

PACIFIC GAS AND 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 3, 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 Pacific Gas and 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:

- Complied with all of the ATRs;
- Had adequate controls in place to ensure compliance with the ATRs;
- Did not identify any instances of noncompliance during the audit period; and
- Applied corrective actions to all 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

Ms. Rachel Peterson

December 3, 2024

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Audit Report

Executive Summary

The State Controller's Office (SCO) audited Pacific Gas and 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 27, 2023.

Our audit found that the Utility:

- Complied with all the ATRs;
- Had adequate controls in place to ensure compliance with the ATRs;
- Did not identify any instances of noncompliance during the audit period; and
- Applied corrective actions to all audit findings reported in the prior ATR audit report.

Background

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

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issued Decision (D.) 06-12-029 in Rulemaking 05-10-030 in response to the Energy Policy Act of 2005, which repealed the Public Utility Holding Company Act of 1935.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 The Commissioners made revisions to improve internal consistency and to delete outdated provisions concerning initial compliance with the original ATRs.

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

Pursuant to ATR VI. C., the Commissioners require ATR audits to be performed biennially by independent auditors. The SCO conducted an ATR audit of the Utility for the period of January 1, 2016, through December 31, 2017, and issued a report on December 11, 2020. The report disclosed two findings.

Pacific Gas and Electric Company

The Utility is a CPUC-regulated public utility. The Utility provides energy service to approximately 16 million people in northern and central California. The Utility's service area spans 70,000 square miles from Eureka to Bakersfield, and from the Pacific Ocean to the Sierra Nevada. The Utility has 106,681 circuit miles of electric distribution lines and 18,466 circuit miles of interconnected transmission lines; 42,141 miles of natural gas distribution pipelines and 6,438 miles of transmission pipelines; 5.1 million electric customer accounts; and 4.4 million natural gas customer accounts.

At the time of the issuance of the Utility's calendar year (CY) 2020 Compliance Plan, the Utility reported 18 affiliates, of which seven 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. during the period January 1, 2020, through December 31, 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.

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.
- 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 all three 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 (PG&E Corporation) is not used as a conduit to provide nonpublic utility information to covered affiliates.

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

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

- We reviewed procedures and training materials to ensure that they convey the principle of non-discrimination.
- We 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 its affiliates, and determined whether any such bids had been approved by the CPUC.
- We verified that the Utility's blind transactions complied 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 electric power 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.
- We reviewed the records of a third-party vendor that oversees CCC employees to evaluate and ensure its compliance with the ATRs.

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

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

- We reviewed procedures and training materials to ensure that the Utility's procedures prevent tying the provision of services to the taking of any goods or services from its affiliates.
- We reviewed all marketing materials to determine whether the Utility added conditions on or tied the provision of services by the Utility to the taking of any goods or services from its affiliates.
- We reviewed the records of a third-party vendor that oversees CCC employees to evaluate and ensure its compliance with the ATRs.

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 performed the following procedures to determine compliance with ATR III. D.:

- We reviewed procedures and training materials to ensure that the Utility instructs its employees not to assign customers to its affiliates.
- We reviewed the records of a third-party vendor that oversees CCC employees to evaluate and ensure its compliance with the ATRs.

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 relation services to its affiliates:

- We reviewed procedures and training materials to verify that the Utility's policy is to refrain from engaging in business development and customer relation 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.
- We reviewed the records of a third-party vendor that oversees CCC employees to evaluate and ensure its compliance with the ATRs.

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 1,200 third-party entities that submitted Customer Information Service Requests (CISRs) during the audit period and verified that none of the requests were from affiliates. We also reviewed a sample of active and approved CISRs completed by customers and submitted by 40 third-party entities during the audit period.
- 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 had 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 46 joint meetings between the Utility's Audit Committee and the holding company's Board of Directors to determine whether affiliate representatives were present during potentially sensitive discussions and to ensure that non-customer-specific non-public information was not shared with affiliate representatives who were in attendance.
- We requested service provider lists that were distributed or made available to the public during the audit period in order to review them and determine whether any affiliates were listed.
- We inquired about the type of information that CCC representatives are permitted to release to customers.
- We requested written authorization for information provided to affiliates by unaffiliated suppliers.
- We confirmed that the Utility's affiliates did not serve retail customers during the audit period.
- We noted any instances in which our requests for records for this audit were unsuccessful.
- We requested any existing contracts that had been jointly negotiated by the Utility and affiliates in prior years but were still in effect during CY 2020 and CY 2021; we noted that the Utility and its covered affiliates did not jointly procure any goods or services (non-energy or energy related) during the audit period.

ATR V. – Separation

ATR V. A. – Corporate Entities

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

ensure that the Utility, its holding company, and its affiliates are separate corporate entities:

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

ATR V. B. – Books and Records

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

- We reviewed the Utility's CY 2020 and CY 2021 Form 10-K report filings to determine 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 reviewed policies and procedures to ensure that the Utility and its affiliates 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 obtained a list of employees who transferred between the Utility and its affiliates during the audit period; there were no covered affiliate employee transfers during the audit period.
- 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 (whether energy non-energy related) during the audit period. The Utility stated that it and its covered affiliates did not jointly purchase any goods or services during the audit period.

ATR V. E. – Corporate Support

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

- We interviewed Utility employees in various shared support functions to assess their knowledge of the ATRs and ensure that restricted services were not provided to affiliates.
- We examined the Utility's list of permitted and non-permitted shared services identified in the *Affiliate Rules Compliance Program Standard*.
- 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 \$536,739 in CY 2020 and \$549,900 in CY 2021.
 - We reviewed a judgmental sample of eight covered inter-affiliate monthly invoices, totaling \$5,604, 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 movements:

- 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 its Annual Reports.
- We reviewed two employee transfer records to verify that: (1) employees who transferred to the holding company did not return to the Utility for a period of one year; (2) if an employee returned to the Utility, the employee was not retransferred, reassigned, or otherwise employed by an affiliate for two years; and (3) the Utility's holding company was not used as a conduit to circumvent the required transfer fees.
- We confirmed that the transfer fee of 25% of an employee's base annual compensation was properly recorded in the Affiliate Transfer Fee Memorandum Accounts' General Ledger balances for both transferred employees.
- We reviewed the signed Adherence to Affiliate Transaction Communication Policies forms and the affiliate transfer process flows to ensure that transferring employees acknowledged the restrictions imposed by the ATRs.

- We 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 verified that there were no transfers of goods or services between the Utility and its affiliates.

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 reviewed the Utility's CY 2020 and CY 2021 listing of 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 three 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 three 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 three 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.

ATR IX. – Protecting the Utility’s Financial Health

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

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

- Complied with all of the ATRs;
- Had adequate controls in place to ensure compliance with the ATRs;
- Did not identify any instances of noncompliance during the audit period; and
- Applied corrective actions to audit findings reported in the prior ATR audit.

Follow-up on Prior Audit Findings

The Utility has satisfactorily resolved the findings noted in our prior audit report for the period of January 1, 2016, through December 31, 2017, issued on December 11, 2020.

Views of Responsible Officials

We issued a draft audit report on April 4, 2024. The Utility's representative responded by email on April 18, 2024, acknowledging the audit results.

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 3, 2024

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

Affiliate Transaction Rule	Section	Rule Description	Compliance
I – Definitions	A	“Affiliate”	Yes
I – Definitions	B-H	[Various definitions]	No activity
II – Applicability	A	[Applicability]	No activity
II – Applicability	B	[Utility transactions with affiliates]	Yes
II – Applicability	C	[No violating or circumventing the ATRs]	Yes
II – Applicability	D-H	[Applicability coverage]	No activity
III – Nondiscrimination	A	No Preferential Treatment Regarding Services Provided by the Utility	Yes
III – Nondiscrimination	B	Affiliate Transactions	No activity
III – Nondiscrimination	B.1	Resource Procurement	Yes
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	Yes
III – Nondiscrimination	C	Tying of Services Provided by a Utility Prohibited	Yes
III – Nondiscrimination	D	No Assignment of Customers	Yes
III – Nondiscrimination	E	Business Development and Customer Relations	Yes
III – Nondiscrimination	F	Affiliate Discount Reports	No activity
IV – Disclosure and Information	A	Customer Information	Yes
IV – Disclosure and Information	B	Non-Customer Specific Non-Public Information	Yes
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	No activity

Schedule (continued)

Affiliate Transaction Rule	Section	Rule Description	Compliance
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 activity
V – Separation	D	Joint Purchases	No activity
V – Separation	E	Corporate Support	Yes
V – Separation	F	Corporate Identification and Advertising	Yes
V – Separation	F.1	[Advertising]	Yes
V – Separation	F.2	[Different treatment]	Yes
V – Separation	F.3	[No affiliate advertising space on utility billing envelopes]	Yes
V – Separation	F.4	[No joint advertising or marketing]	Yes
V – Separation	F.5	[No research and development subsidization]	Yes
V – Separation	G	Employees	
V – Separation	G.1	[No joint employees]	Yes
V – Separation	G.2.a	[Tracking employee movement]	Yes
V – Separation	G.2.b	[Transfer residency requirements]	Yes
V – Separation	G.2.c	[Transfer payments]	Yes
V – Separation	G.2.d	[No release of information by transfer employees]	Yes
V – Separation	G.2.e	[Loaned labor guidelines]	No activity
V – Separation	H	Transfer of Goods and Services	No activity
VI – Regulatory Oversight	A	Compliance Plans	Yes
VI – Regulatory Oversight	B	New Affiliate Compliance Plans	Yes
VI – Regulatory Oversight	C	Affiliate Audit	Yes
VI – Regulatory Oversight	D	Witness Availability	Yes
VI – Regulatory Oversight	E	Officer Certifications	Yes
VII – Utility Products and Services	A	General Rule	No activity
VII – Utility Products and Services	B	Definitions	No activity
VII – Utility Products and Services	C	Utility Products and Services	Yes
VII – Utility Products and Services	D	Conditions Precedent to Offering New Products and Services	Yes
VII – Utility Products and Services	D.1	[Allocating costs to prevent cross-subsidization]	Yes

Schedule (continued)

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

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

Prior Audit Finding	Current Status
<p>Finding 1— Utility does not have written internal control policies and procedures to ensure compliance with ATR II.</p> <p>The Utility [Pacific Gas and Electric Company] does not have written internal control policies and procedures to ensure compliance with ATR [Affiliate Transaction Rule] II. Without written policies and procedures, the Utility risks incorrectly classifying affiliates.</p>	Fully resolved
<p>Finding 2— Officer Certifications filed late</p> <p>The Utility's internal controls failed to ensure that the Utility's Officer Certifications for CY [calendar year] 2017 were filed by March 31, 2018, in accordance with ATR VI. E.</p>	Fully resolved

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