

SAN DIEGO GAS & ELECTRIC COMPANY

Audit Report

AFFILIATE TRANSACTION RULES

January 1, 2020, through December 31, 2021



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

December 2024



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

December 5, 2024

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

Dear Ms. Peterson:

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

Our audit found that the Utility:

- Did not comply with all of the ATRs. We found instances of noncompliance with ATRs II., IV., V., VI., and VII., as described in Findings 1 through 8;
- Did not have adequate controls in place to ensure compliance with ATRs II., IV., V., VI., and VII. in certain areas, as described in Findings 1 through 8;
- Identified 18 instances of noncompliance with ATRs II., IV., V., VI., and VII., as described in Findings 1 through 5, 7, and 8. We also found that the methods by which the Utility identified and assessed the instances of noncompliance were effective. The Utility indicated that it is taking actions to correct the deficiencies; and
- Did not apply corrective actions to audit findings reported in the prior ATR audit report.

If you have any questions regarding this report, please contact Roochel Espilla, Chief, State Agency Audits Bureau, by telephone at (916) 323-5744, or by email at respilla@sco.ca.gov.

Sincerely,

Original signed by

Kimberly A. Tarvin, CPA
Chief, Division of Audits

KAT/ac

Attachment

Ms. Rachel Peterson

December 5, 2024

Page 2 of 2

Copy: Alice Busching Reynolds, President
California Public Utilities Commission
Matthew Baker, Commissioner
California Public Utilities Commission
Karen Douglas, Commissioner
California Public Utilities Commission
Darcie L. Houck, Commissioner
California Public Utilities Commission
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Nichelle Jackson, Program and Project Supervisor
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California Public Utilities Commission
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Bruce A. Folkmann, Chief Financial Officer
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San Diego Gas & Electric Company
Laura L. Chrestenson, Records and Compliance Analyst
San Diego Gas & Electric Company

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Audit Report

Executive Summary

The State Controller's Office (SCO) audited San Diego Gas & Electric Company (Utility) for the period of January 1, 2020, through December 31, 2021. The objective of our audit was to determine whether the Utility complied with Affiliate Transaction Rules (ATRs) I. through IX. We completed our audit fieldwork on October 19, 2023.

Our audit found that the Utility:

- Did not comply with all of the ATRs. We found instances of noncompliance with ATRs II., IV., V., VI., and VII., as described in Findings 1 through 8;
- Did not have adequate controls in place to ensure compliance with ATRs II., IV., V., VI., and VII. in certain areas, as described in Findings 1 through 8;
- Identified 18 instances of noncompliance with ATRs II., IV., V., VI., and VII., as described in Findings 1 through 5, 7, and 8. We also found that the methods by which the Utility identified and assessed the instances of noncompliance were effective. The Utility indicated that it is taking actions to correct the deficiencies; and
- Did not apply corrective actions to audit findings reported in the prior ATR audit report.

Background

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

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

The ATRs applicable for the audit period are set forth in D. 06-12-029, Attachment 1, Appendix A-3. Each investor-owned utility must annually

submit a Compliance Plan that describes the mechanisms and procedures in place enabling the investor-owned utilities to comply with the ATRs. Each investor-owned utility is also required to designate an Affiliate Compliance Manager to ensure that these mechanisms and procedures conform to the ATRs. In addition, investor-owned utilities are required to submit annual affiliate transaction reports to disclose affiliate activities.

Pursuant to ATR VI. C., the Commissioners require ATR audits to be performed biennially by independent auditors. The SCO conducted an ATR audit of the Utility for the period of January 1, 2016, through December 31, 2017, and issued a report on April 29, 2021. The report disclosed five findings.

San Diego Gas & Electric Company

The Utility is a CPUC-regulated public utility. The Utility provides energy service to 3.7 million people through 1.4 million electric meters and 905,000 natural gas meters in San Diego and southern Orange counties. The Utility's service area spans 4,100 square miles.

At the time of the issuance of the Utility's calendar year (CY) 2021 Compliance Plan, the Utility reported 187 affiliates, of which 111 were "covered" affiliates, meaning that these affiliates were subject to the ATRs.

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

Audit Authority

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

Objective, Scope, and Methodology

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

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

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

To achieve our objective, we performed the following procedures:

General

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

ATR I. – Definitions

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

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

ATR II. – Applicability

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

- We reviewed training materials provided to Utility employees and affiliates to ensure that the Utility is providing guidance on which affiliates are considered covered affiliates under the ATRs.

- We reviewed documentation to support that 17 (77%) of 22 affiliates created in CY 2020 and CY 2021 were properly classified as affiliates covered, or not covered, in accordance with ATR II.
- We inquired with the Utility and confirmed that no affiliates were reclassified during the audit period.
- We reviewed procedures and mechanisms to ensure that the Utility's holding company is not used as a conduit to provide nonpublic utility information to covered affiliates.

ATR III. – Nondiscrimination

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

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

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

ATR III. B. – Affiliate Transactions

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

- We reviewed procedures and training materials to verify that the Utility's policies and instructions to its employees regarding affiliate

transactions were intended to limit transactions to those allowable under the ATRs.

- We reviewed a detailed transaction history report of all transactions between the Utility and its affiliates to ensure that the transactions were permitted by the ATRs.
- We reviewed procedures and training materials to ensure that resource procurement procedures were compliant with ATR III. B. 1.
- We verified all competitive bids for contracts, products, and services during the audit period between the Utility and affiliates, and determined whether any such bids had been approved by the CPUC.
- We verified that the Utility's blind transactions were in compliance with ATR III. B. 1.
- We reviewed procedures and training materials to verify that the Utility's policies and instructions direct employees to provide access to Utility information or services, and unused electrical power or gas capacity or supply, in a nondiscriminatory manner.
- We requested and reviewed all notices of availability completed during the audit period.
- We reviewed procedures and training materials to ensure that policies and instructions to Utility employees on offering discounts are compliant with ATR III. B. 3.
- We requested and reviewed all postings of discount offers to covered affiliates from the Utility's website.
- We reviewed procedures and training materials to verify that the Utility's policies are adequate to ensure that the Utility does not provide preferential treatment to affiliates when tariff provisions allow for discretion in their application.
- We requested and reviewed a list of all tariffed and non-tariffed products and services (NTP&S) provided or offered during the audit period.
- We reviewed procedures and training materials to verify that the Utility's policies are adequate to ensure that it processes requests for services in a nondiscriminatory manner.

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

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

- We reviewed procedures and training materials to ensure that the Utility's procedures prevent placing conditions on the provision of goods and services from its affiliates.
- We reviewed all marketing materials to determine whether the tying of goods or services from an affiliate was implied, offered, or provided.

ATR III. D. – No assignment of customers

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

ATR III. E. – Business Development and Customer Relations

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

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

ATR III. F. – Affiliate Discount Reports

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

ATR IV. – Disclosure and Information

ATR IV. provides the requirements the Utility must follow in disclosing information, including customer, non-customer-specific, non-public, service provider, and supplier information. The rule also provides guidelines for affiliate-related advice or assistance, record-keeping, maintenance of affiliates’ contracts and related bids, and Federal Energy Regulatory Commission reporting requirements. We performed the following procedures to determine whether the Utility: (1) provided customer information to its affiliates exclusively, or without consent; (2) made non-customer specific non-public information available to its affiliates contemporaneously with all other service providers; (3) included an affiliate on any service provider list made available by the Utility to its customers; (4) provided its customers advice or assistance with regard to its affiliates or other service providers; and (5) maintained appropriate affiliate transaction records:

- We identified and reviewed 40 (or 1.35%) of 2,952 active and approved Customer Information Service Requests (CISRs) completed

by customers during the audit period and verified that none of the CISRs were from affiliates.

- We determined whether CISRs provided to affiliates were processed in a nondiscriminatory manner, with prior written consent from the customer.
- We determined whether the Utility released customer information to covered affiliates prior to posting electronic notices on its website.
- We reviewed the Utility's website for disclosure of instances in which non-customer specific non-public information was shared with affiliates.
- We reviewed the minutes for all 28 of the Utility's Board meetings to determine whether affiliate representatives were present during potentially sensitive discussions and ensure that non-customer-specific non-public information was not shared with affiliate representatives who were in attendance.
- We requested service provider lists that were distributed or made available to the public during the audit period in order to review them and determine whether any affiliates were listed.
- We inquired about the type of information that CCC representatives are permitted to release to customers.
- We requested written authorization for information provided to affiliates by unaffiliated suppliers.
- We confirmed that the Utility's affiliates did not serve retail customers during the audit period.
- We noted any instances in which our requests for records for this audit were unsuccessful.
- We reviewed all three existing contracts that were jointly negotiated by the Utility and affiliates in prior years but still in effect during CY 2020 and CY 2021.

ATR V. – Separation

ATR V. A. – Corporate Entities

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

- We reviewed the Utility's CY 2020 and CY 2021 Annual Reports, its holding company's CY 2020 and CY 2021 Form 10-K reports, and organization charts of covered affiliates to ensure that the Utility, its holding company, and its affiliates are separate corporate entities.
- We reviewed the Utility's CY 2020 and CY 2021 Compliance Plans to ensure that proper procedures are in place to comply with this ATR.
- We reviewed all 22 newly created affiliates and requested the articles of formation for the affiliates created during CY 2020 and CY 2021.

ATR V. B. – Books and Records

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

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

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

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

- We examined the Utility's office space located within the holding company's headquarters in San Diego, California and reviewed policies and procedures to ensure that the Utility and affiliate did not share office space or offer affiliate employees access to the Utility's facilities.
- We confirmed that affiliate representatives are treated as visitors and are required to be escorted by a Utility employee.
- We observed that visitors to the Utility's office space are greeted by an armed security guard, and are required to provide photo identification and sign a visitor's log before a Utility employee is contacted to escort the visitor.
- We obtained a list of employees who transferred between the Utility and its affiliates during the audit period, and tested all 16 covered affiliate transfers (out of 121 affiliate transfers) to verify that the employees' physical and system access was terminated concurrent with the date of transfer; and that the Utility or affiliates that received the transferred employees did not grant access to the employees before their previous physical and system access was terminated, to prevent the transferred employees from having concurring access to the Utility's and the affiliates' locations and systems.
- We obtained a network diagram depicting logical separation of affiliate and Utility networks, and determined whether affiliate virtual

private network tunnels are protected by firewalls that restrict access to Utility resources.

ATR V. D. – Joint Purchases

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

- We gained an understanding of what type of joint purchases the Utility engages in with its affiliates.
- We inquired whether the Utility engaged in any joint purchases during the audit period.
- We reviewed a judgemental sample of 12 joint purchase transactions totaling \$22,233, from a population of 106 transactions totaling \$32,869.

ATR V. E. – Corporate Support

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

- We interviewed Utility employees in various shared support functions to assess their knowledge of the ATRs and ensure that restricted services were not provided to affiliates.
- We examined the Utility’s list of permitted and non-permitted shared services identified in the “Corporate Support Services” section of the *Affiliate Compliance Guidelines*.
- We examined the Utility’s processes and procedures for intercompany billing and cost allocation methodologies.
- We documented the controls implemented by the Utility to ensure compliance with the accounting requirements of the ATRs, including, but not limited to, ensuring that approvals, authorizations, verifications, cost loaders, and fees were correctly developed and applied; and ensuring that applicable costs were appropriately allocated to affiliates.
- During the audit period, the Utility reported covered inter-affiliate monthly invoices of \$706,398 in CY 2020 and \$2,088,859 in CY 2021.
 - We reviewed a judgmental sample of eight covered inter-affiliate monthly invoices, totaling \$2,379, that were issued in April and December 2020 and April and December 2021.
 - We verified that inter-affiliate monthly invoices were accurately produced in a timely manner.

ATR V. F. – Corporate Identification and Advertising

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

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

ATR V. G. – Employees

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

- We determined whether any employee served as a board member or corporate officer for the holding company, the Utility, and/or an affiliate simultaneously.
- We confirmed that corporate officers from the Utility and the holding company are appropriately described in the CY 2020 and CY 2021 Compliance Plans, and ensured that the Utility does not share officers and directors as a conduit to circumvent any of the ATRs.
- We verified that the Utility appropriately notified the CPUC's Energy Division of any changes to its list of shared officers and directors within 30 days.
- We verified that the Utility reported all employee movements to or from affiliates in the Annual Reports.
- We reviewed the list of all 25 employee transfers to verify that: (1) employees who transferred to an affiliate did not return to the Utility for a period of one year; (2) if an employee returned to the Utility, the employee was not retransferred, reassigned, or otherwise employed by an affiliate for two years; and (3) the Utility's holding company was not used as a conduit to circumvent the required transfer fees.
- We confirmed that the transfer fee of 25% of an employee's base annual compensation was properly paid in the Affiliate Transfer Fee Memorandum Accounts' General Ledger balances for all 25 employees transferred.
- We reviewed the signed Adherence to Affiliate Transaction Communication Policies forms and the affiliate transfer process flows to ensure that transferring employees acknowledged the restrictions imposed by the ATRs.

- We inquired with Utility staff members and confirmed that the Utility did not engage in any Intercompany Service Requests, in order to determine whether the Utility approved and made temporary or intermittent assignments or rotations to its affiliates during the audit period.

ATR V. H. – Transfer of Goods and Services

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

- We inquired with Utility staff members and confirmed that ATRs V. H. 1., 3., 4., and 6. were not applicable during the audit period.
- For ATR V. H. 2., the Utility reported that its affiliates provided it with \$372,509,127 of goods and services in CY 2020 and \$390,896,691 of goods and services in CY 2021. We reviewed a judgmental selection totaling \$58,904,922 for CY 2020 and \$60,940,954 for CY 2021. These selected transfers of goods and services were recorded in the Outside Services Employed Account.
- For ATR V. H. 5., the Utility reported providing \$21,202,889 of goods and services to its affiliates in CY 2020 and \$23,392,198 of goods and services to its affiliates in CY 2021. Of the \$44,595,087 transferred during these two years, the Utility reported a total of \$2,685,040 (\$1,330,992 in CY 2020 and \$1,354,048 in CY 2021) in transfers from the Accounting and Finance Account. We reviewed a judgmental selection, totaling \$945 for CY 2020 and \$5,681 in CY 2021, of these transfers.
- We determined whether transfers were priced per the provisions of ATR V. H.

ATR VI. – Regulatory Oversight

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

- We reviewed the Utility's CY 2020 and CY 2021 Compliance Plans to ensure that they were filed annually by June 30.
- We observed the Utility's creation of a report listing all affiliates and all affiliate activity (i.e., current affiliates, newly formed, newly acquired, dissolved, sold, etc.) with dates of activity during CY 2020 and CY 2021, and compared the report to the CY 2020 and CY 2021 Compliance Plans for completeness.
- We examined the CY 2020 and CY 2021 Compliance Plans to ensure that the Utility demonstrated that it has proper procedures in place to ensure compliance with the ATRs.
- We observed the creation of a report from the Utility's Microsoft Excel database listing all affiliates formed or acquired during CY 2020 and CY 2021, and compared the report to the CY 2020 and CY 2021

Compliance Plans to ensure that all new affiliates were included in the Compliance Plans and to confirm the population.

- We selected all 22 new affiliates and calculated the elapsed time between affiliate creation or acquisition and:
 - Notification to the CPUC of the new affiliate, to ensure that the CPUC was notified before the Advice Letter was received;
 - Posting of the new affiliate on the Utility's website, to ensure that the new affiliate was posted before the Advice Letter was received by the CPUC; and
 - Submission of the Advice Letter notifying the CPUC of the new affiliate, to ensure that the CPUC was notified within 60 days.
- We examined the dates on the certificates of formation and the certificates of amendment for all 22 new affiliates to confirm creation or acquisition dates, in order to establish dates for our calculations and to compare them to the dates in the documentation provided to the CPUC.
- We obtained and examined documentation for all 22 new affiliates from the Utility's website showing when the new affiliate notifications were posted.
- We examined the Advice Letters to determine whether they state the affiliate's purpose or activities; whether the Utility claims that ATR II. B. makes these ATRs applicable, and whether the letters demonstrate to the Commissioners that adequate procedures are in place to ensure compliance with the ATRs.
- We obtained and examined the transaction detail, journal entries, and invoice support for the audit charges from the previous audit to ensure that costs were at shareholder expense.
- We discussed with Utility staff members any instances in which affiliate officers and/or employees were not made available to testify before the CPUC.
- We discussed with CPUC representatives any instances in which affiliate officers and/or employees were not made available to testify before the CPUC.
- We obtained officer certifications for CY 2020 and CY 2021 and confirmed that:
 - All key officers, as defined in ATR V. E., submitted certifications to the CPUC;
 - The executive's names and titles on the certifications match the names and titles reported in the holding company's CY 2020 and CY 2021 Form 10-K report filing with the Securities and Exchange Commission; and
 - The language within the certifications complies with the specific ATR VI. E. language.

ATR VII. – Utility Products and Services

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

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

ATR VIII. Complaint Procedures and Remedies

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

- We requested copies of filed complaints.
- We inquired with the Utility's Affiliate Compliance Office and confirmed that no complaints were filed during the audit period.
- We verified the types of policies, procedures, and processes in place for preventing, detecting, and reporting ATR violations.
- We examined all 18 of the Utility's self-reported ATR violations and its Responsive Action Plan to address future compliance.

ATR IX. Protecting the Utility's Financial Health

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

- We examined the ATR IX. Annual Reports filed by the Utility to ensure that the reports included the requirements listed in ATR IX. A., and that they were filed by November 30.

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

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

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

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

Conclusion

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

- We found instances of noncompliance with ATRs II., IV., V., VI., and VII. Refer to Findings 1 through 8 in the Findings and Recommendations section.

- We found internal control deficiencies in areas related to ATRs II., IV., V., VI., and VII. that make it possible for instances of noncompliance to occur and/or go undetected. Refer to Findings 1 through 8 in the Findings and Recommendations section.
- The Utility identified 18 instances of noncompliance with ATRs II., IV., V., VI., and VII. We found that the methods by which the Utility identified and assessed the instances of noncompliance were effective. The Utility indicated that it is taking actions to correct the deficiencies. Refer to Findings 1 through 5, 7, and 8 in the Findings and Recommendations section.
- We found that the Utility did not apply corrective actions to audit findings reported in the prior ATR audit. Refer to the Appendix—Summary of Prior Audit Findings January 1, 2016, through December 31, 2017.

Views of Responsible Officials

We issued a draft audit report on April 4, 2024. The Utility's representatives responded by letter dated April 18, 2024. The Utility agreed with the audit results except for Findings 1, 2, 5, and 7. We revised the table in Finding 8 for clarity. This final audit report includes the Utility's response as an attachment.

Restricted Use

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

Original signed by

Kimberly A. Tarvin, CPA
Chief, Division of Audits

December 5, 2024

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

Affiliate Transaction Rule	Section	Rule Description	Compliance	Finding	Reference
I – Definitions	A	“Affiliate”	Yes		
I – Definitions	B-H	Various Definitions	No Activity		
II – Applicability	A	Applicability	No Activity		
II – Applicability	B	Transactions/Coverage	Yes		
II – Applicability	C	Violate/Circumvent Rules	No	<i>Non-public information shared with affiliates.</i>	Finding 1
II – Applicability	D-H	Applicability Coverage	No Activity		
III – Nondiscrimination	A	No Preferential Treatment Regarding Services Provided by the Utility	Yes		
III – Nondiscrimination	B	Affiliate Transactions	No Activity		
III – Nondiscrimination	B.1	Resource Procurement	No Activity		
III – Nondiscrimination	B.2	Provision of Supply, Capacity, Services or Information	No Activity		
III – Nondiscrimination	B.3	Offering of Discounts	No Activity		
III – Nondiscrimination	B.4	Tariff Discretion	No Activity		
III – Nondiscrimination	B.5	No Tariff Discretion	No Activity		
III – Nondiscrimination	B.6	Processing Requests for Services Provided by the Utility	No Activity		
III – Nondiscrimination	C	Tying of Services Provided by a Utility Prohibited	No Activity		
III – Nondiscrimination	D	No Assignment of Customers	No Activity		
III – Nondiscrimination	E	Business Development and Customer Relations	Yes		
III – Nondiscrimination	F	Affiliate Discount Reports	No Activity		

Schedule (Continued)

Affiliate Transaction Rule	Section	Rule Description	Compliance	Finding	Reference
IV – Disclosure and Information	A	Customer Information	Yes		
IV – Disclosure and Information	B	Non-Customer Specific Non-Public Information	No	<i>Non-public information shared with affiliates.</i>	Finding 1
IV – Disclosure and Information	C	Service Provider Information	Yes		
IV – Disclosure and Information	D	Supplier Information	No Activity		
IV – Disclosure and Information	E	Affiliate-Related Advice or Assistance	Yes		
IV – Disclosure and Information	F	Record-Keeping	Yes		
IV – Disclosure and Information	G	Maintenance of Affiliate Contracts and Related Bids	Yes		
IV – Disclosure and Information	H	FERC (Federal Energy Regulatory Commission) Reporting Requirements	No Activity		
V – Separation	A	Corporate Entities	Yes		
V – Separation	B	Books and Records	Yes		
V – Separation	C	Sharing of Plant, Facilities, Equipment or Costs	No	<i>Employee physical and information system access not terminated on transfer date, concurring access to Utility and affiliates was not prevented.</i>	Finding 2
V – Separation	D	Joint Purchases	Yes		

Schedule (Continued)

Affiliate Transaction Rule	Section	Rule Description	Compliance	Finding	Reference
V – Separation	E	Corporate Support	No	<i>Unreported corporate support transactions.</i>	Finding 3
V – Separation	F.1	Corporate Identification and Advertising	Yes		
V – Separation	F.2	Different Treatment	Yes		
V – Separation	F.3	No Utility Billing Envelope Advertising Space to Affiliates	Yes		
V – Separation	F.4	No Joint Advertising or Marketing	Yes		
V – Separation	F.5	No Research and Development Subsidization	Yes		
V – Separation	G.1	No Joint Employees	Yes		
V – Separation	G.2.a	Tracking Employee Movement	No	<i>Unreported employee transfers.</i>	Finding 4
V – Separation	G.2.b	Transfer Residency Requirements	Yes		
V – Separation	G.2.c	Transfer Payments	No	<i>Unreported and inaccurately reported transfer fees.</i>	Finding 5
V – Separation	G.2.d	No Transfer Release of Information	No	<i>Exit interview documentation not retained for seven employees and incomplete for two employees.</i>	Finding 6
V – Separation	G.2.e	Loaned Labor Guidelines	No Activity		
V – Separation	H	Transfer of Goods and Services	Yes		
VI – Regulatory Oversight	A	Compliance Plans	No	<i>New affiliates not reported in a timely manner.</i>	Finding 7
VI – Regulatory Oversight	B	New Affiliate Compliance Plans	No	<i>New affiliates not reported in a timely manner.</i>	Finding 7
VI – Regulatory Oversight	C	Affiliate Audit	Yes		
VI – Regulatory Oversight	D	Witness Availability	Yes		
VI – Regulatory Oversight	E	Officer Certifications	Yes		

Schedule (Continued)

Affiliate Transaction Rule	Section	Rule Description	Compliance	Finding	Reference
VII – Utility Products and Services	A	General Rule	No Activity		
VII – Utility Products and Services	B	Definitions	No Activity		
VII – Utility Products and Services	C	Utility Products and Services	Yes		
VII – Utility Products and Services	D.1	Precedent Conditions	Yes		
VII – Utility Products and Services	D.2	Precedent Conditions	Yes		
VII – Utility Products and Services	D.3	Precedent Conditions	Yes		
VII – Utility Products and Services	D.4	Precedent Conditions	Yes		
VII – Utility Products and Services	E	Requirement to File an Advice Letter	No Activity		
VII – Utility Products and Services	F	Existing Offerings	No Activity		
VII – Utility Products and Services	G	(Public Utilities Code) Section 851 Application	No Activity		
VII – Utility Products and Services	H	Periodic Reporting of Nontariffed Products and Services	No	<i>Inaccurately reported non-tariffed products and services amounts.</i>	Finding 8
VII – Utility Products and Services	I	Offering of Nontariffed Products and Services to Affiliates	No Activity		
VIII – Complaint Procedures and Remedies	A	CPUC strictly enforces ATRs	No Activity		

Schedule (Continued)

Affiliate Transaction Rule	Section	Rule Description	Compliance	Finding	Reference
VIII – Complaint Procedures and Remedies	B	Standing	No Activity		
VIII – Complaint Procedures and Remedies	C	Procedure	Yes		
VIII – Complaint Procedures and Remedies	D	Remedies	Yes		
IX – Protecting the Utility’s Financial Health	A	Information from Utility on Necessary Capital	Yes		
IX – Protecting the Utility’s Financial Health	B	Restrictions on Deviations from Authorized Capital Structure	Yes		
IX – Protecting the Utility’s Financial Health	C	Ring-Fencing	Yes		
IX – Protecting the Utility’s Financial Health	D	Changes to Ring-Fencing Provisions	Yes		

Findings and Recommendations

FINDING 1— Non-public information shared with affiliates

During the audit period, the Utility discovered and disclosed to the CPUC one instance of noncompliance with ATR II. C. and one instance of noncompliance with ATR IV. B. The Utility described these two instances in the disclosures to the CPUC. The disclosure of the first instance on March 13, 2020, states, in part:

... In summary, Sempra Energy (“Sempra”) conducts an annual review to ensure the independence of its Board of Directors. This review process requires Sempra to review documents pertaining to transactions between Sempra or its subsidiaries and those companies related to its non-employee directors (e.g., companies for which Sempra’s non-employee directors have any affiliation). During this review, emails were inadvertently sent containing San Diego Gas & Electric Company’s (SDG&E) invoices to two employees of Sempra North American Infrastructure, EEC (“SNAI”), a covered affiliate. SDG&E takes seriously its obligation to abide by the ATRs and details below the steps in place to prevent this from occurring again. . . .

In the instance that is the subject of this letter, an employee in the Sempra Corporate Governance department inadvertently sent two Regulatory and Compliance employees within SNAI three emails containing SDG&E invoices in addition to the non-utility affiliate invoices. One of the emails containing SDG&E information was opened by one of the SNAI employees. Recognizing immediately that the invoice related to SDG&E, the employee closed the email without reading it further and SDG&E’s Affiliate Compliance Department (ACD) was notified of the error. The other two emails were facially identified as SDG&E-related and were not opened by either employee. All emails were subsequently deleted.

The disclosure of the second instance on May 28, 2021, states, in part:

SDG&E’s Affiliate Compliance Department was recently informed that Sempra LNG’s accounting department was granted access by a mutual vendor to view the 2020 1099 information for SDG&E that displayed vendor names and amounts billed. Sempra LNG’s accounting department was able to access and view SDG&E’s 1099 information via the vendor’s portal. The contract with the vendor required them to treat data confidentially; however, this information was not segregated. . . .

Upon notice of the access to SDG&E’s Affiliate Compliance Department, Sempra LNG’s access to the vendor portal was immediately terminated, effective March 24, 2021. . . .

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

ATR II. C. states:

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

1. direct or cause a utility to violate or circumvent these Rules, including but not limited to the prohibitions against the utility providing preferential treatment, unfair competitive advantages or non-public information to its affiliates;

2. aid or abet a utility's violation of these Rules; or
3. be used as a conduit to provide non-public information to a utility's affiliate.

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

Sempra Energy provides some of the corporate oversight and governance that is shared between the utility and affiliates pursuant to Rule V.E. These employees are responsible for safeguarding non-public utility information in their possession and must not share or transfer any information that is subject to the restrictions imposed by the anti-conduit provisions and the Rules.

Training is provided to employees of Sempra Energy and SDG&E, and also to employees of covered affiliates if they have California market interactions. The training includes instructions on the anti-conduit provisions to prevent circumvention or direct or indirect violation of the Rules. As part of training, employees attest to their understanding of the Rules and acknowledge that they must not: (1) provide a means for the transfer of confidential information from the utility to an affiliate, (2) create the opportunity for preferential treatment or unfair competitive advantage; or (3) create significant opportunities for cross-subsidization of affiliates by the utilities.

ATR IV. B. states:

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

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

Non-customer specific, non-public utility information may be shared on an exclusive basis with affiliates, subject to their obligation to not act as a conduit to other affiliates, if the information is: (1) necessary to perform shared corporate support or corporate oversight or governance and where such information is only used for that limited purpose; and (2) does not create an opportunity for an unfair competitive advantage. Any non-public utility information that does not meet the above criteria cannot be shared with an affiliate unless such information is contemporaneously posted.

Sempra Energy officers and employees responsible for shared corporate oversight or governance may receive all information from the utility and

affiliates that is used for providing such oversight and governance. Such information may be used only for that purpose and is subject to established anti-conduit provisions.

When SDG&E provides non-customer specific, non-public information to its affiliates that does not meet the above exception criteria, SDG&E will post this information contemporaneously on SDG&E's internet website. This site offers the information under the same terms and conditions as described in the preceding Rule.

As noted in the procedures for Rule III.B, transactions that are part of internal operations and integral to a permitted transaction with an affiliate need not be posted. For example, if SDG&E provides non-public right-of-way information to an affiliate pursuant to its Rule 28, this information would not be posted since this is a tariffed service and the information is integral to providing the service. Or, if SDG&E provides non-public information regarding the capability of its gas transmission system to accept regasified LNG volumes from its LNG affiliate in an "Interconnection Capacity Study" as required by its Rule 39.B, it would not post this information since this is a tariffed product and the information is an integral part of the product. In both examples, SDG&E is treating its affiliate exactly the same as any unaffiliated third party requesting the tariffed product or service. This is consistent with Rule III.B.2 since the information is provided to an affiliate pursuant to the tariff rules on the same terms for all similarly situated market participants.

If postings are required, procedures are in place specifying the format and content of the information to be posted on the website. ACD personnel use a form located on SDG&E's Affiliate Compliance intranet site to post this information. Once the data is entered into the form, the information immediately posts to the appropriate category on SDG&E's internet website.

Interested parties will find the posted information on SDG&E's internet home page at www.sdge.com. From the home page, the information is accessed by selecting the "Rates & Regulations" link, then selecting the "Affiliate Transactions" link, and then scrolling to the "SDG&E Affiliate Transaction Postings" is where the "Non-Customer Specific, Non-Public Information" category is found."

Recommendation

We recommend that the Utility:

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

Utility's Response

In Finding #1, the State Controller's Office referenced 2 instances of asserted non-compliance that were reported to the CPUC prior to the commencement of the 2020-2021 audit. The two events referred to by the State Controller's Office were identified by SDG&E in self-report letters that were filed on March 13, 2020, and May 28, 2021, respectively. Those letters identified the circumstances and related mitigation measures put into place by SDG&E at the time the self-reports were made.

With respect to the second event reflected in Finding #1, which was the subject of SDG&E's May 28, 2021 letter, namely the inadvertent disclosure by a vendor of non-public information to a utility affiliate, SDG&E objects to the finding of Rule II.C and Rule IV.B. violations. The inadvertent sharing of information by a vendor was not knowingly caused by SDG&E and SDG&E did not act as a conduit to share non-customer specific, non-public information with its affiliates as required by the language of the applicable Rules. SDG&E reported this event out of an abundance of caution and in the interest of being transparent. SDG&E includes express language in its vendor contracts of the prohibition on disclosure of non-public information of which vendors are expected to understand and comply.

With regards to the second bulleted recommendation made in Audit Finding #1, related to potential security measures within its information systems, SDG&E has several controls in place to prevent the inadvertent sharing of information. SDG&E will review those controls to prevent non-public information from inappropriate disclosure to affiliates. In addition, SDG&E conducted additional training with Sempra Corporate Governance to remind them of the prohibition on acting as a conduit of non-public utility information to affiliates.

SCO Comment

Our finding remains unchanged. We recognize that the Utility acted appropriately by notifying the CPUC of the instances of noncompliance with ATR II. C. and IV. B. In the first instance, the non-public information was shared to employees of an affiliate by an employee of Sempra, which is the Utility's ultimate parent company and an entity covered by the ATRs. The Utility's March 13, 2020 notification to the CPUC states "[t]his inadvertent disclosure of non-public utility information by a Sempra Energy employee appears to implicate Rule II.C. . . ."

In the second instance, the non-public information was shared to employees of an affiliate by a mutual vendor. Pursuant to ATR I. A., the Utility should demonstrate that it has specific and mechanisms and procedures, including those that ensure that the Utility will not use contractors as a vehicle to disseminate information transferred to them by the Utility to covered affiliates.

**FINDING 2—
Inadequate policies
and procedures to
ensure that
employee physical
and information
system access was
terminated in a
timely manner**

The Utility's internal controls were inadequately designed to ensure compliance regarding physical and information system access after employee transfers. We found the following deficiencies:

- The Utility failed to terminate physical and information system access on or before the transfer date for employee transfers between the Utility and covered affiliates.
- The Utility failed to ensure that affiliate access was terminated before Utility physical and information system access was granted to employees who transferred from covered affiliates to the Utility.

The Utility's internal controls failed to ensure compliance regarding physical and information system access for 13 of 16 employee transfers during CY 2020 and CY 2021.

During the audit, the Utility discovered and disclosed to the CPUC one instance of noncompliance with ATR V. C. The Utility described the instance in the disclosure to the CPUC on February 11, 2023, as follows:

As part of an internal review of Affiliate Compliance controls, SDG&E's Affiliate Compliance department discovered deficiencies in some of the controls related to the employee transfer process. In accordance with the Affiliate Transaction Rules, SDG&E is bringing this matter to your attention.

1. Electronic Computer Access:

SDG&E has identified a system limitation pertaining to the intercompany transfer process that resulted in certain employees' computer access being maintained after the transfer date for up to several days. The system was implemented in 2019, and the issue was discovered in 2022. In the most recent CPUC audit (conducted by the State Controller's Office) of the Affiliate Transaction Rules covering the years 2016 and 2017, there were findings related to employee transfers that were communicated as part of the final audit report in 2021. SDG&E's response referenced a new technology platform put into place in 2019 as a remediation for the delay in access termination as well as records retention. The limitation was discovered in this system, and hence impacted the effectiveness of this remediation.

2. Physical Access:

Due to a delay in transfer notifications, updates to physical access permissions for certain employees who transferred from SDG&E to covered affiliates and vice versa since the system implementation in 2019 were delayed, meaning they had access to SDG&E and affiliate facilities during a window of time between transfer and the access update. A review revealed none of the employees accessed any facilities from their prior role following their transfer.

We selected all 16 employees who transferred between the Utility and covered affiliates to determine the Utility's compliance with ATR V. C. Of the 16 employees, nine were Utility employees who transferred to covered affiliates and seven were covered affiliate employees who transferred to the Utility. We reviewed supporting documentation to determine whether the employees' physical and information system access was terminated on or before their transfer dates. For the seven covered affiliate employees, we also reviewed supporting documentation to determine when they were granted physical and information system access to the Utility. Our review noted the following instances of noncompliance for 13 of 16 employees:

Utility Employees Transferred to Covered Affiliates			
Employee	Calendar Year	Number of Days after Transfer Date that Physical Access Was Terminated	Number of Days after Transfer Date that System Access Was Terminated
1	2020	9	5
2	2020	3	3
3	2020	1	1
4	2020	61	6
5	2020	9	5
6	2021	—	5
7	2021	9	216
8	2021	—	1
9	2021	6	6

Covered Affiliate Employees Transferred to Utility

Employee	Calendar Year	Number of Days Utility Physical Access Was Granted Prior to Termination of	Number of Days Utility System Access Was Granted Prior to Termination of
		Affiliate Access	Affiliate Access
13	2020	7	31
14	2020	–	33
15	2021	–	23
16	2021	7	–

We found no evidence that the transferred employees accessed any non-public information subsequent to their transfer dates; however, if not mitigated, the control deficiency creates a significant risk that non-public information will be accessed by unauthorized employees.

ATR V. C. states:

Sharing of Plant, Facilities, Equipment or Costs: A utility shall not share office space, office equipment, services, and systems with its affiliates, nor shall a utility access the computer or information systems of 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 of these Rules. Physical separation required by this rule shall be accomplished preferably by having office space in a separate building, or in the alternative, through the use of separate elevator banks and/or security-controlled access. This provision does not preclude a utility from offering a joint service provided this service is authorized by the Commission and is available to all non-affiliated service providers on the same terms and conditions (e.g., joint billing services pursuant to D.97-05-039).

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

Facilities Separation:

SDG&E’s headquarters are located at the Century Park facility in San Diego. Access to the entire Century Park facility is card-key controlled. No affiliate personnel share this facility. The Century Park facility has workspace for Sempra Energy and SoCalGas [Southern California Gas Company] shared service personnel.

SDG&E shared service personnel occupy separate suites (restricted card access) in Sempra Energy’s Headquarters (“HQ”) building and are located on a separate floor away from all affiliate employees. All building operations support areas accessed by maintenance personnel and porters to support these daily building operations and functions remain in locked areas of the HQ building and are card-key controlled. Access throughout the entire HQ facility is card-key controlled to support and maintain continuous separation between the shared service personnel and all other building tenants.

Information Technology:

The California Utilities’ data centers house most of the Information Technology (“IT”) production processing operations. Consolidation of the California Utilities’ IT systems is a “utility-to-utility” transaction that was approved and priced in the Merger Decision (D.98-03-073).

The data centers are stand-alone facilities specifically constructed and maintained to house computer technology services and related activities in a high security environment. These facilities are located regionally

and out of state for service continuity and are completely segregated from other entities' equipment and employees. They provide computer technology services for the utilities and Sempra Energy. They also provide support for permissibly shared services (Rule V.E), such as employee timekeeping, payroll, materials management, and accounting functions.

The California Utilities may utilize various applications hosted by outsourced services to provide some information technologies. Such outsourced services applications are not shared with affiliates and are managed and controlled by the California Utilities. Affiliate employees may not access such outsourced services applications except for permissible shared services (Rule V.E), such as employee timekeeping, payroll, materials management, and accounting functions.

To help promote compliance with the Rules for utility and affiliate separation, the California Utilities and Sempra Energy information systems adhere to the following measures:

Physical Access:

Affiliate personnel are not allowed physical access to the data centers without escort nor are they allowed access to applications hosted by outsourced services. The affiliates operate their own independent IT organization, outsourced services applications and data center for affiliate information systems. Except for shared service Facilities Management staff, utility employees cannot access the covered affiliates' data center without escort or electronically access outsourced services applications.

Systems:

The California Utilities/Sempra Energy network maintains physical and logical security controls, which in combination with employee training on the Rules, are designed to prevent access to non-sharable utility information and data systems, including outsourced services applications.

California Utility employees are not permitted to access the affiliates' network or outsourced services applications. Likewise, the affiliates are not permitted to access the data center network or outsourced services applications.

The California Utilities/Sempra Energy IT network is separated from the affiliates' network by security controls designed to physically and logically isolate the California Utilities Sempra Energy from the affiliates' systems and information. Additionally, employees receive training on the Rules educating and raising awareness to prevent access to non-sharable systems and applications.

The California Utilities and the affiliates each maintain their own systems including separate contracts and licenses, directories, server hardware and software, and desktop hardware and software. Communications systems such as e-mail, directories and collaboration tools are also separated. Certain permissibly shared, corporate-wide infrastructure systems served under a single master agreement can be used for all Sempra Energy operating companies.

The California Utilities and the affiliates' IT organizations may communicate intermittently in the administration of technology issues associated with company-wide oversight and governance activities (e.g., training, IT employee development initiatives, etc.).

Internal guidelines are in place to manage the limited connectivity between the California Utilities/Sempra Energy IT network and the

affiliates' network for access to allowable shared services. These guidelines are approved by representatives of SDG&E's IT, affiliates' IT and ACD and are subject to audit by the Sempra Energy Audit Services department.

The Utility's CY 2020 and CY 2021 *Affiliate Compliance Guidelines* state, in part:

VI. EMPLOYEE TRANSFERS

A. General

Transfer of Employee Process

All IT accesses (Systems/Networks/Applications, E-mail, Card Access Key, Secure ID, Cell phone/Smart phone, and Instant Messaging access and SharePoint) must be terminated before the employee transfers to a Covered Affiliate company.

Recommendation

We recommend that the Utility implement policies and procedures to ensure that it terminates the physical and information-system access of Utility employees who transfer to covered affiliates on or before the employees' transfer dates; and that it verifies the termination of affiliate physical and information system access before granting Utility access to covered affiliate employees who transfer to the Utility.

Utility's Response

As identified in its March 2, 2021 comment letter to the CPUC on the AY 2016/2017 [CY 2016 and 2017] audit, SDG&E acted to strengthen the systems and controls in place for employee transfers, including the institution of a new system designed to automate and terminate access before or on the date of employee transfer. SDG&E self-reported to the CPUC after learning that the system had not in all instances operated as designed. Since this discovery and the Company's self-report on February 11, 2023, SDG&E has re-examined and strengthened its systems and controls regarding employee transfers to and from SDG&E and its affiliates. These controls include additional advanced notification to the appropriate IT and Corporate Security departments. In addition, for employees transferring into SDG&E, the affiliate is required to affirm that prior to the transfer date physical and systems access to the affiliate have been removed. SDG&E and Sempra affiliate department procedures have been updated to reflect the requirements.

SDG&E also notes that, in instances where physical or system access were not removed contemporaneously with the employee transfer, SDG&E has found no instances where the transferred employee attempted to or gained access to the former employer's system or facilities. Thus, while a risk exists that, should contemporaneous removal of access not occur, non-public information could be accessed by an unauthorized person, there is no evidence to indicate there is "a significant risk that non-public information will be accessed by unauthorized employees" as is reflected in Finding #2 of the State Auditor's Office draft report. SDG&E respectfully requests that the Audit Finding #2 be modified to adjust the characterization of the risk posed, by removing the word "significant" and replacing the words "will be" with "could be."

SDG&E further notes that page 24 of the draft Report does not accurately reflect the date of the self-report made by SDG&E. The date indicated in the Report is August 23, 2023, whereas the actual self-report was provided to the CPUC on February 11, 2023. SDG&E has provided a redline reflecting this and any other typographical errors noted in the draft Report.

SCO Comment

Our finding remains unchanged; however, on page 25 of this report, we corrected the date of disclosure by the Utility to the CPUC to February 11, 2023. The Utility appears to suggest that because it found no instances of transferred employees accessing non-public information after their transfer dates, there is no evidence of a significant risk that non-public information will be accessed by unauthorized employees. The existence and severity of this risk does not depend on whether an unauthorized access of non-public information actually occurred, but rather on its likelihood and possible magnitude. Based on our audit and professional judgment, we considered the risk that non-public information would be accessed by unauthorized employees to be significant.

FINDING 3— Unreported transactions between the Utility and its affiliates

During the audit, the Utility discovered and disclosed to SCO auditors and the CPUC five instances of noncompliance with ATR V. E. The Utility described the instances in the disclosure to the CPUC on August 23, 2023, as follows:

In summary, as part of an internal review following the compiling of information in response to several data requests issued in the State Controller's Office audit of the Affiliate Transaction Rules for the years 2020 and 2021, SDG&E's Affiliate Compliance department discovered transactions that were inadvertently omitted or misstated from the annual Affiliate Transaction Report ("ATR") Schedules C and D for the years 2018 – 2022. Accordingly, SDG&E has revised Schedules C and D for the years 2018 – 2022. The revised schedules and reports are attached to this letter.

In accordance with the Affiliate Transaction Rules, SDG&E is bringing this matter to your attention. Each reporting error is described in detail below.

For 2020-2021, the following transactions were left off the ATR report:

- The group that prepared Schedule D was not aware that Resource Adequacy Capacity Reservations transactions with an affiliate, Sempra Gas & Power Marketing, LLC ("SGPM"), were occurring. Although missing from Schedule D, it is important to note that these SGPM transactions were approved by the California Public Utilities Commission ("CPUC") pursuant to the rigorous procurement approval processes applicable to transactions involving covered affiliates. In addition, the SGPM transactions were approved by the Federal Energy Regulatory Commission ("FERC").
- A joint venture subsidiary, Energia Sierra Juarez U.S., LLC ("ESJ"), became wholly owned by Sempra, and due to accounting coding changes not being communicated to the group that prepared Schedule D, the new accounts were not queried for the ATR report filing. Accordingly, the group that prepared Schedule D was not aware of Power Purchase Agreements between ESJ and SDG&E. Although missing from Schedule D, it is important to note that these

ESJ transactions were approved by the CPUC pursuant to the rigorous procurement approval processes applicable to transactions involving covered affiliates. In addition, the ESJ transactions were approved by FERC.

- Billings to an affiliate, Gasoducto De Aguaprieta were sent out by the group that performs third party billings for construction services instead of through the usual affiliate billing process and were not communicated to the Affiliate Billing and Costing group that prepares Schedule C.

The following table shows the five transactions that were inadvertently omitted from the Annual Report on Affiliate Transactions:

Entity	Schedule	Year	Amount Unreported
Gasoducto De Aguaprieta	C	2020	\$12,362
Gasoducto De Aguaprieta	C	2021	5,002
Sempra US Gas & Power Marketing, LLC (“SGPM”)	D	2020	4,265,000
Sempra US Gas & Power Marketing, LLC (“SGPM”)	D	2021	25,587,000
Energia Sierra Juarez US, LLC	D	2021	26,645,000
Total			\$56,514,364

ATR V. E. states, in part:

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.

CPUC D. 93-02-019 requires that Schedule C and D in the Annual Report on Affiliate Transactions include the following:

Using the Table II-C-1, each utility shall report any goods and/or services that the utility provided to any of its affiliate 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.

Using the Table II-D-1, each utility shall report any goods and/or services that were provided to it by 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 the Utility establish and implement policies and procedures and conduct training to ensure that all departments involved in reporting affiliate transactions have the necessary knowledge, guidance, and skills to communicate, review, reconcile, and report accurate information in its Annual Reports on Affiliate Transactions.

**FINDING 4—
Unreported
employee transfers**

The Utility's internal controls were inadequate to ensure that all employee transfers between the Utility and its affiliates were reported in Schedule H of the Utility's Annual Report on Affiliate Transactions. As a result, six employees were not reported for CY 2020.

The Utility discovered and disclosed to SCO auditors and the CPUC six instances of noncompliance with ATR V. G. 2. a. The Utility described these instances in the disclosures to the CPUC as follows:

In summary, on February 3, 2022, the Utility provided notification that the Affiliate Compliance Department has been informed of employee transfers from SDG&E to Oncor Electric Delivery Service, LLC ("Oncor"). Oncor is a Texas regulated electric transmission and distribution service provider and an affiliate of SDG&E. The two unreported transfers occurred on April 18, 2020 and May 2, 2020 and transfer fees were not initially billed. Also, the Utility submitted a revised 2020 schedule H on May 2, 2022, regarding the reporting of employee transfers from SDG&E to Oncor Electric Delivery Service, LLC.

In addition, on February 11, 2023, the Utility provided notification of the discovery that four employees who were transferred from Sempra to the Utility in 2020 that were not reported on the Schedule H. The error occurred due to the employees having similar job titles and the mistaken belief that the job transfers were duplicated entries.

We received a list of all employee transfers between the Utility and affiliates during the audit period, and compared the listed employees to those reported in the Utility's CY 2020 and CY 2021 Annual Reports on Affiliate Transactions. We found the following instances of noncompliance:

- The list provided by the Utility included 15 employee transfers from the Utility to an affiliate or to the holding company during CY 2020. The CY 2020 Annual Report on Affiliate Transactions recorded only 13 of the 15 employee transfers. Therefore, two employees who transferred from the Utility to an affiliate or to the holding company during CY 2020 were not included in the CY 2020 Annual Report on Affiliate Transactions.
- The list provided by the Utility included 83 employee transfers from an affiliate or from the holding company during CY 2020. The CY 2020 Annual Report on Affiliate Transactions recorded only 79 of 83 employee transfers. Therefore, four employees who transferred from an affiliate or from the holding company during CY 2020 were not included in the CY 2020 Annual Report on Affiliate Transactions.

ATR V. G. 2. a. states:

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.).

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

SDG&E tracks all employees who transfer between the utility, Sempra Energy and its affiliates as well as from Sempra Energy and the affiliates to the utility and reports this information annually to the CPUC in its Affiliate Transactions Report.

The Utility's CY 2020 and CY 2021 *Affiliate Compliance Guidelines* state, in part:

VI. EMPLOYEE TRANSFERS

A. General

Human Resources will provide the ACD with an annual list of employees who resigned/transferred from the utilities and then transferred to an affiliate or parent or transferred from the affiliate to one of the California utilities. This information will be filed annually with the CPUC by May 1, as part of the annual Affiliate Transactions Report (D.93-02-019).

Recommendation

We recommend that the Utility follow its *Affiliate Compliance Guidelines* and ensure that Human Resources communicates promptly with the ACD for all employee movement between the utility and affiliates. In addition, we recommend that the ACD implement an annual reconciliation process for all employee transfers, and complete the reconciliation process before submitting the Annual Report on Affiliate Transactions.

FINDING 5— Unreported and inaccurately reported employee transfer fees

The Utility's internal controls were inadequate to ensure that all employee transfer fees were correctly reported in Schedule H of the Utility's Annual Report on Affiliate Transactions. As a result, transfer fees for two employees were not reported in its CY 2020 Annual Report on Affiliate Transactions.

The Utility discovered and disclosed to SCO auditors and the CPUC one instance of noncompliance with ATR V. G. 2. c. The Utility described this instance in the disclosures to the CPUC as follows:

In summary, on February 3, 2022, the Utility provided notification that the Affiliate Compliance Department has been informed of employee transfers from SDG&E to Oncor Electric Delivery Service, LLC ("Oncor"). Oncor is a Texas regulated electric transmission and distribution service provider and an affiliate of SDG&E. The two unreported transfers occurred on April 18, 2020, and May 2, 2020, and transfer fees were not initially billed. To remedy the oversight, Sempra Corporate Center (Company 1100) paid SDG&E the required transfer fee. SDG&E understands that after Sempra Corporate Center's payment to SDG&E, Oncor's parent company, Sempra Texas Holdings (Company 2320), was billed by Sempra Corporate Center for its payment to SDG&E. SDG&E received payment from Sempra Corporate Center on November 12, 2021. Also, the Utility submitted a revised 2020 schedule H on May 2, 2022, regarding the reporting of employee transfers from SDG&E to Oncor Electric Delivery Service, LLC.

In addition, we found that a transfer fee for one employee was not accurately reported in Schedule H of its CY 2020 Annual Report on Affiliate Transactions. The transfer fee was reported as \$41,031.76, but

should have been \$32,629.01. In this instance, the Utility did not provide notification to the CPUC for the inaccurately reported transfer fee; however, the correct transfer fee was reported in the revised Schedule H on May 2, 2022.

ATR V. G. 2. c. states:

When an employee of a utility is transferred, assigned, or otherwise employed by the affiliate, the affiliate shall make a one-time payment to the utility in an amount equivalent to 25% of the employee's base annual compensation, unless the utility can demonstrate that some lesser percentage (equal to at least 15%) is appropriate for the class of employee included. In the limited case where a rank-and-file (non-executive) employee's position is eliminated as a result of electric industry restructuring, a utility may demonstrate that no fee or a lesser percentage than 15% is appropriate. All such fees paid to the utility shall be accounted for in a separate memorandum account to track them for future ratemaking treatment (i.e. credited to the Electric Revenue Adjustment Account or the Core and Noncore Gas Fixed Cost Accounts, or other ratemaking treatment, as appropriate), on an annual basis, or as otherwise necessary to ensure that the utility's ratepayers receive the fees. This transfer payment provision will not apply to clerical workers. Nor will it apply to the initial transfer of employees to the utility's holding company to perform corporate support functions or to a separate affiliate performing corporate support functions, provided that that transfer is made during the initial implementation period of these rules or pursuant to a § 851 application or other Commission proceeding. However, the rule will apply to any subsequent transfers or assignments between a utility and its affiliates of all covered employees at a later time.

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

SDG&E tracks all employees who transfer between the utility, Sempra Energy and its affiliates and monitors that transfer fees are paid in accordance with this Rule. SDG&E has established a distinct account for recording all transfer fees pursuant to Rule V.G.2.c.

The Utility's CY 2020 and CY 2021 *Affiliate Compliance Guidelines* state, in part:

VI. EMPLOYEE TRANSFERS

A. General

Transfers of qualified SDG&E employees to other companies in the Sempra Energy family (including the parent) require a fee payment to the utilities.

D. Transfer Fee

When a qualified utility employee transfers from SDG&E to any affiliate (including Sempra Energy), that affiliate will make a one-time payment to SDG&E in an amount equivalent to 25% of the employee's base or total compensation salary (as defined below), unless the utility company can demonstrate that some lesser percentage (equal to at least 15%) is appropriate for the class of employee included. This requirement does not apply to clerical and management employees classified as "non-exempt" by the [Human Resources] system.

This fee serves to reimburse the utility's ratepayers for the training and expertise the employee gained while working at SDG&E to the

extent the employee will no longer be utilizing these skills for the utility.

The utility companies must also bill one another for the 25% transfer fee when an employee is transferred to/from the gas or electric merchant function at SDG&E, unless the utility companies can demonstrate that some lesser percentage (equal to at least 15%) is appropriate for the class of employee included.

Base Annual Compensation Calculation

For transfers to a Non-Covered Affiliate, and parent company (i.e. Sempra Energy), SDG&E calculates the transfer fee using the employee's base wages.

Total Compensation Calculation

For transfers to an affiliate (other than Sempra Energy), SDG&E calculates the transfer fees using the employee's total compensation. This is defined as all cash compensation including wages, salaries, bonuses, commissions, stock options and other specific non-cash compensation as provided by the company's payroll system. The total compensation will also include health care packages, pension benefits, and other non-cash benefits. These items are calculated using a pension and benefit loader (which will be based on the company's total pension and benefit costs as a percentage of total direct labor costs) and a payroll tax loader. These loaders are updated on an annual basis.

Tracking Employee Transfers and Fees

Employee transfers and employee compensation information should be provided by the My Info Services Department to SDG&E's ACD on a monthly basis.

Fees are calculated and billed through SDG&E's Affiliate Billing & Costing Department. The transfer fee will apply only once per employee - not for retransfers in accordance with the retransfer / residency restrictions discussed above. All fees paid to the utilities will be recorded and tracked for future ratemaking treatment and ensure that the utilities' customers receive these fees.

Recommendation

We recommend that the Utility:

- Establish and implement adequate internal controls to ensure compliance with ATR V. G. 2. c.
- Implement an annual reconciliation process for all employee transfer fees and complete the reconciliation process before submitting the Annual Report on Affiliate Transactions.

Utility's Response

This finding relates to the same two 2020 employee transfers from SDG&E to Oncor that were identified in Audit Finding #4 and were the subject of the Company's self-report to the Commission on February 3, 2022, prior to the commencement of the State Controller's Office audit. Since the transfers were not known, the transfers fees were not contemporaneously calculated. SDG&E advised the CPUC in writing of these discrepancies on February 3, 2022. Revised Schedule H filings were submitted to the CPUC for the years in question on May 2, 2022,

including the applicable transfer fees. All transfer fees were collected prior to submitting the revised schedules. As described in connection with Audit Finding #4 above, SDG&E has strengthened its processes to identify and properly comply with employee transfers involving its affiliate Oncor.

Audit Finding #5 also reflects a second item that SDG&E does not believe should be part of the Audit Finding. In the May 2, 2022 revisions to Schedule H submitted to the Commission, SDG&E corrected a miscalculation of a transfer fee for one employee. The original fee was miscalculated and resulted in the utility receiving more money than it was entitled to. When the error was discovered while revising the Schedule H, it was corrected. SDG&E objects to the sub-Finding's treatment of an unintended and non-material accounting error as a violation of ATR V.G.2.c as the error was not a failure to charge the affiliate for an employee transfer.

SCO Comment

Our finding remains unchanged. Although we recognize that the Utility eventually reported the correct transfer fee for one employee in the revised Schedule H of its Annual Report on Affiliate Transactions, the fact remains that the Utility received and reported a transfer fee that did not follow ATR V. G. 2. c. This error, in aggregate with the unreported transfer fees for two employees, comprises an instance of noncompliance with ATR V. G. 2. c.

FINDING 6— Exit interview documentation not retained for seven employees and incomplete for two employees

The Utility did not fully complete and retain all exit interview documentation to show that it followed its policies and procedures to ensure compliance with the ATRs. Of the 25 employees whose records we reviewed, the Utility failed to retain its exit interview documentation for seven employees and failed to provide fully completed exit interview documentation for two employees. The exit interview documentation provided was incomplete, as it lacked two of the three exit checklist forms for one employee. Additionally, for another employee, the dates and the employee and supervisor signatures were missing from the documentation. If completed and retained, such exit documentation would support that the Utility followed its policies and procedures to ensure compliance with ATR V. G. 2. d. Without the completed exit documentation for these nine employees, we could not confirm that the Utility consistently followed its policies and procedures to ensure compliance.

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

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

ATR V. G. 2. d. states:

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

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

SDG&E conducts exit interviews with all employees who transfer from SDG&E to Sempra Energy or an affiliate. During the exit interview, employees are required to sign a statement acknowledging that they will not use information gained at the utility to benefit the affiliate. The HR departments are responsible for ensuring that the employee signs an anti-conduit form when transferring from a covered affiliate to the utility. In addition to the exit interview, an asset inventory is conducted to review material that the employee requests to take to the affiliate. SDG&E retains the assets that may not be transferred pursuant to the Rules. Assets permitted to be transferred are priced pursuant to the Rules.

SDG&E's HR Department is responsible for ensuring that Affiliate Compliance Transfer Forms are completed. The managers of transferring employees ensure that any related asset inventories are documented. ACD follows up with HR to ensure that all transfer forms are completed in a timely manner. A description of this process is included in the *Affiliate Compliance Guidelines* (ACGs).

The Utility's CY 2019 (in effect during CY 2020) *Affiliate Compliance Guidelines* state, in part:

VI. EMPLOYEE TRANSFERS

B. Transfer of Employee Process

Human Resources & Administrative Services Department from the releasing entity shall coordinate the employee exit interview based on the guidelines outlined below.

The transferred employee's immediate supervisor or his/her designee or UHRA [Utility Human Resources Advisor] is responsible for conducting the face-to-face exit interview and completing the exit checklist, anti-conduit acknowledgement form, and asset inventory list to ensure the employee is aware of the Affiliate Transaction Rules and that the employee does not take non-public information or trade secrets to an affiliate company.

Note: Additionally, the UHRA Department is responsible for obtaining a signed copy of the Anti-Conduit form prior to or once an employee transfers from the affiliate to the utility.

The California utility companies' Human Resources & Administrative Services department is responsible for ensuring that exit interviews are documented. This documentation is maintained in a permanent file by the Human Resources & Administrative Services department and copies sent to the ACD.

An employee who transfers to a new assignment may not take utility assets to the new assignment without prior approval from ACD. Any other material permitted to be taken by the employee to the affiliate/parent should be appropriately priced and billed to the affiliate/parent through Affiliate Billing & Costing. Please refer to Section VII, "Transfer of Goods, Services and Assets" for additional information regarding the guidelines for transferring goods and services.

The transferring employee must complete or cease working on his/her current work assignments **BEFORE** transferring to a Covered Affiliate. The employee is *not* allowed to return to complete unfinished work or assignments after the transfer has occurred. Exit interviews shall be conducted *prior* to the effective transfer date – any interviews performed subsequent to the transfer date must be brought to the attention of the utilities' ACD.

All IT accesses (Systems/Networks/Applications, E-mail, Card Access Key, Secure ID, Cell phone/Smart phone, and Instant Messaging access and SharePoint) must be terminated before the employee transfers to a Covered Affiliate company.

Personally-Owned Devices may be taken from one business unit to another based on the guidelines set forth in the Employee Transfer Procedures.

The following IT access must be terminated before an employee transfers between SDG&E's Energy Supply (formerly known as "Energy Procurement") and Electric Grid Operations and to/from SoCalGas' Gas Acquisition, for example, but not limited to: E-mail, Cellphone/Blackberry, thumb drives, Instant Messaging and SharePoint.

Under no circumstances may a transferred utility company employee transmit, use, refer to, or exploit any information gained while employed at SDG&E. In the event of inadvertent disclosure, the matter must be brought to the attention of Human Resources & Administrative Services department and the utilities' ACD immediately. Willful disregard for this policy may result in disciplinary action up to and including termination of employment.

Employee transferring from an affiliate will sign an anti-conduit form acknowledging their understanding of the Affiliate Transaction Rules.

The Utility's CY 2021 *Affiliate Compliance Guidelines* state, in part:

VI. EMPLOYEE TRANSFERS

B. Transfer of Employee Process

Human Resources from the releasing entity shall coordinate the employee exit interview based on the guidelines outlined below.

The transferring employee's immediate supervisor or his/her designee or UHRA is responsible for conducting the exit interview and completing the exit checklist, anti-conduit acknowledgement, and asset inventory list to ensure the employee is aware of the Affiliate Transaction Rules and that the employee does not take non-public information or trade secrets to an affiliate company.

Note: Additionally, the UHRA Department is responsible for obtaining the anti-conduit acknowledgement prior to an employee's transfer from the affiliate to the utility.

The California utility companies' Human Resources department is responsible for ensuring that exit interviews are documented. This documentation is maintained in a permanent file by the Human Resources department

An employee who transfers to a new assignment may not take utility assets to the new assignment without prior approval from ACD. Any other material permitted to be taken by the employee to the affiliate/parent should be appropriately priced and billed to the affiliate/parent through Affiliate Billing & Costing. Please refer to Section VII, "Transfer of Goods, Services and Assets" for additional

information regarding the guidelines for transferring goods and services.

The transferring employee must complete or cease working on his/her current work assignments **BEFORE** transferring to a Covered Affiliate. The employee is *not* allowed to return to complete unfinished work or assignments after the transfer has occurred. Exit interviews shall be conducted *prior* to the effective transfer date.

All IT accesses (Systems/Networks/Applications, E-mail, Card Access Key, Secure ID, Cell phone/Smart phone, and Instant Messaging access and SharePoint) must be terminated before the employee transfers to a Covered Affiliate company.

Personally-owned Devices may be taken from one business unit to another based on the guidelines set forth in the Employee Transfer Procedures.

Nonexclusive examples of IT access that must be terminated before an employee transfers between SDG&E's Energy Supply and Electric Grid Operations and to/from SoCalGas' Gas Acquisition, include: E-mail, Cellphone thumb drives, Instant Messaging and SharePoint.

Under no circumstances may a utility employee that transfers to an affiliate use, refer to, or share any non-public utility information gained while employed at SDG&E. In the event of inadvertent disclosure, the matter must be brought to the attention of the utility Human Resources department and SDG&E's ACD immediately. Willful disregard of this policy may result in disciplinary action up to and including termination of employment.

The Utility's exit interview checklist packet is titled "Employee Transfers - Checklist & Forms." The Utility's policy is to have the packet completed at least seven days prior to an employee's transfer to the Utility's parent holding company, or to any of its affiliates (covered and non-covered). An "Exit Interview Checklist and Sign-Off" and an "Anti-Conduit Sign-Off" are included in this packet.

Exit Interview Checklist and Sign-off – the interviewer is to verify the following topics have been addressed during the employee transfer interview process:

1. Inform the transferring employee of their continuing obligations with respect to trade secrets and customer information and elicit their agreement to maintain them in confidence;
2. For items requested to be taken by the employee, the interviewer must determine ownership of items. The employee cannot retain company-owned items without the approval of the Affiliate Compliance Department (ACD);
3. The transferring employee may take personally-owned devices (including, but not limited to cell phones, smart phones, tablets, thumb drives, etc.) used while conducting business based on the following guidelines:
 - a. The employee will remove/delete all company information from their personally- owned device(s) and the devices will be disconnected from the Utility's "Active Sync" and "Inbox Exchange" networks so no further information can be received on the device(s);
 - b. The employee shall delete all voicemails pertaining to their prior position;
 - c. The ACD receives, verifies, and retains documentation that the

- “Active Sync” and the “Inbox Exchange” has been removed from all personally-owned devices;
- d. The employee shall record a new message to inform contacts that they have moved to a new position, to direct the contacts to another individual, and ask the contacts not to leave a message regarding their prior position; and
 - e. The employee may request approval from ACD if a 30-day delay in deletion of company information is required to facilitate a transition period, for transfers to a non-covered affiliate. ACD will review the request and determine approval or denial.
4. Ensure that no confidential information is taken to a covered affiliate unless done in accordance with the ATRs and FERC standards;
 5. Review policies regarding affiliate transactions;
 6. Collect access cards, keys, and ID badges to terminate access;
 7. Notify IT to remove the employee from email distribution lists, networks, instant messaging, and remote access;
 8. Request an email address change prior to transfer date, if the employee is transferring among certain targeted areas; and
 9. Inform transferring employee that any violation of the ATRs is strictly prohibited and will lead to remedial actions that can result in disciplinary action up to and including termination of employment.

The interviewer signs and dates the “Exit Interview Checklist and Sign-off” certifying completion.

Anti-Conduit Sign-Off - The transferring employee reads and signs the “Anti-Conduit Sign-Off”, amongst other things, certifying the transferring employee:

1. Has reviewed and understands the ATRs and will comply with the requirements set forth therein;
2. Understands that full compliance with the ATRs is a condition of employment and failure to comply may result in serious disciplinary action up to and including termination; and will report any violations of the ATRs to the appropriate department(s)/supervisor/manager or Ethics Helpline;
3. Understands that the ATRs prohibit the employee from being a conduit of information to circumvent the ATRs; and will refrain from actions that could constitute purposeful or inadvertent circumvention of the anti-conduit provisions of the ATRs;
4. Understands that the employee must be alert to circumstances that could present potential conduit concerns; and
5. Understands that the employee must not allow any confidential, commercially-sensitive, non- public, and non-customer specific utility or other business unit information to be transferred from the Utility to an affiliate or other business unit covered by the ATRs.

Recommendation

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

**FINDING 7—
New affiliates not
reported in a
timely manner**

The Utility's internal controls failed to ensure that its new affiliates were reported in a timely manner, in accordance with ATR VI., resulting in two affiliates being omitted from the CY 2021 Compliance Plan and one new affiliate being reported 189 days after creation.

During the audit, the Utility discovered and disclosed to SCO auditors and the CPUC one instance of noncompliance with ATR VI. B. The Utility described the instance in the disclosure to the CPUC on July 21, 2022, as follows:

In summary, on March 4, 2022, Sempra notified SDG&E of the formation of Ecogas Movil S.A.P.I. DE C.V., a Mexican affiliate. SDG&E subsequently sent notification of the new entity to the CPUC on March 25, 2022.

The notification of new entity formation provided by Sempra also reflected an earlier date of December 1, 2021. Upon further research, SDG&E determined that due to various legal processes in Mexico, finalization of entity formation can take longer than the 60-day notification period that is required by the CPUC. Here, the notification of formation of the entity, Ecogas Movil S.A.P.I. DE C.V., listed December 1, 2021 as the date they filed for registration and sent their deed to the Notary as required by law in Mexico. Finalization of entity formation for Ecogas Movil S.A.P.I. DE C.V. occurred on March 04, 2022, and triggered the notice of entity formation provided to SDG&E. Previously, the finalization process for formation of an entity in Mexico has not exceeded the CPUC's 60-day requirement, but we are informed that this process could possibly exceed the CPUC's reporting requirement period in the future.

SDG&E has performed diligence to better understand the formation process of business entities in Mexico and how their legal requirements differ from those in the United States. In addition, SDG&E is now cognizant of an ambiguity in Rule VI.B's use of the word "creation" as applied to the Mexican procedures for the formation of entities. As discussed above, the "creation" of Ecogas Movil S.A.P.I DE C.V. could be interpreted as December 1, 2021 (when it filed for registration) or as March 4, 2022 (when the registration process was complete). We are now notifying you of mitigation efforts undertaken to address future mismatch of creation dates when an affiliate entity in Mexico is formed.

ATR VI. A. Instance of Noncompliance

We reviewed the list of affiliates reported in the CY 2020 and CY 2021 Compliance Plans and reconciled the reported affiliates to a list provided by the Utility. We noted that the CY 2021 Compliance Plan omitted two affiliates that should have been included.

ATR VI. B. Instances of Noncompliance

The Utility had 22 newly acquired or created affiliates during the audit period. We reviewed all 22 newly acquired or created affiliates and found the following instances of noncompliance:

- Two affiliates were created on June 26, 2020 and were not included in the CY 2021 Compliance Plan (ATR VI. A.).
- A third affiliate was created on December 1, 2021. However, the Utility did not file an Advice Letter until June 8, 2022, 189 days later, failing to provide notification within 60 days.

ATR VI. states, in part:

- A. Compliance Plans: No later than June 30, 2007, each utility shall file a compliance plan by advice letter with the Energy Division of the Commission. The compliance plans shall include:
1. A list of all affiliates of the utility, as defined in Rule I A of these Rules, and for each affiliate, its purpose or activities, and whether the utility claims that Rule II B makes these Rules applicable to the affiliate;
 2. A demonstration of the procedures in place to assure compliance with these Rules.

The utility's compliance plan shall be in effect between the filing and a Commission determination of the advice letter. A utility shall file a compliance plan annually thereafter by advice letter where there is some change in the compliance plan (i.e., when there has been a change in the purpose or activities of an affiliate, a new affiliate has been created, or the utility has changed the compliance plan for any other reason).

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

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

This Plan represents SDG&E's compliance with this Rule. Appendix 3 to this Plan provides a listing of SDG&E's covered and non-covered affiliates, as of [June 26, 2020 in CY 2020 Compliance Plan and June 18, 2021 in the CY 2021 Compliance Plan], as required by this Rule. . . .

SDG&E will comply with this Rule as new covered and non-covered affiliates are created. Upon creation of a new affiliate, SDG&E will notify the CPUC of the confirmation of: (1) the formation of any new U.S. domestic covered or non-covered affiliate; or (2) the confirmation of registration with foreign governmental authorities for covered or non-covered affiliates located outside the U.S.; and then post this information on its internet web site.

SDG&E will file an advice letter with the Energy Division within 60 calendar days of the confirmation of: (1) the formation of any new U.S. domestic covered or non-covered affiliate; or (2) the registration with foreign governmental authorities for covered or non-covered affiliates located outside the U.S. The advice letter will provide the information required by this Rule for the new covered or non-covered affiliate. The ACD will conduct an annual review of all affiliate business descriptions to assess each affiliate's designation as "non-covered," "covered," and/or "energy marketing." Under this process, the ACD will provide each affiliate's business description to designated affiliate contact personnel to confirm whether the business description remains applicable or whether it has changed. Based upon these responses, the ACD will evaluate whether an affiliate should be reclassified, and then notify the CPUC in accordance with this Rule.

The list of affiliate companies is located on SDG&E's internet home page at www.sdge.com. It is accessed by selecting the "Rates & Regulations" link, then selecting the "Affiliate Transactions" link, and then scrolling to "SDG&E Affiliate Transaction Postings" where the "List of SDG&E's Affiliates" category is found.

Recommendation

We recommend that the Utility enhance its current policies and procedures related to ATR VI. A. and B. to ensure that:

- The Compliance Plans report all existing affiliates at the time of submission, in accordance with ATR VI. A.; and
- Upon creation or acquisition of a new affiliate, the Utility:
 - Immediately notifies the CPUC;
 - Immediately posts notice on its website; and
 - Files an Advice Letter with the CPUC within 60 days.

Utility's Response

ATR VI. A and B Finding: SDG&E recognizes a need to improve its process for creating the listing of affiliates for the Compliance Plan and has clarified and documented the Corporate Governance department procedures, so the timing of affiliate notification aligns with the Compliance Plan reporting requirements. Corporate Governance will provide a complete and current listing of all affiliates prior to the filing deadline of June 30th each year. Any new affiliate notifications that occur between the time the list is provided to SDG&E by Sempra and the time the report is submitted by SDG&E to the CPUC will be reviewed to verify the listing of affiliates included in the filing is current as of the date of filing. This will include all affiliates and eliminate the need for manual updating processes.

ATR VI. B Finding: This item relates to SDG&E's self-report to the Commission dated July 21, 2022.

SDG&E objects to the finding regarding Ecogas Movil, S.A.P.I. de C.V. ("Ecogas") for the following reasons. ATR Rule VI.B. requires notification of the "creation" of a new affiliate. Creation of new entities in the United States differs from the process under which new entities are formed in Mexico. Under the Mexican procedures for the formation of entities, the filing for a new entity formation and the finalization of that entity formation can be separated by months. As stated in the self-report filed by SDG&E with the Commission on July 21, 2022, the December 1, 2021 date was the date that the affiliate, Ecogas, applied for formation. However, its formation was not finalized under Mexican law until March 4, 2022. This time lag did not present an issue in reporting under the ATR previously because the Mexican finalization process usually took less than 60 days to complete. In its self-report, SDG&E identified this unusual set of circumstances, and in an abundance of caution, in the event the CPUC might construe formation as occurring upon the filing of an application rather than upon the finalization of an application. SDG&E committed to adopt a conservative approach going forward and would report the formation of foreign entities within 60 days of the filing of an application. This will occur regardless of notary or other administrative process status necessary to complete entity

formation. This process should alleviate potential timing gaps and allow SDG&E to notify the Commission of entity formation activity within the 60-day period required by Affiliate Transaction Rule VI.B.

SCO Comment

Our finding remains unchanged. Although the Utility objected to the finding and implied that ATR VI. B.'s use of the word "creation"—as applied to the Mexican authorities' procedures for formation of entities—is ambiguous, the Utility's June 8, 2022 Advice Letter noted December 1, 2021, as the effective date of the affiliate entity creation. The Utility also stated in its July 21, 2022 notification to the CPUC that it has taken actions to ensure timely notification upon creation of a new affiliate.

FINDING 8— Internal controls inadequate to ensure that non-tariffed products and services reports were accurately reported

The Utility's internal controls were inadequate to ensure compliance and accurately capture the amounts to be reported in the annual NTP&S reports.

During the audit, the Utility discovered and disclosed to SCO auditors and the CPUC two instances of noncompliance with ATR VII. H. The Utility described the instances in the disclosure to the CPUC on August 23, 2023, as follows:

In summary, as part of an internal review following the compiling of information in response to several data requests issued in the State Controller's Office audit of the Affiliate Transaction Rules for the years 2020 and 2021, SDG&E's Affiliate Compliance department discovered transactions that were inadvertently omitted or misstated from the annual Non-Tariffed Products and Services ("NTP&S") Report for 2020. Accordingly, SDG&E has revised the NTP&S Report for 2020 – 2022. The revised schedules and reports are attached to this letter.

In accordance with the Affiliate Transaction Rules, SDG&E is bringing this matter to your attention. Each reporting error is described in detail below.

For 2020-2021, the following transactions were omitted or misstated from the annual NTP&S Reports:

- In 2020, a licensee was billed for \$34,082.90 but the information and revenue were not included in the 2020 NTP&S report section XII-3.
- In 2021, section VI-3 reflected streetlight inspection and connection fees of \$3,030. After further review, SDG&E discovered this amount was overstated. The actual number for 2021 should have been \$856.16

The following table shows the transactions that were inadvertently omitted or misstated:

Annual NTP&S Report Section	Year	Initial Amount Reported	Corrected Amount Reported	Overstatement (Understatement)
XII-3	2020	\$753,094	\$787,177	(\$34,083)
VI-3	2021	3,030	856	2,174
Total				(\$31,909)

ATR VII. H. states:

Any utility offering nontariffed products and services shall file periodic reports with the Commission's Energy Division twice annually for the first two years following the effective date of these Rules, then annually thereafter unless otherwise directed by the Commission. The utility shall serve periodic reports on the service list of this proceeding. The periodic reports shall contain the following information:

VII.H.1. A description of each existing or new category of nontariffed products and services and the authority under which it is offered;

VII.H.2. A description of the types and quantities of products and services contained within each category (so that, for example, "leases for agricultural nurseries at 15 sites" might be listed under the category "leases of land under utility transmission lines," although the utility would not be required to provide the details regarding each individual lease);

VII.H.3. The costs allocated to and revenues derived from each category; and

VII.H.4. Current information on the proportion of relevant utility assets used to offer each category of product and service.

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

SDG&E will file its annual report no later than June 30th of the year following the report year.

The Utility's CY 2020 and CY 2021 *Affiliate Compliance Guidelines* state, in part:

VIII. NON-TARIFFED PRODUCTS AND SERVICES

A. General

Non-tariffed Products & Services Report

SDG&E's Sundry Services group prepares a report on Non-Tariffed Products and Services (NTP&S) to be filed annually with the CPUC in June. This report includes the following information:

- A brief description of each existing or new category of non-tariffed products or services;
- Types and quantities of products and services contained within each category (so that, for example, "leases for agricultural nurseries at 15 sites" might be listed under the category "leases on land under utility transmission lines," although the utility companies would not be required to provide the details regarding each individual lease);
- The costs allocated to and revenues derived from each product or service; and
- Proportion of relevant utility assets used to offer each product and service.

Recommendation

We recommend that the Utility establish and implement training, policies, and procedures to ensure that all departments involved with the reporting of NTP&S have the necessary knowledge, guidance, and skills to communicate, review, reconcile, and report accurate information on the NTP&S report.

Utility's Response

On August 23, 2023, after performing an additional internal review of the data contained in its Non-Tariff Products & Services (NTP&S) reports for 2020-2022, SDG&E notified the CPUC that it had submitted amendments to the Non-Tariffed Products and Services (NTP&S) Reports for the year's audited, with corrected entries in certain Categories of the reports. In that notification, SDG&E identified mitigating actions and controls to advance compliance with Rule VII.H.

SDG&E has strengthened documentation of contributing department procedures to include requirements for the NTP&S report and provided targeted training. This documentation, as well as specialized training that was conducted following the discovery, will increase awareness of affiliate compliance reporting requirements.

SDG&E notes that the Table at page 39 of the draft Report does not accurately reflect the overstatement of amounts reported in 2021. The amount noted on the NTP&S report was overreported in the amount of \$2,174 as reflected in SDG&E's August 2023 letter to the Commission. That amount should be reflected in the negative. In addition, the amounts should not be totaled as they occurred over separate Audit Years. SDG&E has provided a redline reflecting this and any other typographical errors noted in the draft Report.

SCO Comment

Our finding remains unchanged; however, for clarity, we revised the table on page 43 to differentiate the overstated and understated amounts.

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

Prior Audit Finding	Current Status
<p>Finding 1— Employee physical and information system access not terminated on transfer date.</p> <p>The Utility’s [San Diego Gas & Electric Company] internal control policies and procedures failed to ensure that information system access for all employees transferring to covered affiliates during the audit period was terminated on or before the employees’ transfer dates. Information system access for six out of eight transferred employees was not terminated on or before their transfer dates. In addition, related documentation—confirming termination of information system access on or before employees’ transfer dates—was not retained for two of the eight employees transferring to an affiliate. The Utility was also unable to provide documentation confirming termination of physical access on or before employees’ transfer dates for four of the eight employees transferring to an affiliate.</p>	<p>Not resolved; see Finding 2</p> <p>The Utility did not have adequate controls in place to ensure that employees’ physical and information system access was terminated on or before their transfer dates; concurrent access to Utility and affiliates was therefore not prevented. Of the 16 employees whose records we reviewed, nine had physical and/or information system access that was not terminated on or before their transfer dates, and four were granted physical and/or information system access to the Utility prior to termination of affiliate access during calendar year (CY) 2020 and CY 2021.</p>
<p>Finding 2— Unreported employee transfers.</p> <p>The Utility’s internal control policies and procedures were insufficient to ensure that all employee transfers between the Utility and its affiliates were reported in the Schedule H of the Utility’s Annual Report on Affiliate Transactions. As a result, 18 employees were not reported in its CY 2016 (13 unreported employees) and CY 2017 (five unreported employees) Annual Reports on Affiliate Transactions.</p>	<p>Not resolved; see Finding 4</p> <p>The Utility did not have adequate controls in place to ensure that all employee transfers were reported. Two of the 15 employees who transferred from the Utility to an affiliate or to the holding company during CY 2020 were not included in the CY 2020 Annual Report on Affiliate Transactions. In addition, four of the 83 employees who transferred from an affiliate or from the holding company during CY 2020 were not included in the CY 2020 Annual Report on Affiliate Transactions.</p>

Appendix (Continued)

Prior Audit Finding	Current Status
<p>Finding 3— No transfer fee paid for one employee.</p> <p>The Utility’s internal control policies and procedures were insufficient to ensure that it received a transfer fee for one employee who transferred to an affiliate during the audit period. A transfer fee was required to be assessed, billed, and recorded in a separate memorandum account for one of the 18 employees not included in the Annual Report on Affiliate Transactions (discussed in Finding 2); however, this process did not take place.</p>	<p>Not resolved; see Finding 5</p> <p>The Utility did not have adequate controls in place to ensure that all employee transfer fees were accurately reported. Two employee transfers were not reported in the CY 2020 Annual Report on Affiliate Transactions. In addition, a transfer fee for one employee was not accurately reported in Schedule H of the same Annual Report.</p>
<p>Finding 4— Exit interview documentation not retained for three of 12 employees selected.</p> <p>The Utility failed to retain its exit interview documentation for three of 12 selected employees. Such exit documentation would support that the Utility followed its internal control policies and procedures to ensure compliance with ATR [Affiliate Transaction Rule] V.G.2.d. Without the exit documentation for these three employees, we could not confirm that the Utility consistently followed its internal control policies and procedures to ensure compliance.</p>	<p>Not resolved; see Finding 6</p> <p>Exit interview documentation was not retained for seven employees and exit interview documentation was incomplete for two of the 25 employees selected for testing.</p>
<p>Finding 5— Untimely reporting of new affiliates.</p> <p>The Utility’s internal control policies and procedures failed to ensure that its new affiliates were reported in a timely manner, as required by ATR VI. This oversight led to a delay in posting notification of new affiliates on the Utility’s website, as well as delayed reporting of new affiliates to the CPUC [California Public Utilities Commission] and in the Utility’s CY 2016 and CY 2017 Compliance Plans.</p>	<p>Not resolved; see Finding 7</p> <p>The Utility’s controls failed to ensure that its new affiliates were reported in a timely manner, in accordance with ATR VI., resulting in two affiliates being omitted from the CY 2021 Compliance Plan and one new affiliate being reported 189 days after creation.</p>

**Attachment—
San Diego Gas & Electric Company's Response to Draft
Audit Report**



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[REDACTED]

April 18, 2024

Roochel Espilla
Chief, State Agency Audits Bureau, Division of Audits
State Controller's Office
Post Office Box 942850
Sacramento, California 94250

Dear Mr. Espilla:

On April 4, 2024, the California Public Utilities Commission (CPUC or Commission) issued the Draft Findings and Observations of the State Controller's Office in connection with its audit of SDG&E's compliance with the Commission's Affiliate Transaction Rules for Compliance Years (CY) 2020 and 2021. As permitted by the Commission, SDG&E provides the attached response to the draft Findings and Observations as well as a revised redlined version reflecting proposed corrections to typos or errors to be incorporated into the final Audit Report for CYs 2020 and 2021.

SDG&E is committed to compliance excellence and takes compliance with laws and regulations applicable to its business seriously. These regulations include the CPUC Affiliate Transaction Rules. Consistent with a culture of continuous improvement, SDG&E regularly reviews its compliance practices and self-reports instances of control weaknesses as well as non-compliance with applicable rules along with a description of mitigation the Company has undertaken to eliminate or reduce future issues related to

its findings. Several of the draft Audit Findings reflect the State Controller's Office confirmation of events relayed to the Commission in self-reports filed prior to the audit for CYs 2020 and 2021. The Draft Audit Report does not, however, distinguish between self-reports of control weaknesses proactively identified by SDG&E as compared to violations of the Affiliate Transaction Rules. In the attached responses, SDG&E notes where the Finding relates to a self-report made to the Commission prior to the July 2022 date when the State Controller's Office commenced its audit, but these comments do not necessarily reiterate all mitigation measures employed and implemented by the Company where they have been separately described in the self-report letter.

Please contact the undersigned at (858) 676-6505 if you have any questions or need additional information.

Sincerely,



Elizabeth (Betsy) Mains
SDG&E Compliance & Integrity Manager

CC:

Bruce Folkmann, President and Chief Financial Officer
San Diego Gas & Electric Company
Erbin Keith, SVP & General Counsel
San Diego Gas & Electric Company
Michael Schneider, VP-Risk Mgmt & Chief Compliance Officer
San Diego Gas & Electric Company
Scott Pearson, Director- Risk & Compliance
San Diego Gas & Electric Company
Frank Shirichena, Regulatory Compliance Advisor
San Diego Gas & Electric Company
Laura L. Chrestenson, Records and Compliance Analyst
San Diego Gas & Electric Company

Affiliate Transaction Rules Audit for Years 2020 and 2021

Draft Findings & Observations -- SDG&E Comments

AUDIT FINDING #1 (Rules II.C. and IV.B.): Non-public information shared with affiliates

During the audit period, the Utility discovered and disclosed to the CPUC one instance of noncompliance with ATR II. C. and one instance of noncompliance with ATR IV. B. The Utility described these two instances in the disclosures to the CPUC as follows:

In summary, on March 13, 2020, the Utility provided notification that Sempra Energy (Sempra) conducts an annual review to ensure the independence of its Board of Directors. This review process requires Sempra to review documents pertaining to transactions between Sempra or its subsidiaries and those companies related to its non-employee directors (e.g., companies for which Sempra's non-employee directors have any affiliation). During this review, emails were inadvertently sent containing San Diego Gas & Electric Company's (SDG&E) invoices to two employees of Sempra North American Infrastructure, LLC ("SNAI"), a covered affiliate. SDG&E takes seriously its obligation to abide by the ATRs and details below the steps in place to prevent this from occurring again.

In the instance that is the subject of this letter, an employee in the Sempra Corporate Governance department inadvertently sent two Regulatory and Compliance employees within SNAI three emails containing SDG&E invoices in addition to the non-utility affiliate invoices. One of the emails containing SDG&E information was opened by one of the SNAI employees. Recognizing immediately that the invoice related to SDG&E, the employee closed the email without reading it further and SDG&E's Affiliate Compliance Department (ACD) was notified of the error. The other two emails were facially identified as SDG&E-related and were not opened by either employee. All emails were subsequently deleted.

In addition, on May 28, 2021, the Utility provided notification that SDG&E's ACD was informed on March 23, 2021, that Sempra LNG's accounting department was granted access by a mutual vendor to view the 2020 1099 information for SDG&E that displayed vendor names and amounts billed. Sempra LNG's accounting department was able to access and view SDG&E's 1099 information via the vendor's portal. The contract with the vendor required them to treat data confidentially; however, this information was not segregated. Upon notice of the access to SDG&E's ACD, Sempra LNG's access to the vendor portal was immediately terminated, effective March 24, 2021.

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

Recommendation

We recommend that the Utility:

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

SDG&E's RESPONSE:

In Finding #1, the State Controller's Office referenced 2 instances of asserted non-compliance that were reported to the CPUC prior to the commencement of the 2020-2021 audit. The two events referred to by the State Controller's Office were identified by SDG&E in self-report letters that were filed on March 13, 2020, and May 28, 2021, respectively. Those letters identified the circumstances and related mitigation measures put into place by SDG&E at the time the self-reports were made.

With respect to the second event reflected in Finding #1, which was the subject of SDG&E's May 28, 2021 letter, namely the inadvertent disclosure by a vendor of non-public information to a utility affiliate, SDG&E objects to the finding of Rule II.C and Rule IV.B. violations. The inadvertent sharing of information by a vendor was not knowingly caused by SDG&E and SDG&E did not act as a conduit to share non-customer specific, non-public information with its affiliates as required by the language of the applicable Rules. SDG&E reported this event out of an abundance of caution and in the interest of being transparent. SDG&E includes express language in its vendor contracts of the prohibition on disclosure of non-public information of which vendors are expected to understand and comply.

With regards to the second bulleted recommendation made in Audit Finding #1, related to potential security measures within its information systems, SDG&E has several controls in place to prevent the inadvertent sharing of information. SDG&E will review those controls to prevent non-public information from inappropriate disclosure to affiliates. In addition, SDG&E conducted additional training with Sempra Corporate Governance to remind them of the prohibition on acting as a conduit of non-public utility information to affiliates.

AUDIT FINDING #2 (Rule V.C.): Inadequate policies and procedures to ensure that employee physical and information system access was terminated in a timely manner

The Utility's internal controls were inadequately designed to ensure compliance regarding physical and information system access after employee transfers. We found the following deficiencies:

- *The Utility failed to terminate physical and information system access on or before the transfer date for employee transfers between the Utility and covered affiliates.*
- *The Utility failed to ensure that affiliate access was terminated before Utility physical and information system access was granted to employees who transferred from covered affiliates to the Utility.*

The Utility's internal controls failed to ensure compliance regarding physical and information system access for 13 of 16 employee transfers during CY 2020 and CY 2021.

During the audit, the Utility discovered and disclosed to the CPUC one instance of noncompliance with ATR V. C. The Utility described the instance in the disclosure to the CPUC on August 23, 2023, as follows:

As part of an internal review of Affiliate Compliance controls, SDG&E's Affiliate Compliance department discovered deficiencies in some of the controls related to the employee transfer process. In accordance with the Affiliate Transaction Rules, SDG&E is bringing this matter to your attention.

1. Electronic Computer Access:

SDG&E has identified a system limitation pertaining to the intercompany transfer process that resulted in certain employees' computer access being maintained after the transfer date for up to several days. The system was implemented in 2019, and the issue was discovered in 2022. In the most recent CPUC audit (conducted by the State Controller's Office) of the Affiliate Transaction Rules covering the years 2016 and 2017, there were findings related to employee transfers that were communicated as part of the final audit report in 2021. SDG&E's response referenced a new technology platform put into place in 2019 as a remediation for the delay in access termination as well as records retention. The limitation was discovered in this system, and hence impacted the effectiveness of this remediation.

2. Physical Access:

Due to a delay in transfer notifications, updates to physical access permissions for certain employees who transferred from SDG&E to covered affiliates and vice versa since the system implementation in 2019 were delayed, meaning they had access to SDG&E and affiliate facilities during a window of time between transfer and the access update. A review revealed none of the employees accessed any facilities from their prior role following their transfer.

We selected all 16 employees who transferred between the Utility and covered affiliates to determine the Utility's compliance with ATR V. C. Of the 16 employees, nine were Utility employees who transferred to covered affiliates and seven were covered affiliate employees who transferred to the Utility. We reviewed

supporting documentation to determine whether the employees' physical and information system access was terminated on or before their transfer dates. For the seven covered affiliate employees, we also reviewed supporting documentation to determine when they were granted physical and information system access to the Utility. Our review noted the following instances of noncompliance for 13 of 16 employees:

Utility Employees Transferred to Covered Affiliates			
Employee	Calendar Year	Number of Days After Transfer Date When Physical Access Was Terminated	Number of Days After Transfer Date When System Access Was Terminated
1	2020	9	5
2	2020	3	3
3	2020	1	1
4	2020	61	6
5	2020	9	5
6	2021	–	5
7	2021	9	216
8	2021	–	1
9	2021	6	6

Covered Affiliate Employees Transferred to Utility			
Employee	Calendar Year	Number of Days Utility Physical Access Was Granted Prior to Termination of Affiliate Access	Number of Days Utility System Access Was Granted Prior to Termination of Affiliate Access
13	2020	7	31
14	2020	–	33
15	2021	–	23
16	2021	7	–

We found no evidence that the transferred employees accessed any non- public information subsequent to their transfer dates; however, if not mitigated, the control deficiency creates a significant risk that non-public information will be accessed by unauthorized employees.

Recommendation

We recommend that the Utility implement policies and procedures to ensure that it terminates the physical and information-system access of Utility employees who transfer to covered affiliates on or before the employees' transfer dates; and that it verifies the termination of affiliate physical and information system access before granting Utility access to covered affiliate employees who transfer to the Utility.

SDG&E's RESPONSE:

As identified in its March 2, 2021 comment letter to the CPUC on the AY 2016/2017 audit, SDG&E acted to strengthen the systems and controls in place for employee transfers, including the institution of a new system designed to automate and terminate access before or on the date of employee transfer. SDG&E self-reported to the CPUC after learning that the system had not in all instances operated as designed. Since this discovery and the Company's self-report on February 11, 2023, SDG&E has re-examined and strengthened its systems and controls regarding employee transfers to and from SDG&E and its affiliates. These controls include additional advanced notification to the appropriate IT and Corporate Security departments. In addition, for employees transferring into SDG&E, the affiliate is required to affirm that prior to the transfer date physical and systems access to the affiliate have been removed. SDG&E and Sempra affiliate department procedures have been updated to reflect the requirements.

SDG&E also notes that, in instances where physical or system access were not removed contemporaneously with the employee transfer, SDG&E has found no instances where the transferred employee attempted to or gained access to the former employer's system or facilities. Thus, while a risk exists that, should contemporaneous removal of access not occur, non-public information could be accessed by an unauthorized person, there is no evidence to indicate there is "a significant risk that non-public information will be accessed by unauthorized employees" as is reflected in Finding #2 of the State Auditor's Office draft report. SDG&E respectfully requests that the Audit Finding #2 be modified to adjust the characterization of the risk posed, by removing the word "significant" and replacing the words "will be" with "could be."

SDG&E further notes that page 24 of the draft Report does not accurately reflect the date of the self-report made by SDG&E. The dated indicated in the Report is August 23, 2023, whereas the actual self-report was provided to the CPUC on February 11, 2023. SDG&E has provided a redline reflecting this and any other typographical errors noted in the draft Report.

AUDIT FINDING #3 (Rule V.E.): Unreported transactions between the Utility and its affiliates

During the audit, the Utility discovered and disclosed to SCO auditors and the CPUC five instances of noncompliance with ATR V. E. The Utility described the instances in the disclosure to the CPUC on August 23, 2023, as follows:

In summary, as part of an internal review following the compiling of information in response to several data requests issued in the State Controller's Office audit of the Affiliate Transaction Rules for the years 2020 and 2021, SDG&E's Affiliate Compliance department discovered transactions that were inadvertently omitted or misstated from the annual Affiliate Transaction Report ("ATR") Schedules C and D for the years 2018 – 2022. Accordingly, SDG&E has revised Schedules C and D for the years 2018 – 2022. The revised schedules and reports are attached to this letter.

In accordance with the Affiliate Transaction Rules, SDG&E is bringing this matter to your attention. Each reporting error is described in detail below.

For 2020-2021, the following transactions were left off the ATR report:

The group that prepared Schedule D was not aware that Resource Adequacy Capacity Reservations transactions with an affiliate, Sempra Gas & Power Marketing, LLC ("SGPM"), were occurring. Although missing from Schedule D, it is important to note that these SGPM transactions were approved by the California Public Utilities Commission ("CPUC") pursuant to the rigorous procurement approval processes applicable to transactions involving covered affiliates. In addition, the SGPM transactions were approved by the Federal Energy Regulatory Commission ("FERC").

A joint venture subsidiary, Energia Sierra Juarez U.S., LLC ("ESJ"), became wholly owned by Sempra, and due to accounting coding changes not being communicated to the group that prepared Schedule D, the new accounts were not queried for the ATR report filing. Accordingly, the group that prepared Schedule D was not aware of Power Purchase Agreements between ESJ and SDG&E. Although missing from Schedule D, it is important to note that these ESJ transactions were approved by the CPUC pursuant to the rigorous procurement approval processes applicable to transactions involving covered affiliates. In addition, the ESJ transactions were approved by FERC.

Billings to an affiliate, Gasoducto De Aguaprieta were sent out by the group that performs third party billings for construction services instead of through the usual affiliate billing process and were not communicated to the Affiliate Billing and Costing group that prepares Schedule C.

The following table shows the five transactions that were inadvertently omitted from the Annual Report on Affiliate Transactions:

Entity	Schedule	Year	Amount Unreported
Gasoducto De Aguaprieta	C	2020	\$12,362
Gasoducto De Aguaprieta	C	2021	5,002
Sempra US Gas & Power Marketing, LLC ("SGPM")	D	2020	4,265,000
Sempra US Gas & Power Marketing, LLC ("SGPM")	D	2021	25,587,000
Energia Sierra Juarez US, LLC	D	2021	26,645,000
Total			\$56,514,364

Recommendation

We recommend that the Utility establish and implement policies and procedures and conduct training to ensure that all departments involved in reporting affiliate transactions have the necessary knowledge, guidance, and skills to communicate, review, reconcile, and report accurate information in its Annual Reports on Affiliate Transactions.

SDG&E’s RESPONSE:

SDG&E has strengthened documentation of various department procedures to include ATRs. This documentation, as well as the specialized training that was provided after the instances of noncompliance were identified, will increase awareness of affiliate compliance reporting requirements. The modifications to procedures were designed to capture any transactions with affiliates that may occur outside the department responsible for compiling Schedules C and D.

AUDIT FINDING #4 (Rule V.G.2.a): Unreported employee transfers

The Utility’s internal controls were inadequate to ensure that all employee transfers between the Utility and its affiliates were reported in Schedule H of the Utility’s Annual Report on Affiliate Transactions. As a result, six employees were not reported for CY 2020.

The Utility discovered and disclosed to SCO auditors and the CPUC six instances of noncompliance with ATR V. G. 2. a. The Utility described these instances in the disclosures to the CPUC as follows:

In summary, on February 3, 2022, the Utility provided notification that the Affiliate Compliance Department has been informed of employee transfers from SDG&E to Oncor Electric Delivery Service, LLC (“Onco”). Onco is a Texas regulated electric transmission and distribution service provider and an affiliate of SDG&E. The two unreported transfers occurred on April 18, 2020 and May 2, 2020 and transfer fees were not initially billed. Also, the Utility submitted a revised 2020 schedule H on May 2, 2022, regarding the reporting of employee transfers from SDG&E to Onco Electric Delivery Service, LLC.

In addition, on February 11, 2023, the Utility provided notification of the discovery that four employees who were transferred from Sempra to the Utility in 2020 that were not reported on the Schedule H. The error occurred due to the employees having similar job titles and the mistaken belief that the job transfers were duplicated entries.

We received a list of all employee transfers between the Utility and affiliates during the audit period and compared the listed employees to those reported in the Utility’s CY 2020 and CY 2021 Annual Reports on Affiliate Transactions. We found the following instances of noncompliance:

- *The list provided by the Utility included 15 employee transfers from the Utility to an affiliate or to the holding company during CY 2020. The CY 2020 Annual Report on Affiliate Transactions recorded only 13 of the 15 employee transfers. Therefore, two employees who transferred from the Utility to an affiliate or to the holding company during CY 2020 were not included in the CY 2020 Annual Report on Affiliate Transactions.*
- *The list provided by the Utility included 83 employee transfers from an affiliate or from the holding company during CY 2020. The CY 2020 Annual Report on Affiliate Transactions recorded only 79 of 83 employee transfers. Therefore, four employees who transferred from an affiliate or from the holding company during CY 2020 were not included in the CY 2020 Annual Report on Affiliate Transactions.*

Recommendation

We recommend that the Utility follow its Affiliate Compliance Guidelines and ensure that Human Resources communicates promptly with the ACD for all employee movement between the utility and affiliates. In addition, we recommend that the ACD implement an annual reconciliation process for all employee transfers and complete the reconciliation process before submitting the Annual Report on Affiliate Transactions.

SDG&E’s RESPONSE:

On February 3, 2022, prior to the commencement of the State Controller’s Office audit, SDG&E self-reported to the CPUC that it had identified a small number of employee transfers that had not been listed on the Schedule H of the utility’s Annual Report on Affiliate Transactions for Compliance Years (“CY”) 2019 and 2020. The draft Audit Report of the State Controller’s Office includes the employee transfer discrepancy that was

previously identified in that self-report and recommends an annual reconciliation to capture all employee transfers.

The findings include the two transfers from SDG&E to Oncor Electric Delivery Service, LLC (“Oncor”) in 2020, which were included in SDG&E’s February 3, 2022 self-report. In accordance with the mitigation plan SDG&E provided in its self-report, SDG&E has revised its exit interview process to identify all utility employees transferring to Oncor. In addition, upon discovery of the issue that led to this self-report, SDG&E’s Affiliate Compliance department implemented a secondary reconciliation of all employee transfers prior to the submission of the Affiliate Transaction Report. SDG&E has further built an automated process as an additional check to capture transfers to Oncor. This process, which includes an employee checklist, was put in place in 2022. SDG&E submitted revised Schedule H filings to the CPUC for 2019 and 2020 on May 2, 2022.

The remaining transfers listed in the finding pertain to four employees that were part of a large group transfer from Sempra to SD&GE. This reporting issue was discovered by SDG&E during the audit and reported to the CPUC on February 11, 2023. The additional reconciliation process that has been implemented is expected to eliminate this issue for group transfers in the future.

AUDIT FINDING #5 (Rule V.G.2.c): Unreported and inaccurately reported employee transfer fees

The Utility’s internal controls were inadequate to ensure that all employee transfer fees were correctly reported in Schedule H of the Utility’s Annual Report on Affiliate Transactions. As a result, transfer fees for two employees were not reported in its CY 2020 Annual Report on Affiliate Transactions.

The Utility discovered and disclosed to SCO auditors and the CPUC one instance of noncompliance with ATR V. G. 2. c. The Utility described this instance in the disclosures to the CPUC as follows:

In summary, on February 3, 2022, the Utility provided notification that the Affiliate Compliance Department has been informed of employee transfers from SDG&E to Oncor Electric Delivery Service, LLC (“Oncor”). Oncor is a Texas regulated electric transmission and distribution service provider and an affiliate of SDG&E. The two unreported transfers occurred on April 18, 2020, and May 2, 2020, and transfer fees were not initially billed. To remedy the oversight, Sempra Corporate Center (Company 1100) paid SDG&E the required transfer fee. SDG&E understands that after Sempra Corporate Center’s payment to SDG&E, Oncor’s parent company, Sempra Texas Holdings (Company 2320), was billed by Sempra Corporate Center for its payment to SDG&E. SDG&E received payment from Sempra Corporate Center on November 12, 2021. Also, the Utility submitted a revised 2020 schedule H on May 2, 2022, regarding the reporting of employee transfers from SDG&E to Oncor Electric Delivery Service, LLC.

In addition, we found that a transfer fee for one employee was not accurately reported in Schedule H of its CY 2020 Annual Report on Affiliate Transactions. The transfer fee was reported as \$41,031.76 but should have been \$32,629.01. In this instance, the Utility did not provide notification to the CPUC for the inaccurately reported transfer fee; however, the correct transfer fee was reported in the revised Schedule H on May 2, 2022.

Recommendation

We recommend that the Utility:

- *Establish and implement adequate internal controls to ensure compliance with ATR V. G. 2. c.*
- *Implement an annual reconciliation process for all employee transfer fees and complete the reconciliation process before submitting the Annual Report on Affiliate Transactions.*

SDG&E's RESPONSE:

This finding relates to the same two 2020 employee transfers from SDG&E to Oncor that were identified in Audit Finding #4 and were the subject of the Company's self-report to the Commission on February 3, 2022, prior to the commencement of the State Controller's Office audit. Since the transfers were not known, the transfers fees were not contemporaneously calculated. SDG&E advised the CPUC in writing of these discrepancies on February 3, 2022. Revised Schedule H filings were submitted to the CPUC for the years in question on May 2, 2022, including the applicable transfer fees. All transfer fees were collected prior to submitting the revised schedules. As described in connection with Audit Finding #4 above, SDG&E has strengthened its processes to identify and properly comply with employee transfers involving its affiliate Oncor.

Audit Finding #5 also reflects a second item that SDG&E does not believe should be part of the Audit Finding. In the May 2, 2022 revisions to Schedule H submitted to the Commission, SDG&E corrected a miscalculation of a transfer fee for one employee. The original fee was miscalculated and resulted in the utility receiving more money than it was entitled to. When the error was discovered while revising the Schedule H, it was corrected. SDG&E objects to the sub-Finding's treatment of an unintended and non-material accounting error as a violation of ATR V.G.2.c as the error was not a failure to charge the affiliate for an employee transfer.

AUDIT FINDING #6 (Rule V.G.2.d): Exit interview documentation not retained for seven employees and incomplete for two employees

The Utility did not fully complete and retain all exit interview documentation to show that it followed its policies and procedures to ensure compliance with the ATRs. Of the 25 employees whose records we reviewed, the Utility failed to retain its exit interview documentation for seven employees and failed to provide fully

completed exit interview documentation for two employees. The exit interview documentation provided was incomplete, as it lacked two of the three exit checklist forms for one employee. Additionally, for another employee, the dates and the employee and supervisor signatures were missing from the documentation. If completed and retained, such exit documentation would support that the Utility followed its policies and procedures to ensure compliance with ATR V. G. 2. d. Without the completed exit documentation for these nine employees, we could not confirm that the Utility consistently followed its policies and procedures to ensure compliance.

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

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

Recommendation

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

SDG&E's RESPONSE:

As discussed above, SDG&E has recognized a need to improve its processes around employee transfers to covered affiliates and now has a more robust process in place. The April 29, 2021 Audit Report for AY 2016-2017 contained findings related to completion and retention of employee transfer checklists, and SDG&E took action to address those findings.

A new electronic process was implemented by all Sempra companies beginning in late 2022. This new process requires an electronic exit checklist to be completed with the employee prior to their transfer with their acknowledgement as a required field to serve as their signature. The electronic exit checklists, along with employee acknowledgement, are stored within the online application. All information is documented and saved in the online application in accordance with required record retention schedules.

In addition, Human Resources procedures have been updated and employees trained to ensure consistent completion and retention of the checklists.

AUDIT FINDING #7 (Rule VI.A and VI.B): New affiliates not reported in a timely manner

The Utility's internal controls failed to ensure that its new affiliates were reported in a timely manner, in accordance with ATR VI., resulting in two affiliates being omitted from the CY 2021 Compliance Plan and one new affiliate being reported 189 days after creation.

Concurrent with the commencement of the audit, the Utility discovered and disclosed to SCO auditors and the CPUC one instance of noncompliance with ATR VI. B. The Utility described the instance in the disclosure to the CPUC on July 21, 2022, as follows:

In summary, on March 4, 2022, Sempra notified SDG&E of the formation of Ecogas Movil S.A.P.I. DE C.V., a Mexican affiliate. SDG&E subsequently sent notification of the new entity to the CPUC on March 25, 2022.

The notification of new entity formation provided by Sempra also reflected an earlier date of December 1, 2021. Upon further research, SDG&E determined that due to various legal processes in Mexico, finalization of entity formation can take longer than the 60-day notification period that is required by the CPUC. Here, the notification of formation of the entity, Ecogas Movil S.A.P.I. DE C.V., listed December 1, 2021 as the date they filed for registration and sent their deed to the Notary as required by law in Mexico. Finalization of entity formation for Ecogas Movil S.A.P.I. DE C.V. occurred on March 04, 2022, and triggered the notice of entity formation provided to SDG&E. Previously, the finalization process for formation of an entity in Mexico has not exceeded the CPUC's 60-day requirement, but we are informed that this process could possibly exceed the CPUC's reporting requirement period in the future.

SDG&E has performed diligence to better understand the formation process of business entities in Mexico and how their legal requirements differ from those in the United States. In addition, SDG&E is now cognizant of an ambiguity in Rule VI.B's use of the word "creation" as applied to the Mexican procedures for the formation of entities. As discussed above, the "creation" of Ecogas Movil S.A.P.I DE C.V. could be interpreted as December 1, 2021 (when it filed for registration) or as March 4, 2022 (when the registration process was complete). We are now notifying you of mitigation efforts undertaken to address future mismatch of creation dates when an affiliate entity in Mexico is formed.

ATR VI. A. Instance of Noncompliance

We reviewed the list of affiliates reported in the CY 2020 and CY 2021 Compliance Plans and reconciled the reported affiliates to a list provided by the Utility. We noted that the CY 2021 Compliance Plan omitted two affiliates that should have been included.

ATR VI. B. Instances of Noncompliance

The Utility had 22 newly acquired or created affiliates during the audit period. We reviewed all 22 newly acquired or created affiliates and found the following instances of noncompliance:

- *Two affiliates were created on June 26, 2020 and were not included in the CY 2021 Compliance Plan (ATR VI. A).*
- *A third affiliate was created on December 1, 2021. However, the Utility did not file an Advice Letter until June 8, 2022, 189 days later, failing to provide notification within 60 days.*

Recommendation

We recommend that the Utility enhance its current policies and procedures related to ATR VI. A. and B. to ensure that:

- *The Compliance Plans report all existing affiliates at the time of submission, in accordance with ATR VI. A.; and*
- *Upon creation or acquisition of a new affiliate, the Utility:*
 - o *Immediately notifies the CPUC;*
 - o *Immediately posts notice on its website, and*
 - o *Files an Advice Letter with the CPUC within 60 days.*

SDG&E's RESPONSE:

ATR VI. A and B Finding: SDG&E recognizes a need to improve its process for creating the listing of affiliates for the Compliance Plan and has clarified and documented the Corporate Governance department procedures, so the timing of affiliate notification aligns with the Compliance Plan reporting requirements. Corporate Governance will provide a complete and current listing of all affiliates prior to the filing deadline of June 30th each year. Any new affiliate notifications that occur between the time the list is provided to SDG&E by Sempra and the time the report is submitted by SDG&E to the CPUC will be reviewed to verify the listing of affiliates included in the filing is current as of the date of filing. This will include all affiliates and eliminate the need for manual updating processes.

ATR VI. B Finding: This item relates to SDG&E's self-report to the Commission dated July 21, 2022.

SDG&E objects to the finding regarding Ecogas Movil, S.A.P.I. de C.V. ("Ecogas") for the following reasons. ATR Rule VI.B. requires notification of the "creation" of a new affiliate. Creation of new entities in the United States differs from the process under which new entities are formed in Mexico. Under the Mexican procedures for the formation of entities, the filing for a new entity formation and the finalization of that entity formation can be separated by months. As stated in the self-report filed by SDG&E with the Commission on July 21, 2022, the December 1, 2021 date was the date that the affiliate, Ecogas, applied for formation. However, its formation was not finalized under Mexican law until March 4, 2022. This time lag did not present an issue in reporting under the ATR previously because the Mexican finalization process usually took less than 60 days to complete. In its self-report, SDG&E identified this unusual set of circumstances, and in an abundance of caution, in the event the CPUC might construe formation as occurring upon the filing of an application rather than upon the

finalization of an application. SDG&E committed to adopt a conservative approach going forward and would report the formation of foreign entities within 60 days of the filing of an application. This will occur regardless of notary or other administrative process status necessary to complete entity formation. This process should alleviate potential timing gaps and allow SDG&E to notify the Commission of entity formation activity within the 60-day period required by Affiliate Transaction Rule VI.B.

AUDIT FINDING #8 (Rule VII.H): Internal controls inadequate to ensure that non-tariffed products and services reports were accurately reported

The Utility's internal controls were inadequate to ensure compliance and accurately capture the amounts to be reported in the annual non-tariffed products and services reports.

During the audit, the Utility discovered and disclosed to SCO auditors and the CPUC two instances of noncompliance with ATR VII. H. The Utility described the instances in the disclosure to the CPUC on August 23, 2023, as follows:

In summary, as part of an internal review following the compiling of information in response to several data requests issued in the State Controller's Office audit of the Affiliate Transaction Rules for the years 2020 and 2021, SDG&E's Affiliate Compliance department discovered transactions that were inadvertently omitted or misstated from the annual Non-Tariffed Products and Services ("NTP&S") Report for 2020. Accordingly, SDG&E has revised the NTP&S Report for 2020 – 2022. The revised schedules and reports are attached to this letter.

In accordance with the Affiliate Transaction Rules, SDG&E is bringing this matter to your attention. Each reporting error is described in detail below.

For 2020-2021, the following transactions were omitted or misstated from the annual NTP&S Reports:

- In 2020, a licensee was billed for \$34,082.90, but the information and revenue were not included in the 2020 NTP&S report section XII-3.*
- In 2021, section VI-3 reflected streetlight inspection and connection fees of \$3,030. After further review, SDG&E discovered this amount was overstated. The actual number for 2021 should have been \$856.16.*

The following table shows the transactions that were inadvertently omitted or misstated:

<i>Annual NTP&S Report Section</i>	<i>Year</i>	<i>Initial Amount Reported</i>	<i>Corrected Amount Reported</i>	<i>Misstatement Difference</i>
<i>XII-3</i>	<i>2020</i>	<i>\$753,094</i>	<i>\$787,177</i>	<i>\$34,083</i>
<i>VI-3</i>	<i>2021</i>	<i>3,030</i>	<i>856</i>	<i>2,174</i>
<i>Total</i>				<i>\$36,257</i>

Recommendation

We recommend that the Utility establish and implement training, policies, and procedures to ensure that all departments involved with the reporting of NTP&S have the necessary knowledge, guidance, and skills to communicate, review, reconcile, and report accurate information on the NTP&S report.

SDG&E’s RESPONSE:

On August 23, 2023, after performing an additional internal review of the data contained in its Non-Tariff Products & Services (NTP&S) reports for 2020-2022, SDG&E notified the CPUC that it had submitted amendments to the Non-Tariffed Products and Services (NTP&S) Reports for the year’s audited, with corrected entries in certain Categories of the reports. In that notification, SDG&E identified mitigating actions and controls to advance compliance with Rule VII.H.

SDG&E has strengthened documentation of contributing department procedures to include requirements for the NTP&S report and provided targeted training. This documentation, as well as specialized training that was conducted following the discovery, will increase awareness of affiliate compliance reporting requirements.

SDG&E notes that the Table at page 39 of the draft Report does not accurately reflect the overstatement of amounts reported in 2021. The amount noted on the NP&S report was overreported in the amount of \$2,174 as reflected in SDG&E’s August 2023 letter to the Commission. That amount should be reflected in the negative. In addition, the amounts should not be totaled as they occurred over separate Audit Years. SDG&E has provided a redline reflecting this and any other typographical errors noted in the draft Report.

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