Summary of 2020-2021 Affiliate Transaction Rules Audit

Overview:

The CPUC has posted the State Controller's Office (SCO) final reports for the 2020-2021 Affiliate Transaction Rules (ATRs) audit to its website.[1]

SCO Auditors found the following for Investor-Owned Utility compliance with the ATRs during the 2020-2021 Audit Period:

- Pacific Gas and Electric: Audit found that PG&E was in compliance with all rules during the 2020-21 audit and applied corrective actions to all deficiencies identified by the 2016-2017 audit.[2]
- Southern California Edison (SCE): Audit found 4 instances of non-compliance, including that SCE applied corrective actions to 89% (8 of 9) of the deficiencies identified by the 2016-2017 audit.
- San Diego Gas and Electric (SDG&E): Audit found 8 instances of non-compliance, including that SDG&E did not apply any corrective actions to the deficiencies identified by the 2016-2017 audit.
- Southern California Gas (SoCalGas: Audit found 8 instances of non-compliance, including that SoCal Gas applied corrective actions to 60% (3 of 5) of the deficiencies identified by the 2016-2017 audit.

Background: Affiliate Transaction Rules and Biennial Audit

- The CPUC established the Affiliate Transaction Rules (ATRs) following deregulation in the 1990s of California's energy market, most recently updated in D.06-12-029. The ATRs address the following:
  - Keep California's investor-owned utilities separate from the more risky activities of their unregulated affiliates;
  - Prevent cross-subsidization of non- regulated utility enterprises by California ratepayers;
  - Foster a fair competitive environment which enhances market competition; and
  - Safeguard the financial stability of the utility from the risks associated with the market activities of its unregulated affiliates and parent holding company.
- D.06-12-029 required biannual audits of the Investor-Owned Utilities' compliance, performed by an independent auditor, at the direction of the CPUC. The CPUC is required to post the audit reports to its website.[3]

Sempra (SDG&E and SoCalGas) Key Instances of Non-Compliance

SDG&E and SoCalGas are affiliates under the Sempra Corporation parent company. The audit found instances of non-compliance for both affiliates including:

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[1] Affiliate Rules and Holding Company Issues

[2] 2018-2019 Audit was postponed indefinitely due to the budget freeze that occurred during COVID pandemic.

[3] ATR VI.C, Affiliate Audit, "The Energy Division shall post the audit reports on the Commission's web site."

1. *Sharing non-public storage inventory information with marketing employees:* SoCalGas had one instance in which confidential information related to Aliso Canyon was accidentally e-mailed to an employee in the Gas Acquisition Department. SoCal Gas notified the CPUC about this incident and took mitigating actions that included additional IT controls and remedial training for all staff and market participants to reinforce that operating information cannot be shared or disseminated to market participants.
2. *Separation - No Joint Employees*: SDG&E and SoCalGas both had multiple instances with employee transfers between affiliates, Sempra, and holding companies, including employee access to buildings and computer networks not being terminated on the day of transfer with affiliates or holding companies.[4]
3. *Confidential Information Shared with Affiliates*: SDG&E and SoCalGas both self-reported incidents to the Commission about accidental disclosure of confidential information to affiliates. Both utilities took mitigating actions that included reviewing and improving IT controls and additional training on the Affiliate Transaction Rules:
    - A mutual vendor of both utilities granted an affiliate, Sempra Liquid Natural Gas, access to a client portal without restricting access to confidential vendor information.
    - Each utility also reported one instance each in which e-mails containing restricted information were accidentally shared with affiliates[5][6].
4. *Unreported Affiliate Transaction:* SDG&E and SoCalGas both had multiple instances of unreported or misreported fees for affiliate transactions.
5. *Omitted or Misreported Employee Transfers*: SDG&E and SoCalGas each had two instances of unreported employee transfer fees, and each had one instance of incorrectly reported employee transfer fees.
6. *Incomplete or Omitted Exit Interview Documentation*: SDG&E and SoCalGas both had multiple instances of not retaining exit interview documentation or exit documentation was incomplete.
7. *Regulatory Oversight – Compliance Plans and New Affiliate Compliance Plans*: SDG&E and SoCalGas both failed to timely report of a newly created affiliate in Mexico City.[7]
8. *Reporting of Nontariffed Products and Services*: SDG&E and SoCalGas both had instances of incorrect financial reporting for Non-Tariffed Products and Services. Non-Tariffed Products and Services are additional offerings provided outside of a utility's core regulated services that are not included in standard tariff rates.
9. *Unresolved Issues from Previous Audit:* The 2020-2021 audit found that SDG&E has applied no (0) corrective actions to the five issues identified in the 2016-2017 audit and SoCalGas applied corrective actions to 3 of the 5 (60%) identified issues.

[4] Oncor Electric Delivery company, an LSE based in Dallas. Oncor does not operate as an LSE in California.
[5] SDG&E: Sempra's Corporate Governance department inadvertently sent three emails containing SDG&E invoices to Regulatory and Compliance employees within a covered affiliate, Sempra North American Infrastructure, EEC ("SNAI"). SNAI employees recognized the error and immediately deleted the e-mails.
[6] SoCal Gas: An employee inadvertently sent non-customer specific, non-public financial transactions information to a Sempra Infrastructure Employee. The e-mail did not contain information that was market sensitive or non-public customer specific .
[7] Ecogas Movil S.A.P.I. DE C.V.

Southern California Edison Key Instances of Non-Compliance

Southern California Edison's non-compliance included the following instances

1. *Disclosure of confidential information to an Affiliate* : SCE staff disclosed confidential information to an Affiliate, which is also an unresolved issue from the 2016-2017 audit.
2. *Service Provider Information*: SCE included one of its Affiliates on a list of service providers.
3. *Separation – No Joint Employees*: SCE did not notify the CPUC about a change in the list of shared officers until after the required 30-day notification period had passed.
4. *No release of information by employees transferring to/from parent company and affiliate*: SCE did not retain exit interview documentation for one employee.

Next Steps

- The Energy Division has met with SDG&E and SoCalGas to address the deficiencies identified in the 2016-2017 and 2020-2021 audits in order to gather more information about the nature and implications of the non-compliance issues, and to direct corrective action, if not already addressed.
- The CPUC Utility Audits Branch is currently performing the 2022-2023 Affiliate Transaction Rules Audit.
- Energy Division will review the issues for which Sempra applied no corrective actions since the 2016-17 audit for consideration of additional enforcement action.