

**2010 AND 2011  
AFFILIATE TRANSACTIONS AUDIT  
OF  
SOUTHERN CALIFORNIA GAS COMPANY**

**PREPARED FOR  
THE CALIFORNIA PUBLIC UTILITIES COMMISSION  
OCTOBER 31, 2014**

**FINAL REPORT**



**NORTHSTAR CONSULTING GROUP**

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MANAGEMENT CONSULTANTS

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## EXECUTIVE SUMMARY

This section of the report provides a brief overview of the findings, conclusions, and recommendations resulting from NorthStar Consulting Group's (NorthStar) audit of Southern California Gas Company's (SoCalGas) compliance with the Affiliate Transaction Rules (ATR or Rules) for the years 2010 and 2011. This executive summary presents an overall picture without duplicating the specific material described further in the report and includes a brief overview of the scope and objectives of the audit, the approach used by NorthStar in auditing SoCalGas' compliance with the Rules, an exhibit summarizing SoCalGas' compliance status and a list of NorthStar's recommendations for improvements in SoCalGas' compliance activities.

NorthStar reviewed the transactions and relationships between SoCalGas and its affiliates during CY2010 and CY2011 in detail, and found that in a number of cases SoCalGas exhibited a level of management indifference to ATR compliance requirements. This was often apparent when reviewing activities that have Sempra Energy Corporate involvement or reliance on affiliate information such as affiliate classifications, loaned labor among affiliates, officer certifications, filing requirements and in executing contracts with affiliates. It was also reflected in interpretations of the Rules and exceptions taken in SoCalGas' Compliance Plan to avoid compliance requirements. The result was SoCalGas not achieving compliance with numerous Rules. NorthStar attributes this finding to two causal factors:

1. The last ATR compliance audit was completed for calendar year 2006. It has been seven years since SoCalGas has been the subject of an ATR audit. The normal checks and balances provided in the findings from an audit have not occurred and SoCalGas and its affiliates have been permitted to conduct business without the benefit of regular scrutiny.
2. Sempra Energy (Sempra) has fragmented its affiliate compliance program. Prior to 2006, affiliate compliance was managed corporately at a high level in Sempra reporting to the director of FERC, CAISO, & Compliance. Affiliate compliance is now a separate function within each of the utilities, the holding company, and each of its covered affiliates. By relegating affiliate compliance to a lower level within SoCalGas' Accounting Systems and Compliance Department, compliance activities are conducted as a staff function, where SoCalGas has little or no authority or control over the activities of the utility, Sempra Energy or its affiliates. As an example, SoCalGas could not compel affiliates or Sempra Corporate to provide the advertising materials of its affiliates or the power contracts associated with certain covered affiliates.

SoCalGas is largely dependent on training and a passive monitoring approach to achieve compliance with these Rules. We strongly recommend that Sempra reconsider its current affiliate compliance organizational model and that SoCalGas add emphasis to its annual compliance plan and policies and procedures that strengthen compliance related activities through a series of more rigorous compliance methodologies.

The audit scope of work requires that for each error, discrepancy, or violation of the ATRs by the utility that the auditor becomes aware of, the auditor will provide:

- a) The auditor's assessment of the magnitude of the error, discrepancy, or violation;
- b) The criteria used to determine the magnitude;
- c) The actual or potential harm to the ratepayers as a result of each error, discrepancy, or violation of the ATRs, considering the ATRs overarching goals of
  - i. avoiding cross-subsidization of affiliate activities by ratepayers and
  - ii. maintaining market competition.

There are no independent standards by which to measure the severity of the impact of a Rules violation. Therefore, NorthStar developed a Rules Violation Impact Scoring Matrix to assess magnitude and actual or potential harm to the ratepayers as a result of each error, discrepancy, or violation. For the sake of simplicity, we refer to errors, discrepancies and violations collectively as "violations."

The Rules Violation Impact Scoring Matrix is a structured model to assess the impact of an ATR violation. The use of the impact scoring matrix ensures that a consistent approach is used to assess violations, so that they are scored and compared consistently across the Rules and across the three utilities audited by NorthStar (in addition to this audit of Southern California Gas, NorthStar conducted the ATR audit of PG&E and San Diego Gas & Electric for the 2010/2011 period). In order to minimize the influence of subjective judgment, NorthStar used the averages of the violation impact scores determined independently by each of the audit team members.

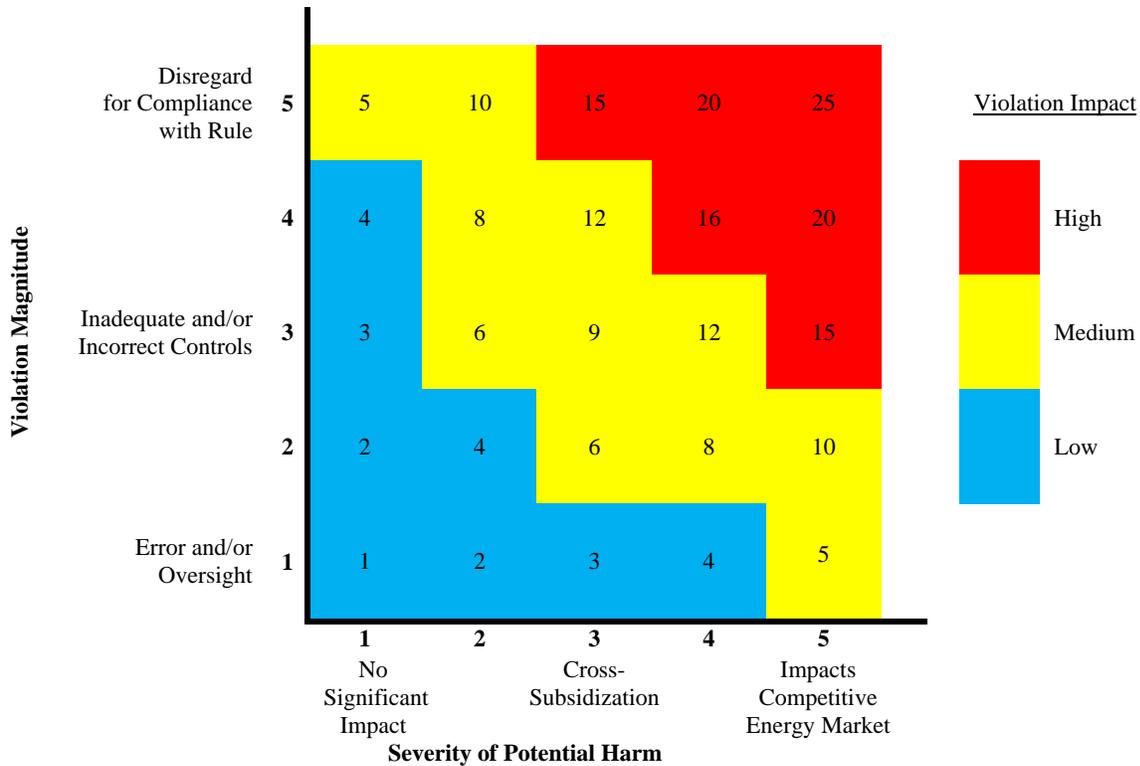
The construct of the matrix is straightforward. Each ATR violation is scored on two axes:

- X-Axis: Severity of Potential Harm -- A value of 1 to 5 is assigned, using the following ratings as a guideline.
  - 1 – No Significant Impact
  - 3 – Cross-subsidization
  - 5 – Impact on Competitive Energy Market
- Y-Axis: Violation Magnitude -- A value of 1 to 5 is assigned, using the following ratings as a guideline.
  - 1 – Error and/or Oversight
  - 3 – Inadequate and/or Incorrect Controls
  - 5 – Disregard for Compliance with the Rule

The impact of the non-compliance is the computed X value multiplied by the Y value.

**Exhibit E-1** depicts the scoring matrix. As shown in the exhibit, we have classified violation scores as high, medium and low impact. **Exhibit E-2** provides a summary of SoCalGas’ compliance with each of the Affiliate Transaction Rules and violation scores where the utility failed to comply. **Exhibit E-3** shows the scoring matrix for each of the Rule violations.

**Exhibit E-1  
Scoring Matrix**

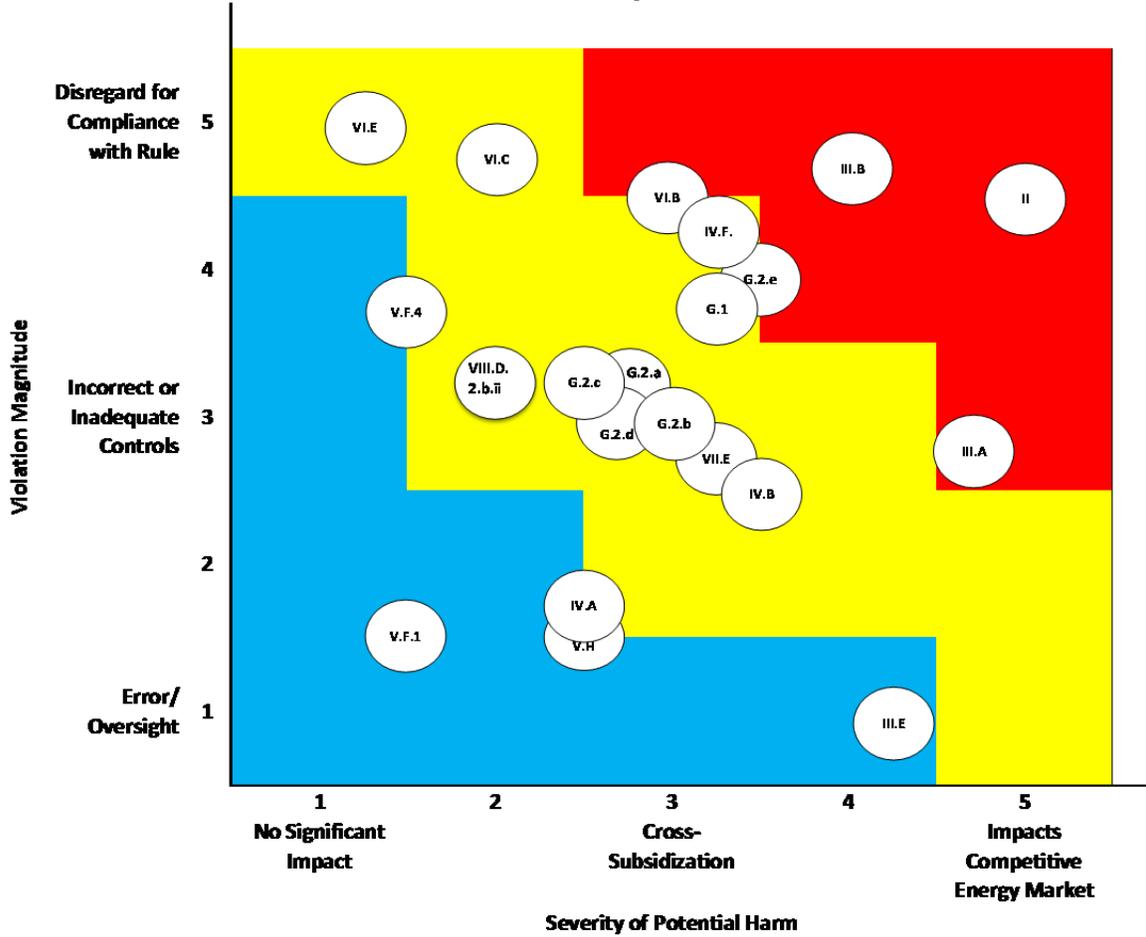


**Exhibit E-2  
Southern California Gas Company  
Summary Compliance Status (2010 and 2011)**

Rule	Section	Brief Rule Description	Compliance	Recommendations	Compliance Impact Score
I	A - G	Definitions	Yes		
II	A - I	Rules Applicability/Coverage	No	#1 and #2	22.5
III	A	Nondiscrimination	No		13.1
	B	No Preferential Treatment	Yes	#3	
	B.1 – B.3	Resource Procurement	No		19.0
	B.4 – B.6	No Tariff Discretion	Yes		
	C	No Tying of Services	Yes		
	D	No Customer Assignments	Yes		
	E	No Business Development	No	#4	4.3
	F	Affiliate Discount Reports	Yes		

Rule	Section	Brief Rule Description	Compliance	Recommendations	Compliance Impact Score
IV	A	Customer Info Disclosure	No		4.4
	B	Non-Cust. Non-Public Info.	No		11.0
	C	Service Provider Info.	Yes		
	D	Supplier Information	Yes		
	E	Affiliate Advise/Assistance	Yes	#5	
	F	Record Keeping	No		13.8
	G	Affiliate Contracts / Bids	Yes		
	H	FERC Reporting	N/A		
V	A	Separate Corporate Entities	Yes		
	B	Separate Books & Records	Yes		
	C	Shared Plant & Facilities	No	#6	6.6
	D	Joint Procurement	Yes		
	E	Shared Corporate Support	No	#7 and #8	16.9
	F.1	Corp. Id. and Advertising	No	#9, #10, and #11	2.3
	F.2	Different Treatment	Yes		
	F.3	No Affiliate Advertising	Yes		
	F.4	No Joint Advertising	No		5.6
	F.5	No R&D Subsidization	Yes		
	G.1	No Joint Employees	No	#12	12.2
G.2.a	Employee Move Tracking	No	8.9		
G.2.b	Transfer Residency Req.	No	9.0		
G.2.c	Transfer Payments	No	8.1		
G.2.d	No Information Transferred	No	8.3		
G.2.e	Temporary Labor Assigned	No	14.0		
H	Goods/Services Transfer	No	#13	3.8	
VI	A	Compliance Plans	Yes		
	B	New Affiliate Notifications	No	#14	6.9
	C	Affiliate Transactions Audit	No		9.5
	D	Witness Availability	N/A		
	E	Officer Certifications	No	#15	6.3
VII	A	NTP&S General	Yes		
	B	NTP&S Definitions	N/A		
	C	NTP&S Limitations	Yes		
	D	Precedent Conditions	Yes		
	E	Advice Letter Requirements	No		8.9
	F	Existing Offerings	Yes		
	G	Section 851 Application	Yes		
	H	Periodic Reporting NTP&S	Yes		
	I	NTP&S to Affiliates	Yes		
	VIII	A – C.1	Violation Claims	N/A	
C.2 – C.4		Complaint Handling	Yes		
C.5		Complaint Report / Resolve	N/A		
C.6		Complaint Contact/Meeting	Yes		
D.1 – D.2.b.i		Commission Enforcement	N/A		
D.2.b.ii		Utility Conduct / Violation	No		6.5
D.2.b.iii – D.2.b.v	Setting Fines	N/A			
IX	A	Utility Capital Information	Yes		
	B	Capital Deviations/Reporting	Yes		
	C	Ring-Fencing	Yes		
	D	Changes to Ring-Fencing	Yes		

**Exhibit E-3  
SoCalGas Violation Impact Assessment**



Source: NorthStar Analysis



**Audit Scope and Objectives**

The objective of this audit is to express an independent opinion on the degree and extent of SoCalGas’ compliance with the California Public Utilities Commission’s (CPUC or Commission) Rules governing affiliate transactions and relationships, and with SoCalGas’ own Compliance Plans filed with the Commission, for the calendar years ending December 31, 2010 and December 31, 2011.

**Audit Approach**

NorthStar approached this audit from a managerial as well as a financial perspective. As stated in Section II.A of CPUC Decision 97-12-088, the CPUC has chosen “...to adopt rules that generally require more separation between a utility and its affiliate, rather than rules that rely almost exclusively on tracking costs.” While the NorthStar team performed standard

audit tests of selected affiliate transactions, we also focused on the effectiveness of the control environment—i.e., the organization, business processes, and regulatory compliance procedures that affect SoCalGas compliance efforts.

We conducted our assessment of SoCalGas' compliance with the CPUC Rules in accordance with Generally Accepted Government Auditing Standards (GAGAS) for performance audits. The standards are defined in *Standards for Audit of Governmental Organizations, Programs, Activities, and Functions* produced by the Government Accounting Office (GAO) in 1981 and revised in 1988, 1994, 2003 and 2007. The most pertinent standards relate to issues of management economy, efficiency, and effectiveness as they apply to public utilities.

During the course of the audit, NorthStar submitted 336 data requests to SoCalGas which can be found in **Appendix A** of this report. NorthStar also conducted 81 interviews with a cross-section of SoCalGas officers, managers, and employees who had specific knowledge of operations and policies relating to Affiliate Transaction Rules compliance. Interview coverage included the following organizations and positions directly responsible for ATR compliance:

- Members of the Affiliate Compliance Department
- Specific individuals that responded to NorthStar information requests
- Law Department – utility and corporate
- Controller and accounting staff
- Internal Audit
- Human Resources – utility and corporate
- Corporate Regulatory and Compliance
- Supply Chain
- Fuel Procurement and Planning
- Facilities management and Security
- Customer Service and Call Center management and staff
- Corporate Communications
- Operations and Dispatch

This extensive documentation and interview coverage provided a broad perspective of SoCalGas' compliance activities as well as focused attention on transactions in order to establish a high degree of confidence in our audit findings and conclusions. Many SoCalGas personnel were interviewed more than once. NorthStar has provided copies of our data requests and interview logs separately. Throughout this report, we have identified, where possible, the data request or interview that led to a specific finding. The number of the data request (e.g., DR 50) or interview (e.g., I-20) has been included in the text to provide easy reference to the supporting materials.

In addition to the data requests and interviews, NorthStar tested the validity, accuracy, and compliance status of a large number of affiliate transactions and other customer transactions that are subject to the Affiliate Transaction Rules. The audit included testing of either a sample or the entire population of the following types of 2010 and 2011 transactions:

- A sample of the Customer Information Service Requests (CISRs).
- All Intercompany Service Requests for loaned labor.
- A sample of the Direct Access Service Requests (DASRs).
- All property transfers involving SoCalGas and any covered affiliate.
- All service agreements and contracts between SoCalGas and affiliates in effect during 2006.
- All joint purchasing transactions between SoCalGas and its covered affiliates.
- All employee movement between SoCalGas and its affiliates along with associated transfer fee payments when required.
- All SoCalGas bill inserts.
- All Board of Director minutes.
- All SoCalGas and affiliate marketing and advertising materials distributed during 2010 and 2011.

The audit also conducted tests on a number of current transactions to determine compliance with the Rules. These transactions included:

- Customer calls to the Customer Call Center.
- Electronic Affiliate Transaction Bulletin Board and web postings.
- Bulk power scheduling.

Because SoCalGas' compliance process is an internal control system, our review was also based on the internal controls guidelines published in the 1992 report by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. COSO defines internal control as the process carried out by the Board of Directors, management, and other personnel for the purpose of gaining reasonable assurance of achieving objectives related to: (1) the effectiveness and efficiency of operations, (2) the reliability of financial reports, and (3) compliance with laws and regulations.

The COSO definition of internal control includes several important concepts worth noting. First, internal control is a means to an end, not an end in itself. Second, internal controls are not "people proof". Third, effective internal controls can only provide a reasonable assurance, not a guarantee. Effective internal controls cannot entirely prevent human error, poor judgment, or well-planned fraud. It is important to balance the cost of controls with their effectiveness, so as not to burden a company with expensive controls that provide minimal benefit.

## **Recommendations**

NorthStar's audit recommendations are provided at the end of each chapter in the report and summarized below.

1. Sempra Global, Sempra International, LLC, and Sempra U.S. Gas & Power, LLC including all affiliates organized under these entities should be classified as "covered – energy marketing affiliates" due to the following:

- Sempra’s own description of the affiliate’s function shows that they are covered – energy marketing affiliates.<sup>1</sup>
  - SoCalGas’ Affiliate Compliance Department (ACD), whose role is to monitor compliance with the Rules and advise SoCalGas functions, has been provided limited information by Sempra corporate legal on the purpose and activity of affiliates. ACD’s mission and function have therefore been neutralized by Sempra corporate.
  - A comprehensive analysis of all utility affiliate classified as “non-covered” and “energy marketing affiliates” was recommended in previous audits and has failed to solve the problem.
  - Mobile Gas Service Corporation is a gas distribution company and Liberty Gas Storage, LLC sells natural gas. Both affiliates market natural gas products and services. SoCalGas has stated in its Compliance Plan that it does not comply with the Rules for Mobile Gas Service Corporation and Liberty Gas Storage LLC.
2. The Commission should perform a focused management audit of Sempra that is not limited to the two-year audit period and the utility’s compliance actions covering:
- Marketing activities
  - Contracting for energy products and services
  - Submission of Advice Letters supplying official creation dates
  - Rule II.B classification of affiliates
  - Marketing of energy products and services vis-à-vis the creation of affiliates.

The Rules require Commission approval of all contracts with affiliates for resource procurement. Therefore:

3. Obtain CPUC approval for all resource procurement contracts with affiliates. (Rule III.B.1)
- Employees are not sufficiently aware of the Rules prohibitions regarding information provided to affiliates and SoCalGas directed a potential investor to Sempra LNG.
4. Retrain employees on the requirements of Rule III.E and the prohibition of acquiring information on behalf of its affiliates. (Rule III.E).
5. Include the prohibition on providing customers affiliate related advice or assistance in the ATR training course. (Rule IV.E)
6. Do not delete affiliate-related records during the course of an active audit. (Rule IV.F)
7. Retrain employees involved in the transfer of employees on the required paperwork and actions required before permitting a transfer. (Rule V.C)
8. Recognize Rule V.E’s prohibition on shared hedging and financial derivatives and arbitrage services, cease all shared services in this regard and revise the Compliance Plan accordingly. (Rule V.E)

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<sup>1</sup> 2012 Sempra Energy Annual Report to Shareholders and Sempra Energy Form 10-K filed 2-28-2012.

9. Limit the Financial Leadership / Management Accounting Rotation Program to within the regulated utilities. (Rule V.E)
10. Include specific references to the affiliates and the Affiliate Rule requirements in Sempra and SoCalGas' policy for corporate communications, media relations, co-branding and the use of the Sempra name and logo. (Rule V.F.1)
11. Include more expansive references to the Affiliate Rules in the Code of Conduct. (Rule V.F.1)
12. Develop a system of parent company controls over affiliate materials. (Rule V.F.1)
13. Report all loaned labor Rule violations to the CPUC. (Rule V.G.2.e)

Rule V.H.6 requires that tangible assets are to be priced at the lower of fully loaded cost or fair market value. The amount of dividends declared by SoCalGas and transferred to its parent company is dependent on SoCalGas' dividend policy, rather than any pricing mechanism.
14. As part of the proposed workshop on Affiliate Transaction Rule modifications and clarifications, determine whether transfers of "tangible assets" include the transfer of dividend payments from a utility to its parent company. (Rule V.H)
15. Include the ACD self-assessment review in SoCalGas' Compliance Plan. Enhance the self-assessment review from a checklist to a formalized structure that includes departmental specific analyses, reviews, and documentation that would identify compliance issues early and allow SoCalGas the opportunity to remedy them. (Rule VI.A)
16. Cease modifying the annual officer certifications and submit certifications that comply with the Affiliate Transaction Rules. (Rule VI.E)
17. SoCalGas should update its Compliance Plan to properly reflect the Rules.
18. CPUC should hold workshops with interested stakeholders to consider modifications to the Affiliate Transaction Rules.
19. The Commission should enforce the current Rules and issue an Order Instituting Rulemaking (OIR) to amend the Rules.

## **Organization of this Report**

The remainder of this report provides NorthStar's detailed evaluation of SoCalGas' compliance with each of the Rules. Each Rule is discussed sequentially and includes the following sections:

- Text of the Rule
- SoCalGas' Compliance Plan
- NorthStar's Evaluation of Compliance
- Recommendations

The last two sections of the report provide an evaluation of SoCalGas' Compliance Plan and a discussion of potential changes to the ATR's based upon NorthStar's audit experience and input from the utilities.

## RULE I. DEFINITIONS

Rule I defines many key terms used throughout the Affiliate Transaction Rules (the Rules or ATR). The definitions in Rule I should be reflected in Southern California Gas Company's (SoCalGas) compliance plan, procedures, and oversight activities.

In reviewing SoCalGas' compliance with Rule I, NorthStar used the following evaluative criteria, whether:

- SoCalGas understood and accepted the definitions contained in Rule I.
- SoCalGas' interpretation and application of the definitions contained in Rule I complied with the letter and spirit of definition in Rule I.
- SoCalGas fully documented and consistently utilized any interpretations of the definitions contained in Rule I.
- SoCalGas' compliance procedures and compliance training were consistent with the definitions in Rule I.

In conducting its compliance audit, NorthStar examined the following:

- The affiliate transaction Compliance Plan, the Annual Report of Affiliate Company Transactions and other documents to assess whether SoCalGas consistently and accurately applied the Rule I definitions.
- The Affiliate Rules training program, documentation and other communications to determine that SoCalGas appropriately conveyed the approved definitions and applicability.
- Interpretations of the definitions for consistency with the intent of the Rules.
- The actual or potential harm to the ratepayers as a result of any identified error, discrepancy, or violation of this Rule.

### Rules I.A through I.H

**I. Definitions:** Unless the context otherwise requires, the following definitions govern the construction of these Rules:

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

For purposes of this Rule, "affiliate" shall include the utility's parent or holding company, or any company which directly or indirectly owns, controls, or holds the power to vote 10% or more of the outstanding voting securities of a utility (holding company), to the extent the holding company

is engaged in the provision of products or services as set out in Rule II B. However, in its compliance plan filed pursuant to Rule VI, the utility shall demonstrate both the specific procedures and mechanisms that the utility and holding company have in place to assure that the utility is not utilizing the holding company or any of its affiliates not covered by these Rules as a conduit to circumvent any of these Rules. Examples include but are not limited to specific mechanisms and procedures to assure the Commission that the utility will not use the holding company or another utility affiliate not covered by these Rules, or a consultant or contractor as a vehicle to (1) disseminate information transferred to them by the utility to an affiliate covered by these Rules in contravention of these Rules, (2) provide services to its affiliates covered by these Rules in contravention of these Rules or (3) to transfer employees to its affiliates covered by these Rules in contravention of these Rules. In the compliance plan, a corporate officer from the utility and holding company shall verify the adequacy of the specific mechanisms and procedures to ensure that the utility is not utilizing the holding company or any of its affiliates not covered by these Rules as a conduit to circumvent any of these Rules.

Regulated subsidiaries of a utility, defined as subsidiaries of a utility, the revenues and expenses of which are subject to regulation by the Commission and are included by the Commission in establishing rates for the utility, are not included within the definition of affiliate. However, these Rules apply to all interactions any regulated subsidiary has with other affiliated entities covered by these rules.

**I.B. “Commission”** means the California Public Utilities Commission or its succeeding state regulatory body.

**I.C. “Customer”** means any person or corporation, as defined in Sections 204, 205 and 206 of the California Public Utilities Code, that is the ultimate consumer of goods and services.

**I.D. “Customer Information”** means non-public information and data specific to a utility customer which the utility acquired or developed in the course of its provision of utility services.

**I.E. “FERC”** means the Federal Energy Regulatory Commission.

**I.F. “Fully Loaded Cost”** means the direct cost of good or service plus all applicable indirect charges and overheads.

**I.G. “Utility”** means any public utility subject to the jurisdiction of the Commission as an Electric Corporation or Gas Corporation, as defined in California Public Utilities Code Sections 218 and 222, and with gross annual operating revenues in California of \$1 billion or more.

**I.H. “Resource Procurement”** means the investment in and the production or acquisition of the energy facilities, supplies, and other energy products or services necessary for California public utility gas corporations and California public utility electrical corporations to meet their statutory obligation to serve their customers.

## Findings and Conclusions

SoCalGas complied with Rule I.

On January 1, 1998, San Diego Gas & Electric (SDG&E) and SoCalGas, along with all other California public utilities, became subject to uniform ATR (D.97-12-088) issued by the California Public Utilities Commission (CPUC). The ATR were most recently amended by the CPUC on December 14, 2006 in D.06-12-029. Sempra’s Affiliate Compliance Guidelines Revised 12-31-2012, applicable to SDG&E and SoCalGas compliance activities during CY2010 and CY2011, include the most current policies and procedures in place to ensure compliance with the Affiliate Transaction Rules, other applicable CPUC Rules and

the Federal Energy Regulatory Commission (FERC) Rules governing transactions between SoCalGas, SDG&E and their affiliates.<sup>2</sup>

SoCalGas’ Affiliate Compliance Guidelines are based upon the following rules/decisions:

<b>Rule / Decision</b>	<b>Brief Description</b>
D.93-02-019	Affiliate Transaction Reporting Requirements
D.95-12-018	SoCalGas/SDG&E/Sempra Holding Company Decision
D.97-12-088	Affiliate Transaction Rules
D.98-08-035	Affiliate Transaction Rules (modification of D.97-12-088)
D.98-11-027	Disclaimer Requirement (modification of D.98-08-035)
D.98-12-075	Rule VIII (Enforcement re D.97-12-088)
D.99-04-069	Disclaimer Exemption (modification of Rule V.F.1)
D.99-09-033	Disclaimer Language (correction of D.98-11-027)
D.02-02-046	Disclaimer Language (D.99-09-033 deemed applicable to all utilities)
D.06-12-029	Affiliate Transaction Rules (modification of D.98-08-035)
Resolution E-3548	Review of SDG&E’s compliance plans
Resolution G-3238	Review of SoCalGas’ compliance plans
<b>Merger Decision, including Attachment B: 25 Remedial Measures and Affiliate Transaction Conditions</b>	
D.98-03-073	Merger Decision, including Attachment B: 25 Remedial Measures and Affiliate Transaction Conditions
D.01-09-056	Integration of SDG&E and SoCalGas
<b>FERC Order 697’s Market-Based Rate Affiliate Restrictions</b>	
FERC Order 697’s Market-Based Rate Affiliate Restrictions	<ul style="list-style-type: none"> <li>• San Diego Gas &amp; Electric</li> <li>• Sempra Energy Trading LLC</li> <li>• Cedar Creek II, LLC</li> <li>• Copper Mountain Solar 1, LLC</li> <li>• Fowler Ridge II Wind Farm LLC</li> <li>• Mesquite Power, LLC</li> <li>• Mesquite Solar 1, LLC</li> <li>• Sempra Generation</li> <li>• Termoeléctrica U.S. LLC</li> </ul>
FERC Order 2004	Standards of Conduct for Transmission Providers (Superseded by Order 717)
FERC Order 717	Standards of Conduct for Transmission Providers

SoCalGas’ Affiliate Compliance Guidelines establish policies and procedures for compliance with the CPUC Affiliate Transaction Rules. In addition, this manual briefly discusses compliance with the CPUC’s Sempra Merger Decision (of Enova Corporation and Pacific Enterprises), FERC Order 717, and FERC Order 697’s Market-Based Rate Affiliate Restrictions. Employees of Sempra Energy, SDG&E and SoCalGas are responsible for implementing the guidelines set forth in this manual within their organizations.

All SoCalGas affiliate transactions are required to be conducted in accordance with the guidelines established in this manual as well as the CPUC and FERC 717 Compliance Plans.

<sup>2</sup> DR 1

A copy of the CPUC and FERC 717 Compliance Plans are available on the ACD intranet site (<http://home.sempranet.com/ac/>) or by contacting the ACD directly:

- SDG&E's Helpline: (858) 654-1840
- SoCalGas' Helpline (213) 244-5400
- SDG&E E-Mail: [AffiliateComplianceSDGE@semprautilities.com](mailto:AffiliateComplianceSDGE@semprautilities.com)
- SoCalGas E-Mail [AffiliateComplianceSoCalGas@semprautilities.com](mailto:AffiliateComplianceSoCalGas@semprautilities.com)
- Ethics Helpline: (800) 241-5689 (Domestic) or 001-770-582-5249 (International)

If a situation arises that is not specifically addressed by the manual or the Compliance Plans, employees are instructed to contact the company's Affiliate Compliance Department (ACD) for review and direction.

NorthStar reviewed SoCalGas' Affiliate Transactions Compliance Guidelines, Compliance Plans (Advice No. 4127 covering 2010 and No. 4253 covering 2011), and related training materials.<sup>3</sup> Procedural and Accounting Safeguards for affiliate transactions are also contained within the Affiliate Transactions Report, Section B submitted each year pursuant to D.92-08-008 and D.93-02-019, which in addition to Affiliate Compliance Guidelines, provide 25 Remedial Measures resulting from the Merger Decision dated March 26, 1998 D.98-03-073.<sup>4</sup>

All SoCalGas, Sempra Energy, and affiliate employees have access to the Rules, SoCalGas' Compliance Plan and Compliance Guidelines through SoCalGas' and Sempra Energy's internal computer networks. Comprehensive affiliate compliance training is provided annually to all SoCalGas and Sempra Energy employees.<sup>5</sup> New hires into SoCalGas are required to attend a New Employee Orientation (NEO) upon their first day of employment.<sup>6</sup> During this orientation, there is a segment that includes a discussion of the CPUC ATR. New employees are informed at the completion of NEO that they will receive the New Hire Learning Plan (NHLP) "bundle" in which the current version of the CPUC Affiliate Compliance training is included. Employees are required within 60-days to complete the training; the Affiliate Compliance Department ensures all new employees complete the training within the required time period. Web Based Training (WBT) is also available to employees with computer access at SDG&E, SoCalGas, Corporate Center and some affiliate companies. Utility field employees, who do not have computer access, receive training via a Power Point presentation.<sup>7</sup>

Access to the Affiliate Compliance web-based training is available on the Sempra Energy intranet at: <http://home.sempranet.com/ac-corp/> and then by selecting Affiliate Compliance Training or <http://home.sempranet.com/ethics/compliancetraining/AC>. Access to SoCalGas call center training is available on the Sempra Energy intranet at <http://utilinet.sempra.com/departments/hr/training/webbased.cfm> and then by selecting Affiliate Transaction Training for Customer Contact Office Personnel.

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<sup>3</sup> DR 26, 94, and 97

<sup>4</sup> DR 1

<sup>5</sup> DR 64, 94, 114 and 130

<sup>6</sup> DR 64

<sup>7</sup> DR 94

As required by Rule I.A, the SoCalGas Compliance Plan and Affiliate Compliance Guidelines describe the specific policies and procedures in place to ensure that neither SoCalGas nor its affiliates use Sempra Energy or any other non-covered affiliate as a conduit to bypass the Rules.

It is important to note that there are many other terms and definitions that are not consistently and accurately applied by SoCalGas and SDG&E. A discussion of these terms and their implications is provided in each chapter of the audit report directly associated with each Rule and in the **Affiliate Rules and Compliance Plan Review** chapter of this report.

A number of terms appear in the Rules that, by default, leave definition or interpretation to the utilities subject to the Rules. Examples include terms significant to compliance with the Rules such as: “executives,” “employees involved in marketing,” “energy marketing affiliate,” “corporate oversight and governance,” and the “creation of a new affiliate.” Because of the significance of terms such as these, SoCalGas has offered its own definitions in its compliance plans in effect during 2010 and 2011. When these terms and SoCalGas’ definitions have an impact on the Rules and SoCalGas’ compliance, they will be addressed in that context.

## **RULE II. APPLICABILITY**

Rule II defines those affiliates that are subject to the Affiliate Transaction Rules (the Rules or ATR), based on the types of products and services offered. In the case of Southern California Gas Company (SoCalGas), the Rules apply to all transactions with affiliates providing products using electricity or natural gas or services relating to the use of electricity or natural gas. The California Public Utilities Commission's (CPUC or Commission) decision covering the merger of Pacific Enterprises and Enova governs most of the transactions between SoCalGas and SDG&E.

In reviewing SoCalGas' compliance with Rule II, NorthStar used the following evaluative criteria, whether:

- SoCalGas understood and accepted the terms contained in Rule II.
- SoCalGas' compliance procedures, compliance training, and annual reports on affiliate transactions were consistent with the terms in Rule II.

In conducting its compliance audit, NorthStar performed the following:

- Reviewed the affiliate transaction Compliance Plan, the Annual Report of Affiliate Company Transactions and other documents to assess whether SoCalGas consistently and accurately identified those affiliates and transactions subject to the Rules, in accordance with Rule II.
- Reviewed training manual and other communications to determine that they appropriately convey the approved applicability.
- Identified any new affiliates and or affiliates with new responsibilities and determined whether the applicability as stated in SoCalGas' Compliance Plan or other regulatory filings was appropriate.
- Determined the actual or potential harm to the ratepayers as a result of any identified error, discrepancy, or violation of this Rule.

### **Rules II.A through II.H**

**II.A** These Rules shall apply to California public utility gas corporations and California public utility electrical corporations, subject to regulation by the California Public Utilities Commission and with gross annual operating revenues in California of \$1 billion or more.

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

**II.C.** 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:

**II.C.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;

**II.C.2** Aid or abet a utility's violation of these Rules; or

**II.C.3** Be used as a conduit to provide non-public information to a utility's affiliate.

**II.D.** These Rules apply to transactions between a Commission-regulated utility and another affiliated utility, unless specifically modified by the Commission in addressing a separate application to merge or otherwise conduct joint ventures related to regulated services.

**II.E.** These Rules do not apply to the exchange of operating information, including the disclosure of customer information to its FERC-regulated affiliate to the extent such information is required by the affiliate to schedule and confirm nominations for the interstate transportation of natural gas, between a utility and its FERC-regulated affiliate, to the extent that the affiliate operates an interstate natural gas pipeline. These Rules do not apply to transactions between an electric utility and an affiliate providing broadband over power lines (BPL).

**II.F. Existing Rules:** Existing Commission rules for each utility and its parent holding company shall continue to apply except to the extent they conflict with these Rules. In such cases, these Rules shall supersede prior rules and guidelines, provided that nothing herein shall supersede the Commission's regulatory framework for broadband over power lines (BPL) adopted in D. 06-04-070 nor shall preclude (1) the Commission from adopting other utility-specific guidelines; or (2) a utility or its parent holding company from adopting other utility-specific guidelines, with advance Commission approval.

**II.G. Civil Relief:** These Rules shall not preclude or stay any form of civil relief, or rights or defenses thereto, that may be available under state or federal law.

**II.H.** These Rules should be interpreted broadly, to effectuate our stated objectives of fostering competition and protecting consumer interests. If any provision of these Rules, or the application thereof to any person, company, or circumstance, is held invalid, the remainder of Rules, or the application of such provision to other persons, companies, or circumstances, shall not be affected thereby.

## **2010 and 2011 Compliance Plans**

*Rules II.A and II.B - These Rules apply only to transactions between SoCalGas and its "covered" affiliates, except where also explicitly provided as applicable to the holding company and/or "non-covered affiliates." Therefore, any reference to an "affiliate" in this Plan is intended to mean a "covered affiliate," unless otherwise stated.*

*SoCalGas classifies "covered" affiliates as those affiliates that engage in the marketing or provision of natural gas and/or electricity as follows: trading natural gas and/or electricity; offering products that use natural gas or electricity; or offering a service that relates to the use of natural gas and/or electricity. Further, SoCalGas classifies "covered" affiliates that actively broker commodities (natural gas and/or electricity) on a competitive basis as "energy marketing" affiliates. Energy marketing affiliates actively broker gas and/or electricity on a competitive basis, meaning a company that buys and sells gas and/or electricity in the open market. This does not include a local distribution company that sells gas at retail under state-approved tariffs (e.g. Mobile Gas Service Corporation) or a company that buys and sells gas for operational reasons (e.g. Liberty Gas Storage LLC).*

*Affiliates that do not meet these criteria are classified as “non-covered” affiliates. Non-covered affiliates include, but are not limited to: holding companies, companies that offer temporary employment services, employee recruitment services, financial or consulting type services, and janitorial services regardless of whether these affiliates offer their services to companies in the natural gas or electric industry. Sempra Energy, the holding company for SoCalGas does not provide products or services as defined in Rule II.B, and are therefore classified as “non-covered” affiliate.*

*A complete listing of SoCalGas’ covered and non-covered affiliates, as of June 1, 2011, is provided in Appendix 3 to this Plan. This listing is also maintained on the utility and Corporate Center Web site. The listing provides the affiliate’s name, a brief description of the affiliate’s business, and indicates whether the affiliate is “covered” or “not covered” under the Rules as well as whether it is an “energy marketing affiliate.” No less than annually, ACD compares its affiliate listing to the Sempra Energy Corporate Secretary’s database of companies to ensure consistency and accurate reporting.*

**Rule II.C** - *Sempra Energy Corporate Center provides much 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 nonpublic 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.*

**Rule II.D** - *The PE/Enova Merger Decision (D.98-03-073, mimeo at 107) largely exempted transactions between SoCalGas and SDG&E from the Rules in order to preserve the merger synergies. The CPUC held that affiliate issues with respect to utility-to-utility transactions are to be governed by the rules set forth in the Merger Decision.*

**Rule II.E** - *SoCalGas’ FERC-regulated affiliates (covered by these Rules) do not interconnect with the SoCalGas system. In D.04-09-022, the CPUC authorized the establishment of Otay Mesa as a common SoCalGas/SDG&E natural gas receipt point from Transportadora de Gas Natural de Baja California, S. de R.L. de C.V. (“TGN”), an affiliate in Mexico. Receipts at Otay Mesa include natural gas sourced from the Energía Costa Azul (“ECA”) LNG facility in Mexico, an affiliate of SDG&E and SoCalGas. Although neither TGN nor ECA is regulated by the FERC, deliveries of natural gas to the SoCalGas/SDG&E system requires the exchange of operating information in the same manner as would be done with any upstream interconnecting pipeline. Therefore, SoCalGas’ gas operations group will exchange such information with TGN and ECA in accordance with this Rule and established SoCalGas/SDG&E protocols.*

**Rules II.F., G. and H.** *require no compliance action.*

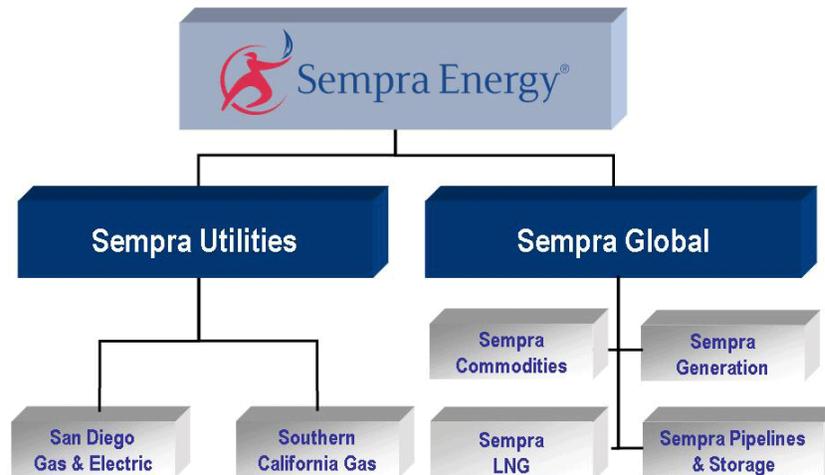
## **Findings and Conclusions**

SoCalGas did not comply with Rule II.

NorthStar reviewed SoCalGas’ existing affiliates, affiliates created during 2010, 2011, and classification of affiliates covered by the Rules as well as energy marketing affiliates. SoCalGas’ major affiliate organizations active during the majority of the 2010/2011 audit period are shown in **Exhibit II-1**. A complete list of all Sempra Energy (Sempra) companies

including subsidiaries, covered and not covered by the Rules, is included in the Annual Affiliate Transactions Report and located on the company's internet web site.

**Exhibit II-1**  
**Sempra Energy and Major Business Affiliates 2010-2011**



There are four categories of non-compliance.

1. SoCalGas goes beyond interpretation and has re-written the Rules in its Compliance Plan.
2. SoCalGas did not correctly and consistently apply Rule II to affiliates that should have been considered “covered” as they provide gas and electric products and services.
3. SoCalGas did not correctly and consistently apply Rule II to affiliates that should have been considered “energy marketing affiliates”.
4. SoCalGas failed to properly report on affiliates that were known to exist within the Sempra corporate family.
5. SoCalGas did not provide audit documentation specifically requested.

NorthStar presents examples of Rule II noncompliance below. More importantly, when SoCalGas does not comply with Rule II.B application coverage, the extended effect is that it does not comply with the remainder of the Affiliate Transaction Rules that otherwise would impact the compliance behavior of the utility and the affiliate.

**1. SoCalGas’ Rules Interpretation and Modification**

SoCalGas’ interpretations/applications of the Rules avoid compliance obligations. They exhibit the following compliance issues:

- SoCalGas applies the Rules only to transactions between SoCalGas and its “covered” affiliates, except where also explicitly provided as applicable to the holding company and/or “non-covered affiliates.” Any reference to an “affiliate” in the Compliance

Plan is intended to mean a “covered affiliate,” unless otherwise stated. SoCalGas classifies “covered” affiliates as those affiliates that engage in the marketing or provision of natural gas and/or electricity as follows: trading natural gas and/or electricity; offering products that use natural gas or electricity; or offering a service that relates to the use of natural gas and/or electricity.

- The Rule is clear on II.B “covered” affiliates: these Rules apply to all utility transactions with affiliates engaging in the provision of a product that uses gas or electricity or the provision of services that relate to the use of gas or electricity. SoCalGas limits on Rules application include the following issues:
  - The Rules recognize “the utility’s parent holding company” and do not exempt all entities that merely use the name holding company.
  - SoCalGas’ definitions would also exempt companies that offer temporary employment services, employee recruitment services, financial or consulting type services, and janitorial services regardless of whether these affiliates offer services that relate to the use of gas or electricity.
  - The Rules state that if affiliates provide products or services that use or relate to the use of gas or electricity then they are covered by the Rules.
- SoCalGas classifies covered affiliates that actively broker commodities (natural gas and/or electricity) on a competitive basis as “energy marketing” affiliates. SoCalGas states that energy marketing affiliates actively broker gas and/or electricity on a competitive basis, meaning a company that buys and sells gas and/or electricity in the open market. SoCalGas states that this does not include a local distribution company that sells gas at retail under state-approved tariffs (e.g. Mobile Gas Service Corporation) or a company that buys and sells gas for operational reasons (e.g. Liberty Gas Storage LLC).
  - The Rules use the term “marketing” in a number of cases. NorthStar believes that “marketing” covers a broader context than that defined by SoCalGas.
    - “Actively brokering” gas and/or electricity – as the affiliate may not market continuously this would effectively exempt an affiliate most of the time. With this definition, long term contracts and sales between parties would never be covered by the Rules.
    - On a “competitive basis,” meaning a company that buys and sells gas and/or electricity in the open market. Buying and selling are not the only activities that would be considered marketing.
    - Buying and selling gas and/or electricity need not be done competitively or determined by SoCalGas to be in an open market to be considered marketing.
  - SoCalGas explicitly states in its Compliance Plan that Rule II.B does not cover a local distribution company that sells retail natural gas under state-approved tariffs (e.g. Mobile Gas Service Corporation) or a company that buys and sells gas for operational reasons (e.g. Liberty Gas Storage LLC) an energy marketing affiliate.
    - In this instance SoCalGas has clearly stated that it does not comply with Rule II.D - that these Rules apply to transactions between a Commission-regulated

utility and another affiliated utility, unless specifically modified by the Commission in addressing a separate application to merge or otherwise conduct joint ventures related to regulated services.

- There is no exclusion for “retail” energy related products or services or other “state-approved” tariffs or a foreign nation’s approved tariffs.

## 2. Incorrect Classification of SoCalGas Affiliates

SoCalGas has identified its affiliates that provide products or services that use or relate to the use of gas or electricity (referred to as covered affiliates) and are subject to Rule II.B in numerous documents including:

- Advice Letters identifying the creation of a new SoCalGas affiliate.<sup>8</sup>
- Affiliate Transactions Report, Section A: Organizational Structure (submitted in May of each year).<sup>9</sup>
- List of Affiliates Covered by the Rules (in the Compliance Plans filed each year).<sup>10</sup>
- The company’s internet home page at <http://www.socalgas.com> and then selecting Regulatory Filings, Affiliate Rules and Listings of Affiliate Companies.

SoCalGas reports its classification of covered and non-covered affiliates in Advice Letters (creation of new affiliates), the annual Compliance Plan, and Notifications (affiliates name change, dissolved, deleted, re-classified or merger).

SoCalGas classified a number of affiliates as “non-covered” by the Rules during 2010/2011 although NorthStar concluded that some of these affiliates engaged in the provision of services that relate to the use of natural gas or electricity and should be treated as “covered” affiliates. A selection of these affiliates is shown in **Exhibit II-2**.

- The first three examples in **Exhibit II-2** illustrate SoCalGas’ classification of non-covered affiliates organized under a covered, marketing affiliate and sharing the same officers/directors. The use of common officers/directors providing operational direction and organizationally structured under energy marketing affiliates cannot be considered oversight or governance.<sup>11</sup> This organizational structure is illustrated in **Exhibit II-3**.
- The remaining affiliates shown in **Exhibit II-2** are examples of entities classified by SoCalGas as non-covered affiliates yet provide products and services that relate to natural gas and electricity.

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<sup>8</sup> DR 122

<sup>9</sup> DR 81

<sup>10</sup> DR 13 and 97

<sup>11</sup> Resolution G-3238 page 38 and 39

**Exhibit II-2**  
**Affiliates That Provide Gas and Electric Products and Services but are Classified by SoCalGas as Non-Covered Under Rule II.B<sup>12</sup>**

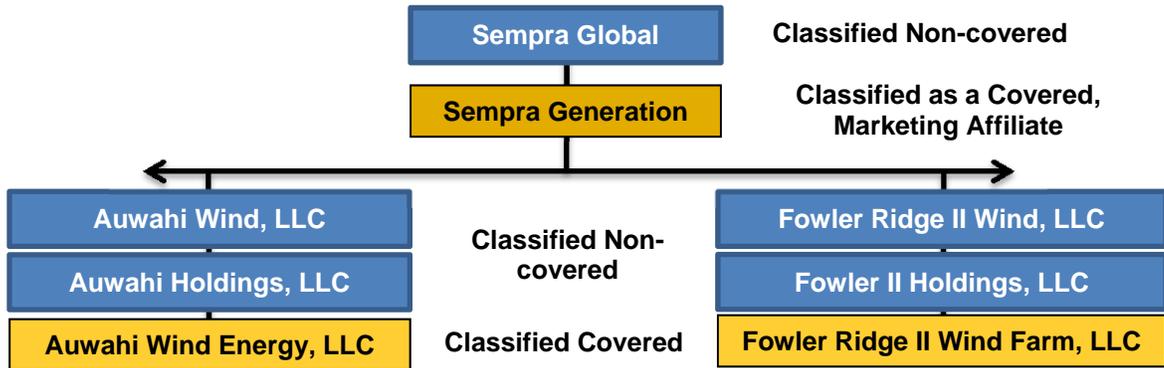
SoCalGas Affiliate Reported as “Non-Covered” during 2010 or 2011	Description of Gas and Electric Related Products and Services
<b>Examples of affiliates SoCalGas classified as “non-covered” that share the same officers/directors with their holding companies and covered affiliates</b>	
Auwahi Holdings LLC, and Auwahi Wind LLC	All entities owned in whole or in part by Sempra Generation, a covered, marketing affiliate, and sharing officers/directors in common with Auwahi Wind Energy LLC, the Rule II.B covered generation entity.
Fowler Ridge II Wind, LLC and Fowler II Holdings LLC	All entities owned in whole or in part by Sempra Generation, a covered marketing affiliate, and sharing officers/directors in common with Fowler Ridge II Wind Farm LLC, the Rule II.B covered generation entity.
Energia Sierra Juarez Holding, S. de R.L. de C.V.	Energia Sierra Juarez Holding, S. de R.L. de C.V. – a holding company for wind development project - Energia Sierra Juarez II U.S., LLC a covered affiliate – owned 100% with officers/directors in common.
<b>Examples of affiliates SoCalGas classified as “non-covered” that provide gas and electricity products and services</b>	
Gasoductos Servicios, S. de R.L. de C.V.	Provides operating, administrative, technical, consulting, industrial and finance services to covered affiliate entities
El Paso Energía Servicios, S. de R.L. de C.V.	El Paso Energía Servicios, S. de R.L. de C.V. was not reported in the 2010 SoCalGas ATR Annual Report, yet on 10/26/10 changed its name to Servicios Corporativos Sempra, S. de R.L. de C.V. Provides technical, consulting and administrative services to covered affiliate entities – Dissolved on 5/7/12
Sempra Compresion Mexico, S. de R.L. de C.V. <sup>13</sup>	Distribution, transportation, storage and commercialization of Natural Gas.
El Paso Gas Transmission de Mexico, S. de R.L. de C.V.	El Paso Gas Transmission de Mexico, S. de R.L. de C.V. - On 8/5/10, changed its name to Gasoducto de Aguaprieta, S. de R.L. de C.V. - Transportation of Natural Gas.
El Paso Mexico Management, S. de R.L. de C.V.	El Paso Mexico Management, S. de R.L. de C.V. – On 8/5/10 changed its name to Sempra Management, S. de R.L. de C.V. - Provides technical, consulting, administrative and project development services for natural gas transportation entities.
Gasoductos de Chihuahua, S. de R.L. de C.V.	Transportation and compression of natural gas through Samalayuca pipeline and Gloria a Dios compressor. 50% SRE ownership through Pemex JV.
Sempra Services Company, S. de R.L. de C.V.	Provides technical, consulting and administrative services to Sempra Energy Mexico.
Sempra Servicios Mexico, S. de R.L. de C.V. (fka Sempra Servicios Baja, S. de R.L. de C.V.)	Provides technical, consulting and administrative services to Gasoducto Bajanorte and Transportadora de Gas Natural, two Mexican pipeline companies.

Source: DRs 13, 81, 97 and 241

<sup>12</sup> DR 13, 81, 97 and 241

<sup>13</sup> In SoCalGas Advice Letter 4126 El Paso Compression Services de Mexico, S. de R.L. de C.V. was created effective 4/30/2010 and classified as not covered by Rule II.B. SoCalGas Compliance Plans for 2010 and 2011 do not list El Paso Compression Services de Mexico, S. de R.L. de C.V. but do list Sempra Compression Services de Mexico, S. de R.L. de C.V. as a covered affiliate.

**Exhibit II-3  
Covered versus Non-covered Organization Structure**



In addition to SoCalGas’ failure to properly classify Rule II.B covered affiliates as illustrated in Exhibit II-2 and II-3, Sempra created two new affiliates, Sempra International, LLC and Sempra U.S. Gas and Power, LLC on October 26, 2011 and October 28, 2011. SoCalGas categorized these affiliates as “not-covered” under Rule II.B and provided the purpose of these enterprises as:

“To act as a payroll company for employees in a new business unit structure.”<sup>14</sup>

This was clearly false information and not the intent of either of these entities as described in Sempra’s 2012 Annual Report, Form 10-K and illustrated in **Exhibit II-4**:<sup>15</sup>

- Sempra International, LLC distributes energy and operates in competitive energy markets of the Americas. The company develops, builds and operates energy infrastructure assets and distributes electricity and natural gas to customers in Mexico, Chile, Peru and Argentina.
- Sempra U.S. Gas & Power, LLC develops clean power solutions in markets throughout the United States with a focus on zero- and low- emission fuels. The company has solar, wind and natural gas-fired plants that produce more than 1,500 megawatts of power. Sempra U.S. Gas & Power also owns natural gas storage, pipelines and distribution utilities.

Sempra filed its Form 10-K on February 28, 2012 and stated that: Effective January 1, 2012, in connection with several key executive appointments made months earlier in September 2011, management realigned some of the company’s major subsidiaries to better fit its strategic direction and to enhance the management and integration of our assets.<sup>16</sup> Sempra stated this realignment will result in a change in reportable segments in 2012, primarily to regroup the Sempra Global business units under two new operating units,

<sup>14</sup> DR 122

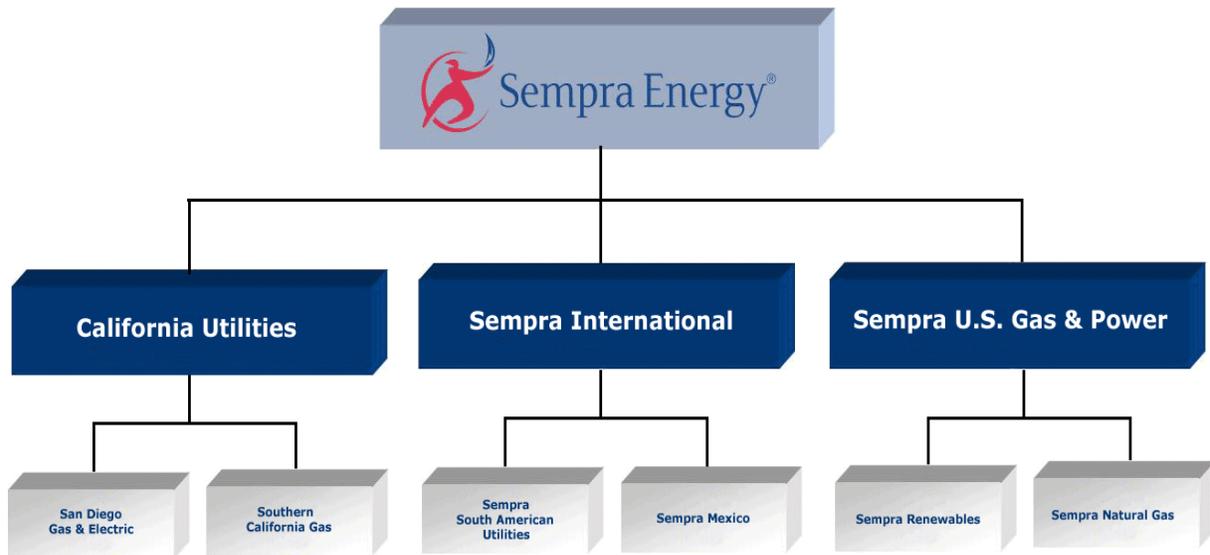
<sup>15</sup> 2012 Sempra Energy Annual Report to Shareholders

<sup>16</sup> 2012 Sempra Energy Annual Report to Shareholders

Sempra U.S. Gas & Power and Sempra International. These operating units will include the following reportable segments:

- Sempra U.S. Gas & Power
- Sempra International
- SoCalGas and SDG&E will continue to be separate reportable segments.

**Exhibit II-4  
Sempra Energy’s Operating Units – Late 2011**



SoCalGas later re-categorized Sempra U.S. Gas & Power and Sempra International, LLC as covered by Rule II.B in 2012.<sup>17</sup> The two entities and their respective families of affiliates were allowed to operate in the energy markets without complying with the Rules until June 28, 2012.

**3. SoCalGas Fails to Classify a Number of Affiliates as “Energy Marketing Affiliates”**

SoCalGas has numerous covered, non-covered and energy marketing affiliates. SoCalGas defines “energy marketing affiliate” as an affiliate that actively brokers commodity electricity or gas on a competitive basis. Energy marketing affiliates are subject to the restrictions on temporary or intermittent personnel assignments contained in Rule V.G.2.e. **Exhibit II-5** provides SoCalGas’ listing of energy marketing affiliates for 2010 and 2011.<sup>18</sup>

<sup>17</sup> DR 8 and SoCalGas Fact Check 5-15-2014 page 4

<sup>18</sup> DR 26

- **Sempra Generation** – Is properly classified by SoCalGas and listed in **Exhibit II-5** as an energy marketing affiliate as it acquires, develops and operates power plants for the wholesale market throughout North America.
- NorthStar believes that all affiliate entities organized within **Sempra Commodities, Sempra LNG and Sempra Pipelines & Storage** should also be classified as energy marketing affiliates based upon the same rationale as Sempra Generation, products and services provided and Sempra Energy’s definition.

**Exhibit II-5  
SoCalGas’ and SDG&E’s Reported Energy Marketing Affiliates**

2010 Energy Marketing Affiliates	2011 Energy Marketing Affiliates
El Dorado Energy, LLC Elk Hills Power, LLC Gasoducto Rosarito, S.de R.L. de C.V. Mesquite Power, LLC RBS Sempra Energy Europe España, S.L. RBS Sempra Energy Europe Kft RBS Sempra Energy Europe Limited RBS Sempra Energy Europe s.r.o. RBS Sempra Energy Trading (UK) Limited * RBS Sempra Energy Trading Mexico, S. de R.L. de C.V. Sempra Energy Solutions LLC Sempra Energy Trading (Calgary) ULC Sempra Energy Trading (Canada) ULC Sempra Energy Trading LLC Sempra Generation Sempra LNG Marketing, LLC Sempra Midstream, Inc. Sempra Rockies Marketing, LLC Sempra Servicios Energeticos, S. de R.L. de C.V. Termoelectrica de Mexicali, S. de R.L. de C.V. Termoelectrica U.S., LLC	El Dorado Energy, LLC Gasoducto Rosarito, S. de R.L. de C.V. Mesquite Power, LLC RBS Sempra Energy Trading Mexico, S. de R.L. de C.V. Sempra Energy Trading (Calgary) ULC Sempra Energy Trading (Canada) ULC Sempra Energy Trading LLC Sempra Generation Sempra LNG Marketing, LLC Sempra Midstream, Inc. Sempra Rockies Marketing, LLC Sempra Servicios Energeticos, S. de R.L. de C.V. Termoelectrica de Mexicali, S. de R.L. de C.V. Termoelectrica U.S., LLC

Source: DR 81 and 97

- **Sempra Commodities** - provides Energy management services and power marketing services. On July 9, 2007, Sempra Energy (Sempra) and The Royal Bank of Scotland plc (RBS) entered into a Purchase Agreement to form a partnership, RBS Sempra Commodities LLP (the Partnership), to purchase and operate Sempra’s commodity trading and marketing businesses.<sup>19</sup> On February 16, 2010, Sempra Energy, RBS and the partnership entered into an agreement with J.P. Morgan Ventures Energy Corporation (J.P. Morgan Ventures) whereby J.P. Morgan Ventures purchased a number of businesses from the joint venture. RBS Sempra Commodities retained its

<sup>19</sup> Notes to Consolidated Financial Statements as of December 31, 2010.

North American power and natural gas trading businesses and its retail energy solutions business.<sup>20</sup>

Note the use of marketing and trading in Sempra's descriptions.

- **Sempra LNG** - owns and operates the Energía Costa Azul LNG receipt terminal located in Baja California, Mexico. Sempra LNG utilizes its receipt terminals by entering into long-term capacity agreements. Under these agreements, customers pay Sempra LNG capacity reservation fees to receive, store and regasify the customer's LNG. Sempra LNG also may enter into short-term and/or long-term supply agreements to purchase LNG to be received, stored and regasified at its terminals for sale to other parties.<sup>21</sup>

In April 22, 2010, Sempra announced that Gazprom Global LNG Limited ("GGLNG") and Sempra LNG signed an agreement that will allow GGLNG to supply liquefied natural gas (LNG) to Sempra LNG's receipt terminal in Lake Charles, LA., near the U.S. Gulf Coast. The agreement provided GGLNG with another route to supply the United States with LNG from its growing portfolio and provided the Cameron LNG terminal with natural gas for the U.S. Gulf Coast and East Coast. Under the terms of this multi-year agreement, GGLNG would pay Sempra LNG for the right to sell and deliver up to two LNG cargoes per month to the Cameron LNG terminal at a pre-determined price formula. The deal would commence in June 2010. In April 2009, Gazprom affiliates, under long-term assignment from Royal Dutch Shell, took capacity in Sempra LNG's Energía Costa Azul LNG terminal in Baja California, Mexico and downstream gas pipelines. This capacity provided an outlet for Russian LNG to access markets in Mexico and the southwestern U.S.

Entering into energy and capacity agreements is considered marketing.

- **Sempra Pipelines & Storage** - develops, operates and owns energy projects in international markets. It provides customers with a broad package of energy products and services, including electricity generation and distribution, natural gas distribution, and natural gas transmission and compression. Sempra Pipelines & Storage's Mexican utilities build and operate natural gas distribution systems in Mexicali, Chihuahua, and the La Laguna-Durango zone in north-central Mexico, and transports gas between the U.S. border and Baja California, Mexico. Within its market area, Sempra Pipelines & Storage's natural gas storage facilities and pipelines compete with other storage facilities and pipelines (both regulated and unregulated systems).<sup>22</sup>

Sempra Pipelines & Storage is classified as a covered affiliate – having gas and/or electric related products and services – and it has four reporting entities.<sup>23</sup> However,

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<sup>20</sup> Southern California Gas Company Form 10-K, Filed 2/26/10. Sempra Energy Form 10-K, Filed 2/24/11.

<sup>21</sup> Southern California Gas Company Form 10-K, Filed 2/26/10. Sempra Energy Form 10-K, Filed 2/24/11.

<sup>22</sup> Southern California Gas Company Form 10-K, Filed 2/26/10. Sempra Energy Form 10-K, Filed 2/24/11.

<sup>23</sup> DR 81

none of these entities are classified by SoCalGas as energy marketing affiliates yet they provide “a broad package of energy products and services.”

#### **4. Affiliate Creation and Reporting**

Compliance with the Rules is meaningless when energy marketing and long-term energy contracts pre-date the affiliate creation dates – avoiding compliance with the Rules. Some Sempra Generation long term contracts for the provision of electricity predate the legal creation of their affiliate entities. Compliance documentation shows that projects are created well after their products and services have been marketed and sold under long term contracts.

- Cedar Creek II Wind Farm
  - SoCalGas’ Advice Letter 4220-G indicated that Cedar Creek II, LLC (the project) was created October 29, 2010.<sup>24</sup>
  - Three days later, on November 1, 2010, Sempra Generation announced it had become an equal partner with BP Wind Energy in the development of the Cedar Creek II Wind Farm in Colorado. And, the project’s entire power output had already been sold under a 25-year power-purchase agreement to Public Service Company of Colorado, an Xcel Energy company.
  - Notification to the Commission of the creation of Cedar Creek II was not made until March 10, 2011 in Advice Letter No. 4220-G.
  - Cedar Creek II Holdings, LLC (classified as non-covered) and Cedar Creek II, LLC (classified as a covered affiliate) share the same officers/directors.
  - These dates indicate that Cedar Creek II energy products and services were marketed prior to its creation avoiding any compliance with the Rules.
  
- Copper Mountain I Solar Project
  - On April 16, 2009, First Solar Inc. announced that it executed an agreement to build a 48-megawatt solar power plant for Sempra Generation.<sup>25</sup>
  - On December 17, 2009, Sempra announced that the CPUC had approved a contract with PG&E for 48 megawatts of solar power from Copper Mountain I.
  - Sempra Generation stated on November 1, 2010, that it expected to complete construction on the largest photovoltaic solar power facility in the U.S. later that year. The 48-MW Copper Mountain Solar I project would be completed a year after its CPUC approved contract for power. The solar project would generate electricity sold to Pacific Gas and Electric Company under a 20-year power-purchase agreement.
  - NorthStar was unable to review the power purchase agreement for Copper Mountain I Solar and determine when the power was marketed in relation to the creation of the affiliate entity.
  
- Copper Mountain II Solar Project

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<sup>24</sup> DR 13, 15, and 122

<sup>25</sup> <http://www.renewableenergyworld.com/rea/news/article/2009/04/first-solar-to-build-48-mw-solar-power-plant-for-sempra>

- Copper Mountain Solar II, LLC was created on May 2, 2011, as reported in Advice Letter 4248-G.
  - The contract between Sempra Generation and PG&E for Copper Mountain II Solar Project was announced August 4, 2011, only three months after its creation.
  - On December 15, 2011, the CPUC approved PG&E's 25-year contract to purchase 150 megawatts of power from Sempra's Copper Mountain II Solar Project.
  - NorthStar was unable to review the power purchase agreement for Copper Mountain II Solar and determine when it was marketed in relation to the creation of the affiliate entity.
- Mesquite Solar I
    - The 2010/2011 Compliance Plans includes Mesquite Power, LLC as a covered / energy marketing affiliate, created in 2006.
    - On October 12, 2010, Sempra Generation announced that it had entered into a 20-year power-purchase agreement with Pacific Gas & Electric Co. (PG&E) to sell 150 megawatts (MW) of solar power produced at its Mesquite Solar I project.
    - SGS-I changed its name to Mesquite Solar I, LLC and was classified in its Advice Letter as a covered affiliate created November 9, 2010. Mesquite Solar I Holdings, LLC was created August 8, 2011 and classified as a non-covered holding company.
    - Mesquite Solar I is the first phase of Sempra Generation's planned Mesquite Solar complex, created September 8, 2011, nearly a year after its power purchase agreement.
- Auwahi Wind Energy
    - SoCalGas reported Auwahi Wind Energy, LLC in its 2010 ATR annual report and "Auwahi Wind" as a covered affiliate in its 2010 Compliance Plan.<sup>26</sup>
    - In 2011, SoCalGas' ATR annual report added Auwahi Holdings, LLC and Auwahi Wind, LLC as affiliates.
    - On April 7, 2011, Sempra Generation announced that it entered into a 20-year contract to sell 21 megawatts from the Auwahi Wind project to Maui Electric Company.
    - Both of these new Auwahi affiliates were reportedly created September 9, 2011 (Advice Letter 4277-G) and classified as non-covered.
    - All three affiliates share the same officers/directors.
    - Board Minutes of Auwahi Holdings, LLC (dated October 17, 2011) indicate a fourth entity that was not reported by SoCalGas:<sup>27</sup>
      - Auwahi Holdings, LLC – per 2011 ATR report, owned 100 percent by Sempra Generation.
      - Auwahi Wind, LLC – per 2011 ATR report, owned 100 percent by Sempra Generation and is the sole member of Auwahi Holdings, LLC.

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<sup>26</sup> DR 81

<sup>27</sup> DR 8

- Auwahi Wind Energy, LLC – is referred to as the Project and is reported/classified as a covered affiliate.
- Auwahi Wind Energy Holdings, LLC – is discussed in the BOD minutes but not reported in any affiliate documents.

As noted above, all Auwahi entities share the same officers/directors. The Commission clarified in Resolution G-3238 that: topics including those having to do with operations and specific events, are excluded from allowable shared services and cannot be construed to be “joint corporate oversight” or governance, as allowed under Rule V.E. The use of common officers and directors among holding companies and their covered affiliates cannot be considered oversight or governance. Holding companies that share officers in common with their covered affiliates signing agreements for energy related products and services must be considered covered by these Rules.<sup>28</sup>

In each of the examples above, Sempra/SoCalGas avoids compliance with the Rules due to the timing of the affiliate’s creation.

## 5. Audit Information and Documentation

SoCalGas did not provide information directly related to the compliance audit.<sup>29</sup> NorthStar’s requests for the affiliate’s power contracts were not provided by SoCalGas/Sempra. NorthStar could not determine the following:

- What resources, market information and affiliate entity(s) marketed the energy products and services, over what period of time?
- What assurances were given to develop and establish contracts for energy products and services when their production entities had not yet been created?
- What are the effective dates and durations of the power contract agreements?
- What officers signed the power contract agreements, in what official capacity and representing which affiliate entities?

## Recommendations

1. Sempra Global, Sempra International, LLC and Sempra U.S. Gas and Power, LLC including all affiliates organized under these entities should be classified as “covered – energy marketing affiliates.”
  - Sempra’s own description of the affiliate’s function shows that they are covered – energy marketing affiliates.

<sup>28</sup> Resolution G-3238 page 38 and 39

<sup>29</sup> DR 241, 295 and 297

- SoCalGas’ Affiliate Compliance Department, whose role is to monitor compliance with the Rules and advise SoCalGas functions, has been provided limited information by Sempra corporate legal on the purpose and activity of affiliates. ACD’s mission and function have therefore been neutralized by Sempra corporate.
  - A comprehensive analysis of all utility affiliate classified as “non-covered” and “energy marketing affiliates” was recommended in previous audits and has failed to solve the problem.
  - SoCalGas has stated in its Compliance Plan that it does not comply with the Rules for Mobile Gas Service Corporation and Liberty Gas Storage LLC.
2. The Commission should perform a focused management audit of Sempra that is not limited to the two-year audit period and the utility’s compliance actions covering:
- Marketing activities
  - Contracting for energy products and services
  - Submission of Advice Letters supplying official creation dates
  - Rule II.B classification of affiliates
  - Marketing of energy products and services vis-à-vis the creation of affiliates.

## **RULE III. NONDISCRIMINATION**

Rule III stipulates that Southern California Gas Company (SoCalGas) may not operate its natural gas distribution system and associated customer service functions in such a manner as to provide a competitive market advantage for its affiliates. Rule III specifically describes how SoCalGas shall conduct itself when entering into transactions with its affiliates. Rule III has six major sections that address (1) preferential treatment, (2) provision of products and services, (3) tying of customers, (4) assignment of customers, (5) provision of business development activities and (6) reporting requirements.

NorthStar reviewed SoCalGas' customer contact functions and their associated affiliate transactions to determine whether SoCalGas is in compliance with Rule III. In assessing SoCalGas' compliance with Rule III, NorthStar utilized the following evaluative criteria, whether:

- SoCalGas did not:
  - Provide leads to affiliates.
  - Solicit business on behalf of affiliates.
  - Acquire information on behalf of or to provide to affiliates.
  - Share market analysis reports.
  - Request authorization from its customers to pass on customer information exclusively to affiliates.
  - Give any appearance that SoCalGas speaks on behalf of affiliates.
  - Give any appearance that the affiliates speak on behalf of SoCalGas.
- Requests for similar services were processed in the same manner and within the same time for affiliates and all other market participants and their customers.
- SoCalGas did not tie the provision of any services or the availability of discounts of rates, rebates, or waivers of terms and conditions of any services provided by SoCalGas, to the taking of any goods or services from its affiliates.
- SoCalGas had not assigned customers to any of its affiliates.
- SoCalGas disclosed any discount, rebate, of other waiver of any charge or fee to its affiliates by posting a notice on its electronic bulletin board within 24 hours.

In conducting its compliance audit, NorthStar performed the following:

### **Preferential Treatment**

1. Reviewed existing documentation (such as letters, memos, brochures, pamphlets, etc.) and monitored actual conversations with utility customers (in the Customer Service Call Center), to ensure that SoCalGas did not:
  - Provide its affiliates or customers of its affiliates, any preference over non-affiliated suppliers or their customers in the provision of services provided by SoCalGas.
  - Trade upon, promote, or advertise its affiliates' business relationship with SoCalGas.

2. Interviewed an appropriate sample of employees that interfaced with customers and affiliates (such as customer contact personnel, major account representatives, energy efficiency program managers, customer services representatives, and field representatives) to determine their understanding of the rules related to affiliate relations , including whether the prohibition of preferential treatment was clearly understood and whether any such preferential treatment had been provided or offered to any affiliates or customer of an affiliate.
3. Reviewed codes of conduct and other information that provides guidelines to employees involved in transactions with Affiliates.
4. Reviewed Affiliated Company Transactions Procedures to determine whether they addressed the issue of preferential treatment in an adequate manner and had been updated appropriately.
5. Interviewed utility personnel to determine how SoCalGas ensured that there was no preferential treatment in favor of non-utility affiliates in business activities that it conducts with unregulated third-parties.
6. Obtained and reviewed practices, procedures, training materials and other utility documentation related to the customer contact functions.
7. On a sample basis, as appropriate, monitored and reviewed interactions with utility customers to determine whether the customer service representatives: 1) provided preferential treatment to affiliates; 2) assigned or tied customers to the affiliates; or 3) provided referrals for its affiliates.

### **Transactions**

8. Tested a sample of transactions between SoCalGas and its affiliates to ensure:
  - Transactions between SoCalGas and its affiliates were limited to: tariffed products, or the sale/purchase of goods, property, products or services through competitive bidding.
  - Access to utility information, services, and unused capacity or supply was provided on the same terms for all similarly situated market participants.
9. Examined corporate revenue accounts, as well as detailed sub-accounts, to determine whether the account totals matched summary reports of all transactions.

### **Provision of Supply, Capacity, Services or Information**

10. Examined SoCalGas' wholesale natural gas transactions with unregulated affiliates in the audit period.
  - Determined whether such transactions were made available to all market participants on the same terms.

- Compared the terms of affiliate transactions to the terms of transactions with non-affiliates.
  - Examined cases in which capacity or supply-related information was given to gas affiliates to determine whether this information was made available to all market participants.
  - Examined cases in which discounts were given to gas affiliates to determine whether they were made available by PG&E through an open, competitive bidding process.
11. Reviewed SoCalGas' procurement processes to determine if they promoted competition for supply, capacity, information, or services.
  12. Reviewed past bids to determine if both affiliates and non-affiliates had participated in the process. If data was not available, reviewed the procedure for issuance of a bid.
  13. Interviewed utility procurement department personnel to determine whether the competitive bidding requirements were understood and whether any purchases had been made through any other means.
  14. Analyzed a sample of affiliate transactions to determine whether competitive bidding requirements were met.
  15. Interviewed utility personnel, and review policies and procedures regarding wholesale purchases and sales of natural gas. Determined whether SoCalGas' wholesale transactions processes were in compliance with the Rules.

#### **Surplus Energy and/or Capacity**

16. Determined whether SoCalGas offered to sell surplus natural gas and/or capacity.
17. Reviewed instances where surplus energy and/or capacity had been sold to determine if the offering was made available on a non-discriminatory basis to both affiliates and non-affiliated market participants.
18. Determined whether instances when surplus energy and/or capacity had been sold, if the opportunity was publicly posted.

#### **Offering of Discounts and Discretionary Waivers**

19. Reviewed postings on SoCalGas' affiliate transaction web sites and electronic bulletin boards to determine whether SoCalGas disclosed any discount, rebate, or other waiver of any charge or fee to its affiliates within 24 hours. Determined whether SoCalGas maintained associated records for the billing period in accordance with the Rule requirements
20. Reviewed the discounts which were made available for natural gas rates, and the reporting mechanism utilized to inform other non-affiliate market participants.

21. Determined whether SoCalGas had provided any discounts that were not appropriately posted and/or recorded.
22. Reviewed the discount reports. Examined all special discount reports to verify that all discounts actually provided or offered to affiliates were also made available to non-affiliates by posting within the 24-hour period.
23. Reviewed posted “Notices of Availability” of discounts offered.
24. Determined whether SoCalGas had provided any discounts to its affiliates and, if so, that SoCalGas posted the appropriate information on its bulletin board.

#### **Interpretation of Tariff Provisions**

25. Reviewed a sample of billing disputes between customers of affiliates and customers of non-affiliates to determine if uniform interpretation of tariff provisions prevailed.
26. Reviewed a sample of rate class assignments of affiliate and non-affiliate customers to determine if customers were on the correct rate schedule.
27. Monitored the customer call center to determine if new customers of affiliates and non-affiliates were provided the same level of information concerning rate schedule information.

#### **Processing of Gas Public Utility Services**

28. Reviewed service functions such as new, shut-off and transfer of service to determine if there were any differences in level of customer service between affiliate customers and other customers.
29. Determined whether SoCalGas monitored processing time for service requests and whether there were any differences in service level provided.
30. Monitored Customer Call Center calls to determine if there were any differences in level of service in areas such as bill explanations, bill corrections, and rate schedule assignments between affiliate customers and other customers.

#### **Tying of Products and/or Services Provided by a Gas Public Utility**

31. Reviewed marketing materials to determine whether the tying of any purchase of goods or services from an affiliate had ever been implied, offered or provided.

#### **Assignment of Customers**

32. Determined whether SoCalGas had assigned customers to its affiliates.

#### **Business Development and Customer Relations**

33. Reviewed how affiliate companies identify customers.

34. Determined if SoCalGas had provided business development assistance for its affiliates.
35. Reviewed where and how affiliates received market information.
36. Monitored handling of customer service calls.
37. Reviewed advertising materials and bill inserts.
38. Reviewed the advertising and sales materials of the affiliates.
39. Reviewed what controls were in place concerning customer information.
40. Observed customer call center activities and customer service field operations to determine if there were any reference materials or information present pertaining to affiliates.
41. Interviewed marketing, sales and customer service personnel regarding customer contact policies and procedures and compliance with this rule.
42. Compared application of tariffs.
43. Analyzed and reviewed the processing of third party customer information and other service requests.

### **General**

44. Determined whether SoCalGas' processes, procedures and controls used to ensure compliance with this ATR were consistent with SoCalGas' most recent Compliance Plan.
45. Determined the actual or potential harm to the ratepayers as a result of any identified error, discrepancy, or violation of this Rule.

## **Rule III.A**

### **III.A. No Preferential Treatment Regarding Services Provided By The Utility**

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

**A.1** Represent that as a result of the affiliation with the utility, its affiliates or customers of its affiliates will receive any different treatment by the utility than the treatment the utility provides to other, unaffiliated companies or their customers; or

**A.2** Provide its affiliates, or customers of its affiliates, any preference (including but not limited to terms and conditions, pricing, or timing) over non-affiliated suppliers or their customers in the provision of services provided by the utility.

### **2010 and 2011 Compliance Plans**

*SoCalGas will not provide preferential treatment to its affiliates and will view its affiliates in a manner consistent with its unaffiliated companies and/or customers. The Sempra Energy*

*and SoCalGas internal control environment, which includes the training program, reinforces the nondiscrimination and non-preferential treatment standards required by the Rules.*

## **Findings and Conclusions**

SoCalGas did not comply with Rule III.A.

In addition to compliance with the Affiliate Transaction Rules, SoCalGas must comply with the CPUC's Sempra Merger Decision (of Enova Corporation and Pacific Enterprises). The CPUC held that affiliate issues with respect to utility-to-utility transactions are to be governed by the rules set forth in the Merger Decision as well as numerous additional requirements directly related to SoCalGas' affiliate transactions.<sup>30</sup> Specifically, SoCalGas is required to record all incoming and outgoing telephone calls in its Gas Scheduling and Gas Control organizations as a requirement to Remedial Measure 14 of the Merger Decision.

- During 2010, SoCalGas conducted business with two affiliates, Sempra Energy Trading, LLC and Sempra Energy Solutions.
- SoCalGas deleted all recordings from calendar year 2010, a violation of Rule IV.F.
- Telephone calls with affiliates could not be reviewed to demonstrate compliance with the Rule.<sup>31</sup>

NorthStar also reviewed the following SoCalGas activities:

- SoCalGas' annual affiliate compliance training instructs employees that they cannot provide preferential treatment to covered affiliates.<sup>32</sup>
- SoCalGas provides customer information to energy providers in a non-discriminatory manner. Between 2010 and 2011, SoCalGas fulfilled 854 requests for customer information from third-party suppliers. There were no affiliate requests during 2010 and 2011. SoCalGas processed all the requests from the customer call center. Regardless of requestor, SoCalGas requires the same form to be completed.<sup>33</sup>
- Approximately 40,000 of SoCalGas' core customers are enrolled in the Customer Aggregation Program (CAT). CAT offers core customers the opportunity to procure natural gas supply from an energy service provider. SoCalGas has a non-discriminatory process to enroll and change providers. The forms and instructions are found on SoCalGas' website.
- SoCalGas' customer service voice-activated telephone system provides the same menu to core customers, customers of affiliates and customers of non-affiliates. The first option of the system allows customers to report an emergency (gas leak) or directs them to the main menu. The next set of options provides customers the

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<sup>30</sup> DR 97 and as addressed in the chapter – Rule I.

<sup>31</sup> DRs 330 and 336

<sup>32</sup> DR 94

<sup>33</sup> DR 40

opportunity to choose class of service – residential or commercial. It also prompts customers to continue in Spanish. The last menu is service specific: billing, change of service, energy efficiency/rebates/CARE, or gas appliance.<sup>34</sup>

- Sempra Energy and its affiliates were not given preferential treatment in the payment of their invoices. NorthStar reviewed SoCalGas' accounts receivable aging reports and found no balances after 30 days.<sup>35</sup>
- SoCalGas did not provide its affiliates billing inserts, advertisements, space on its billing envelopes, or endorsements. A full discussion of these activities can be found under Rule V.F.1 through V.F.4.

## **Rule III.B**

### **III.B. Affiliate Transactions**

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

### **2010 and 2011 Compliance Plans**

*For utility and affiliate transactions (non-resource procurement) covered by this Rule:*

1. *Tariffed products and services – SoCalGas implements its tariffs in a nondiscriminatory fashion. Tariffed discretions are addressed in Rule III.B.4.*
2. *Open competitive bidding process – SoCalGas makes the opportunity and process available to all market participants.*
3. *Information made generally available by SoCalGas to all market participants.*
4. *Shared services – as described under Rules V.D, V.E.*

*Non-tariffed products and services – see Rule VII and existing offerings in VII.F.*

### **Findings and Conclusions**

SoCalGas complied with Rule III.B.

**Exhibit III-1** provides a summary of the transactions between SoCalGas and its affiliates during 2010 and 2011. Services provided to affiliates include:

- Accounting and Finance
- Depreciations
- External Relations
- Fleet Services

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<sup>34</sup> 1-800-238-0092

<sup>35</sup> DR 314

- Gas Engineering<sup>36</sup>
- Human Resources
- Information Technology
- Oil/Gas Assessment and Extraction
- Real Estate & Facilities
- Supply Management<sup>37</sup>

NorthStar found all the services except gas engineering and oil/gas assessment and extraction to be consistent with the permitted shared services as defined in Rule V.E – Corporate Support. NorthStar has reviewed the gas engineering services provided to Sempra Pipelines and Storage and discusses the details of the transaction in Rule V.G.2.e. The oil/gas assessment and extraction services provided to Pacific Enterprises Oil Company are an approved non-tariff product and service.<sup>38</sup> Services from Sempra Energy to SoCalGas are related to corporate support and include the costs associated with insurance, corporate legal, SEC filing requirements, and other corporate activities. Transactions with Sempra Energy Trading are related to natural gas trading and are discussed in Rule III.B.1.

**Exhibit III-1**  
**2010 and 2011 SoCalGas**  
**Services Provided To and From Affiliates (\$000s)**

	Services Provided to Affiliates		Services Provided from Affiliates	
	2010	2011	2010	2011
Sempra Energy	6,928	5,610	91,321	78,695
Sempra Broadband	18	15		
Sempra Energy Trading	13,809		35,985	
Sempra Global	21			
Sempra LNG	21	23		
Sempra Pipelines and Storage	82	29		
Sempra Generation	22	24		
Pacific Enterprises Oil Co.	335	377		
<b>Total</b>	<b>21,235</b>	<b>6,078</b>	<b>127,306</b>	<b>78,695</b>

Source: DR 81

### Rules III.B.1 through III.B.3

#### III.B.1 Resource Procurement

No utility shall engage in resource procurement, as defined in these Rules, from an affiliate without prior approval from the Commission. Blind transactions between a utility and its affiliate, defined as those transactions in which neither party knows the identity of the counterparty until the transaction is consummated, are exempted from this Rule. A transaction shall be deemed to have prior Commission approval (a) before the effective date of this Rule, if authorized by the Commission specifically or through the delegation of authority to Commission staff or (b) after the effective date of this Rule, if authorized by the Commission generally or specifically or through the delegation of authority to Commission staff.

#### III.B.2 Provision of Supply, Capacity, Services or Information

<sup>36</sup> Gas Engineering and Oil/Gas Assessment and Extraction are not allowed under Rule V.E shared services.

<sup>37</sup> DR 81

<sup>38</sup> DR 274

Except as provided for in Rules V. D, V. E, and VII, a utility shall provide access to utility information, services, and unused capacity or supply on the same terms for all similarly situated market participants. If a utility provides supply, capacity, services, or information to its affiliate(s), it shall contemporaneously make the offering available to all similarly situated market participants, which include all competitors serving the same market as the utility's affiliates.

### **III.B.3. Offering of Discounts**

Except when made generally available by the utility through an open, competitive bidding process, if a utility offers a discount or waives all or any part of any other charge or fee to its affiliates, or offers a discount or waiver for a transaction in which its affiliates are involved, the utility shall contemporaneously make such discount or waiver available to similarly situated market participants. The utilities should not use the "similarly situated" qualification to create such a unique discount arrangement with their affiliates such that no competitor could be considered similarly situated. All competitors serving the same market as the utility's affiliates should be offered the same discount as the discount received by the affiliates. A utility shall document the cost differential underlying the discount to its affiliates in the affiliate discount report described in Rule III.F.7 below.

### **2010 and 2011 Compliance Plans**

***Rule III.B.1** - SoCalGas' natural gas purchasing practices are compliant with the CPUC's Rules and ensure that SoCalGas' and SDG&E's core ratepayers are not denied the opportunity to obtain the lowest cost possible for natural gas supplies available in the highly-competitive marketplace.*

*The objectives of the SoCalGas Gas Acquisition Department in order of priority are to:*

- 1. Provide reliable natural gas supplies to core customers.*
- 2. Provide these supplies at the lowest possible cost using the assets allocated to the core market.*
- 3. Provide ratepayer and shareholder benefits under the Gas Cost Incentive Mechanism ("GCIM").*

*The Gas Acquisition Department follows standard industry practices in its natural gas trading procedures. Gas Acquisition uses the tools available to any entity (marketer, producer or utility) engaged in trading activity. These tools include physical trading, derivative trading, secondary market transactions and interstate capacity transactions. Gas Acquisition traders are authorized to enter into transactions in accordance with the Utilities' Approval and Commitment Policy, Delegation of Authority and the SoCalGas Market Activity and Credit Policy. The results of these transactions, excluding a certain percentage of "winter hedge transactions," are measured against the GCIM benchmark to determine the extent of any shareholder reward or penalty, if any.*

*Each month, Gas Acquisition submits a GCIM report to the CPUC that computes in detail the GCIM results for that month. This report provides details of all transactions, including supplier names and deal terms. An annual GCIM report and application are filed, and responses are provided to the CPUC in reply to detailed data requests.*

*Gas Acquisition purchases about 1.15 Bcf of natural gas per day for the core market. Gas Acquisition buys most of its natural gas on a long-term or monthly basis in the San Juan Basin, Permian Basin, Rocky Mountains, Canadian and California border points. Natural gas is also purchased for storage injection primarily during the summer months to provide peak day reliability in the winter.*

*Gas Acquisition and SoCalGas policy expressly forbids preferential treatment to any supplier.*

*Natural gas transactions with affiliates can be categorized as follows:*

- 1. “Arm’s length” deals through matching by brokers. SoCalGas and an affiliate can be matched by a broker. In this case, neither SoCalGas nor the affiliate knows the other party’s identity until the deal is accepted by both parties. Payment is made between SoCalGas and the affiliate and the broker bills each party separately. The paper trail specifically identifies the transaction as a brokered deal. All brokers have been sent a letter stating that no preference is to be given to SoCalGas’ affiliates.*
- 2. <sup>39</sup>Operational Hub transactions for supplies to meet System Reliability requirements are overseen by the Energy Markets and Capacity Products department. Rule 41 (Section 12) allows transactions with the Utility Gas Procurement Department as a “provider of last resort.” Otherwise transactions with affiliates must be done with an “Independent Party” as defined in Rule 41 (Section 11).*
- 3. Secondary Market Transactions. Secondary Market Transactions by Gas Acquisition with affiliates are posted on the EBB System contemporaneously to provide other similarly situated customers additional information in time to request a deal with comparable terms.*

*All transactions, daily or monthly, affiliated and unaffiliated are date stamped, which will allow any affiliate transactions to be compared with prior and subsequent transactions with unaffiliated parties. SoCalGas will respond in a timely manner to any Division of Ratepayer Advocates (“DRA”) requests for further information about any transaction.*

**Rule III.B.2 -** *SoCalGas posts all publicly available operating information, services and unused capacity or supplies on its Web site and/or EBB in compliance with CPUC guidance/requirements. When SoCalGas provides an affiliate supply, capacity, services, or information, it makes the offering available to all similarly situated market participants by posting it contemporaneously on the EBB.*

*For transactions that are part of internal operations and integral to a permitted transaction with an affiliate, these items will not be posted on EBB. For example, if SoCalGas provides non-public right-of-way information to an affiliate pursuant to its Rule No. 34, this information would not be posted since this is a tariffed service and the information is integral to providing the service. Or, if SoCalGas provides information regarding the capability of its gas transmission system to accept regasified LNG volumes from its LNG affiliate in an “Interconnection Capability 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 of these examples, SoCalGas is treating its affiliate exactly the same as any unaffiliated third party requesting the tariffed product or service, since the information*

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<sup>39</sup> Decision 07-12-019 referred to as the “Omnibus Decision,” transferred the operation of SoCalGas’ California Energy Hub, and obtaining minimum flow requirements associated with system reliability to the Utility System Operator. These functions for obtaining physical flowing of gas supplies are located in the Energy Markets and Capacity Products’, Storage Products & Balancing group.

would not be posted if provided to an unaffiliated entity. This is consistent with Rule III.B.2 because the information provided to an affiliate pursuant to the tariff rules is provided “on the same terms for all similarly-situated market participants.”

When postings are required, procedures are in place specifying the form and content of the information to be posted. Once an authorized employee posts this information on the EBB, it automatically appears in the appropriate category on SoCalGas’ Internet Web site.

Interested parties will find the posted information on SoCalGas’ Internet home page at <[www.socalgas.com](http://www.socalgas.com)>. From the home page, the information is accessed by selecting the “Regulatory” link, then selecting the “Affiliate Rules” link, and then scrolling to the bottom of the page, where the “Supply, Capacity, Services, or Information” category is found.

**Rule III.B.3** - When SoCalGas offers a discount or waiver to its affiliates, it makes the offering available to all similarly-situated market participants by posting it contemporaneously on the EBB. SoCalGas considers uniform discounts provided to all competitors as well as vendor discounts provided by suppliers to all market participants that are passed through to affiliates as not required to be posted.

Procedures are in place specifying the form and content of the information to be posted. Once an authorized employee posts this information on the EBB, it automatically appears in the appropriate category on SoCalGas’ Internet Web site.

Interested parties will find the posted information on SoCalGas’ Internet home page at <[www.socalgas.com](http://www.socalgas.com)>. From the home page, the information is accessed by selecting the “Regulatory” link, then selecting the “Affiliate Rules” link, and then scrolling to the bottom of the page, where the “Discounts, Rebates, Tariff Deviations, or Fee Waivers” category is found.

## **Findings and Conclusions**

SoCalGas did not comply with Rule III.B.1 but did comply with Rules III.B.2 and III.B.3.

SoCalGas entered into two contracts with affiliates for natural gas transportation without CPUC approval. SoCalGas also entered into two bilateral transactions with an affiliate that were neither double-blind or approved by the CPUC.

- On November 2, 2011, SoCalGas executed a contract with Gasoducto Rosarito, S. de R.L. de C.V. (GR), a SoCalGas affiliate. The purpose of this contract is to procure natural gas transportation between the interconnection points at the U.S. Mexican border (near Arizona/California border) and the Transportadora de Gas Natural De Baja California, S. de R.L. de C.V. (TGN) facilities. This contract was not approved by the CPUC.
- On November 2, 2011, SoCalGas executed a contract with TGN, a SoCalGas affiliate. The purpose of this contract is to procure natural gas transportation between

the Otay Mesa interconnection point and the pipeline facilities at Gasoducto Bajanorte in Tijuana. The contract was not approved by the CPUC.<sup>40</sup>

- On November 30, 2011, SoCalGas executed two bilateral transportation transactions; one each with both TGN and GR for interruptible natural gas pipeline capacity. The transaction with TGN was \$13,033.50 and the one with GR was \$21,818.79. In association with these two transactions, SoCalGas also paid GR \$9,743.05 for brokerage fees and value-added taxes.<sup>41</sup> The two transportation transactions were priced based on Mexican tariffs. The ATRs do not acknowledge any tariffs other than CPUC or FERC.

During 2010, SoCalGas entered into 620 natural gas transactions with Sempra Energy Trading LLC (SET).<sup>42</sup> There were no transactions during 2011. NorthStar determined:

- The transaction volumes and amounts were correctly posted in its Annual Report of Affiliate Transactions.<sup>43</sup>
- All of the transactions with SET were double-blind transactions and brokered with the Intercontinental Exchange Group.<sup>44</sup>

Other than as noted above, SoCalGas provided access to supply, capacity, service and information on the same terms to all market participants. SoCalGas manages a portfolio of 136 BCF of natural gas storage. SoCalGas utilizes approximately 80 BCF for its core customer portfolio, five for non-core customers and system balancing, and the remaining 51 BCF are excess and available to the open market. SoCalGas utilizes its Envoy website to market excess storage.

- Notices for SoCalGas' annual "Storage Season" are found on Envoy by selecting the option for storage notices.
- Bids are evaluated on a first-come, first-serve basis. In evaluating bids, SoCalGas utilizes a forward pricing model that generates pricing guidelines prior to the Storage Season.<sup>45</sup>

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<sup>40</sup> DRs 20 and 262

<sup>41</sup> DRs 261 and 284.

<sup>42</sup> DR 81: Sempra Energy Trading LLC is one of three affiliates utilizing the Sempra Energy Trading name. The other two are Sempra Energy Trading (Calgary) ULC and Sempra Energy Trading (Canada) ULC. Sempra Energy Trading LLC, an energy trading company, markets and trades physical and financial energy products, such as crude oil and refined products, natural gas and natural gas liquids, power, coal, emissions, and ethanol. The company provides commodity marketing, risk management, and asset management services. It serves natural gas producers, pipelines, gas and electric utilities, independent power producers and virtual utilities, industrials, municipalities, IOUs, and storage operators in North America, Europe, Asia, and South America. The company was founded in 1990 and is based in Stamford, Connecticut with additional offices in Europe, Asia, and the Americas.

<sup>43</sup> DRs 24 and 81

<sup>44</sup> Intercontinental Exchange Group, Inc. is the leading global network of exchanges and clearing houses for financial and commodity markets.

<sup>45</sup> DR 213

- Awards made to affiliates are posted on Envoy using the Affiliate Transactions tab.<sup>46</sup>
- During the audit period, Sempra Energy Trading was awarded one storage contract on February 18, 2010. NorthStar reviewed the contract and found it to be the only storage award on that particular day and consistent with seasonal market conditions.<sup>47</sup>

SoCalGas did not provide any discounts or waivers to affiliates during 2010 or 2011. SoCalGas' Affiliate Transaction Compliance Plan (Plan) requires employees to post any discounts or waivers provided to affiliates. There were no postings in 2010 or 2011.<sup>48</sup>

SoCalGas' website has pages dedicated to the following items:<sup>49</sup>

- Discounts, Rebates, Tariff Deviations, or Fee Waivers Provided to Affiliate(s)
- Supply, Capacity, Services, or Information Provided to Affiliate(s)

By clicking on either link, the user is redirected to SoCalGas' Envoy website. SoCalGas correctly posted the February 18, 2010 storage transaction with Sempra Energy Trading.

## **Rules III.B.4 through III.B.6**

### **III.B.4 Tariff Discretion**

If a tariff provision allows for discretion in its application, a utility shall apply that tariff provision in the same manner to its affiliates and other market participants and their respective customers.

### **III.B.5 No Tariff Discretion**

If a utility has no discretion in the application of a tariff provision, the utility shall strictly enforce that tariff provision.

### **III.B.6 Processing Requests for Services Provided by the Utility**

A utility shall process requests for similar services provided by the utility in the same manner and within the same time for its affiliates and for all other market participants and their respective customers.

## **2010 and 2011 Compliance Plans**

*SoCalGas understands that the Rules are intended to ensure that SoCalGas implements its tariffs in a nondiscriminatory fashion. In the event a tariff provision allows for discretion in its application, SoCalGas will apply that tariff provision in the same manner to its affiliates as it does to all other market participants and their respective customers. SoCalGas will strictly enforce tariff provisions when discretion is not permitted. Any tariff deviation provided to an affiliate is posted on the EBB by authorized employees.*

*Procedures are in place specifying the form and content of the information to be posted. Once posted on the EBB, the information automatically appears in the appropriate category on SoCalGas' Internet Web site.*

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<sup>46</sup> <http://www.scgenvoy.com>

<sup>47</sup> DRs 182 and 266

<sup>48</sup> DRs 17 and 126

<sup>49</sup> DR 97 and <http://www.sdge.com/regulatory/affiliate/index.shtml>

*Interested parties will find the posted information on SoCalGas' Internet home page at <[www.socalgas.com](http://www.socalgas.com)>. From the home page, the information is accessed by selecting the "Regulatory" link, then selecting the "Affiliate Rules" link, and then scrolling to the bottom of the page, where the "Discounts, Rebates, Tariff Deviations, or Fee Waivers" category is found.*

## **Findings and Conclusions**

SoCalGas complied with Rules III.B.4 through III.B.6.

SET received natural gas service under the gas –transactional based storage (G-TBS) rate schedule during 2010. G-TBS is a negotiable contract tariff established during SoCalGas' Annual Storage Season. NorthStar reviewed a sample of SET's monthly bills and found SET was billed on the tariff specified in its contract.<sup>50</sup>

SET received natural gas service under three additional rate schedules during 2010/2011 (G-RPA1F, G-RPA1I, and BR-R). These rates provide for backbone transmission system and natural gas imbalance charges. NorthStar reviewed a sample of SET's bills during 2010 and found SET was billed in compliance with these tariffs.<sup>51</sup>

SoCalGas' compliance plan requires employees to post tariff deviations on its website. SoCalGas has a dedicated page on its website for tariff deviations.<sup>52</sup>

## **Rules III.C and III.D**

### **III.C Tying of Services Provided by a Utility Prohibited**

A utility shall not condition or otherwise tie the provision of any services provided by the utility, nor the availability of discounts of rates or other charges or fees, rebates, or waivers of terms and conditions of any services provided by the utility, to the taking of any goods or services from its affiliates.

### **III.D No Assignments Of Customers**

A utility shall not assign customers to which it currently provides services to any of its affiliates, whether by default, direct assignment, option or by any other means, unless that means is equally available to all competitors.

## **2010 and 2011 Compliance Plans**

***Rule III. C** – SoCalGas will comply with Rule III.C's requirements. Training specifically addresses that SoCalGas must not condition or otherwise tie the provision of any service provided by the utility or the availability of any discount, charge, fee, rebate, or waiver to the taking of any affiliate goods or services.*

***Rule III.D** - SoCalGas will comply with Rule III.D's requirements. Training specifically addresses that SoCalGas must not refer or assign customers to affiliates.*

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<sup>50</sup> DRs 19, 205 and 215

<sup>51</sup> DRs 205 and 215

<sup>52</sup> <https://socalgas.com/regulatory/affiliate.shtml>

## Findings and Conclusions

SoCalGas complied with Rules III.C and III.D.

- SoCalGas did not tie provisions of its services to the taking of services of its affiliates. SoCalGas' training instructs employees on the prohibition of soliciting business for its affiliates or representing its affiliates.<sup>53</sup>
- NorthStar reviewed SoCalGas' advertising materials, bill inserts, website, and other customer communications and found no evidence of tying of services. Details of NorthStar's review are found in Rule V.F.1 through V.F.4.
- SoCalGas' ATR training informs employees on the prohibition of assigning customers.<sup>54</sup>
- SoCalGas did not assign customers to its affiliates during 2010 or 2011.<sup>55</sup>

## Rule III.E

### III.E Business Development and Customer Relations

Except as otherwise provided by these Rules, a utility shall not:

- (1) provide leads to its affiliates;
- (2) solicit business on behalf of its affiliates;
- (3) acquire information on behalf of or to provide to its affiliates;
- (4) share market analysis reports or any other types of proprietary or non-publicly available reports, including but not limited to market, forecast, planning or strategic reports, with its affiliates;
- (5) request authorization from its customers to pass on customer information exclusively to its affiliates;
- (6) give the appearance that the utility speaks on behalf of its affiliates or that the customer will receive preferential treatment as a consequence of conducting business with the affiliates; or
- (7) give any appearance that the affiliate speaks on behalf of the utility.

### 2010 and 2011 Compliance Plans

*SoCalGas will comply with Rule III.E's requirements. Training specifically addresses that:*

- *Customer leads are not to be provided to affiliates;*
- *Business is not to be solicited on affiliates' behalf;*
- *No business information is to be acquired on behalf of affiliates;*
- *No market analysis report or other proprietary information is to be shared with affiliates, except as otherwise permitted by these Rules; and*

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<sup>53</sup> DR94

<sup>54</sup> DR 94

<sup>55</sup> DR 27

- *Employees must not give any indication that they represent or speak on behalf of any affiliate, or that an affiliate represents the utility.*

*Furthermore, corporate policy prohibits the release of customer specific information to any entity without the customer's explicit written consent or as otherwise permissible or required by law (for example, in circumstances pursuant to subpoena or as part of a regulatory program).*

## **Findings and Conclusions**

SoCalGas did not comply with Rule III.E.

On September 17, 2010, SoCalGas directed a potential investor to Sempra LNG.<sup>56</sup> The incident was posted on SoCalGas' Envoy website.

NorthStar interviewed key customer contact personnel and major account executives, listened to live and recorded customer calls and reviewed press releases, ads and other sales and marketing materials and found no further evidence that SoCalGas.<sup>57</sup>

- Provided leads to its affiliates
- Solicited business on behalf of its affiliates
- Acquired information on behalf of its affiliates
- Released customer information without customer authorization to its affiliates
- Gave any appearance of speaking on behalf of its affiliates.

Internal policies and procedures address critical elements of Rule III.E.

- Sempra Energy's *CPUC and FERC Affiliate Compliance Rules Communication Guidelines* state that the California utilities are prohibited from engaging in activities that would create preferential treatment to covered affiliates and are not permitted to provide leads to covered affiliates (e.g., Sempra U.S. Gas & Power and Sempra International). The guidelines also address the perception of preferential treatment.<sup>58</sup>
- Sempra Energy's *Affiliate Compliance Guidelines* require that employees of Sempra, the utilities and the affiliates ensure that affiliates and their customers are treated in the same manner as third-party service providers. They cannot:<sup>59</sup>
  - Represent that affiliates or their customers will receive different treatment than non-affiliates and their customers.
  - Provide any preference to affiliates or their customers.

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<sup>56</sup>

[https://scgenvoy.sempra.com/#nav=/Public/ViewExternalEbb.getMessageLedger%3FledgerType%3Dmessage%26Page%3Dfilter%26datePosted\\_from%3D01%252F01%252F2010%26datePosted\\_to%3D12%252F31%252F2011%26keyword%3D%26folderId%3D12%26rand%3D214](https://scgenvoy.sempra.com/#nav=/Public/ViewExternalEbb.getMessageLedger%3FledgerType%3Dmessage%26Page%3Dfilter%26datePosted_from%3D01%252F01%252F2010%26datePosted_to%3D12%252F31%252F2011%26keyword%3D%26folderId%3D12%26rand%3D214)

<sup>57</sup> IRs 16, 40, 41, 43, 44, 60-61, and 75-78 DRs 31, 32, 34, 39, 45-49, 130-131, 170-174, 177-179, 247-248, 253

<sup>58</sup> DR 1

<sup>59</sup> Affiliate Compliance Guidelines Effective 1/1/1998, Revised 04/13/2011 (SCG DR 1).

- Assist or appear to assist in the development of new business for its affiliates (specifically Rules III.E.1-7).
- Assign customers to an affiliate provide customers with advice regarding service provider proposals or tie services.
- The 2010/2011 Code of Conduct included a general section on fair competition and the protection of customer information.<sup>60</sup> The current Code of Conduct addresses fair competition and references the anti-conduit rules.<sup>61</sup>
- SoCalGas' Customer Contact Operating Procedures explain the Rules and provide guidance to the Customer Service Representatives (CSRs) in addressing some of the elements of Rule III.E:<sup>62</sup>
  - SoCalGas cannot provide its third-party vendors with a competitive edge by referring customers to them.
  - CSRs are instructed to tell customers, "The Gas Company does not sell products or services offered by Sempra Energy Solutions."<sup>63</sup>
  - CSRs are instructed that they should not provide phone numbers for a third-party vendor, unless it is provided from the customer's bill image.
  - The "dos and don'ts" section of the procedures instruct CSRs to ask themselves if they would do this for a competitor and instructs them not to provide preferential treatment to an affiliate, refer or assign customers to an affiliate, solicit business or speak on behalf of an affiliate, or share non-public information.

New CSRs take a number of training modules, portions of which address the affiliate rules.

- New hire orientation training covers customer identity verification and touches on some of the affiliate rules.<sup>64</sup>
- The CSR-2 training modules in effect during 2010 and 2011 include an affiliate component which provides information on key affiliates (Sempra Generation and Sempra Energy Solutions) and stresses the affiliate transaction "dos and don'ts".<sup>65</sup>
- CSR-4 training also stresses the importance of providing information only to the customer of record.<sup>66</sup>
- The Core Aggregation Transportation (CAT) training module requires that customers be referred to SoCalGas' website when inquiring about purchasing gas from other service providers, requesting ESP phone numbers, or are interested in participating in the CAT program in order to remain in compliance with affiliate transaction rulings.<sup>67</sup>

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<sup>60</sup> DR 201

<sup>61</sup> DR 95

<sup>62</sup> DR 130

<sup>63</sup> DR 130

<sup>64</sup> IR 75, DR 201

<sup>65</sup> DRs 130 and 282

<sup>66</sup> DRs 130 and 282

<sup>67</sup> DR 252

In addition to the initial training, SoCalGas CSRs take internet-based annual affiliate rule training specific for customer contact personnel.<sup>68</sup> The training informs employees of prohibited activities with affiliates and provides six test scenarios.<sup>69</sup>

As part of the training, CSRs are instructed to provide the following disclosures in the event a customer asks about a SoCalGas Affiliate: Sempra Generation is not the same company as The Gas Company; Sempra Generation is not regulated by the California Public Utilities Commission; and, the CPUC prohibit you from providing further information on affiliates.<sup>70</sup>

Other non-represented employees take a different annual ATR training module which informs employees of prohibited activities with affiliates. Utility personnel shall not:<sup>71</sup>

- Provide leads to covered affiliates
- Solicit business on behalf of covered affiliates
- Acquire information for covered affiliates
- Share market, forecast or strategic reports with covered affiliates
- Give customer information only to covered affiliates
- Speak on behalf of covered affiliates<sup>72</sup>

## **Rule III.F**

### **III.F Affiliate Discount Reports**

If a utility provides its affiliates a discount, rebate, or other waiver of any charge or fee associated with products or services provided by the utility, the utility shall, within 24 hours of the time at which the product or service provided by the utility is so provided, post a notice on its electronic bulletin board providing the following information:

**F.1** the name of the affiliate involved in the transaction;

**F.2** the rate charged;

**F.3** the maximum rate;

**F.4** the time period for which the discount or waiver applies;

**F.5** the quantities involved in the transaction;

**F.6** the delivery points involved in the transaction;

**F.7** any conditions or requirements applicable to the discount or waiver, and a documentation of the cost differential underlying the discount as required in Rule III B 2 above; and

**F.8** procedures by which a nonaffiliated entity may request a comparable offer.

A utility that provides an affiliate a discounted rate, rebate, or other waiver of a charge or fee associated with services provided by the utility shall maintain, for each billing period, the following information:

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<sup>68</sup> IR 75, DR 184

<sup>69</sup> NorthStar reviewed the current training and 2011 training. SoCalGas is unable to provide the training in effect in 2010. (DR 280)

<sup>70</sup> DR 184

<sup>71</sup> DR 94

<sup>72</sup> DR 184 and onsite review of current training

- F.9** the name of the entity being provided services provided by the utility in the transaction;
- F.10** the affiliate's role in the transaction (i.e., shipper, marketer, supplier, seller);
- F.11** the duration of the discount or waiver;
- F.12** the maximum rate;
- F.13** the rate or fee actually charged during the billing period; and
- F.14** the quantity of products or services scheduled at the discounted rate during the billing period for each delivery point.

All records maintained pursuant to this provision shall also conform to FERC rules where applicable.

### **2010 and 2011 Compliance Plans**

*SoCalGas will comply with requirements 1-14 of this Rule. If SoCalGas provides its affiliates a discount, rebate, or waives all or any part of a fee, SoCalGas maintains the records required by this Rule and posts the required information on the EBB within one business day.*

*Procedures are in place specifying the form and content of the information to be posted on the Web site. Authorized employees post this information to the Affiliate Transactions category on the EBB. Once posted, the information will automatically appear in the appropriate category on SoCalGas' Internet Web site.*

*Interested parties will find the posted information on SoCalGas' Internet home page at <[www.socalgas.com](http://www.socalgas.com)>. From the home page, the information is accessed by selecting the "Regulatory" link, then selecting the "Affiliate Rules" link, and then scrolling to the bottom of the page, where the "Discounts, Rebates, Tariff Deviations, or Fee Waivers" category is found.*

### **Findings and Conclusions**

SoCalGas complied with Rule III.F.

NorthStar verified that SoCalGas posted its February 18, 2010 storage contract with SET. SoCalGas did not offer any other discounts, rebates, tariff deviations, or fee waivers to its affiliates during 2010 and 2011 as described in Rule III.B. SoCalGas' Compliance Plan has a policy of the information to be posted. SoCalGas adhered to this policy and correctly posted all required information related to the February 18, 2010 Storage Contract. The policy is in compliance with Rule III.F.

### **Recommendations**

3. Obtain CPUC approval for all contracts with affiliates. (Rule III.B.1)
4. Retrain employees on the requirements of Rule III.E and the prohibition of acquiring information on behalf of its affiliates. (Rule III.E).

## **RULE IV. DISCLOSURE AND INFORMATION**

Rule IV sets forth the requirements of how Southern California Gas Company (SoCalGas) will disseminate information concerning utility operations, affiliate operations, and customer billing records. Rule IV requires that SoCalGas (1) release customer information in a non-discriminatory manner to both affiliates and non-affiliates and only with written customer authorization, (2) release non-customer specific non-public information contemporaneously to all market participants if it is released to an affiliate, (3) supply lists of suppliers of energy related products and services only at the request of the customer, (4) release supplier information to an affiliate only after obtaining the supplier's written consent, (5) do not provide customers advice or assistance in selecting suppliers, (6) maintain records of all tariffed and non-tariffed affiliate transactions for three years, and (7) maintain records of all affiliate contracts and bids for three years.

In examining SoCalGas' compliance with Rule IV, NorthStar used the following evaluative criteria, whether:

- SoCalGas provided customer information to its affiliated and non-affiliated entities on an equal basis and only with written customer consent.
- SoCalGas made non-customer specific non-public information available on a non-discriminatory basis to non-affiliated companies when it made such information available to an affiliate.
- SoCalGas controlled information disclosure in such a way as to be fair to all entities and maintained records of all transactions with its affiliates.
- Non-customer specific, non-public information was made available to affiliates and all other service providers at the same time and under the same terms and conditions.
- If SoCalGas maintained a list of service providers, the list included all Commission licensed suppliers, maintained in alphabetical order, and did not promote any one supplier.
- SoCalGas supplied a list of service providers only at the request of a customer or as authorized by the Commission of another governmental body.
- SoCalGas had an effective process to ensure that supplier information was provided to its affiliates only with only written authorization from the supplier.
- There were effective "firewalls" in place in information systems to prevent affiliates access to information other than what was required for corporate activities?
- SoCalGas maintained timely, accurate records of all transactions with its affiliates and all negotiations of any sort between SoCalGas and its affiliate whether or not they were consummated.
- SoCalGas maintains records of all affiliate contracts and bids for at least three years.

In conducting its compliance audit, NorthStar examined the following:

## **Customer Information**

1. Examined and evaluated the techniques used to respond to requests for information and to provide customer information to affiliated and non-affiliated companies.
2. Reviewed customer consent forms.
3. Reviewed turn-around times for responding to requests for both affiliate and non-affiliate customers.
4. Reviewed the procedure for supplying customer information.
5. Reviewed internal controls regarding confidentiality of customer information.
6. Interviewed utility customer service employees to determine whether the Rules regarding the release of customer information is understood.
7. Reviewed Customer Information System (CIS) and customer service systems to determine what data were available and what controls limited access to customer data.

## **Non-Customer Specific Non-Public Information**

8. Compared information provided to affiliates and non-affiliates to information available to the public to ensure complete access.
9. Determined if notice of availability was appropriately made on the Internet.

## **Supplier Lists**

10. Reviewed the established list of service providers to determine that the list did not promote any one supplier.
11. Determined how the Call Center dealt with customer requests for service provider information.
12. Compared approved CPUC supplier list with official utility supplier list.

## **Non-Public Supplier Information**

13. Interviewed utility management to identify specific instances where non-public supplier information had been obtained from non-affiliated suppliers.
14. Reviewed instances above to determine if the Rules were followed.
15. Reviewed instances where supplier information was provided to affiliates and non-affiliates to determine if written permission was obtained.

### **Product and/or Service Provider Information**

16. Interviewed Customer Call Center employees to determine their understanding of the rules governing providing lists of service providers.
17. Determined how the call center dealt with customer requests for service provider information.
18. Monitored calls from customers asking for information about affiliates.

### **Record Keeping**

19. Reviewed SoCalGas' record-keeping systems and processes for affiliate transactions to verify that record keeping was in accordance with the Rules.
20. Verified that the sum of all transactions logged with affiliates matched the amounts recorded in the General Accounts of SoCalGas.
21. Examined SoCalGas' record-keeping practices, as they related to transactions with affiliate companies and the providing of information and services to affiliate companies, non-affiliated companies, and customers.
22. Verified that SoCalGas maintained contemporaneous records documenting all transactions with its affiliates.
23. Reviewed records for consistency and accuracy.
24. Reviewed affiliates' records of transactions to verify that they were included in SoCalGas files.
25. Reviewed the logs and records of affiliate transactions. Assessed the thoroughness of the information and determined whether such logs/records assisted in fostering competition and protected consumer interests.
26. Reviewed instructions and procedures regarding accounting for affiliate transactions to determine if effective controls were in effect.

### **Maintenance of Affiliate Contracts and Related Bids**

27. Verified that SoCalGas maintained a record of contracts and related bids for the provision of work, products or services to and from SoCalGas to its affiliates. Reviewed records for consistency and accuracy.
28. Reviewed contracts among corporate entities to ensure that they were in compliance with the Rules, the compliance plan and procedures.
29. Reviewed affiliate companies' records of transactions to verify that they were included in SoCalGas file.

## General

30. Determined whether SoCalGas' processes, procedures and controls used to ensure compliance with this ATR were consistent with SoCalGas' most recent Compliance Plan.
31. Determined the actual or potential harm to the ratepayers as a result of any identified error, discrepancy, or violation of this Rule.

## Rule IV.A

### IV.A Customer Information

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

### 2010 and 2011 Compliance Plans

*SoCalGas requires authorization by written paper or electronic customer consent for the release of any customer specific information.<sup>73</sup> In order to make this information available on a nondiscriminatory basis, notice is posted contemporaneously when SoCalGas provides customer specific information to its affiliate. This notice includes: the name of the affiliate to receive the information; a description of the information; the time period covered; the date the information is given; and the contact person at SoCalGas. For confidentiality reasons, this notice does not include the name of the customer or the specific information released.*

*Procedures are in place specifying the form and content of the information to be posted on the Web site. Authorized employees use a form located on SoCalGas' 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 SoCalGas' Internet Web site.*

*Interested parties will find the posted information on SoCalGas' Internet home page at <[www.socalgas.com](http://www.socalgas.com)>. From the home page, the information is accessed by selecting the "Regulatory" link, then selecting the "Affiliate Rules" link, and then scrolling to the bottom of the page, where the "Customer Information Provided to Affiliate(s)" category is found.*

### Findings and Conclusions

SoCalGas did not comply with Rule IV.A.

On October 26, 2011, SoCalGas provided customer information to an employee of San Diego Gas and Electric Company without written customer consent.<sup>74</sup>

SoCalGas provided customer information to third-parties with written customer consent on 854 occasions during 2010 and 2011. In none of these instances did SoCalGas provide

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<sup>73</sup> See **California Civil Code Section 1633.1 et seq.** – Authorizing the use of electronic transactions/signatures to satisfy laws requiring records to be in writing.

<sup>74</sup>

[https://scgenvoy.sempra.com/index.html#nav=/Public/ViewExternalEbb.getMessageLedger%3FledgerType%3Dmessage%26Page%3Dfilter%26datePosted\\_from%3D01%252F01%252F2010%26datePosted\\_to%3D12%252F31%252F2011%26keyword%3D%26folderId%3D12%26rand%3D461](https://scgenvoy.sempra.com/index.html#nav=/Public/ViewExternalEbb.getMessageLedger%3FledgerType%3Dmessage%26Page%3Dfilter%26datePosted_from%3D01%252F01%252F2010%26datePosted_to%3D12%252F31%252F2011%26keyword%3D%26folderId%3D12%26rand%3D461)

customer information to an affiliate.<sup>75</sup> NorthStar reviewed a sample of non-affiliate requests and all affiliate requests found that the forms included:

- Customer name and contact telephone information
- Third-party's name, mailing address and contact telephone number.
- Account numbers and service addresses
- Information to be released
- Services authorized to third party to initiate.<sup>76</sup>

SoCalGas offers a line item billing service to third-party vendors on customer utility bills for products and services that customers elect to procure. The line item billing service is an approved non-tariffed product and service. SoCalGas states that they do not support the third-party vendors by providing marketing leads.<sup>77</sup>

SoCalGas Affiliate Transaction Rules (the Rules or ATR) training materials instruct employees to the following requirements concerning customer information:

- Information must be shared in a non-discriminatory way.
- Information to be shared must be approved by the customer in writing prior to sharing.
- Notice of information shared with an affiliate must be posted on the utility's internet website.
- Notice posted must not include customer name and specific data, just the non-customer specific information and the name of the affiliate that received the information.<sup>78</sup>

SoCalGas' Customer Contact Operating Procedure, *Safeguarding Customer Account Information* specifies that "SoCalGas' employees may not provide customer specific information to any third party, Company affiliates or persons not acting as the customer's agent without the customer's prior written consent or subpoena."<sup>79</sup> The procedure further requires that usage information not be provided to a third party over the telephone. CSRs are required to review this procedure on an annual basis.<sup>80</sup>

The prohibition on providing usage information to a third party or affiliate is also addressed in the call center's annual affiliate training.<sup>81</sup> It is also covered in the bargaining unit training introduced in 2011.<sup>82</sup>

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<sup>75</sup> DR 40

<sup>76</sup> DR 40

<sup>77</sup> DR 270

<sup>78</sup> DR 94

<sup>79</sup> Procedure accessed while at the SoCalGas call center (DR 238)

<sup>80</sup> CCC Annual Review (DR 185)

<sup>81</sup> DRs 184 and 280

<sup>82</sup> DR 187

SoCalGas' compliance plan requires that employees post on their website when customer information is provided to an affiliate. SoCalGas posted the event of providing customer information to SDG&E on its Envoy website.

SoCalGas has an established procedure for supplying customer information to third parties. Requests for customer information are to be completed on the SoCalGas' Customer Information Release Form. The form must include:

- Customer's name and contact telephone number
- Third Party's name, mailing address and contact telephone number
- Authorized account number(s) or service address(es)
- What type of information should be released
- What requests or service orders the third party is authorized to initiate.<sup>83</sup>

## Rule IV.B

### IV.B. Non-Customer Specific Non-Public Information

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 the Public Utilities Code Sections 314 and 581.

### 2010 and 2011 Compliance Plans

*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 can not be shared with an affiliate unless such information is contemporaneously posted.*

*To reduce the risk of sharing non-public utility information, ACD has implemented the following descriptive Microsoft Outlook display name suffixes for employees in certain areas of SDG&E and SoCalGas from receiving such information:*

*Electric & Fuel Procurement – E&FP  
Energy Supply & Dispatch – Mktg Affil-E&FP  
Gas Acquisition – Gas Acq*

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<sup>83</sup> DRs 40 and 97

*Gas Control – Gas Cntrl  
Gas Scheduling – Gas Schdlg  
Electric Grid Operations – Elec Transmission  
Storage Products and Balancing – Storage Prdcts*

*Sempra Energy Corporate Center officers and employees responsible for shared corporate oversight and governance may receive all information from the utility and affiliates that is used for the purpose of providing such oversight and governance. Such information may be used only for that purpose and is subject to established anti-conduit provisions.*

*When SoCalGas provides non-customer specific, non-public information to its affiliates that does not meet the above exception criteria, SoCalGas will post this information contemporaneously on SoCalGas' Internet Web site. 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, these items need not be posted. For example, if SoCalGas provides non-public right-of-way information to an affiliate pursuant to its Rule No. 34, this information would not be posted since this is a tariffed service and the information is integral to providing the service. Or, if SoCalGas 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 of these examples, SoCalGas 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 form and content of the information to be posted on the Web site. Authorized employees use a form located on SoCalGas' Affiliate Compliance intranet site to post this information. Once the data is entered, the information immediately posts to the appropriate category on SoCalGas' Internet Web site.*

*Interested parties will find the posted information on SoCalGas' Internet home page at <[www.socalgas.com](http://www.socalgas.com)>. From the home page, the information is accessed by clicking on "**Regulatory**," then clicking on the "**Affiliate Rules**" link located in the "Related Information" column at the right of the page, where the "**Non-Customer Specific, Non-Public Information**" category is found.*

## **Findings and Conclusions**

SoCalGas did not comply with Rule IV.B.

SoCalGas is required to record incoming and outgoing telephone calls in the Gas Scheduling and Gas Control organizations as a condition of Remedial Measure 14 of the Merger Decision. During 2010, SoCalGas had two active energy marketing affiliates: Sempra Energy Trading, LLC and Sempra Energy Solutions. SoCalGas deleted all

recordings from 2010 and did not record telephone calls from January 1, 2011 to May 6, 2011.<sup>84</sup> This does not comply with Rule IV.B, which requires:

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.

NorthStar was unable to inspect the content and nature of telephone calls between SoCalGas and its affiliates as required by the Rule. During the remainder of 2011, there were over 17,000 telephone calls.<sup>85</sup>

SoCalGas' ATR training informs employees on the prohibition of sharing utility information with affiliates.<sup>86</sup>

SoCalGas' compliance plan directs employees that information shared with affiliates is limited to performing shared service functions and to information that would not create a market advantage to its affiliates. When non-customer specific, non-public information (NCNP) is provided to an affiliate, SoCalGas' compliance plan requires that the event be posted on its website and that the information is made available to all market participants.<sup>87</sup>

## **Rule IV.C**

### **IV.C. Service Provider Information**

Except upon request by a customer or as otherwise authorized by the Commission, or another governmental body, a utility shall not provide its customers with any list of service providers, which includes or identifies the utility's affiliates, regardless of whether such list also includes or identifies the names of unaffiliated entities.

### **2010 and 2011 Compliance Plans**

*SoCalGas uses a non-discriminatory process for suppliers to be included on the service provider list, which is included on SoCalGas' Internet Web site. SoCalGas provides this list to customers only upon their request, as a convenience.*

### **Findings and Conclusions**

SoCalGas complied with Rule IV.C.

- SoCalGas' ATR training materials specifically instruct employees on the prohibition in soliciting business on behalf of its affiliates.<sup>88</sup>

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<sup>84</sup> DRs 333 and 334

<sup>85</sup> IR 84

<sup>86</sup> DR 94

<sup>87</sup> DRs 97 and 125

<sup>88</sup> DR 94

- SoCalGas' compliance plan states that customers will be provided supplier lists only upon customer request.<sup>89</sup>
- SoCalGas maintains supplier lists on its website for natural gas suppliers. There are two lists, one for core customers and one for noncore customers. The list is alphabetical and provides no special attention to any one supplier.<sup>90</sup>

## Rule IV.D

### IV.D Supplier Information

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

### 2010 and 2011 Compliance Plans

*The Supply Management Department trains its contracting agents to first obtain written authorization from an unaffiliated supplier before providing non-public information and data received from the supplier to the utility's affiliates or non-affiliated entities.*

*Affiliate requests for supplier information are centrally processed by Supply Management through use of Supplier Disclosure Forms. Supplier Disclosure Forms are not required to disclose contract data for allowable shared goods and services.*

*Supply Management maintains a log of all instances in which it provides supplier information to an affiliate for non-shared goods and services. The log lists the affiliate name, the supplier, the date that the form is received, and indicates that the required written affirmative authorization was obtained from the supplier.*

### Findings and Conclusions

SoCalGas complied with Rule IV.D.

- SoCalGas' ATR training informs employees that supplier information can only be shared with an affiliate with written consent of the supplier.<sup>91</sup>
- SoCalGas' compliance plan states that the Supply Management Division must obtain written supplier authorization prior to providing information to an affiliate. The compliance plan further states that requests for supplier information are centrally processed by Supply Management and require the use of a Supplier Diversity Form.<sup>92</sup>

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<sup>89</sup> DR 97

<sup>90</sup> <https://socalgas.com/for-your-business/natural-gas-services/energy-service-providers>

<sup>91</sup> DR 94

<sup>92</sup> DR 97

- During 2010 and 2011, SoCalGas stated that there were no instances where affiliates were provided supplier information.<sup>93</sup> NorthStar’s audit of supplier information and Supply Management communication confirmed this.

## **Rule IV.E**

### **IV.E Affiliate-Related Advice Or Assistance**

Except as otherwise provided in these Rules, a utility shall not offer or provide customers advice or assistance with regard to its affiliates or other service providers.

### **2010 and 2011 Compliance Plans**

*SoCalGas will comply with Rule IV.E’s requirements. SoCalGas employees are trained to refrain from providing advice or assistance regarding any service provider (including its affiliates) or any proposal of a service provider.*

*SoCalGas’ primary interest is meeting the needs of its customers. Resolution G-3238 recognizes SoCalGas’ right to provide general technical advice not related to a specific service provider or proposal. SoCalGas will offer customers general technical advice that is not linked to a specific service provider or proposal and will, under Rule V.F.4.a, meet with customers when requested to “discuss technical and operational subjects regarding the utility’s provision of transportation service to the customer.”*

### **Findings and Conclusions**

SoCalGas complied with Rule IV.E.

SoCalGas does not provide customers with advice or assistance with regard to affiliates or other service providers; customers are referred to the internet site for service provider information.<sup>94</sup> Call center procedures and training specifically prevent CSRs from referring customers to one of Sempra’s third-party vendors or an affiliate, and from providing advice or assistance regarding an affiliate.<sup>95</sup> These prohibitions are covered in the CSR-2 training, the CSR-4 training and the call center’s annual affiliate transaction rules training.

Rule IV.E is not addressed as part of the annual affiliate compliance training taken by other non-represented employees.<sup>96</sup>

NorthStar interviewed customer service personnel and major account executives, evaluated policies and procedures and online reference guides, listened to live and recorded customer calls, reviewed customer presentations provided by major account executives, and reviewed advertising and promotional material and found no evidence that SoCalGas offers or provides customers with advice or assistance regarding its affiliates or other service providers.<sup>97</sup>

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<sup>93</sup> DR 43

<sup>94</sup> DR 39

<sup>95</sup> DR 130, 184, 282, 283

<sup>96</sup> DR 94

<sup>97</sup> IRs 16, 40, 41, 43, 44, 60-61, and 75-78 DRs 31, 32, 34, 39, 45-49, 130-131, 170-174, 177-179, 247-248, 253

SoCalGas uses software that allows Quality Assurance (QA) personnel to perform a search for spoken words on recorded calls to the call center.<sup>98</sup> NorthStar searched for key words that might involve SoCalGas affiliates or other service providers. Search terms included: “Sempra”, “affiliate”, “third party”, “ESP”, and “recommend contractor”.<sup>99</sup> In no instance did the call center CSR provide advice regarding an affiliate or other service provider.<sup>100</sup> On one call the customer asked the CSR for a contractor recommendation; the CSR appropriately did not provide one and referred the customer to the yellow pages.<sup>101</sup>

## **Rule IV.F**

### **IV.F Record Keeping**

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

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

### **2010 and 2011 Compliance Plans**

*Records are maintained so that they can be released within three calendar days from the receipt of the request. Records are kept for at least three years as required by the Rules. Utility officers and directors are required to maintain sufficient documentation to support intercompany transactions with affiliates, not limited to the following records: electronic calendars, meeting summaries, manual telephone logs and e-mail correspondence.*

*It should be noted that the billing records are processed in aggregate, on a monthly billing cycle. SoCalGas' current accounting system does not process billings to affiliates on a real-time basis.*

*All requests from third parties for affiliate transaction information must be made to the Manager - Accounting Systems & Compliance, who will, for all reasonable requests arrange for retrieval and presentation of the information within the time required. All requests pursuant to this Rule should be submitted in writing to:*

*Ramon Gonzales  
Manager – Accounting Systems & Compliance  
Southern California Gas Company  
555 West 5<sup>th</sup> Street ML - GT28E3  
Los Angeles, CA 90013*

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<sup>98</sup> IR 60 and 75. Due to retention limitations, calls searched were for specified time periods in 2013.

<sup>99</sup> IR 75

<sup>100</sup> Most calls were routine utility calls and did not address affiliate or suppliers.

<sup>101</sup> Call Center observations (IR 75)

**Findings and Conclusions**

SoCalGas did not comply with Rule IV.F.

SoCalGas deleted Gas Scheduling and Gas Control telephone recordings that included affiliate communications from calendar year 2010 and the first four months of 2011 during the course of this audit.<sup>102</sup>

- SoCalGas does not consider the required recording of telephone communications with affiliates to be covered within the scope of the Affiliate Transaction Rules, and specifically Rule IV.F.<sup>103</sup>
- SoCalGas has interpreted the Rule IV.F standard of maintaining records for a minimum of 3 years, to exactly three years giving little to no regard to an ongoing audit that was publicly announced on March 5, 2013. SoCalGas’ record retention policy is provided as **Exhibit IV-1**.<sup>104</sup> While the Merger Decision was some time ago and dated March 26, 1998, the policy appears to have been created more recently on March 31, 2013.

**Exhibit IV-1  
Sempra Energy Policy on Affiliate Records Retention**

SCG 2200-0253 Transmission & System Operations		
Record Series Code	Subjects / Description	Official Retention
LEG-70-02	Legal Affiliate Compliance Calendar Books, E-mail & Telephone Calls Director and Officer records documenting personal schedules, telephone records, and e-mail messages associated with Affiliate Compliance, including written tariff discretion logs, waivers, and analyses of discounts and contracts. Telephone calls to or from the Gas Scheduling Group pertaining to gas transportation will be tape recorded and maintained, including copies of any facsimiles sent to shipper or Gas Acquisition. Vital-No Info Class-Confidential <i>Gas Control / Nice Log Recordings</i> <i>Gas Scheduling / Mobile Phone Recordings</i> <i>Gas Scheduling / Nice Log Recordings</i>	3

- SoCalGas stated that it records these calls and maintains the recordings pursuant to Remedial Measure (RM) 14, not to comply with the Commission’s ATRs. However, the policy shown above in Exhibit IV-1 clearly indicates that LEG-70-02 applies to “Affiliate Compliance”.

<sup>102</sup> DR 336

<sup>103</sup> DR 336 - SoCalGas records these calls and maintains the recordings pursuant to Remedial Measure (RM) 14, not to comply with the Commission’s ATRs.

<sup>104</sup> DR 332

- In spite of its retention policy, SoCalGas does not currently have three years of call-recording complete history. SoCalGas can only provide recorded calls going back to May 7, 2011 with the exception being those timeframes when the system was unavailable to record calls. Furthermore, SoCalGas call record retention practices do not follow its policies or Remedial Measure 14: the current system was removing recorded calls on a “First In-First Out” basis based on the amount of disk space available to store the recorded calls.<sup>105</sup> This is not a 3-year record retention.
- SoCalGas’ compliance plan recognizes the requirement to maintain records in order that they can be released in 72 hours. SoCalGas states that records will be kept for a minimum of three years although as noted above, there are exceptions.<sup>106</sup>
- SoCalGas has developed numerous internal policies to ensure the availability of records. Policies relate to financial account reconciliations, accounting of non-routine transactions, employee transfers, journal entries, cost allocations, and procurement. In addition SoCalGas recognizes the requirement to post occurrences of providing affiliates customer information, non-customer non-public information, discounts, tariff deviations, and access to unused capacity or supply.<sup>107</sup>
- NorthStar waived the 72 hour requirement for the provision of records due to large volumes of information requested. Generally, SoCalGas responded to NorthStar’s requests in two weeks.

## Rule IV.G

### IV.G Maintenance of Affiliate Contracts and Related Bids

A utility shall maintain a record of all contracts and related bids for the provision of work, products or services between the utility and its affiliates for no less than a period of three years, and longer if this Commission or another government agency so requires.

#### 2010 and 2011 Compliance Plans

*Relevant records will be retained for three years or in accordance with the official retention cycle as established by Sempra Energy’s Records Management Policy, whichever is longer, by the department involved with the transaction.*

### Findings and Conclusions

SoCalGas complied with Rule IV.G. SoCalGas provided the following contracts with its affiliates:

- Transportation Contract with Rosarito Gasoducto.
- Transportation Contract with Transportadora de Gas Natural de Baja.

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<sup>105</sup> DR 334

<sup>106</sup> DR 97

<sup>107</sup> DRs 87, 94 and 97

- Master Service Agreement between Sempra Energy and SoCalGas.<sup>108</sup>
- Commodity Agreements with Sempra Generation, Sempra Energy Trading, and Encana Marketing.<sup>109</sup>

## **Rule IV.H**

### **IV.H FERC Reporting Requirements**

To the extent that reporting rules imposed by the FERC require more detailed information or more expeditious reporting, nothing in these Rules shall be construed as modifying the FERC rules.

### **2010 and 2011 Compliance Plans**

*No additional compliance action is required.*

### **Recommendations**

5. Include the prohibition on providing customers affiliate-related advice or assistance in the ATR training course. (Rule IV.E)
6. Do not delete affiliate-related records during the course of an active audit. (Rule IV.F)

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<sup>108</sup> DR 20

<sup>109</sup> DR 21

## RULE V. SEPARATION

Rule V requires that the utility and its affiliates (1) be separate corporate entities with separate books and records, (2) not share facilities, except for the provision of shared corporate services, (3) avoid joint purchases related to the utility merchant function, (4) not promote or advertise an affiliate's affiliation with the utility, (5) not jointly employ the same employees, and (6) transfer allowable goods and services at fair market value or fully loaded cost.

In assessing the Southern California Gas Company's (SoCalGas) compliance with Rule V, NorthStar used the following evaluative criteria, whether:

- SoCalGas, its parent holding company, Sempra, and its affiliates were organizationally and functionally separate.
- SoCalGas, Sempra, and its affiliates maintained separate books and records which were kept in accordance with USOA and GAAP standards.
- SoCalGas did not share office space or office equipment with its affiliates, except to the extent appropriate to perform shared corporate support functions permitted under Rule V.
- SoCalGas did not share services with its affiliates, except to the extent appropriate to perform shared corporate support functions permitted under Rule V.
- Affiliate companies did not have access to utility computer or information systems beyond what was appropriate for joint corporate functions. SoCalGas did not have access to affiliate computer or information systems beyond what was appropriate for joint corporate functions.
- The processes used to allocate costs for shared facilities and services provided accurate and timely information.
- SoCalGas and its affiliates did not make joint purchases of goods and services associated with the traditional utility merchant function.
- Costs of joint purchases of goods and services were allocated appropriately.
- Shared services did not provide a means for the transfer of confidential information, create an opportunity of preferential treatment of unfair competitive advantage, lead to customer confusion, or create opportunities for cross-subsidization,
- If SoCalGas and Sempra shared any key officers, the following services were not shared: regulatory affairs, lobbying, and all legal services except those necessary to the provision of authorized shared services.
- Shared support services were priced, reported and conducted in accordance with Separation and Information standards set forth in the Rules as well as other applicable Commission requirements.
- SoCalGas did not engage in joint advertising or R&D projects with its affiliates.
- SoCalGas had no joint employees with its affiliates, except as permitted for corporate support shared services.
- Transfers of employees between SoCalGas and its affiliates were conducted in accordance with the Rules.

- Transfers of employees between SoCalGas and its affiliates did not come at the expense of SoCalGas business.
- Officer approval of both companies involved in the transfer was obtained before the transfer occurs.
- Utility employees were free to accept or reject employment with affiliates and no involuntary transfers took place.
- If a utility employee elected to accept a position with an affiliate, he or she resigned from SoCalGas.
- The transfer-pricing methodology ensured that transactions between SoCalGas and its affiliates did not harm SoCalGas or its customers and was in line with the Rules.
- The transfer-pricing methodology was consistently utilized.

In conducting its compliance audit, NorthStar examined the following:

### **Corporate Entities**

1. Reviewed the documents issued to create each corporation.
2. Reviewed organization charts, company literature, and employee manuals.
3. Reviewed Commission Advice Letters identifying the creation of a new affiliate.

### **Books and Records**

4. Verified that all accounting records were available for review and analysis.
5. Reviewed audit reports to ensure that books and records were kept separately by entity and in accordance with Uniform System of Accounts (USOA) and Generally Accepted Accounting Procedures (GAAP).

### **Sharing of Plant, Facilities, Equipment or Costs**

6. Examined the facilities of SoCalGas and affiliates to determine that they were separate.
7. Verified through review of system architecture, access security controls and investigation that cross-system computer access was not possible except as necessary for joint corporate functions.
8. Interviewed managers of information technology to identify what controls and design features were in place to limit cross-company access to computer systems and information.

### **Joint Purchases**

9. Reviewed joint purchasing agreements to analyze the method by which costs and benefits were allocated.

10. Reviewed joint purchasing agreements to determine that products or services associated with the traditional utility merchant function were not included.
11. Interviewed utility purchasing department management to determine if they understood the rules affecting joint purchases.
12. Reviewed procedures of joint purchases.

### **Corporate Support**

13. Examined corporate support activities to ensure that they were in compliance with the Rules.
14. Examined methods of cost allocation to determine if fully allocated costs were consistent with the Rules and underlying causal factors.
15. Examined accounting records to verify that the procedures used in accounting for costs shared between corporate entities were consistent with the Rules and underlying causal factors.
16. Interviewed managers of corporate support functions to identify and describe the services performed.

### **Corporate Identification and Advertising**

17. Reviewed compliance plans and internal procedures provided in response to NorthStar's data requests as well as those available on Sempra's "Sempranet" intranet site.
18. Reviewed advertising materials to ensure that identification of the affiliates was proper and that the disclaimer was included if appropriate.
19. Identified any known occurrence in which SoCalGas participated in joint advertising or joint marketing with its affiliates.
20. Examined instances where SoCalGas provided space in its billing envelopes or other forms of written communication to customers to insure that the affiliates did not trade improperly on SoCalGas' name or logo and that the affiliates obtained access under the same terms and conditions offered to non-related entities.
21. Interviewed responsible managers to determine how advertising content and communications were determined with respect to affiliates.
22. Interviewed personnel regarding controls over branding and the use of the Sempra/SoCalGas logo.
23. Interviewed the Sempra corporate communications compliance manager.

24. Interviewed major account executive supervisor regarding promotional materials, marketing activities and controls. Reviewed responsibilities and goals/performance objectives for potential adverse incentives. Reviewed industry trade presentations.
25. Interviewed parent company and affiliate personnel regarding marketing and promotional materials and controls over affiliate activities.
26. Interviewed billing personnel regarding summary billing process, bill format and bill information.
27. Reviewed bills, bill inserts and bill envelopes.
28. Reviewed SoCalGas' promotional materials.
29. Reviewed the code of conduct and affiliate compliance training materials (corporate and call center).
30. Reviewed Sempra Energy and SoCalGas' press releases.

### **Employees**

31. Examined employee time reports to determine that there were no joint employees and that restrictions on transfers and temporary assignments were adhered to.
32. Determined if any employees left a utility for an affiliate and returned in less than one year.
33. Reviewed records to determine if all affiliate use of utility employees was based on written agreements approved by the appropriate managers or officers.

### **Transfer of Services**

34. Analyzed transfers from SoCalGas to its affiliates of goods and services produced, purchased or developed for sale on the open market by SoCalGas to validate that they were priced at fair market value.
35. Analyzed transfers from affiliates to SoCalGas of goods and services produced, purchased or developed for sale on the open market by the affiliate to validate that they were priced at no more than fair market value.
36. Analyzed transfers from SoCalGas to its affiliates of goods and services not produced, purchased or developed for sale by SoCalGas affiliate to validate that they were priced at fully loaded cost.
37. Analyzed transfers from an affiliate to SoCalGas of goods and services not produced, purchased or developed for sale by the affiliate to validate that they were priced at the lower of fully loaded cost or fair market value.

38. Interviewed utility Controller and Procurement management to determine if they understood the rules governing transfer of goods and services and what controls were in effect to ensure that the rules were followed.
39. Analyzed methods used to determine fully allocated costs to ensure that they were consistent with the Rules and underlying causal factors.

#### **Transfer, Lease or Rental of Utility Assets**

40. Reviewed lease agreements to determine if prices were in accordance with fair market value provisions of the Rules.

#### **General**

41. Determined whether SoCalGas' processes, procedures and controls used to ensure compliance with this ATR were consistent with SoCalGas' most recent Compliance Plan.
42. Determined the actual or potential harm to the ratepayers as a result of any identified error, discrepancy, or violation of this Rule.

### **Rule V.A**

#### **V.A Corporate Entities**

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

#### **2010 and 2011 Compliance Plans**

*SoCalGas, Sempra Energy, and its affiliates are separate entities.*

#### **Findings and Conclusions**

SoCalGas complied with Rule V.A

SoCalGas and its affiliates are separate corporate entities. The separation of SoCalGas from its affiliates is thoroughly documented in the Company's Affiliate Transactions Report submitted annually to the California Public Utilities Commission (CPUC), and in Sempra Energy's and SoCalGas' 10-K Report filed annually with the SEC.<sup>110</sup> As further confirmation, NorthStar reviewed the organizational structure, Board of Directors minutes, and articles of incorporation of SoCalGas, Sempra Energy, San Diego Gas and Electric Company (SDG&E), Sempra Generation, and new affiliates created during 2010 and 2011. All are corporate entities separate from SoCalGas.<sup>111</sup>

Sempra Energy has six separately managed reportable segments consisting of SoCalGas, SDG&E, Sempra Generation, Sempra Pipelines & Storage, Sempra LNG (liquefied natural gas) and Sempra Commodities. Sempra Generation, Sempra Pipelines & Storage, Sempra LNG and Sempra Commodities are subsidiaries of Sempra Global. Sempra Global is a

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<sup>110</sup> DR 1, 12 and 81

<sup>111</sup> DR 2, 6, 12, 15, 16 and 81

holding company for most subsidiaries that are not subject to California utility regulation. SoCalGas, Pacific Enterprises and SDG&E are subsidiaries of Sempra Energy – Sempra Utilities. These entities are shown in **Exhibit II-1**. Sempra Energy directly or indirectly owns all the common stock and substantially all of the voting stock of each of the three companies.<sup>112</sup>

SoCalGas and its affiliates have separate employees and separate directors and officers, with three exceptions, where exclusions are allowed by the Affiliate Transaction Rules (Rules or ATR) or other CPUC decisions. First, officers are allowed to be shared between SoCalGas and SDG&E, by the PE/Enova merger (D.98-03-073, mimeo at 107). Second, some officers and directors are shared between SoCalGas, SDG&E, and non-covered affiliates. Third, the corporate secretary was shared between SoCalGas and numerous covered and non-covered affiliates, as allowed under Rule V.E. These exceptions are discussed in greater detail under Rule V.G.1.

The following SoCalGas officers were shared between the utility, Sempra Energy, and other affiliates.

- Consistent with the exemptions permitted in Rule V.G.1, and the exemptions permitted in D.98-08-035 (modified D.97-12-088) and later confirmed by Resolution G-3238 for shared officers, the positions of General Counsel, Secretary/Assistant Secretary, CFO Controller, and Treasurer may be shared among SoCalGas, Sempra Energy, and other affiliates of Sempra Energy.<sup>113</sup>
- The Secretary of SoCalGas was Assistant Secretary of Sempra Energy and Assistant Secretary of several other affiliates.
- The Assistant Secretary of SoCalGas (5/22/2008 – present) is Vice President – Corporate Relations and Corporate Secretary of Sempra Energy (5/22/2008 – present) and Secretary of several other affiliates. He was also Corporate Secretary and Assistant General Counsel (5/22/2008 – 5/14/2010).

## **Rule V.B**

### **V.B Books and Records**

A utility, its parent holding company, and its affiliates shall keep separate books and records.

**V.B.1** Utility books and records shall be kept in accordance with the applicable Uniform System of Accounts (“USOA”) and Generally Accepted Accounting Procedures (“GAAP”).

**V.B.2** The books and records of a utility’s parent holding company and affiliates shall be open for examination by the Commission and its staff consistent with the provisions of Public Utilities Code Sections 314 and 701, the conditions in the Commission’s orders authorizing the utilities’ holding companies and/or mergers and these Rules.

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<sup>112</sup> Sempra Energy Form 10-K, Southern California Gas Company Form 10-K, filed February 24, 2011.

<sup>113</sup> SoCalGas Affiliate Transactions Report Schedule A.1 Affiliate Listing

## 2010 and 2011 Compliance Plans

*SoCalGas, Sempra Energy, and its affiliates maintain separate accounting books and records. SoCalGas follows and will continue to follow USOA and GAAP standards. The accounting books and records of SoCalGas, Sempra Energy and its affiliates are open for examination by the CPUC pursuant to Public Utilities Code Sections 314(b) and 701.*

## Findings and Conclusions

SoCalGas complied with Rule V.B.

NorthStar verified that SoCalGas and its affiliates keep separate books and records. NorthStar reviewed the accounting and data processing procedures, examined the books and records of SoCalGas, policies and procedures, and interviewed accounting personnel. NorthStar reviewed the SAP Chart of accounts for the Sempra Energy, Southern California Gas Company and San Diego Gas & Electric and found them to be separate.<sup>114</sup>

SoCalGas uses a system of charge numbers called internal orders for tracking all expenses incurred on behalf of its affiliates, as well as other internal costs that need to be accumulated.

SoCalGas has established in its Affiliate Compliance Procedures that utility employees charge to designated affiliate internal orders for each half-hour of time worked on affiliate-related projects.<sup>115</sup>

NorthStar also reviewed SoCalGas' procedure for inter-company billing (to/from Sempra Energy Utilities, SDG&E, SoCalGas and Sempra Energy Corporate Center), and other Affiliates.<sup>116</sup> Policies state that in the course of normal business operations, the Sempra Energy and Sempra Energy Corporate Center (SECC) provide goods and services for the benefit of each other and other non-regulated affiliates. To avoid utility-to-utility or utility to non-regulated affiliate subsidization and for internal control, the cost of these goods and services must be accurately billed to the appropriate affiliates on a monthly basis. This business function is governed by the Inter-company Receivables/Payables Policy.

NorthStar examined the recent reports of internal and external auditors. SoCalGas' external auditors reported to the Board of Directors and Shareholders of SoCalGas on the effectiveness of the Company's internal control over financial reporting, incorporated by reference in the Annual Report on Form 10-K of SoCalGas for the years ended December 31, 2010, and 2011.<sup>117</sup>

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<sup>114</sup> DR 79

<sup>115</sup> DR 1

<sup>116</sup> DR 93

<sup>117</sup> Consents of Independent Registered Public Accounting Firm and Report on Schedule, Sempra Energy Form 10-K, Southern California Gas Company Form 10-K.

## Rule V.C

### V.C 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).

### 2010 and 2011 Compliance Plans

#### *Facilities Separation:*

*SoCalGas' headquarters are located at the Gas Company Tower in downtown Los Angeles. Access to the entire Gas Company Tower is card-key controlled. At the present time, no affiliate personnel occupy office space in the Gas Company Tower. SoCalGas shared service personnel and Sempra Energy Corporate Center shared service personnel have workspace at the Gas Company Tower.*

*Workspace at SoCalGas' headquarters, located at the Century Park facility in San Diego, has been designated for use by Sempra Energy Corporate Center and SoCalGas shared service personnel. Utility officers, who are primarily based out of the Gas Company Tower, also have workspace at Century Park to facilitate integrated management of the two utilities. No affiliate personnel share the Century Park facility.*

#### *Information Technology:*

*The SoCalGas Data Center houses the majority of Information Technology ("IT") production processing operations. Consolidation of the SDG&E and SoCalGas IT systems is a "utility-to-utility" transaction that was approved and priced in the Merger Decision (D.98-03-073).*

*The SoCalGas Data Center is a stand-alone facility, specifically constructed and maintained to house computer technology services and related activities in a high security environment. The utility-operated facility provides computer technology services for the utilities and Corporate Center. The SoCalGas Data Center provides support for permissible shared services (under Rule V.E), such as employee timekeeping, payroll, materials management and accounting functions.*

*To ensure compliance with the Rules for utility and affiliate separation, the Utility/Corporate Center information systems adhere to the following measures:*

#### *Office Space:*

*Affiliate personnel are not allowed physical access to the SoCalGas Data Center without escort. The covered affiliates operate their own independent IT organization and data center for affiliate information systems. The covered affiliates' Data Center is located at Sempra Energy's Headquarters building. With the exception of shared*

*service Facilities Management staff, utility employees cannot access the covered affiliates Data Center without escort.*

***Shared Services:***

*The Utility/Corporate Center network maintains physical and logical security controls to ensure that affiliates can only view, input and export permissible information.*

*Utility employees do not have access to the covered affiliates' network.*

***Systems:***

*The Utility/Corporate Center IT network is separated from the covered affiliates' network by security controls designed to physically and logically isolate the Utility/Corporate Center and the covered affiliates' systems and information.*

*Utility employees do not have access to the covered affiliates' network.*

*The utilities and the covered 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 also be used for all Sempra Energy companies.*

*Utility and the covered 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 Utility/Corporate Center network and the covered affiliates' network for access to allowable shared services. These guidelines are approved by representatives of SoCalGas IT, covered affiliates' IT and ACD and are subject to audit by the Sempra Energy Audit Services Department.*

**Findings and Conclusions**

SoCalGas did not comply with Rule V.C.

SoCalGas permitted sharing of its computer system between SoCalGas and a covered affiliate employee. One employee transferred from the utility to an affiliate in each year of the audit. On December 10, 2010 an employee transferred from the utility to Mobile Gas. His computer access was not terminated until December 14, 2010. Because access to the utility's computer systems for employees of affiliates is not allowed, this is a violation of

Rule V.C. Computer access for the employee who transferred in 2011 was terminated on the date of transfer.<sup>118</sup>

SoCalGas did not share office space, office equipment, services, and systems with its covered affiliates. SoCalGas' headquarters is located at the Gas Company Tower in downtown Los Angeles.

At all facilities, physical access is controlled using the Enterprise Wide Access Control System (badge system) for all affiliate areas. Clearances are designed and assigned based on each employee's company affiliation and organization to ensure that affiliate areas are restricted properly. For example, at the Gas Company Tower, access to each floor is limited based on company affiliation.<sup>119</sup> NorthStar witnessed the use of the badge system during the course of this audit and found controls in place that limit access to high-risk areas such as energy trading.

In 2010-2011, no covered affiliate personnel occupied office space in the Gas Company Tower or any other SoCalGas facilities.<sup>120</sup> SoCalGas did not have office space at Sempra Headquarters in San Diego.<sup>121</sup>

The SoCalGas and Corporate Center IT network is separated from the covered affiliates' network by security controls designed to physically and logically isolate the Utility/Corporate Center and the covered affiliates' systems and information. The utilities and the covered 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 email, directories and collaboration tools are also separated.<sup>122</sup>

Access to the utility's network and applications is controlled by Information Security & Information Management.<sup>123</sup> Information managers rely on business process owners to authorize or deny access to requested information, and implement business process owners' decisions by assigning or revoking rights to user accounts.

## Rule V.D

### V.D Joint Purchases

To the extent not precluded by any other Rule, the utilities and their affiliates may make joint purchases of goods and services, but not those associated with the traditional utility merchant function. For purpose of these Rules, to the extent that a utility is engaged in the marketing of the commodity of electricity or natural gas to customers, as opposed to the marketing of transmission and distribution services, it is engaging in merchant functions. Examples of permissible joint purchases include joint purchases of office supplies and telephone services. Examples of joint purchases not permitted include gas and electric purchasing for resale, purchasing of gas transportation and storage

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<sup>118</sup> DR 146

<sup>119</sup> DR 172

<sup>120</sup> DR 74

<sup>121</sup> SDG&E DR 197

<sup>122</sup> DRs 65, 134-138, 145-149

<sup>123</sup> DRs 62, 66-71

capacity, purchasing of electric transmission, systems operations, and marketing. The utility must insure that all joint purchases are priced, reported, and conducted in a manner that permits clear identification of the utility and affiliate portions of such purchases, and in accordance with applicable Commission allocation and reporting rules.

### **2010 and 2011 Compliance Plans**

*The utilities' Supply Management Department procures products and services (other than those associated with the traditional merchant function) as a Rule V.E shared service for SoCalGas, SOCALGAS, and affiliates. Resolution G-3238 stated that Rule V.D forbids the joint purchase of "pipe and equipment" by utilities and affiliates because it is "more closely associated with the 'traditional utility merchant function'" (mimeo at 31). Supply Management trains its contracting agents that they may not jointly procure goods and services associated with the traditional merchant function.*

### **Findings and Conclusions**

SoCalGas complied with Rule V.D.

The Supply Management organization is a shared service that supports SoCalGas, SDG&E, and Sempra Corporate. It does not directly support any of the Sempra affiliate companies.<sup>124</sup> Affiliate companies are supported by their own purchasing resources and systems.

Joint purchasing occurs when SoCalGas and one or more of its affiliates enter into a single contract or purchasing agreement with a supplier to provide goods or services to each company. The utilities' Supply Management group negotiates and executes a contract or purchasing agreement with a third-party supplier for allowable joint purchasing activities, such as office services, telecom services, and travel services. In such cases, utilities' and affiliate transactions are segregated by either separate purchase orders or through cross-billing accounting.<sup>125</sup>

**Exhibit V-1** provides a listing of vendors that were common to Sempra affiliate companies and the utilities in 2010 and 2011. As shown in Exhibit V-1, there were no joint purchases related to traditional utility merchant function, such as gas and electric purchasing for resale, purchasing of gas transportation and storage capacity, purchasing of electric transmission, systems operations, marketing. In accordance with Resolution G-3238, SoCalGas and its affiliates had no joint purchases of "pipe and equipment."<sup>126</sup>

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124 DR 166

125 DR 166

126 DR 313

**Exhibit V-1**  
**SoCalGas, SDG&E and Affiliate Joint Purchases**  
**2010 and 2011**

Description of Material or Service	Vendor Name	Transaction Amounts		
		SDG&E	SoCalGas	Affiliates
Architectural Services	Vendor Names Redacted	\$49,622	\$751	\$4,548
Architectural Services		4,708		4,620
Audit Services		1,422		2,396
Catering Services		282,097	517,993	61,351
Catering Services		1,272,004	20,742	194,292
Childcare Services		117,170	166,967	727
Copy, Mail, Messenger Serv.		6,774,406	6,625,723	4,156
Environmental Services		97,537	95,717	5,863
Environmental Services		35,745	38,268	4,580
Facility Construction Services		654,051	1,914,728	4,482
Facility Construction Services		166,837		24,142
Facility Construction Services		178,496		386
Facility Construction Services		16,610,464	5,800	71,457
Facility Construction Services		666,147		5,031
Facility Maintenance		595,732		15,147
Facility Maintenance		2,375,185		13,532
Facility Maintenance		13,045	910	7,565
Facility Maintenance		24,976		9,730
Facility Maintenance		5,953		6,657
Facility Maintenance		16,946		265
Facility Maintenance		910,517		5,900
Facility Maintenance		78,994		6,177
Facility Moving Services		1,579,215	188,758	187,831
Facility Services, Security		1,213,725	51,392	79,963
Financial Services		167,876	105,828	187,450
Financial Services		200,446		49,567
Financial Services		2,894		5,375
HR Services		10,606	16,688	8,938
HR Services		3,317	4,482	1,221
IT Hardware & Services		119,480		15,228
IT Hardware & Services		14,158		8,244
Office Equipment, Furniture		61,775	13,295	3,000
Office Equipment, Furniture		7,631		15,872
Office Equipment, Furniture		4,022,415	815,718	118,227
Office Supplies		2,971,346	3,261,436	228,482
Office Supplies		180,286	108,917	977
Office Supplies & Stationary		7,589		1,781
Office Supplies & Stationary		1,007,216	2,059,608	5,938
Rental Car Services		24,509	1,575	663
Telecom Accessories		180,338	122,700	2,843
Telecom Services		782,051	373,109	2,489
Telecom Services		21,764	25,200	12
Telecom Services		54,917	19,309	2,841
Telecom Services		183,632	523,247	4,108
Telecom Services		157,468		4,147
Telecom Services		20,814	13,220	928
Telecom Services		733,557	225,357	230
Telecom Services		5,129,045	4,431,448	3,253
Telecom Services		164,281	105,694	6,405
Travel Services		1,163,426	346,642	100,505

Source: DR 73

In contrast to the assertion in SoCalGas' Compliance Plan that "Supply Management trains its contracting agents that they may not jointly procure goods and services associated with the traditional merchant function," Supply Management has no specific training or procedures regarding allowable joint purchasing activities. Supply Management employees complete annual on-line Affiliate Compliance Training and acknowledge their obligation to comply with the Rules via the on-line Affiliate Compliance Training Course Certification.<sup>127</sup>

## **Rule V.E**

### **V.E Corporate Support**

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

As a general principle, such joint utilization shall not allow or provide a means for the transfer of confidential information from the utility to the affiliate, create the opportunity for preferential treatment or unfair competitive advantage, lead to customer confusion, or create significant opportunities for cross-subsidization of affiliates. In the compliance plan, a corporate officer from the utility and holding company shall verify the adequacy of the specific mechanisms and procedures in place to ensure the utility follows the mandates of this paragraph, and to ensure the utility is not utilizing joint corporate support services as a conduit to circumvent these Rules.

Examples of services that may be shared include: payroll, taxes, shareholder services, insurance, financial reporting, financial planning and analysis, corporate accounting, corporate security, human resources (compensation, benefits, employment policies), employee records, regulatory affairs, lobbying, legal, and pension management. However, if a utility and its parent holding company share any key officers after 180 days following the effective date of the decision adopting these Rule modifications, then the following services shall no longer be shared: regulatory affairs, lobbying, and all legal services except those necessary to the provision of shared services still authorized. For purposes of this Rule, key officers are the Chair of the entire corporate enterprise, the President at the utility and at its holding company parent, the chief executive officer at each, the chief financial officer at each, and the chief regulatory officer at each, or in each case, any and all officers whose responsibilities are the functional equivalent of the foregoing.

Examples of services that may not be shared include: employee recruiting, engineering, hedging and financial derivatives and arbitrage services, gas and electric purchasing for resale, purchasing of gas transportation and storage capacity, purchasing of electric transmission, system operations, and marketing. However, if a utility and its parent holding company share any key officers (as defined in the preceding paragraph) after 180 days following the effective date of the decision adopting these Rule modifications, then the following services shall no longer be shared: regulatory affairs, lobbying, and all legal services except those necessary to the provision of shared services still authorized.

### **2011 Compliance Plan**

*Properly structuring the shared services to ensure separation between the utilities and affiliates is a significant step in ensuring compliance with the Rules, however, the utilities do not rely upon structure alone. Each shared services employee must affirm their understanding of the Rules and acknowledge that they will comply with the anti-conduit provisions as part of annual training. Taken together, these actions demonstrate full compliance with the requirements of Rule V.E*

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<sup>127</sup> DR 168

*Officer Verifications attest to the adequacy of the procedures and mechanisms in place to ensure that SoCalGas and Sempra Energy follow the Rules, and that SoCalGas and Sempra Energy are not utilizing joint corporate support services as a conduit to circumvent the Rules. These verifications for SoCalGas and Sempra Energy are included in Appendix 1.*

*The board of directors and officers of SoCalGas and its holding company, Sempra Energy, must be confident that effective oversight and governance procedures are in place to enable the directors to discharge their legal obligations and fiduciary responsibilities as representatives of the shareholders. Directors have a duty to make informed judgments, question officers, and avail themselves of all material information reasonably available. Officers are regularly requested to gather material information and they must observe a high duty of care in discharging their delegated responsibilities. Appendix 2 provides a listing of meetings held to facilitate these oversight and governance objectives.*

*For purposes of this Rule, SoCalGas considers that shared services include, but are not limited to: payroll, taxes, shareholder services, insurance, financial reporting, financial planning and analysis, corporate accounting, corporate security, human resources (compensation, benefits, employment policies), employee records, regulatory affairs, lobbying, legal and pension management. The CPUC acknowledged in D.98-08-035 that the list of permissible shared services presented in Rule V.E is not exhaustive. Communications and public affairs, for instance, may also be shared. SoCalGas and Sempra Energy do not share any key officers as defined by the Commission. Each of the key officer positions at SoCalGas and Sempra Energy are held by different individuals. Therefore, these companies may share regulatory affairs, lobbying, and legal services*

*SoCalGas understands Rule V.E's prohibition on shared "hedging and financial derivatives and arbitrage services," to apply to employees engaged in hedging electric and natural gas commodities, and not to the use of hedging and financial derivatives in support of SoCalGas' long term financings. The Sempra Energy Treasury and Finance shared service departments may assist SoCalGas with planning and arranging hedging and financial derivative use in support of SoCalGas' long-term financings. They also engage in corporate oversight of SoCalGas' risk management function and set corporate risk-management policies.*

*Some of the key areas currently being shared between each utility and Sempra Energy include, Audit Services, Controller and Corporate Taxes, Corporate Relations, Corporate Security, Finance, Legal, Human Resources, Information Technology, Investor Relations, Risk Analysis & Management, Supply Management<sup>128</sup>, and Treasury.<sup>129</sup> SDG&E and SoCalGas also provide certain shared services to each other, such as legal services.*

*Shared services that are currently shared with affiliates are charged to affiliates via an allocation at month-end. Allowable shared services that are not currently shared will be direct-charged to affiliates on an as-needed basis.*

## **Findings and Conclusions**

SoCalGas did not comply with Rule V.E.

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<sup>128</sup> This area provides support in procuring goods and services (other than those associated with the traditional merchant function).

<sup>129</sup> This is not an exhaustive list of all shared services. The services listed do change from time to time but are still permissible under Rule V.E.

The first part of Rule V.E prohibits corporate support from sharing confidential information or creating an opportunity for preferential treatment. In this regard, corporate officers from the holding company and the utility provided signed verifications that the utility's compliance plan was adequate during the audit period and that the utility is not using shared services as a conduit to circumvent the Rules.<sup>130</sup>

Regarding shared services, NorthStar finds that there are two problems with SoCalGas' Compliance Plan. First, as shown above, the compliance plan states:

SoCalGas understands Rule V.E's prohibition on shared "hedging and financial derivatives and arbitrage services," to apply to employees engaged in hedging electric and natural gas commodities, and not to the use of hedging and financial derivatives in support of SoCalGas' long term financings. The Sempra Energy Treasury and Finance shared service departments may assist SoCalGas with planning and arranging hedging and financial derivative use in support of SoCalGas' long-term financings.

However, Rule V.E. states, "Examples of services that may not be shared include: employee recruiting, engineering, hedging and financial derivatives and arbitrage services, gas and electric purchasing for resale, purchasing of gas transportation and storage capacity, purchasing of electric transmission, system operations, and marketing." NorthStar finds that "hedging and financial derivatives" may not be shared under any circumstances. The Rule does not allow the narrow interpretation that SoCalGas has adopted.

The second compliance issue that NorthStar finds is SoCalGas' interpretation that the ATR permit its Management Accounting Rotation Program and Financial Leadership Program (MARP/FLP). The 2010 compliance plan states:

As allowed by this Rule, SoCalGas' MARP and Corporate Center's FLP representatives may participate in career events together to explain their individual programs.

As the finding with respect to Rule V.G points out, these programs constitute joint employment which is not permitted under the Rules. These programs are not allowed by Rule V.E as the Compliance Plan states.<sup>131</sup>

SoCalGas does not share key corporate officers with its parent holding company, Sempra, nor with any affiliates.<sup>132</sup> **Exhibit V-2** lists the key corporate officers for Sempra and its two utilities. Ms. Debra Reed is displayed as a key officer of both Sempra and its two utilities in 2010. SoCalGas states that Ms. Reed resigned her utility key officer positions on April 2, 2010 and was elected to her Sempra position on April 3, 2010.<sup>133</sup> As Ms. Reed did not concurrently hold key officer positions at both Sempra and the utilities, SoCalGas is allowed to share corporate services including regulatory affairs, lobbying and legal services.

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<sup>130</sup> DR 97

<sup>131</sup> DR 298

<sup>132</sup> DRs 304, 305, 306

<sup>133</sup> DRs 304, 305

**Exhibit V-2  
Key Officers**

Key Officers/Directors	Sempra Energy	SDG&E	SoCalGas
<b>2010</b>			
Chair	Felsingher	Knight Reed	Reed Allman
President	Reed	Reed	Reed Allman
Chief Executive Officer	Felsingher	Knight Reed	Reed Allman
Chief Financial Officer	Snell	Schavrien Schlax	Schavrien Schlax
Chief Regulatory Officer	Keith	Schavrien Skopec	Skopec
<b>2011</b>			
Chair	Felsingher	Knight	Allman
President	Schmale	Niggli	Allman
Chief Executive Officer	Felsingher Reed	Knight	Allman
Chief Financial Officer	Snell Householder	Schavrien Schlax	Schlax
Chief Regulatory Officer	Householder	Schavrien Skopec	Schavrien Skopec

Source: DRs 305, 306

Shared services are provided by Sempra and by its two utilities SoCalGas and SDG&E. Effective January 2011 some Corporate Center employees who had reported to Sempra were transferred to the utility. To the extent that these employees still perform corporate support functions, Sempra and the affiliates are charged for their services. The 2010 Compliance Plan contained a table that listed the shared service departments in Sempra's Corporate Center. SoCalGas provided a complete listing of all of the utility's shared cost centers used in 2010 and 2011.<sup>134</sup>

Sempra and its utilities have used SAP for accounting processing since 2004. SoCalGas, SDG&E and Sempra use the same SAP software. That software is owned by SoCalGas who charges SDG&E for its use. Initially, some affiliates also used SAP. However, most of them migrated to Great Plains software.

Because the utilities and affiliates use two different accounting systems, Sempra uses Hyperion to process the results from the different systems to produce enterprise-wide consolidated financial statements. This process requires Sempra staff to upload files from Great Plains and SAP. The Affiliate Compliance Department (ACD) monitors access to insure that non-utility employees are not allowed access to utility SAP data through Hyperion.

<sup>134</sup> DR 89

All shared support services provided by SoCalGas to its affiliates are priced, reported and conducted in accordance with Separation and Information Standards set forth in the Affiliate Transaction Rules.

All utility costs for services provided to affiliates are charged to specific internal order numbers.<sup>135</sup> Services provided to affiliates, are charged at fully loaded costs (direct expenditures and all applicable overhead costs). The overhead costs include appropriate labor and non-labor overheads in support of the affiliates.<sup>136</sup>

Some of these internal orders directly charge affiliates. Others allocate a portion of costs to several affiliates.<sup>137</sup> Invoices are prepared from the costs charged to each affiliate and the invoices are sent to the affiliates. Affiliates pay the amount of the invoices to SoCalGas each month through the use of a manually initiated electronic transfer of funds.<sup>138</sup> Every invoice during the audit period was paid within 30 days. Most of them were paid by the affiliate to SoCalGas two to ten days.<sup>139</sup>

NorthStar obtained a database containing all of the charges to affiliates during the audit period.<sup>140</sup> During 2010 and 2011, SoCalGas processed approximately 35,000 transactions with its affiliates as recorded in its SAP system.<sup>141</sup> NorthStar selected a focused sample of these transactions using the following methodology:

- Transactions were separated by affiliate
- Transactions were then subcategorized by general ledger account type including:
  - Labor
  - Labor overheads
  - General overheads
  - Rents
  - Equipment investment
  - Materials
- Transactions were further subcategorized by the source of the transaction within SoCalGas
- A sample of transactions for each affiliate representing labor, overhead and materials was selected

The focused sample provided transactions from each type of activity charged to each of several affiliates. All of these transactions were found to be correctly loaded with the appropriate overheads and, when appropriate, allocated among several affiliates based on causal factors.

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<sup>135</sup> DRs 84, 132

<sup>136</sup> DR 83

<sup>137</sup> DRs 85, 89

<sup>138</sup> DR 156

<sup>139</sup> DR 237

<sup>140</sup> DR 194 (SDG&E), 240

<sup>141</sup> DR 33 in SoCalGas

Most of the transactions were provided under shared services as authorized in Rule V.E. The remaining transactions are related to natural gas trades allowed under Rule III.B.1, non-tariffed products and services allowed under Rule VII, and employee transfers and loaned labor as discussed in Rule V.G.2. NorthStar determined that all of the transactions tested were based on authentic source documents and that overheads were calculated and applied correctly. NorthStar reviewed a number of charges that were allocated between affiliates and found the allocations factors to be appropriately applied.<sup>142</sup>

## **Rules V.F and V.F.1**

### **V.F Corporate Identification and Advertising**

**V.F.1** A utility shall not trade upon, promote, or advertise its affiliate's affiliation with the utility, nor allow the utility name or logo to be used by the affiliate or in any material circulated by the affiliate, unless it discloses in plain legible or audible language, on the first page or at the first point where the utility name or logo appears that:

V.F.1.a. the affiliate “is not the same company as [i.e. PG&E, Edison, the Gas Company, etc.], the utility”;

V.F.1.b. the affiliate is not regulated by the California Public Utilities Commission; and

V.F.1.c. “you do not have to buy [the affiliate’s] products in order to continue to receive quality regulated services from the utility.”

The application of the name/logo disclaimer is limited to the use of the name or logo in California.

### **2010 and 2011 Compliance Plans**

*If SoCalGas mentions the name of an affiliate in its materials, SoCalGas will disclose the required disclaimer language as prescribed by the Rules.*

*The use of the “Sempra” name or logo by any covered affiliate for communications in California or those that could reasonably be expected to migrate to California would require the following disclaimer on such materials in accordance with D. 02-02-046:*

***Affiliates will use...***

*[The affiliate] is not the same company as the utility, SoCalGas, and [the affiliate] is not regulated by the California Public Utilities Commission.*

*To the extent material such as business cards or brochures may contain the name of more than one affiliate, the primary affiliate’s name will be utilized in the disclaimer text.*

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<sup>142</sup> DR 258

**Disclaimer Exceptions:**

*D.98-11-027 provided that the disclaimer requirement does not apply in certain limited instances as follows:*

- 1. Communications with governmental bodies, where the parties involved either know, or should have reason to know, the legal status and interrelationship of the utility and affiliates, and the communications are not related to product sales. This is interpreted to include: (i) communications with governmental entities in legal or regulatory proceedings, written communications with governmental bodies regarding actual or proposed legislation, and written communications to federal, state or municipal agencies which relate to an agency requirement or power (other than the power of the agency to buy products and services); (ii) legal documents, such as contracts and real property instruments; and (iii) communications with security holders and other members of the investment community, where, in each of the foregoing instances, the parties involved either know, or should have reason to know, the legal status and interrelationship of the utility and affiliates;*
- 2. Annual/statistical/financial reports to shareholders; and*
- 3. Internal written communications between the holding company, the utilities, and any of the affiliates, provided that the internal communications are not also sent to third parties outside of the company.*

*In D.99-04-069, the Commission approved limited exemptions from the disclaimer requirement with regard to:*

- 1. Building signage;*
- 2. Company vehicles;*
- 3. Employee uniforms; and*
- 4. Installed equipment on customer premises.*

**Disclaimer Position and Size:**

*When the disclaimer is required, it will appear either on the first page of the communication, or at the first point that the utility name or logo appears. In accordance with the requirements set forth in D.98-11-027, the disclaimer will be sized and displayed commensurate with the “signature” (i.e., the logo or name identification), so that the disclaimer is no smaller than the larger of: (a) ½ the size of the type which first displays the name or logo, or (b) 6-point type, and is positioned so that the reader will naturally focus on the disclaimer as easily as the “signature.”*

**Press Releases:**

*Sempra Energy, SoCalGas, and its affiliates include the appropriate disclaimer on press releases or educational information provided to the public whenever the requirement is triggered by one of the following: (1) mention of an affiliate whose name includes the word “Sempra;” or (2) mention of SoCalGas and an affiliate within the same press release or educational information. However, providing general information about Sempra Energy and its business projects without mentioning an affiliate, does not trigger the use of the disclaimer. The removal of such disclaimer by the press at publication is not considered a violation.*

**Internet:**

*The appropriate disclaimer appears at the bottom of the home pages of the Sempra.com and applicable Sempra Global Web sites just below the page “frame.” It is understood that the disclaimer’s placement on the home page of each site indicates that the disclaimer covers the entire site. Additionally, documents posted on these Web sites that mention the utility and an affiliate will include the disclaimer.*

**Business Cards:**

*Due to the length of the disclaimer, business cards will include the full disclaimer on the back, and a summary disclaimer on the front. The summary reads: “The California Public Utilities Commission does not regulate this company (see back).”*

**Promotional Items Distributed in California:**

*When an item’s small size or irregular shape (e.g., golf balls, golf tees, caps) does not facilitate printing an appropriately sized disclaimer on its face, the disclaimer will be inserted or applied by using stickers on the item or the packaging and positioned so that the statement is visible to the prospective customer before or at the same time the name or logo becomes visible.*

**Findings and Conclusions**

SoCalGas did not comply with Rule V.F.1.

On November 16, 2011 an ad for Sempra Generation appeared at the Kern Economic Development Corporation’s Fifth Annual Energy Summit congratulating the host on a successful conference. The ad did not include the required disclaimer. The violation was identified by SoCalGas and reported to the CPUC.<sup>143</sup>

NorthStar found no other violations of Rule V.F.1; however, improvements in internal policies and procedures and better controls over affiliate materials are possible.

Internal Sempra policies address the disclaimer requirements in a manner consistent with the ATRs, as modified by subsequent decisions, and consistent with SoCalGas’ compliance plan; however, there are notable gaps in these policies as they relate to Rule V.F. According to the Compliance Plan, these policies provide the control framework for ensuring compliance with the disclosure requirements specified in the Rules. Other than a general reference in Sempra Energy’s *Affiliate Compliance Policy* and the *CPUC-Disclaimer Usage Procedures*, there are no specific policies addressing affiliate co-branding, media communications, or other communications. Sempra Energy’s *Affiliate Compliance Policy* require compliance with the Rules, but do not specifically cite any of the elements of Rule V.F.

- The *CPUC – Disclaimer Usage Procedures* in effect during the audit period provide the rule, the specific font sizing and location requirements as modified by the

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<sup>143</sup> DR 46 and 178

Commission, the required disclaimer language for ESP and other affiliates, disclaimer exceptions and links to covered and non-covered affiliates. The policy also addresses the disclaimer on business cards and promotional items.<sup>144</sup> Employees are instructed to contact the ACD with any questions.

- Sempra's policy *Co-Branding: Use of the Company Name and Logo by Third Parties* requires that at no time is the Sempra Energy name or logo or those of its subsidiaries to be used for external-party commercial or promotional purposes without explicit authorization. The policy does not specifically address affiliates.<sup>145</sup>
- Sempra's *Affiliate Compliance* Policy addresses non-public information flow, separation requirements, shared services, and employee transfers.
- Sempra's *Media Relations Policy* requires that any press releases proposed by a supplier or partner that mentions a Sempra Energy company must submit the release for final approval by business unit communications staff, and provides guidance to employees in dealing with the media, social media, and during crisis response.<sup>146</sup>
- Sempra's current Code of Conduct contains some limited references to affiliate requirements in the areas of protecting confidential information (i.e., customer and business information), fair competition and the prohibition on sharing prohibited information between departments and affiliates.<sup>147</sup> The Code of Conduct in effect during 2010/2011 included fewer specific references but required compliance with all regulations including the CPUC's affiliate transaction rules.<sup>148</sup>

There is no formal policy or control that requires that all customer or stakeholder-facing materials which contain the SoCalGas name or logo (including trade presentations, brochures, banners, signs, etc.) be reviewed by SoCalGas, Sempra Energy or another oversight organization for compliance with internal guidelines and Rule requirements.<sup>149</sup>

Current and prior (2010 and 2011) Affiliate Compliance Training address the prohibition on joint marketing, advertising and promotion.<sup>150</sup> The training also addresses the required disclosures. As part of the training, employees must certify that they agree to comply with the affiliate requirements. The 2010 and 2011 training included scenario questions related to joint marketing and a test question related to the disclaimer requirements.

NorthStar reviewed the following utility material and found no compliance violations. In no instances did the utility trade upon, promote, or advertise its affiliate's affiliation with the utility.

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<sup>144</sup> DR 1, Affiliate Compliance Procedures, *CPUC-Disclaimer Usage Procedures*, effective date 06/19/05, last revised 10/28/10.

<sup>145</sup> DR 7, review of Sempranet

<sup>146</sup> DR 7, Sempra Energy Communications Policy

<sup>147</sup> DR 95

<sup>148</sup> DR 201

<sup>149</sup> DR 1, 7, NorthStar review of online procedures and IR 61.

<sup>150</sup> DR 94 and online review of 2013 training (at SDG&E).

- Major Account Executive presentations at industry meetings.<sup>151</sup>
- Utility bills, bill messages, bill inserts, newsletter and bill envelopes.<sup>152</sup>
- SoCalGas' marketing and advertising materials, including direct mail campaigns, print ads, pamphlets and brochures, Pandora ads, website banners, radio spots and TV ads.<sup>153</sup>
- SoCalGas' promotional materials (e.g., tote bags, calculators, pens) and associated collateral.<sup>154</sup>

SoCalGas does not have access to advertising materials or brochures for any affiliate companies.<sup>155</sup> As a result, NorthStar was unable to review any affiliate materials. Neither SoCalGas nor Sempra control or review materials produced by the affiliates and must rely on training and corporate policy to foster compliance by the affiliates.<sup>156</sup> Affiliates are not required to submit materials to the parent for approval. With the exception of the self-reported violation of the affiliate rules discussed previously, SoCalGas has no knowledge of any radio, print or television ads run by an affiliate in California.<sup>157</sup>

NorthStar reviewed a sample of the business cards of Sempra U.S. Gas & Power, Sempra Energy, Sempra Generation, Sempra Pipelines & Storage and Sempra International. Cards for Sempra International, Sempra Generation, Sempra Pipelines & Storage and Sempra U.S. Gas & Power included the disclosure specified in SoCalGas' Compliance Plan on the front of the card and the full disclosure on the back.<sup>158</sup> Sempra Energy's business cards do not include the disclaimers, but do not include the name of either utility.

NorthStar searched for any current affiliate job postings on Monster.com and reviewed current postings' on Sempra Energy's website. These included a sample of postings by Sempra LNG, Mobile Gas Service Corporation, Cameron, Sempra International and Sempra US Gas & Power. There was no mention of SDG&E or SoCalGas on the affiliate postings.<sup>159</sup> SoCalGas did not retain job postings and ads from the audit period.<sup>160</sup>

NorthStar reviewed Sempra Energy and SoCalGas' press releases for 2010 and 2011. Press releases which mentioned an affiliate included the required disclosure.<sup>161</sup>

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<sup>151</sup> Two energy efficiency presentations (DR 32 and 171)

<sup>152</sup> Binders of bills, bill messages, inserts and newsletters (DR 41, 48, 131, 180, 212)

<sup>153</sup> Binders of utility collateral and other print materials (DR 49, 170), major account customer emails (DR 247), radio and TV ads (DR 177 and 247), and other promotional materials (DR 254)

<sup>154</sup> DR 254

<sup>155</sup> DR 45, IR 61

<sup>156</sup> DR 254

<sup>157</sup> DR

<sup>158</sup> DR 257

<sup>159</sup> January 14, 2014 review of <http://www.sempra.com/careers/> and [www.monster.com](http://www.monster.com)

<sup>160</sup> DR 256

<sup>161</sup> <http://www.socalgas.com/news-room/news-releases.shtml>, <http://sempra.mediaroom.com> (DR 176)

SoCalGas' use of the disclaimer on its website is appropriate. SoCalGas' main website does not identify or advertise its affiliates. SoCalGas provides a link to Sempra Energy for background information about the corporate structure. Sempra Energy's website utilizes the disclaimer when the organizational structure is displayed showing the utilities and its unregulated affiliates. The websites of Sempra US Gas and Power and Sempra International also display the disclaimer.<sup>162</sup>

## Rules V.F.2

**V.F.2** A utility, through action or words, shall not represent that, as a result of the affiliate's affiliation with the utility, its affiliates will receive any different treatment than other service providers.

### 2010 and 2011 Compliance Plans

*SoCalGas will neither claim to represent an affiliate, nor provide preferential treatment to its affiliates or its affiliates' customers.*

### Findings and Conclusions

SoCalGas complied with Rule V.F.2.

Internal policies and procedures address the issue of preferential treatment. Sempra's *CPUC & FERC Affiliate Compliance Rules Communication Guidelines* specify that:<sup>163</sup>

- The California utilities are prohibited from engaging in activities that would create preferential treatment to covered affiliates and are not permitted to provide leads to covered affiliates (e.g., Sempra U.S. Gas & Power and Sempra International).
- Under some circumstances to avoid the perception of preferential treatment, non-public marketing/energy-related information from or about the covered affiliates should not be shared with the California utilities even though the rules do not expressly limit communication flow in that direction (except that the rules expressly preclude covered affiliates and SDG&E's Electric and Fuel Procurement Department from sharing market positions with SoCalGas' Gas Transmission & System Operations Department).

None of the promotional materials reviewed and discussed under Rule V.F.1 contained references to affiliates or implications that, as a result of the affiliate's affiliation with the utility, its affiliates would receive any different treatment than other service providers, or that its customers would receive preferential treatment.

NorthStar reviewed call center procedures and training materials and selected a sample of calls for review.<sup>164</sup> In no instance did the customer service representatives appear to provide preferential treatment, and no calls mentioned an affiliate.

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<sup>162</sup> <http://www.socalgas.com> and <http://www.sempra.com>

<sup>163</sup> DR 1

<sup>164</sup> IR 60, 75. DR 130, 183-185, 197, 237, 238, 252, 253, 281-283

### Rules V.F.3

**V.F.3** A utility shall not offer or provide to its affiliates advertising space in utility billing envelopes or any other form of utility customer written communication unless it provides access to all other unaffiliated service providers on the same terms and conditions.

#### 2010 and 2011 Compliance Plans

*Billing envelope space or advertising space in other written communications, if offered to affiliates, will be made available to all competitors on a nondiscriminatory basis.*

#### Findings and Conclusions

SoCalGas complied with Rule V.F.3.

SoCalGas does not provide any advertising space to affiliates in the utility's bill envelopes or any other form of utility customer written communication, nor does it sell space in the bill.<sup>165</sup> NorthStar reviewed the bills, bill messages, bill envelopes and bill inserts (including regulatory notices and program inserts) and newsletters, and found no mention of any affiliate or affiliate program.<sup>166</sup>

### Rules V.F.4

**V.F.4** A utility shall not participate in joint advertising or joint marketing with its affiliates. This prohibition means that utilities may not engage in activities which include, but are not limited to the following:

**V.F.4.a** A utility shall not participate with its affiliates in joint sales calls, through joint call centers or otherwise, or joint proposals (including responses to requests for proposals ("RFPs") to existing or potential customers. At a customer's unsolicited request, a utility may participate, on a nondiscriminatory basis, in non-sales meetings with its affiliates or any other market participant to discuss technical or operational subjects regarding the utility's provision of transportation service to the customer;

**V.F.4.b** Except as otherwise provided for by these Rules, a utility shall not participate in any joint activity with its affiliates. The term "joint activities" includes, but is not limited to, advertising, sales, marketing, communications and correspondence with any existing or potential customer;

**V.F.4.c.** A utility shall not participate with its affiliates in trade shows, conferences, or other information or marketing events held in California.

#### 2010 and 2011 Compliance Plans

*V.F.4 and V.F.4.a - Training emphasizes that utility employees must not raise marketing issues in any customer technical meetings conducted in conjunction with any affiliate. Should marketing issues be raised at any such meeting, employees must excuse themselves from the meeting. SoCalGas employees will not participate in the marketing aspect of any such meeting.*

*V.F.4.b - SoCalGas interprets this Rule as permitting separately purchased advertisements and communications by the utility and affiliates in a publication or at a facility where*

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<sup>165</sup> DR 47, IR 76

<sup>166</sup> DR 41, 48, 131, 180, 212

*communications are also solicited and accepted from non-affiliated parties. For instance, advertising may be separately purchased by SoCalGas and an affiliate in the same magazine or broadcast program as long as SoCalGas and the affiliate are not the only advertisers in that magazine or broadcast program.*

*Additionally, a shared services group may jointly purchase advertising time and space for the entire organization. These costs are directly allocated to the affiliate using the advertising time or space to prevent cross-subsidization.*

*Sempra Energy may include information on SDG&E, SoCalGas and its affiliates in its communications when the principal purpose of the communication is to inform and educate the public, including investors, about Sempra Energy's businesses and operations and does not promote or market specific products or services nor solicit other business.*

*Separate utility and affiliate sponsorship at a community/charitable event or industry conference is interpreted to be in compliance with the Rules if additional sponsors are also represented. These types of events are not considered "marketing" in nature. Frequently, the events entail the presence of employees, customers and elected officials. These sponsorships involve the opportunity for signage, listing in the event program, recognition from the podium, table recognition, etc. Separation between utility and affiliate employees is maintained.*

*V.F.4.c - Trade show exhibits at the same event are understood to be permissible as long as a booth, table, exhibit or advertisement sponsored by SoCalGas will not be contiguous with any such exhibits sponsored by an affiliate. In no case will the affiliate's affiliation with SoCalGas be promoted. SoCalGas promotional events within California that are open to all competitors on a nondiscriminatory basis will also be open to affiliates.*

*Participation by both utility and affiliate employees at non-industry conferences, such as accounting or legal professional conferences is interpreted to be in compliance with the Rules. These types of events are not considered "marketing" in nature.*

*Similarly, participation by both utility and affiliate employees in community service or charitable events that are open to the public, such as community clean-up events or charity walks is interpreted to be in compliance with the Rules, as these events are also not considered "marketing" in nature.*

## **Findings and Conclusions**

SoCalGas did not comply with Rule V.F.4.

Rule V.F.4.c prohibits SoCalGas and affiliates joint participation trade shows, conferences, or other information or marketing events held in California. The Rule makes no exclusions for the "same event are understood to be permissible as long as a booth, table, exhibit or advertisement sponsored by SoCalGas will not be contiguous with any such exhibits sponsored by an affiliate" as shown in SoCalGas' compliance plan.

In 2011, SoCalGas and Sempra Generation both appeared at the same industry event. In a letter to the CPUC, SoCalGas acknowledge its violation of Rule V.F.1 regarding

disclosures, but did not consider this a violation of Rule V.F.4.c.<sup>167</sup> According to SoCalGas' compliance plan, "[s]eparate utility and affiliate sponsorship at a community/charitable event or industry conference is interpreted to be in compliance with the Rules if additional sponsors are also represented. These types of events are not considered "marketing" in nature. Frequently, the events entail the presence of employees, customers and elected officials. These sponsorships involve the opportunity for signage, listing in the event program, recognition from the podium, table recognition, etc."<sup>168</sup>

In its letter to the CPUC, Sempra stated that the "advertisement did not specifically solicit business from California customers, nor did it contain any reference to Sempra Generation's affiliation with SoCalGas. Instead, it congratulated the program organizer for hosting a successful event. Accordingly, we believe that the advertisement likely did not create confusion or otherwise cause harm to SoCalGas' customers or other recipients of the brochure. However, because the name "Sempra" appeared in the advertisement, we believe that the advertisement should have contained the disclaimer."<sup>169</sup>

NorthStar found no other evidence that SoCalGas did not comply with Rule V.F.4; however, as Sempra Energy and SoCalGas do not track the affiliate activities, NorthStar is unable to confirm that no marketing by any affiliates occurred in California. NorthStar reviewed utility marketing and promotional materials, attendance lists (where available) and presentations at industry events attended by utility personnel inside and outside California and found no evidence of joint marketing.<sup>170</sup> NorthStar also reviewed information regarding community events in California and found no evidence of joint marketing.<sup>171</sup> Information specific to the affiliates was not provided.<sup>172</sup>

SoCalGas has interpreted or qualified Rule V.F.4 in a number of other areas. As NorthStar was not provided with any affiliate materials or information regarding trade shows, conferences or other events, NorthStar is unable to determine whether these "qualifications" were necessary or relied upon for compliance.

- SoCalGas interprets this Rule as permitting separately purchased advertisements and communications by the utility and affiliates in a publication or at a facility where communications are also solicited and accepted from non-affiliated parties. For instance, advertising may be separately purchased by SoCalGas and an affiliate in the same magazine or broadcast program as long as SoCalGas and the affiliate are not the only advertisers in that magazine or broadcast program. (Rule V.F.4.b)
- Additionally, a shared services group may jointly purchase advertising time and space for the entire organization. These costs are directly allocated to the affiliate using the advertising time or space to prevent cross-subsidization. (Rule V.F.4.b)

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<sup>167</sup> DR 46 and 178

<sup>168</sup> Compliance Plan

<sup>169</sup> December 22, 2011 Letter to the CPUC, DR 46

<sup>170</sup> DR 171 and 172

<sup>171</sup> DR 173

<sup>172</sup> DR 171-174

- Sempra Energy may include information on SDG&E, SoCalGas and its affiliates in its communications when the principal purpose of the communication is to inform and educate the public, including investors, about Sempra Energy’s businesses and operations and does not promote or market specific products or services nor solicit other business. (Rule V.F.4.b)
- Trade show exhibits at the same event are understood to be permissible as long as a booth, table, exhibit or advertisement sponsored by SoCalGas will not be contiguous with any such exhibits sponsored by an affiliate. (Rule V.F.4.c)
- Participation by both utility and affiliate employees at non-industry conferences, such as accounting or legal professional conferences is interpreted to be in compliance with the Rules. These types of events are not considered “marketing” in nature. (Rule V.F.4.c)

Similarly, participation by both utility and affiliate employees in community service or charitable events that are open to the public, such as community clean-up events or charity walks is interpreted to be in compliance with the Rules, as these events are also not considered “marketing” in nature. (Rule V.F.4.c)

## **Rules V.F.5**

**V.F.5** A utility shall not share or subsidize costs, fees, or payments with its affiliates associated with research and development activities or investment in advanced technology research.

### **2010 and 2011 Compliance Plans**

*SoCalGas does not share R&D activities or subsidize costs, fees or payments with affiliates for such activities or investment. This does not apply to affiliates that are formed as part of CPUC-funded utility R&D program activities.*

### **Findings and Conclusions**

SoCalGas complied with Rule V.F.5.

SoCalGas’ Annual Affiliate Compliance Training instructs employees that research and development activities cannot be shared with affiliates.<sup>173</sup>

SoCalGas expends approximately \$12.5 million annually on research and development. Primary areas of funding are for gas operations, natural gas vehicles, and renewable technologies. SoCalGas states that there have been no instances of joint funding of research and development activities.<sup>174</sup>

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<sup>173</sup> DR 94

<sup>174</sup> DRs 50, 51 and 52

## Rules V.G and V.G.1

### V.G Employees

**V.G.1** Except as permitted in Rule V E (corporate support), a utility and its affiliates shall not jointly employ the same employees. This Rule prohibiting joint employees also applies to Board Directors and corporate officers, except for the following circumstances: In instances when this Rule is applicable to holding companies, any board member or corporate officer may serve on the holding company and with either the utility or affiliate (but not both) to the extent consistent with Rule V E (corporate support). Where the utility is a multi-state utility, is not a member of a holding company structure, and assumes the corporate governance functions for the affiliates, the prohibition against any board member or corporate officer of the utility also serving as a board member or corporate officer of an affiliate shall only apply to affiliates that operate within California. In the case of shared directors and officers, a corporate officer from the utility and holding company shall describe and verify in the utility's compliance plan required by Rule VI the adequacy of the specific mechanisms and procedures in place to ensure that the utility is not utilizing shared officers and directors as a conduit to circumvent any of these Rules. In its compliance plan, the utility shall list all shared directors and officers between the utility and affiliates. No later than 30 days following a change to this list, the utility shall notify the Commission's Energy Division and the parties on the service list of R.97-04-011/I.97-04-012 of any change to this list.

### 2010 and 2011 Compliance Plans

*SoCalGas interprets Rule V.G to apply to employees of SoCalGas, and not to consultants/contractors or employees of temporary third-party agencies. SoCalGas includes an anti-conduit provisions in all contracting templates to address consultants/contractors or temporary agency personnel who perform work for both the utility and its affiliates.*

*SoCalGas and Sempra Energy have programs for entry/junior level positions in the Finance and Accounting divisions. Representatives for each of these programs may participate in career events together to explain their individual programs. The intent of utilities' MARP (Management Accounting Rotation Program) and Sempra Energy's FLP (Financial Leadership Program) is to provide an entry into the workforce through a rotation program that is designed to strengthen the professional competency of potential candidates for junior and mid level professional positions and improve diversity hiring and promotions. There is no covered affiliate involved in recruiting under these programs but the participants may support a covered affiliate.<sup>175</sup>*

*Consistent with the exemptions permitted in D.98-08-035 (modified D.97-12-088) and later confirmed in Resolution G-3238, the positions of: General Counsel, Secretary/Assistant Secretary, CFO, Controller, and Treasurer may be shared among SoCalGas, Sempra Energy and the affiliates. The CPUC permits the sharing of Officers and/or Directors in the above positions.*

*At present, Randall L. Clark is Vice President – Corporate Relations and Corporate Secretary of Sempra Energy and Secretary of several other affiliates. He is also Assistant Secretary of SoCalGas and SDG&E. Jennifer F. Jett is Assistant Secretary of Sempra Energy and Assistant Secretary of several other affiliates. She is also Secretary of SoCalGas and SDG&E.*

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<sup>175</sup> This paragraph exists only in the 2011 Compliance Plan and not in the 2010 Compliance Plan.

*Javade Chaudhri, Executive Vice President & General Counsel, Joseph A. Householder, Senior Vice President – Controller & Chief Accounting Officer and Mark A. Snell, Executive Vice President & Chief Financial Officer are officers at Sempra Energy. They are Directors of several of the affiliates and also of SoCalGas and SDG&E. The Treasurer position is currently not shared among SoCalGas, Sempra Energy and the affiliates.*

*SoCalGas has anti-conduit provisions in place to ensure that these officers and board members are not used as a conduit to circumvent these Rules. SoCalGas will notify the CPUC's Energy Division and the parties on the service list of R.97-04-011/I.97-04-012 no later than 30 calendar days following any change to directors and officers shared between SoCalGas and affiliates.*

*Sempra Energy's senior management continues to conduct meetings to maintain adequate oversight of the entire enterprise, while preserving business unit autonomy and accountability. Employees refrain from discussing matters that would be inconsistent with the Rules, such as operational matters and customer-specific information. A listing of various corporate oversight and governance committees is included in Appendix 2.*

*Periodically, group meetings are held among members of leadership teams from specific areas or departments within Sempra Energy and its business units. These meetings permit high-level discussions regarding publicly available financial information, corporate strategy and business-unit specific information. Non-public information is not exchanged.*

*At the start of these meetings, participants are reminded by an officer that the meeting will be conducted in accordance with state and federal affiliate compliance rules during all aspects of the meeting, both business and social, and the Affiliate Rules Information Sharing Guidelines are provided to participants. A member of the affiliate compliance team reviews the agenda and presentation materials prior to the meetings and presentation content is reviewed with individual or group presenters, if warranted, and monitored throughout the meeting by Affiliate Compliance personnel.*

*In addition, periodic informal gatherings are held at each Sempra Energy business unit to keep employees abreast of significant initiatives throughout the Company. These meetings address information that is in the public domain, yet package the information in a condensed format. While non-public utility information is not revealed, participants are reminded to not discuss company specific, non-public utility information while in attendance.*

## **Findings and Conclusions**

SoCalGas did not comply with Rule V.G.1.

SoCalGas fails to define “employees” and SoCalGas’ Compliance Plan excludes consultants, contractors and employees of temporary third-party agencies. SoCalGas therefore avoids compliance with the Rules if consultants, contractors or third-party agencies are used for prohibited shared services (Rule V.E), temporary or joint work assignments (Rule V.G.2.e). The stated exclusion of contractors and consultants from compliance with Rule V.G.1 is not consistent with Rule I.A “Affiliate” where it states:

Examples include but are not limited to specific mechanisms and procedures to assure the Commission that the utility will not use the holding company or another utility affiliate not covered by these Rules, or a consultant or contractor as a vehicle to (1) disseminate

information transferred to them by the utility to an affiliate covered by these Rules in contravention of these Rules, (2) provide services to its affiliates covered by these Rules in contravention of these Rules or (3) to transfer employees to its affiliates covered by these Rules in contravention of these Rules.

Therefore, SoCalGas' Compliance Plan does not comply with Rule V.G.1 prohibiting joint employment.

SoCalGas' Compliance Plan regarding joint employees also does not comply with Rule II.H – Rules should be interpreted broadly – and not interpreted as a means to avoid compliance. SoCalGas did not respond to NorthStar's request for a list of contractors and consultants that were used by both the utility and affiliates.<sup>176</sup> This may be another example of the utility's inability to compel affiliates compliance with the Rules, as Sempra Energy/SoCalGas do not track the affiliate activities. Therefore, NorthStar is unable to confirm that no joint employment of employees with contractors and consultants by any affiliates occurred.

According to the Compliance Plan, SoCalGas and Sempra Energy have programs for entry/junior level positions in the Finance and Accounting divisions. Representatives for each of these programs may participate in career events together to explain their individual programs. The intent of utilities' Management Accounting Rotation Program (MARP) and Sempra Energy's Financial Leadership Program (FLP) is to provide an entry into the workforce through a rotation program that is designed to strengthen the professional competency of potential candidates for junior and mid-level professional positions and improve- diversity hiring and promotions. There is no covered affiliate involved in recruiting under these programs but the participants may support a covered affiliate.<sup>177</sup>

- The FLP/MARP activities where employees rotate for six to twelve-month periods, are not shown as nor would they comply with temporary assignments under Rule V.G.2.e.
- The FLP/MARP assignments are considered joint employment prohibited by Rule V.G.1 as the employees are paid by one Sempra entity and are assigned and supervised by another Sempra entity for an extended time period.<sup>178</sup> The direct supervision and control of a rotation employee by the affiliate – and not by the shared service organizational unit – is considered employment.<sup>179</sup>
- FLP/MARP activities do not comply with Rule V.E and are not allowed shared services or corporate governance as they include:<sup>180</sup>
  - Energy Risk analysis
  - Electric load analysis

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<sup>176</sup> DR 301 and 302

<sup>177</sup> This paragraph appears in the 2011 Compliance Plan and not in the 2010 Compliance Plan.

<sup>178</sup> DR 298 and 299

<sup>179</sup> State of California Department of Industrial Relations

[http://www.dir.ca.gov/dlse/faq\\_independentcontractor.htm](http://www.dir.ca.gov/dlse/faq_independentcontractor.htm)

<sup>180</sup> DR 298, 299 and 300

- Electric load procurement portfolio and design
- Back office operations for Sempra Generation, an energy marketing affiliate
- LNG planning
- Planning, engineering and construction

## **Rules V.G.2 through V.G.2.d**

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

**V.G.2.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, D93-02-016, 48 CPUC 2d 163, 171-172 and 180 (Appendix A, Section I and Section II H.).

**V.G.2.b** Once an employee of a utility becomes an employee of an affiliate, the employee may not return to the utility for a period of one year. This Rule is inapplicable if the affiliate to which the employee transfers goes out of business during the one-year period. In the event that such employee returns to the utility, such employee cannot be retransferred, reassigned, or otherwise employed by the affiliate for a period of two years. Employees transferring from the utility to the affiliate are expressly prohibited from using information gained from the utility in a discriminatory or exclusive fashion, to the benefit of the affiliate or to the detriment of other unaffiliated service providers.

**V.G.2.c** 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 Non-core 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 the 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.

**V.G.2.d** 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.

### **2010 and 2011 Compliance Plans**

***V.G.2 through V.G.2.b*** - *SoCalGas tracks all employees who transfer between SoCalGas and its affiliates and reports this information annually to the Commission in its Affiliate Transactions Report.*

*SoCalGas complies with Rule V.G.2.b's "residency" requirements.*

**V.G.2.c and V.G.2.d** - SoCalGas tracks all employee movement between the utility and affiliates and monitors that transfer fees are paid in accordance with this Rule. SoCalGas has established a distinct account for recording all transfer fees pursuant to Rule V.G.2.c.

SoCalGas conducts exit interviews with all employees that transfer from SoCalGas to an affiliate. During the exit interview, employees are required to sign a statement acknowledging that they will not use certain information gained at the utility to benefit the affiliate. In addition to the exit interview, an “asset inventory” is conducted to review material that the employee requests to take to the affiliate. SoCalGas retains the assets that may not be transferred pursuant to the Rules. Assets permitted to be transferred are priced pursuant to the Rules.

The SoCalGas Human Resources Department is responsible for ensuring that exit interviews and related asset inventories take place and are documented. ACD follows up with HR to ensure exit interview forms are completed. Transferring employees are provided a copy of these documents. A description of this process is included in the Affiliate Compliance Guidelines (ACG).

## Findings and Conclusions

SoCalGas did not comply with Rule V.G.2a, V.G.2.b, V.G.2.c and V.G.2.d.

First, Rule V.G.2.a requires that SoCalGas track and report to the Commission all employee movement between the utility and affiliates and report this information annually. This Rule requires tracking and reporting all employee movement between the utility and affiliates. SoCalGas only reports employee movement from the utility to affiliates in its annual Affiliate Transaction Reports Section II-H, as shown in **Exhibit V-3** below.<sup>181</sup>

**Exhibit V-3**  
**ATR Report Schedule H - Utility Employees Transferred To Affiliates**

Ref No	Job Title Department	Compensation	Transfer Date	Company	Transfer Fee
FROM SoCalGas				TO COMPANY	
<b>Calendar Year 2010</b>					
1	Analyst	\$56,160.00	1-23-2010	SECC	\$15,188.25
2	SoCalGas Executive	\$595,400.00	5-19-2010	SECC	\$148,850.00
<b>Calendar Year 2011</b>					
1	Field Operations Mgr.	\$125,080.00	12-10-2011	Mobile Gas	\$37,820.00

Source: DR 53, 54 and 81

Second, SoCalGas did not comply with Rule V.G.2.b regarding employee transfer residency requirements:<sup>182</sup>

- The Analyst that transferred from SoCalGas to Sempra Energy Corporate Center on 1-23-2010, returned to SoCalGas on 9-4-2010 – returning in less than one year. Rule V.G.2.b and Resolution G-3238 make no exception for the parent holding company.

<sup>181</sup> DR 81

<sup>182</sup> DR 54, 56 and 60

SoCalGas recognizes Sempra Energy Corporate Center as an affiliate requiring a transfer fee, shown in **Exhibit V-3** above (Rule V.G.2.a), yet does not comply with residency requirements in Rule V.G.2.b.

- A Sempra Generation Vice President – Asset Management transferred to SoCalGas on 4-17-2010, becoming the Senior Vice President – Operations. This same individual then transferred to become the regional president of natural gas for Sempra U.S. Gas & Power in mid-2012. The residency at SoCalGas was less than the two-year requirement.<sup>183</sup>

Third, SoCalGas did not comply with Rule V.G.2.c, which requires a 25 percent payment of base annual compensation by the affiliate for utility employee transfers.

Resolution G-3238 ordering paragraph 36 states:

SoCalGas shall compute the base annual compensation of its employees for purposes of a transfer fee on the basis of both cash and non-cash compensation, health care packages, pension benefits, stock options and all other non-cash benefits.

Resolution G-3238 does not differentiate among affiliates or the parent holding company. Employee transfer fees from SoCalGas to the affiliate Mobile Gas included cash and non-cash compensation as shown in **Exhibit V-3**. SoCalGas employees transferring to Sempra Energy did not include a cash and non-cash payment to the utility. The transfer fee paid was only in the amount of 25 percent of annual payroll compensation.<sup>184</sup>

SoCalGas/SDG&E Affiliate Compliance Guidelines (revised 12/31/2012) also do not comply with the Rule and Resolution G-3238 in two aspects:<sup>185</sup>

#### **Transfer Fee:**

When a qualified utility employee transfers from SDG&E or SoCalGas to any affiliate (excludes Sempra Energy Corporate Center), that affiliate will make a one-time payment to SDG&E/SoCalGas in an amount equivalent to 25% of the employee's 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 HR system.

#### **Total Compensation Calculation:**

For transfers to an affiliate (other than Sempra Energy Corporate Center) from SoCalGas and SDG&E, total compensation is defined as all cash compensation including wages, salaries, bonuses, commissions, stock options and other specific

<sup>183</sup> DR 53 and <http://sempra.mediaroom.com/index.php?s=19080&item=132109>

<sup>184</sup> DR 53 and transaction testing.

<sup>185</sup> DR 1 Compliance Guidelines page 33.

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.

Fourth, SoCalGas was unable to demonstrate compliance with Rule V.G.2.d or the utility's own policies and procedures regarding employee transfers. Rule V.G.2.d states that 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. SoCalGas could provide only one record of a transfer exit interview in support of compliance with Rule V.G.2.d. Employees transferring to an affiliate may not remove or provide information to that affiliate.

SoCalGas transfer exit interviews and asset inventory policies and procedures along with the documentation that is required, address this issue.<sup>186</sup> The exit interview is a face-to-face interview and completion of the Exit Interview Checklist to ascertain that an employee transferring to any covered or non-covered affiliate is aware of the Affiliate Rules, in particular their obligation to safeguard non-public utility information. This proprietary information includes confidential knowledge, technical data, trade secrets and any operations or marketing documentation. The employee is also informed of the asset inventory that is required to be performed. The purpose of the asset inventory is to ensure that no assets are taken with an employee when transferring to another Sempra business unit. This includes any books, notes, papers, manuals, computer disks, files, computers, cell phones, pagers, etc. that were obtained through the course of the employee's employment.<sup>187</sup> Documentation includes the following:

- Affiliate Compliance Exit Interview Checklist (including Acknowledgement by Transferring Employee and Special Condition Asset Transfer List) must be conducted by supervisor prior to transfer.
- Access terminations (e.g., Server, Secure ID, SharePoint site, etc.) must be conducted prior to transfer.
- Employee Transfer Notification Form must be completed by HR prior to transfer.
- Email address change must occur for employees transferring among the following areas within the utilities: Electric & Fuel Procurement, Energy Supply & Dispatch, Storage Products & Balancing, Gas Acquisition, Gas Scheduling, Gas Control and Grid Operations. Affiliate Compliance can assist in this process.
- Affiliate Compliance monitors weekly and monthly reports to monitor employee transfers.

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<sup>186</sup> DR 63

<sup>187</sup> DR 276

## Rule V.G.2.e

**V.G.2.e** A utility shall not make temporary or intermittent assignments, or rotations to its energy marketing affiliates. Utility employees not involved in marketing may be used on a temporary basis (less than 30% of an employee's chargeable time in any calendar year) by affiliates not engaged in energy marketing only if:

**V.G.2.e.i** All such use is documented, priced and reported in accordance with these Rules and existing Commission reporting requirements, except that when the affiliate obtains the services of a non-executive employee, compensation to the utility should be priced at a minimum of the greater of fully loaded cost plus 10% of direct labor cost, or fair market values. When the affiliate obtains the services of an executive employee, compensation to the utility should be priced at a minimum of the greater of fully loaded cost plus 15% of direct labor cost, or fair market value.

**V.G.2.e.ii** Utility needs for utility employees always take priority over any affiliate requests;

**V.G.2.e.iii** No more than 5% of full time equivalent utility employees may be on loan at a given time;

**V.G.2.e.iv** Utility employees agree, in writing, that they will abide by these Affiliate Transaction Rules; and

**V.G.2.e.v** Affiliate use of utility employees must be conducted pursuant to a written agreement approved by appropriate utility and affiliate officers.

### 2010 and 2011 Compliance Plans

*SoCalGas complies with this Rule when loaning employees on a temporary basis to affiliates not engaged in energy marketing. SoCalGas does not make temporary or intermittent assignments or rotations to its energy marketing affiliates. SoCalGas maintains a list of its "energy marketing affiliates" on the ACD's intranet Web site and SoCalGas's Internet Web site at < <http://www.socalgas.com/regulatory/marketing-affiliates.shtml> >. SoCalGas defines a "marketing employee" as: any utility employee in a marketing, customer service or account management section, who is actively engaged in marketing functions. This includes employees selling (approaching, presenting, or closing sales), developing marketing programs and services, non-technical consultative services regarding new utility products & services, market research, prospecting for new customers, or growing business with existing customers.*

### Findings and Conclusions

SoCalGas did not comply with Rule V.G.2.e.

First, the Rule states that the utility shall not make temporary assignments, or rotations to its energy marketing affiliates and utility employees not involved in marketing may be used on a temporary basis by affiliates. SoCalGas' compliance procedures do not clearly support this marketing prohibition part of the Rule.<sup>188</sup> Two sets of loaned-labor procedures were provided to NorthStar. SoCalGas claimed that the Utility Loaned Labor procedure recorded as **S:\ACD\_JobInstructions\General, rev 07-03-13 12-1-11** included a typographical error and allowed loaning to "marketing" affiliates:

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<sup>188</sup> DR 58

When the need for temporary use of non-represented utility employees arises, the Project Manager (PM) at the Affiliate contacts their Human Resources Advisor (HRA). The HRA requests a qualified employee from the utility's Human Resource Advisor (UHRA) via e-mail. The HRA also includes a pdf of the signed Loaned Labor Request Template; the Template contains information such as the scope of the project, the timeframe, purpose, etc., and must be approved and signed by an officer of the Affiliate.

For loaning to marketing affiliates, the UHRA utilizes the Loaned Labor Request Template provided by the HRA. The UHRA identifies a qualified employee and verifies that the employee falls within the 30% and 5% Rules, and that the employee is not actively engaged in the marketing function at the utility. Please see the definition of "Marketing Employee" (page 5) for clarification. Once the appropriate employee(s) is identified, their Supervisor/Manager and/or Director and VP (or any officer of the Utility) reviews and signs the Loaned Labor Request Template and returns it to the UHRA. The UHRA provides electronic copies of the completed signed Loaned Labor Request Template to the employee's Manager and/or Director, the utility Affiliate Compliance Department (ACD) and the HRA for their records. The UHRA retains the Loaned Labor Request Template for a minimum of three years.

SoCalGas stated that these procedures were revised in the General Requirements section from "marketing" affiliates to "energy" affiliates recorded as: [Document in F:\2013 Sempra ATR audit\SDG&E ATR audit\SDG&E DR responses\1 Policies\\_Procedures.docx](#).<sup>189</sup> Both sets of procedures note that loaned labor to Energy Marketing Affiliates are not allowed in a matrix of restrictions and compensation.

In addition, SoCalGas does not comply with Rule V.G.2.e marketing prohibitions as it pertains to Sempra Energy Corporate Center (noted in its procedure as "CC").

Because [Sempra Energy Corporate Center] CC does not engage in products or services relating to gas or electricity, they are not considered a covered affiliate under these rules. Therefore, when loaning to CC, the 30% and 5% rules do not apply. Marketing employees may be loaned to CC. However, if the utility employee will be working on a CC project that specifically benefits a covered affiliate, time must be charged directly to the affiliate and the rules for loaned labor must be applied as if the employee was directly requested by the affiliate who is the specific beneficiary of the project. Please contact the HRA with questions regarding specific project beneficiaries.

This is done through the Temporary Use of Utility Employee Agreement. The UHRA ensures that the Temporary Use of Utility Employee Agreement forms are completed and signed for all loaned employees. The UHRA retains the Temporary Use of Employee Agreement forms for a minimum of three years.

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<sup>189</sup> DR 1 and SoCalGas Fact Check provided May 15, 2014

The UHRA provides electronic copies of the signed forms to the employee's Manager and/or Director and the utility's ACD for their records.

Second, in regard to reporting requirements, SoCalGas failed to report temporary assignments in accordance with the Rules.<sup>190</sup>

- There were originally three SoCalGas employees reported on Loaned Labor assignments to affiliates during 2010.<sup>191</sup> SoCalGas added another employee to the 2010 loaned labor list as a revision during the audit. However, SoCalGas stated in its revised documentation that this temporary assignment was made to an affiliate not covered under Rule II.B. SoCalGas' loaned labor management control and reporting is ineffective.
- There were three SoCalGas employees reported on Loaned Labor assignments to an affiliate in 2011. During the audit, this number was revised to only one employee in 2011. SoCalGas' revision was an employee not included in the original list of three employees. SoCalGas provided a second revision and added one additional employee to both 2010 and to 2011. These revisions further demonstrate that management control over loaned labor is ineffective.
- Regarding Rule V.G.2.e.i, SoCalGas did support the charges to affiliates for loaned labor at fully loaded cost plus 10 percent in 2010. SoCalGas did not support the charges for loaned labor in 2011 – for the employees reported in revisions.<sup>192</sup>
- SoCalGas did comply with Rules V.G.2.e as it limits assignments to less than 30 percent of chargeable time, as well as V.G.2.ii and V.G.2.e.iii. None of the temporary labor assignments took priority over utility needs and less than 5 percent of utility employees were loaned at a given time.
- SoCalGas failed to comply with Rule V.G.2.e.iv and V.G.2.e.v. Only one written agreement was provided to cover loaned labor employees in 2010 and 2011.<sup>193</sup>

Third, SoCalGas failed to report a number of temporary assignments in accordance with the Rules.<sup>194</sup> Additionally, these omissions demonstrate that SoCalGas provides engineering support to affiliates explicitly prohibited under Rule V.E.

- SoCalGas failed to report loaned labor for a 2010 assignment that included gas engineering activities performed and billings to Sempra Pipelines & Storage for the support to integrate the Algodones Meter Station into the SCADA System, general measurement consulting, as well as engineering support.<sup>195</sup>

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<sup>190</sup> DR 57 and revisions

<sup>191</sup> DR 57

<sup>192</sup> DR 57, 58 and revisions

<sup>193</sup> DR 290 and 293

<sup>194</sup> DR 57 and revisions

<sup>195</sup> DR 81 and 288

- For Sempra Pipelines & Storage in 2010, the integration of Algodones meter station into the SCADA system included work performed under Work Order Authorization 24235/Internal Order 300536488:
  - Provided communication interface between an existing compressor station (Algodones, Baja Norte) and a newly-constructed meter set on the facility (for Yuma Lateral). Work included programming a local SCADA computer with the appropriate registers and providing point-to-point checks on data transmission between and field measurement flow computer and the back office SCADA system;
  - System commissioning/integrity check of the meter set was also included;
  - Troubleshooting and reprogramming of a Fisher ROC flow computer; and
  - Engineering and technical field support for establishing proper odorization levels at El Carrizo odorant injection station prior to delivery of gas to the US;
  - Provided support for the integration of the Algodones plant SCADA system changes with the larger Sempra enterprise SCADA system control room management system.
- SoCalGas provided unreported engineering support which it characterized as “general measurement consulting” to Sempra Pipelines & Storage.
  - This work was performed under Work Order Authorization 24275/Internal Order 300581868:
    - Provided general measurement consulting and review of metering systems; designs and measurement data interpretation.
    - Also included assistance in reconciling billing information and review of contract language and measurement system proposals.
  - As performed under Work Order Authorization 24276/Internal Order 300581869:
    - Provided general measurement and regulation support for North Baja Pipeline.
    - Performed review and assessment of gas measurement facilities served by and supplying gas to Gasducto Bajanorte.
    - Prepared report on measurement quality and recommend, where needed, design process improvements.
    - Generated audit report with recommendations for measurement improvement or description of why measurement differs from secondary gas metering registration.
- For Sempra Broadband, SoCalGas provided loaned labor marketing and engineering support to an affiliate that does not provide gas or electric products. However, based on the explanation of support work provided, this affiliate may be considered to be involved in gas related services.
  - Provided engineering consulting. This work was performed under Work Order Authorization 24358 /Internal Order 300646399:
    - Consulted on sale of fiber in gas (FIG) assets.
    - Collected and organized tools and equipment used in fiber in gas construction.
    - Met with prospective buyers to explain process and provide inventory of tools and equipment.

- As noted above, meeting with prospective buyers is considered marketing, explicitly prohibited by Rule V.G.2.e.
- SoCalGas continued to provide unreported loaned labor to Sempra Pipelines & Storage in 2011, performing work prohibited by the Rules.<sup>196</sup>
  - This work was performed under Work Order Authorization 24378/Internal Order 300664125.
    - General measurement and regulation support for North Baja Pipeline (NBP) for 2011.
    - Performed review and assessment of gas measurement facilities served by and supplying gas to Gasducto Bajanorte.
    - Prepared report on measurement quality and recommend, where needed, designed process improvements.
    - Designed process improvements.
    - Generated audit report with recommendations for measurement improvement or description of why measurement differs from secondary gas metering registration.
    - Assisted with general control and measurement troubleshooting repair, configuration and start-up for Northern Mexico Gas Transmission sites.

## **Rule V.H**

### **V.H Transfer of Goods and Services**

To the extent that these Rules do not prohibit transfers of goods and services between a utility and its affiliates, and except for as provided by Rule V.G.2.e., all such transfers shall be subject to the following pricing provisions:

1. Transfers from the utility to its affiliates of goods and services produced, purchased or developed for sale on the open market by the utility will be priced at fair market value.
2. Transfers from an affiliate to the utility of goods and services produced, purchased or developed for sale on the open market by the affiliate shall be priced at no more than fair market value.
3. For goods or services for which the price is regulated by a state or federal agency, that price shall be deemed to be the fair market value, except that in cases where more than one state commission regulated the price of goods or services, this Commission's pricing provisions govern.
4. Goods and services produced, purchased or developed for sale on the open market by the utility will be provided to its affiliates and unaffiliated companies on a nondiscriminatory basis, except as otherwise required or permitted by these Rules or applicable law.
5. Transfers from the utility to its affiliates of goods and services not produced, purchased or developed for sale by the utility will be priced at fully loaded cost plus 5% on fully loaded labor.

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<sup>196</sup> DR 291

6. Transfers from an affiliate to the utility of goods and services not produced, purchased or developed for sale by the affiliate will be priced at the lower of fully loaded cost or fair market value.

## 2010 and 2011 Compliance Plans

*When transferring goods and services, between SoCalGas and an affiliate, SoCalGas will follow the pricing provisions in Rule V.H.*

## Findings and Conclusions

SoCalGas did not comply with Rule V.H.

SoCalGas executed bilateral natural gas transactions with its affiliates as discussed in Rule III.B.1. Rule V.H.2 requires that transfers from an affiliate to the utility of goods and services produced for sale on the market be priced at no more than fair market value. As these transactions were not competitively procured, fair market value cannot be determined. These transactions were not reported on Schedules C and D of the Affiliate Transaction Reports.<sup>197</sup>

SoCalGas provided and received products and services from its affiliates during 2010 and 2011 as reported in Schedules C and D of the 2010 and 2011 Affiliate Transaction Reports. Transactions are summarized in **Exhibit V-4**. NorthStar reviewed a sample of transactions and found:

- Over 95 percent of the transactions from SoCalGas to its affiliates are for shared services permitted under Rule V.E.
- SoCalGas charges a 5 percent surcharge on fully loaded labor cost to all affiliates as required under Rule V.H.5.
- Transactions between SoCalGas and Sempra Energy Trading are for transactions related to the procurement of natural gas related to core natural gas requirements. SoCalGas is in compliance with Rule V.H.2 as the transactions were priced at fair market value (see Rule III.B.1).
- Transactions to Pacific Enterprises Oil Company are revenues associated with a non-tariff products and service. Category VIII.1 – Utility Assets permit SoCalGas to provide oil production services related to natural gas storage. The NTP&S revenues are associated with “lifting” charges.<sup>198</sup>
- Transactions from Sempra Energy are related to corporate oversight and governance and charged at allocated cost.

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<sup>197</sup> DR 81; SoCalGas letter to CPUC October 16, 2013

<sup>198</sup> DR 258; Lifting is the process of inserting natural gas into the oil field tubing to pressurize the line and lift the oil to the surface.

**Exhibit V-4**  
**2010 and 2011 SoCalGas**  
**Services Provided To and From Affiliates (\$000s)**

	Services Provided to Affiliates		Services Provided from Affiliates	
	2010	2011	2010	2011
Sempra Energy	6,928	5,610	91,321	78,695
Sempra Broadband	18	15		
Sempra Energy Trading	13,809		35,985	
Sempra Global	21			
Sempra LNG	21	23		
Sempra Pipelines and Storage	82	29		
Sempra Generation	22	24		
Pacific Enterprises Oil Co.	335	377		
<b>Total</b>	<b>21,235</b>	<b>6,078</b>	<b>127,306</b>	<b>78,695</b>

Source: DR 81

Other than the transfers addressed by Rule V.G.2.e, the only transfer of tangible assets between SoCal Gas and its affiliates during the audit period was the transfer of stock dividends. Rule V.H pricing requirements cannot be applied to the transfer of stock dividends. SoCalGas has a conservative interpretation of the term “tangible property,” which is reported in Section E of the Affiliate Transaction Report, and which NorthStar treats as “appropriate” in its assessment of the utility’s compliance with Rule V.H.<sup>199</sup> SoCalGas interprets the requirements as outlined in Schedule E of the Affiliate Transaction Report to include the transfer of all assets, including cash. To comply with these requirements, SoCalGas disclosed the payment of dividends on common stock.<sup>200</sup>

As reported in Section E of the 2010 and 2011 Affiliate Transaction Reports, and summarized in **Exhibit V-5**, the only transfers of tangible assets between SoCalGas and an affiliate were \$100 million in dividends SoCalGas paid to Pacific Enterprises in 2010, and \$50 million in dividends SoCalGas paid to Pacific Enterprises in 2011. Pacific Enterprises owns all of SoCalGas’ outstanding common stocks. All dividends declared on SoCalGas’ common stock by SoCalGas’ Board of Directors are paid to Pacific Enterprises.

**Exhibit V-5**  
**Transfers of Tangible Assets between SoCalGas and Pacific Enterprises**

Year	Asset	Transfer Price	Basis	Comply with Rule V.H Pricing?	Discussion
2010	Common Dividend	\$100 M	Declared Dividend Amount	NA	Transferred dollars based on SoCalGas’ dividend policy, not a pricing mechanism.
2011	Common Dividend	\$50 M	Declared Dividend Amount	NA	

DR 81

<sup>199</sup> There are several terms in addition to “tangible assets” are not consistently and accurately applied by the three utilities audited by NorthStar – PG&E, SDG&E, SoCalGas. A discussion of these terms and their implications is provided in **Chapter XI – Affiliate Rules Discussion**.

<sup>200</sup> DR 219

The requirement of Rule V.H.6 that tangible assets are to be priced at the lower of fully loaded cost or fair market value is not applicable to dividends. The amount of dividends declared by SoCalGas and transferred to its parent company is dependent on SoCalGas' dividend policy, rather than any pricing mechanism.

## **Recommendations**

7. Retrain employees involved in the transfer of employees on the required paperwork and actions required before permitting a transfer. (Rule V.C)
8. Recognize Rule V.E's prohibition on shared hedging and financial derivatives and arbitrage services, cease all shared services in this regard and revise the Compliance Plan accordingly. (Rule V.E)
9. Limit the FLP/MARP rotation program to within the regulated utilities. (Rule V.E)
10. Include specific references to the affiliates and the Affiliate Rule requirements in Sempra and SoCalGas' policy for corporate communications, media relations, co-branding and the use of the Sempra name and logo. (Rule V.F.1)
11. Include more expansive references to the Affiliate Rules in the Code of Conduct. (Rule V.F.1)
12. Develop a system of parent company controls over affiliate materials. (Rule V.F.1)
13. Report all loaned labor Rule violations to the CPUC. (Rule V.G.2.e)
14. As part of the proposed workshop on Affiliate Transaction Rule modifications and clarifications, determine whether transfers of "tangible assets" include the transfer of dividend payments from a utility to its parent company. (Rule V.H)

## **RULE VI. REGULATORY OVERSIGHT**

Rule VI requires Southern California Gas Company (SoCalGas) to file a Compliance Plan applicable to transactions with all affiliates as of the end of 1997 and annually thereafter if there have been changes in its Compliance Plan. The California Public Utilities Commission (CPUC or Commission) must be notified as to the creation of any new affiliates. Annual audits, conducted at shareholder expense, are required to independently verify compliance with the Rules, and affiliate officers and employees must be made available for testimony as necessary or required by the CPUC.

NorthStar reviewed whether SoCalGas filed its Compliance Plan and other related documentation required by the CPUC in accordance the Affiliate Transaction Rules. The following evaluative criteria were used in evaluating SoCalGas' compliance with Rule VI, and whether:

- SoCalGas filed a compliance plan when there was a change in the compliance plan (i.e., a new affiliate, or change in affiliate activities).
- Compliance plans filed with the Commission were thorough, accurate, and timely.
- SoCalGas notified the Commission of the creation of any new affiliates which were covered by the Rules and filed the required Advice Letters within 60 days.
- SoCalGas identified all affiliates that were covered by the Rules.
- SoCalGas filed all required audits, advice letters and notices to comply with the Rules.
- By March 31 each year, the key officers of SoCalGas and its parent certified to the Energy Division in writing that each had complied with the Rules during the previous calendar year.

In conducting its compliance audit, NorthStar examined the following:

1. Reviewed the establishment of all affiliates and whether SoCalGas properly filed the affiliate creation and its Compliance Plan with the Commission.
2. Determined whether SoCalGas filed all required audits, advice letters and notices to comply with the Rules.
3. Determined whether the key officers of SoCalGas and its parent certified to the Energy Division in writing by March 31, 2011 and March 31, 2012 that each had complied with the Rules during the previous calendar year

### **Rule VI.A**

#### **VI.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 plan shall include:

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

## **2010 and 2011 Compliance Plans**

*This Plan represents SoCalGas' compliance with this Rule. Appendix 3 to this Plan provides a listing of SoCalGas' covered and non-covered affiliates, as of June 1, 2011 as required by this Rule.*

## **Findings and Conclusions**

SoCalGas complied with Rule VI.A.

### **Compliance Plans**

Rule VI.A requires SoCalGas to fulfill two criteria: (1) To file a compliance plan annually by June 30<sup>th</sup> if there had been a change in the status of an affiliate, the creation of a new affiliate or a change to the preceding compliance plan; (2) To demonstrate the procedures in place to ensure compliance.

- SoCalGas created new affiliates in both 2010 and 2011. SoCalGas filed Advice Letter 4127 for its 2010 Annual Affiliates Compliance Plan on June 29, 2010, and Advice Letter 4253 for its 2011 Annual Affiliates Compliance plan on June 28, 2011.<sup>201</sup>
  - The compliance plans included a list of all affiliates of the utility, as defined in Rule I.A of the ATR, and for each affiliate, its purpose or activities, and whether the utility claims that Rule II.B makes these Rules applicable to the affiliate;
  - SoCalGas uses three types of categorizations of its affiliates in relation to Rule II.B: Not Covered, Covered, and Covered – Energy Marketing Affiliate.
- SoCalGas demonstrated the procedures in place to ensure compliance by providing a side-by-side comparison of the Rule and the specific compliance control.<sup>202</sup>

### **Compliance Monitoring and Control Environment**

The Committee of Sponsoring Organizations (COSO) of the Treadway Commission defined internal control as a process effected by an entity's board of directors, management

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<sup>201</sup> <https://socalgas.com/regulatory/tariffs/advice-approved.shtml>

<sup>202</sup> DR 97

and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Reliable financial reporting
- Effective and efficient operations
- Compliance with applicable laws and regulations

NorthStar's audit of SoCalGas' compliance with the Rules indicated that there are serious issues in the control environment. The assessment of SoCalGas' Compliance Plans found that SoCalGas is too dependent on passive, administrative type controls. This is exemplified by the following:

- SoCalGas' failure to report transactions with its affiliate, Transportadora de Gas Natural de Baja (TGN) in its 2011 Affiliate Transactions Report. There is an apparent disconnect between the training and the procedures to report transactions to ACD and actual operational activities.<sup>203</sup>
- SoCalGas entered into sole source contracts with two affiliates, TGN and Gasoducto Rosarito for the transportation of natural gas from Arizona, across Mexico and delivered to Southern California at Otay Mesa. In D.04-09-099 the CPUC authorized SoCalGas to construct a receipt point for Liquefied Natural Gas at Otay Mesa. The delivery contracts with its affiliates were not obtained through a competitive bidding process and not approved by the CPUC. In executing these contracts, it appears little or no consideration was given to the Rules.<sup>204</sup>
- SoCalGas' ACD is subordinate to Sempra Corporate, passing along information provided, when provided and not independently determining factual accuracy. This is exemplified by the erroneous reporting of two new affiliates, Sempra International, LLC and Sempra US Gas and Power, LLC on October 26, 2011 and October 28, 2011. For two of the largest organizational units in the Sempra family, SoCalGas categorized these affiliates as "not-covered" under Rule II.B and provided the purpose of these enterprises as: To act as a payroll company for employees in a new business unit structure.<sup>205</sup> These two affiliates are addressed in greater detail below.
- SoCalGas' approach to affiliate compliance has become passive. For example, the utility and particularly the ACD found only one compliance violation during 2010 and 2011.<sup>206</sup> Evidence of ineffective administrative controls and numerous non-compliance citations associated with Rules II, IV, V and VI are detailed in this audit report.

Training is a key administrative control in SoCalGas' ATR Compliance Plan.

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<sup>203</sup> DR 261 and SoCalGas Letter to CPUC dated October 16, 2013

<sup>204</sup> DR 262

<sup>205</sup> DR 122

<sup>206</sup> DR 46 and 117 which did not include Rule V.F.4.c.

Non-represented SoCalGas employees receive affiliate compliance training upon hiring and mandatory annual refresher training. They also receive training in the Code of Business Conduct. The Code of Business Conduct and ATR training are two of four modules included in SoCalGas', New Hire Learning Program. New hires currently receive an orientation presentation providing an overview of the affiliate compliance guidelines and an introduction to the two covered affiliates Sempra International and Sempra U.S. Gas and Power, but does not necessarily go into details on each Rule. The NHLP specifies activities they must take after the initial session as part of the ongoing introduction to SoCalGas and its requirements. These include:<sup>207</sup>

- Completion of required compliance training within 60 days of their hire date.
- Read the Code of Conduct and complete the initial mandatory Code of Business Conduct Training (non-represented employees only).
- Read the FERC and CPUC Affiliate Communication Guidelines included in the Guide. The Guidelines include only highlights of the Rules, focusing on preferential treatment and information sharing.
- Complete the CPUC affiliate Compliance online training within 60 days of their hire date (non-represented employees).
- Complete the FERC Anti-Trust Essentials online training within 30 days of their hire date (non-represented employees).

Union employees are not required to take the CPUC or FERC training but are required to comply with the associated regulations.

SoCalGas requires annual refresher affiliate transaction training for all non-represented management and non-management employees and encourages annual training for all represented employees.

- SoCalGas has a centralized online employee training system. Training modules are loaded into the system each year. Modules include a variety of topics from workplace violence prevention to ATR Training.
- Training modules are assigned to the profiles of applicable employees.
- The training requirements are automatically emailed to applicable employees. Reminders are periodically sent for uncompleted modules.
- SoCalGas scheduled online ATR training in the fall of 2010 and 2011.
- SoCalGas indicated that 100 percent of its non-union management and employees complete the online training each year.<sup>208</sup>
- The ATR training is narrative in nature and includes:
  - The training begins by explaining the regulatory environment, the definition of an affiliate, and identifying SoCalGas' affiliates.
  - The trainee is lead through approximately 40 narrated slides covering separation, information disclosure, customer information, and preferential treatment.
  - The training concludes with a 20 question multiple choice quiz.

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<sup>207</sup> DR 321

<sup>208</sup> DRs 94, 142, and 315

- Employees must earn 100 percent on the quiz to successfully complete this training module.<sup>209</sup>

SoCalGas' ATR training program addresses most of the ATR Rules. The training does not adequately inform employees of all of the utility's affiliates that are subsidiaries to Sempra US Gas and Power and Sempra International. The risk of inadvertent non-compliance is increased through the over-simplified organizational structure presented in the training.

SoCalGas utilizes a team of affiliate transaction coordinators to develop its annual compliance plan. The coordinators are employees within functional (marketing, energy procurement, HR etc.) work areas at SoCalGas. In addition to supporting the compliance plan development, the coordinators serve as an interface between the Affiliate Compliance Department and the workforce, assist with development of the Annual Affiliate Transaction Report, and support any internal or external audits.<sup>210</sup>

SoCalGas has also developed an in-house Affiliate Compliance Self-Assessment Program. The Self-Assessment Program is a periodic internal compliance review conducted by company personnel who are knowledgeable in federal and state rules and regulations and the related company policies and procedures. The self-assessment process was designed to support the day-to-day compliance of company operations. The ACD and the Affiliate Compliance Coordinators (ACC's) will be responsible for the implementation of the program, the frequency, corrective action implementation, and documentation.

High-risk areas within SoCalGas such as gas acquisition, gas control, human resources, customer communications, and media and employee communications have a work area / organization questionnaire. Affiliate transaction coordinators are responsible for discussing activities with their organizations and determining if any prohibited transactions have occurred. The forms are filled out twice a year.<sup>211</sup>

## **Rule VI.B**

### **VI.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.

### **2010 and 2011 Compliance Plans**

*SoCalGas will comply with this Rule as new covered and non-covered affiliates are created. Within two calendar days of notification to SoCalGas, SoCalGas will notify the CPUC of:*

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<sup>209</sup> DRs 94 and 321

<sup>210</sup> DR 152

<sup>211</sup> DRs 154, 155 and 272

*(1) any newly formed 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.*

*SoCalGas will file an advice letter with the Energy Division within 60 calendar days of the creation of: (1) 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. 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 SoCalGas' Internet home page at <[www.socalgas.com](http://www.socalgas.com)>. It is accessed by selecting the "**Regulatory**" link, then selecting the "**Affiliate Rules**" link, and then scrolling to the bottom of the page, where the "**List of SoCalGas' Affiliates**" category is found.*

## **Findings and Conclusions**

SoCalGas did not comply with Rule VI.B.

Upon the creation of a new affiliate, Rule VI.B requires three actions by SoCalGas:

- Immediate notification of the Commission of the creation of a new affiliate
- Immediate posting of notice of the creation of a new affiliate on its electronic bulletin board
- Filing an advice letter with the Commission within 60 days of creation stating the affiliates purpose or activities, whether the affiliate is covered under Rule II.B and the procedure in place to ensure compliance with these Rules.

Sempra Energy created 41 new affiliates during 2010 and 2011. SoCalGas' compliance plan does not comply with Rule VI.B. SoCalGas qualifies its compliance obligations and informs the CPUC of a new affiliate after SoCalGas receives notice from Sempra. Also, SoCalGas uses an internal standard of two days to post on its website.

- Sempra's Corporate Legal Department is responsible for notifying SoCalGas of the creation of new affiliates. However diligent the ACD is in providing notice to the Commission when the utility is informed of a new affiliate by Sempra Corporate, this standard does not support the requirement of Rule VI.B: Immediate notification of the creation of a new affiliate.
- NorthStar applied a standard of one week from time of creation to Commission notification and posting. Utilizing a standard of one week for the 41 new affiliates created and reported, SoCalGas failed to immediately notify the Commission and post

on its electronic bulletin the creation of a new affiliate on two occasions in 2010 and on seven occasions in 2011.

- SoCalGas failed to file advice letters within 60 days on two occasions in 2010 and on seven occasions in 2011. **Exhibit VI-1** provides list of the affiliate notifications that did not comply with Rule VI.B.<sup>212</sup>

**Exhibit VI-1**  
**Affiliate Notifications and Filings Not in Compliance With Rule VI.B**

Affiliate	Posting Time (Days)	Notification (Days)	Advice Letter (Days)
<b>Year 2010 Affiliates</b>			
Casablanca Generation, SA	123	123	238
EPGM Gasoductos, S de RL de CV	5	4	62
Copper Mountain Solar III, LLC	13	13	54
<b>Year 2011 Affiliates</b>			
Cedar Creek II Holdings LLC	195	195	196
Cedar Creek II LLC	131	131	132
Flat Ridge 2 Wind Energy LLC	407	406	413
Flat Ridge 2 Wind Holdings LLC	407	406	413
Mehoopany Wind Holdings LLC	89	89	151
Mehoopany Wind Energy LLC	131	130	137
Gasoductos del Sureste, S de RL de CV	190	190	204

Source: DRs 8, 101, 122, 123 and 251

- Additionally, Sempra did not provide the CPUC timely information concerning the creation of a new affiliate. Notification for the Mehoopany Wind Affiliates was not provided since Sempra believed it unnecessary due to a 50 percent acquisition position.<sup>213</sup> Rule I.A defines an affiliate as an ownership position of 5 percent or more.
- NorthStar reviewed SoCalGas’ files concerning compliance with Rule VI.B and found that Sempra frequently does not provide timely notice to SoCalGas resulting in SoCalGas not complying with Rule VI.B.<sup>214</sup>

NorthStar found SoCalGas’ erroneous classification of Sempra US Gas and Power LLC and Sempra International LLC as non-covered affiliates during 2011 as obvious violations of Rule VI.B. SoCalGas created two new affiliates, Sempra International, LLC and Sempra US Gas and Power, LLC on October 26, 2011 and October 28, 2011. SoCalGas categorized these affiliates as “not-covered” under Rule II.B and provided the purpose of these enterprises as:

“To act as a payroll company for employees in a new business unit structure.”<sup>215</sup>

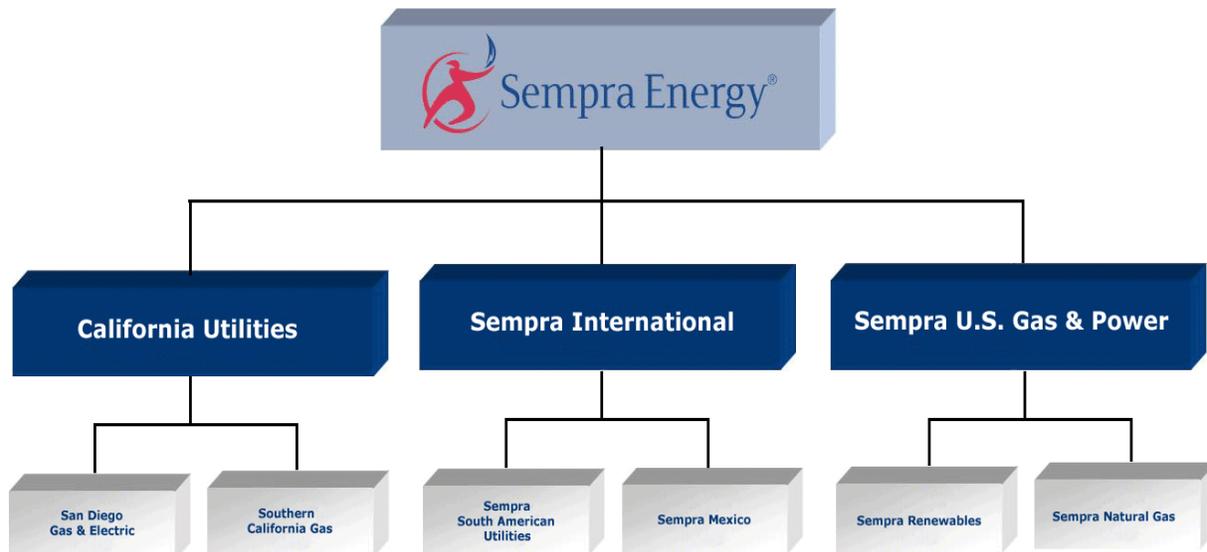
<sup>212</sup> DR 8: creation or acquisition dates provided by Sempra Legal, Articles of Incorporation and differed from Advice Letters in some cases.

<sup>213</sup> DR 294

<sup>214</sup> DRs 8, 101, 122, 123 and 251

This was clearly false information and not the intent of either of these entities as described in Sempra's 2012 Annual Report, Form 10-K and illustrated in **Exhibit VI-2**.<sup>216</sup>

**Exhibit VI-2**  
**Sempra Energy's Operating Units – Late 2011**



- Sempra International, LLC distributes energy and operates in competitive energy markets of the Americas. The company develops, builds and operates energy infrastructure assets and distributes electricity and natural gas to customers in Mexico, Chile, Peru and Argentina.
- Sempra U.S. Gas & Power, LLC develops clean power solutions in markets throughout the United States with a focus on zero- and low- emission fuels. The company has solar, wind and natural gas-fired plants that produce more than 1,500 megawatts of power. Sempra U.S. Gas & Power also owns natural gas storage, pipelines and distribution utilities.

Sempra filed its Form 10-K on February 28, 2012 and stated that: Effective January 1, 2012, in connection with several key executive appointments made in September 2011 (a month before the reported creation of the two affiliates), management realigned some of the company's major subsidiaries to better fit its strategic direction and to enhance the management and integration of our assets.<sup>217</sup> This realignment will result in a change in reportable segments in 2012, primarily to regroup the Sempra Global business units under

<sup>215</sup> DR 122

<sup>216</sup> 2012 Sempra Energy Annual Report to Shareholders

<sup>217</sup> 2012 Sempra Energy Annual Report to Shareholders

two new operating units, Sempra U.S. Gas & Power and Sempra International. These operating units will include the following reportable segments:

- Sempra U.S. Gas & Power
- Sempra International
- SDG&E and SoCalGas will continue to be separate reportable segments.

SoCalGas later re-categorized Sempra U.S. Gas & Power, and Sempra International, LLC as covered by Rule II.B in 2012.<sup>218</sup> The two entities and their respective families of affiliates were allowed to operate in the energy markets without complying with the Rules until June 28, 2012.

## **Rule VI.C**

### **VI.C Affiliate Audit**

The Commission's Energy Division shall have audits performed biennially by independent auditors. The audits shall cover the last two calendar years which ends on December 31, and shall verify that the utility is in compliance with the Rules set forth herein. The Energy Division shall post the audit reports on the Commissioner's Web site. The audits shall be at shareholder expense.

### **2010 and 2011 Compliance Plans**

*SoCalGas will comply with Rule VI.C's requirements upon notification from the Commission's Energy Division of commencement for the audit. The cost of the audits has been and will continue to be charged to shareholders. The last audit conducted, covering the calendar year 2006, was completed and filed on April 27, 2007 with the CPUC.*

### **Findings and Conclusions**

SoCalGas did not comply with Rule VI.C. SoCalGas has moved responsibility for ensuring compliance with this Rule to the CPUC ratemaking process.

- The most recent ATR Audit was conducted by SoCalGas during 2006. SoCalGas has a requirement to maintain records related to these Rules for three years. Documentation of shareholder payment of the audits, occurring in 2006 and 2007, are beyond the three-year record retention requirement.
- Payment for the 2010 and 2011 Affiliate Transaction Audit will not be completed until completion of this audit in 2014. Nevertheless, SoCalGas did not comply with Rule VI.C: These audits shall be at shareholder expense.
  - With respect to the audit expenses incurred to date, SoCalGas and SDG&E concluded that this type of cost is to be recorded above the line, since it is part of the normal utility operations.<sup>219</sup>
  - The SDG&E General Rate Case (GRC) Planner and Lead Witness for these costs (Director – Financial Systems and Business Controls) assigned to the cost center

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<sup>218</sup> DR 8

<sup>219</sup> DR 312 and SDG&E DR 273

is responsible to exclude costs that are not to be part of the revenue requirement in the General Rate Case process.

- By making an adjustment to the revenue requirement, the costs are not included in the margin amount charge to ratepayers through rates and thus are borne by Shareholders instead.
- This process does not comply with the Rule and is entirely dependent on costs excluded from the rate case process to affect the outcome stated by the Rule.

## Rule VI.D

### VI.D Witness Availability

Affiliate officers and employees shall be made available to testify before the Commission as necessary or required, without subpoena, consistent with the provisions of Public Utilities Code Sections 314 and 701, the conditions in the Commission's orders authorizing the utilities' holding companies and/or mergers and these Rules.

### 2010 and 2011 Compliance Plans

*SoCalGas and its affiliates will comply with Code Sections 314 and 701.*

### Findings and Conclusions

Rule VI.D compliance required no specific action by SoCalGas.

## Rule VI.E

### VI.E Officer Certification

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

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

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

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

\_\_\_\_\_ [Signature]

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

### 2010 and 2011 Compliance Plans

*No later than March 31<sup>st</sup> of each year, the key officers of SoCalGas and Sempra Energy, as defined in Rule V.E, file written certifications with the Energy Division of the Commission. The certifications included the following clarification:*

*"This certificate is based upon information and belief and does not include violations, if any, already reported to the Commission and/or publicly posted during the reporting period"*

*consistent with the utilities' CPUC affiliate compliance plans. This certificate also excludes audits or investigations, if any, still in progress at the end of the reporting period. If violations are ultimately found, they will be posted and/or reported consistent with the utilities' CPUC affiliate compliance plans."*

## **Findings and Conclusions**

SoCalGas did not comply with Rule VI.E.

- Rule VI.E requires SoCalGas to file written certifications with the Commission by March 31<sup>st</sup> annually.
- SoCalGas filed certifications on March 25, 2011 and March 22, 2012 for calendar years 2010 and 2011 respectively. However, the certifications do not comply with the language of Rule VI.E in that SoCalGas added the following qualifying language that essentially voids the certification:

“This certificate is based upon information and belief and does not include violations, if any, already reported to the Commission and/or publicly posted during the reporting period consistent with the utilities' CPUC affiliate compliance plans. This certificate also excludes audits or investigations, if any, still in progress at the end of the reporting period. If violations are ultimately found, they will be posted and/or reported consistent with the utilities' CPUC affiliate compliance plans.”

- SoCalGas filed certifications for key officers whose responsibilities are the functional equivalent of:
  - Sempra Chairman
  - Sempra President
  - Sempra Chief Executive Officer
  - Sempra Chief Financial Officer
  - Sempra Chief Regulatory Officer
  - SoCalGas President
  - SoCalGas Chief Executive Officer
  - SoCalGas Chief Financial Officer
  - SoCalGas Chief Regulatory Officer<sup>220</sup>

## **Recommendations**

15. Formalize the ACD self-assessment review by documenting it in the compliance plan. Enhance the self-assessment review from a checklist to a formalized structure that includes departmental specific analyses, reviews, and documentation that would identify compliance issues early and allow SoCalGas the opportunity to remedy. (Rule VI.A)
16. Cease modifying the annual officer certifications and submit certifications that comply with the ATR. (Rule VI.E)

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<sup>220</sup> DR 96

## **RULE VII. UTILITY PRODUCTS AND SERVICES**

Rule VII sets forth the requirements under which Southern California Gas Company (SoCalGas) can offer new products and services. Under Rule VII, SoCalGas is required to file an advice letter with the California Public Utilities Commission (Commission or CPUC) before offering any new category of non-tariffed products and services and is also required to file periodic reports describing its non-tariffed products and services (NTP&S).

In reviewing SoCalGas' compliance with Rule VII, NorthStar used the following evaluative criteria, whether:

- The NTP&S offered for sale by SoCalGas meet the requirements set forth in ATR VII.C, including:
  - The NTP&S utilizes a portion of utility asset or capacity that is used in providing tariffed services
  - The NTP&S does not adversely affect the cost, quality, or reliability of tariffed products and services.
  - The NTP&S can be marketed and offered with minimal or no ratepayer impact and diversion of management attention
  - The NTP&S does not violate anti-competitive rules and policies
- SoCalGas complies with the Commission-approved cost and revenue accounting procedures for the NTP&S, as well as periodic reporting and auditing requirements.
- SoCalGas submitted Advice Letters to the Commission prior to offering new NTP&S.
- Accounting processes ensure that cross-subsidization does not occur.
- SoCalGas has established periodic reporting and auditing requirements for non-tariffed services and has met these reporting requirements.
- SoCalGas filed the annual report of Non-tariffed Products and Services required in ATR VII.H.

In conducting its compliance audit, NorthStar performed the following tasks:

1. Determined whether SoCalGas filed the requisite Advice Letters with the Commission for any new NTP&S in 2010 and 2011 and whether the Advice Letters met the requirements of Rule VII.
2. Reviewed the NTP&S annual Reports on for the years 2010 and 2011 to determine if they address all the requirements of Rule VII.
3. Reviewed employee training materials related to the procedures for offering new products and services.
4. Compiled data on SoCalGas' NTP&S offerings, to the extent the information is available.
  - A listing of each NTP&S;
  - A description of the business service or product offered, including its mission statement and operational market goals;

- A description of each market into which each NTP&S is being sold, including discussions of the size of the market and of the competitors in this marketplace;
  - A description of how its entry into the market has affected the relevant marketplace;
  - The various types, quantities, and costs of utility resources used to develop and sell the NTP&S;
  - Total revenues generated by these NTP&S, for each individual year of the two years of interest.
5. Examined NTP&S offerings to determine SoCalGas' level of compliance with ATR VII.
- For each NTP&S, audit the actual costs and revenues and determine if SoCalGas has properly complied with the sharing mechanism authorized in the relevant resolution/decision issued by the Commission.
  - Assess the breakdown of how these additional revenues are allocated between shareholders and ratepayers, including both percentage allocations and specific dollar amounts.
  - For each NTP&S, determine the level of compliance with ATR VII, including the following:
    - The NTP&S utilizes a portion of utility asset or capacity that is used in providing tariffed services
    - The NTP&S does not adversely affect the cost, quality, or reliability of tariffed products and services.
    - The NTP&S has minimal or no ratepayer impact and diversion of management attention
    - The NTP&S does not violate anti-competitive rules and policies
  - SoCalGas complies with the Commission-approved cost and revenue accounting procedures for the NTP&S, as well as periodic reporting and auditing requirements.
6. Conducted interviews with the SoCalGas personnel responsible for compiling data included in the 2010 and 2011 NTP&S reports.
7. Interviewed selected business managers responsible for providing the data to Sundry Services for inclusion in the report. Analyzed supporting documentation associated with each NTP&S reporting category and verified that the amount of revenue and cost reported was supported by the documents provided by each business unit. Determine whether SoCalGas' processes, procedures and controls used to ensure compliance with this ATR are consistent with SoCalGas' most recent Compliance Plan.
8. Determined the actual or potential harm to the ratepayers as a result of any identified error, discrepancy, or violation of this Rule.

## **Rules VII.A and VII.B**

### **VII.A General Rule**

Except as provided for in these Rules, new products and services shall be offered through affiliates.

### **VII.B Definitions**

The following definitions apply for the purposes of Rule VII:

**VII.B.1** “Category” refers to a factually similar group of products and services that use the same type of utility assets or capacity. For example, “leases of land under utility transmission lines” or “use of a utility repair shop for third party equipment repair” would each constitute a separate product or service category.

**VII.B.2** “Existing” products and services are those which a utility is offering on the effective date of these Rules.

**VII.B.3** “Products” include use of property, both real and intellectual, other than those uses authorized under General Order 69-C.

**VII.B.4** “Tariff” or “tariffed” refers to rates, terms and conditions of services as approved by this Commission or the Federal Energy Regulatory Commission (FERC), whether by traditional tariff, approved contract or other such approval process as the Commission or the FERC may deem appropriate.

## **2010 and 2011 Compliance Plans**

*SoCalGas’ non-tariffed products and services meet the criteria set forth in Rules VII.A and B.*

## **Findings and Conclusions**

SoCalGas complied with Rule VII.A. It did not offer any new products during the audit period. As described in the assessment of Rule VII.E, in 2010, SoCalGas filed Advice Letter 4124 requesting authorization to establish a new category of non-tariffed products and services entitled Mover Services. Mover Services was not offered during the audit period.

Rule VII.B is definitional in nature and does not require any specific action on the part of SoCalGas, nor did SoCalGas’ Compliance Plan or definitions deviate from the Rule.

## **Rule VII.C**

### **VII.C Utility Products and Services**

Except as provided in these Rules, a utility shall not offer nontariffed products and services. In no event shall a utility offer natural gas or electricity commodity service on a nontariffed basis. A utility may only offer for sale the following products and services:

**VII.C.1** Existing products and services offered by the utility pursuant to tariff;

**VII.C.2** Unbundled versions of existing utility products and services, with the unbundled versions being offered on a tariffed basis;

**VII.C.3** New products and services that are offered on a tariffed basis; and

**VII.C.4** Products and services which are offered on a nontariffed basis and which meet the following conditions:

**VII.C.4.a** the nontariffed product or service utilizes a portion of a utility asset or capacity;

**VII.C.4.b** such asset or capacity has been acquired for the purpose of and is necessary and useful in providing tariffed utility services;

**VII.C.4.c** the involved portion of such asset or capacity may be used to offer the product or service on a nontariffed basis without adversely affecting the cost, quality or reliability of tariffed utility products and services;

**VII.C.4.d** the products and services can be marketed with minimal or no incremental ratepayer capital, minimal or no new forms of liability or business risk being incurred by utility ratepayers, and no undue diversion of utility management attention; and

**VII.C.4.e** the utility’s offering of such nontariffed product or service does not violate any law, regulation, or Commission policy regarding anticompetitive practices.

**2010 and 2011 Compliance Plans**

*Non-tariffed products and services offered by SoCalGas meet the criteria set forth in Rule VII.C.*

**Findings and Conclusions**

SoCalGas complied with Rule VII.C. SoCalGas’ NTP&S meet the conditions specified in the Affiliate Transaction Rules (ATR or Rules).

In 2010 and 2011, SoCalGas offered NTP&S in six categories, as summarized in **Exhibit VII-1**. SoCalGas offered NTP&S in these categories since it filed its Advice Letter No. 2669, on January 30, 1998, describing its existing project and service offerings.<sup>221</sup> Note that SoCalGas no longer offers NTP&S in two of its original categories, Distributed Generation, and Information, Network, and Software Products and Services.

**Exhibit VII-1  
SoCalGas NTP&S Categories**

<b>Category</b>	<b>Description</b>	<b>Commission Decision</b>
<b>Installation and Maintenance of Gas Facilities for Customers</b>	Relocation or modification of meters or lines at customer’s request; leak surveys; work on meters and facilities not owned by SoCalGas.	SoCalGas offered services in the category for several decades. First documented in 1994 GRC.
<b>Sale and Installation of Parts for Customer-Owned Gas Appliances and Equipment.</b>	Sales and installation of parts for gas appliances and equipment owned by residential and commercial customers.	First documented in 1994 GRC.
<b>Gas Meter-Related Services</b>	Meter repair and related services	D.97-07-054
<b>Operations Services for Other Utilities, Energy Service Providers and Municipalities</b>	Services for other utilities, including meter reading, training, billing and collections.	None identified
<b>Environmental Management Products and Services</b>	Sale of air emissions credits, consulting services regarding obtaining air quality permits to construct and operate.	D.93-12-043 and D.97-07-054
<b>Asset Based Services</b>	Sale of oil produced in association with gas storage operations. Rental and leasing of real property.	D.97-07-054

Source: DR 102

<sup>221</sup> DR 102

An overview of SoCalGas NTP&S offerings in 2010 and 2011 is provided in **Exhibit VII-2**. SoCalGas does not have mission statements or operational goals related to its non-tariffed products and services. Nor does it track size and/or market segments outside of its customer base for individual non-tariffed products or services.<sup>222</sup>

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<sup>222</sup> DR 109

**Exhibit VII-2  
Overview of SoCalGas' NTP&S Offerings in 2010 and 2011**

Category/Product	Rate Base Asset Used /Portion of Utility Asset [Note 1]	Utility Organization	Description of Product or Service	Potential Competition	
<b>I Installation and Maintenance of Gas Facilities for Customers</b>					
I.2	Installation and Maintenance of Gas Facilities for customers  Negligible	Field Labor (for installations)  Negligible	Engineering & Operations Staff; Gas Operation Services; Field Services Staff - Distribution;	SoCalGas has pipeline services agreements and other maintenance agreements to provide after- meter services for schools and government facilities.	General Construction Contractors
<b>II Sale and Installation of Parts for Customer-Owned Gas Appliances and Equipment</b>					
II.1	Residential Parts Program	Field Labor  Negligible	Engineering & Operations Staff; Field Services Staff Customer Services; Customer Services Field Analysis & Reporting	Sales and installation of parts for gas appliances owned by residential customers, including appliance connectors, thermocouples, pilot tubing and gaslight mantles. SoCalGas service representatives offer this service during service calls at customer facilities.	Appliance Services Companies; Plumbers; General
II.2	Commercial Parts Program	Field Labor (for installations)  Negligible	Engineering & Operations Staff; Field Services Staff Customer Services; Customer Services Field Analysis & Reporting;	Sales and installation of parts for gas appliances and equipment owned by commercial and industrial customers, such as restaurants. Includes appliance connectors, thermocouples, pilot tubing and gaslight mantles, range and fryer control valves, thermostat switches, pilot generators, flame switches, and line valves. SoCalGas field technicians offer this service while at customer facilities.	Appliance Services Companies; Plumbers; General
<b>III Gas Meter-Related Services</b>					
III.3	NGV Facilities Calibration and Repair Services.	NGV Technician vehicles and tools, also some storage at Pico Rivera  Negligible	Engineering & Operations Staff; Gas Engineering; Measurement , Regulation & Control	SoCalGas electricians and mechanics provide support for NGV stations for municipalities and other third parties. SoCalGas has on-going maintenance contracts with an agreed-upon monthly charge. Additional tasks may be performed for additional costs.	Construction Contractors; Other Utilities; Other Gas Services Contractors

Category/Product	Rate Base Asset Used /Portion of Utility Asset [Note 1]	Utility Organization	Description of Product or Service	Potential Competition	
<b>IV Operations Services for Other Utilities, Energy Service Providers and Municipalities</b>					
IV	Training	Training facilities/customer sites  Negligible		SoCalGas provides gas field services training, including welding and plastic pipe joining.	
IV.2(g)	Gas Transmission Consulting	Consulting and training services  Negligible	Gas Ops & System Integrity Energy Markets & Capacity Products Energy Markets	SCG provided gas transmission consulting to one customer in 2010 and 2011.	Other Utilities; Gas Service Contractors; Construction Contractors, etc.
IV.6	Line Item Billing	Mail extraction and processing, bill printing and mailing equipment  Negligible	CS, Innovation & Business Strategy Customer Solutions Commercial & Industrial SoCalGas Market Services	SoCalGas provides billing for line item charges for commercial entities selling energy-related or home safety-related products and services. This is a bundled service that includes: line item on customer bill, processing payments, and resolving customer billing inquiries.  SoCalGas issues an RFP to provide this service to the selected party. During the audit period, one company was “decommissioned,” and a new contract with Home Services began in 2011.	N/A (line item on SoCalGas’ customer bills)
<b>VII Environmental Management Products and Services</b>					
VII.3	Environmental software and services includes: RECLAIM ERT and Permit Works	None	Customer Service, Innovation & Business Strategy Policy & Environmental Solutions. Environmental Policy & Affairs	SoCalGas provides environmental permitting services for small to medium sized customers. Permitting work is performed by an external contractor. SoCalGas gets an estimate from the external contractor and passes it on to the customer.  SoCalGas invoices the customer up-front for the costs. The contractor does no work until payment is received. When the work is complete, the contractor invoices the SoCalGas.	Other Utilities; Environmental Consulting Firms

Category/Product		Rate Base Asset Used /Portion of Utility Asset [Note 1]	Utility Organization	Description of Product or Service	Potential Competition
VII.4	Brokering of air emissions credit trading	None	Engineering & Operations Staff Gas Engineering Business	SoCalGas has SCAQMD NOx RECLAIM credits which it can either sell or use to cover its emission needs. The utility also has mobile source emission reduction credits due to work performed in the 1990s to retrofit buses to natural gas. Surplus credits were placed and sold in the open market through a third party emissions broker.	N/A
VII.8	EPAct Vehicle Credit Sales	None	Gas Operations & System Integrity Support Services	SoCalGas receives Energy Policy Act (EPAct) credits when it purchases vehicles that meet specific weight and fuel criteria. SoCalGas sells these credits to other companies that cannot meet the DOE fuel requirements. SoCalGas posts notice on DOE website and sells at fair market value. The buyer initially determines the FMV and it is verified by SoCalGas.	N/A (
<b>VIII Asset-Based Services</b>					
VIII.1	Sale of oil owned by SoCalGas and produced in association with gas storage operation, oil production services for oil owned by others.	Storage facilities Negligible	Gas Ops & System Integrity Storage	Revenues and incremental costs associated with the sale of the oil produced in association with gas storage operations at SoCalGas' four storage fields – Aliso Canyon, Honor Rancho, La Goleta, and Playa del Rey, as well as oil production services performed for third parties.	N/A (gas obtained in the process of withdrawal & injection of gas related to tariffed storage)
VIII.3(b)	Rental or leasing of SoCalGas buildings other than the Energy Resource Center	Buildings <1%	SoCalGas Real Estate	In 2010 and 2011, SoCalGas had three leases for the rental or leasing of buildings.	N/A (SoCalGas property/property rights)
VIII.3(c)	Rental or leasing of SoCalGas property (other than buildings or the Energy Resource Center)	Acreage <1%		In 2010 and 2011, SoCalGas had 24 leases for leasing land. This product also includes revenues from special event parking at parking and for the administration of quit claims	N/A (SoCalGas property/property rights and rights of way) Other Property Owners

Category/Product		Rate Base Asset Used /Portion of Utility Asset [Note 1]	Utility Organization	Description of Product or Service	Potential Competition
VIII.5	Leasing of excess microwave communications capacity.	Microwave radio system Negligible	Information Technology IT & Client Services	In 2010 – 2011 SoCalGas has one lease for its excess microwave capacity.	Utilities; Telecommunications Companies
VIII.6	Sale of oil and cushion gas - Montebello Storage field	Storage facilities Negligible		Revenues and incremental costs associated with the sale of oil and "cushion gas" associated with the decommissioning of the Montebello Gas Storage Field (Montebello). The revenues from the sale of the cushion gas are tracked in the Montebello True-Up Tracking Account, an interest bearing tracking account effective June 28, 2001. Cushion gas is sold on the open market. <sup>223</sup> SoCalGas files quarterly MTTA reports to the CPUC. SoCalGas includes this product in its annual NTP&S report	

Note 1: For any product or service that required use of utility fixed assets, the basis and the percentage compared to total utility usage of that asset is reported. In most cases, the use of the utility assets is minimal. (DR 108).

Source: DRs 104 and 105; Interviews with SoCalGas NTP&S Business Managers .

<sup>223</sup> A. 00-04-31 (Amended Settlement Application)

NTP&S are offered to all similarly situated customers and/or entities operating or residing within SoCalGas' service territory on a non-discriminatory basis.

SoCalGas offerings met the conditions specified in Rule VII.C.4, as summarized in **Exhibit VII-3** below.

**Exhibit VII-3**  
**Assessment of SoCalGas' Compliance with Rule VII.C.4**

Rule VII.C.4 Condition	Meets Condition?	Comments
a. Uses a portion of a utility asset or capacity	✓	As shown in Exhibit VII-2, SoCalGas' non-tariffed offerings use utility assets which are used to provide tariffed service.
b. Utility asset is used to provide tariffed utility services	✓	
c. Use of the utility asset does not adversely affect tariffed service	✓	Negligible portions of the rate base assets are used.
d. NTP&S is marketed with minimal or no incremental ratepayer capital	✓	There are no advertising materials used by SoCalGas for its Non-Tariffed Products and Services. <sup>224</sup> Non-tariffed products and services are not actively marketed by SoCalGas, but are offered as a complement to its tariffed services and as a convenience to its customers. <sup>225</sup>
Minimal or no new forms of liability or business risk incurred by ratepayers,	✓	A review of the descriptions of the NTP&S offerings in Exhibit VII-2 shows that the ratepayers incur no liabilities or risks associated with the offerings.
No undue diversion of utility management attention;	✓	NorthStar interviews with SoCalGas personnel and a review of the description of the offerings determined that there is no undue diversion of management attention.
e. Does not violate any law, regulation, or Commission policy regarding anticompetitive practices	✓	Potential competition is listed in Exhibit VII-2. The offerings do not violate anticompetitive policies.

**Rule VII.D**

**VII.D Conditions Precedent to Offering New Products and Services**

This Rule does not represent an endorsement by the Commission of any particular nontariffed utility product or service. A utility may offer new nontariffed products and services only if the Commission has adopted and the utility has established:

**VII.D.1** A mechanism or accounting standard for allocating costs to each new product or service to prevent cross-subsidization between services a utility would continue to provide on a tariffed basis and those it would provide on a nontariffed basis;

<sup>224</sup> DR 106

<sup>225</sup> DR 109

**VII.D.2** A reasonable mechanism for treatment of benefits and revenues derived from offering such products and services, except that in the event the Commission has already approved a performance-based ratemaking mechanism for the utility and the utility seeks a different sharing mechanism, the utility should petition to modify the performance-based ratemaking decision if it wishes to alter the sharing mechanism, or clearly justify why this procedure is inappropriate, rather than doing so by application or other vehicle.

**VII.D.3** Periodic reporting requirements regarding pertinent information related to nontariffed products and services; and

**VII.D.4** Periodic auditing of the costs allocated to and the revenues derived from nontariffed products and services.

## **2010 and 2011 Compliance Plans**

*SoCalGas has accounting procedures and standards in place that track costs and revenues of each product and service and prevent cross-subsidization between tariffed and non-tariffed services. A report of non-tariffed products and services, covering the prior year, is filed annually with the CPUC no later than June. Periodic internal audits for the costs allocated to and revenues derived from non-tariffed products and services are performed by the Sempra Energy Audit Services department.*

## **Findings and Conclusions**

SoCalGas complied with Rule VII.D.

### **VII.D.1: Allocation of costs to prevent cross-subsidization**

SoCalGas has appropriate procedures and controls in place regarding the determination of incremental costs to prevent the cross-subsidization between tariffed and non-tariffed services. SDG&E and SoCalGas use the same approach to NTP&S incremental costs.

The CPUC provided details and guidance to Sempra regarding incremental costs in CPUC Resolution G-3273, responding to SoCalGas' Advice Letter 2812, Request for Authorization to offer Newspaper Subscription on a Non-Tariffed Basis (The CPUC approved this Advice Letter on June 7, 1999, but rescinded the approval on May 22, 2003).<sup>226</sup>

The fully-loaded overhead costs should include the space occupied by the employee, office supplies, equipment (such as phones, computers, copy machines, office furniture), and any other direct costs incurred in the provision of the service. Using these fully-loaded costs is the appropriate method for tracking the true costs of the program and it prevents cross-subsidization by ratepayers...We ... direct SoCalGas to track the fully-loaded costs for its other nontariffed offering categories and to provide that information in the periodic reports required by Rule VII.H.<sup>227</sup>

SoCalGas and SDG&E and have formal guidelines to provide a standardized and consistent approach for the determination and reporting of fully loaded incremental costs for NTP&S. As defined in the guidelines, “[i]ncremental costs should include overheads and can be thought of as costs that would go away if we no longer offer the product or service

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<sup>226</sup> DR 102

<sup>227</sup> DR 107

(i.e., labor, material, vehicles, etc.). Fully loaded incremental costs are incremental costs plus applicable overheads.”<sup>228</sup>

In general, for SoCalGas and SDG&E, incremental labor costs include overtime, but do not include straight time labor. The theory is that if a worker is appropriately scheduled to perform tariffed activities during a normal day (straight time), any overtime spent working on NTP&S is an incremental cost. Conversely, if an NTP&S activity is performed during the normal work day, there are no incremental labor costs.

#### **VII.D.2: Mechanism for treatment of benefits and revenues from NTP&S**

SoCalGas’ 2010 and 2011 NTP&S offerings are included in the utility’s General Rate Case (GRC) Filing. With the exception of VIII.6, Sale of Oil and Cushion gas from the Montebello Storage Field, discussed below, there is no revenue sharing mechanism for these NTP&S products.<sup>229</sup> The gross revenues of the NTP&S products are included in miscellaneous revenues and used to meet revenue requirements. The incremental costs are included as part of the total O&M amount included in setting revenue requirements. SoCalGas requested a sharing mechanism for other NTP&S in its 2010 GRC filing, but that request was denied.<sup>230</sup>

In accordance with D.01-06-081, SoCalGas shares the revenue and incremental costs of product VIII.6, Sale of Oil and Cushion gas from the Montebello Storage Field with its ratepayers. D.01-06-081 approved the decommissioning of the Montebello storage field.<sup>231</sup> In accordance with D.01-06-081, the ratepayers receive a 50 percent share of the net after-tax gain on the sale of cushion gas and other SoCalGas property at the Montebello field. The CPUC established the Montebello True-Up Tracking Account (MTTA), for the costs and revenues associated with the decommissioning of Montebello. The MTTA tracks costs and revenues in addition to those reported in the NTP&S report. The purpose of the MTTA is to track the difference between the ratepayers’ estimated \$30 million net gain associated with the sale of cushion gas, depreciable assets, and real property at the West Montebello storage field refunded in rates and the actual recorded net after-tax gain realized.<sup>232</sup>

Although the Sale of Oil and Cushion gas from the Montebello Storage field is included in the annual NTP&S report to the CPUC, SoCalGas does not consider it an NTP&S product per se, as it is subject to regulatory treatment per D.01-06-081.

#### **VII.D.3: Periodic reporting**

In accordance with Rule VII.H, SoCalGas filed its 2010 and 2011 NTP&S Reports with the Commission on June 29, 2011 and June 25, 2012 respectively.<sup>233</sup>

SoCalGas’ Sundry Services group compiled the information for SoCalGas’ 2010 and

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<sup>228</sup> DR 107

<sup>229</sup> DR 112, 218

<sup>230</sup> DR 218

<sup>231</sup> SoCalGas Advice Letter No. 3050, August 7, 2001

<sup>232</sup> SoCalGas Advice Letter No. 3050, August 7, 2001

<sup>233</sup> DR 104

2011 NTP&S reports. The Sundry Services group prepares bills for all third party tariffed and non-tariffed products and services that are not billed through the utility's customer information system. Each sundry service, including NTP&S, has a business manager that is responsible for the overall activity, including reconciliation of costs and revenues.<sup>234</sup>

SoCalGas' Sundry Services Manager and Affiliate Compliance Department Advisor met with SDG&E and SoCalGas business managers NTP&S each spring to provide detailed guidance for the determination of cost and revenues for the NTP&S report, including the following requirements:

- Supporting documentation and calculations must be provided for all dollars reported.
- All revenue must be posted to the SAP system, and supporting documentation provided
- Revenue and Expense reports must be signed by the preparer and manager, and submitted to Sundry Services, along with supporting documentation.

Sundry Services maintains binders containing reported revenues and costs and supporting documentation for all SoCalGas 2010 and 2011 non-tariffed offerings.

To facilitate the determination of fully loaded incremental costs, Sundry Services worked with **Affiliate Billing & Costing and Financial Systems** to develop a SAP business warehouse (BW) report that applies monthly overhead rates to recorded cost to determine fully loaded incremental labor and non-labor costs.<sup>235</sup> SoCalGas uses the same overhead rates for NTP&S as for other Third Party Billings.

**Exhibit VII-4** summarizes the 2010 and 2011 NTP&S Incremental Costs and Revenues Reported to the CPUC. SoCalGas' annual NTP&S revenues ranged from \$15 million to \$20 million (not including the approximate \$10 million in revenues from the Montebello gas storage field cushion gas which are included in the MTTA). Sixty-four percent of the revenues (\$22.8 million and 30 percent of the costs (\$2.0 million) are associated with the sale of oil owned produced in association with SoCalGas' gas storage operation, and oil production services for gas storage operations owned by others. Twenty-eight percent of the revenues (\$9.9 million) and 63 percent of the costs (\$4.2 million) are associated with the residential and commercial parts programs.

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<sup>234</sup> DR 114

<sup>235</sup> DR 114

**Exhibit VII-4**  
**SoCalGas 2010 and 2011 NTP&S Revenues and Costs**

Category and Product or Service Description		2010		2011		2010 and 2011			
		Revenues	Incremental Costs	Revenues	Incremental Costs	Revenues	%	Incremental Costs	%
<b>I</b>	<b>Installation and Maintenance of Gas Facilities for Customers</b>								
I.2	Installation and Maintenance of Gas Facilities for customers	\$448,744	\$184,458	\$128,234	\$60,168	\$128,234	0%	\$244,626	4%
	<b>Subtotal</b>	<b>448,744</b>	<b>184,458</b>	<b>128,234</b>	<b>60,168</b>	<b>128,234</b>	<b>0%</b>	<b>244,626</b>	<b>4%</b>
<b>II</b>	<b>Sale and Installation of Parts for Customer-Owned Gas Appliances and Equipment</b>								
II.1	Residential Parts Program	1,759,086	467,609	2,148,275	665,410	2,148,275	6%	1,133,019	17%
II.2	Commercial Parts Program	3,123,073	1,589,135	2,829,815	1,463,562	5,952,888	17%	3,052,697	46%
	<b>Subtotal</b>	<b>4,882,159</b>	<b>2,056,744</b>	<b>4,978,090</b>	<b>2,128,972</b>	<b>9,860,249</b>	<b>28%</b>	<b>4,185,716</b>	<b>63%</b>
<b>III</b>	<b>Gas Meter-Related Services</b>								
III.3	NGV Facilities Calibration and Repair Services.	150,773	44,083	114,300	15,715	265,073	1%	59,798	1%
	<b>Subtotal</b>	<b>150,773</b>	<b>44,083</b>	<b>114,300</b>	<b>15,715</b>	<b>265,073</b>	<b>1%</b>	<b>59,798</b>	<b>1%</b>
<b>IV</b>	<b>Operations Services for Other Utilities, Energy Service Providers and Municipalities</b>								
IV	Training	101,434	31,434	98,321	44,651	199,755	1%	76,085	1%
IV.2(g)	Gas Transmission Consulting	21,649				21649	0%	0	0%
IV.6	Line Item Billing	89,445		317,315		406760	1%	0	0%
	<b>Subtotal</b>	<b>212,528</b>	<b>31,434</b>	<b>415,636</b>	<b>44,651</b>	<b>628,164</b>	<b>2%</b>	<b>76,085</b>	<b>1%</b>
<b>VII</b>	<b>Environmental Management Products and Service</b>								
VII.3	Environmental software and services includes: RECLAIM ERT and Permit Works	16,243	8,638	4,350	706	20593	0%	9344	0%
VII.4	Brokering of air emissions credit trading	271,999	23,400	125,000	52,000	396,999	1%	75,400	0%

Category and Product or Service Description		2010		2011		2010 and 2011			
		Revenues	Incremental Costs	Revenues	Incremental Costs	Revenues	%	Incremental Costs	%
VII.8	EPAct Credit Sales	17,100		201,300		218400	1%	0	1%
	<b>Subtotal</b>	<b>305,342</b>	<b>32,038</b>	<b>330,650</b>	<b>52,706</b>	<b>635,992</b>	<b>2%</b>	<b>84,744</b>	<b>0%</b>
<b>VIII</b>	<b>Asset Based Services</b>					0	0%	0	1%
VIII.1	Sale of oil owned by SoCalGas and produced in association with gas storage operation, oil production services for oil owned by others.	8,488,675	894,469	14,326,523	1,100,989	22,815,198	64%	1,995,458	30%
VIII.3(b)	Rental or leasing of SoCalGas buildings other than ERC	57,065		19,055		76120	0%	0	0%
VIII.3(c)	Rental or leasing of SoCalGas property (other than buildings or the ERC)	453,360		466,423	625	919783	3%	625	0%
VIII.5	Leasing of excess microwave communications capacity.	26,715		26,715		53430	0%	0	0%
	<b>Subtotal</b>	<b>9,025,815</b>	<b>894,469</b>	<b>14,838,716</b>	<b>1,101,614</b>	<b>23,864,531</b>	<b>67%</b>	<b>1,996,083</b>	<b>30%</b>
	<b>Total NTP&amp;S</b>	<b>15,025,361</b>	<b>3,243,226</b>	<b>20,805,626</b>	<b>3,403,826</b>	<b>35,830,987</b>	<b>100%</b>	<b>6,647,052</b>	<b>100%</b>

Source: DR 104; NorthStar Analysis

Exhibit VII-4 excludes product V.III.6, Sale of Oil and Cushion gas from the Montebello Storage Field, as it is subject to other ratemaking treatment as described in the discussion of Rule VII.D.2. Montebello oil and cushion gas revenue and costs are shown in **Exhibit VII-5**. If Montebello was included as NTP&S, it would constitute 35 percent of the total NTP&S revenue, and 22 percent of the incremental costs.

**Exhibit VII-5**  
**Sale of Oil and Cushion Gas from the Montebello Storage Field**  
**2010 and 2011 Revenues and Costs**

Year	Revenues	Incremental Costs
2010	\$10,347,329	\$8,397,052
2011	11,008,810	7,042,798

Source: DR 104

**VII.D.4: Periodic Auditing NTP&S Costs and Revenues**

In 2010, Sempra Audit Services issued an internal audit of NTP&S reporting for calendar year 2008 for both SDG&E and SoCalGas. The scope of the audit included 2008 NTP&S costs and revenues, as reported to the CPUC.

NorthStar performed detailed testing of selected transactions included SoCalGas' 2010 and 2011 NTP&S reports and found no exceptions. NorthStar steps in the testing process were as follows:

- NorthStar examined the supporting work papers for each 2010 and 2011 NTP&S offering to confirm that the work papers supported the reported costs and revenues.
- NorthStar used judgmental sampling to select transactions for detailed testing. NorthStar selected at least one transaction for each non-tariffed product or service offered in 2010 or 2011
- NorthStar worked with the SoCalGas Sundry Billing Manager and Affiliate Compliance Advisor to “drill down” in SAP and other systems to obtain and review accounting transactions, journal entries, invoices, BW reports to verify the reported costs.

**Rule VII.E**

**VII.E Requirement to File an Advice Letter**

Prior to offering a new category of nontariffed products or services as set forth in Rule VII.C above, a utility shall file an advice letter in compliance with the following provisions of this paragraph.

**VII.E.1** The advice letter shall:

**VII.E.1.a** demonstrate compliance with these rules;

**VII.E.1.b** address the amount of utility assets dedicated to the non-utility venture, in order to ensure that a given product or service does not threaten the provision of utility service, and show that the new product or service will not result in a degradation of cost, quality, or reliability of tariffed goods and services;

**VII.E.1.c** address the potential impact of the new product or service on competition in the relevant market, including but not limited to the degree in which the relevant market is already competitive in nature and the degree to which the new category of products or services is projected to affect that market.

**VII.E.1.d** be served on the service list of Rulemaking 97-04-011/Investigation 97-04-012, as well as on any other party appropriately designated by the rules governing the Commission's advice letter process.

**VII.E.2** For categories of nontariffed products or services targeted and offered to less than 1% of the number of customers in the utility's customer base, in the absence of a protest alleging non-compliance with these Rules or any law, regulation, decision, or Commission policy, or allegations of harm, the utility may commence offering the product or service 30 days after submission of the advice letter. For categories of nontariffed products or services targeted and offered to 1% or more of the number of customers in the utility's customer base, the utility may commence offering the product or service after the Commission approves the advice letter through the normal advice letter process.

**VII.E.3** A protest of an advice letter filed in accordance with this paragraph shall include:

**VII.E.3.a** An explanation of the specific Rules, or any law, regulation, decision, or Commission policy the utility will allegedly violate by offering the proposed product or service, with reasonable factual detail; or

**VII.E.3.b** An explanation of the specific harm the protestant will allegedly suffer.

**VII.E.4** If such a protest is filed, the utility may file a motion to dismiss the protest within 5 working days if it believes the protestant has failed to provide the minimum grounds for protest required above. The protestant has 5 working days to respond to the motion.

**VII.E.5** The intention of the Commission is to make its best reasonable efforts to rule on such a motion to dismiss promptly. Absent a ruling granting a motion to dismiss, the utility shall begin offering that category of products and services only after Commission approval through the normal advice letter process.

## **2010 and 2011 Compliance Plans**

*If SoCalGas considers a new category of non-tariffed product and services, it will file an advice letter with the provisions described in Rule VII.E.*

## **Findings and Conclusions**

SoCalGas did not comply with Rule VII.E.

In the 2010 and 2011 audit period, SoCal Gas and SDG&E requested the authorization of a new NTP&S category, Mover Services. Although SoCalGas filed advice letters requesting authorization for the new NTP&S categories, advice letters did not meet the requirements of Rule VII.E.c and VII.E.d.

On June 16, 2010, SoCalGas and SDG&E filed Advice Letters 4124 and 2178-E/1957-G, respectively, requesting authorization to establish a new category of NTP&S, Mover Services. The utilities received approval of the Advice Letters in Commission Resolution G-3456, dated October 6, 2011.<sup>236</sup>

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<sup>236</sup> DR 113

SoCalGas did not comply with the requirements of Rule VII in Advice Letter 4124, as shown in **Exhibit VII-5**.

**Exhibit VII-5**  
**Assessment of Advice Letter 4124 Rule VII.E Compliance**

Rule VII.E. Requirement		Comply ?	Comments
1.a	Demonstrate compliance with the Rules	✓	SoCalGas requests a waiver of Rule IV.A to allow customers to verbally approve release of basic customer information. PG&E received a similar waiver for its Mover Services program in R. G-3417. The Advice Letter addresses each condition set forth in Rule VII.
1.b	Address the amount of utility assets used to ensure no threat to utility service. Show no negative impact on cost, quality, and reliability of tariffed goods and services	✓	Less than 1% of contact center resources would be used in the program.
1.c	Address the potential impact of on competition in the relevant market.	Not Adequately	Competition was addressed, but no analysis provided. See discussion following exhibit.
1.d	Be served to the service list of Rulemaking 97-04-011/Investigation 97-04-012, and any other party designated by the advice letter process.	No	The Advice Letter states it was served to the Advice Letter Filing mailing list in General Order 96-B, but does not specifically state that it was served to the service list of Rulemaking 97-04-011/Investigation 97-04-012.
2.	If offered to 1% or more of customers in the utility's customer base, the utility may commence offering the product or service after the Commission approves the advice letter.	✓	The Mover Service Program was approved in R.G-3456, dated October 6, 2011, but was not offered in 2011.

In Resolution G-3456, the Commission identified a deficiency in SoCalGas' and SDG&E's advice letter filing, namely, that the advice letters did not "contain any showing required by the [ATR rules regarding competition, shown below] and also do not contain any explanation of why such analysis is not necessary in this case."<sup>237</sup>

**VII.C.4.e** the utility's offering of such nontariffed product or service does not violate any law, regulation, or Commission policy regarding anticompetitive practices.

**VII.E.1.c** address the potential impact of the new product or service on competition in the relevant market, including but not limited to the degree in which the relevant market is already competitive in nature and the degree to which the new category of products or services is projected to affect that market.

<sup>237</sup> DR 113

In their advice letters, SoCalGas and SDG&E addressed the potential competitive impact of the Mover Services Program in general terms, but did not provide the market analysis the Commission required. Advice Letter 4124 states:

Rule VII.E.1.c requires SoCalGas to address the potential impact of its proposed program on the competitiveness of the relevant market. SoCalGas is not aware of any mover services business providing mover service referrals within its service territory. SoCalGas believes there would not be any adverse impact on any potential entrants to this market. The program sets out the criteria which the selected mover services vendor will be required to use to offer customer choice through a comprehensive list of services and service providers. SoCalGas has reviewed the use of this type of service by more than 25 utilities nationwide and estimates that 15% of its new or transfer customers may choose to use this mover service, leaving a substantial portion of the market for existing vendor and future potential entrants.<sup>238</sup>

In Resolution G-3456, the Commission found that the Mover Services Program would enter the marketing information services market which had few barriers to entry, and that competitive forces should help keep prices charge reasonable. To protect customers, the Commission required SoCalGas and SDG&E to use the same criteria to govern its supplier selection process as PG&E was required to use in Resolution G-3417.

Notwithstanding the Commission's identification of the ATR VII.C.4.e and VII.E.1.c deficiencies, it approved Advice Letters 4124 and 2178-E/1957-G in Resolution G-3456, dated October 6, 2011.<sup>239</sup> SoCalGas did not implement the Movers Services Program until 2012.

## **Rule VII.F**

### **VII.F Existing Offerings**

Unless and until further Commission order to the contrary as a result of the advice letter filing or otherwise, a utility that is offering tariffed or nontariffed products and services, as of the effective date of this decision, may continue to offer such products and services, provided that the utility complies with the cost allocation and reporting requirements in this rule. No later than January 30, 1998, each utility shall submit an advice letter describing the existing products and services (both tariffed and nontariffed) currently being offered by the utility and the number of the Commission decision or advice letter approving this offering, if any, and requesting authorization or continuing authorization for the utility's continued provision of this product or service in compliance with the criteria set forth in Rule VII. This requirement applies to both existing products and services explicitly approved and not explicitly approved by the Commission.

### **2010 and 2011 Compliance Plans**

*As required by Rule VII.F, SoCalGas submitted Advice Letter No. 2669 describing the existing products and services as of January 30, 1998.*

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<sup>238</sup> DR 113

<sup>239</sup> DR 113

## **Findings and Conclusions**

SoCalGas complied with Rule VII.F.

On January 30, 1998, SoCalGas submitted Advice Letter No. No. 2669 describing its existing non-tariffed products and services.

## **Rule VII.G**

### **VII.G Section 851 Application**

A utility must continue to comply fully with the provisions of Public Utilities Code Section 851 when necessary or useful utility property is sold, leased, assigned, mortgaged, disposed of, or otherwise encumbered as part of a nontariffed product or service offering by the utility. If an application pursuant to Section 851 is submitted, the utility need not file a separate advice letter, but shall include in the application those items which would otherwise appear in the advice letter as required in this Rule.

### **2010 and 2011 Compliance Plans**

*SoCalGas will continue to file Public Utilities Code Section 851 applications as required under that statute.*

## **Findings and Conclusions**

SoCalGas complied with Rule VII.G.

Public Utilities Code Section 851 addresses the utility's obligations to obtain Commission approval when necessary or useful utility property is sold, leased, assigned, mortgaged, disposed of, or otherwise encumbered. If the transaction is valued above five million dollars, the utility must secure an order from the Commission authorizing the transaction. If the transaction is valued at five million dollars or less, the utility must file an advice letter and obtained a resolution from the Commission authorizing the transaction. The Commission determines the types of transactions valued at five million dollars or less that qualify for advice letter handling. In accordance with Rule VII.G, if a utility submits an application pursuant to Section 851, the utility need not file a separate advice letter, but shall include in the application those items which would otherwise appear in the advice letter.

SoCalGas did not have any Section 851 transactions in 2010 and 2011. SoCalGas notified the Commission of its NTP&S offerings related to rental and leasing of utility properties in its description of existing non-tariffed project and service offerings in Advice Letter No. 2669, dated January 30, 1998.<sup>240</sup>

## **Rule VII.H**

### **VII.H Periodic Reporting of Nontariffed Products and Services**

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

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<sup>240</sup> DR 102

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.

### **2010 and 2011 Compliance Plans**

*SoCalGas will file its annual report no later than June of the year following the report year.*

### **Findings and Conclusions**

SoCalGas complied with Rule VII.H.

In accordance with Rule VII.H, SoCalGas filed its 2010 and 2011 NTP&S Reports with the Commission on June 29, 2011 and June 25, 2012 respectively.<sup>241</sup>

## **Rule VII.I**

### **VII.I Offering of Nontariffed Products and Services to Affiliates**

Nontariffed products and services which are allowed by this Rule may be offered to utility affiliates only in compliance with all other provisions of these Affiliate Rules. Similarly, this Rule does not prohibit affiliate transactions which are otherwise allowed by all other provisions of these Affiliate Rules.

### **2010 and 2011 Compliance Plans**

*SoCalGas makes non-tariffed products and services available to affiliates on the same terms and conditions as offered to others.*

### **Findings and Conclusions**

SoCalGas complied with Rule VII.I.

NTP&S are offered to all similarly situated customers and/or entities operating or residing within SoCalGas' service territory on a non-discriminatory basis. Non-tariffed products and services are not actively marketed by SoCalGas, but are offered as a complement to its tariffed services and as a convenience to its customers. Non-tariffed products and services are not actively marketed by SoCalGas, but are offered as a complement to its tariffed services and as a convenience to its customers.<sup>242</sup>

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<sup>241</sup> DR 104

<sup>242</sup> DR 109

## **RULE VIII. COMPLAINT PROCEDURES AND REMEDIES**

Rule VIII establishes the process for following up and resolving complaints received by the California Public Utilities Commission (Commission or CPUC) regarding violation of the Affiliate Transaction Rules and describes the remedies available to the CPUC for enforcing the Affiliate Transaction Rules (Rules or ATR).

It is important to note that only a few parts of Rule VIII require specific compliance action by Southern California Gas Company (SoCalGas), with the remainder of the Rule defining the resolution process and available remedies.

In reviewing SoCalGas' compliance with Rule VIII, NorthStar used the following evaluative criteria, whether:

- SoCalGas designated an Affiliate Compliance Manager with the required responsibilities.
- SoCalGas' Compliance Plan addressed complaint investigation, reporting, and resolution processes in compliance with the Rules.
- SoCalGas properly notified the Commission Energy Division of the resolution of any complaints and any actions taken as a result of such resolutions.
- SoCalGas followed the procedures for informal contacts as required.

In conducting its compliance audit, NorthStar examined the following:

1. Identified the name, location and telephone number of the Affiliate Compliance Manager.
2. Described the responsibilities of the Affiliate Compliance Manager.
3. Assessed SoCalGas' policies and procedures for investigation, reporting and remediation of complaints.
4. Examined SoCalGas' actions with respect to all affiliate transaction non-compliance complaints receiving during 2010 and 2011. Determined whether SoCalGas properly notified the Commission Energy Division regarding these complaints.
5. Determined whether SoCalGas' processes, procedures and controls used to ensure compliance with this ATR were consistent with SoCalGas' most recent Compliance Plan.

### **Rules VIII.A through VIII.C.1**

#### **VIII.A The Commission Shall Strictly Enforce These Rules**

Each act or failure to act by a utility in violation of these rules may be considered a separate occurrence.

**VIII.B.1** Any person or corporation as defined in Sections 204, 205, and 206 of the California Public Utilities Code may complain to the Commission or to a utility in writing, setting forth any act or thing done or omitted to be done by any utility or affiliate in violation or claimed violation of any rule set forth in this document.

**VIII.B.2** “Whistleblower complaints” will be accepted and the confidentiality of complainant will be maintained until conclusion of an investigation or indefinitely, if so requested by the whistleblower. When a whistleblower requests anonymity, the Commission will continue to pursue the complaint only where it has elected to convert it into a Commission-initiated investigation. Regardless of the complainant’s status, the defendant shall file a timely answer to the complaint.

**VIII.C.1** All complaints shall be filed as formal complaints with the Commission and complainants shall provide a copy to the utility’s designated officer (as described below) on the same day that the complaint is filed.

## **2010 and 2011 Compliance Plans**

*No specific compliance action is required under Rules VIII.A through VIII.C.1.*

## **Findings and Conclusions**

Rules VIII.A through VIII.C.1 do not require any specific compliance action by SoCalGas.

## **Rules VIII.C.2 through VIII.C.4**

**VIII.C.2** Each utility shall designate an Affiliate Compliance Manager who is responsible for compliance with these affiliate rules and the utility’s compliance plan adopted pursuant to these rules. Such officer shall also be responsible for receiving, investigating, and attempting to resolve complaints. The Affiliate Compliance Manager may, however, delegate responsibilities to other officers and employees.

**VIII.C.2.a** The utility shall investigate and attempt to resolve the complaint. The resolution process shall include a meet-and-confer session with the complainant. A Commission staff member may, upon request by the utility or the complainant, participate in such meet-and-confer sessions and shall participate in the case of a whistleblower complaint.

A party filing a complaint may seek a temporary restraining order at the time the formal complaint is filed. The defendant utility and other interested parties may file responses to a request for a temporary restraining order within 10 days of the filing of the request. An assigned commissioner or administrative law judge may shorten the period for responses, where appropriate. An assigned commissioner or administrative law judge, or the Commission shall act on the request for a temporary restraining order within 30 days. The request may be granted when: (1) the moving party is reasonably likely to prevail on the merits, and (2) a temporary restraining order relief is necessary to avoid irreparable injury, will not substantially harm other parties, and is consistent with the public interest.

A notice of temporary restraining order issued by an assigned commissioner or administrative law judge will only stay in effect until the end of the day of the next regularly-scheduled Commission meeting at which the Commission can issue a temporary restraining order or a preliminary injunction. If the Commission declines to issue a temporary restraining order or a preliminary injunction, the notice of temporary restraining order will be immediately lifted. Whether or not a temporary restraining order or a preliminary injunction is issued, the underlying complaint may still move forward.

**VIII.C.2.b** The utility shall prepare and preserve a report on each complaint, all relevant dates, companies, customers and employees involved, and if applicable, the resolution reached, the date of the resolution and any actions taken to prevent further violations from occurring. The report shall be provided to the Commission and all parties within four weeks of the date the complaint was filed. In addition, to providing hard copies, the utility shall also provide electronic copies to the Commission and to any party providing an e-mail address.

**VIII.C.2.c** Each utility shall file annually with the Commission a report detailing the nature and status of all complaints.

**VIII.C.2.d** The Commission may, notwithstanding any resolution reached by the utility and the complainant, convert a complaint to an investigation and determine whether the utility violated these rules, and impose any appropriate penalties under Section VIII.D or any other remedies provided by the Commission's rules or the Public Utilities Code.

**VIII.C.3** The utility will inform the Commission's Energy Division and Consumer Services Division of the results of this dispute resolution process. If the dispute is resolved, the utility shall inform the Commission staff of the actions taken to resolve the complaint and the date the complaint was resolved.

**VIII.C.4** If the utility and the complainant cannot reach a resolution of the complaint, the utility will so inform the Commission's Energy Division. It will also file an answer to the complaint within 30 days of the issuance by the Commission's Docket Office of instructions to answer the original complaint. Within 10 business days of notice of failure to resolve the complaint, Energy Division staff will meet and confer with the utility and the complainant and propose actions to resolve the complaint. Under the circumstances where the complainant and the utility cannot resolve the complaint, the Commission shall strive to resolve the complaint within 180 days of the date the instructions to answer are served on the utility.

### **2010 and 2011 Compliance Plans**

*ACD is responsible for monitoring compliance with the Rules and SoCalGas' Compliance Plan. The Affiliate Compliance Officer (SDG&E VP – CFO & Controller) is responsible for compliance with the Rules and SoCalGas' Compliance Plan. The Affiliate Compliance Officer delegates to the Manager - Accounting Systems & Compliance responsibility for receiving, investigating, and attempting to resolve complaints. SoCalGas will follow the procedures delineated in Rule VIII.C.2 through VIII.C.4 when a complaint is received and processed for resolution.*

### **Findings and Conclusions**

SoCalGas complied with Rules VIII.C.2 through Rule VIII.C.4.

During the audit period, the SDG&E Vice President (VP) - Chief Financial Officer & Controller served as the Affiliate Compliance Officer for both SDG&E and SoCalGas, and was responsible for compliance with the Rules and the utilities' Compliance Plans. The Affiliate Compliance Officer delegated the responsibility for receiving, investigating, and attempting to resolve SoCalGas complaints to the SoCalGas Manager - Accounting Systems & Compliance.

In 2010, Affiliate Compliance for SoCalGas and SDG&E was managed jointly by one Affiliate Compliance Department (ACD). The ACD was responsible for managing the utilities' and Corporate Center's compliance with the Rules. ACD personnel consisted of the Affiliate Compliance Manager; Project Manager, three Affiliate Compliance Advisors; and an Affiliate Compliance Specialist.<sup>243</sup>

The joint-utility ACD reported to Sempra Energy's Director – FERC, CAISO & Compliance, who in turn, reported directly to the Senior Vice President – Finance,

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<sup>243</sup> DR 97

Regulatory and Legislative Affairs. The ACD also reported indirectly to SDG&E's VP – SFO & Controller (the Affiliate Compliance Officer for SDG&E) and SoCalGas' VP – CFO & Controller (the Affiliate Compliance Officer for SoCalGas). The utility's VP – CFO & Controllers reported to Sempra Energy's Senior VP – Finance, Regulatory and Legislative Affairs.

In 2011, SoCalGas and SDG&E had separate Affiliate Compliance Departments. The SoCalGas ACD personnel consisted of two Regulatory Compliance Advisors. The SoCalGas ACD personnel reported to the Manager – Accounting Systems & Compliance, who in turn, reported to the Vice President of Accounting & Finance. The Vice President – Controller & Chief Financial Officer served as the Affiliate Compliance Officer for both SDG&E and SoCalGas and reported to the Senior VP – Financial Regulatory & Legislative Affairs (SDG&E/SoCalGas).<sup>244</sup>

The ACD continues to exist in each utility. The general responsibilities of the ACD have not changed since 2010. The ACD provides education, direction, and oversight of all matters pertaining to the Rules. Additionally, ACD is responsible for timely filing of reports related to the Rules. ACD resolves policy issues and directs the utilities' compliance efforts on a day-to-day basis. Compliance policy matters may be brought to the Corporate Compliance Committee for final determination. ACD provides guidance and/or interpretations and responds to inquiries related to the Rules, including providing assistance in the resolution of affiliate compliance issues received through Helplines, e-mail, internal publications, intranet and Internet Web sites to facilitate compliance efforts.<sup>245</sup>

The ACD has an appropriate "Complaints Procedure and Remedies" procedure which delineates ACD responsibilities and actions when a complaint is received. The procedure, effective April 6, 2010, assigns ACD staff responsibilities for the complaints resolution processes required by Rules VIII.C.2 through VIII.C.4 and VIII.C.6.<sup>246</sup>

SoCalGas received no formal or informal complaints during the 2010-2011 audit period.<sup>247</sup>

## **Rule VIII.C.5**

**VIII.C.5** The Commission shall maintain on its Web site a public log of all new, pending and resolved complaints. The Commission shall update the log at least once every week. The log shall specify, at a minimum, the date the complaint was received, the specific allegations contained in the complaint, the date the complaint was resolved and the manner in which it was resolved, and a description of any similar complaints, including the resolution of such similar complaints.

### **2010 and 2011 Compliance Plans**

*No additional compliance action is required.*

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<sup>244</sup> DR 97

<sup>245</sup> DR 97

<sup>246</sup> DR 119

<sup>247</sup> DRs 118 and 119

## Findings and Conclusions

Rule VIII.C.5 does not require any specific compliance action by SoCalGas.

### Rule VIII.C.6

**VIII.C.6.a** Prior to filing a formal complaint, a potential complainant may contact the responsible utility officer and/or the Energy Division to inform them of the possible violation of the affiliate rules. If the potential complainant seeks an informal meeting with the utility to discuss the complaint, the utility shall make reasonable efforts to arrange such a meeting. Upon mutual agreement, Energy Division staff and interested parties may attend any such meeting.

**VIII.C.6.b** If a potential complainant makes an informal contact with a utility regarding an alleged violation of the affiliate transaction rules, the utility officer in charge of affiliate compliance shall respond in writing to the potential complainant within 15 business days. The response would state whether or not the issues raised by the potential complainant require further investigation. (The potential complainant does not have to rely on the responses in deciding whether to file a formal complaint.)

### 2010 and 2011 Compliance Plans

*If a potential complainant seeks an informal meeting to discuss the complaint, SoCalGas will make reasonable efforts to arrange such meeting. If informal contact with SoCalGas is made by a potential complainant, SoCalGas will respond in writing within 15 calendar days.*

## Findings and Conclusions

SoCalGas complied with Rule VIII.C.6.

SoCalGas received no formal or informal complaints during the 2010-2011 audit period.<sup>248</sup>

The ACD's "Complaints Procedure and Remedies" procedure delineates ACD responsibilities and actions when a complaint is received and incorporates the processes to be used to resolve complaints that are detailed in Rules VIII.C.2 through VIII.C.4 and VIII.C.6.<sup>249</sup>

### Rules VIII.D.1 through VIII.D.2.b.i

**VIII.D.1** When enforcing these rules or any order of the Commission regarding these rules, the Commission may do any or all of the following:

**VIII.D.1.a** Order a utility to stop doing something that violates these rules;

**VIII.D.1.b** Prospectively limit or restrict the amount, percentage, or value of transactions entered into between the utility and its affiliate(s);

**VIII.D.1.c** Assess fines or other penalties;

**VIII.D.1.d** Prohibit the utility from allowing its affiliate(s) to utilize the name and logo of the utility, either on a temporary or a permanent basis;

**VIII.D.1.e** Apply any other remedy available to the Commission.

**VIII.D.2** Any public utility which violates a provision of these rules is subject to a fine of not less than five hundred dollars (\$500), nor more than \$20,000 for each offense. The remainder of this

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<sup>248</sup> DRs 118 and 119

<sup>249</sup> DR 119

subsection distills the principles that the Commission has historically relied upon in assessing fines and restates them in a manner that will form the analytical foundation for future decisions in which fines are assessed. Before discussing those principles, reparations are distinguished.

**VIII.D.2.a** Reparations are not fines and conceptually should not be included in setting the amount of a fine. Reparations are refunds of excessive or discriminatory amounts collected by a public utility. PU Code §734. The purpose is to return funds to the victim which were unlawfully collected by the public utility. Accordingly, the statute requires that all reparation amounts are paid to the victims. Unclaimed reparations generally escheat to the state, Code of Civil Procedure §1519.5, unless equitable or other authority directs otherwise, e.g., Public Utilities Code §394.9.

**VIII.D.2.b** The purpose of a fine is to go beyond restitution to the victim and to effectively deter further violations by this perpetrator or others. For this reason, fines are paid to the State of California, rather than to victims.

Effective deterrence creates an incentive for public utilities to avoid violations. Deterrence is particularly important against violations which could result in public harm, and particularly against those where severe consequences could result. To capture these ideas, the two general factors used by the Commission in setting fines are: (1) severity of the offense and (2) conduct of the utility. These help guide the Commission in setting fines which are proportionate to the violation.

**VIII.D.2.b.i** The severity of the offense includes several considerations. Economic harm reflects the amount of expense which was imposed upon the victims, as well as any unlawful benefits gained by the public utility. Generally, the greater of these two amounts will be used in establishing the fine. In comparison, violations which caused actual physical harm to people or property are generally considered the most severe, with violations that threatened such harm closely following.

The fact that the economic harm may be difficult to quantify does not itself diminish the severity or the need for sanctions. For example, the Commission has recognized that deprivation of choice of service providers, while not necessarily imposing quantifiable economic harm, diminishes the competitive marketplace such that some form of sanction is warranted.

Many potential penalty cases before the Commission do not involve any harm to consumers but are instead violations of reporting or compliance requirements. In these cases, the harm may not be to consumers but rather to the integrity of the regulatory processes. For example, compliance with Commission directives is required of all California Public Utilities:

“Every public utility shall obey and comply with every order, decision, direction, or rule made or prescribed by the Commission in the matters specified in this part, or any other matter in any way relating to or affecting its business as a public utility, and shall do everything necessary or proper to secure compliance therewith by all of its officers, agents, and employees.” Public Utilities Code §702.

Such compliance is absolutely necessary to the proper functioning of the regulatory process. For this reason, disregarding a statutory or Commission directive, regardless of the effects on the public, will be accorded a high level of severity.

The number of the violations is a factor in determining the severity. A series of temporally distinct violations can suggest an on-going compliance deficiency which the public utility should have addressed after the first instance. Similarly, a widespread violation which affects a large number of consumers is a more severe offense than one which is limited in scope. For a “continuing offense,” PU Code §2108 counts each day as a separate offense.

## **2010 and 2011 Compliance Plans**

*No specific compliance action is required for Rules VIII.D.1 through VIII.D.2.b.i.*

## Findings and Conclusions

Rules VIII.D.1 through VIII.D.2.b.i do not require any specific compliance action by SoCalGas.

### Rule VIII.D.2.b.ii

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

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

**VIII.D.2.b.ii.(1)** Prior to a violation occurring, prudent practice requires that all public utilities take reasonable steps to ensure compliance with Commission directives. This includes becoming familiar with applicable laws and regulations, and most critically, the utility regularly reviewing its own operations to ensure full compliance. In evaluating the utility's advance efforts to ensure compliance, the Commission will consider the utility's past record of compliance with Commission directives.

**VIII.D.2.b.ii.(2)** The Commission expects public utilities to monitor diligently their activities. Where utilities have for whatever reason failed to meet this standard, the Commission will continue to hold the utility responsible for its actions. Deliberate as opposed to inadvertent wrong-doing will be considered an aggravating factor. The Commission will also look at the management's conduct during the period in which the violation occurred to ascertain particularly the level and extent of involvement in or tolerance of the offense by management personnel. The Commission will closely scrutinize any attempts by management to attribute wrong-doing to rogue employees. Managers will be considered, absent clear evidence to the contrary, to have condoned day-to-day actions by employees and agents under their supervision.

**VIII.D.2.b.ii.(3)** When a public utility is aware that a violation has occurred, the Commission expects the public utility to promptly bring it to the attention of the Commission. The precise timetable that constitutes "prompt" will vary based on the nature of the violation. Violations which physically endanger the public must be immediately corrected and thereafter reported to the Commission staff. Reporting violations should be remedied at the earliest administratively feasible time.

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

### 2010 and 2011 Compliance Plans

*SoCalGas utilizes web-based training, the Affiliate Compliance Guidelines (ACG), SoCalGas' Compliance Plan, and Sempra Energy's Code of Business Conduct, which are all available to employees on SoCalGas' intranet, to ensure that employees are knowledgeable of the Rules.*

*Training directs employees to contact ACD, the Affiliate Compliance Helpline or the Ethics Helpline or their Affiliate Compliance Coordinator to report any potential violation of the Rules. They also allow the employee to report potential weaknesses in internal controls. The Ethics Helpline allows for the reporting of an issue with or without identifying the source. Affiliate transactions issues reported to the Ethics Helpline are forwarded to the Manager -*

*Accounting Systems & Compliance. It is the Company's obligation to ensure that any such concerns, raised in good faith, can be done so without retaliation and are appropriately investigated and resolved.*

*Upon notification of an alleged violation, the Manager - Accounting Systems & Compliance, or any employee designated by the Manager - Accounting Systems & Compliance, will immediately begin an investigation into the alleged violation and notify the Affiliate Compliance Officer and the Law Department of the investigation. The Affiliate Compliance Officer will be kept apprised of the investigation until a resolution is reached. The investigation shall consist of gathering all relevant facts and data concerning the event(s) in question and reviewing those facts and data to determine whether, and to what extent, a violation has occurred. Corrective action will be taken and steps to prevent further violations will be implemented.*

*ACD will maintain records of facts gathered in conjunction with the investigation. SoCalGas will evaluate the nature of the violation and will notify the CPUC either through written communication or by notifying the external auditors during the course of the audit, depending on the timing and severity of the offense as outlined in the Rules.*

## **Findings and Conclusions**

SoCalGas did not comply with Rule VIII.D.2.b.ii.

This Rule requires that the utility prevent, detect, disclose and rectify violations of the Rules. SoCalGas has processes in place to help prevent and detect Rule violations; however, as discussed below, these processes were not effective. In that regard, the greatest obstacle to ATR compliance and enforcement of Rule VIII.D.2.b.ii is that it is entirely dependent on the utility's admission that there has been a Rule violation.

While SoCalGas had an appropriate framework of processes to prevent and detect Rule violations, these processes were not effective, as they did not prevent, detect or report to the Commission the Rule violations identified in the NorthStar audit. In a number of cases these were entirely visible to the utility, and are briefly summarized below. A review of the nature of these violations indicates that if SoCalGas' Self-Assessment program had been properly executed, it would have identified and corrected these violations.

<u>Rule</u>	<u>Violation</u>
II.B	SoCalGas created two new affiliates, Sempra International, LLC and Sempra U.S. Gas and Power, LLC and provided false information on the purpose and intent of these affiliates that was well known within the utility. (refer to page 22)
III.B.1	SoCalGas entered into two contracts with affiliates for natural gas transportation without CPUC approval, and two bilateral transactions with an affiliate that were neither double-blind or approved by the CPUC. (refer to page 37)
III.E	SoCalGas directed a potential investor to Sempra LNG. (refer to page 44)
IV.A	SoCalGas provided customer information to an employee of San Diego Gas and Electric Company. (refer to page 52)
V.C	SoCalGas allowed its computer system to be shared with an employee of its affiliate. (refer to page 70)

- V.E SoCalGas provided engineering support to affiliates through temporary assignments. (refer to page 75)
- V.G.2.a SoCalGas only reported employee movement from the utility to affiliates in its annual Affiliate Transaction Reports. (refer to page 94)
- V.G.2.b SoCalGas did not comply with employee transfer residency requirements. (refer to page 95)
- V.G.2.c SoCalGas did not include the non-cash component of base salaries when calculating the 25 percent transfer fee for employees transferred to Sempra Energy. (refer to page 96)
- V.G.2.d SoCalGas only provided documentation for one of the three employee transfers during 2010/2011. There is no evidence of the employees' acknowledgment regarding the use of utility information nor the employees' asset inventories. (refer to page 95)
- V.G.2.e SoCalGas did not report all loaned labor and did not obtain written agreements for all loaned labor. (refer to page 97)  
SoCalGas did not report a number of temporary assignments.
- VI.B SoCalGas failed to immediately notify the Commission and post on its electronic bulletin the creation of a new affiliate on two occasions in 2010 and on seven occasions in 2011. SoCalGas failed to file advice letters within 60 days on two occasions in 2010 and on seven occasions in 2011. (refer to page 109)
  
- VI.E SoCalGas' written certifications do not comply with the language of Rule VI.E. (refer to page 114)

SoCalGas appropriately reported only one Rule violation to the CPUC. On November 16, 2011 an ad for Sempra Generation appeared at the Kern Economic Development Corporation's Fifth Annual Energy Summit congratulating the host on a successful conference. The ad did not include the disclaimer required by Rule V.F.1. The violation was identified by SoCalGas and reported to the CPUC.<sup>250</sup>

Rule VIII.D.2.b.ii describes the second of two general factors to be used by the Commission in setting fines for any violations – the conduct of the utility (the first general factor, severity of the offense, is addressed in Rule VIII.D.2.b.i). VIII.D.2.b.ii's description of the "the conduct of the utility" does not prescribe utility actions, but outlines prudent utility practice in preventing violations and the Commission's expectations with regard to detecting and disclosing violations. The "conduct of the utility" is also addressed through specific compliance with other Rules.

**Exhibit VIII-1** provides a summary of SoCalGas processes to prevent, detect, and disclose violations of the Affiliate Transactions Rules.

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<sup>250</sup> DR 46 and 178

**Exhibit VIII-1**  
**SoCalGas Processes to Prevent, Detect and Disclose Violations**

Expected Utility Behavior	SoCalGas Processes
<p>1. <b>Preventing</b> — Prior to a violation occurring, the utility takes reasonable steps to ensure compliance. Including:</p> <ul style="list-style-type: none"> <li>• Becoming familiar with applicable laws and regulations</li> <li>• Reviewing its own operations to ensure full compliance.</li> </ul>	<ul style="list-style-type: none"> <li>• Web-Based Training</li> <li>• Compliance Plan</li> <li>• Internal Audits of ATR</li> <li>• Self- Assessment Program</li> </ul>
<p>2. <b>Detecting</b> — The Commission expects the utility to diligently monitor activities.</p>	<ul style="list-style-type: none"> <li>• Self- Assessment Program</li> <li>• Ethics Hotline</li> <li>• Dedicated Helpline/E-mail (Discussed in paragraph below)</li> </ul>
<p>3. <b>Disclosing and Rectifying</b> — When a utility knows a violation has occurred, the Commission expects the utility to promptly bring it to the attention of the Commission. “Prompt” varies based on the nature of the violation. Reported violations should be remedied at the earliest administratively feasible time.</p>	<ul style="list-style-type: none"> <li>• “Complaints Procedure and Remedies” (discussed in assessment of Rules VIII.C.2 through Rule VIII.C.4)</li> </ul>

As discussed in NorthStar’s assessment of Rule VI, SoCalGas’ processes to comply with the Rules include ATR training and its Self-Assessment program.

- ATR Training — All SoCalGas non-union management and employees are required to take online ATR training each year.
- Self-Assessment Program — The Self-Assessment Program is an internal compliance review conducted by company personnel. With assistance from the Affiliate Compliance ACD, Affiliate Compliance Coordinators conduct semi-annual assessments of affiliate compliance within their organizations using formal checklists, and identify any requisite corrective actions.<sup>251</sup>

SoCalGas also took steps to prevent and detect ATR compliance issues by conducting internal audits. During the audit period, Sempra’s Internal Audit conducted three audits related to SDG&E’s and SoCalGas’ Affiliate Rule compliance, as summarized in **Exhibit VIII-2**. In at least one case internal audit identified a Rule violation (related to Rule V.G.2.e).

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<sup>251</sup> DR 1

**Exhibit VIII-2**  
**Internal Audits of SDG&E and SoCal Gas Affiliate Rule Compliance**

Audit Dates (Report Date)	Topic	Findings
Oct – Dec 2009 (January 25, 2010)	NTP&S Reporting Controls	<ul style="list-style-type: none"> <li>• No written guidelines and inconsistent approach for overhead calculations.</li> <li>• Incorrect revenue and expense amounts for the sale of oil and cushion gas from the Montebello storage field were reported for in the 2008 NTP&amp;S report (SoCalGas).</li> </ul>
May - August 2010 (August 20, 2010)	CPUC Affiliate Compliance	<ul style="list-style-type: none"> <li>• A network shared drive owned by the Energy Markets and Capacity Products (EM&amp;CP) department is accessible to all users on the corporate network.</li> <li>• Agreements used for assigning utility employees to affiliates on a temporary basis are not approved by utility and affiliate officers as required per the Rules</li> <li>• The calculation of transfer fees for employees moving from the utilities to the covered affiliates differs between SDG&amp;E and SoCalGas.</li> </ul>
January - October 2011 (January 27, 2012)	Shared Services Allocations and Billings	<ul style="list-style-type: none"> <li>• The effectiveness of business controls over shared service templates needs improvement</li> </ul>

Source: DR 141

SoCalGas personnel are to report any potential affiliate compliance issues to the ACD through the following methods:

- *Affiliate Compliance Helpline* – The helpline goes directly to the ACD. The voice mail is checked daily. There are signs providing the *Affiliate Compliance Helpline* telephone number in SDG&E and SoCalGas conference rooms that may be visited by outside parties.
- *Email* – Employees may for reporting compliance issues through emails to the ACD.
- *Ethics Helpline* – Relevant issues are forward to the ACD.
- *Other Correspondence* – Emailing or telephoning ACD personnel.<sup>252</sup>

The ACD maintains an advice log of inquiries, tracking information including as the compliance issue, the related Rule, the requesting department and the ACD responder.

**Rules VIII.D.2.b.iii through VIII.D.2.b.v**

**VIII.D.2.b.iii** Effective deterrence also requires that the Commission recognize the financial resources of the public utility in setting a fine which balances the need for deterrence with the constitutional limitations on excessive fines. Some California utilities are among the largest corporations in the

<sup>252</sup> DR 120

United States and others are extremely modes, one-person operations. What is accounting rounding error to one company is annual revenue to another. The Commission intends to adjust fine levels to achieve the objective of deterrence, without becoming excessive, based on each utility's financial resources.

**VIII.D.2.b.iv** Setting a fine at a level which effectively deters further unlawful conduct by the subject utility and others requires that the Commission specifically tailor the package of sanctions, including any fine, to the unique facts of the case. The Commission will review facts which tend to mitigate the degree of wrongdoing as well as any facts which exacerbate the wrongdoing. In all cases, the harm will be evaluated from the perspective of the public interest.

**VIII.D.2.b.v** The Commission adjudicates a wide range of cases which involve sanctions, many of which are cases of first impression. As such, the outcomes of cases are not usually directly comparable. In future decisions which impose sanctions the parties and, in turn, the Commission will be expected to explicitly address those previously issued decisions which involve the most reasonably comparable factual circumstances and explain any substantial differences in outcome.

### **2010 and 2011 Compliance Plans**

*No specific compliance action is required for Rules VIII.D.2.b.iii through VIII.D.2.b.v.*

### **Findings and Conclusions**

Rules VIII.D.2.b.iii through VIII.D.2.b.v do not require any specific compliance action by SoCalGas.

## **RULE IX. PROTECTING THE UTILITY'S FINANCIAL HEALTH**

Rule IX was adopted in D.06-12-029, and consists of four provisions, A-D. Rule IX A requires Southern California Gas Company (SoCalGas) to submit certain financial data and projections annually by November 30 of each year. Rule IX.B imposes the obligation to retain a capital structure consistent with the California Public Utilities Commission (CPUC or Commission) authorized structure.

Rules IX.C and IX.D are ring-fencing measures to ensure that SoCalGas is not pulled into the bankruptcy of its holding company, should serious financial problems develop. Rule IX C requires a utility to obtain a non-consolidation opinion that demonstrates that the ring-fencing measures it has in place are adequate to keep SoCalGas out of a bankruptcy filed by its holding company parent. Rule IX.D requires only that SoCalGas notify the Commission if it subsequently makes changes to its ring-fencing measures.

In reviewing SoCalGas' compliance with Rule IX, NorthStar used the following evaluative criteria, whether:

- SoCalGas obtained a non-consolidation opinion demonstrating that the ring fencing around SoCalGas was sufficient to prevent SoCalGas from being pulled into bankruptcy of its parent holding company prior to March 20, 2007.
- SoCalGas provided the opinion to the CPUC in a timely manner.
- If SoCalGas did not obtain said opinion prior to March 20, 2007, SoCalGas promptly undertook the following actions:
  - Notified the Commission of the inability to obtain a non-consolidation opinion.
  - Proposed and implemented, upon Commission approval, such ring fencing provisions that were sufficient to prevent SoCalGas from being pulled into the bankruptcy of its parent holding company.
  - Obtained a non-consolidation opinion.
- SoCalGas filed with the CPUC prior to November 30, 2010 and November 30, 2011 a report containing the following information:
  - SoCalGas' estimate of investment capital needed to build or acquire long-term assets (i.e., greater than one year), such as operating assets and utility infrastructure, over each of the next five years.
  - SoCalGas' estimate of capital needed to meet resource procurement goals over each of the next five years.
  - SoCalGas' policies concerning dividends, stock repurchase and retention of capital for each year.
  - The names of individuals involved in deciding corporate policies for SoCalGas' dividends, stock repurchase and retention of capital.
  - The process by which corporate policies concerning dividends, stock repurchase and retention of capital were implemented.
  - How SoCalGas expected or intended to meet its investment capital needs.

- SoCalGas maintained a capital structure consistent with that determined to be reasonable by the Commission in its most recent decision on SoCalGas' capital structure.
- SoCalGas' retained equity such that the Commission's adopted capital structure was maintained on average over the period the capital structure is in effect for ratemaking purposes.
- SoCalGas filed an application for waiver with the CPUC from its equity position for events that had reduced SoCalGas' equity ratio by 1 percent or more.
- SoCalGas notified the CPUC of any changes to the ring fencing provisions within 30 days.

In conducting its compliance audit, NorthStar examined the following:

1. Obtained copies of SoCalGas' filings/advice letters of capital investment as required in Rule IX-A. Reviewed the filings for the following:
  - Date of filing
  - Completeness for compliance with Rule IX-A
  - Supported by utility source data
2. Obtained utility monthly trial balances and utility annual reports and calculated equity ratios.
  - Verified the equity ratio was consistent with the CPUC determined ratio.
  - Determined if there were any reductions in equity of more than 1 percent.
  - Verified that applications were filed for reductions in equity as required in Rule IX-C.
3. Obtained the opinion of non-consolidation and determined:
  - If the opinion was obtained prior to March 20, 2007.
  - Obtained advice letters and submittals to determine if the CPUC promptly received copies of the opinion.
  - If SoCalGas did not obtain an opinion of non-consolidation, SoCalGas performed the following:
    - The Commission was notified of the inability to obtain a nonconsolidation opinion.
    - SoCalGas proposed and implemented, upon Commission approval, ring fencing provisions that were sufficient to prevent SoCalGas from being pulled into the bankruptcy of its parent holding company.
    - SoCalGas obtained a non-consolidation opinion.
4. Reviewed all versions of SoCalGas' ring fencing provisions. Obtained all advice letters and verified that the CPUC was notified within 30 days of all modifications.
5. Determined whether SoCalGas' processes, procedures and controls used to ensure compliance with this ATR were consistent with SoCalGas' most recent Compliance Plan.

6. Determined the actual or potential harm to the ratepayers as a result of any identified error, discrepancy, or violation of this Rule.

## **Rule IX.A**

### **IX.A Information from Utility on Necessary Capital.**

Each utility shall provide to the Commission on the last business day of November of each year a report with the following information:

1. the utility's estimate of investment capital needed to build or acquire long-term assets (i.e. greater than one year), such as operating assets and utility infrastructure, over each of the next five years;
2. the utility's estimate of capital needed to meet resource procurement goals over each of the next five years;
3. the utility's policies concerning dividends, stock repurchase and retention of capital for each year;
4. the names of individuals involved in deciding corporate policies for the utility's dividends, stock repurchase and retention of capital;
5. the process by which corporate policies concerning dividends, stock repurchase and retention of capital are implemented; and
6. how the utility expects or intends to meet its investment capital needs.

### **2010 and 2011 Compliance Plans**

*SoCalGas initiates a long term planning process in the third quarter of each calendar year. The planning process yields projections of investment capital requirements to meet long term infrastructure and procurement needs, the methods and policies used to meet these needs, and the approximate implementation period for such policies. SoCalGas will file a report with the information required by 1-6 above on an annual basis no later than the last business day of November.*

### **Findings and Conclusions**

SoCalGas complied with Rule IX.A.

- SoCalGas made timely filings to the CPUC each year of the audit period.
  - In 2010, SoCalGas filed a combined report with San Diego Gas & Electric Company.
  - In 2011, SoCalGas filed separately.
- Each filing addressed all six of the specific items of information required.<sup>253</sup> Based upon our review of the reported data, NorthStar notes the following:
  - The response to Rule IX.A.1 & 2 does not provide any explanation of variations between the current year's projections and any previous years.

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<sup>253</sup> DR 121

- The response to Rule IX.A.6 does not provide any specifics. Rather it states “Management believes (sources)...will be adequate...”<sup>254</sup>.

## **Rule IX.B**

### **IX.B Restrictions on Deviations from Authorized Capital Structure**

A utility shall maintain a balanced capital structure consistent with that determined to be reasonable by the Commission in its most recent decision on the utility’s capital structure. The utility’s equity shall be retained such that the Commission’s adopted capital structure shall be maintained on average over the period the capital structure is in effect for rulemaking purposes. Provided, however, that a utility shall file an application for a waiver, on a case by case basis and in a timely manner, of this Rule if an adverse financial event at the utility reduces the utility’s equity ratio by 1% or more. In order to assure that regulatory staff has adequate time to review and assess the application and to permit the consideration of all relevant facts, the utility shall not be considered in violation of this Rule during the period the waiver is pending resolution. Nothing in this provision creates a presumption of either reasonableness or unreasonableness of the utility’s actions which may have caused the adverse financial event.

### **2010 and 2011 Compliance Plans**

*SoCalGas will maintain a balanced capital structure in accordance with the provisions set forth in this Rule.*

### **Findings and Conclusions**

SoCalGas complied with Rule IX.B. During every month of the audit period, the utility’s common equity exceeded the authorized ratio of 48 percent.<sup>255</sup>

## **Rule IX.C**

### **IX.C Ring-Fencing**

Within three months of the effective date of the decision adopting this amendment to the Rules, a utility shall obtain a non-consolidation opinion that demonstrates that the ring-fencing around the utility is sufficient to prevent the utility from being pulled into bankruptcy of its parent holding company. The utility shall promptly provide the opinion to the Commission. If the current ring-fencing provisions are insufficient to obtain a non-consolidation opinion, the utility shall promptly undertake the following actions:

1. notify the Commission of the inability to obtain a non-consolidation opinion;
2. propose and implement, upon Commission approval, such ring-fencing provisions that are sufficient to prevent the utility from being pulled into bankruptcy of its parent holding company; and then
3. obtain a non-consolidation opinion.

### **2010 and 2011 Compliance Plans**

*On March 14, 2007, Sempra Energy filed with the Commission a non-consolidation opinion, on behalf of SoCalGas, demonstrating that the ring-fencing around the utility is sufficient to*

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<sup>254</sup> DR 81

<sup>255</sup> Direct testimony of Michael W. Foster April 2012

*prevent the utility from being pulled into bankruptcy of its parent holding company. No additional compliance action is required.*

### **Findings and Conclusions**

SoCalGas complied with Rule IX.C.

SoCalGas filed a non-consolidation plan with the CPUC on March 14, 2007 prior to the deadline established by Rule. A special counsel concluded that United States federal court exercising bankruptcy jurisdiction and correctly applying current U.S. law would maintain the separate nature of SoCalGas from Sempra.<sup>256</sup>

### **Rule IX.D**

#### **IX.D Changes to Ring-Fencing Provisions**

A utility shall notify the Commission of any changes made to its ring-fencing provisions within 30 days.

#### **2010 and 2011 Compliance Plans**

*If material changes are made to SoCalGas' ring fencing provisions, SoCalGas will notify the Commission within 30 calendar days in accordance with this Rule.*

### **Findings and Conclusions**

SoCalGas complied with Rule IX.D. SoCalGas has made no material changes to its ring-fencing provisions.<sup>257</sup>

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<sup>256</sup> DR 227

<sup>257</sup> DR 317

# AFFILIATE TRANSACTION COMPLIANCE PLAN ASSESSMENT

This chapter provides a focused summary of NorthStar’s findings related to SoCalGas’ Compliance Plan. We compiled the results of our review of SoCalGas’ compliance with the Rules to assess whether SoCalGas’ actions are consistent with its Compliance Plan. In particular, it identifies 1) instances when SoCalGas’ Compliance Plan itself does not comply with the Rules, and 2) instances when SoCalGas did not comply with its own compliance plan.

In conducting our review, NorthStar used the following evaluative criteria:

- The Compliance Plan is complete and addresses all aspects of the Rules.
- The Compliance Plan is consistent with SoCalGas’ actions as identified through NorthStar’s audit of Rules I through IX.
- SoCalGas has regularly assessed the effectiveness of its Compliance Plan and revised it to improve its compliance programs.

NorthStar conducted the following activities:

1. Assessed SoCalGas’ Compliance Plan and determine whether it addresses all aspects of the Rules
2. Compared the results of our audit of the Rules to the Compliance Plan(s) in effect during the audit period to determine whether SoCalGas complied with its Compliance Plan. Determine the cause of any discrepancies and identify any remediation efforts.
3. Recommend additional steps SoCalGas can take to ensure its Compliance Plan matches its actions.

## Findings and Conclusions

SoCalGas’ efforts to ensure compliance with the Rules and its effectiveness of Compliance Plan are addressed in NorthStar’s discussion of Rule VI, Regulatory Oversight.

NorthStar identified several instances when SoCalGas’ Compliance Plan does not comply with the Rules, as summarized in **Exhibit X-1**.

**Exhibit X-1**  
**Instances when SoCalGas' Compliance Plan Does Not Comply with Rules**

Affiliate Transaction Rule	SoCalGas Compliance Plan	NorthStar Comments
<b>Rule II.H</b>		
These Rules should be interpreted broadly, to effectuate our stated objectives of fostering competition and protecting consumer interests.	These Rules apply only to transactions between SoCalGas and its “covered” affiliates, except where also explicitly provided as applicable to the holding company and/or “non-covered affiliates.” [Emphasis added] 2013 Compliance Plan – Same as 2010 and 2011	Rather than interpreting and applying the Rules broadly as required by Rule II.B, SoCalGas' Compliance Plan applies only to “covered” affiliates, unless otherwise specified.
<b>Rule III.B.1</b>		
No utility shall engage in resource procurement, as defined in these Rules, from an affiliate without prior approval from the Commission. Blind transactions between a utility and its affiliate, defined as those transactions in which neither party knows the identity of the counterparty until the transaction is consummated, are exempted from this Rule.	[SoCalGas' plan to address Rule III.B.1 is not included in this exhibit as it describes SoCalGas' resource procurement methodologies]	SoCalGas entered into two contracts with affiliates for natural gas transportation without CPUC approval. SoCalGas also entered into two bilateral transactions with an affiliate that were neither double-blind nor approved by the CPUC.
<b>Rule V.C</b>		
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.	Utility employees do not have access to the covered affiliates' network.	The Compliance Plan does not state that affiliate employees do not have access to the utility's network.

Affiliate Transaction Rule	SoCalGas Compliance Plan	NorthStar Comments
<b>Rule V.E Corporate Support</b>		
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.	As allowed by this Rule, SoCalGas' MARP (Management Accounting Rotation Program) and Corporate Center's FLP (Financial Leadership Program) representatives may participate in career events together to explain their individual programs. (2010 Compliance Plan Only)	These programs are not allowed by Rule V.E as the Compliance Plan states. MARP and FLP constitute joint employment which is not permitted under the Rules.
... Examples of services that may not be shared include: employee recruiting, engineering, hedging and financial derivatives and arbitrage services, gas and electric purchasing for resale, purchasing of gas transportation and storage capacity, purchasing of electric transmission, system operations, and marketing.	SoCalGas understands Rule V.E's prohibition on shared "hedging and financial derivatives and arbitrage services," to apply to employees engaged in hedging electric and natural gas commodities, and not to the use of hedging and financial derivatives in support of SoCalGas' long term financings. The Sempra Energy Treasury and Finance shared service departments may assist SoCalGas with planning and arranging hedging and financial derivative use in support of SoCalGas' long-term financings.	"Hedging and financial derivatives" may not be shared under any circumstances. The Rules do not allow the narrow interpretation that SoCalGas has adopted in its Compliance Plan.

Affiliate Transaction Rule	SoCalGas Compliance Plan	NorthStar Comments
<b>Rule V.F.1</b>		
<p>A utility shall not trade upon, promote, or advertise its affiliate's affiliation with the utility, nor allow the utility name or logo to be used by the affiliate or in any material circulated by the affiliate, unless it discloses in plain legible or audible language, on the first page or at the first point where the utility name or logo appears that:</p> <p>V.F.1.a. the affiliate “is not the same company as [i.e. PG&amp;E, Edison, the Gas Company, etc.], the utility”;</p> <p>V.F.1.b. the affiliate is not regulated by the California Public Utilities Commission; and</p> <p>V.F.1.c. “you do not have to buy [the affiliate’s] products in order to continue to receive quality regulated services from the utility.”</p> <p>The application of the name/logo disclaimer is limited to the use of the name or logo in California.</p>	<p><u>2010 and 2011 Compliance Plans</u></p> <p>D.98-11-027 provided that the disclaimer requirement does not apply in certain limited instances as follows:</p> <p>4. Communications with governmental bodies, where the parties involved either know, or should have reason to know, the legal status and interrelationship of the utility and affiliates, <u>and</u> the communications are not related to product sales. <i>This is interpreted to include: (i) communications with governmental entities in legal or regulatory proceedings, written communications with governmental bodies regarding actual or proposed legislation, and written communications to federal, state or municipal agencies which relate to an agency requirement or power (other than the power of the agency to buy products and services); (ii) legal documents, such as contracts and real property instruments; and (iii) communications with security holders and other members of the investment community, where, in each of the foregoing instances, the parties involved either know, or should have reason to know, the legal status and interrelationship of the utility and affiliates; [Emphasis added]</i></p> <p><u>2013 Compliance Plan</u> – Same as 2010 and 2011.</p>	<p>The emphasized section is SoCalGas’ interpretation of the language, not an interpretation provided in the Decision, as the Compliance Plan implies.</p>

Affiliate Transaction Rule	SoCalGas Compliance Plan	NorthStar Comments
<b>Rule V.G.1 Joint Employment</b>		
<p>Except as permitted in Rule V E (corporate support), a utility and its affiliates shall not jointly employ the same employees.</p>	<p>SoCalGas interprets Rule V.G to apply to employees of SoCalGas, and <i>not to consultants/contractors or employees of temporary third-party agencies.</i> [Emphasis added]</p>	<p>SoCalGas’ interpretation that Rule V.G does not apply to consultants/contractors or employees of temporary third-party agencies is contrary to Rule I.A, which describes Compliance Plan requirements, and provides examples of possible conduits to circumvent the Rules, including:  <i>“a consultant or contractor as a vehicle to (1) disseminate information transferred to them by the utility to an affiliate covered by these Rules in contravention of these Rules, (2) provide services to its affiliates covered by these Rules in contravention of these Rules...”</i>  [Emphasis added]  SoCalGas’ narrow definition of “employee” is also contrary to Rule II.H which states:  <i>“These Rules should be interpreted broadly, to effectuate our stated objectives of fostering competition and protecting consumer interests.”</i></p>
<b>V.F.4.c. Trade Shows</b>		
<p>A utility shall not participate with its affiliates in trade shows, conferences, or other information or marketing events held in California.</p>	<p>Trade show exhibits at the same event are understood to be permissible as long as a booth, table, exhibit or advertisement sponsored by SoCalGas will not be contiguous with any such exhibits sponsored by an affiliate. In no case will the affiliate’s affiliation with SoCalGas be promoted. SoCalGas promotional events within California that are open to all competitors on a nondiscriminatory basis will also be open to affiliates.</p>	<p>Rule V.F.4.c makes no exclusions for the “same event are understood to be permissible as long as a booth, table, exhibit or advertisement sponsored by SoCalGas will not be contiguous with any such exhibits sponsored by an affiliate.”</p>
<b>VI.B New Affiliate Compliance Plans</b>		

Affiliate Transaction Rule	SoCalGas Compliance Plan	NorthStar Comments
<p>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. .</p>	<p>Within two calendar days of notification to SoCalGas, SoCalGas will notify the CPUC of: (1) any newly formed 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.</p>	<p>SoCalGas qualifies its compliance obligations based on its notification by Sempra Corporate. One of a number of areas in which the regulated utility does not take responsibility for affiliate actions or inactions.</p>
<b>Rule V.I.E Officer Certification</b>		
<p>The certification shall state:</p> <p>I, [name], hold the office of [title] at [name of utility or holding company], and occupied this position from January 1, [year] to December 31, [year].</p> <p>I hereby certify that I have reviewed the Affiliate Transaction Rules Applicable to Large California Energy Utilities of the California Public Utilities Commission and I am familiar with the provisions therein. I further certify that for the above period, I followed the Rules and am not aware of any violations of them, other than the following: [list or state “none”].</p> <p>I swear/affirm these representations under penalty of perjury of the laws of the State of California.</p> <p>_____ [Signature]</p> <p>Executed at _____ [City], County of _____, on _____ [Date]</p>	<p>No later than March 31<sup>st</sup> of each year, the key officers of SoCalGas and Sempra Energy, as defined in Rule V.E, file written certifications with the Energy Division of the Commission. The certifications included the following clarification:</p> <p>“This certificate is based upon information and belief and does not include violations, if any, already reported to the Commission and/or publicly posted during the reporting period consistent with the utilities’ CPUC affiliate Compliance Plans. This certificate also excludes audits or investigations, if any, still in progress at the end of the reporting period. If violations are ultimately found, they will be posted and/or reported consistent with the utilities’ CPUC affiliate Compliance Plans.”</p>	

Instances in which SoCalGas did not comply with its Compliance Plan during the 2010 – 2011 audit period are summarized in **Exhibit X-2**. Further discussion of each instance of non-compliance is provided in NorthStar’s assessment of each Rule in Chapters I through IX.

**Exhibit X-2**  
**Instances in Which SoCalGas Did Not Comply with Its Compliance Plan**

SoCalGas Compliance Plans	NorthStar Comments
<p><b>Rule III.B.1 Provision of Supply, Capacity, Services or Information</b>  <u>2010 and 2011 Compliance Plans</u>            Natural gas transactions with affiliates can be categorized as follows:</p> <ol style="list-style-type: none"> <li>1. “Arm’s length” deals through matching by brokers...</li> <li>2. Operational Hub transactions for supplies to meet System Reliability requirements are overseen by the Energy Markets and Capacity Products department...</li> <li>3. Secondary Market Transactions. Secondary Market Transactions by Gas Acquisition with affiliates are posted on the EBB System.</li> </ol> <p><u>2013 Compliance Plan</u> – Same as 2010 and 2011.</p>	<p>SoCalGas entered into two contracts with affiliates for natural gas transportation without CPUC approval. SoCalGas also entered into two bilateral transactions with an affiliate that were neither double-blind nor approved by the CPUC.</p> <p>As stated in Exhibit III-1, the Compliance Plan does not state the need for CPUC approval.</p>
<p><b>Rule III.E Business Development and Customer Relations</b>  <u>2010 and 2011 Compliance Plans</u>            SoCalGas will comply with Rule III.E’s requirements. Training specifically addresses that:</p> <ul style="list-style-type: none"> <li>• Customer leads are not to be provided to affiliates...</li> </ul> <p><u>2013 Compliance Plan</u> – Same as 2010 and 2011.</p>	<p>On September 17, 2010, SoCalGas directed a potential investor to Sempra LNG. The incident was posted on SoCalGas’ Envoy website.</p>
<p><b>IV.A Customer Information</b>  <u>2010 and 2011 Compliance Plans</u>            SoCalGas requires authorization by written paper or electronic customer consent for the release of any customer specific information. In order to make this information available on a nondiscriminatory basis, notice is posted contemporaneously when SoCalGas provides customer specific information to its affiliate. This notice includes: the name of the affiliate to receive the information; a description of the information; the time period covered; the date the information is given; and the contact person at SoCalGas.</p> <p><u>2013 Compliance Plan</u>            SoCalGas requires authorization by written paper or electronic customer consent for the release of any customer specific information unless allowed by an order of the Commission or other regulatory agency or allowed by a legal process. Notice is posted contemporaneously when SoCalGas provides customer specific information to its affiliate unless such information is automatically provided in the normal course of business to entities acting on behalf of customers as either their Agent, Energy Service Provider or</p>	<p>On October 27, 2011, SoCalGas provided customer information to an employee of San Diego Gas and Electric Company.</p>

SoCalGas Compliance Plans	NorthStar Comments
<p>Contracted Marketer. This notice includes: the name of the affiliate to receive the information; a description of the information; the time period covered; the date the information is given; and the contact person at SoCalGas.</p>	
<p><b>V.C Sharing of Plant, Facilities, Equipment or Costs</b>  <u>2010 and 2011 Compliance Plans</u>  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.  <u>2013 Compliance Plan</u> – Same as 2010 and 2011.</p>	<p>SoCalGas permitted sharing of its computer system between SoCalGas and a covered affiliate. One employee transferred from the utility to an affiliate in each year of the audit. On December 10, 2010 an employee transferred from the utility to Mobile Gas. His computer access was not terminated until December 14, 2010. Because access to the utility’s computer systems for employees of affiliates is not allowed, this is a violation of Rule V.C.</p>
<p><b>V.F.1 Corporate Identification and Advertising</b>  <u>2010 and 2011 Compliance Plans</u>  The use of the “Sempra” name or logo by any covered affiliate for communications in California or those that could reasonably be expected to migrate to California would require the following disclaimer on such materials in accordance with D. 02-02-046:  <u>2013 Compliance Plan</u> – Same as 2010 and 2011.</p>	<p>On November 16, 2011 an ad for Sempra Generation appeared at the Kern Economic Development Corporation’s Fifth Annual Energy Summit congratulating the host on a successful conference. The ad did not include the required disclaimer. The violation was identified by SoCalGas and reported to the CPUC.<sup>258</sup></p>
<p><b>V.G.2 through V.G.2.b Employee Movement</b>  <u>2010 and 2011 Compliance Plans</u>  SoCalGas tracks all employees who transfer between SoCalGas and its affiliates and reports this information annually to the Commission in its Affiliate Transactions Report.  SoCalGas complies with Rule V.G.2.b’s “residency” requirements.  <u>2013 Compliance Plan</u> – Same as 2010 and 2011.</p>	<p>Rule V.G.2.a requires that SoCalGas track and report to the Commission <u>all</u> employee movement <u>between</u> the utility and affiliates and report this information annually. This Rule requires tracking and reporting all employee movement between the utility and affiliates and vice versa. SoCalGas only reports employee movement from the utility to affiliates in its annual Affiliate Transaction Reports.</p>
<p><b>V.G.2.c and V.G.2.d Employee Movement</b>  <u>2010 and 2011 Compliance Plans</u>  SoCalGas tracks all employee movement between the utility and affiliates and monitors that transfer fees are paid in accordance with this Rule. SoCalGas has established a distinct account for recording all transfer fees pursuant to Rule V.G.2.c.  SoCalGas conducts exit interviews with all employees that transfer from SoCalGas to an affiliate. During the exit interview, employees are required to sign a statement acknowledging that they will not use certain information gained at the utility to benefit the affiliate. In addition to the exit interview, an “asset inventory” is conducted to review material that the employee requests to take to the affiliate.</p>	<p>The 25 percent transfer fee for SoCalGas employees transferring to Sempra Energy was based on annual payroll compensation, and did not include non-cash compensation as required by Resolution G-3238.</p>

<sup>258</sup> DR 46 and 178

SoCalGas Compliance Plans	NorthStar Comments
<p>SoCalGas retains the assets that may not be transferred pursuant to the Rules. Assets permitted to be transferred are priced pursuant to the Rules.</p> <p>The SoCalGas Human Resources Department is responsible for ensuring that exit interviews and related asset inventories take place and are documented. ACD follows up with HR to ensure exit interview forms are completed. Transferring employees are provided a copy of these documents. A description of this process is included in the Affiliate Compliance Guidelines (ACG).</p> <p><u>2013 Compliance Plan</u> – Same as 2010 and 2011.</p>	
<p><b>V.G.2.e Loaned Labor</b></p> <p><u>2010 and 2011 Compliance Plans</u></p> <p>SoCalGas complies with this Rule when loaning employees on a temporary basis to affiliates not engaged in energy marketing. SoCalGas does not make temporary or intermittent assignments or rotations to its energy marketing affiliates. SoCalGas maintains a list of its “energy marketing affiliates” on the ACD’s intranet Web site and SoCalGas’ Internet Web site at &lt;www.sdge.com&gt;. SoCalGas defines a “marketing employee” as: any utility employee in a marketing, customer service or account management section, who is actively engaged in marketing functions. This includes employees selling (approaching, presenting, or closing sales), developing marketing programs and services, non-technical consultative services regarding new utility products &amp; services, market research, prospecting for new customers, or growing business with existing customers.</p> <p><u>2013 Compliance Plan</u> – Same as 2010 and 2011.</p>	<p>SoCalGas did not report all loaned labor and did not obtain written agreements for all loaned labor as required by Rule V.G.2.e</p>
<p><b>VLB New Affiliate Compliance Plans</b></p> <p><u>2010 and 2011 Compliance Plans</u></p> <p>SoCalGas will comply with this Rule as new covered and non-covered affiliates are created. <i>Within two calendar days of notification to SoCalGas, SoCalGas will notify the CPUC of: (1) any newly formed 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.</i></p> <p><i>SoCalGas will file an advice letter with the Energy Division within 60 calendar days of the creation of: (1) 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.</i> The advice letter will provide the information required by this Rule for the new covered or non-covered affiliate. . [Emphasis added]</p> <p><u>2013 Compliance Plan</u> – Same as 2010 and 2011.</p>	<p>SoCalGas qualifies its compliance obligations based on its notification by Sempra Corporate. One of a number of areas in which the regulated utility does not take responsibility for affiliate actions or inactions.</p> <p>SoCalGas did not notify the CPUC regarding newly formed U.S. domestic covered or non-covered affiliates within two days of notification to SoCalGas.</p> <p>SoCalGas also did not file an advice letter with the Energy Division within 60 calendar days of the creation of: (1) 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.</p>

## **Recommendations**

17. SoCalGas should update its Compliance Plan to properly reflect the Rules.

# ASSESSMENT OF CURRENT AFFILIATE TRANSACTION RULES

In this task, NorthStar assessed the current Affiliate Transaction Rules to identify recommended changes or additions, keeping in mind the following goals identified in R.05-10-030: “(1) to ensure that the utilities meet their public service obligations at the lowest reasonable cost, and (2) to ensure that the utilities do not favor or otherwise engage in preferential treatment of their affiliates.”

Towards the conclusion of its audit fieldwork at SoCalGas, SDG&E and PG&E, NorthStar met with utility personnel responsible for affiliate compliance to discuss possible improvements to the current Affiliate Transaction Rules. Topics included

- Inconsistencies between Rules
- What additional Affiliate Transaction Rules may be needed
- What existing rules may be unnecessary
- What existing rules might be improved to enhance clarity and effectiveness, increase ease of data collection and monitoring methods to improve accuracy of data; and decrease the cost of compliance by the utility.

Our discussions about possible improvements to the Rules identified several underlying objectives, including the following:

- Exclude dated and extraneous language
- Reflect new technology and market changes.
- To the extent practicable, explain the objective behind the rules in order to provide a framework for utility actions.
- Include all Commission decisions, resolutions and other regulatory documents which address the Rules. There should be one reference document which does not require knowledge of anything not referenced specifically in the Rules.
- Reduce administrative burdens and allow more time to implement the rules.

**Exhibit XI-1**, at the end of this chapter, provides the results of our discussions with the utilities. The Exhibit only contains those sections of the Rules in which we identified possible improvements. Terms which require definition or better definition are highlighted. Proposed additions are underlined, and deletions “struck through.” Note that the proposed changes and clarifications to the Rules shown in the Exhibit are intended to be catalysts for future discussions, not final recommendations for changes to the Rules.

## Recommendations

18. CPUC should hold workshops with interested stakeholders to consider modifications to the Affiliate Transaction Rules.

- Prior to the workshops, CPUC staff or other appropriate personnel should:

- Compile all prior regulatory documents which address affiliate rules and prepare matrix or similar document showing how these documents impact existing rules.
  - CPUC staff should confirm and document the intent of each Rule section to use as a guideline when considering changes and definitions.
  - Review recent Affiliate Transaction Rules audit reports for all utilities to identify significant issues and differences in the utilities' interpretation (and hence, implementation) of the rules.
- Workshop participants should include affiliate compliance personnel from the four California IOUs.
  - The workshops should also address possible changes to the Affiliate Transaction Report Requirements and a standardized reporting format.

**Exhibit XI-1**  
**Suggested Modifications to Affiliate Transaction Rules based on NorthStar’s**  
**Discussions with PG&E, SCG and SDG&E**

Suggested Modification	Comments
<b>Rule I. Definitions</b> (Terms which require definition or better definition are highlighted)	
<p><b>I.A. "Affiliate"</b> means any person, corporation, utility, partnership, or other entity 5% or more of whose outstanding securities are owned, controlled, or held with power to vote, directly or indirectly, either by a utility or any of its subsidiaries, or by that utility's controlling corporation and/or any of its subsidiaries as well as any company in which the utility, its controlling corporation, or any of the utility's affiliates exert substantial control over the operation of the company and/or indirectly have substantial financial interests in the company exercised through means other than ownership. For purposes of these Rules, <b>"substantial control"</b> includes, but is not limited to, the possession, directly or indirectly and whether acting alone or in conjunction with others, of the authority to direct or cause the direction of the management or policies of a company. A direct or indirect voting interest of 5% or more by the utility in an entity's company creates a rebuttable presumption of control.</p>	<ul style="list-style-type: none"> <li>• <b>Affiliate</b> -- When does an entity become affiliate for the purposes of the rules? Is an entity subject to the rules when it is in the planning stages?</li> <li>• “Substantial Control” is not well-defined.</li> <li>• There are many additional terms that can/should be defined – (work in process and noted below)</li> </ul>
<p><b>I.B to I.H – Additional definitions</b></p> <p>Add additional definitions for terms used throughout the Rules, including:</p> <ul style="list-style-type: none"> <li>▪ <u>Executive</u></li> <li>▪ <u>Employee / employment</u></li> <li>▪ <u>Marketing</u></li> <li>▪ <u>Energy marketing affiliate</u></li> <li>▪ <u>Tariff</u></li> <li>▪ <u>Non-Public Information</u></li> </ul>	<ul style="list-style-type: none"> <li>• Definitions should be cleaner and simpler</li> <li>• Definitions should be consistent with FERC and other regulatory agencies. Additional terms used in the Rules should be defined to address questions:</li> </ul> <p><b>Marketing:</b> 1) what is the difference between marketing and participating? Is the intent of the Rules to preclude joint participation or sponsorship of community events? 2) For a regulated utility, the term “marketing” might refer to activities related to maintaining a relationship with existing customers. Is it the intent of the Rules to limit _____?</p> <p><b>Executive:</b> What is a utility executive?</p> <p><b>Tariff:</b> Does the term “tariff” include tariffs in foreign countries or other states?</p> <p><b>Non-Public Information:</b> Does this include information filed with the SEC or in an annual report?</p>

Suggested Modification	Comments
<b>Rule II. Applicability</b> (Terms which require definition or better definition are highlighted)	
<p><i>II.B. For purposes of a combined gas and electric utility, these Rules apply to all utility transactions with affiliates engaging in the provision of a product that uses gas or electricity or the provision of services that relate to the use of gas or electricity, unless specifically exempted below. For purposes of an electric utility, these Rules apply to all utility transactions with affiliates engaging in the provision of a product that uses electricity or the provision of services that relate to the use of electricity. For purposes of a gas utility, these Rules apply to all utility transactions with affiliates engaging in the provision of a product that uses gas or the provision of services that relate to the use of gas. However, regardless of the foregoing, where explicitly provided, these Rules also apply to a utility's parent holding company and to all of its affiliates, whether or not they engage in the provision of a product that uses gas or electricity or the provision of services that relate to the use of gas or electricity.</i></p>	<ul style="list-style-type: none"> <li>Deleted sentences are confusing. Sentences are not necessary, if the applicability of the Rules to the holding company is specifically addressed in separate section, as suggested below.</li> </ul>
<p><b>Suggestion:</b> Following II.B, insert new section to address how Rules apply to holding company.</p> <ul style="list-style-type: none"> <li></li> </ul>	<p>Include more explicit details about when the Rules apply to the holding company. Section should include:</p> <ul style="list-style-type: none"> <li>Cross-references to sections of Rule applicable to holding company</li> <li>Explanation of corporate governance, limitations, and when a holding company is considered a II.B affiliate</li> </ul>

Suggested Modification	Comments
<p><b>II.E.</b> These Rules do not apply to the exchange of operating information, including the disclosure of customer information to its FERC-regulated affiliate to the extent such information is required by the affiliate to schedule and confirm nominations for the interstate transportation of natural gas, between a utility and its FERC-regulated affiliate, to the extent that the affiliate operates an interstate natural gas pipeline. <del>These Rules do not apply to transactions between an electric utility and an affiliate providing broadband over power lines (BPL).</del></p> <p><b>II.F. Existing Rules:</b> Existing Commission rules for each utility and its parent holding company shall continue to apply except to the extent they conflict with these Rules. In such cases, these Rules shall supersede prior rules and guidelines, provided that nothing herein <del>shall supersede the Commission's regulatory framework for broadband over power lines (BPL) adopted in D.06-04-070</del> nor shall preclude (1) the Commission from adopting other utility-specific guidelines; or (2) a utility or its parent holding company from adopting other utility-specific guidelines, with advance Commission approval.</p>	<ul style="list-style-type: none"> <li>• Delete Reference to BPL as it is no longer an issue.</li> </ul>
<p><b>Rule III. Nondiscrimination</b> (Terms which require definition or better definition are highlighted)</p>	
<p><b>III.E. Business Development and Customer Relations.</b> Except as otherwise provided by these Rules, a utility shall not:</p> <ol style="list-style-type: none"> <li>(1) provide leads to its affiliates;</li> <li>(2) solicit business on behalf of its affiliates;</li> <li>(3) acquire information on behalf of or to provide to its affiliates;</li> <li>(4) share market analysis reports or any other types of proprietary or non-publicly available reports, including but not limited to market, forecast, planning or strategic reports, with its affiliates;</li> <li>(5) request authorization from its customers to pass on customer information exclusively to its affiliates;</li> <li>(6) give the appearance that the utility speaks on behalf of its affiliates or that the customer will receive preferential treatment as a consequence of conducting business with the affiliates; or</li> <li>(7) give any appearance that the affiliate speaks on behalf of the utility.</li> <li><u>(8) offer or provide customers advice or assistance with regard to its affiliates or other service provider, except as otherwise provided in these Rules.</u></li> </ol>	<ul style="list-style-type: none"> <li>• Combine with Section IV.E re: Customer Contacts. (Added as (8)).</li> </ul> <p><b>IV.E. Affiliate-Related Advice or Assistance:</b> Except as otherwise provided in these Rules, a utility shall not offer or provide customers advice or assistance with regard to its affiliates or other service providers</p>



Suggested Modification	Comments
<p>on the same terms and conditions, and <b>keeps the information open to public inspection.</b> 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. <b>Nothing in this Rule precludes the exchange of information pursuant to D.97-10-031.</b> Nothing in this Rule is intended to limit the Commission’s right to information under the Public Utilities Code Sections 314 and 581</p>	<ul style="list-style-type: none"> <li>• How this information is publicly known and made available is questionable.</li> <li>• How long must information be open to public inspection?</li> <li>• D.97-10-031 addressed the release of customer-specific data and the confidential nature of that information The “15/15” rule in D.97-10-031 states that utilities may provide aggregated data for more than 15 customers if any single customer’s load is less than 15% of category</li> </ul>
<p><b>IV.C. Service Provider Information :</b> Except upon request by a customer or as otherwise authorized by the Commission, or another governmental body, a utility shall not provide its customers with any list of service providers, which includes or identifies the utility's affiliates, regardless of whether such list also includes or identifies the names of unaffiliated entities.</p>	<p>Some utilities question whether this section is necessary.</p>
<p><b>IV.D. Supplier Information:</b> A utility may provide non-public information and data which has been received from unaffiliated suppliers to its affiliates or non-affiliated entities only if the utility first obtains written affirmative authorization to do so from the supplier. A utility shall not actively solicit the release of such information exclusively to its own affiliate in an effort to keep such information from other unaffiliated entities.</p>	<p>Some utilities question whether this section is necessary.</p>
<p><del><b>IV.E. Affiliate-Related Advice or Assistance:</b> Except as otherwise provided in these Rules, a utility shall not offer or provide customers advice or assistance with regard to its affiliates or other service providers</del></p>	<p>Combine with III.E (See Section III.E)</p>

Suggested Modification	Comments
<p><b>IV.F. Record-Keeping</b> A utility shall maintain contemporaneous records documenting all tariffed and nontariffed transactions with its affiliates, including but not limited to, all waivers of tariff or contract provisions, all discounts, and all negotiations of any sort between the utility and its affiliates whether or not they are consummated. A utility shall maintain such records for a minimum of three years <u>or until the completion of the Affiliate Transaction Rules Audit which covers the period addressed by the records</u>, and longer if this Commission or another government agency so requires. For consummated transactions, the utility shall make such final transaction documents available <b>for third party review upon 72 hours' notice</b>, or at a time mutually agreeable to the utility and third party.</p> <p>If <b>D.97-06-110</b> is applicable to the information the utility seeks to protect, the utility should follow the procedure set forth in D.97-06-110, except that the utility should serve the third party making the request in a manner that the third party receives the utility's D.97-06-110 requests for confidentiality within 24 hours of service.</p>	<ul style="list-style-type: none"> <li>• If affiliate transaction rules audits are not completed every two years, it is necessary to keep records longer than the current three year requirement.</li> <li>• Is 72 hours necessary?</li> <li>• Define the "third party".</li> <li>• Should determine whether D.97-06-110 is still pertinent, and, if so, explain in general terms what it pertains to.</li> </ul>
<p><b>IV.G. Maintenance of Affiliate Contracts and Related Bids:</b> A utility shall maintain a record of all contracts and related bids for the provision of work, products or services between the utility and its affiliates for no less than a period of three years <u>or until the completion of the Affiliate Transaction Rules Audit which covers the period addressed by the records</u>, and longer if this Commission or another government agency so requires.</p>	<ul style="list-style-type: none"> <li>• If affiliate transaction rules audits are not completed every two years, it is necessary to keep records longer than the current three year requirement</li> </ul>
<p><b>Task 5 – Rule V. Separation</b> (Terms which require definition or better definition are highlighted)</p>	
<p><b>V. A. Corporate Entities:</b> A utility, its parent holding company, and its affiliates shall be <b>separate corporate entities</b></p>	<ul style="list-style-type: none"> <li>• What is the definition of "separate"? Business segments don't always align with corporate entities.</li> </ul>
<p><b>V. B. Books and Records:</b> A utility, its parent holding company, and its affiliates shall keep <b>separate books and records</b>.</p>	<ul style="list-style-type: none"> <li>• Are firewalls and limited access privileges to one SAP system sufficient to "maintain separate books and records"?</li> </ul>
<p><b>V. C. Sharing of Plant, Facilities, Equipment or Costs:</b> 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.</p>	<ul style="list-style-type: none"> <li>• Are utilities and affiliates allowed to share <ul style="list-style-type: none"> <li>- Servers?</li> <li>- IT help desks?</li> <li>- Email systems?</li> </ul> </li> </ul>

Suggested Modification	Comments
<p><b>V. E. Corporate Support.</b> 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, <b>governance</b>, support systems and personnel, as further specified below. Any shared support shall be priced, reported and conducted in accordance with the <b>Separation and Information Standards</b> set forth herein, as well as other applicable Commission pricing and reporting requirements.</p> <p><b>Examples of services that may be shared include:</b> payroll, taxes, shareholder services, insurance, financial reporting, financial planning and analysis, corporate accounting, corporate security, human resources (compensation, benefits, employment policies), employee records, regulatory affairs, lobbying, legal, and pension management. However, if a utility and its parent holding company share any key officers <del>after 180 days following the effective date of the decision adopting these Rule modifications,</del> then the following services shall no longer be shared: regulatory affairs, lobbying, and all legal services except those necessary to the provision of shared services still authorized. For purposes of this Rule, key officers are the Chair of the entire corporate enterprise, the President at the utility and at its holding company parent, the chief executive officer at each, the chief financial officer at each, and the chief regulatory officer at each, or in each case, any and all officers whose responsibilities are the functional equivalent of the foregoing.</p> <p><b>Examples of services that may not be shared include:</b> employee recruiting, engineering, hedging and financial derivatives and arbitrage services, gas and electric purchasing for resale, purchasing of gas transportation and storage capacity, purchasing of electric transmission, system operations, and marketing. However, if a utility and its parent <b>holding company</b> share any key officers (as defined in the preceding paragraph) <del>after 180 days following the effective date of the decision adopting these Rule modifications, then the following services shall no longer be shared: regulatory affairs, lobbying, and all legal services except those necessary to the provision of shared services still authorized.</del></p>	<ul style="list-style-type: none"> <li>• What functions are considered “governance”?</li> <li>• What are the “Separation and Information Standards”?</li> <li>• Consider referencing specific sections of the report that address these issues. Or move the pricing, reporting, and conduct of shared service requirements to this section so that shared services is all addressed in one place.</li> <li>• Distinction between loaned labor and shared services is unclear. See comments in section V.G.</li> <li>• Broad functional terms allow / invite a wide range of activities covered regardless of whether they were originally envisioned as acceptable.</li> <li>• Out-dated language</li> <li>• It is not clear what can be shared. Does the list of services that cannot be shared mean that everything else can be shared?</li> <li>• The term “<u>holding company</u>” is unclear</li> <li>• Out-dated language</li> <li>• Redundant with previous paragraph</li> </ul>
<p><b>V.F. Corporate Identification and Advertising</b></p>	

Suggested Modification	Comments
<p><b>V.F.1</b> A utility shall not trade upon, promote, or advertise its affiliate's affiliation with the utility, nor allow the utility name or logo to be used by the affiliate or in any material circulated by the affiliate, unless it discloses in plain legible or audible language, on the first page or at the first point where the utility name or logo appears that:</p> <p>V.F.1.a. the affiliate “is not the same company as [i.e. PG&amp;E, Edison, the Gas Company, etc.], the utility”;</p> <p>V.F.1.b. the affiliate is not regulated by the California Public Utilities Commission; and</p> <p>V.F.1.c. “you do not have to buy [the affiliate’s] products in order to continue to receive quality regulated services from the utility.”</p> <p>The application of the name/logo disclaimer is limited to the use of the name or logo in California.</p>	<ul style="list-style-type: none"> <li>• Should this language be updated to reflect D.02-02-046? D.06-12-029 does not reflect the revised language. And D.02-02-046 is not cited in the decision.</li> <li>• Utilities claim they do not control affiliates.</li> <li>• D.02-02-046? ordered that: Rule V.F.1 of the Affiliate Transaction Rules (Rules) adopted by Decision (D.) 97-12-088, and modified by D.98-08-035 and other decisions, shall be modified to apply to all utilities covered by the Rules as follows:             <ol style="list-style-type: none"> <li>1. A utility shall not trade upon, promote, or advertise its affiliate’s affiliation with the utility, nor allow the utility name or logo to be used by the affiliate or in any material circulated by the affiliate, unless it discloses in plain legible or audible language, on the first page or at the first point where the utility name or logo appears that:                 <ol style="list-style-type: none"> <li>a. The affiliate “is not the same company as [i.e., PG&amp;E, Edison, the Gas Company, etc.], the utility,” and the affiliate “is not regulated by the California Public Utilities Commission.”</li> <li>b. In the case of energy service provider affiliates, the disclaimer will be:                     <p style="margin-left: 40px;">The affiliate “is not the same company as [i.e., PG&amp;E, Edison, the Gas Company, etc], the utility, and the California Public Utilities Commission does not regulate the terms of [the affiliate’s] products and services.”</p> </li> </ol> </li> </ol> </li> <p>The application of the name/logo disclaimer is limited to the use of the name or logo in California.</p> </ul>
<p><b>V.F.4</b></p> <p><b>V.F.4.b</b> Except as otherwise provided for by these Rules, a utility shall not participate in any joint activity with its affiliates. The term “joint activities” includes, but is not limited to, advertising, sales, marketing, communications and correspondence with any existing or potential customer;</p>	<ul style="list-style-type: none"> <li>• The term “joint activity” may be too limiting. Is it meant to preclude an affiliate and its affiliate working at the same volunteer event?</li> <li>• Could “joint activity” be replaced with “joint marketing activity”?</li> </ul>
<p><b>V.F.4.c.</b> A utility shall not participate with its affiliates in trade shows, conferences, or other information or marketing events held in California.</p>	<ul style="list-style-type: none"> <li>• “Participate” needs to be defined.</li> </ul>

Suggested Modification	Comments
<p><b>V.G Employees</b></p> <p><b>V.G.1.</b> Except as permitted in Rule V E (corporate support), a utility and its affiliates shall not jointly employ the same employees. This Rule prohibiting joint employees also applies to Board Directors and corporate officers, except for the following circumstances: In instances when this Rule is applicable to holding companies, any board member or corporate officer may serve on the holding company and with either the utility or affiliate (but not both) to the extent consistent with Rule V E (corporate support). Where the utility is a multi-state utility, is not a member of a holding company structure, and assumes the corporate governance functions for the affiliates, the prohibition against any board member or corporate officer of the utility also serving as a board member or corporate officer of an affiliate shall only apply to affiliates that operate within California. In the case of shared directors and officers, a corporate officer from the utility and holding company shall describe and verify in the utility's compliance plan required by Rule VI the adequacy of the specific mechanisms and procedures in place to ensure that the utility is not utilizing shared officers and directors as a conduit to circumvent any of these Rules. In its compliance plan, the utility shall list all shared directors and officers between the utility and affiliates. No later than 30 days following a change to this list, the utility shall notify the Commission's Energy Division and the parties on the service list of R.97-04-011/I.97-04-012 of any change to this list.</p>	<ul style="list-style-type: none"> <li>• “Jointly employ” needs to be defined.</li> <li>• What is an employee? Does it mean the individual receives a W-2?  [ERISA's nominal definition of "employee" as "any individual employed by an employer,"<sup>29</sup> U.S.C. § 1002(6), is completely circular and explains nothing.]<sup>259</sup></li> <li>• Can regulated utilities jointly employ the same employee?</li> <li>• Should this be moved to Rule VI discussion of Compliance Plan?</li> </ul>

<sup>259</sup> <http://www.law.cornell.edu/supct/html/90-1802.ZO.html>

Suggested Modification	Comments
<p><b>V.G.2</b> All employee movement between a utility and its affiliates shall be consistent with the following provisions:</p> <p><b>V.G.2.b</b> <b>Once an employee of a utility</b> becomes an employee of an affiliate, the employee may not return to the utility <b>for a period of one year</b>. This Rule is inapplicable if the affiliate to which the employee transfers goes out of business during the one-year period. In the event that such employee returns to the utility, such employee cannot be retransferred, reassigned, or otherwise employed by the affiliate for a period of two years. Employees transferring from the utility to the affiliate are expressly prohibited from using information gained from the utility in a discriminatory or exclusive fashion, to the benefit of the affiliate or to the detriment of other unaffiliated service providers.</p>	<ul style="list-style-type: none"> <li>• What is the purpose of this section? To limit the sharing of data, or to limit the utility’s fostering employees to the ultimate benefit of the affiliates?</li> <li>• “Once an employee of a utility” may be read that this Rule is only applicable to employees who start at the utility.</li> <li>• “For a period of one year” -- Why the one year period?</li> <li>• When a person begins as an employee of an affiliate, then transfers to the utility, then transfers to an affiliate, what is the retention period?</li> </ul>
<p><b>V.G.2.c</b> 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. <del>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.</del> All such fees paid to the utility shall be accounted for in a separate memorandum ...</p>	<ul style="list-style-type: none"> <li>• Is it payment each time the employee is employed by the affiliate, or just a single “one-time” payment”?</li> <li>• Restructuring is no longer a relevant issue.</li> </ul>
<p><b>V.G.2.d</b> 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.</p>	<p>Should rules specifically require cell phones and computers be wiped clean when an employee is transferred?</p>

Suggested Modification	Comments
<p><b>V.G.2.e</b> A utility shall not make temporary or intermittent assignments or rotations to its energy marketing affiliates. Utility employees not involved in marketing may be used on a temporary basis (less than 30% of an employee’s chargeable time in any calendar year) by affiliates not engaged in energy marketing only if:</p>	<ul style="list-style-type: none"> <li>• Need to clarification between 1) temporary assignments 2) shared services, and loaned labor.</li> <li>• It appears that temporary assignments are allowed a broader range of services, e.g., temporary assignment allows engineering, but shared services does not.</li> <li>• Do prohibitions in one Rule apply to another?</li> <li>• Can there be temporary assignments to shared services?</li> <li>• If Human Resources sets up an HR system for an affiliate is it loaned labor or shared service?</li> <li>• Should programs such as PG&amp;Es MBA management rotation program be subject to this Rule? (SDG&amp;E/SoCalGas FLP/MARP program)</li> <li>• Is sharing of best practices permissible? If so, what type of information may be shared, and how should employees’ time be charged? Is it possible for the Rules to specifically allow sharing of best practices between other regulated local distribution companies and/or affiliates outside the United States?</li> </ul>
<p><b>V.G.2.e.i</b> All such use is documented, priced and reported in accordance with these Rules and existing Commission reporting requirements, except that when the affiliate obtains the services of a non-executive employee, compensation to the utility should be priced at a minimum of the greater of fully loaded cost plus 10% of direct labor cost, or fair market value. When the affiliate obtains the services of an executive employee, compensation to the utility should be priced at a minimum of the greater of fully loaded cost plus 15% of direct labor cost, or fair market value.</p> <p><b>V.G.2.e.ii</b> Utility needs for utility employees always take priority over any affiliate requests;</p> <p><b>V.G.2.e.iii</b> No more than 5% of full time equivalent utility employees may be on loan at a given time;</p> <p><b>V.G.2.e.iv</b> Utility employees agree, in writing, that they will abide by these Affiliate Transaction Rules; and</p> <p><b>V.G.2.e.v</b> Affiliate use of utility employees must be conducted pursuant to a written agreement approved by appropriate utility and affiliate officers.</p>	<ul style="list-style-type: none"> <li>• According to SoCalGas and SDG&amp;E, there are inconsistencies between the Sempra merger rules, Resolution G-3238 and the Affiliate Transaction Rules regarding application of 10% factor to fully loaded or base labor costs.</li> <li>• This seems to conflict with V.H.5 : “Transfers from the utility to its affiliates of goods and services not produced, purchased or developed for sale by the utility will be priced at fully loaded cost plus 5% on fully loaded labor.”</li> <li>• None of the three utilities uses fair market value</li> </ul>

Suggested Modification	Comments
<p><b>V.H Transfer of Goods and Services</b></p> <p>To the extent that these Rules do not prohibit transfers of goods and services between a utility and its affiliates, and except for as provided by Rule V.G.2.e., all such transfers shall be subject to the following pricing provisions:</p> <ol style="list-style-type: none"> <li>Transfers from the utility to its affiliates of goods and services not produced, purchased or developed for sale by the utility will be priced at <b>fully loaded cost plus 5% on fully loaded labor.</b></li> <li>Transfers from an affiliate to the utility of goods and services not produced, purchased or developed for sale by the affiliate will be priced at the lower of fully loaded cost <b>or fair market value.</b></li> </ol>	<ul style="list-style-type: none"> <li>Is there a conflict with Rule V.G.2.e.i when the affiliate obtains the services of a non-executive employee, compensation to the utility should be priced at a minimum of the greater of fully loaded cost plus 10% of direct labor cost, or fair market values.</li> <li>Could establish a threshold value for the requirement for comparison to fair market value, say \$50,000?</li> </ul>
<p><b>Rule VI. Regulatory Oversight</b> (Terms which require definition or better definition are highlighted)</p>	
<p><b>Rule VI.A Compliance Plans</b> <del>No later than June 30, 2007,</del> Each utility shall file a revised compliance plan by advice letter. <b>Each utility shall file a compliance plan annually by advice letter with the Energy Division of the Commission when there is some change in the current compliance plan (i.e., where 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). The compliance plan shall include:</b></p> <ol style="list-style-type: none"> <li>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;</li> <li>A demonstration of the procedures in place to assure compliance with these Rules.</li> </ol> <p>The utility's compliance plan shall be in effect between the filing and a Commission determination of the advice letter. <del>A utility shall file a compliance plan annually thereafter by advice letter where there is some change in the compliance plan (i.e., where 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).</del></p>	<ul style="list-style-type: none"> <li>Edits to remove reference to initial issuance of the Rules</li> <li>Streamline the filing if there are only minor changes to the compliance plan?</li> <li>Include other compliance plan requirements from elsewhere in the Rules.</li> </ul>

Suggested Modification	Comments
<p><b>Rule VI.B New Affiliate Compliance Plans.</b> Upon the creation of a new affiliate, the utility shall <b>immediately</b> notify the Commission of the creation of the new affiliate, as well as posting notice on its <del>electronic bulletin board</del> <b>website</b>. 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.</p> <p><b>VI.E Officer Certification</b></p> <p>No later than March 31 of each year, the key officers of a utility and its parent holding company, as defined in Rule V E (corporate support), shall certify to the Energy Division of the Commission in writing under penalty of perjury that each has personally complied with these Rules during the prior calendar year. The certification shall state:</p> <p><b>I, [name], hold the office of [title] at [name of utility or holding company], and occupied this position from January 1, [year] to December 31, [year].</b></p> <p><b>I hereby certify that I have reviewed the Affiliate Transaction Rules Applicable to Large California Energy Utilities of the California Public Utilities Commission and I am familiar with the provisions therein. I further certify that for the above period, I followed the Rules and am not aware of any violations of them, other than the following: [list or state “none”].</b></p> <p><b>I swear/affirm these representations under penalty of perjury of the laws of the State of California.</b></p> <p>_____ [Signature]</p> <p>Executed at _____ [City], County of _____, on _____ [Date]</p>	<ul style="list-style-type: none"> <li>• What is “immediately”?</li> <li>• Is an Advice Letter filing necessary for changes in affiliate status – name change, mergers, dissolution. Is it sufficient just to update the compliance plan?</li> <li>• Provide the form to be signed. The IOUs have modified the language in their filed compliance plan to include the following clarification. <p><i>“This certificate is based upon information and belief and does not include violations, if any, already reported to the Commission and/or publicly posted during the reporting period consistent with the utilities’ CPUC affiliate compliance plans. This certificate also excludes audits or investigations, if any, still in progress at the end of the reporting period. If violations are ultimately found, they will be posted and/or reported consistent with the utilities’ CPUC affiliate compliance plans.”</i></p> </li> <li>• If modified consider using a standard form to preclude modifications.</li> </ul>
<p><b><u>VI.F. Each utility shall designate an Affiliate Compliance Manager who is responsible for compliance with these affiliate rules and the utility’s compliance plan adopted pursuant to these rules. Such officer shall also be responsible for receiving, investigating, and attempting to resolve complaints. The Affiliate Compliance Manager may, however, delegate responsibilities to other officers and employees.</u></b></p>	<ul style="list-style-type: none"> <li>• Moved from VIII.C.2</li> </ul>

Suggested Modification	Comments
<p><b>VI.F Utility Actions to Detect, Monitor and Report violations</b></p> <p><b>V.F.1.</b> Prior to a violation occurring, the utility must be familiar with applicable laws and regulations. Most critically, the utility must regularly review its own operations to ensure full compliance.</p> <p><b>V.F.2.</b> The utility must monitor diligently its activities.</p> <p><b>V.F.3.</b> When the utility is aware that a violation has occurred, the utility must promptly bring it to the attention of the Commission. The precise timetable that constitutes “prompt” will vary based on the nature of the violation. Violations which physically endanger the public must be immediately corrected and thereafter reported to the Commission staff. Reporting violations should be remedied at the earliest administratively feasible time.</p>	<ul style="list-style-type: none"> <li>• Insert (with some modifications) excerpts from Rule VIII that pertain to Utility conduct.</li> </ul> <p><b>VIII.D.2.b.ii.(1)</b> Prior to a violation occurring, prudent practice requires that all public utilities take reasonable steps to ensure compliance with Commission directives. This includes becoming familiar with applicable laws and regulations, and most critically, the utility regularly reviewing its own operations to ensure full compliance. In evaluating the utility’s advance efforts to ensure compliance, the Commission will consider the utility’s past record of compliance with Commission directives.</p> <p><b>VIII.D.2.b.ii.(2)</b> The Commission expects public utilities to monitor diligently their activities. Where utilities have for whatever reason failed to meet this standard, the Commission will continue to hold the utility responsible for its actions. Deliberate as opposed to inadvertent wrong-doing will be considered an aggravating factor. The Commission will also look at the management’s conduct during the period in which the violation occurred to ascertain particularly the level and extent of involvement in or tolerance of the offense by management personnel. The Commission will closely scrutinize any attempts by management to attribute wrong-doing to rogue employees. Managers will be considered, absent clear evidence to the contrary, to have condoned day-to-day actions by employees and agents under their supervision.</p> <p><b>VIII.D.2.b.ii.(3)</b> When a public utility is aware that a violation has occurred, the Commission expects the public utility to promptly bring it to the attention of the Commission. The precise timetable that constitutes “prompt” will vary based on the nature of the violation. Violations which physically endanger the public must be immediately corrected and thereafter reported to the Commission staff. Reporting violations should be remedied at the earliest administratively feasible time.</p>

Suggested Modification	Comments
<p><b>Rule VII. Products and Services</b></p>	<p>Remove NTP&amp;S from the Affiliate Rules. For Sempra and PG&amp;E, all NTP&amp;S other than Mover Services (i.e., all categories of NTP&amp;S that existed in 1998) are included in the GRC filing. Mover Services has balancing account treatment and is addressed in a separate Advice Letter (?) filing.</p>
<p><b>VII.D Conditions Precedent to Offering New Products and Services.</b> This Rule does not represent an endorsement by the Commission of any particular nontariffed utility product or service. A utility may offer new nontariffed products and services only if the Commission has adopted and the utility has established:</p> <p><b>VII.D.1</b> A mechanism or accounting standard <del>for allocating costs to each</del> <u>determining incremental costs for each</u> new product or service to prevent cross-subsidization between services a utility would continue to provide on a tariffed basis and those it would provide on a nontariffed basis;</p> <p><b>VII.D.2</b> A reasonable mechanism for treatment of benefits and revenues derived from offering such products and services, except that in the event the Commission has already approved a performance-based ratemaking mechanism for the utility and the utility seeks a different sharing mechanism, the utility should petition to modify the performance-based ratemaking decision if it wishes to alter the sharing mechanism, or clearly justify why this procedure is inappropriate, rather than doing so by application or other vehicle.</p> <p><b>VII.D.3</b> <del>Periodic reporting requirements regarding pertinent information related to nontariffed products and services; and</del></p> <p><b>VII.D.4</b> Periodic auditing of the costs allocated to and the revenues derived from nontariffed products and services.</p>	<ul style="list-style-type: none"> <li>Utilities use incremental costs. The CPUC provided details and guidance to Sempra regarding incremental costs in CPUC Resolution G-3273<sup>260</sup></li> </ul> <p>The fully-loaded overhead costs should include the space occupied by the employee, office supplies, equipment (such as phones, computers, copy machines, office furniture), and any other direct costs incurred in the provision of the service. Using these fully-loaded costs is the appropriate method for tracking the true costs of the program and it prevents cross-subsidization by ratepayers</p> <ul style="list-style-type: none"> <li>Reporting requirements are addressed in VII.H</li> </ul>

<sup>260</sup> SCG DR 102

Suggested Modification	Comments
<p><b>VII.H Periodic Reporting of Nontariffed Products and Services</b></p> <p>Any utility offering nontariffed products and services shall file periodic reports with the Commission’s Energy Division <del>twice annually for the first two years following the effective date of these Rules, then</del> 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:</p> <p><b>VII.H.3</b> <del>The costs allocated to</del> <u>incremental cost of</u> and revenues derived from each category; and</p> <p><b>VII.H.4</b> Current information on the proportion of relevant utility assets used to offer each category of product and service.</p>	<ul style="list-style-type: none"> <li>• Outdated language</li> <li>• See discussion of VII.D.1</li> </ul>
<p><b>Task 8 – Rule VIII. Complaint Procedures</b></p>	<p>Re-write the rule to move discussions of utility’s responsibilities to Rule VI.</p>
<p><del>VIII.C.2</del> Each utility shall designate an Affiliate Compliance Manager who is responsible for compliance with these affiliate rules and the utility’s compliance plan adopted pursuant to these rules. Such officer shall also be responsible for receiving, investigating, and attempting to resolve complaints. The Affiliate Compliance Manager may, however, delegate responsibilities to other officers and employees. The utility shall investigate and attempt to resolve the complaint.</p> <p><b>VIII.C.2.a</b> <del>The utility shall investigate and attempt to resolve the complaint.</del> The resolution process shall include a meet-and-confer session with the complainant. A Commission staff member may, upon request by the utility or the complainant, participate in such meet-and-confer sessions and shall participate in the case of a whistleblower complaint.</p> <p><b>VIII.D.2</b> Any public utility which violates a provision of these rules is subject to a fine of not less than five hundred dollars (\$500), nor more than <del>\$20,000</del> <u>\$50,000</u> for each offense. The remainder of this subsection distills the principles that the Commission has historically relied upon in assessing fines and restates them in a manner that will form the analytical foundation for future decisions in which fines are assessed. Before discussing those principles, reparations are distinguished.</p>	<ul style="list-style-type: none"> <li>• Move to Rule VI. (See section VI.F)</li> <li>• As of January 2012, SB 879 increased the penalties from up to \$20,000 per violation to up to \$50,000: “This bill ... increases the penalty per violation from \$20,000 to \$50,000 for violation of statute, commission rules, orders, or other directives.”</li> </ul>

Suggested Modification	Comments
<p><b>VIII.D.2.b.ii</b> This factor recognizes the important role of the public utility’s conduct in (1) preventing the violation, (2) detecting the violation, and (3) disclosing and rectifying the violation. The public utility is responsible for the acts of all its officers, agents, and employees:</p> <p>“In construing and enforcing the provisions of this part relating to penalties, the act, omission, or failure of any officer, agent or employee of any public utility, acting within the scope of his [or her] official duties or employment, shall in every case be the act, omission, or failure of such public utility.” Public Utilities Code §2109.</p> <p><u>This factor addresses the utility’s compliance with the Rules, including, but not limited to Rule VI</u></p> <p><del>VIII.D.2.b.ii.(1) Prior to a violation occurring, prudent practice requires that all public utilities take reasonable steps to ensure compliance with Commission directives. This includes becoming familiar with applicable laws and regulations, and most critically, the utility regularly reviewing its own operations to ensure full compliance. In evaluating the utility’s advance efforts to ensure compliance, the Commission will consider the utility’s past record of compliance with Commission directives.</del></p> <p><del>VIII.D.2.b.ii.(2) The Commission expects public utilities to monitor diligently their activities. Where utilities have for whatever reason failed to meet this standard <u>diligently monitor their activities</u>, the Commission will continue to hold the utility responsible for its actions. ...</del></p>	<ul style="list-style-type: none"> <li>• The enforcement of this Rule is entirely dependent on the utility admitting that there has been a “violation” which has seldom happened.</li> <li>• This audit’s findings demonstrate a stark contrast between compliance with the Rules and the utilities recognition of a violation.</li> <li>• This dependency is also related to the utilities qualification of Rule VI.E Officer Certifications and notifications to the Commission in their reluctance to identify a violation.</li> <li>• Edits move description of utility responsibilities to Rule VI. Note that in moving to Rule VI, the nature of the language changes from “commission expectations” and prudent utility actions, to specific requirements.</li> </ul>



Suggested Modification	Comments
<p><b>IX.C Ring-Fencing</b></p> <p>Within three months of the effective date of the decision adopting this amendment to the Rules, a utility shall obtain a non-consolidation opinion that demonstrates that the ring-fencing around the utility is sufficient to prevent the utility from being pulled into bankruptcy of its parent holding company. The utility shall promptly provide the opinion to the Commission. If the current ring-fencing provisions are insufficient to obtain a non-consolidation opinion, the utility shall promptly undertake the following actions:</p> <ol style="list-style-type: none"> <li>1. notify the Commission of the inability to obtain a non-consolidation opinion;</li> <li>2. propose and implement, upon Commission approval, such ring-fencing provisions that are sufficient to prevent the utility from being pulled into bankruptcy of its parent holding company; and then</li> <li>3. obtain a non-consolidation opinion.</li> </ol>	<ul style="list-style-type: none"> <li>• As currently written, this Rule has no requirements.</li> <li>• Should this Rule be updated to obtain a non-consolidation opinion every X number of years, or when there is a significant change (define significant).</li> </ul>

19. The Commission should enforce the current Rules and issue an Order Instituting Rulemaking (OIR) to amend the Rules.

## Appendix A

### SoCalGas Data Request Log

1	Provide all utility policies and procedures that pertain to implementation of, and compliance with, the Affiliate Transaction Rules. In addition to current versions of the procedures, please provide the version(s) of the procedures which were in effect during the 2010-2011 audit period.
2	Provide copies of all previous Affiliate Transaction Rules audits.
3	Provide data requests (log, if available) and the responses to all data requests for the ATR compliance audits conducted since 2000.
4	Provide the implementation status of all recommendations from each of the previous Affiliate Transaction Audits since 2000.
5	List all audits completed or planned covering activities in the 2010 - 2011 audit period by internal or external auditors.
6	Provide an indexed list and a web address (electronic copy if not available online) of all Commission rulings and decisions, that are relevant to the utility's affiliate compliance program and affiliate transaction rules.
7	Provide a listing of all corporate policy manuals, plus a table of contents for each, as well as unrestricted access to all manuals.
8	Provide access to the articles of incorporation for all Affiliates created during CY2010 and CY2011.
9	Provide the Board of Directors minutes. (Access to complete set) for calendar years 2010 and 2011.
10	Provide the names of any utility officers that are also officers of the holding company and any affiliates for CY2009 through CY2012. Also provide their respective terms of employment.
11	List all parent company officers' names; titles; office location; responsibilities.
12	Provide year 2010 and 2011 annual reports for the utility, the holding company, and any affiliates.
13	Provide a list of all affiliates and explanation whether they are covered and/or not covered by the Rules. Provide web site addresses for each affiliate.
14	For each affiliate entity that provides/receives services to/from the utility, explain the type of business performed by the affiliate and nature of services provided by/to the utility to/from each affiliate.
15	Provide summary level descriptions of and documentation related to the utility's affiliate entities created during CY2010 and CY2011. Provide the rationale for whether or not these entities are covered by the Rules. <b>(Revised 1 of 2)</b>
16	Provide current detailed organization charts for the utility and each affiliate which provides/receives services from the utility.
17	Identify any discounts or waivers offered to affiliates by the utility during the audit period.
18	Describe the information kept by the utility if it provides an affiliate a discounted rate, rebate, or other waiver of a charge or fee associated with services provided by the utility. Provide details of each incident.
19	Provide a copy of each tariff under which services are provided to affiliates.
20	Provide all contracts and related bids for work, products or services between the utility and affiliates. For service agreements or contracts between the utility and its affiliates, explain how these were obtained through an open, competitive bidding process.
21	Provide wholesale commodity agreements for electricity and natural gas between the utility and its affiliates and the similar agreement between the utility and a gas/electric marketer to purchase/sell natural gas or electricity.
22	Provide a summary transaction listing and documentation supporting the wholesale natural gas and power transactions between the utility and its affiliates.
23	Provide supporting details (volume, revenues, etc.) to all transactions with affiliates regarding the sale of utility excess interstate pipeline capacity and sale of unbundled utility storage (gas only).
24	Provide affiliate transaction data for physical trades and hub capacity sales in the audit period (gas only).
25	Provide summary lists by counterparty of the number of transactions and commodity quantity that the utility entered into during the audit period for the procurement and sale of electricity, and natural gas for electricity production.
26	List the utility's Energy Marketing Affiliates and where they may be found on the utility's web site and in the compliance plan and in specific policies and procedures related to transactions with the utility.
27	Identify any utility customers assigned to an affiliate during the audit period.
28	Provide an overview of the utility's methodology for processing requests for changes to electric or natural gas provider.
29	Provide access to records for service requests. Include reporting of outages, establishing new service, billing inquiries, requesting ESP lists and discontinuing service. <b>(Revised 1 of 2)</b>
30	Provide a spreadsheet of customers assigned account representatives. Provide the customer name, the account

	representative, the electricity provider and the natural gas supplier.
31	Provide the goals and objectives for Commercial/Industrial customer services account managers and their job descriptions.
32	Provide Commercial/Industrial customer services account managers presentations to trade industries during 2010 and 2011.
33	Describe the process which the utility provides access to utility information, services, and unused capacity or supply for all similarly situated market participants.
34	Provide relevant details regarding meetings during the audit period between non-shared utility employees and energy marketing affiliates.
35	Provide a list of energy contracts with affiliates resulting from RFO/RFP/RFQ processes.
36	Provide a description of the utility's direct access program during 2010 and 2011.
37	Describe the nature of customer information that the utility provides to third parties (affiliates and unaffiliated entities). Provide examples.
38	Describe utility techniques to garner affirmative customer written consent to release information to third parties (affiliated and unaffiliated entities). Provide examples.
39	Describe how the utility offers or provides customers advice or assistance with regard to its affiliates or other service providers. <b>(Revised 1 of 2)</b>
40	40. Provide access to third-party customer information request forms and summary reports. Also provide sample forms submitted on behalf of end-use customers. Provide available electronic database files.
41	Provide examples (formats) of utility bill statements during the audit period 2010 and 2011.
42	Provide all requests by affiliates for non-customer specific non-public information. For each request, describe how the information requested was made available to other service providers and the public. <b>(Revised)</b>
43	Provide a description of any non-public Supplier information or data received from suppliers and provided to the utility's affiliates. For all cases, provide written affirmative authorization for the supplier.
44	What codes other than GL Account numbers are used to identify transactions processed in SAP? (for example, internal order number) Please explain the purpose of each such identifier including how they are used to identify affiliate charges.
45	Provide marketing and advertising materials for products or services provided by the utility's affiliates placed in local media in the utility's service territory during the audit period, plus brochures for products and services provided by the utility's covered affiliates.
46	Identify known occurrences where the utility participated in joint advertising or joint marketing with its affiliates.
47	Provide copies of any advertising space provided to affiliates in the utility's billing envelopes or any other form of the utility's customer written communication.
48	Provide copies utility customer bill inserts during the audit period.
49	Provide copies utility marketing/advertising materials distributed during the audit period.
50	Provide an annotated listing (including title, brief description, total budget, project manager, and funding source) of all utility R&D projects open anytime during the audit period.
51	Provide a list of R&D projects funded jointly by the utility and its affiliates.
52	Identify any instances the utility shared or subsidized costs, fees, or payments with its affiliates for R&D activities or investment in advanced technology research.
53	Identify all affiliate payments to the utility for employee transfers to an affiliate, including an identification of the employee, affiliate to which the employee transferred, and base salary of the employee prior to the transfer.
54	Provide a description of the process used by the utility to account for affiliate payments made to the utility for employee transfers.
55	Identify the number and type of work performed by employees that are jointly employed by the utility and its affiliates.
56	List all employee transfers among the utility and affiliates during the audit period, indicating name, title, transfer date, and the department or affiliate 'from and to' location.
57	Identify any utility employees who are/were on temporary or intermittent assignments, or rotations to its affiliates during the audit period. Describe the methodology employed to obtain a temporary employee and the types of records maintained. <b>(Revised 10/31/2013) (Revised 12/18/2013)</b>
58	Provide all reports of labor hours and charges from the utility to any affiliate for temporary or intermittent assignments. Provide an explanation of how the utility manages and controls this activity to comply with Rule V.G.2.e <b>(Revised 12/18/2013)</b>

59	For each person identified at the end of year 2010 and year 2011 who transferred from the utility to an affiliate or from an affiliate to the utility, provide all relevant transfer and termination dates.
60	For each person identified at the end of year 2010 and year 2011 who transferred from an affiliate to the utility, provide information on whether they had previously worked for the utility and in what capacity. For each person who had previously worked for the utility, provide the date of their transfer from the utility to the affiliate.
61	For each utility loaned employee and subsequently transferred to a covered affiliate during the audit period, provide the following information: <ul style="list-style-type: none"> <li>• Name, title, and employee number</li> <li>• Originating and final department and company</li> <li>• Dates on which the employee was loaned</li> <li>• Date on which the transfer was made</li> <li>• Dates on which the employee was offered and accepted the transfer</li> </ul>
62	Provide the information system access termination documentation.
63	Provide copies of all forms used when an employee transfers into the utility from an affiliate and out of the utility to an affiliate whether the affiliate is covered by the Rules or not.
64	Provide utility time reporting instructions/training materials for new hires
65	Describe the utility's computer system structure including mainframe and distributed systems in operation during the audit period. Also provide documentation and related charts of computer hardware architecture for the audit period.
66	Describe IT security administration procedures governing requests and approvals for obtaining access to all utility computer systems.
67	List affiliate employees with access (employee name, employee title, affiliate company name, application name, application description) to the utility's computer system.
68	Provide a description of computer system access and security for any employees who have remote computer access.
69	List affiliate employees with access to shared service computer systems, describe each shared application, and provide contact information for each application.
70	Provide a list of any affiliates with remote access privileges to utility network/computer systems. Include employee name and company name.
71	Provide a list, project description, and identifying number of any shared software development services projects that are in process or completed during the audit period. (Updated 9/13/2013)
72	Provide one listing of all purchasing manuals, a table of contents for each, as well as unrestricted access to all manuals. Identify policies that deal with affiliate transactions. Note any revisions during the audit period.
73	Summarize all joint purchasing arrangements between the utility and affiliates including a listing of joint purchases during the audit period.
74	List all office and work facilities occupied by the utility and its affiliates. Include the address, type of use, square footage, ownership (specify if owned or leased by the Company, or an affiliate), and cost per square foot. <ul style="list-style-type: none"> <li>• List facilities occupied solely by the utility.</li> <li>• List facilities occupied by a covered affiliate.</li> <li>• List facilities jointly occupied by the utility and affiliates</li> </ul>
75	List of persons with dedicated space or telephone extensions housed within utility facilities who are employees of the utility's affiliates and/or parent company. Provide name, title, office location, employer, and a brief description of responsibilities.
76	Provide any service agreements or contracts, between the utility and its affiliates.
77	List all property transfers involving the utility and any covered affiliate, including date, value, and reason for the transaction (Sec 851) during the audit period.
78	List all asset transfers from the utility to any covered affiliate, including date, value, and reason for the transaction during the audit period.
79	Provide access to a complete chart of accounts for the utility and the holding company. Provide an explanation of the structure of GL Account numbers.
80	Provide the utility's trial balance for each month during the audit period.
81	Please provide the Annual Affiliate Transactions Reports that report transactions occurring during calendar years 2010 and 2011. Please provide all associated appendices.
82	Provide a list of accounting manuals, a table of contents for each, and unrestricted access to all manuals. Highlight any significant changes made during the audit period.

83	Explain how the utility calculates the fully loaded costs of services provided to affiliates. Note any revisions for the audit period.
84	Provide an overview of how affiliate charges are identified, accumulated, assigned, and allocated. Note any revisions during the audit period.
85	Provide the corporate cost allocation manual and all associated allocation factors for the audit period used between the utility and affiliates.
86	Describe the process and forms for billing time and expense from affiliates to the utility. Provide an overview of all application systems, transaction flow analyses, and related documentation.
87	Describe the utility's approach to the maintenance of contemporaneous records documenting transactions with its affiliates and vice-versa.
88	Provide a description of time reporting by the utility, affiliates and its parent.
89	Provide a list of shared service cost centers and allocation percentages for each cost center.
90	Provide current Sarbanes Oxley, Section 404 compliance documentation of accounting process related to affiliated company transactions from internal and external audits.
91	Explain the capital project allocations process and the treatment of depreciation allocations across the corporate enterprise.
92	Provide any lists of energy service providers provided by the utility. Includes any used at call centers, trades shows, community workshops etc.
93	Provide a list of procedures and process descriptions related to affiliate costs or billing activities which are currently available and/or were in use in 2010-2011. Please indicate the dates each procedure was in effect.
94	Provide the utility's Affiliate Transaction Rules training matrix, and training materials. Include training logs and reports and associated policies and procedures on the administration of the training program.
95	Provide any professional ethics letters, memorandums, or affidavits to management employees. Include the approximate number of employees who receive the annual ethics letter or other related information and the approximate number and type of employees required to complete any ethics affidavit.
96	Provide all officer certifications submitted in compliance with Rule VI
97	Provide copies of the utility's Affiliate Compliance Plan and associated guidelines, policies and procedures. Provide the current Affiliate Compliance Plan and the Plan(s) in effect in the 2010 - 2011 audit period.
98	Provide an overview of the process to update/edit the affiliate compliance plan.
99	Provide a list of organizations/business units and contact personnel involved in the update of the affiliate compliance plan.
100	Provide an overview of the process for notifying the Affiliate Compliance Manager of the creation of a new affiliate.
101	Provide documentation that demonstrates that the affiliate list shown on the utility's website was updated for the creation of each new affiliate.
102	List all non-tariffed products and services offered by the utility. Identify the year the offering began. <b>(Revised)</b>
103	Describe how affiliate and utility webpage compliance is controlled.
104	Provide NTP&S reports filed by the utility with the CPUC covering NTP&S activities in 2010, 2011, and 2012.
105	Please provide the excel spreadsheets and other electronic versions of work papers supporting the NTP&S reports for the years 2010 and 2011.
106	Provide advertising materials for NTP&S used by the utility during the audit period. Also, itemize the costs by NTP&S type associated with developing and distributing these materials.
107	Describe the process to determine NTP&S incremental costs. Provide any procedures, guidelines or other documentation regarding this topic.
108	Describe the methodology in determining what portion of utility assets are utilized for providing NTP&S.
109	For each NTP&S offered in 2010 and 2011: Identify the organizational entity responsible for the NTP&S Describe the business service or product offered, including its mission statement and operational market goals. Describe each market into which each NTP&S is being sold, including discussions of the size of the market and of the competitors in this marketplace. Description of how its entry into the market has affected the relevant marketplace.
110	Provide Advice Letters filed for each NTP&S offering.
111	Describe the NTP&S sharing mechanism and the accounting associated with the shared NTP&S costs and revenues, e.g., are the amounts recorded in a balancing account? Who records the costs and revenues in the

	general ledger?
112	Provide the Commission Decision/Resolution regarding the NTP&S sharing mechanism.
113	Provide CPUC Advice Letters or other filings regarding the NTP&S sharing mechanism for NTP&S activities in 2010 and 2011.
114	Provide any NTP&S training materials and provide a list of employees who received NTP&S training in 2010 and 2011.
115	Identify the name, location and telephone number of the Affiliate Compliance Manager.
116	Describe the responsibilities of the Affiliate Compliance Manager.
117	Provide information on Affiliate Transaction Rules violations or potential violations that have come to the attention of the utility during the audit period. Include the rule, relevant facts and resolution.
118	List all affiliate transaction non-compliance complaints during the audit period.
119	Provide the utility's policies & procedures for investigation, reporting and remediation of complaints.
120	Provide a description of each manner (e.g., 24 hour hotline, internet, email, telephone, internal/external correspondence etc) in which the affiliate compliance department is contacted for affiliate transaction compliance issues.
121	Provide the Rule IX Reports submitted to the CPUC.
122	Provide copies of all advice letters to the CPUC providing notification of the creation of a new affiliate. <b>(Revised)</b>
123	Provide a description of the procedures used by the utility to immediately notify the CPUC that a new affiliate has been created. Provide documentation for each new affiliate supporting that said notification has been made.
124	Provide documentation supporting timely posting on the utility's website for 2010 and 2011 of notices of Provision of Supply, Capacity, Services or Information to an affiliate.
125	Please provide documentation supporting timely posting on the utility's website for 2010 and 2011 of notices of Provision of Non-Customer Specific, Non-Public Information.
126	Please provide documentation supporting timely posting on the utility's website for 2010 and 2011 of notices of discounts, rebates, tariff deviation and Fee Waiver.
127	Please provide the process utilized by the utility to make offering of excess capacity and supply.
128	Please provide an overview of the utility's GCIM hedging program (Gas only).
129	Please provide the database of all GCIM financial transactions during 2010 and 2011 (gas only).
130	Access to call center scripts, procedures, talking points and other training materials.
131	Scripts of all bill messages during the audit period.
132	As a follow up to DR 44, please provide a list of all Internal orders designated as affiliate billing orders during the audit period with a brief description of the project, program or business activity involved.
133	Please provide a list with description of all direct billed, shared support activities during the audit period including the internal order used.
134	As a follow up to DR 62, please provide documentation of the procedures followed by HR and IT and descriptions of the systems used as described in the overview provided in response to DR 62.
135	As a follow up to DR 65, and in our interview with IT on 8/6/13: It was explained that Sempra Energy has a data center in San Diego separate from the two data centers described in the response to DR 65. Please revise the response to DR 65 to incorporate the Sempra Energy data center and provide charts that describe the computer architecture for Sempra and the CA utilities.
136	As a follow up to DR 66, please provide documentation of the procedures followed by HR, IT and other departments and descriptions of the systems and forms used as described in the overview provided in response to DR 66. <b>(Ammended 9/8/2013)</b>
137	As a follow up to DR 67: Several of the users listed in response to DR 67 are employed by covered affiliates. Please describe the functions and data these employees are allowed to access given their access profile.
138	As a follow up to DR 71, please provide the name of the corporate entity or entities that utilize each of the projects listed in response to DR 71.
139	As a follow up to DR 83, please provide a numeric example, preferably with printouts of supporting documents, of at least one sample charge to an affiliate.
140	As a follow up to DR 85, please provide the value for each factor listed in the response to DR 85 for the audit period.
141	Provide a list of all internal audits performed or completed during the audit period. Mark any that dealt with non-tariffed products or services, IT access, IT security or affiliate formation.

142	Please provide the “kick-off” presentation provided to NorthStar on August 5, 2013.
143	Please provide the CPUC order permitting SoCalGas to procure natural gas on behalf of SDG&E core customers.
144	Provide the full audit report for each of the internal audits provided in response to DR 5, including appendices, management response, and access to work papers.
145	Do affiliate employees contact the same computer/IT help desk as utility employees? If they do not contact the same help desk, do employees of the help desk work both help desks?
146	Provide a list of all employees who have transferred from the utility to affiliates during the audit period with the dates of transfer and the dates IT access was terminated by the utility.
147	Provide a list of all affiliate and Sempra Energy employees who have access to either utility’s SAP for any purpose other than recording time.
148	Specify each form of remote access used by utility employees and for each form of access describe the access that may be granted to applications and data in comparison to the access the same employee would normally have at their assigned workstation.
149	Provide a list of all affiliate employees who have access to utility data or applications through remote access.
150	Please explain why and under what authority, SDG&E modified the officer certification text required in Rule VI.D to include a footnote exempting previously reported violations and violations under investigation.
151	Provide the minutes of the Corporate Compliance Committee meetings held during 2010 and 2011 including agenda and attendees.
152	Provide the minutes of the Affiliate Compliance Department meetings with Coordinators held during 2010 and 2011 including agenda and attendees.
153	Provide a copy of the CPUC decision, including the 25 remedial measures, authorizing the merger between SDG&E and SoCal Gas. <b>(If needed contact Dawn Francis).</b>
154	What is the start date of the self assessment program?
155	Provide access to the file of all self assessment forms sent to departments in 2010 and 2011 together with their responses actions taken by the department or ACD.
156	When internal orders for services provided by the utility to an affiliate are settled in SAP, is the payment to the utility immediate through a counter transaction or is it necessary for the affiliate to manually initiate payment by check or electronic transfer?
157	Please provide a complete list of Affiliate Compliance Coordinators by company and business unit.
158	Provide the guidelines and rules ACD provides regarding joint meetings and projects.
159	Provide a copy of all logs kept by ACD for Advice, Mailbox, voice mail Helpline and direct inquiries to ACD staff.
160	Provide a list of all complaints received by ACD during 2010 and 2011 together with a description of the investigation and action steps taken.
161	Copies of invoices from each utility to each affiliate for every month of 2010 and 2011.
162	Provide a list of non-utility personnel granted access to facilities/space used by the regulated utility in the years 2010 and 2011. Provide each individual’s name, position, and company, and an explanation of why access was granted.
163	With respect to DR 112 and 113, please provide the CPUC Decision and any Advice Letters and other filings re: all NTP&S sharing mechanism(s) that were in effect during the audit period.
164	Please provide any internal audits performed of NTP&S.
165	Please provide access to work papers for any internal audits performed of NTP&S in the audit period.
166	Supply management training materials re: joint purchases as cited in the 2011 Compliance Plan. <b>(Amended 9/8/2013)</b>
167	Provide vendor contracts for the following joint purchasing arrangements cited in DR 73. <ul style="list-style-type: none"> <li>-ROEL</li> <li>CONSTRUCTION COMPANY INC, -DISABLED VETERAN</li> <li>ENTERPRISES INC, -ARGUS CONTRACTING LP,</li> <li>-AMERICAN EXPRESS CO, -BRIGHT HORIZONS,</li> <li>-KROY SIGN SYSTEMS, -GOLDEN IMAGE</li> <li>WINDOW COVERINGS.</li> </ul>
168	Provide procedures regarding joint purchasing between the utility and affiliates.
169	DR 120 lists the various methods for contacting ACD and states that information is maintained in a personal drive or ACD Advice Log. Another DR asks for the Advice Logs. Please provide the information “personal drive” for the years 2010 and 2011.
170	Confirm that the sales, marketing, promotional and billing materials available for review in the Customer

	Communications, Research & eServices area located on the 20th floor of the Gas Company Tower in downtown L.A. the week of August 26 (DRs 41, 45 47, 48, 49, 131) includes information for large commercial, industrial, municipalities, summary billed accounts and any managed account customers, etc. If not, please ensure the information is available for that trip. Please also ensure bill envelopes and bill inserts for all of the above customer types are included.
171	Listing of all industry association meeting/presentations, round tables, working groups, trade shows or trade conferences, or similar events in California attended by SCG, Sempra Energy or its affiliates during the audit period. For each event include a listing of all attendees and copies of all agendas, presentations, brochures or other materials handed out during the event. Also include pictures of displays and banner, and any trinkets or other marketing materials or display or handed out at the event.
172	Listing of all industry association meeting/presentations, round tables, working groups, trade shows or trade conferences, or similar events outside California attended by SCG. For each event include a listing of all attendees and copies of all agendas, presentations, brochures or other materials handed out during the event. Also include pictures of displays and banner, and any trinkets or other marketing or promotional materials displayed, available or handed out at the event.
173	Listing of all community events in California attended by SCG and/or its affiliates during the audit period, including a description of the event, and copies of any items or materials handed out at the event. Also include pictures of displays, posters and banners, and any trinkets or other marketing or promotional materials displayed, available or handed out at the event. <b>(Ammended 9/9/2013)</b>
174	Calendar of all SCG/Sempra Energy corporate sponsored events during the audit period.
175	Social media policy for SCG, Sempra Energy, Sempra Generation, Sempra Energy Trading LLC, Sempra Energy Solutions and Sempra Energy Solutions LLC. Provide both company policy and policies or control over employee use of social media.
176	Copies of all SCG press releases, Sempra Energy, Sempra Generation, Sempra Energy Trading LLC, Sempra Energy Solutions and Sempra Energy Solutions LLC, including screen shots if they are posted on the entities website, issued during the audit period.
177	Copies of all television, radio, and print messages or ads (including those in newspapers, magazines, trade publications, billboards, posters, etc.) or similar communications run by SCG during the audit period.
178	Copies of all television, radio, and print messages or ads (including those in newspapers, magazines, trade publications, billboards, posters, etc.) or similar communications run by any SCG affiliate in the state of California during the audit period.
179	Copies of any email blasts sent to SCG's commercial, industrial, managed account or summary billed customers during the audit period.
180	Website screen prints of a sample of all bill types during the audit period.
181	Internal policies and procedures governing the use of corporate logos and names (SCG and affiliates).
182	Please provide the storage contracts executed with Sempra Energy Trading during 2010 and 2011 by the Capacity Markets Group (Gwoon Tom). Please also provide storage contracts with non-affiliates executed during the similar time period.
183	Screen prints of the call center Announcement Page
184	Call center ATR test screen prints
185	CCC Annual Review
186	CIS Training Packet 2010/11
187	BU video training
188	Logger codes
189	Affiliate compliance phone number notice posted in the conference room at the call center
190	All compliance plans in effect during the audit period as discussed in the M. Schneider interview. This is not the same as the Affiliate Compliance Plan.
191	All Customer Privacy Plans (including the inventory of systems that house customer data in effect during the audit period as discussed in the M. Schneider interview.
192	Any Sempra Energy "Ambassador" magazines during 2010 and 2011. Please also provide any other newsletters from Sempra Energy or any affiliate sent to retirees during 2010 and 2011.
193	Sempra Energy Media Relations Policy, as discussed in the interview with Ann Ayres.
194	Social Media Guidelines when they are finalized, as discussed in the interview with Ann Ayres.
195	List of dates and attendees (organizations) receiving ACD Instructor led training classes held during 2010 and 2011, including a couple of samples of the presentations.

196	As a follow up to DR 24 please provide computer access to the natural gas acquisition data base to allow NorthStar the ability to test the following: 1. There were no trades with SoCalGas unregulated affiliates during 2011. 2. Review of all 2010 trades with nonregulated affiliates to determine if all were conducted utilizing blind transactions 3. Sales of excess utility storage to nonregulated affiliates were comparable to those of unaffiliated marketers 4. Review the day sheets for a number of types of transactions with affiliates to market conditions
197	Call center procedures/guidelines in effect during 2010 and 2011. If not available, please provide current procedures.
198	Code of conduct booklet as discussed at the call center
199	List of all employees (management, supervisory and union) by name and id number working in the call center during the period August – November 2010 and August – November 2011 (two separate lists), assuming these dates coincide with the dates of the affiliate refresher training. If not, provide employee records for the appropriate dates.
200	Communications approval process tree as discussed in the interview with Gwen Marelli.
201	Modules from the call center new hire training that address affiliate compliance (if possible those in effect during 2010 and 2011).
202	Please provide the employee code of conduct for 2010 and 2011.
203	Please provide a description of the project management services provided to customers in the customer solutions group.
204	Please describe how the customer solutions group's project managers identify suppliers for professional and construction services. Please provide a list of suppliers.
205	Please provide the imbalance charges tariff sheets and imbalance bills for transporter imbalances billed to SET, SER, SES, and Sempra Gas during 2010 and 2011.
206	Please provide a list of the shared officers of SDG&E and SoCalGas.
207	Please provide the annual employee goals related to affiliate transaction compliance.
208	Please provide the 2010 SCG RFP for new transmission line capacity (Pauline Wah). Please provide the names of the bidders and those who were awarded the contract.
209	Please explain how SCG's "Step-by-Step Guide to Benchmarking" protects the privacy of customer information.
210	Please provide an overview of how non-core customers are billed for SCG services
211	Please provide access to SoCalGas Envoy and specific instructions to connect.
212	Please provide examples of major markets/special billing bills during 2010.
213	Please provide a demonstration of the storage pricing program discussed with Steve Watson.
214a	<p>Please provide a side by side with Josie Ly and Kathy Cordova to demonstrate the contract terms and conditions for the following SET customers and please provide a sample of non-affiliate customers operating under the same major market tariffs:</p> <ul style="list-style-type: none"> <li>• Nestle Waters North America Inc.</li> <li>• Sunkist Growers Inc.</li> <li>• All American Asphalt</li> <li>• Deluxe Laboratories, Inc.</li> <li>• Calif Inst Of Tech</li> <li>• Generating Resource Recovery Partners,LP</li> <li>• University Of Southern California</li> <li>• BreitBurn Energy Company L.P.</li> <li>• Angelica Textile Services</li> <li>• Gas Recovery Systems, Llc.</li> <li>• Trend Offset Printing Service, Inc.</li> <li>• Plains Pipeline, L.P.</li> <li>• International Die Cast Inc.</li> <li>• BreitBurn Energy Company L.P.</li> <li>• City Of Industry</li> <li>• Farmdale Creamery</li> <li>• Ricoh Electronics, Inc</li> <li>• Bodycote International, Inc.</li> <li>• Kaiser Aluminum &amp; Chemical Corp.- DIP</li> <li>• California Dairies, Inc.</li> <li>• Hamilton Ranches, Inc.</li> </ul>

	<ul style="list-style-type: none"> <li>• Provisions Food Company</li> <li>• B. Braun Medical Inc.</li> <li>• Corona Energy Partners, Ltd.</li> <li>• KES Kingsburg L P</li> <li>• Sithe Energies, Inc.</li> <li>• E.F. Oxnard, Llc</li> <li>• Universal City Studios LLP</li> <li>• Lockheed Martin Corp</li> <li>• Performance Sheets LLC</li> <li>• Schlosser Forge Company</li> <li>• California Steel Industries, Inc.</li> <li>• Vista Metals Corp</li> <li>• TIN Inc. d/b/a Temple-Inland</li> </ul>
214b	<ul style="list-style-type: none"> <li>• Corona Energy Partners, Ltd.</li> <li>• KES Kingsburg L P</li> <li>• Sithe Energies, Inc.</li> <li>• E.F. Oxnard, Llc</li> <li>• Universal City Studios LLP</li> <li>• Lockheed Martin Corp</li> <li>• Performance Sheets LLC</li> <li>• Schlosser Forge Company</li> <li>• California Steel Industries, Inc.</li> <li>• Vista Metals Corp</li> <li>• TIN Inc. d/b/a Temple-Inland</li> </ul>
215	Please provide the details for any receipt point access (backbone transmissin system) transactions with SET, SES, SER, SG s during 2010 or 2011. Please also provide the associated tariff sheets.
216	Please provide details for any storage services (transaction based storage - Josie Ly) provided to SET, SER, SES or SG during 2010 or 2011.
217	1. Documents re: Business Managers' meetings regarding day-to-day billings in 2010 and 2011 (discussed in 8/28 meeting with Mike Calabrese.)
218	2. GRC testimony re: miscellaneous revenues (as discussed with Mike Calabrese and Belinda Lomeli on 8/29)
219	3. Provide an explanation of why SCG dividends to Pacific Enterprises are included in Section E – Transfers of Tangible Assets in the 2010 and 2011 Affiliate Transactions Report.
220	4. Occupancy data for Sempra Corporate Center -- List all Sempra companies and affiliates which occupied the building in 2010 and 2011.
221	5. Provide backup documentation to validate the lease agreement and internal order charges for shared service organizations in the Gas Tower.
222	6. Provide copies of the 2010 Advice Log (Excel workbook) and 2011 Advice Log (Email folder) as discussed with Doris Reed on 8/28.
223	7. Presentation on Overheads (discussed in 8/29 meeting with Mark Diancin and Jenny Chhour).
224	8. Study re: Third Party A&G for 2010 and 2011 (discussed in 8/29 meeting with Mark Diancin and Jenny Chhour).
225	9. Please identify any transaction with affiliates by SCG's Real Estate, Facilities, and Fleet Services groups during the 2010/2011 audit period. Please provide descriptions of the procedures used by Real Estate & Facilities and Fleet Services to maintenance of contemporaneous records documenting transactions with affiliates.
226	a description of which areas of utility facilities are restricted to employees of covered affiliates. Itemize any restrictions on Sempra Corporate Center employees, covered and non-covered affiliates.
227	Provide a copy of the non-consolidation opinion that demonstrates that the ring fencing around the utility is sufficient to prevent the utility from being pulled into bankruptcy of its parent holding company and any changes that have been made since it was originally filed with the CPUC.
228	Provide the "capital structure report" described by Garry Yee for each month of the audit period. (Prefer Excel file if available)
229	Have there been any months during the audit period when the utility's equity ratio has been reduced by 1% or

	more below the ratio approved in the previous GRC? If so, provide a copy of any applications for a waiver filed with the CPUC.
230	Provide copies for each month of the audit period of the report used by ACD to insure that loaned employees do not exceed the 30% limit.
231	Provide a list that describes each cost element used to bill affiliates.
232	Provide a list of Shared assets that are used to prepare shared asset billing to affiliates together with the original book value and the net book value as of 12/31/2011.
233	Provide a copy of the report on energy trades used to prepare Schedules C & D in 2010 and 2011.
234	Provide the total amount billed to the utility by each affiliate other than SDG&E, SEMPRA and gas trades.
235	Provide an Excel or Access file that contains all individual transactions charged by the utility to any affiliate other than SDG&E together with all identifying information so that the date, Internal order or cost center, source and type of each transaction can be determined as well as the entity being billed.
236	Provide copies of all invoices presented to affiliates during the audit period.
237	Provide a listing of all payments received from affiliates during the audit period with the date payment received and the purpose, if not to pay one or more of the invoices requested in the previous DR.
238	AS a follow up to DR 89, please explain why the following changes in allocation percentages occurred and if there was any retroactive adjustment associated with the changes: <ul style="list-style-type: none"> <li>• Cost Ctr 2200-0696, Facilities-Monterey Park MGR, Corp Center stopped after January 2010 then resumed at a much lower rate in March 2011</li> <li>• Cost Ctr 2200-2163, Wellness-SCG, to various affiliates, stopped and resumed in various patterns and at different rates.</li> <li>• Cost Ctr 2200-2390, HR SDGE VP, SDGE started in April 2011 at over 50% then ended after Oct 2011. Also, why was the cost for an SDGE VP being charged to the Gas utility?</li> </ul>
239	Provide a legal description of the affiliate Alaska Gas Exploration Associates and its activities. Also, describe where it is listed among the affiliates reported to the CPUC during the audit period. If it is not listed, provide an explanation of why it was not.
240	Please provide a list of all of SoCalGas' subsidiaries.
241	For the following entities, please provide a more detailed description and documentation of the purpose of the enterprise the activities it is designed to be engaged in, whether these activities were engaged in, and what activities were in fact performed during CY2010 and CY2011: <ul style="list-style-type: none"> <li>Big Sandy SynFuel, L.L.C.</li> <li>Blue Grass SynFuel, L.L.C.</li> <li>Califia Company</li> <li>CamPipe Corp.</li> <li>Caney Creek Energy, L.L.C.</li> <li>Cedar Bayou Energy, L.L.C.</li> <li>Cumberland SynFuel, L.L.C.</li> <li>El Paso Energía Servicios, S. de R.L. de C.V.</li> <li>El Paso Gas Transmission de Mexico, S. de R.L. de C.V.</li> <li>El Paso Mexico Management, S. de R.L. de C.V.</li> <li>Energia Sierra Juarez Holding, S. de R.L. de C.V.</li> <li>Fowler II Holdings LLC</li> <li>Fowler Ridge II Wind Farm LLC</li> <li>Fowler Ridge II Wind, LLC</li> <li>Gasoductos de Chihuahua, S. de R.L. de C.V.</li> <li>Grupo El Paso, S. de R.L. de C.V.</li> </ul>
242	Referring to the list of entities in DR 241, please provide a list of all officers of the entity during CY2010 and CY2011.
243	Referring to the list of entities in DR 241, please provide a list of any entities that are considered subsidiaries of SDG&E and/or SoCalGas during CY2010 and CY2011. For any entities that are considered subsidiaries of SDG&E and SoCalGas, please provide an explanation of whether or not they were included in utility rates during CY2010 or CY2011.
244	For any entities listed in DR 241 as subsidiaries, please provide an explanation of how they are subject to rates and regulation by the CPUC:
245	For those employee transfers listed in response to DR 53 and shown in the Affiliate Transactions Report (for the

	years 2010 and 2011), please provide the voucher number (or transaction control number) and the date that each transfer fee was paid to the utility. Provide documentation for verification during the week of October 28, 2013 while NorthStar CPA auditors are on site.
246	For each of those employee transfers listed in response to DR 53 and reported in the Affiliate Transactions Report (for the years 2010 and 2011), please provide documentation for verification of the fee calculation during the week of October 28, 2013 while NorthStar CPA auditors are on site.
247	Recordings (i.e., mp3, wmv, mov files) of all radio and TV ads run by SCG in 2010 and 2011.
248	Recordings (i.e., mp3, wmv, mov files) of all radio and TV ads run by Sempra or any affiliate in California in 2010 and 2011.
249	Copies of all call quality monitoring forms in effect during the 2010/2011 audit period and the current forms (for all call groups/types) and the monthly reported results for the period January 2010-December 2011.
250	List of call center skill groups and any service level standards.
251	List of all call center phone numbers.
252	Extracts from new and ongoing CSR training (preferably training in effect during 2010 and 2011) that address the following. Please provide the dates the training materials were in effect. If 2010/11 is not available, please provide current. <ul style="list-style-type: none"> <li>a. Customer authentication/verification</li> <li>b. Information that can or cannot be provided to ESPs or contractors (including solar installers) over the phone</li> <li>c. ESP complaints</li> <li>d. Limited Direct Access</li> <li>e. Affiliate Transaction Rules</li> <li>f. Code of Conduct</li> <li>g. Referrals</li> <li>h. Protection of customer information</li> <li>i. ESP, supplier or contractor recommendations</li> </ul>
253	Please provide recordings of customer calls to the call center(s) during the following time periods: <ul style="list-style-type: none"> <li>a. February 8, 2010                      08:10 – 08:15</li> <li>b. April 14, 2010                         09:20 – 09:25</li> <li>c. June 24, 2010                         10:30 – 10:35</li> <li>d. August 3, 2010                         11:40 – 11:45</li> <li>e. October 12, 2010                      12:50 - 12:55</li> <li>f. December 22, 2010                    13:00 – 13:05</li> <li>g. January 7, 2011                        14:05 – 14:10</li> <li>h. March 16, 2011                        15:15 – 15:20</li> <li>i. May 26, 2011                          16:25 – 16:30</li> <li>j. July 18, 2011                          17:35 – 17:40</li> <li>k. September 13, 2011                    09:45 – 09:50</li> <li>l. November 17, 2011                    13:55 – 14:00</li> </ul>
254	Provide all utility, parent, and affiliate promotional materials, giveaways, trinkets and other tangible objects (anything with a logo) and their packaging, including, but not limited to: golf balls, tees, bag tags and ball markers, awards, coolers, lights, clocks, post-its, pads of paper, notebooks, mouse pads, pens and pencils, holders, glassware and mugs, pins, stuffed animals, figurines or other decorative items, key chains, knives, tote bags, clothing, candy, alcohol or other similar items. If materials from 2010/11 are available please provide, otherwise provide current materials.
255	Provide all direct mail marketing materials issued by the parent company or an affiliate in California in 2010 and 2011.
256	Copies of all parent company and affiliate job ads/postings in California in 2010 and 2011. <b>(Supplemented 11-01-2013)</b>
257	Provide samples of all parent and affiliate business cards (front and back) used in 2010 and 2011.
258	Please provide source documentation and calculations for the affiliate transactions shown in the attached spreadsheet. Responses should be in excel format. Please also provide loaders (pool rates) and the base (which charges to include) for each pool rate. Please also cite where pool rates and share service cost allocation were audited in 2010 and 2011 and identify any major findings.
259	In reference to SoCalGas' letter to the CPUC on October 16, 2013, identifying a natural gas pipeline transaction

	with Rosarito Gasoducto in November 2011, please explain why said transaction was not reported in DRs 22, 24 or 126.
260	Please provide a transaction listing for 2011 of all natural gas transactions with Rosarito Gasoducto and Transportadora de Gas Natural de Baja during 2011.
261	In reference to SoCalGas' letter to the CPUC on October 16, 2013, identifying a natural gas pipeline transaction with Rosarito Gasoducto in November 2011, please provide the invoice for said transaction.
262	In reference to DR 20, please answer the second half of the data request explaining how contracts with affiliates were obtained through an open and competitive bidding process.
263	The transactions provided in DR 24 yield results where in 2010 SoCalGas sold gas to SET in the amount of \$13,624,002 and purchased natural gas in the amount of \$36,074,425. These numbers do not correlate with Schedules C and D. Please reconcile the \$13,533,610 reported in schedule C of the Annual Affiliate Transaction Report with the data provided in DR 24 (\$13,624,002). Please reconcile the \$35,962,547 reported in schedule D of the Annual Affiliate Transaction Report with the data provided in DR 24 (\$36,074,425).
264	Please provide transaction level details for the \$275,400 in Other Gas Revenues from SET reported on Schedule C in 2010. Please describe under what tariffs/agreements these transactions occurred.
265	Please provide transaction level details for the \$22,300 charged to SCG from SET in 2010 for Compressor Station Fuel and Power. Please describe under what agreements these transactions occurred.
266	Please provide a description of the market conditions or events for why SET's GTBS inventory rate dropped 50 percent between March and April 2010 (\$2.24 to \$1.13).
267	Please explain why GTBS transactions with SET are not recorded in Schedule C of the Annual Affiliate Transaction Report.
268	Please provide the basis of the injection rates charges (G-TBS) to SET on May 6, 2010(April 2010 bill). Please identify where the injection rates were publicly posted.
269	Please provide and describe all information provided to the third parties utilizing SCG's non-tariffed line item billing service during 2010 and 2011.
270	Please describe SCG's oversight processes regarding business arrangements with third parties using SCG's non-tariffed line item billing services. Identify the organizations responsible for ensuring the proper use of the SCG and/or Sempra name and logo, and preventing the improper sharing of customer information. Also describe how these organizations execute these responsibilities. Provide any available documents demonstrating these activities in 2010 and 2011.
271	Please describe the marketing information SCG shares with third parties utilizing SCG's line item billing services to support promotional activities.
272	Please provide copies of the self assessment checklists completed during 2010 and 2011. Employee names and signatures may be masked to keep the documents in the public realm. (Resubmittal of DR 155). (272 a &b)
273	Please provide supporting documentation reviewed with Cheryl Kemp and Belinda Lomeli on October 30, 2013 regarding SCG's NTP&S for 2010 and 2011.
274	Please provide the work papers for Schedules C, D and H found in the 2010 and 2011 Annual Affiliate Transaction Reports.
275	Please provide the policies, procedures, or protocols concerning notification of managers when an employee is interviewed for a position/transfer with an affiliate during 2010 and 2011 (Interview: Kemp, Reed, Landkammer, Brunwin, and Virdone)
276	Please provide the exit interview checklists signed by supervisors for all employees transferring during 2010 and 2011 to an affiliate. (Interview: Kemp, Reed, Landkammer, Brunwin, and Virdone)
277	Please provide the confirmation notifications received by Affiliate Compliance from IT verifying termination of facility and systems access of transferred employees during 2010 and 2011. (Interview: Kemp, Reed, Landkammer, Brunwin, and Virdone)
278	As discussed with Cheryl Kemp and Belinda Lomeli, provide supporting documentation for NTP&S Category I.2 Revenue posted for August 2010. Provide support for both debit and credit entries.
279	Are CSRS able to provide any customer information to third parties over the phone with only verbal customer authorization, and if so, what type of information and under what circumstances? Please also provide associated policies/procedures.
280	The Customer Contact Centers' annual affiliate compliance training screen prints from 2010/11 (DR 184 only provided current).
281	CCC Annual Reviews in effect in 2010 and 2011 if available (DR 185 only provided current).
282	Copies of the training packet sections flagged during the 10/28/13 visit to the contact center, including the

	Quality Observation Definition Guide and Training section and 2 sections of affiliate transaction materials included in the CSR 2 training, and the CAT training section in the CSR 4 training (flagged with clips and post-its.)
283	Provide the following procedures as discussed in the 10/28 interview at the contact center. Please provide current and all versions in effect during 2010 and 2011 (if available). <ul style="list-style-type: none"> <li>• mp204</li> <li>• mp119</li> <li>• Third Party Request for Energy Analysis (mp200)</li> <li>• Safeguarding Customer Account Information (mp147)</li> <li>• Core Aggregation Transportation (bl82b)</li> <li>• ESP Agents Claim to Represent the Gas Company (bl82k)</li> </ul>
284	Please provide copies of all bills for tariff services with Gasoducto Rosarito and Transportadora de Gas Natural de Baja during 2010 and 2011.
285	Please explain why there is a service charge/brokerage fee/tax for transactions with Gasoducto Rosarito and not any associated with Transportadora de Gas Natural de Baja.
286	Please provide the CPUC approvals of the sole source contracts with Transportadora de Gas Natural de Baja and Gasoductor Rosarito. If none please explain why CPUC approval was not required.
287	Please describe how the interconnection between SoCalGas/SDG&E and Gasoducto Rosarito occurred. Include the following: When was the interconnection constructed? Was the interconnection included in rate base? Was the interconnection approved by the CPUC?
288	Please provide an explanation of CY2010 gas engineering activities performed and billings to Sempra Pipelines & Storage for the support to integrate the Algodones Meter Station into SCADA system, and general measurement consulting, as well as billings to Sempra Broadband for gas engineering consulting.
289	Please reconcile these activities described in DR 288 above to the responses to DR 57 and 58.
290	Please provide all loaned labor / temporary assignment documentation for these activities as described in DR 288 above and their approvals per Rule V.G.2.e.
291	Please provide an explanation of CY2011 gas engineering activities performed and billings for charges covering general measurement and gas regulation consulting services to affiliates.
292	Please reconcile these activities described in DR 291 above to the responses to DR 57 and 58.
293	Please provide all loaned labor / temporary assignment documentation for these activities as described in DR 291 above and their approvals per Rule V.G.2.e.
294	"The following affiliates were identified in our review of affiliates created during 2010 and 2011 from Sempra Legal. Please provide: <ul style="list-style-type: none"> <li>• Proof of immediate internet posting of the creation of a new affiliate</li> <li>• Proof of immediate notification to the CPUC of notification of a new affiliate</li> <li>• The advice letters notifying and the advice letters.</li> </ul> Flat Ridge 2 Wind Energy LLC Flat Ridge 2 Wind Holdings LLC Gasoductos del Sureste, S de RL de CV (Encino) Mehoopany Wind Holdings LLC Sempra Corporativos Sempra S de RL de CV Mehoopany Wind Energy LLC Sempra Americas Bermuda Ltd, Agencia en Chile" Francis 11/29/2013
295	Please provide the power purchase agreements for output from: <ul style="list-style-type: none"> <li>• Cedar Creek II</li> <li>• Copper Mountain I</li> <li>• Copper Mountain II</li> <li>• Copper Mountain III</li> <li>• Mesquite Solar I</li> <li>• Auwahi Wind</li> </ul>
296	
297	In addition to DR 252 (SDG&E) and DR 295 (SoCalGas), please provide the power purchase agreements for output from Energia Sierra Juarez II U.S., LLC.
298	In the Compliance Plans it states that SDG&E, SoCalGas and Sempra Energy have programs for entry/junior level positions in the Finance and Accounting divisions. Representatives for each of these programs may

	<p>participate in career events. The intent of utilities' MARP (Management Accounting Rotation Program) and Sempra Energy's FLP (Financial Leadership Program) is to provide an entry into the workforce through a rotation program. Please provide an explanation of all personnel that participated in the Management Accounting Rotation Program and Sempra Financial Leadership Program during CY2010 and CY2011. Specifically for each individual that participated provide:</p> <ul style="list-style-type: none"> <li>o The individual's name</li> <li>o Functional organization unit and position title</li> <li>o The number of hours of program participation during each year</li> <li>o Subject material discussed in program and activities performed</li> <li>o Provide information and explanation if this individual changed organizations or titles during CY2010/2011</li> </ul>
299	Please state why the utilities believe that these rotation programs do not constitute joint employment under Rule V.G.1.
300	Please state why the utilities believe that these rotation programs are not covered under Rule V.G.2.e.
301	In the Compliance Plans (SDG&E and SoCalGas) it states that SDG&E/SoCalGas interprets Rule V.G to apply to employees of SDG&E/SoCalGas, and not to consultants/contractors or employees of temporary third-party agencies. Please provide the names, period of work and hours for consultants, contractors and employees of third-party agencies that provided services to the utilities and unregulated affiliates during the same months for CY2010 and CY2011.
302	Please state why the utilities believe that consultants, contractors and third-party resources should not be considered joint employees under Rule V.G.1.
303	Please provide documentation and proof of notification within 30 days for each change in the shared officers list covering CY2010 and CY2011. Please reconcile this information with that shown in response to DR 10.
304	Please provide and document the formal titles/positions held and time period of each position held by Debra Reed for SDG&E, SoCalGas and Sempra Energy during CY2010 and CY2011.
305	Please explain the titles/positions/time period and any overlap between Ms. Reed, and Messrs. Felsing, Knight, and Allman during CY2010 and CY2011.
306	Please reconcile the above information with that shown in the respective ATR Annual Reports for each utility.
307	<p>Please explain why the utilities believe that under Rule V.G.2.e Compliance Rules and Procedures:</p> <ul style="list-style-type: none"> <li>o Sempra Corporate Center is not considered an affiliate under these Rules,</li> <li>o Whether Sempra Corporate Center is a separate entity or an organizational unit of Sempra Energy – the holding company,</li> <li>o That the 30% and 5% rules do not apply, and that</li> <li>o Marketing employees may work on projects supporting Corporate Center, and may be loaned to other non-energy related affiliates.</li> </ul>
308	Please explain why the utilities believe that any "marketing employees" of any nature can be temporarily assigned/loaned in compliance with Rule V.G.2.e or shared in compliance with Rule V.G.1.
309	As a follow up to DR 258 – Year 2011 Observation 25, Please provide support documentation for the allocation of the GCT lease shown in cost element 6400375.
310	. Please provide payroll support information to validate the hours charged and the hourly rate for the following transactions from DR 258: Year 2010 Observation 40 Year 2010 Observation 41 Year 2011 Observation 41
311	Please provide the support calculation for the A&G Affiliate Labor and Non Labor Loaders for February 2011. In particular, please derive how the five percent adder becomes 2.2 percent for labor and increases to 18.5 percent for non-labor.
312	Please provide the internal order demonstrating that the 2010/2011 Affiliate Transaction Audit will be paid for by the shareholders.
313	Provide a comprehensive description and supporting documentation demonstrating how affiliates are effectively prohibited from participating in pipe and equipment purchases as described in Resolution G-3238.
314	Provide Affiliate Billing Aging/Receivables listings with 30 days past due balances as of 12/31/10 and 12/23/11. Indicate policy on charging interest to affiliate outstanding balances.
315	Please provide as a supplement to DR 94 any training records that verify that all required employees completed their annual ATR training.
316	Dead

317	Has SOCALGAS made any material changes to its ring fencing provisions since its non-consolidation opinion was filed? If so, please provide copies of any notice provided to the CPUC of such changes.
318	Year-end Monthly reports to the CPUC for 2010 and 2011 re: the Montebello gas storage facility.
319	Please explain why revenues and incremental cost costs from the sale of oil and cushion gas from the Montebello storage field are not considered NTP&S
320	What was the approved equity ratio during each month of the audit period?
321	Please provide the New Hire Learning Program.
322	Please provide a count for each of total, affiliate (non-SDGE), SDGE, and non-affiliate calls to the Gas Scheduling Group and Gas Control Group for each year for 2010 and 2011.
323	Please provide details (dates, cause, when noticed etc.) of all outages to the Gas Control/Scheduling Groups recording system during 2010 and 2011.
324	Please provide an overview of how natural gas marketers nominate supply.
325	What costs were incurred by the utility during each year of the audit period that were expensed directly to the shareholders and not charged to an above the line utility expense account?
326	Describe the process for expensing costs to the shareholders?
327	Please provide work papers demonstrating where the 2006 Affiliate Transaction Audit was eliminated from the revenue requirement in the subsequent rate case.
328	Remedial Measure 14 requires SoCalGas to maintain recordings of all incoming and outgoing telephone calls received or made in Gas Control and Gas Scheduling. Please describe how SoCalGas complies with this requirement.
329	What are the requirements in the Merger Agreement regarding records retention?
330	Please provide the Gas Scheduling/Gas Control telephone recordings for Calendar Year 2010. If the recordings have not been retained, please explain why and what was done to them.
331	Describe any records, call logs, or any other formal documentation/reports maintained by SoCalGas reporting the volume, the counter party, and nature of conversation of the Gas Scheduling/Gas Control telephone calls for Calendar Year 2010.
332	Please provide policies and procedures related to records retention of Gas Scheduling/Gas Control telephone recordings.
333	Please provide any summary records, call logs, or documentation/reports developed by SoCalGas in support of compliance with Remedial Measure 14.
334	Please provide the Gas Scheduling/Gas Control telephone recordings from January 1, 2011 to May 5, 2011. If the recordings have not been retained, please explain why.
335	A copy of all Call Recordings in Gas Control and Gas Scheduling from May 7, 2011 through May 14, 2011.
336	Please describe how SoCalGas believed it was prudent and appropriate to destroy affiliate transaction records subject to the scope of an audit that was made public on March 5, 2013.