATRs. Violations identified by the Regulatory Department are reported to the Commission. The Regulatory Department was not aware of any instances of improper affiliate activities.

## **Affiliate Transaction Rule I**

### **Definitions**

ATR I provides key terms that a utility must use to define its business and activities. We performed the following procedures to determine if PG&E was in compliance in its interpretation and application of the definitions in relation to its affiliate transactions:

- Reviewed PG&E's mechanisms, procedures, and specific training programs for determining if an entity is an affiliate as defined in ATR I;
- Ensured consistency between ATR I "Definitions" and the definitions described in the Compliance Plans and Annual Report;
- Reviewed all training materials provided to PG&E employees and affiliates to ensure that the definition of an "affiliate" is being properly conveyed;
- Requested accounting records, source documents, and third-party documents to substantiate the list of affiliates; and
- Reviewed the list of affiliates in the CY 2012 and CY 2013 Compliance Plans and the CY 2012 and CY 2013 Annual Reports to ensure that all newly created affiliates were included.

### Conclusion

Based on the information provided and procedures performed, we determined that PG&E was not in compliance with ATR I.A (see Finding 1).

## **Affiliate Transaction Rule II**

### **Applicability**

ATR II defines affiliates, known as covered affiliates, that are subject to the ATRs. Specifically, covered affiliates are those affiliates that engage in the provision of a product that uses electricity, or the provision of services that relate to the use of electricity, unless specifically exempted. We performed the following procedures to determine if PG&E appropriately classified affiliates based on their business activities:

- Reviewed all training materials provided to employees and affiliates to ensure that PG&E is providing guidance on affiliates subject to the ATRs;
- Reviewed CY 2012 and CY 2013 Compliance Plans and identified covered and non-covered affiliates;
- Identified all new affiliates created (one) 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; and

- Examined all instances (one) 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.

The following table lists the number of PG&E's reported affiliates:

CY	Covered Affiliates	Non-covered Affiliates	Total
2012	11	16	27
2013	11	12	23

### Conclusion

Based on the information provided and procedures performed, we determined that PG&E was not in compliance with ATR II.B (see Finding 1).

## **Affiliate Transaction Rule III**

### **Non-discrimination**

#### **ATR III.A – Non-preferential treatment regarding services provided by the utility**

ATR III.A requires affiliates to be treated on a nondiscriminatory basis, just as non-affiliated companies would be treated. We performed the following procedures to determine if any affiliates received preferential treatment regarding services provided by PG&E:

- Calculated the processing time for Customer Information Service Requests to ensure that the sampled forms were processed in a consistent and nondiscriminatory manner;
- Reviewed PG&E's training strategy and all training materials to ensure that principles of nondiscrimination was conveyed;
- Determined whether PG&E had an adequate process in place to remove new affiliates from its distributed Service Provider Lists;
- Examined customer call center operations and requested processes and procedures in place to prevent preferential treatment from occurring in communications between PG&E, customers, and affiliates;
- Requested the list of winning bids of service providers to determine the existence of preferential treatment;
- Requested the process for assigning major account services to determine whether they were assigned on a non-discriminatory basis;
- Requested Independent Evaluator reports for each bid awarded to an affiliate to ensure non-preferential treatment of affiliates;
- Requested the lists of Request for Offers (RFO) for all products and services to ensure non-preferential treatment of affiliates; and
- Requested and reviewed communication between PG&E personnel and affiliates during the period of advertisement, receipt, and acceptance of an offer to ensure that affiliates were not awarded preferential treatment.

### Conclusion

Based on the information provided and the procedures performed, we determined that PG&E was in compliance with ATR III.A. Test procedures did not reveal any instances of preferential treatment.

The affiliate compliance standards, training, and communications provided to PG&E employees and call center employees convey the applicable information to staff to allow them to understand and comply with the ATRs regarding preferential treatment and/or unfair competitive advantage to affiliates or customers of affiliates.

PG&E had twenty-two agreements/contracts in effect between PG&E and its affiliates during the audit period. All services provided were:

- Pursuant to the terms of the respective continuing service agreement (CSA);
- Within the requirements of ATR V.E, Corporate Support; and
- Charged pursuant to RISK-4302S, Affiliated Company Transactions Standard.

No gas- or electricity-related contracts or transactions with affiliates occurred, and no evidence of preferential treatment could be identified.

PG&E did not participate in open bidding contracts with affiliates. All affiliate contracts were CSAs for corporate support services (utility-to-affiliates). The CSAs were executed in-house by PG&E staff, and no bidding activity took place.

### **ATR 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 ATR V.D (joint purchases), ATR V.E (corporate support), and ATR VII (new products and services).

We performed the following procedures to identify transactions between the utility and its affiliates, and to determine if they were limited to these products and services:

- Reviewed PG&E's CY 2012 and CY 2013 Annual Reports, Schedules C and D, and determined the types of transactions the utility conducted with affiliates during the audit period;
- Attempted to reconcile the Schedule C and D transactions to PG&E accounts and records;



- Reviewed transaction account descriptions in Schedules C and D to determine if transaction accounts appeared to be for allowed transactions under ATR III.B:
  - Obtained a detailed transaction history report of transactions between PG&E and affiliates during the audit period and traced the detail transaction history report to Schedules C and D
  - Selected a sample of 64 affiliate transactions at a combined value of \$2,219,737 out of a population of \$98,941,753 reported in Schedule C, and requested and reviewed accounting records and source documents to determine if 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
    - Commission-approved resource procurement by the utility, or as provided for in ATR V.D (joint purchases), ATR V.E (corporate support) and ATR VII (new products and services);
- For tariffed products and services, ensured that affiliates were billed for services provided in accordance with the Commission-approved tariff rates;
- Requested a listing of all resource procurement transactions with covered affiliates to determine if these affiliates were disclosed in the Annual Report and the Compliance Plans;
- For resource procurement activities that the utility engaged in with affiliates, requested contract documents to ensure that the utility received required Commission approval prior to engaging in affiliate transactions;
- Requested checklists maintained by the Regulatory Department to determine that all contracts between PG&E and its affiliates were reported and approved by the Affiliate Compliance Officer;
- Requested all completed postings of Notices of Availability;
- Requested all discounts, rebates, or waivers of the charges or fees associated with services provided by PG&E to an affiliate; and
- Identified no requests for services processed by the utility to affiliates and its respective customers, and ensured that requests were processed for an affiliate in the same manner and within the same time for all other market participants.

#### Conclusion

Based on the information provided and procedures performed, we determined that PG&E was in compliance with ATR III.B. PG&E did not engage in any tariffed or nontariffed transactions with affiliates. Recorded and reported transactions were for corporate support services between PG&E Corporation, PG&E, and affiliates.

**ATR III.C – Tying of services provided by a utility prohibited**

ATR III.C prohibits the tying of services (exchange of services) with the utility's affiliates. We reviewed marketing materials to determine whether the tying of any purchase of goods or services from an affiliate had ever been implied, offered, or provided.

Conclusion

Based on the information provided and procedures performed, we determined that PG&E was in compliance with ATR III.C. PG&E did not engage in any exchange of services with utilities.

**ATR III.D – No assignment of customers**

ATR III.D requires, unless also available for non-affiliates, a utility cannot assign its current customers to affiliates by any means. We performed the following procedures to determine if PG&E improperly assigned customers to affiliates:

- Obtained and reviewed procedures, training materials, and other utility documentation related to customer contact functions;
- Reviewed 44 out of 1,653 recorded customer calls and identified instances of customer information requests; and
- Obtained a list of customers who installed solar systems during the audit period and examined it for evidence that customers purchased systems from any covered affiliates instead of other providers.

Conclusion

Based on the information provided and procedures performed, we determined that PG&E was in compliance with ATR III.D. PG&E did not engage in any activities in which customer information was shared with affiliates.

**ATR III.E – Business development and customer relations**

ATR III.E states that the utility must not provide information to or promote affiliate business. We performed the following procedures to determine if PG&E provided information to or encouraged affiliate business:

- Determined which affiliates served retail customers (rate payers, also known as core customers);
- Reviewed advertisement materials, bill inserts, and other sales and marketing material for evidence that PG&E assisted with the business development of affiliates;
- Selected and reviewed 44 out of 1,653 recorded customer calls to identify preferential referrals to affiliates; and
- Identified zero instances of PG&E providing assistance for business development activities, market evaluations, or any other information to affiliates.

### Conclusion

Based on the information provided and procedures performed, we determined that PG&E was in compliance with ATR III.E. PG&E does not engage in any affiliate business development activities. Product development, if any, is a PG&E function and is focused on customer care programs, such as the energy efficiency program.

### **ATR III.F – Affiliate discount report**

ATR III.F states that, if the utility provides a discount, rebate, or other waiver of any charge or fee for products and services to an affiliate, then the utility is required to post a notice on its electronic bulletin board within 24 hours; identifying the affiliate, volume, value, rate charged, maximum rate, etc., and the means by which non-affiliates may obtain a similar offer. We performed the following procedures to determine if PG&E posted the Affiliate Discount Reports in a timely manner:

- Requested all postings of Notices of Discounts; and
- Reviewed a sample of 64 affiliate invoices valued at \$2,219,737 out of a population of \$98,941,753 to examine evidence of discounts.

### Conclusion

Based on the information provided and procedures performed, we determined that PG&E was in compliance with ATR III.F. Except for shared support services, PG&E does not provide nontariffed utility products and services to the affiliates. There were no affiliate transactions that involved discounts. Utility services to affiliates were valued at Commission-approved tariff rates.

## **Affiliate Transaction Rule IV**

### **Disclosure and information**

ATR IV provides requirements that the utility must follow in disclosing information, including customer, non-customer-specific non-public, service provider, and supplier information. We performed the following procedures to determine if PG&E (1) provided customer information to its affiliates exclusively, or without consent; (2) made non-customer-specific non-public information 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:

- Requested Customer Information Service Request (CISR) records for any information provided to affiliates;
- Reviewed all nine completed CISR forms to ensure that the utility provided customer information to its affiliates and non-affiliated entities on an equal basis and with written customer consent;
- Requested Affiliate Notices on PG&E's website for information regarding Non-Customer Specific, Non-Public Information Offered to Affiliates;

- Requested service provider lists distributed or made available during the audit period to examine for affiliates;
- Inquired about the types of information that customer call center representatives are permitted to release to customers;
- Requested written authorization for information provided to affiliates from unaffiliated suppliers;
- Determined whether any of PG&E's affiliates serviced retail customers;
- Requested examples of instances in which PG&E was unable to fulfill CISR requests; and
- Reviewed all 15 affiliate service agreements and winning bid information for affiliates.

#### Conclusion

Based on the information provided and procedures performed, we determined that PG&E was not in compliance with ATRs IV.A and IV.B (see Findings 2 and 3).

## **Affiliate Transaction Rule V**

### **Separation**

#### **ATR 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 determine separate entities:

- Reviewed PG&E's CY 2012 and CY 2013 Annual Report and affiliates' organization charts to ensure that the utility, its parent company, and its affiliates are separate corporate entities; and
- Reviewed Commission advice letters identifying the creation of new affiliates and requested the articles of incorporation for all new affiliates.

#### Conclusion

Based on the information provided and procedures performed, we determined that PG&E was in compliance with ATR V.A. Each affiliate existed as a distinct entity, and there were no instances in which PG&E did not report a new affiliate.

#### **ATR 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 the Federal Energy Regulatory Commission (FERC)-established Uniform System of Account (USOA) and Generally Accepted Accounting Principles

(GAAP). We performed the following procedures to determine separate books and records:

- Reviewed PG&E's CY 2012 and CY 2013 Form 10-K filings to determine whether books and records were kept in accordance with GAAP;
- Reviewed PG&E's CY 2012 and CY 2013 Annual Report to determine whether books and records were kept in accordance with FERC USOA requirements; and
- Verified that accounting records of affiliates were open and available for review and analysis by the Commission, consistent with the requirements of Public Utilities Code sections 314 and 701.

#### Conclusion

Based on the information provided and procedures performed, we determined that PG&E was in compliance with ATR V.B.

#### **ATR V.C – Sharing of plant, facilities, equipment, or cost**

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 if PG&E maintained distinct and unshared space and resources:

- Examined the facilities and security protocol of PG&E headquarters based in San Francisco, California;
- Reviewed PG&E's policies and procedures related to computer and information systems access;
- Reviewed PG&E legal office records of all 18 affiliate employee transfers;
- Obtained the list of employees who transferred from PG&E to an affiliate during the audit period and ensured that system access was terminated concurrent with the date of transfer;
- Reviewed all five non-PG&E employees who had access to computer systems to verify that no covered affiliate was allowed access to confidential information; and
- Reviewed all four affiliate employee office locations and security measures, and verified that PG&E did not share office space or costs with any covered affiliates.

#### Conclusion

Based on the information provided and procedures performed, we determined that PG&E was not in compliance with ATR V.C (see Finding 3).

**ATR V.D – Joint purchases**

ATR V.D prohibits the joint purchases of traditional utility merchant products and services between the utility and its affiliates. We performed the following procedures to determine if PG&E 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;
- Requested all affiliate contracts/agreements to determine that any/all joint purchases were for permitted items, and that no joint purchases occurred for non-permitted items with covered affiliates; and
- Reviewed PG&E's procurement process and requested supporting documentation for selected joint purchases to ensure that the joint purchases were priced, reported, and conducted in a manner that permits clear identification of the utility and affiliate portions.

Conclusion

Based on the information provided and procedures performed, we determined that PG&E was in compliance with ATR V.D. All joint purchases were for support services.

**ATR V.E – Corporate support**

ATR V.E prohibits certain types of corporate support between the utility and its affiliates. We performed the following procedures to determine if shared corporate support between PG&E and its affiliates did not include employee recruiting; engineering; hedging, financial derivatives, and arbitrage services; gas and electric purchasing for resale; purchasing of gas transportation and storage capacity; purchasing of electric transmission; system operations; and marketing:

- Examined the CY 2012 and CY 2013 Compliance Plans for evidence of corporate officer verifications;
- Identified shared officers as defined by ATR V.E;
- Examined corporate support activities to ensure what they were in compliance with the ATRs;
- Examined PG&E's processes and procedures for intercompany billing and cost allocation; and
- Reviewed 64 selected interaffiliate bills and supporting cost details valued at \$2,219,737 out of a population of \$98,941,753 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 determined that PG&E was not in compliance with ATR V.E (see Findings 4 and 5).

**ATR V.F – Corporate identification and advertising**

ATR V.F prohibits shared advertising and corporate identification between the utility and its affiliates. We performed the following procedures to determine if PG&E and affiliates shared advertising and corporate identification activities:

- Reviewed all of PG&E's utility marketing documents to ensure that PG&E did not:
  - promote or advertise affiliation with PG&E
  - represent preferential treatment of affiliates
  - provide its affiliates with advertising space
  - participate in joint advertising with affiliates;
- Determined whether PG&E and covered affiliates jointly participated in sales calls, conferences, trade shows, and marketing events in California; and
- Determined whether PG&E's research and development activities or investments in advanced research technology are not shared or subsidized with its affiliates.

**Conclusion**

Based on the information provided and procedures performed, we determined that PG&E was in compliance with ATR V.F. Except for shared support services, PG&E does not engage in marketing utility products and services with its affiliates. PG&E's marketing and advertising services are PG&E functions and are focused on customer care programs, such as the energy efficiency program.

**ATR V.G – Employees**

ATR V.G prohibits joint employment between the utility and its affiliates. We performed the following procedures to determine if PG&E and its affiliates shared employees:

- Determined whether any board members or corporate officers served on the holding company of the utility and affiliate simultaneously;
- Determined if PG&E employed any employees jointly with an affiliate other than those who perform allowed shared services;
- Confirmed that corporate officers identified in the Compliance Plans are not shared;
- Determined whether PG&E appropriately notified the Commission's Energy Division within 30 days of any changes to its list of shared officers and directors;
- Ensured that the utility reported employee movements;

- Reviewed the listing of all transfers to ensure that (1) employees that transferred to an affiliate did not return to the utility within one year; and (2) if an employee returned to the utility, that the employee was not retransferred, reassigned, or otherwise employed by an affiliate within two years;
- Confirmed that the transfer fee of 25% of each employee's base annual compensation was properly paid in the Affiliate Transfer Fee Memorandum Accounts General Ledger balances;
- Reviewed all 18 signed Adherence to Affiliate Transaction Communication Policies forms and the affiliate transfer process to ensure that transferring employees acknowledged the restrictions imposed by the ATRs;
- Tested the Loaned Labor Report for evidence that PG&E implemented the recommendations of the prior audit, and that no more than 5% of full time equivalent utility employees are on loan during the audit period;
- Determined whether the utility made temporary or intermittent assignments or rotations to its energy marketing affiliates;
- Tested the only Loaned Labor Report transactions to determine if blanket requests were being made;
- Tested the only monthly Loaned Labor Report to determine compliance with the provisions of ATR V.G.2.e, and
- Tested the only Loaned Labor Reports to determine if labor activities were traceable to Intercompany/Affiliate Billing and being properly charged to affiliates.

#### Conclusion

Based on the information provided and procedures performed, we determined that PG&E was not in compliance with ATRs V.G.1, V.G.2.a, and V.G.2.e (see Findings 6, 7, and 8).

#### **ATR V.H – Transfer of goods and services**

ATR V.H identifies the types and values of goods that are permitted to be transferred between the utility and its affiliates. We performed the following procedures on the transfers of goods and services between PG&E and its affiliates to determine if they were allowable and priced accordingly:

- Tested all property transfers (i.e., goods and services) between PG&E and its affiliates (one transfer for \$18,844) to determine whether transfer prices were appropriately priced per the pricing provisions of ATR V.H;
- Confirmed that sampled affiliate invoices for tariffed services in the amount of \$18,844 were priced in accordance with the CPUC-approved tariffed schedules; and



- Confirmed that the invoices for the \$18,844 were priced in accordance with the provisions of the CPUC-approved contract.

#### Conclusion

Based on the information provided and procedures performed, we determined that PG&E was in compliance with ATR V.H. Except for a tangible asset transfer, PG&E did not engage in any tariffed or nontariffed transactions with affiliates. Recorded and reported transactions were for:

- Corporate support services between PG&E Corporation, PG&E, and affiliates. and
- Property transfers of (1) a computer and related hardware and equipment properly valued at \$18,844 that were transferred from a non-covered affiliate, Holding Company, PG&E Corporation; and (2) a lease agreement properly valued at \$291,509 for land use that was provided by Eureka Energy Company.

## **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 if PG&E complied with the regularly oversight requirement:

- Reviewed PG&E's CY 2012 and CY 2013 Compliance Plans to ensure that they were filed in a timely manner;
- Examined the CY 2012 and CY 2013 Compliance Plans and mechanisms and procedures, to ensure that PG&E has demonstrated that it has proper procedures in place to assure compliance with the ATRs;
- Reviewed the New Affiliate Notification Log from the Regulatory Department and ensured that all new affiliates (one) were included in the Compliance Plans;
- Obtained PG&E's Affiliate Notification Log and calculated the elapsed time from the date the Regulatory Department was notified and:
  - The submission of the advice letter notifying the CPUC of the new affiliate, to ensure that the CPUC was notified within 60 days
  - The notification to the CPUC of the new affiliate, to ensure that PG&E complied with the three-day requirement
- Requested that PG&E provide evidence of the posting of all new affiliates on pg&e.com to ensure that new affiliates were posted within three days;
- Reviewed the only advice letter to confirm that the CPUC was properly notified of the new affiliate;

- 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;
- Determined whether officers and employees were made available to testify before the Commission as necessary or required;
- Verified that officer certifications were filed by March 31 of the following year;
- Ensured that each of the Key Officers completed the officer certification form, and verified that they signed the form after the period of compliance; and
- Determined whether the officer certifications are consistent with the content required.

#### Conclusion

Based on the information provided and procedures performed, we determined that PG&E was not in compliance with ATR VI.E (see Finding 9).

## **Affiliate Transaction Rule VII**

### **Utilities products and services**

ATR VII provides the accounting and reporting requirements for additional approved products and services—NTP&S—that the utility may offer. We performed the following procedures to determine if PG&E complied with the accounting and reporting requirements for these products and services:

- Requested that PG&E identify any new NTP&S;
- Reviewed 24 of the 25 Commission-approved advice letters to ensure that the related NTP&S meet the criteria of ATR VII.C;
- Reviewed the correspondence and data provided to the Commission in applicable advice letters to gain an understanding of PG&E's evaluation of how existing NTP&S categories impact the marketplace;
- Examined the types of NTP&S contracts PG&E entered into to ensure that the service provided meets the criteria of ATR VII.C;
- For each of 14 categories of NTP&S that PG&E offered in CY 2012 and CY 2013, examined the actual costs and revenues, and determined if PG&E properly complied with the sharing mechanism authorized in the relevant resolution/decision issued by the Commission;
- 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;
- Confirmed with PG&E management that PG&E had no NTP&S property transfers with any affiliates; and

- Verified whether PG&E has established periodic reporting and auditing requirements for NTP&S and has met these requirements.

#### Conclusion

Based on the information provided and procedures performed, we determined that PG&E was not in compliance with ATR VII.D.4 (see Finding 10).

All 14 categories of NTP&S that PG&E offered during the audit period were approved by the Commission in advice letter 2063-G/1741-E, dated January 30, 1998.

### **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 if PG&E complied with requirements for resolving and reporting instances of rule violations:

- Examined PG&E's CY 2012 and CY 2013 Compliance Plans to ensure that proper procedures were in place to comply with ATR VIII;
- Identified the Affiliate Compliance Manager and examined his/her responsibilities that include, in part, receiving, investigating, and resolving complaints; and
- Examined PG&E's actions with respect to all affiliate transaction non-compliance complaints and determined whether PG&E properly notified the Commission's Energy Division regarding these complaints,

#### Conclusion

Based on the information provided and procedures performed, we determined that PG&E was not in compliance with ATRs VIII.C.2 and VIII.D.2.b.ii (see Finding 11 and 12).

### **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 by November 30. This ATR also requires the utility to obtain a non-consolidation opinion 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 to determine whether PG&E is in compliance with ATR IX:

- Examined the CY 2012 and CY 2013 capital reports filed by PG&E to determine if they included the requirements listed in ATR IX.A and were filed annually by November 30;

- Verified that PG&E has maintained a capital structure consistent with that determined to be reasonable by the Commission; and
- Verified that PG&E obtained a non-consolidation opinion that demonstrates that PG&E has appropriate provisions in place to protect its assets should its parent company enter into Chapter 11 bankruptcy.

Conclusion

Based on the information provided and procedures performed, we determined that PG&E was in compliance with ATR IX.

**Attachment 2—  
PG&E's Response to the  
Draft Audit Report**

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**Pacific Gas and  
Electric Company**

Sujata Pagedar  
Director  
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Mr. Andy Finlayson  
Chief, State Agency Audits Bureau  
State Controller's Office  
Division of Audits  
P.O. Box 942850  
Sacramento, CA 94250

Friday, August 18, 2017

Dear Mr. Finlayson,

PG&E appreciates the opportunity to comment on the State Controller's Office's Audit of PG&E's compliance with the Affiliate Transaction Rules (ATRs) for calendar year 2012 and 2013.

In these comments, PG&E addresses Finding 2- Improper Release of Customer Information. In addition, PG&E also addresses the general recommendation included in Findings 1, 3, 7, 8, 9, 10 and 11 of self-reporting to the CPUC.

Finding 2:

The finding concerns customer account information provided to a third party during a telephone inquiry, in which customer information was released with verbal customer consent. PG&E notes that this issue was also reported in the 2010-2011 Affiliate Transaction Rules Audit as published in 2014. In response to the audit finding identified in the 2014 report, PG&E immediately updated its procedures as described below, and has been in compliance since that time. The audit finding reported for the 2012 and 2013 audit period reflects PG&E's processes from 2012 and 2013, before the corresponding internal processes were updated in 2014.

In response to the audit finding from the 2010-2011 Affiliate Transaction Rules Audit, PG&E amended its Customer Service Online General Reference Guide (GenRef) in 2014 to state the following:

Customer of Record (COR) wants Third Party to be able to receive account information or transact business on their behalf

- COR CAN NOT provide Verbal permission
  - o It is NEVER permissible to note the account indicating COR has authorized someone to receive information
  - o This includes written information (i.e. bill copies, etc.) without written consent

COR and Caller on the Telephone Should Remain on the Line Together (3 way call)

- o The customer MUST stay on the line at all times
- o During a call, after verifying you are speaking with the COR; if they ask you to talk with another individual, inform the customer we cannot provide their information to a third party without written consent
  - o We can provide the information to the customer directly
- o Customer may utilize a conference line or speaker phone to have the other party on the line when the information is provided, as long as the customer
  - o Remains on the line for the entire call
  - o Is the one asking for the information
  - o AND is the one receiving the information on the call
- Example: the customer can ask the questions directly, or can ask the employee to provide the information in response to questions the third party asks while the customer remains on the line
  - o Third Party/Contractor: Please provide the last 12 months usage
  - o Employee: Mr/Mrs Customer would you like me to provide you with the last 12 months usage on your account?
  - o Customer must verbally agree before providing information



**Pacific Gas and  
Electric Company**

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PG&E believes that the amended GenRef guidance is fully compliant with Rule IV.E.

Within its Contact Centers, PG&E maintains a Quality Assurance and Compliance function, which on a monthly basis evaluates a limited number of customer calls to ensure compliance with regulatory requirements and internal policies. As part of this process, PG&E monitors for compliance with specific Affiliate Transaction Rules.

Finding 2 also includes a recommendation that PG&E self-report this instance of non-compliance to the CPUC. This issue was reported to the CPUC as part of the Affiliate Transaction Rules audit of the 2010-2011 period in 2014. In addition, under CPUC Rule 27 adopted by the CPUC subsequent to the Affiliate Rules, PG&E investigates data loss events involving Customer Energy Usage Data and determines whether the events are reportable to the CPUC under Rule 27, including reporting through the Smart Grid Annual Privacy Report, as filed each year with the Commission. In addition, any data losses reportable under Rule 27 involving more than 1,000 customers are reported to the CPUC within two weeks of detection of the data loss.

General Self-Reporting Recommendation:

Findings 1, 3, 7, 8, 9, 10 and 11 recommend that PG&E report specific instances to the CPUC. PG&E intends to comply with this recommendation through provision of this report to the CPUC. Going forward, PG&E will self-report any instances of non-compliance to the CPUC as they are identified.

PG&E respectfully requests that you take these comments into account when issuing the final report.

If you have any questions, please contact me by phone (415-973-9801) or email at [Sujata.Pagedar@pge.com](mailto:Sujata.Pagedar@pge.com).

Sincerely,

Sujata Pagedar  
Director, General Counsel Risk & Compliance

cc:  
Chris Prasad, State Controller Organization  
Judy Lee, State Controller Organization  
Albert Marroquin, State Controller Organization  
Scarlett Liang-Uejjo, California Public Utilities Commission

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