

**Southern California Gas Company
2006 Audit of Affiliate Transactions**

April 23, 2007



Alliance Consulting Group

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Table of Contents

Chapter 1	Executive Summary	1
Chapter 2	Audit Process and Internal Control.....	6
Chapter 3	Rule I — Definitions.....	17
Chapter 4	Rule II — Applicability of Rules.....	20
Chapter 5	Rule III — Non-Discrimination.....	23
Chapter 6	Rule IV — Disclosure and Information.....	32
Chapter 7	Rule V — Separation	44
Chapter 8	Rule VI — Regulatory Oversight	61
Chapter 9	Rule VII — Utility Products and Services.....	66
Chapter 10	Rule VIII — Complaint Procedures and Remedies	71
	Endnotes.....	75
Appendix I	Affiliate Transaction Rules	A-1

Chapter 1
Executive Summary

CHAPTER 1 Executive Summary

Auditors' Report

To Southern California Gas Company:

The Alliance Consulting Group is an independent management consulting firm that you engaged to audit the Company's compliance with the Affiliate Transaction Rules promulgated by the California Public Utilities Commission for the year ended December 31, 2006. We performed the audit in accordance with Generally Accepted Government Auditing Standards applicable to performance audits and the scope of work that you approved. Among other things, the auditing standards require that we adequately plan the audit to meet the audit objectives, consider regulatory requirements and test management controls in place to ensure compliance, consider the needs of potential users of the audit report, and perform the audit in accordance with a written work plan.

Based upon our audit, we believe that the Company was in compliance with the Affiliate Transaction Rules for the year ended December 31, 2006, and, except for changes that may be required to address the Revised Rules discussed below, has established sufficient procedures in its Affiliate Transactions Compliance Plan to reasonably ensure continued compliance with the Rules in the future.

April 23, 2007

Very truly yours,

ALLIANCE CONSULTING GROUP

Background

Under a contract that became effective October 1, 2006, San Diego Gas & Electric Company (SDG&E) engaged the Alliance Consulting Group (ACG) to perform an audit, on behalf of both Southern California Gas (SoCalGas) and SDG&E. The audit was to assess compliance by SoCalGas with Affiliate Transaction Rules promulgated by the California Public Utility Commission (CPUC or Commission) for the year ended December 31, 2006, pursuant to the scope of work described in ACG's Proposal dated August 7, 2006, and the Detailed Work Plan relating to the audit.

The Detailed Work Plan includes a General Audit Task and additional Tasks which address potential audit issues in the eight areas in which the CPUC has issued specific Affiliate Transaction Rules (Rules). Rule VI. C. requires the annual audit:

No later than December 31, 1998, and every year thereafter, the utility shall have audits prepared by independent auditors that cover the calendar year which ends on December 31, and that verify that the utility is in compliance with the Rules set forth herein. The utilities shall file the independent auditor's report with the Commission's Energy Division beginning no later than May 1, 1999, and serve it on all parties to this proceeding. The audits shall be at shareholder expense.

This is the ninth annual audit of compliance with the Rules for SoCalGas, and the second audit performed by ACG. The scope of this audit included a review of SoCalGas' responses to findings and recommendation made in previous audits.

The audits of SDG&E and SoCalGas involve many the same companies, affiliates, organizations, departments, administrators, methodologies and systems. Accordingly, for purposes of efficiency, clarity of reporting and audit documentation, ACG planned and performed the audits first by task area, then by company. Task Reports covering both of the companies were given to utility personnel for fact verification, and when comments were received, the Task Reports were edited to pertain to each of the companies individually.

Overview of the Audit Process

As more fully discussed in Chapter 2, Audit Process and Internal Controls, the audits were performed in three distinct phases from October 17, 2006, through April 23, 2007. The Planning and Orientation phase of the audit was completed with the delivery of a Detailed Work Plan dated October 30, 2006. We performed our Technical Review in nine separate areas of investigation and delivered Task Reports for review and verification by the companies from January 19, through April 5, 2007. We provided a Draft Report for each of the companies on April 16, 2007 and delivered a completely annotated copy of this Final Report April 23, 2007. ACG professional staff spent approximately 1,250 hours performing the audits.

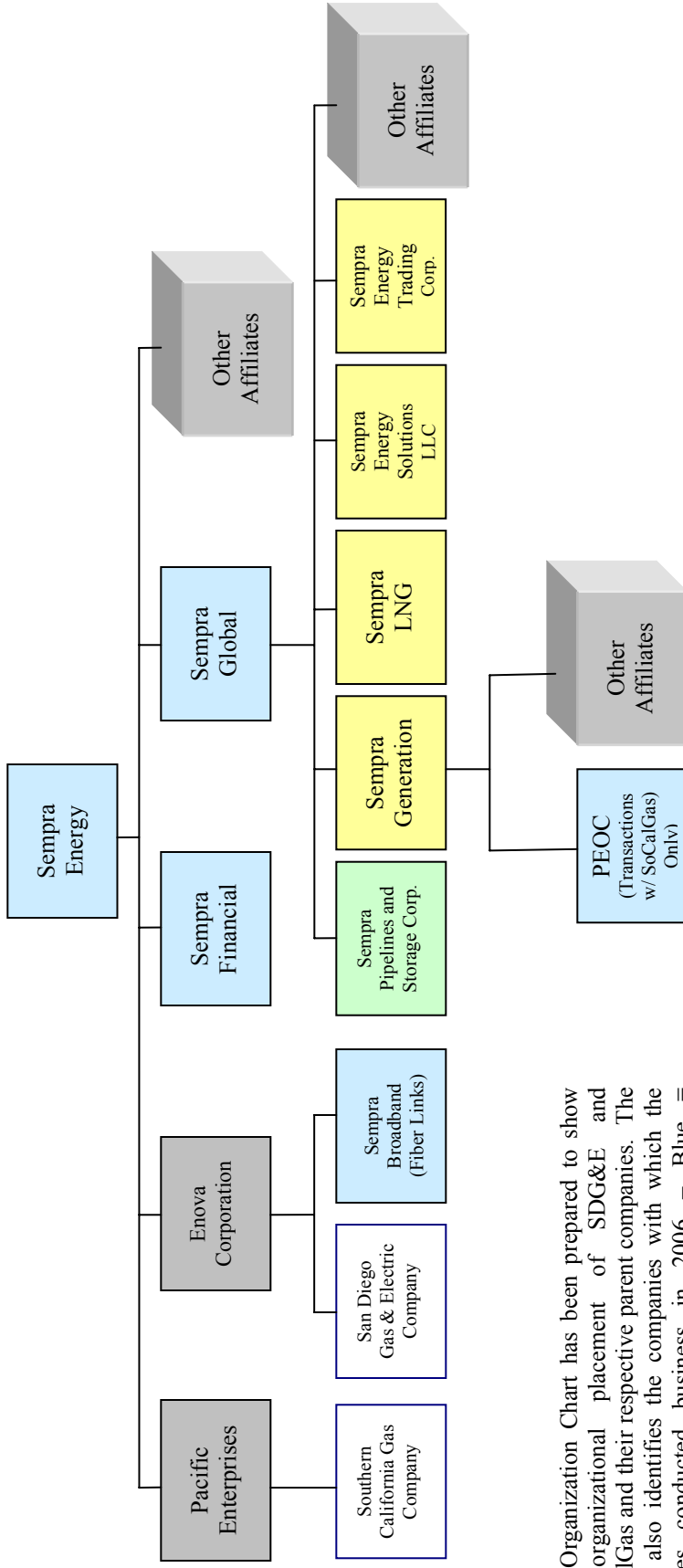
Revised Rules

As more fully described in Chapter 2, in D. 06-12-029 dated December 14, 2006, the Commission adopted revised Affiliate Transaction Rules (Revised Rules) that became effective on the same date. In performing this year's audit, ACG determined that there was no impact of the Revised Rules on the companies during the year ended December 31, 2006. However, SoCalGas will need to consider the Revised Rules in the development of future year Affiliate Transactions Compliance Plans, and related training and implementation guidelines.

Utility Affiliate Companies

On the following page is a high level organization chart showing the placement of SoCalGas in the Sempra Energy organization, and highlighting the affiliate companies with which the Company conducted business in 2006.

**Exhibit 1-2
High Level Affiliate Company Organization Chart**



Note:
This Organization Chart has been prepared to show the organizational placement of SDG&E and SoCalGas and their respective parent companies. The chart also identifies the companies with which the utilities conducted business in 2006 – Blue = Non-Covered Affiliates; Green = Covered Affiliates; Yellow = Covered Energy Marketing Affiliates.

Audit Exceptions

The audit of SoCalGas disclosed no aspects of the Company’s operations or any Affiliate Transactions that were not in compliance with the Rules. Based upon the scope and complexity of the Company’s operations, and its relationships with affiliates, this is a remarkable achievement for the year ended December 31, 2006.

Other Significant Findings

The audit conclusions summarized in **Exhibit 1-3** relate to SoCalGas procedures reviewed in the audit and should be addressed by the Company to reduce the possibility of future exceptions to the Rules.

**Exhibit 1-3
Procedural Weaknesses Noted in the Audit**

No.	Chapter and Conclusion Reference	Description of the Procedural Weakness and Recommendation
1.	Chapter 2, Conclusion 1	Some of SoCalGas’ procedures relating to the administration of affiliate compliance require improvement. Existing written internal procedures do not address all important areas or activities within the ACD scope of responsibility, nor have they been prepared in a standard format.
	Recommendation	Develop written operating procedures covering all functions currently performed by ACD staff. These procedures should be written in a standard, easy-to-understand format, describe staff responsibilities for various functions, the date of individual staff assignments, and the dates the procedures are first implemented and later revised. All of the written procedures should be combined to create an ACD Standard Practices Manual.
2.	Chapter 9, Conclusion 4	Although the Company has established additional informal procedures since the 2005 audit, there are no formal written procedures or training for reporting NTP&S costs and revenues. Individual Product or Service Activity Business Managers are responsible for identifying the revenue and incremental cost to be included in the NTP&S Report. The Sundry Service organization does not seek to verify the methods or procedures used for calculating reported costs
	Recommendation	With assistance from the accounting department, have the Sundry Services Manager develop written guidelines for the calculation and reporting of fully loaded incremental cost for each category of NTP&S activity. About six months before this information is needed, hold a meeting with affected Business Managers and field personnel who supply the information to discuss the guidelines and address other matters related to the development of the 2007 NTP&S Report.

Management Response

No.	SoCalGas Management Response to Procedural Weaknesses Noted in the Audit
1	The Affiliate Compliance Department will formalize its procedures in a written and standard format.
2	As the CPUC has not provided clear guidance regarding methodology and/or calculations of incremental costs, SoCalGas is not equipped to develop guidelines for each category of NTP&S activity. However, Sundry Services will send a mid-year internal communication to the NTP&S Business Managers identifying and describing all required elements of the NTP&S report; and addressing what supporting documentation is needed for all reported revenue and incremental costs.

Acknowledgement

We wish to acknowledge and express our appreciation for the cooperation and support we received from the Company and the Sempra Corporate Center staff during the course of the audit, and in particular thank ACD personnel for their guidance and coordination of our activities during the audit.

Chapter 2
Audit Process and Internal Control

CHAPTER 2 Audit Process and Internal Control

Introduction

In this chapter of the report, we provide an overview of the audit process. This includes information relating to the audit objectives, the audit work plan, the audit schedule, and the auditing standards applied in the performance of the audits. In addition, we describe our tests of internal controls relating to the Company's affiliate transactions reporting and compliance.

The Alliance Consulting Group (ACG) performed the current Affiliate Transactions Audit of SoCalGas in accordance with the terms of a Standard Service Agreement effective October 1, 2006, (Contract) with SDG&E, on behalf of both SoCalGas and SDG&E. The audit was planned and performed in three distinct phases as summarized in **Exhibit 2-1** below.

**Exhibit 2-1
Phases of Investigation and Schedule**

Phase	Description	Dates
I	Orientation and Planning	October 17, through October 31, 2006
II	Technical Review	November 1, 2006 through April 5, 2007
III	Reports Task Reports Draft Report Final Report	January 19, through April 5, 2007 April 16, 2007 April 23, 2007

Audit Scope and Objectives

The general purpose of our work was to test compliance by SoCalGas with each of the Commission's Affiliate Transaction Rules (Rules) for the year ended December 31, 2006. We also performed tests to determine whether SoCalGas has sufficient internal controls, systems and procedures in place to adequately enforce the Rules and whether the Company's Affiliate Transactions Compliance Plan conforms to the requirements of the Rules.

As in previous audits, the 2006 audit addressed issues in the following areas of the Company's operations:

- Corporate governance
- Employee training
- Affiliate transaction accounting
- Pricing of transferred goods and services
- Analysis of corporate support services charged to affiliates
- Employee movement between the utility and an affiliate
- Transfer of intellectual property
- Facilities planning and acquisition process
- Use of utility name and logo in advertising
- Utility and affiliate joint purchasing
- Information technology
- Wholesale power and gas transactions

The audit included a review of the Company's Affiliate Transactions Compliance Plan, filed with the Commission by SoCalGas with Advice Letter 3571 on December 29, 2005.

Organization of the Report

The Detailed Work Plan was divided into nine distinct sections, with audit objectives, evaluative criteria, and audit tasks and sub-tasks in each area. The first section, General Audit Procedures, provided the overall objectives, evaluative criteria, and work tasks that pertain to the entire audit. The eight additional sections pertained to the specific evaluative criteria and work tasks that were applied in our tests of each of the Commission's Affiliate Transaction Rules.

This Final Report follows the structure introduced in the Detailed Work Plan. Following the Executive Summary in Chapter 1, this Chapter describes the General Audit Procedures and the context in which they were performed. Each of the remaining chapters covers one of the eight specific Rules. Each of the chapters relating to the Technical Review includes the following sections, to the extent they apply to the specific Rule:

Synopsis of the Rule	Audit Sampling Techniques
Evaluative Criteria	Findings and Conclusions
Summary of Audit Procedures	Recommendations

Synopsis of the Rules

In each of the chapters relating to a specific Rule, we provide a synopsis of the Rule. Our criteria for developing the synopses were as follows:

- *Size.* Whenever possible, should not exceed one page of text.
- *Relevancy.* Include portions of the Rule relevant to the Company, and exclude things that are not. For example, for Rule V relating to Separation the synopsis includes the portions applicable to holding companies, and excludes the portions relating to multi-jurisdictional regulated utilities. Another example is that the synopsis of Rule VIII – Complaint Procedures and Remedies does not recite the remedies and fines related to violations of the Rules contained in Rule VIII, because there were no complaints filed with the Commission relating to the Rules for SoCalGas during the year ended December 31, 2006.
- *Currency.* Update the Rule to the current point in time. For example, it is not necessary to include the idea of successors in the definition of the Commission in Rule I, because the Commission still exists. Further, it is not necessary to recite what was required during the first two years of applicability of the Rules (see Rule VII. H. re Non-Tariffed Products and Services) because that period of time is now past.

Readers who want to refer to the complete text of a particular Rule may turn to Appendix I which contains a printed copy of the Rules.

Revised Affiliate Transaction Rules

In D. 06-12-029 dated December 14, 2006, the Commission adopted revised Affiliate Transaction Rules (Revised Rules) that became effective on the same date. The Revised Rules modify the Rules that are the subject of the 2006 Affiliate Transactions Audit of SoCalGas discussed in this report. These Rules were originally adopted in 1997 in D. 97-12-088, and despite some modification, have become outdated with the changes related to industry restructuring and other changed conditions during the 10 years they have been in effect. Based upon our inquiries and review of affiliate transactions summarized in this audit report, ACG determined that there was no impact of the Revised Rules on the Company during the year ended December 31, 2006.

However, the Company will need to consider the Revised Rules in the development of future year Affiliate Transactions Compliance Plans, its Affiliate Compliance Guidelines which govern internal implementation of the Rules and training materials.

ACG performed a side-by-side comparison of the Revised Rules and the Rules and has highlighted significant changes in the **Exhibit 2-2** below:

**Exhibit 2-2
 Summary of Significant Changes in the Rules**

Rule	Significant Changes
I. Definitions	None
II. Applicability	The Revised Rules, where explicitly provided, also apply to a utility's parent holding company, and state that the holding company cannot be used to circumvent the Revised Rules.
III. Nondiscrimination	Requires annual certification by key corporate officers of personal compliance with the Revised Rules.
IV. Disclosure and Information	Deleted the requirement for utilities to provide lists of service providers that compete with the utility's affiliates to customers.
V. Separation	Offers two alternatives for the modification of utility company organizational structures relating to shared services.
VI. Regulatory Oversight	The Revised Rules require revised compliance plans to be submitted by June 30, 2007, and when changed thereafter. The Revised Rules provide for changes in the audit requirement. Audits will be performed bi-annually under the supervision of the Commission Staff, with no established deadline.
VII. Utility Products & Services	None
VIII. Complaint Procedures	None
IX. Financial Health Protection	A new rule is included in the Revised Rules requiring annual utility reports on capital requirements and related financial policies. Also requires reporting when authorized capital structures change and demonstration that utility ring fencing is adequate to protect the utility from financial difficulties that might be experienced by the holding company.

Auditing Standards

The Affiliate Transactions Audit of SoCalGas was performed in accordance with Generally Accepted Government Auditing Standards applicable to performance audits (GAGAS). These standards are set forth in the booklet entitled *Government Auditing Standards, 2007 Revision* developed by the Comptroller General of the United States and published by the United States General Accounting Office. Because of its color, this booklet is often called the *Yellow Book*. It is available on the General Accounting Office website (<http://www.gao.gov/>). The Yellow Book standards pertain to auditors' professional qualifications and, among other things, require auditor independence and that the audit be carefully planned and performed in accordance with a written work plan. In addition, audit findings and conclusions are required to be properly documented in work papers and results are to be communicated in a written report.

Audit Sampling Techniques

The Yellow Book Standards also require that the audit work papers document any sampling criteria used. In the SoCalGas Affiliate Transactions Audit we used judgmental sampling techniques in some areas and have documented our sampling methodologies in each applicable audit task area in this Final Report.

Detailed Work Plan

At the conclusion of the Orientation and Planning Phase of the audit we prepared a Detailed Work Plan that was delivered to Company representatives on October 24, and approved on October 30, 2006. The Detailed Work Plan is for the purpose of providing ACG and the Company with a written document to ensure that all necessary issues and subjects are adequately addressed. In preparing the Detailed Work Plan, we conducted interviews with 26 SoCalGas and SDG&E employees during the week of October 17, 2006, and reviewed some of the information provided in response to approximately 133 initial document requests. Prior to completing the work plan, we reviewed a draft with Company personnel responsible for the audit. The Detailed Work Plan reflects our understanding of the Company's requirements for the audit and describes our audit approach.

The final work plan and budget for the project provided for a total of 1,250 hours of audit effort. During the Technical Review phase of the audit we received responses to 155 formal requests for documents and other information, conducted approximately 80 interviews in meetings and telephone conversations with SoCalGas, SDG&E and Corporate Center subject matter experts, and made field visits to the Company's Call Center to observe operators' interaction with utility customers. Representatives from the Companies' Affiliate Compliance Department (ACD) attended most of the interviews, and were instrumental in assisting us with follow-up, sometimes by telephone and exchange of e-mail, and in providing additional documents identified during the interviews. We also met with ACD representatives to review comments on task reports provided for verification.

General Audit Work Plan

As mentioned above, the Detailed Work Plan contains a General Audit Procedures section, describing the overall objectives, evaluative criteria, and work tasks that pertain to the entire audit. Some of the information contained in this section of the work plan is repeated here for reference.

Work Statement

The audit tasks and sub-tasks in the General Audit Procedures section pertain to the entire audit. They are for the purpose of testing general compliance with the Rules, application of the Company's Affiliate Transactions Compliance Plan, and Internal Controls as they pertain to Affiliate Transactions and compliance.

Audit Objectives

- Determine whether SoCalGas has complied with each of the Rules during the year ended December 31, 2006.
- Determine whether the most recent SoCalGas Affiliate Transactions Compliance Plan is in compliance with the Rules.
- Determine whether SoCalGas has adequate internal controls, systems and procedures in place to ensure enforcement of the Rules.

Evaluative Criteria

- Does SoCalGas have adequate internal controls, systems and procedures in place to ensure enforcement of the Rules?
- Has SoCalGas complied with each of the Rules during the year ended December 31, 2006?
- Has SoCalGas developed an adequate Affiliate Transactions Compliance Plan to help ensure compliance with the Rules?
- Has SoCalGas followed policies and procedures contained in its Affiliate Transactions Compliance Plan?

Audit work relating to testing of compliance with the Rules and application of the compliance plans is reported in subsequent chapters of this report. Our assessment of internal controls is reported below.

Internal Control

The Sarbanes-Oxley Act (SOX) enacted by Congress in 2002 and implemented through rule making by the Securities and Exchange Commission (SEC) significantly changed corporate managements' and independent auditors' responsibilities relating to financial reporting and

the assessment of internal controls. One of these changes is that management provide an annual report on the effectiveness of certain aspects of the entity's internal control over financial reporting. Another change requires that the independent auditor attest to management's assessment of internal controls.

The requirement for management reporting on internal control over financial reporting and the related auditor attestation became effective for Sempra Energy and SoCalGas with their 10-K filings for the year ended December 31, 2004. Although certain aspects of compliance with the Affiliate Transaction Rules involve financial reporting and therefore fall within the purview of SOX, other aspects of the Rules do not. However, all of the Rules embrace the concept of Regulatory Compliance, which is an important element of the standard definition of internal control developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and published in its report.

In developing rules for implementation of SOX, the SEC defined internal control over financial reporting and said that it intended its definition to be consistent with the definition of internal controls contained in the COSO Report. The COSO Report defines internal control as "a process effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives" in the following categories:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations.

According to COSO, the internal control environment of an organization includes the plan of organization, policies, procedures, and systems used by management to provide reasonable assurance that its goals and objectives are met; that resource use is consistent with laws, regulations and stated policies, that resources are reasonably safe-guarded against waste, loss and misuse; and that reliable information is obtained, maintained and fairly disclosed in reports to management.

There are five interrelated components of internal control described in the COSO Report: 1) the control environment, 2) risk assessment, 3) control activities, 4) information and communication, and 5) monitoring. In order to conclude a system is effective, all five components must be present.

Evaluation of Internal Control

The following **Exhibit 2-3** is an Internal Control Checklist prepared specifically for this audit that identifies Preferred Practices relating to internal controls over Affiliate Transactions and Compliance. During the audit, we investigated controls in the areas indicated and completed the checklist with yes or no answers, and appropriate explanation.

**Exhibit 2-3
Internal Control Checklist**

Internal Control Preferred Practices	Appropriate Control Environment	
	Yes	No
Organization		
• Executive management commitment to internal control and affiliate transactions compliance	X	
• Management organization providing adequate direction and oversight	X	
• Effective communication to address problems and avoid mistakes	X	
• Affiliate Transactions employee training programs are adequate	X	
• Continuity of experience and knowledge in Affiliate Compliance Department staff	X	
• An organization that responds promptly to change and produces timely updates to the Affiliate Compliance Plan	X	
Systems and Procedures		
• Procedures relating to affiliate compliance and documentation are adequate		X (Note 1)
• Codes of Business Conduct and related compliance programs are adequate	X	
• Cost allocation systems for shared services are adequately documented	X	
• Functional area procedural manuals include appropriate references to Affiliate Transaction Rules	X	
• Changes relating to cost allocation are adequately documented, tested and controlled	X	
• Record keeping systems for all affiliate contracts and bids for the provision of supplies or services are adequate	X	
• Procedures to ensure the timely reporting of all required affiliate transaction activities are adequate	X	
Internal/External Audit		
• Internal audit plan developed using an effective risk assessment process	X	
• Internal audit plan incorporates periodic affiliate transactions compliance audits and provides for appropriate follow-up	X	
• Internal audit resources are adequate including professional personnel with appropriate certification, training and experience	X	
• Independent external audits are performed in accordance with Public Company Accounting Oversight Board requirements and management initiates corrective action on any findings of material weakness	X	
• Internal and external audits adequately consider requirements from the Affiliate Transaction Rules	X	
• Audit reports concerning affiliate transactions are reviewed by appropriate organizations and management personnel	X	
Note:		
1. As described in the Findings and Conclusions section in this chapter of the report, ACD has not adequately documented many of the procedures it needs to ensure that department personnel perform all of their assigned functions in an effective and consistent manner.		

Endnotes

Arabic numbers used in the text in this Final Report are references to endnotes provided following Chapter 10 to document the sources of the factual information used in support of our conclusions.

Glossary of Acronyms and Terms

Exhibit 2-4 at the end of this chapter provides a Glossary of Acronyms and Terms used throughout the Affiliate Transactions Audit report. In general, acronyms are defined when first used in each chapter and used thereafter in their abbreviated state.

Findings and Conclusions

1. Some of SoCalGas' procedures relating to the administration of affiliate compliance require improvement.
 - In the analysis performed in Chapter 7 relating to Rule V: Separation, ACG found that ACD has not developed formal written procedures to document the ACD process of reviewing and approving changes in affiliate access to SoCalGas' Information Technology systems.¹
 - A recent Affiliate Compliance Audit, project No. 06-111, performed by Sempra Energy's Audit Services Department, called for ACD to develop written procedures for handling ACD calls received and to implement procedures to update the ACD website.
 - ⇒ This Internal Audit determined that call handling procedures concerning the ACD hotline had not been documented, and
 - ⇒ the ACD website was outdated.²
 - Existing written internal procedures are not in standard format and apply to only ten activities within the ACD scope of responsibility including a one-page process flow diagram and a 34 page PowerPoint presentation.
 - The existing written procedures do not cover all of the functions of the ACD, nor have they been prepared in a standard format.³

Recommendation

1. Develop written operating procedures covering all functions currently performed by ACD staff. These procedures should be written in a standard, easy-to-understand format, describe staff responsibilities for various functions, the date of individual staff assignments, and the dates the procedures are first implemented and later revised. All of the written procedures should be combined to create an ACD Standard Practices Manual. (Refers to Conclusion No. 1)

Exhibit 2-4 Glossary of Acronyms and Terms	
10-K	Annual Report on Form 10-K
ABC	Affiliate Billing & Costing
ACD	Affiliate Compliance Department
ACG	Alliance Consulting Group
BHPB	BHP Billiton LNG International Inc.
BPL	Broadband over Power Line
CCC	Customer Contact Center
CHRPS	Corporate Human Resources and Payroll System
Commission	California Public Utilities Commission
Company	Sempra Energy, SDG&E, or SoCalGas depending on context
Contract	Standard Service Agreement effective October 1, 2006 between ACG and SDG&E.
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPUC	California Public Utilities Commission
CSR	Customer Service Representative
DASR	Direct Access Service Request
dba	doing business as
DR	Data Request
Dth	Dekatherms (natural gas)
DWR	(California) Department of Water Resources
Edison	Southern California Edison Company
ESP	Energy Service Provider
ETS	Environmental Training Service
FERC	Federal Energy Regulatory Commission

Exhibit 2-4 Glossary of Acronyms and Terms	
G/L	General Ledger
GAAP	Generally Accepted Accounting Principles
GAGAS	Generally Accepted Government Auditing Standards
GCIM	Gas Cost Incentive Mechanism
GCT	Gas Company Tower
HR	Human Resources
IDR	Interval Data Recorder
IT	Information Technology
LNG	Liquefied Natural Gas
MMBtu	Million British Thermal Units (of natural gas)
MA	Master Agreement
MTTA	Montebello True-Up Tracking Account
NGV	Natural Gas Vehicle
NOx	Nitrogen Oxide
NTP&S	Nontariffed Products and Services
O&M	Operating & Maintenance
OSHA	Occupational Safety and Health Administration
PBR	Performance-based ratemaking
PEOC	Pacific Enterprise Oil Company
PG&E	Pacific Gas & Electric Company
Pinnacle	SoCalGas gas management system
RFP	Request for Proposal
Rules	Affiliate Transaction Rules
SAP	A software financial accounting and reporting system

Exhibit 2-4 Glossary of Acronyms and Terms	
SCE	Southern California Edison
SDG&E	San Diego Gas & Electric Company
SEC	Securities and Exchange Commission
SECC	Sempra Energy Corporate Center
Sempra Energy Corporation	SDG&E's and SoCalGas' ultimate parent company
Sempra Generation	Formerly Sempra Energy Resources (SER)
SempraNet	A Sempra intranet site
SER	Sempra Energy Resources
SEu	The Sempra Energy utilities
SEu/CC	Sempra Energy utilities/Corporate Center
SoCalGas	Southern California Gas Company
SOX	Sarbanes-Oxley Act
TAA	Turnkey Acquisition Agreement
TBS	Transaction Based Storage Service
the Sempra Energy utilities	Not a legal entity. Used when referring to both SDG&E and SoCalGas
TURN	The Utility Reform Network
UCAN	Utility Consumers' Action Network
URL	Uniform Resource Locator
USOA	Uniform System of Accounts
UtiliNet	A Sempra intranet site.
WITS	Workforce Information Timekeeping System
Yellow Book	Government Auditing Standards, 2007 Revision (booklet)

Chapter 3
Rule I: Definitions

CHAPTER 3

Rule I: Definitions

Synopsis of the Rule

Unless the context otherwise requires, the following definitions govern the construction of these Rules:

A. “Affiliate” means any person or company 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 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 or indirectly have substantial financial interests in the company exercised through means other than ownership. A voting interest of 5% or more creates a presumption of control.

“Affiliate” also includes the utility’s parent or holding company, or any company which directly or indirectly owns, controls, or holds the power to vote 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 covered by the Rules.

Regulated subsidiaries of a utility are not included within the definition of affiliate. The revenues and expenses of such subsidiaries are subject to regulation by the Commission and are included by the Commission in establishing rates for the utility.

B. “Commission” means the California Public Utilities Commission.

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

D. “Customer Information” represents 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.

E. “FERC” denotes the Federal Energy Regulatory Commission.

F. “Fully Loaded Cost” refers to the direct cost of goods or services plus all applicable indirect charges and overheads.

G. “Utility” means any public utility subject to the jurisdiction of the Commission as an Electrical or Gas Corporation, as defined in California Public Utilities Code.

Evaluative Criteria

- Has SoCalGas included the definitions contained in Rule 1 in its Affiliate Transactions Compliance Plan?
- Do SoCalGas employees clearly understand and apply the definitions contained in Rule I?

Summary of Audit Procedures

Examined SoCalGas' 2005 Affiliate Transactions Compliance Plan, dated December 29, 2005, to determine how Rule I – Definitions was treated. Compared the treatment of Rule I in the Company's Affiliate Transactions Compliance Plan with the discussion of this rule in the Rules. Reviewed the Affiliate Compliance training material for appropriate inclusion of Rule I. Prepared a task report and reviewed with Company personnel for fact verification.

Findings and Conclusions

1. SoCalGas has properly included the definitions from Rule I of the Rules in its Affiliate Transactions Compliance Plan.
 - SoCalGas' 2006 Affiliate Transactions Compliance Plan was published and filed with the Commission on December 21, 2006.⁴ Therefore, the 2005 Affiliate Transactions Compliance Plan for SoCalGas, filed with the Commission on December 29, 2005, governs SoCalGas' affiliate compliance activities during calendar year 2006.⁵
 - The SoCalGas 2005 Affiliate Transactions Compliance Plan contains definitions taken verbatim from the Rules.⁶
2. SoCalGas employees clearly understand and apply the definitions contained in Rule I of the Rules.
 - The Rules, including Rule 1 – Definitions, are included on the Sempra Energy intranet site, SempraNet (<http://home.sempranet.com>).⁷ There is also a connection to the Rules through another Sempra intranet site, UtiliNet (<http://utilinet.sempra.com>). UtiliNet directs the user to the Rules through SempraNet.⁸
 - The Rules can also be accessed by employees through the SoCalGas internet site (www.socalgas.com).⁹ This site has a link to the Commission's internet site (www.cpuc.ga.gov), where the Rules can be found.¹⁰
 - The Rules are included in the Affiliate Compliance Training material available on-line on SempraNet and can also be accessed via UtiliNet.¹¹
 - Each year, all SoCalGas employees, with the exception of union employees, are required to take affiliate compliance training and pass a graded test on the Rules.

Sempra's Corporate Compliance department verifies that all employees required to have taken the training and passed the test have done so.¹²

- As of December 31, 2006, virtually all of the 1,700 employees required to take the Affiliate Compliance training had completed their training and passed the required test.¹³
- The definitions contained in Rule I are not included in a PowerPoint presentation which is used for training those employees that are not required to take the annual Affiliate Compliance Training. Although the PowerPoint slides deal with most of the essential elements of the Rules, they do not cover the definitions included in this Rule, including Affiliate, Commission, Customer, Customer Information, FERC, Fully Loaded Cost, and Utility.¹⁴

Recommendations

None

Chapter 4
Rule II: Applicability of Rules

CHAPTER 4
Rule II: Applicability of Rules

Synopsis of the Rule

A. The Rules apply to California public utility gas corporations and California public utility electrical corporations, subject to regulation by the California Public Utilities Commission.

B. For purposes of a gas utility (such as SoCalGas), the 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, unless specifically exempted.

C. The Rules apply to transactions between a Commission-regulated utility and another affiliated utility, unless specifically modified by the Commission in a proceeding relating to mergers or joint ventures related to regulated services.

D. The 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.

E. Existing Rules: Existing Commission rules for each utility and its parent holding company continue to apply except to the extent they conflict with these Rules. In such cases, these Rules will supersede prior rules and guidelines, provided that nothing herein 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.

F. Civil Relief: The Rules do not preclude or stay any form of civil relief, or rights or related defenses that may be available under state or federal law.

G. Exemption (Advice Letter): A Commission-jurisdictional utility may be exempted from the Rules if it files an advice letter with the Commission requesting exemption. The utility must file the advice letter within 30 days after the effective date of this decision adopting the Rules and will serve it on all parties to this proceeding. The advice letter must include specific information as detailed in the Rules.

H. Limited Exemption (Application): A California utility which is also a multi-state utility and subject to the jurisdiction of other state regulatory commissions, may file an application, served on all parties, requesting a limited exemption from portions of the Rules, for transactions between the utility solely in its capacity serving its jurisdictional areas wholly outside of California, and its affiliates. The applicant has the burden of proof.

I. The Rules should be interpreted broadly, to achieve the stated objectives of fostering competition and protecting consumer interests. If any provision or application of the Rules to any person, company, or circumstance, is held invalid, the remainder of the Rules, or the application of such provision to other persons, companies, or circumstances, is not affected.

Evaluative Criteria

- Does the SoCalGas Affiliate Transactions Compliance Plan accurately cover the terms and conditions relating to applicability of the Rules?
- Do SoCalGas procedures, compliance training, and annual reports accurately reflect the designations of applicability stated in Rule II?

Summary of Audit Procedures

Reviewed the SoCalGas 2005 Affiliate Transactions Compliance Plan dated December 29, 2005, to determine that it accurately describes the applicability of the Rules. Reviewed the SoCalGas 2005 Annual Report on Affiliate Transactions, dated April 29, 2006 to determine that all affiliated companies have been identified. Reviewed the SoCalGas Affiliate Compliance Training material to determine that all affiliates were properly identified. Prepared a task report and reviewed with Company personnel for fact verification.

Findings and Conclusions

1. The SoCalGas Affiliate Transactions Compliance Plan accurately recites the terms and conditions concerning applicability of the Rules.¹⁵
2. SoCalGas procedures, compliance training, and annual reports accurately describe the applicability of the Rules.
 - The 2006 Annual Report on Affiliate Transactions had not been filed as of the date of this report. Annual Reports on Affiliate Transactions are not required to be filed until May 1st of the year following the reporting year.¹⁶ Since the 2006 Annual Report on Affiliate Transactions will not be filed until May 1, 2007, ACG reviewed SoCalGas' 2005 Annual Reports on Affiliate Transactions and found that they properly reflect applicability as stated in the Rules.¹⁷
 - SoCalGas' Affiliate Compliance training material properly identify its affiliated companies. Sempra's intranet websites, SempraNet and UtiliNet refer employees taking training to the Affiliate Compliance Department's (ACD) intranet website, which contains a complete current listing of Covered Affiliates, Non-Covered Affiliates, and Energy Marketing Affiliates.^{18 19}
 - The Affiliate Compliance training presentation to employees who are not required to complete the annual Affiliate Compliance Training test directs trainees to the ACD intranet website or the Company internet site if they need more information on Affiliate Compliance or the Rules.²⁰
 - Covered, Non-covered, and Energy Marketing Affiliates with whom SoCalGas conducted business in 2006 are shown in the **Exhibit 4-1**:

Exhibit 4-1
Affiliates that had 2006 Transactions Covered by the Rules

Affiliate Company Name and Category	Description of Business
<i>Covered Affiliates</i>	
Sempra Pipelines & Storage Corp.	Develops and operates natural gas pipelines and storage facilities in Mexico and the United States.
Sempra LNG	Also an “Energy Marketing Affiliate.” Develops, builds, and operates liquefied natural gas (LNG) receiving terminals in North America.
<i>Covered Energy Marketing Affiliates</i>	
Sempra Energy Trading (dba Sempra Commodities)	Provides worldwide marketing and risk-management services to wholesale and retail customers for natural gas, power, petroleum products and base metals.
Sempra Energy Solutions LLC	Energy management services and power marketing services.
Sempra Generation	Owns and operates power plants for wholesale electricity markets in North America.
<i>Non-Covered Affiliates</i>	
Pacific Enterprises Oil Company (PEOC)	Owns shallow oil rights under Aliso Canyon Gas Storage field.
Sempra Broadband	Explores broadband and BPL opportunities.
Sempra Global	Holding company providing corporate support services to Sempra Energy’s businesses operating in competitive energy markets.
Sempra Financial	Invests in affordable housing properties and other tax-motivated investments throughout the United States.

Source: DR-2006-1-2, Sempra intranet sites – <http://home.sempranet.com> and ACG web research.

Recommendations

None

Chapter 5
Rule III: Non-Discrimination

CHAPTER 5
Rule III: Non-Discrimination

Synopsis of the Rule

A. No Preferential Treatment Regarding Services Provided by the Utility: Unless specifically authorized, a utility will not differentiate treatment, preferences, or provision of services, between affiliates and their customers, and non-affiliated companies or their customers.

B. Affiliate Transactions: Transactions between a utility and its affiliates will be limited to tariffed products and services, the sale or purchase of goods, property, products or services made generally available by the utility or affiliate to all market participants through an open, competitive bidding process, or as provided for elsewhere in the Rules. Unless otherwise stipulated by the Rules, a utility must provide access to utility information, services, and unused capacity or supply on the same terms for all similarly situated market participants. Except when made available through a bidding process, all competitors serving the same market as the utility's affiliates should be offered the same discounts that are offered to the affiliates. If a tariff provision allows for discretion in its application, the utility must apply that provision in the same manner to its affiliates and other market participants and their respective customers. If tariff discretion is not allowed, the utility will strictly enforce the tariff provision.

C. Tying of Services Provided by a Utility Prohibited: There are to be no contingencies tying any discounts, rebates, waivers, or services to the taking of any goods or services from the utility's affiliates.

D. No Assignment of Customers: A utility must not assign current customers 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.

E. Business Development and Customer Relations: Unless otherwise provided in the Rules, in conducting business with an affiliate, a utility will not: provide leads; solicit business on their behalf; acquire or provide information; share market analysis reports or any proprietary or non-publicly available reports; request authorization from customers to pass on customer information; give the appearance that the utility speaks on their behalf or that there will be preferential treatment in conducting business with the affiliates; or give any appearance that the affiliate speaks on behalf of the utility.

F. Affiliate Discount Reports: If a utility's affiliates are provided a discount, rebate, or other waiver of any charge or fee associated with services provide by the utility, the utility must post the following information on its electronic bulletin board within 24 hours of the time at which the service was provided: the name of the affiliate involved in the transaction; the rate charged; the maximum rate; the time period for which the discount or waiver applies; the quantities involved in the transaction; the delivery points involved; any applicable conditions or requirements, and documentation of the cost differential underlying the discount; procedures by which a non-affiliated entity may request a comparable offer. Records must be maintained for each billing period, to include: name of the entity; the affiliate's role; duration; maximum rate; rate or fee actually charged during the period; and quantity of products or services.

Evaluative Criteria

- Did SoCalGas provide preferential treatment to affiliated companies?
- Have there been any non-tariffed transactions with affiliates, and if so have the products and services provided affiliates been made available to all market participants on an equal basis?
- Have there been any transactions with non-affiliates that were conditioned on the taking of goods or services from affiliates, or other forms of tying prohibited by the Rules?
- Did SoCalGas assign any customers to affiliated companies?
- In conducting business with affiliates, did SoCalGas provide any business development or customer relations benefits? Specifically, did SoCalGas:
 - ⇒ provide leads to its affiliates?
 - ⇒ solicit business on behalf of its affiliates?
 - ⇒ acquire information on behalf of, or provide information to affiliates?
 - ⇒ share market analysis reports or any other types of proprietary or non-publicly available reports with affiliates, including but not limited to market, forecast, planning, or strategic reports?
 - ⇒ request authorization from customers to pass on customer information to affiliates?
 - ⇒ provide the appearance that SoCalGas speaks on behalf of its affiliates or that their customers will receive preferential treatment as a consequence of conducting business with SoCalGas affiliates?
 - ⇒ provide the appearance that the affiliate speaks on behalf of SoCalGas?

Summary of Audit Procedures

Conducted field observations at the Customer Contact Center (CCC). Observed Customer Service Representatives (CSRs) telephone contacts with customers. Verified that a sample of Customer Information Authorization forms contained customer signatures. Reviewed the Affiliate Compliance Guidelines manual, affiliate compliance training materials, and employee training records. Investigated the provision of shared services to affiliates and the cost allocation methods used to determine the affiliate billings. Interviewed CCC Managers to document training program, procedures, protocols, and related information. Reviewed quality monitoring tools and the online Help Manual available to CSRs. Analyzed processing times of requests for Customer Information. Reviewed web-based reporting relating to the offering of products and services and the reporting of customer requests for information. Prepared a task report and reviewed with Company personnel for fact verification.

Findings and Conclusions

1. In compliance with the Rules, SoCalGas did not provide preferential treatment to affiliated companies in 2006.
 - Customer information is released to affiliates or third parties only upon receipt of a signed Customer Information Authorization form.²¹
 - SoCalGas received 513 requests for customer information involving 8,406 accounts in 2006. None of these were from affiliates or third party Energy Service Providers (ESPs).
 - ⇒ SoCalGas requests were received from various types of organizations including apartments, energy management firms, and social service agencies.
 - ⇒ **Exhibit 5-1** shows the types of businesses making these requests.²²

Exhibit 5-1
3rd Party Requests for Customer Information
By Type of Entity Making Request

Requesting Organization	Number of Requests	Percent of All Requests
Apartments	133	26
Energy Management Firm	117	23
Governmental Social Service Agency	94	18
Energy Audit firm	70	14
Property Management Firm	67	13
Could not identify nature of requesting organization	32	6
Total	513	100

Source: ACG analysis of DR 2006-01-083 (revised 4/9/07)

- SoCalGas requests for customer information were generally processed within two weeks. In a few instances, response times were longer. **Exhibit 5-2** shows processing times for all requests.²³

Exhibit 5-2
Processing Times for 3rd Party Requests for Customer Information

Processing Time	Number of Requests	Percent of All Requests
Within 7 days	246	48
Between 8 and 15 days	212	41
Between 16 and 30 days	41	8
More than 30 days	14	3
Total Requests	513	100

Source: ACG analysis of DR 2006-01-083 (revised 4/9/07)

2. No preferential treatment was given affiliates in the purchase of SoCalGas excess gas storage capacity in compliance with the Rules.
 - Approximately 40 percent of SoCalGas gas storage capacity is subject to contract sales covering a storage period of one month to 15 years. In 1993, the CPUC found that SoCalGas had excess gas storage capacity which resulted in an Order establishing a 50/50 sharing of risk between SoCalGas and its customers. The tariffs for gas storage sales provide for discretion in pricing as long as the contract prices fall between a floor rate and a ceiling rate established by the CPUC. The G-TBS (Transaction Based Storage Service) gas storage tariffs reflect the CPUC authorized range.
 - SoCalGas posts transactions on its internet site when they involve non-auction sales or negotiated sales of storage capacity to an affiliate. The negotiated sale price must fall within the TBS tariff range. No preferential treatment is given to affiliate companies who wish to purchase the excess gas storage capacity. SoCalGas attempts to get the highest price possible for the storage capacity.²⁴
 - In an auction held at the end of 2005, all available excess gas storage capacity was made available under contracts almost all of which were signed in 2006.²⁵ Contracts were negotiated with the highest bidders. The storage price was the same for all successful bidders for comparable storage.
 - **Exhibit 5-3** is a summary of the 2005 internet posting of information relating to the 2005 gas storage auction. No additional postings were required by the Rules during 2006.²⁶

**Exhibit 5-3
SoCalGas Affiliate Information Postings**

Subject	Date	Message
Affiliate Transactions	06/30/2005	Procedure to request a comparable offer: contact SoCalGas and SDG&E California Energy Hub Advisor
Storage Capacity Release	11/17/2005	SoCalGas and SDG&E is postponing its current auction of natural gas storage rights (for terms of 1, 2, and 3 years beginning in April 2006) until after the holidays to address a concern raised by the staff of the California Public Utilities Commission. We recognize the market value of storage rights may have changed by then therefore all parties will be given an opportunity to refresh bids. Sorry for any inconvenience this change may have caused.
Storage Capacity Release	11/17/2005	SoCalGas and SDG&E is requesting a “show of interest” for natural gas storage rights for the season beginning April 1, 2006. See attachments for details or go to www.SoCalGas and SDG&E.com , select Business, then Storage.
Storage Capacity Release	11/18/2005	SoCalGas and SDG&E is conducting an auction for natural gas storage rights for the season beginning April 11, 2006. See attachments for details or go to www.SoCalGas and SDG&E.com , select Business, and then Storage.
Storage Auction Update	12/20/2005 12/21/2005	SoCalGas and SDG&E is postponing its current auction of natural gas storage rights (for terms of 1, 2, and 3 years beginning in April 2006) until after the holidays to address a concern raised by the staff of the California Public Utilities Commission. We recognize the market value of storage rights may have changed by then therefore all parties will be given an opportunity to refresh bids. Sorry for any inconvenience this change may have caused.

Source: DR 2005-03-19 (revised 3/31/06) 2005 Affiliate Transactions Compliance Audit, Supply, capacity, services or information provided to affiliates posted to the intranet and internet during 2005.

3. SoCalGas has no discretion in the application of tariffs, and therefore does not provide preferential treatment to affiliated companies in its purchase and use of energy in compliance with the Rules.
 - SoCalGas’ tariffs are approved by the CPUC. SoCalGas’ tariff structure is based on measurable customer criteria such as service demand and consumption.²⁷
 - CPUC approved tariffs do not allow for discretion in application. Utility service is offered to affiliates using the same tariffs that are offered to all similarly situated customers; therefore there is no preferential treatment in an affiliate’s purchase and use of energy.²⁸

Rule III: Non-Discrimination

4. During the year ended December 31, 2006, there were no discounts, rebates, tariff deviations or fee waivers provided to an affiliate company meaning that SoCalGas complied with the Rules relating to discounts.²⁹
5. SoCalGas' Affiliate Compliance Guidelines and Affiliate Transactions Compliance training provide assurance that preferential treatment is not afforded affiliates in the sale of non-tariffed goods and services in accordance with the Rules.
 - The Affiliate Compliance Guidelines filed with the Commission on April 28, 2006 as part of the 2005 Affiliate Transaction Report specify that no preferential treatment will be given to affiliates.³⁰
 - A detailed comparison of the revised training module to the Affiliate Compliance Guidelines indicates that the intent of the Rules is being addressed.
 - ⇒ The Company has mandatory annual employee training programs which include training on the application of Rules.³¹
 - ⇒ The web-based Affiliate Compliance Training modules were revised effective November 1, 2006.³²
 - ⇒ The revised web-based training program provides a common set of principles that employees should follow to comply with the Rules.³³
 - ⇒ **Exhibit 5-4** identifies specific Rules that are included in SoCalGas' Affiliate Transactions Compliance Plan training material. Other rules are addressed through general principle statements and scenarios.³⁴

Exhibit 5-4
Affiliate Transaction Rules in Revised Training Modules

Section	Description of Rule
III.C	Tying of Services Provided by a Utility Prohibited
III.D	No Assignment of Customers
III.E	Business Development and Customer Relations
IV.D	Supplier Information
IV.E	Affiliate-Related Advice or Assistance
V.F.4	Nonparticipation in Joint Advertising or Marketing

Source: DR 2006-06-013 and DR 2006-03-006.

- ⇒ Bargaining unit employees are trained by attending a PowerPoint presentation. CSRs in the CCCs complete a separate online training program.³⁵
- ⇒ **Exhibit 5-5** provides a summary of the number of employees that have completed the web-based training as of December 1, 2006.

**Exhibit 5-5
2006 Affiliate Compliance Training**

Company	Employees Reported Completed Training
SDG&E	2,888
SoCalGas	1,711
Sempra Energy Corp.	427
Total	5,026

Source: DR 2006-01-073 (Updated DR 2006-10-009)

6. There is no evidence of transactions with non-affiliates being conditioned on the taking of goods or services from affiliates, or other forms of tying prohibited by the Rules, nor of customers being assigned to affiliated companies.
- ACG observation of the SoCalGas call center found that all callers were treated fairly and equally by CSRs.³⁶
 - An automated system is used for call routing. The system is not able to determine if the caller is a utility or third party ESP.³⁷
 - An automated scheduling system ensures that callers requesting a service visit will be offered the next available time slot. The system does not differentiate between utility and ESP customers.³⁸
 - The training program for new CSRs has an affiliate compliance component. A refresher training program must be completed by all CSRs on an annual basis. Affiliate compliance material is presented in online and classroom discussion formats.³⁹
 - CSRs have access to an online Help and Information manual that provides procedures for responding to questions regarding ESPs.
 - ⇒ The manual reminds CSRs that the utility "...cannot offer, or appear to offer, different treatment to affiliates or their customers than the utility would offer other companies or their customers."
 - ⇒ The manual also provides specific directives that ESPs are not to provide preferential treatment to affiliates; refer or assign utility customers to affiliates; solicit business or speak on behalf of an affiliate; provide advice or assistance regarding an affiliate; or share non-public information with an affiliate.⁴⁰
 - Affiliate compliance is included as a topic in the quality evaluation form used by supervisors when monitoring and evaluating CSR customer contacts.⁴¹ In 2006 the randomly selected calls did not include any calls from ESP customers.⁴²

Rule III: Non-Discrimination

7. Although declining in number, customers in the SoCalGas service territory who wish to take service from an alternative ESP are given the opportunity to do so in accordance with the Rules.
- **Exhibit 5-6** provides a five year summary of the number of CORE and NON CORE customers in the SoCalGas service territory taking service from ESPs. As of December 31, 2006, fewer than [redacted] percent of all customers were served by ESPs. During the period from 2002 through 2006, the number of customers served by ESPs declined from about [redacted] to [redacted] or by more than [redacted] percent.⁴³
 - However, a large percentage of large industrial NON CORE customers have elected to be served by ESPs. Currently, there are [redacted] NON CORE customers being served by ESPs from a total customer population of 1,015 in the NON CORE rate class groups, equal to more than [redacted] percent of customers in the group. During the period from 2002 to 2006, the number of large industrial NON CORE customers being served by ESPs decreased by about [redacted] percent, and the number of NON CORE customers served by Affiliate ESPs also declined.⁴⁴
 - Customers in the SoCalGas service area who request ESP provider information are referred to the SoCalGas website where up-to-date CORE and NON CORE ESP information is maintained.⁴⁵

Exhibit 5-6
SoCalGas Customer Data

End of Year	Total Customers	CORE ESP	NON CORE ESP	Affiliate ESPs
2006	5,395,832	[redacted]	[redacted]	[redacted]
2005	5,332,894	[redacted]	[redacted]	[redacted]
2004	5,272,600	[redacted]	[redacted]	[redacted]
2003	5,202,422	[redacted]	[redacted]	[redacted]
2002	5,137,338	[redacted]	[redacted]	[redacted]

Source: DR 2006-20-002

Notes:

1. CORE customers being served by ESPs are primarily from the residential and small commercial customer classes.
2. NON CORE customers being served by ESPs are very large consumers of gas, such as electric power plants and industrial and manufacturing facilities using 250,000 therms (25,000 MMBtu) of natural gas or more annually.
3. Affiliate ESPs total includes both CORE and NON CORE customers, although affiliate ESPs serve primarily NON CORE customers.

8. No evidence was found in this audit that indicates that any affiliate received a benefit from SoCalGas' business development or customer relations activities.
- During 2006, there were two occurrences at SoCalGas in which non-customer specific non-public information was provided to an affiliate.⁴⁶
 - In both cases, the Company posted the information to its website within 24 hours of the time the information was provided to the affiliate.

Recommendations

None

Chapter 6
Rule IV: Disclosure and Information

CHAPTER 6
Rule IV: Disclosure and Information

Synopsis of the Rule

A. Customer Information: Such information will be provided to affiliates and unaffiliated entities on a strictly non-discriminatory basis, and only with prior written consent of the customer.

B. Non-Customer Specific Non-Public Information: Such information may be made available to the utility's affiliates only if the utility contemporaneously makes that information available to all other service providers on the same terms and conditions, and keeps the information open to public inspection. Utilities are also permitted to exchange proprietary information on an exclusive basis with their affiliates, provided the utility follows all Commission-adopted pricing and reporting guidelines and it is necessary to exchange this information in the provision of corporate support services. An affiliate's use of proprietary information is limited to use in conjunction with the permitted corporate services, and for no other reason.

C. Service Provider Information: Except upon request by a customer or if authorized by the Commission, a utility will 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. If a customer requests information about any affiliated service provider, the utility will furnish a list of all service providers operating in its service territory, including its affiliates. The utility, the Commission, or an approved third party will maintain on file with the Commission a copy of the most updated list of service providers to disseminate to a customer upon a customer's request. Upon request by the utility, the Commission may grant approval for a utility to direct customers to a generally available listing of service providers, such as the Yellow Pages.

D. Supplier Information: Written authorization is required prior to the release of non-public supplier information. A utility will not actively solicit the release of supplier information exclusively to its own affiliate in an effort to keep such information from other unaffiliated entities.

E. Affiliate-Related Advice or Assistance: Advice or assistance will not be offered to customers with regard to a utility's affiliates or other service providers.

F. Record Keeping: A utility must maintain up-to-date records documenting all tariffed and nontariffed transactions with its affiliates. Such records are required to be maintained for a minimum of three years, and longer if mandated by the Commission or another government agency. The records will be available for third party review upon 72 hours notice, or at a time mutually agreeable to the utility and third party.

G. Maintenance of Affiliate Contracts and Related Bids: The utility must maintain a record of all contracts and related bids for the provision of work, products or services to and from the utility and its affiliates for no less than a period of three years, and longer if required by the Commission or another government agency.

Evaluative Criteria

- Has SoCalGas provided customer information to affiliates and non-affiliates equally, and only with prior written customer consent?
- Has non-customer non-public information that has been made available to an affiliate also been made available on a non-discriminatory basis to non-affiliated companies in a timely manner?
- Unless requested by customers or otherwise authorized by the Commission or approved by another government body, has service provider information which includes or identifies the utility's affiliates been made available to any customers? If requested or otherwise authorized, did such information include all service providers of gas-related, services operating in the Company's service territory, including affiliates?
- Has written authorization from non-affiliated suppliers been received prior to release of non-public information to affiliates?
- Have customers been offered or provided advice or assistance with regard to the utility's affiliates or other service providers?
- Has SoCalGas provided customer information to affiliates and unaffiliated entities on a strictly non-discriminatory basis, and only with prior affirmative customer written consent?
- Has service provider information been updated and distributed based on established procedures?
- Has SoCalGas maintained contemporaneous records documenting all tariffed and non-tariffed transactions with its affiliates including, but not limited to, all waivers of tariff or contract provisions and all discounts?
- Have tariffed and non-tariffed transactions with affiliates been made available for third-party review within 72 hours notice, and were records maintained for a minimum of three years?
- Has SoCalGas maintained a record of all contracts and related bids for the provision of work, products or services to and from affiliates for no less than three years, or longer, if a government agency required?

Summary of Audit Procedures

Reviewed the SoCalGas Affiliate Transactions Training Program and employee records. Observed SoCalGas Customer Contact Center (CCC) operations. Interviewed accounting staff and reviewed accounting procedures. Tested customer information records to verify that release authorization was obtained and that forms were maintained. Reviewed the SoCalGas website to test the availability of records and forms related to affiliate transactions and Energy Service Provider (ESP) lists. Prepared a task report and reviewed with Company personnel for fact verification.

Audit Sampling Techniques

On November 9, 2006, ACG auditors performed tests at the SoCalGas Customer Call Center in San Dimas to determine whether proper authorization was received prior to the release of customer information. A sample of twenty customer information requests was selected from the utility's Request for Customer Information log. For each item, we verified that SoCalGas maintained signed authorization forms and that the forms contained a customer authorization signature. We also verified that the form contained an account number or social security number as evidence that the form was completed by the customer.

Test Procedures

1. Performed an analysis of Customer Information Requests from Third Party ESPs to determine if there was any preferential treatment given to affiliated companies.
 - Revived the SoCalGas log to identify any requests by affiliate companies for customer information, noting that the log contained 513 entries. Reviewed SoCalGas web postings of affiliates' requests for customer information.⁴⁷
 - Twenty records were selected for additional analysis to verify that customer information requests were supported by customer authorization forms.⁴⁸
2. Twenty line items identified as being from ESP providers or Energy Marketing Companies were selected from the SoCalGas Customer Request Logs, representing third party requests. The sample size was considered sufficient based on the fact that:
 - The workflow process is simple and routine (i.e., receive faxed or e-mailed request, access account information, mail);
 - The requirement (i.e., completion of the authorization form) is simple;
 - No issues were noted in prior audits; and
 - Files were well organized and employees demonstrated knowledge of the process and the Rule governing the disclosure of customer information.

Findings and Conclusions

1. In 2006, SoCalGas did not provide customer information to affiliates or non-affiliated third parties without prior written customer consent in accordance with the Rules.
 - Customer authorization was obtained prior to the release of customer information, and records of the authorizations were retained by SoCalGas. During 2006, SoCalGas did not provide any customer information to any of its affiliates.⁴⁹
 - SoCalGas received 513 requests from non-affiliated entities for customer information.⁵⁰
 - SoCalGas provides forms to be used for requesting customer information. These forms can be accessed on the utility website, which also contains clear directions for completing and submitting the forms. The website path to access the forms is:

⇒ www.SocalGas.com → Business → Customer Choice → Important Documents for ESPS → Customer Information Release⁵¹
 - SoCalGas requires that the forms submitted contain either the customer's account number or social security number to ensure that forms are actually completed by the customer.⁵²
 - SoCalGas has designated employees responsible for replying to requests for customer information. These employees are aware of the Rules pertaining to the provision of customer information.⁵³
 - SoCalGas retained customer authorization forms showing that customers consented to the release of customer information. ACG compared a sample of these forms to entries in the Customer Log Record.
2. Non-customer specific non-public information that was made available to affiliates was also made available on a non-discriminatory basis to non-affiliated companies in a timely manner in accordance with the Rules.
 - The SoCalGas Affiliate Transactions Compliance Plan sets forth procedures to ensure that non-customer specific non-public information shared with affiliates is made available for public viewing on the utility website.⁵⁴ The website path to access the information is:

⇒ www.SocalGas.com → Regulatory → Affiliate Transactions → Non-Customer Specific Non-Public Information
 - Through interviews with ACD personal and review of documentation posted to the internet, ACG determined that employees are aware that non-public information inadvertently shared with an affiliate needs to be posted to the internet.⁵⁵

Rule IV: Disclosure and Information

- In 2006, SoCalGas posted non-customer specific non-public information to the internet twice, indicating that non-customer specific non-public information was disclosed to affiliates on two occasions.
- ⇒ **Exhibit 6-1** provides information relating to the two occasions that SoCalGas disclosed non-public information to an affiliate, including the names of the affiliates with whom the information was shared and the dates the information was posted to the internet.⁵⁶ The information which was provided to Sempra Generation on September, 20, 2006, was the result of an employee using an outdated fax distribution list.

Exhibit 6-1
Non-Customer Specific Non-Public Information Shared by SoCalGas

Affiliate	Web Posting	Date
Sempra Generation (also an "Energy Marketing Affiliate")	Notice is hereby given that SoCalGas inadvertently faxed the monthly Intercontinental Exchange (ICE) payment package (Supplier Verification Details) to Sempra Generation.	09/20/2006
Sempra Energy Solutions LLC (also an Energy Marketing Affiliate)	Notice is hereby given that the monthly Gas Sales Ledger for the City of Oxnard for September 2006 was inadvertently made accessible to SoCalGas' affiliates. Attached is the report supplied.	11/10/2006

Source: DR 2006-14-001 2006 Internet Postings

3. In 2006, SoCalGas made service provider information available upon request in accordance with the Rules.
 - Callers to the SoCalGas CCC requesting information regarding ESPs were provided with a list containing nine ESPs, of which only one provided service to residential customers.⁵⁷
 - The SoCalGas internet site contained an ESP list for Core and Noncore transportation customers. The list included both affiliate and non-affiliated service providers and can be accessed using the following URL.
http://www.socalgas.com/business/customer_choice/customer_choice_home.shtml
4. In 2006, SoCalGas made non-affiliated supplier information available to affiliates only in accordance with the Rules.
 - SoCalGas did not receive any affiliate requests for information for non-allowable goods and services in 2006.⁵⁸
 - Per the Affiliate Transactions Compliance Plan, affiliate requests for non-public supplier information were centrally processed through SoCalGas and SDG&E shared services Supply Management department. Supply Management maintained a log of all instances in which it provided non-public supplier information for non-shared goods and services to an affiliate.

Rule IV: Disclosure and Information

5. In 2006, the Affiliate Compliance Guidelines prohibited employees from offering or providing customers advice or assistance with regard to the Company's affiliates or other energy service providers.
 - Upon commencement of employment, Customer Service Representatives (CSRs) receive five to six weeks of formal training, which includes Affiliate Compliance Training.⁵⁹
 - Callers to the SoCalGas CCC who request information concerning ESPs are routed to a Special Operations Group that can send callers the list of ESPs via U.S. mail.
 - CSRs cannot assign customers to a third party ESP. There must be a written request submitted through the ESP.⁶⁰
6. During the year ended December 31, 2006, service provider information was updated and distributed based on established procedures.⁶¹
 - Core ESP suppliers are added to the list of participating Energy Service Providers by fulfilling the terms and conditions as set forth for the Core Aggregation Transportation Program in SoCalGas' Rule 32.
 - Noncore ESP suppliers are classified as: (1) agent and/or (2) contracted marketer. Natural gas suppliers who would like to be included in the Noncore ESP supplier list may contact SoCalGas' Capacity Products department to be added to the list. If a natural gas supplier wants to be classified as a contracted marketer, that supplier must fulfill the terms and conditions as set forth for the Contracted Marketer Transportation Program in SoCalGas' Rule 35.
 - The procedures for affiliated or non-affiliated providers to be placed on the ESP list are not overly burdensome to the service providers. ESPs who would like to be listed must complete and return a Service Agreement Form.⁶² The appropriate forms can be accessed through the utility website. Contact information is also listed on the website.
 - SoCalGas provided updated lists of ESPs to the CPUC on a semi-annual basis as required by Affiliate Transaction Rule IV.C.2.⁶³
 - SoCalGas maintains an ESP list on its website.
7. In 2006, SoCalGas maintained the records required by the Rules documenting all tariffed and nontariffed transactions with its affiliates.
 - Nontariffed transaction records are summarized and included in the annual Nontariffed Products and Services (NTP&S) Report, filed with the CPUC. The 2006 NTP&S report is scheduled to be issued in June, 2007, as more thoroughly discussed in Chapter 9 of this report.⁶⁴

- SoCalGas was able to provide all information requested in conjunction with the audit, including:
 - ⇒ Documents supporting inter-company billings that will be reported on Schedules C & D of the 2006 Affiliate Transactions Report due to the CPUC in May 2007.⁶⁵
 - ⇒ Records that show SoCalGas did not offer any discounts in 2006 under a discretionary tariff.⁶⁶ The lease of excess gas storage was conducted as an open auction, where the highest bidder established the lease price.⁶⁷
 - Accounting policies, procedures, and tracking documents provide assurance that records and supporting documentation are maintained properly.
 - ⇒ Written policies govern the process by which account reconciliations, inter-company billings, work order authorizations, and general ledger journal entries are managed. Policies require the use of internal orders to document and track transactions between SoCalGas and affiliates.
 - ⇒ Each product and service group documents the methodology used to allocate costs associated with shared purchases through use of Shared Service Cost Templates, which are updated annually and more frequently if warranted.⁶⁸
8. SoCalGas adopted a recommendation from the 2005 Audit of Affiliate Transactions and began to show gas purchases and sales in its Affiliate Transactions Report as separate transactions.
- In the Affiliate Transactions Report filed for 2004, the Company reported the net balances of purchases and sales transactions with affiliates. This reporting procedure did not provide an accurate view of the dollar amount of transactions between affiliates.
 - In response to a recommendation in the 2005 Audit of Affiliate Transactions, the Company reported gas purchase and sales transactions with affiliates separately on Table II-C-1 and Table II-D-1 in the Affiliate Transactions Report. The Company now uses internal orders to maintain accounts for both purchase and sales transactions with affiliates. In some cases, if internal orders are not used, the SoCalGas Gas Acquisition department captures its gas purchases and sales in its gas management system (Pinnacle), supported by hard copies of transaction sheets.⁶⁹

Rule IV: Disclosure and Information

9. In 2006, SoCalGas met the requirement in the Rules related to making tariffed and nontariffed affiliate transactions records available to third parties.
- SoCalGas' Affiliate Transactions Compliance Plan requires that records of these transactions be maintained so that they can be released to a third party within 72 hours notice, or at a time that is mutually agreeable.⁷⁰
 - With the exception of requests from auditors, there was only one third party request for affiliate transaction information in 2006 and that was by Southern California Edison ("SCE"). SCE requested all of SoCalGas' data responses to the Audits of Affiliate Transaction Rules for years 2003, 2004 and 2005.⁷¹
10. SoCalGas met the requirement in the Rules relating to record keeping for affiliate contracts through use of Master Affiliate Service Agreement and Affiliate Compliance Training.
- The Master Affiliate Service Agreement between SoCalGas and Sempra Energy serves as the only contracts between the utility and affiliates. There are no other contracts for the provision of work, products, or services between SoCalGas and its covered affiliates.⁷²
 - The Master Affiliate Service Agreement has been in effect since 1998, and there were no changes during 2006.⁷³
 - Affiliate Compliance Training addresses the provision that records must be maintained for a minimum of three years.⁷⁴
 - Effective November 7, 2006 a uniform Corporate Compliance Policy was established for Records Management and Retention.⁷⁵
 - The established retention period for information that may pertain to affiliate transactions and compliance was at least three years or greater in every case reviewed by ACG.
11. SoCalGas' Affiliate Compliance Guidelines and employee training provide adequate assurance that there will be no disclosure of customer information to affiliates except as allowed by the Rules.
- The Affiliate Compliance Guidelines, effective January 1, 1998, with latest revision May 2, 2006, establish policies and procedures to comply with the Rules. All of the Company's affiliate transactions are conducted in accordance with these guidelines.
 - ⇒ The latest revision of the Guidelines is included on the Company's intranet site.
 - ⇒ The primary reason for the latest revision was to take into account FERC Order 2004, Revised Standards of Conduct for Transmission Providers.

Rule IV: Disclosure and Information

- ⇒ The new Guidelines document was filed with the CPUC with the Affiliate Transactions Report filed on April 28, 2006.⁷⁶
- **Exhibit 6-2** provides a listing of the contents of the May 2, 2006 Affiliate Compliance Guidelines.

Exhibit 6-2
Affiliate Compliance Guidelines (Revised 5/2/06)

I.	BACKGROUND
II.	INTRODUCTION AND GENERAL POLICY
A.	General
B.	Definitions
C.	Applicability of Rules
D.	Affiliate Compliance Function
E.	Policy Violations
III.	SEPARATION
A.	General
B.	Plant, Facilities, Equipment
C.	Loaning of Utility Labor
D.	Logo and Advertising
E.	Joint Purchases
IV.	NON-DISCRIMINATION AND INFORMATION DISCLOSURE
A.	General
B.	No Preferential Treatment
C.	Discounts
D.	Tariffs
E.	Customer Information
F.	Non-Customer Specific / Non-Public Information
G.	Service Provider Information
H.	Supplier Information
I.	Postings
V.	CORPORATE SUPPORT SERVICES
A.	General
B.	Permitted Shared Corporate Support Services
C.	Master Service Agreement / Work Authorizations
D.	Timekeeping
VI.	EMPLOYEE TRANSFERS
A.	General
B.	Transfer of Employee Process
C.	Residency
D.	Transfer Fee
VII.	TRANSFERS OF GOODS, SERVICES AND ASSETS
A.	General
B.	Transfer of Services

**Exhibit 6-2
Affiliate Compliance Guidelines (Revised 5/2/06)**

C.	Transfer of Assets
D.	Posting of Transfer of Assets/Information
E.	Information/Asset Transfer Form
VIII.	NONTARIFFED PRODUCTS AND SERVICES
A.	General
B.	New Offerings
C.	NTP&S Report
D.	Section 851
IX.	SEMPRA MERGER DECISION
A.	General
B.	Remedial Measures
C.	Utility-to-Utility Transactions
X.	FERC 2004
A.	Background
B.	Glossary of Terms Describing Entities to Whom the Rules Apply
C.	Basic Rules
XI.	REGULATORY OVERSIGHT
A.	General
B.	Audits
C.	Witness Availability
D.	Enforcement
E.	Affiliate Transactions Report
XII.	RECORD RETENTION
A.	General
B.	Merger Rules for Utility Officers and Department Heads
C.	Affiliate Transaction Rules – Tariffed and Nontariffed Records
D.	Affiliate Transaction Rules - Third-Party Data Requests
E.	Affiliate Transaction Rules - Contracts and Bids
	APPENDICES
1.	Remedial Measures
2.	Customer Information Authorization Form – SoCalGas
3.	Customer Information Log – SoCalGas
4.	Customer Information Release Form – SDG&E and SoCalGas
5.	Customer Information Log – SDG&E
6.	Supplier Information Log
7.	Anti-Conduit Agreement Form

Source: DR 2006-01-020.

- SoCalGas employees are fully aware of the Affiliate Compliance Rules relating to customer information.

Rule IV: Disclosure and Information

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- ⇒ All employees interviewed knew that the provision of customer-specific, non-public information to SoCalGas' affiliates without express written permission of the customer is not permitted by the Rules and the Affiliate Compliance Guidelines.
- ⇒ Employees interviewed were aware that if non-public information is inadvertently given to an affiliate, the information needs to be posted on an internet website.
12. During the year ended December 31, 2006, the SoCalGas CCCs provided customer information in accordance with Rule IV and established SoCalGas policies and procedures.
- CSR formal training lasts a total of 13 weeks. New CSRs receive five weeks of initial formal training. The new CSR then staffs a CSR position for about two months before completing the remainder of the 13 week CSR training course. The Affiliate Compliance section of the instruction employs SoCalGas' web-based training and testing process that is required for every CSR. The Affiliate Compliance Training takes place during the first five weeks. The web-based training and testing is required each year. No other exclusive Affiliate Compliance Training is included in the CSR's formal training process.⁷⁷
 - The CSRs do not maintain records of the number of customers contacting the CCC that have an affiliated company as their ESP. The types of customer requests are reported and categorized based on which telephone number is selected by the customer for call routing. A large percentage of customers bypass the selection process by simply selecting "00" which connects directly to the first available CSR. In this situation, the type of customer inquiry (i.e., billing questions, disconnects, ESP providers) is not identified for call classification.
 - The type of customer call determines to which CSR the call is routed.
 - The CSR customer service information data screen indicates whether the customer is billed by SoCalGas for third party ESP service.⁷⁸ It also identifies whether or not the ESP does the total billing to the customer or if the distribution and procurement service cost are billed separately. If the ESP does the total billing, SoCalGas bills the ESP account and sends an information copy of the ESP distribution service bill to the customer for information.
 - The CSRs cannot assign a customer to third party ESPs. There must be a written request submitted through the ESP.⁷⁹
 - The CCC Quality Assurance Group monitors each CSR on an average of 30 to 40 calls per year. The Quality Assurance Scoring Form has a section for the monitor to record whether or not the customer call relates to an affiliated company, including an affiliated company that is an ESP.

Rule IV: Disclosure and Information

- None of the calls monitored by SoCalGas' Quality Assurance Group involved questions relating to an affiliated company, including affiliated ESPs.⁸⁰

Recommendations

None

Chapter 7
Rule V: Separation

CHAPTER 7

Rule V: Separation

Synopsis of the Rule

A. Corporate Entities: A utility and its affiliates must be separate corporate entities.

B. Books and Records: A utility must maintain separate books and records in accordance with the applicable USOA and GAAP, and the books must be open for examination by the Commission and its staff.

C. Sharing of Plant, Facilities, Equipment or Costs: Except as otherwise authorized by the Commission, there will be no sharing of plant, facilities, equipment, or services between a utility and its affiliates. A utility is not permitted access to the computers or information systems of its affiliates and may not permit its affiliates to access its computers or information systems, except to the extent needed to perform shared corporate support functions. The preferred means of accomplishing the physical separation required by this Rule is by having separate office space, or alternatively, through use of separate elevator banks or security-controlled access.

D. Joint Purchases: Certain joint purchases are allowable, such as office supplies and telephone services. The utility must ensure that all joint purchases are priced, reported, and conducted in a manner that permits clear identification of the separate portions of the combined costs.

E. Corporate Support: Any shared corporate support services must be priced, reported, and conducted in accordance with the Separation and Information Standards. Joint utilization does not allow the sharing of confidential information; preferential treatment; unfair competitive advantage; customer confusion; or cross-subsidization. A corporate officer of the utility and holding company must validate the adequacy of controls and assure that the Rules are not being circumvented through joint corporate support services. The Rules cite examples of what is allowed and what is not.

F. Corporate Identification and Advertising: The Rules dictate that specific guidelines must be adhered to relative to corporate identification and advertising. The utility cannot trade upon, promote, or advertise its affiliates' affiliation with the utility. The affiliate cannot use the utility name or logo unless it uses a disclaimer. The Rules prescribe the wording for the disclaimer and specify how to apply it.

G. Employees: Except as permitted for corporate support, a utility and its affiliates may not jointly employ the same employees, including board members and corporate officers. For holding companies, board members and corporate officers are allowed to serve on the holding company and with either the utility or affiliate, but not both. Employee movement between a utility and its affiliates must be tracked and reported. Certain restrictions are placed on employees transferred from a utility to an affiliate, and guidelines for compensation to the utility are contained in the Rules. No temporary assignments or rotations are allowed from a utility to its energy marketing affiliates. Other non-marketing employees may be used on a temporary basis, subject to the conditions set forth in the Rules.

H. Transfer of Goods and Services. Specific pricing provisions are outlined in the Rules relative to the transfer of goods and services between a utility and its affiliates. These cover fair market value, nondiscriminatory open market offerings, and pricing at fully loaded costs.

Evaluative Criteria

- Are SoCalGas and its affiliates distinct, separate corporate entities?
- Have SoCalGas and its affiliates maintained separate, distinct books and records in accordance with the Uniform System of Accounts (USOA) and Generally Accepted Accounting Principles (GAAP), and have such books and records been accessible for examination by the Commission and its staff?
- Are SoCalGas and its affiliates physically separated, not sharing equipment, services, or systems, with no access to each others' information systems, beyond what is appropriate for joint corporate functions as allowed by the Rules (Section V.E.) as modified by the merger order?
- Have joint purchases by SoCalGas and its affiliates been limited to those allowed by the Rules, and were they allocated and reported appropriately?
- Were shared support services among SoCalGas and its affiliates allowed by the Rules priced and reported appropriately?
- Have affiliates traded upon, promoted, or advertised association with SoCalGas?
- Was the transfer of employees between SoCalGas and its affiliates conducted in compliance with the Rule (as modified by the merger order) concerning reporting, duration of stay, and compensation?
- Was the loaning of employees by SoCalGas to its affiliates conducted in compliance with the Rules concerning the type of employee, percentage of temporary assignment time, and access to restricted information?
- Was the transfer of goods and services between SoCalGas and its affiliates conducted in compliance with appropriate transfer pricing requirements?

Audit Procedures

Reviewed Sempra Energy 10-Ks, SoCalGas organizational charts, the Articles of Incorporation of affiliates that incorporated in 2006, and SoCalGas internal audit reports. Conducted interviews with the Real Estate Business Analyst and other Company personnel regarding office space planning and assignment. Reviewed floor plan assignments and compared to inter-company real estate billings to verify appropriate separation and non-subsidized billing. Conducted interviews with software development, network operations, and information technology (IT) security personnel. Reviewed IT policies, exception reports, data owner reports, internal audit reports related to IT practices, and other

security related documents to verify adequacy of controls. Interviewed the Supply Chain Process and Development Manager, reviewed Supply Chain policies, examined joint purchasing contract data and verified joint contracts were for allowable services. Conducted interviews with accounting personnel, reviewed accounting policies and procedures, examined accounting records, and analyzed cost distribution allocations to verify lack of subsidization. Interviewed Customer Communications Managers and examined print, radio, and television advertisements to verify lack of affiliate promotion. Reviewed and recalculated payments relating to employee transfers. Reviewed transferred employee exit interview documentation and loaned labor reports to determine if employees acknowledged prohibitions against the sharing of confidential information. Interviewed Gas Procurement and Storage Management personnel. Reviewed gas related transactions involving utility affiliates.

Audit Sampling Techniques

During interviews with SoCalGas accounting personnel and subsequent review of accounting processes and data requests, identified cost centers in which the allocation assignment percentages drive costs to both the utility and its affiliates. Three cost centers were selected for in-depth review. Shared Service Cost Templates, used to assign cost from cost centers to end user companies and departments, were reviewed. Allocation percentages were traced to the values incorporated in the SAP accounting system input file. Reviewed overhead loadings and methods used in the matrix overhead sheets and evaluated the labor calculations inputs for reasonableness. Also examined and assessed the cost sheets which assign cost pools to the respective accounts, such as payroll taxes.

Findings and Conclusions

1. SoCalGas and its affiliates are distinct, separate corporate entities.
 - The list of covered affiliates contained in the 2005 Affiliate Transactions Report were compared to Sempra Energy's 10-K Report filings for the year ended December 31, 2005, where they were identified as separate organizations.⁸¹
 - Two executive officers were shared among SDG&E, SoCalGas, and their affiliates in 2006. They are the Executive Vice President and Chief Financial Officer and the Corporate Secretary for Sempra Energy. They hold Director and Secretary positions for SDG&E and SoCalGas, respectively. They also fill similar or related positions for many other Sempra Energy subsidiaries and covered affiliates.⁸²
 - The corporate organization charts for Sempra Energy show the organizational relationship between SoCalGas and its covered, non-covered, and energy marketing affiliates.⁸³
 - The Articles of Incorporation of all new affiliates in 2006 covered by the Rules were reviewed to verify that all new affiliates were individual corporate entities, separate from the utility.⁸⁴

2. SoCalGas has maintained separate, distinct books and records in accordance with the Uniform System of Accounts (USOA) and Generally Accepted Accounting Principles (GAAP). These books and records have been accessible for examination by the Commission and its staff.
 - Interviews with Accounting Operations personnel and a review of both internal and external auditors' reports verified that separate books were maintained.⁸⁵
 - Separate accounting policies and procedures for SoCalGas provided additional evidence that the utility maintained separate books and records. Accounting policies and procedures examined in this audit included: 1) Sempra Energy Utilities (SEu) and Sempra Energy Corporate Center (SECC) Inter-Company Billing Procedure, 2) Sempra Energy Intercompany Receivables/Payables Policy, 3) Shared Service Cost Centers Historical Data, and 4) the 2006 Shared Cost templates.
3. The physical separation between SoCalGas and its affiliates is appropriate and in accordance with the Rules.
 - Although SoCalGas shares building space with its affiliates, it only shares floor space with non-covered affiliates.
 - In the Gas Company Tower (GCT) at 555 West 5th Street in Los Angeles, SoCalGas and SDG&E shares six floors with Corporate Center and SDG&E. No covered affiliates occupy the building.⁸⁶
4. The sharing of computer or information systems between SoCalGas and its affiliates was limited to those individuals with a specific need to conduct business as allowed by the Rules.
 - A business-to-business internet portal limits the system access provided to affiliate employees.⁸⁷
 - ⇒ Five Sempra Global employees have access to a section of the SAP system for the purpose of retrieving archived data.
 - ⇒ Forty affiliate employees have access to the Hyperion System, used for consolidation of financial statement information. Access provides an interface to regulated and non-regulated accounting for year-end financial reporting.
 - ⇒ The Workforce Information Timekeeping System (WITS), EV3/ADP (My Info), and its predecessor, the Corporate Human Resources and Payroll System (CHRPS) are corporate Human Resources (HR) systems used in the management of time keeping functions.
 - System access requires submission of a Firewall Request Form to the Sempra Energy utilities Corporate Center (SEu/CC) Change Management Team responsible for firewall administration.⁸⁸

- ⇒ ACG could not conduct testing as planned to determine if use of the Firewall Request Form control was properly implemented and effective. Information Protection internal procedures do not require retention of approved Firewall Request Forms,⁸⁹ and complete system access records were not available for testing purposes.
- ⇒ However, a comparison of an available Request Form to the firewall rules indicates the control has been implemented and is working as intended.⁹⁰
- The Firewall Administration Team seeks input and approval from ACD prior to approving the Firewall Request and granting affiliate access to shared systems.⁹¹
 - ⇒ The ACD has not developed formal written procedures to govern this process.
 - ⇒ The ACD does not keep formal records of the access requests it has approved.⁹²
- Responsibility for approving firewall requests is segregated from responsibility for implementing access.⁹³
- A recent IT Affiliate Compliance Audit conducted by the Sempra Internal Audit Services Department found that firewall access rules had been implemented as intended. The firewall access rules prevent unauthorized access between the Sempra Energy utilities network and the energy affiliates' intranets to prevent the sharing of confidential business data.⁹⁴
- The Sempra Energy utilities have developed and implemented security policies, requirements, standards, guidelines, procedures, and best practices to govern its IT functions.⁹⁵
 - ⇒ An internal audit found that SEu had not consistently maintained documentation needed to verify that new employee login ID and passwords had been issued through the established approval process. Corrective actions, including a meeting between ACD and the responsible party and follow-up communications, were taken to address the issue.⁹⁶
 - ⇒ On a weekly basis the HR Department notifies System Administrators of employee transfers between the utilities and affiliates so that the appropriate system access changes can be implemented.⁹⁷
 - ⇒ An annual review is conducted to verify that affiliate employees with access to the SAP system have a continued need for access.⁹⁸
 - ⇒ WITS system access review occurs on a rolling basis which results in the entire population being reviewed every six months.⁹⁹

- The Sempra Energy utilities data center is located in a stand-alone facility specifically designed to house computer technology services in a secure environment. The center provides accounting, payroll, HR, field services, fleet management, and other support services. A second facility in Monterey Park serves as a disaster recovery and test and development center. There is no affiliate data processing equipment housed at either location and affiliate employees are not allowed physical access to either center.¹⁰⁰
 - ⇒ Testing performed by the IT Audit Division of the Internal Audit Department confirmed that unauthorized access is prevented through the use of locked doors, key cards, and badge readers.¹⁰¹
 - ⇒ Badge access to data centers is not granted to energy affiliate employees. The badge access list was reviewed by the IT Audit Division to confirm that no affiliate employees had been granted access.¹⁰²
 - Gas acquisition and trading transactions and related records are managed in a separate computer application. Controls have been established to limit and monitor access.¹⁰³
 - ⇒ Access is limited to the Gas Acquisition Department and other employees with a specific need to access the system, for example internal audit staff involved in a gas acquisition audit.¹⁰⁴
 - ⇒ Access is further limited through use of security profiles. The employee's profile specifies whether read or write access has been granted to each module within the application.¹⁰⁵
 - ⇒ An exception report is system generated on a daily basis and electronically provided to the Security Administrator.¹⁰⁶
 - ⇒ Weekly notification of employee terminations and transfers is provided to a system administrator to facilitate system access removal.¹⁰⁷
 - ⇒ Each user's profile is reviewed on an annual basis.¹⁰⁸
5. Joint purchases are limited to those services and items that are permitted by Rule V.D.
- The Rules allow for the joint purchase of items not associated with the utility merchant function.¹⁰⁹
 - The Supply Management Department entered into Master Agreements (MAs) with vendors for provision of goods and services such as advertising, catering, facility construction, financial, and other service.¹¹⁰
 - Together with SDG&E, the Company had 139 Supply Management MAs in 2006.¹¹¹

- SoCalGas, SDG&E and their affiliates purchased \$95.9 million from these contracts in 2006.¹¹²
- **Exhibit 7-1** lists the dollar amount spent on Supply Management MAs by the Sempra Energy utilities, non-covered corporate affiliates, and covered affiliates by purchase category.

Exhibit 7-1
Joint Contract (MA) Purchases
(Dollars in Thousands)

Description of Material or Service	Utilities	Corporate	Covered Affiliates	Total
Advertising Services	596	508	32	1,136
Catering Services	1,439	372	172	1,984
Construction/Remediation Services	2,398	25	0	2,423
Consulting Services	328	89	0	418
Employee Recognition/Award	232	10	0	242
Engineering Services	1,383	21	0	1,403
Environmental Consulting	236	255	0	491
Environmental Consulting Services	61	8	0	69
Environmental Services	379	205	0	584
Equipment Rental	432	0	0	433
Event Services	7	71	9	87
Facilities Construction	16,399	11,273	0	27,672
Facilities Services	12,228	4,222	58	16,508
Facility Services	139	0	0	139
Financial Services	3,180	11,396	122	14,697
Fleet Services	25	37	0	62
Freight Services	94	16	0	110
Gen/Temp Services	6,153	1,110	6	7,269
Graphics Services	1,297	152	0	1,450
HR Services	1,670	741	43	2,455
IT Hardware	7	21	37	65
IT Services	16,637	1,373	1	18,011
IT Software	686	346	0	1,032
Legal Services	545	8,854	0	9,399
Marketing Services	306	146	0	452
Office Products	77	32	0	109
Office Supplies	7,902	468	248	8,618
Photography Services	51	11	0	62
Printing Services	506	50	0	556
Real Estate Development Services	4,680	244	0	4,924
Security Services	2,478	418	0	2,896
Skills Training	85	7	0	93
Telecom Services	12,599	784	11	13,394
Training Services	190	23	0	212
Travel Services	424	56	54	533
Uniforms	4	3	0	6
Total	95,853	43,347	793	139,993

Source: ACG Analysis of DR 2006-01-125 (updated 1/22/07)

- Supply Management MAs provide a negotiated pricing agreement from which SoCalGas, SDG&E and their affiliates may purchase goods and services.¹¹³

- After a Supply Management MA is awarded, separate purchase orders are created for each utility to ensure all billings are properly allocated and recorded.¹¹⁴
 - The Sempra Energy Supply Management Policy states “Procurements for similar products and services should be consolidated across the enterprise where appropriate and consistent with the Rules.”¹¹⁵ However, the policy does not provide specific guidance stating what types of goods and services may be jointly purchased and which may not.
 - Supply Management employees complete annual affiliate compliance training, which reinforces the rules related to joint purchasing.
6. Support services shared among SoCalGas, SDG&E and their affiliates were proper, and priced and reported appropriately in accordance with Rule V.C. and V.E. of the Rules.
- A shared service is a service provided by a utility department or the Sempra Energy Corporate Center to one or more Sempra Energy affiliates. 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.
 - Services specifically prohibited to 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, systems operations, marketing, sharing of office space, office equipment services, or information systems with its affiliates.
 - Shared services are billed to the end user either by means of direct cost charge or using cost allocation methods. As discussed in Chapter 6, accounting methods and controls provided assurance that services were priced and reported appropriately.
 - **Exhibits 7-2 and 7-3** on the following pages are schedules of shared support services provided by the Corporate Center and Utility Shared Service Departments. These schedules are part of the Affiliate Compliance Guidelines which were filed with the CPUC on April 28, 2006 as part of the 2005 Affiliate Transactions Report.¹¹⁶

**Exhibit 7-2
 Corporate Center
 Shared Service Departments**

Area	Departments
HUMAN RESOURCES	HR Business Partner My Info Services Corporate Diversity Affairs Compensation Services Executive Compensation & Benefits Executive & Organizational Development Corporate Security/Emergency Preparedness
FINANCE	Audit Services Treasurer Cash Management Finance Risk Management and Insurance* Pension and Trust Investments Corporate Taxes Controller Corporate Financial Accounting Financial Reporting Corporate Planning (*Note: This department does not perform the Energy Risk Management function.)
CORPORATE COMPLIANCE	Environmental & Safety Compliance Business Conduct
EXECUTIVE PROJECTS	Executive Projects
CORPORATE GOVERNANCE	Corporate Center Officers
LEGAL	Corporate Secretary Litigation Law Regulatory/Legislative Policy Regulatory Law Environmental Law Labor Law Legal Administration Corporate & Commercial Law
GOVERNMENTAL & COMMUNITY AFFAIRS	Governmental & Community Affairs Federal Government Affairs State Government Affairs Environmental & Safety Policy FERC Relations Community Relations & Corporate Events
COMMUNICATIONS & INVESTOR RELATIONS	Communications & Advertising Public Relations Investor Relations

Source: DR 2006-01-020, Affiliate Compliance Guidelines (Filed 4/28/06).

**Exhibit 7-3
Utility Shared Service Departments**

Area	Departments
SUPPLY MANAGEMENT & FLEET SERVICES	Supply Management Diverse Business Enterprises Fleet Services
ENVIRONMENTAL, SAFETY & FACILITIES	Real Estate & Facilities
INFORMATION TECHNOLOGY	Network Engineering & Operations Infrastructure Engineering & Operations Shared Software Development Services
ACCOUNTING / FINANCE	Financial Planning & Cost Management Accounting Operations Controller Claims Management
HUMAN RESOURCES	HR Services Organizational Effectiveness People Research

Source: DR 2006-01-020, Affiliate Compliance Guidelines (Filed 4/28/06).

- Costs associated with shared affiliate services from the utilities are accumulated at either the work order level or the cost center level in the SAP financial accounting system.¹¹⁷ The shared service costs are either directly assigned or are allocated to each affiliate using a matrix of allocation factors that have been entered into SAP.¹¹⁸
- Shared services for individual capital or operating & maintenance (O&M) projects are billed via direct charge using work orders. Work Order Authorization Forms are used for the direct assignment of shared service costs. During 2006, there was a continued emphasis placed on directly assigning shared service costs based on actual work activity.¹¹⁹
- Shared services for on-going O&M costs will generally be captured in the service provider's cost center(s) and billed to receiving affiliates via the cost center allocation rules. There are two basic methods for allocating costs to affiliates from the originating utility cost center: causal/beneficial and multi-factor. When no specific driver can be identified, the multi-factors provided by Corporate Center Business Planning are used to perform the allocation.¹²⁰
 - ⇒ Shared service cost center allocation rules are documented on the appropriate Shared Service Cost Template.
 - ⇒ The Shared Service Cost Template requires cost center direct cost budgets for labor and non-labor, the allocation percentages for each, the allocation method, and rationale supporting the selected methodology.

- ⇒ Selected Shared Service Cost Templates that were used to assign the 2006 cost center costs were analyzed, and the assignment percentages were compared to the input data file of the SAP accounting system.¹²¹ No discrepancies were noted.
- Tables II C-1 (**Exhibit 7-4**) and II D-1 (**Exhibit 7-5**) of the annual Affiliate Transactions Report include the dollar amount of transactions between SoCalGas and its affiliates in 2006.
 - ⇒ The SoCalGas 2006 Affiliate Transactions Report will not be filed with the Commission until May, 2007.
 - ⇒ ACG auditors reviewed drafts of the proposed final versions of Tables II C-1 and Tables II-D-1 for the affiliated billings along with their supporting documentation.
 - ⇒ No discrepancies between selected entries from the tables and the supporting documentation were noted.¹²² ACG auditors traced the accumulated 2006 values back to monthly entries by cost center billed through SAP.

Exhibit 7-4
Charges from SoCalGas to Covered Affiliates
(Dollars in Thousands)

Item/Services Description	Sempra Energy	Sempra Broad-band	Sempra Energy Trading	Sempra Financial	Sempra Global Enterprise	Sempra Energy LNG Corp	Sempra Pipelines & Storage	Sempra Generation	Sempra Energy Solutions	Pacific Enter. Oil Co.	Total
Accounting & Finance	83		2	2	9	4	7	9	2		117
Depreciation	2,486		1		62		7	148	5		2,709
Distribution Operations							1				1
Environmental Service	13				4	1		1			18
Fleet Services	77						13				91
Gas Engineering						-4	61				57
Human Resources	349				14			26	-3		386
Information Technology	334		19		7		70	26	32		488
Interest											
Miscellaneous Services								2			2
Oil/ Gas Assessment & Extraction										399	399
Real Estate & Facilities	999	19			11		1	256	1		1,288
Supply Management	3										3
Gas Sales			8,770								8,770
Total	4,344	19	8,793	2	106	0	161	468	37	399	14,329

Source: DR 2006-01-014 (Updated 1/13/07) Table II-C-1.

Exhibit 7-5
Charges to SoCalGas from Affiliates
(Dollars in Thousands)

FERC Account	Description	Sempra Energy Corp. Center	Sempra Energy Trading	Total
107	Construction Work in Progress	3,693		3,693
121	Nonutility Property	1,232		1,232
143	Other Accounts Receivable	(857)		(857)
146	Accts Receivable from Associated Cos.	0		0
154	Plant Materials & Operating Supplies	0		0
165	Prepayments	803		803
181	Unamortized Debt Expense	93		93
184	Clearing Accounts	1,808		1,808
186	Miscellaneous Deferred Debits	23		23
232	Accounts Payable	(4,273)		(4,273)
242	Misc. Current and Accrued Liabilities	3		3
253	Other Deferred Credits	(71)		(71)
430	Interest on Debt to Associated Cos.	73		73
495	Other Gas Revenues	455		455
803	Natural Gas Trans. Line Purchases	0	19,910	19,910
818	Compressor Station Expenses	0		0
832	Maintenance Of Reservoirs and Wells	13		13
834	Maint. Of Compressor Sta. Equip.	0		0
850	Operation Supervision & Engineering	0		0
851	System Control & Load Dispatching	0		0
856	Mains Expense	0		0
857	Measuring & Regulating Station Expense	0		0
859	Other Expenses	1		1
870	Operation Supervision & Engineering	10		10
875	Measuring and Regulating Station	0		0
880	Other Expenses	160		160
887	Maintenance of Mains	0		0
901	Supervision	418		418
902	Meter Reading Expenses	0		0
903	Customer Records and Collection Expenses	2		2
908	Customer Assistance Expenses	67		67
909	Info. & Instructional Advtg Exps	15		15
910	Misc. Cust. Svc. & Info. Exp.	375		375
921	Office Supplies and Expenses	277		277
923	Outside Services Employed	102,072		102,072
924	Property Insurance	5,150		5,150
925	Injuries and Damages	8,234		8,234

Exhibit 7-5
Charges to SoCalGas from Affiliates
(Dollars in Thousands)

FERC Account	Description	Sempra Energy Corp. Center	Sempra Energy Trading	Total
926	Employee Pension and Benefits	213		213
928	Regulatory Commission Expenses	191		191
930	Miscellaneous General Expenses	154		154
931	Rents	53		53
935	Maintenance of General Plant	0		0
Total		120,388	19,910	140,298

Source: DR-2006-01-014 (Updated 1/13/07) Table II-D-1.

7. SoCalGas advertising practices are in compliance with Rule V.F. requirements prohibiting the utility from trading upon, promoting, or advertising the affiliates' affiliation with the utility.

- SoCalGas does not engage in any joint advertising efforts with affiliates.¹²³
- SoCalGas print, radio, and television advertisements do not make reference to any affiliate organizations.¹²⁴
- Affiliates are instructed to use the following disclaimers:
 - ⇒ For covered affiliates: *[The affiliate] is not the same company as the utility, SoCalGas, and [the affiliate] is not regulated by the California Public Utilities Commission.*
 - ⇒ For energy marketing affiliates: *[The affiliate] is not the same company as the utility, SoCalGas, and the California Public Utilities Commission does not regulate the terms of [the affiliate's] products and services.*
- A T-Shirt used for a community event listed SoCalGas, and several covered affiliates as participating sponsors of a September 16, 2006 "Cleaning the Beaches" community event, but did not include a disclaimer. The sponsors distributed 580 shirts to volunteers, which included employees and non-employees. Due to concern that the T-Shirts did not include the disclaimer, the following actions were taken:¹²⁵
 - ⇒ The ACD notified CPUC Energy Division Staff of the incident.
 - ⇒ ACD met with the business unit responsible for community event to provide guidance for future events.
 - ⇒ The Company decided that future community event shirts would state *Sempra Team* and not list the specific companies participating.

8. Employee transfers are made and reported in accordance with Rule V.G. requirements regarding the movement of employees between utilities and affiliates.
- Employee transfers are reported in Section H of the Affiliate Transactions Report submitted annually in May.¹²⁶
 - Five SoCalGas employees transferred to a non-covered affiliate.¹²⁷
 - SoCalGas received a transfer fee from the affiliate equal to 25 percent of each employee's base salary or total compensation when the employee transferred to the affiliate.¹²⁸
 - Exit interviews and an Acknowledgement by Transferring Employee form help ensure that transferring employees are aware of and adhere to prohibitions against sharing confidential information and document the transfer of any assets.¹²⁹
 - ⇒ In three instances, the acknowledgement forms of employees transferring from SoCalGas to a non-covered affiliate were not completed and signed at the time of transfer. Because the employees were transferring to a non-covered affiliate, this does not constitute a failure to comply with the Rules.
 - ⇒ In two instances, employees transferring to non-covered affiliates took computers, cell phones, and Blackberry communication devices with them when transferring. Since the transfers were to non-covered affiliates, this does not constitute a failure to comply with the Rules.
9. SoCalGas appropriately complied with Rule V.G. relating to the loaning of employee labor to affiliates.
- Rule V.G. prohibits the loaning of a utility's employees to energy marketing affiliates, and sets limits on the number of hours an employee can be loaned as well as the percentage of a utility's workforce that can be loaned to an affiliate.
 - SoCalGas uses Temporary Use of Utility Employment Agreement forms to document that all loaned employees agree to abide by the Rules. This form includes the specific Rule V.G. requirements of employees transferring to affiliates.¹³⁰
 - Loaned employees are tracked on a monthly basis to ensure loaned employee time does not exceed 30 percent of an employee's chargeable time and that no more than five percent of SoCalGas' work force is loaned to affiliates at any given time.¹³¹
 - SoCalGas loaned nine employees to its affiliates in 2006. The longest loan period was 249 hours, 11.9 percent of the employee's chargeable time.¹³² The Rules allow up to 30 percent of an employee's chargeable time per year.
 - ⇒ All nine employees signed Temporary Use of Utility Employment Agreement forms, documenting their understanding of the Rules pertaining to loaned labor.¹³³
 - ⇒ Affiliates were billed for the labor provided.¹³⁴

10. Goods and services produced, purchased or developed for sale on the open market and transferred between SoCalGas and its affiliates were priced at fair market value in compliance with Rule V.H.

- SoCalGas used an auction process to sell gas storage capacity to 18 purchasers, including one covered affiliate.¹³⁵
- All 18 purchasers were charged the same rates.

Recommendations

None

Chapter 8
Rule VI: Regulatory Oversight

CHAPTER 8
Rule VI: Regulatory Oversight

Synopsis of the Rule

A. Compliance Plans: Each utility is required to file a compliance plan demonstrating to the Commission that it has adequate procedures in place to preclude the sharing of information with its affiliates which is prohibited by the Rules. Compliance Plans are to be filed annually by advice letter if there is some change in the previously filed compliance plan.

B. New Affiliate Compliance Plans: The utility must immediately notify the Commission of the creation of a new affiliate, and post notice on its electronic bulletin board. No later than 60 days after the creation of a new affiliate, an advice letter must be filed with the Energy Division of the Commission. The advice letter is required to specify how the utility will implement the Rules with respect to the new affiliate.

C. Affiliate Audits: The utility is required to have annual audits performed by independent auditors that cover the calendar year which ends on December 31, verifying that the utility is in compliance with the Rules. The auditor's report will be filed no later than May 1 in the year following the audit period, and the audits will be completed at shareholder expense.

D. Witness Availability: Affiliate officers and employees must be made available to testify before the Commission as necessary or required, without subpoena, consistent with the provisions of Public Utilities Code Section 314.

Evaluative Criteria

- Have Annual Compliance Plans been filed in a timely manner, compliant with all requirements specified in the Rules, and clearly demonstrating that adequate procedures were in place to prevent the prohibited sharing of information among SoCalGas and its affiliates?
- Was timely notification given to the CPUC of any new affiliates created during 2006, clearly demonstrating SoCalGas' compliance with the Rules regarding the new affiliate?
- Has SoCalGas provided for a current annual audit of affiliate transactions and accounted for it as shareholder expense?
- If requests were made, have affiliate officers and employees been made available to testify before the CPUC as required by Section 314 of the Public Utilities Code?

Summary of Audit Procedures

Conducted interviews with the Affiliate Compliance Manager and other Company personnel regarding the Affiliate Compliance organization, its operation, and the Affiliate Compliance training function. Analyzed the Annual Compliance Plan to determine that it is in compliance with the requirements specified in the Rules and was filed in a timely manner. Analyzed 2006 Advice Letter filings and Articles of Incorporation for new affiliates to verify that the Company has complied with the Rules. Verified the filing and accounting for the cost of the 2005 Affiliate Compliance Audit. Determined that there were no requests for appearances of affiliated officers or employees to provide testimony before the CPUC. Compared CPUC regulatory filing requirements to relevant documents obtained through formal Document Requests. Prepared a task report and reviewed with Company personnel for fact verification.

Findings and Conclusions

1. SoCalGas filed its Affiliate Transactions Compliance Plan in a timely manner, met all requirements specified in the Affiliate Transaction Rules and demonstrated that adequate procedures were in place to prevent the prohibited sharing of information among the Company and its affiliates.
 - SoCalGas' 2005 Affiliate Transactions Compliance Plan (covering activities for calendar year 2006) was filed on December 29, 2005, under Advice Letter No. 3571.¹³⁶
 - On February 27, 2006, the CPUC approved SoCalGas' 2005 Affiliate Compliance Plan filing effective as of December 29, 2005.¹³⁷
 - No discrepancies were noted in a comparison of the SoCalGas 2005 Affiliate Transactions Compliance Plan with the Rules.¹³⁸
 - The Affiliate Compliance Guidelines filed with the Commission on April 28, 2006, as part of the 2005 Affiliate Transaction Report and subsequently revised on May 2, 2006, establish policies and procedures to be used by Company personnel to assist the Company comply with the Rules.
 - All of the Rules are addressed in the Affiliate Compliance Guidelines. Included are adequate detailed procedures to ensure compliance with the Rules.¹³⁹

2. SoCalGas gave the Commission timely notification of the formation of new affiliates in 2006 in accordance with the Rules.
- Under Rule VI. B. utilities are required to file advice letters with the Energy Division within 60 days to notify the Commission of the formation of a covered affiliate.¹⁴⁰
 - When notified by Sempra's Legal Department of new SoCalGas covered affiliates established in 2006, ACD filed Advice Letter notifications with the CPUC, including the statement that SoCalGas would apply the provisions of its 2005 Affiliate Compliance Plan to all transactions with the new affiliates.¹⁴¹ The Commission notification dates were compared to the incorporation dates of each new affiliate¹⁴² or the effective date that each new affiliate became a covered affiliate.¹⁴³ As shown in **Exhibit 8-1**, the dates of the new affiliate Advice Letter filings were within the allowable time frames following the dates of the Articles of Incorporation of the new affiliates or the effective date that each new affiliate became a covered affiliate.

Exhibit 8-1
Comparison of Advice Letter Filings to
Articles of Incorporation for Covered Affiliates

Name of Affiliate	Date of Incorporation	Advice Letter Filing Date	Date Became Covered Affiliate	Number of Days to File With CPUC
Hillgrove Resources Limited	2/01/03	4/14/06	3/10/06	35
Entrega Gas Pipeline, LLC	2/09/04	4/14/06	2/23/06	50
Rockies Express Pipeline, LLC	10/28/05	4/14/06	2/23/06	50
ECONergy Energy Company, Inc	7/21/06	8/23/06	7/21/06	33
Direct Drive System, Inc	9/20/04	8/23/06	7/05/06	49
Pelican Turn, LLC	8/31/06	10/26/06	8/31/06	56
Sempra Energy Europe d.o.o	10/06/06	10/26/06	10/06/06	20

Source: DR 2006-01-046 (Updated 1/22/2007) New Affiliate 2006 Articles of Incorporation, DR 2006-01-047 (Updated 1/18/2007) Advice Letter Notification of the creation of new Covered Affiliates, and DR 2006-16-001 for effective dates.

- **Exhibit 8-2** lists the non-covered affiliates formed in 2006, for which notification to the Commission via Advice Letter is not required under the Rules.¹⁴⁴

Exhibit 8-2
Non-Covered Affiliates Established in 2006

Marengo Mining Limited
Allegianc Mining
Vulcan Resources Limited
Prairie Downs Metals Limited
Terramin Australia Limited
Liberty Pilot, LLC
PEOC Santa Fe Springs, LLC
Sempra Energy International (Espana), Inc.
Sempra Section 42, LLC
West2East Pipeline, LLC

Source: DR 2006-01-046 (Updated 1/22/2007)

- **Exhibit 8-3** lists covered and non-covered affiliate corporate name changes in 2006.¹⁴⁵

Exhibit 8-3
2006 Corporate Name Changes for
Covered and Non-Covered Affiliates

Old Name	New Name	Effective Date	Notification Letter Date
Entrega Gas Pipeline, LLC	Rockies Express Pipeline, LLC	4/11/06	4/12/06
Sempra Commodities Strategies Corp.	Sempra Plastics Corp.	4/13/06	4/18/06
Sempra Metals Trading Limited	Sempra Plastics Limited	5/17/06	5/24/06
Port Arthur LNG, L.P.	Port Arthur LNG, LLC	7/10/06	7/10/06
Port Arthur Pipeline, L.P.	Port Arthur Pipeline, LLC	7/10/06	7/20/06
Sempra Energy Production Company	Sempra Energy Production Company, LLC	7/18/06	7/20/06
Sempra Energy Connections	Sempra Energy Connections, Inc.	7/18/06	7/20/06
Sempra Energy Shipping Services Limited	City Shipping Services, Ltd.	8/09/06	8/11/06
SET Trade Finance, LLC	Sempra Metals Investments, LLC	10/10/06	10/11/06
Sempra Energy Solutions	Sempra Energy Solutions, LLC	10/31/06	11/02/06
Sempra Energy Trading Services Corp.	Sempra Energy Petrochemicals Corp.	12/20/06	12/28/06

Source: DR 2006-01-017 (Updated DR 2006- 06-034)

3. SoCalGas has complied with Rule VI. C. which requires an annual audit each calendar year.
- The 2005 Affiliate Transactions Audit was completed on April 19, 2006, and filed with the Commission.¹⁴⁶
 - The 2006 Affiliate Transactions Audit is the subject of this report.
 - The cost of the Affiliate Transactions Audit is charged to shareholder expense, using an accounting entry summarized as follows:¹⁴⁷

Account:	6220002	Consulting Services
Internal Order:	7015933	2005 Affiliate Compliance Audit Fees
Cost Center:	2100-3594	Tariffs & Regulatory Accounts
FERC Acct:	x928.000	Regulatory Commission Expenses
 - Fifty percent of the cost of the audit is borne by SDG&E, and fifty percent of the cost is borne by SoCalGas.
 - The cost of the audit is accumulated in the Internal Orders of the utility. Budget Planners exclude these costs from the base dollars requested to be recovered from rate payers during revenue requirement and rate base proceedings. This specific exclusion ensures that the cost of the audit is charged to SoCalGas shareholders and not recovered from ratepayers.¹⁴⁸
4. During the year ended December 31, 2006, the Commission made no requests for the appearance of affiliate officers or employees to provide testimony relating to the Rules, and SoCalGas was in compliance with the witness availability requirement of Rule VI. D.¹⁴⁹

Recommendations

None

Chapter 9
Rule VII: Utility Products and Services

CHAPTER 9
Rule VII: Utility Products and Services

Synopsis of the Rule

A. General Rule: Except as provided for in the Rules, new products and services must be offered through affiliates.

B. Definitions: For purposes of this section of the Rules, the terms “Category,” “Existing” products and services, “Products,” “Tariff” and “Tariffed,” are defined terms.

C. Utility Products and Services: Except as provided for in the Rules, a utility will not offer nontariffed products and services. A utility must never offer natural gas or electricity commodity service on a nontariffed basis. Only the following products and services may be offered for sale:

- Existing products and services offered by the utility pursuant to tariff;
- Unbundled versions of existing utility products and services, with the unbundled versions being offered on a tariffed basis;
- New products and services that are offered on a tariffed basis; and
- Products and services that are offered on a nontariffed basis and meet specified conditions as outlined in the Rules.

D. Conditions Precedent to Offering New Products and Services: The Commission does not endorse 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: a mechanism or accounting standard for allocating costs; a reasonable mechanism for treatment of benefits and revenues derived from the offering; periodic reporting requirements; and periodic auditing of cost allocations and revenues.

E. Requirements to File an Advice Letter: Prior to offering a new category of nontariffed products or services, a utility is required to file an advice letter in compliance with the provisions set forth in the Rules.

F. Existing Offerings: Until further Commission order to the contrary, a utility complying with Rule VII cost allocation and reporting requirements that was offering tariffed or nontariffed products and services in 1997, may continue to offer such products and services.

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.

H. Periodic Reporting of Nontariffed Products and Services: Any utility offering nontariffed products and services must file periodic reports, containing information specified in Rule VII, with the Commission’s Energy Division annually unless otherwise directed.

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 the Rules. Similarly, this Rule does not prohibit affiliate transactions which are otherwise allowed by all other provisions of the Rules.

Evaluative Criteria

- Did SoCalGas offer any new products and services for sale in 2006 that fall within the definitions and meet the requirements of the Rules?
- Has the Company complied with the conditions set forth in the Rules relating to new products and services offerings, including accounting, cost allocation, reporting, and auditing?
- Did the Company file Advice Letters when required in a timely manner and in adequate detail?

Summary of Audit Procedures

Conducted interviews with the Sundry Services Manager responsible for accumulating the data included in the Nontariffed Products and Services (NTP&S) reports and 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. Followed-up with additional interviews. Determined that the exceptions identified in the 2005 Affiliate Transactions Audit were adequately addressed. Analyzed relevant documents obtained through formal Document Requests. Prepared a task report and reviewed with Company personnel for fact verification.

Findings and Conclusions

1. SoCalGas offered no new nontariffed products or services in 2006.¹⁵⁰
2. SoCalGas has generally met the conditions specified in the Rules relating to new products and services offerings including accounting, cost allocation, reporting, and auditing. A procedural weakness is explained Paragraph 4, below.
 - The Company establishes internal orders in its financial accounting and reporting system (SAP) to assist in tracking cost and revenues related to each nontariffed product and service. In response to an Internal Audit recommendation from March, 2005, and the 2005 Affiliate Compliance Audit, the Company changed the way in which revenues are tracked and reported.
 - D. 98-08-035 and Rule VII. H. require the utility to file a NTP&S Report annually, but do not specify a filing date.¹⁵¹ SoCalGas filed its 2005 Annual NTP&S Report on June 14, 2006, in compliance with Rules.¹⁵²
 - In the 2005 Affiliate Compliance Audit of SoCalGas, ACG recommended that the Company adopt standard procedures for use by Business Managers in the reporting of nontariffed revenue and related incremental cost to the Sundry Services Manager.¹⁵³
 - In the 2006 Affiliate Compliance Audit, ACG determined that SoCalGas implemented new procedures for reporting nontariffed products and services revenues

- and expenses to the Sundry Services Manager, and that the reported amounts are supported by adequate documentation from the Business Managers.¹⁵⁴
- ACG analyzed the documentation associated with each category of reported revenue or cost to determine that information in the NTP&S Report is adequately supported.
 - ⇒ The reported revenue values are supported by summary outputs from the SAP accounting system that are identified by General Ledger Account code and invoice documents.
 - ⇒ The reported incremental cost values are supported by various types of documentation, depending on the nature of the business activity being reported. The audit found that there was documentation available to reconcile the reported incremental cost values provided by the Business Managers to the NTP&S report.¹⁵⁵ Several of the Business Managers providing the documentation were also interviewed as part of the audit verification process.¹⁵⁶
 - The Sempra Energy Internal Audit Department performs an annual audit of NTP&S transactions, alternating between SDG&E and SoCalGas. For the year ended December 31, 2005, SoCalGas was audited.¹⁵⁷ SDG&E and SoCalGas rely upon this bi-annual internal audit process, Sundry Services Directives and cost allocation methodology to provide assurance that there is no cross-subsidization of tariffed and nontariffed products or services.¹⁵⁸
 - ⇒ In the 2005 NTP&S audit of SoCalGas, completed on November 30, 2006, Internal Audit identified a business control issue where incremental overhead costs were not consistently included in the nontariffed product and services incremental cost.¹⁵⁹
 - ⇒ Management agreed with the finding and has taken corrective action to ensure that overheads are adequately reported as part of the incremental cost.¹⁶⁰
3. SoCalGas filed its 2005 Annual NTP&S Report with the Commission in accordance with the requirements of D. 97-12-088 and D. 98-08-035.
- An analysis and reconciliation of 2005 NTP&S incremental cost documentation supports the values reported. SoCalGas' NTP&S reported revenues, supported by documentation extracts from the SAP accounting system, were analyzed and compared to extracts from the SAP accounting system. A summary of the SoCalGas 2005 NTP&S Report is provided in **Exhibit 9-1**.¹⁶¹

Rule VII: Utility Products and Services

Exhibit 9-1
Summary of SoCalGas 2005 NTP&S Report
(Dollars in Thousands)

Category	Category and Product or Service Descriptions	Product and Service Revenues	Fully Loaded Incremental Costs
I.2	Installation and Maintenance for Customers	422	130
II.1	Residential Parts Revenue Neutral Program (27,029 orders)	1,400	402
II.2	Commercial Parts for Charge Program (12,799 orders)	2,537	1,391
III.1	Meter testing and repair services. Service primarily provided to utilities, cities, private industry. (10 contracts)	26	3
III.3	NGV Facilities Calibration and Repair Services (25 service contracts)	233	188
IV	Distribution, Customer Service and Transmission Training	171	43
IV.2(d)	Engineering services (including testing of equipment and gas analysis)	1	0
IV.2(g)	ETS – Consulting	31	None
IV.5(a)	ETS – Billing and collections activities for NGV fueling cards	3	None
IV.6	Line Item Billing (two contracts)	154	45
VI.5	Mapping service, i.e., custom preparation of maps of local areas showing utility facilities, as well as sale of copies of existing map sheets (two contracts)	20	0
VII.3	Environmental software and services includes: RECLAIM ERT and Permit Work	30	12
VII.4	Brokering of air emissions credit trading (39 tons of NOx RECLAIM credits; 25 tons of NOx Emission Reduction credits)	260	206
VIII.1	Sale of oil owned by SoCalGas and produced in association with gas storage operation, oil production services for oil owned by others (239,068 barrels). Aliso-Crimson agreement - Disposal fee for waste water Aliso-TERMO - fee for fresh water, water disposal and road maintenance usage Transmission Road Access Fees Goleta Arguello Emissions Credit	5,962	2,519
VIII.3(b)	Rental or leasing of SoCalGas buildings – ERC	17	None
VIII.3(c)	Rental or leasing of SoCalGas property, Land & Right of Way Admin. Fees collected for quitclaims, right of entry, etc. Land & Right of Way Land Value collected for Right of Way Special event parking - Anaheim Headquarters.	414	None
VIII.5	Leasing of excess microwave communications capacity.	27	None
VIII.6	Sale of oil and cushion gas -Montebello Storage field (1,297,505 Dth of gas and 53,029 barrels of oil). See Note	10,845	4,641
Total		22,553	9,580

Source: DR 2006-01-053, 2005 NTP&S Report

Note: Pursuant to D. 01-06-081 over/under collections are balanced in the MTTA regulatory account and are excluded from PBR sharing.

4. Although the Company has established additional informal procedures since the 2005 audit, there are no formal written procedures or training for reporting NTP&S revenue or cost.
 - The Sundry Services Manager now uses e-mail directives to the Business Managers to communicate the methods to be used for reporting nontariffed revenue and incremental cost.¹⁶²
 - Sundry Services maintains a record that identifies each Business Manager who has the information that is needed for the preparation of the NTP&S Report.¹⁶³
 - Individual Product or Service Activity Business Managers are responsible for identifying the revenue and incremental cost to be included in the NTP&S Report. The Sundry Services organization does not seek to verify the methods or procedures used for calculating reported cost.¹⁶⁴
 - ⇒ The method used by the Business Managers for reporting cost varied by product or service, as did the type of supporting documentation. Some of the field personnel supplying information to the Business Managers were not aware of the need to identify the incremental cost associated with nontariffed products and services.¹⁶⁵
 - ⇒ In some cases the supporting documents provided were computer printout listings. In other cases the supporting documents consisted of various calculations to determine the incremental cost to be reported.¹⁶⁶ In most cases the Business Managers had to make assumptions in order to determine the incremental cost associated with a specific nontariffed product or service.
 - Generally the reported revenue was supported by accounting extracts from the SAP accounting system.¹⁶⁷ However, there are no unique accounting codes that the Business Managers could use to separate the incremental cost from those associated with the cost of providing tariffed regulated services.

Recommendations

1. With assistance from the accounting department, have the Sundry Services Manager develop written guidelines for the calculation and reporting of fully loaded incremental cost for each category of NTP&S activity. About six months before this information is needed, hold a meeting with affected Business Managers and field personnel who supply the information to discuss the guidelines and address other matters related to the development of the 2007 NTP&S Report. (Refers to Conclusion No. 4)

Chapter 10
Rule VIII: Complaint Procedures and Remedies

CHAPTER 10
Rule VIII. Complaint Procedures and Remedies

Synopsis of the Rule

A. The Rules require the Commission to strictly enforce them.

B. Standing: Natural persons or corporations may complain to the Commission or to a utility in writing about anything done or omitted to be done by the utility or an affiliate thought to be in violation of the Rules. There is a provision for “whistleblower complaints.” The Commission will maintain the confidentiality of such complaints until it has completed an investigation, or indefinitely if requested by the whistleblower. Anonymous complaints will also be accepted, but the Commission will continue to pursue such complaints only where it has elected to convert them into a Commission-initiated investigation. In any case, the utility is required to file a timely answer to the complaint.

C. Procedure: The Rules require each utility to designate an Affiliate Compliance Manager who is responsible for the utility’s compliance with the Rules and the utility’s compliance plan adopted pursuant to the Rules. The Affiliate Compliance Manager is also responsible for receiving, investigating, and attempting to resolve complaints, and may enlist assistance in these areas through delegation to other officers and employees.

All complaints are required to be filed with the Commission as formal complaints and complainants are required to provide a copy to the utility’s Affiliate Compliance Manager the same day that the complaint is filed. The utility is required to investigate and attempt to resolve the complaint. The resolution process is to include a meet-and-confer session with the complainant. Upon request by either party, a Commission staff member may participate in such meet-and-confer sessions and must 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 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.

The utility is required to 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. Each utility is also required to file a report annually with the Commission detailing the nature and status of all complaints.

Rule VIII. Complaint Procedures and Remedies

The Rules also provide procedures to be employed when complaints cannot be resolved through the meet and confer process, and for remedies in the case violations of the Rules are found to have occurred. In its enforcement process, the Commission may impose fines, and in doing so, will among other things consider the utility's conduct in preventing violations, detecting violations, and disclosing and rectifying violations.

Evaluative Criteria

- Has a process and organization been established to allow individuals and corporations to complain to the CPUC or to SoCalGas in writing?
- Has SoCalGas designated an Affiliate Compliance Manager with responsibility for receiving, investigating, and attempting to resolve complaints?
- Is there proper notification to the CPUC of the resolution of any complaints and any actions taken as a result of such resolutions, as required by the Rules?
- Has the CPUC's Energy Division and Consumer Services Division been informed of the results of the dispute resolution process?
- Are whistleblower complaints maintained in confidence until the conclusion of an investigation or indefinitely (if requested by a whistleblower)?

Summary of Audit Procedures

ACG conducted interviews with the Affiliate Compliance Manager, the Corporate Compliance Officer and other personnel regarding the organization and operation of the Affiliate Compliance function. Through inquiry and review of CPUC and SoCalGas' websites, determined that there were no formal complaints filed relating to Affiliate Transactions during the year ended December 31, 2006. Prepared extracts of other relevant documents obtained through formal Document Requests and website research. Prepared a task report and reviewed with Company personnel for fact verification.

Findings and Conclusions

1. During the year ended December 31, 2006, there were no complaints filed with the CPUC relating to alleged Rules violations by SoCalGas.
 - An interview with ACD personnel and a related data request disclosed that there were no complaints filed with the CPUC concerning SoCalGas or any perceived violation of the Rules in 2006.¹⁶⁸
 - A search of the CPUC website using the phrase "2006 (Sempra) (SoCalGas) Affiliate Transaction Complaints" resulted in no hits for each of the searches. Using a less restrictive search, allowing a hit when any of the words in the phrase were present resulted in significant hits (SoCalGas = 253). However, a sampling of the underlying documents produced by the searches (reviewed in order of relevance) disclosed no complaints regarding the Rules.¹⁶⁹

Rule VIII. Complaint Procedures and Remedies

2. In 2006, Sempra Energy continued to implement organizational and operational changes to strengthen the Affiliate Compliance function for SoCalGas.
 - The ACD continues to report through the Director-Compliance, the Controller, and the Chief Financial Officer to the head of the Sempra Energy utilities.¹⁷⁰
 - The Corporate Compliance Officer, who provides policy guidance for the Affiliate Compliance function for SoCalGas, now reports to Sempra Energy's General Counsel rather than the Sempra Energy Chief Operating Officer. He retains his dotted line relationships to the Corporate Compliance Committee and the Audit Committee of the Board of Directors.¹⁷¹
 - In the area of Affiliate Compliance, the Corporate Compliance Officer has taken over some responsibilities involving development of compliance training materials in conjunction with subject matter expertise provided by the ACD. The training developed in 2006 has evolved from use of "rule-based" material in 2005 to the use of "principle-based" material in 2006.¹⁷²
3. SoCalGas has effective systems and procedures for communication regarding the Rules and the Company's plans relating to compliance.
 - Annually, all non-union employees are required to undergo mandatory training on Affiliate Compliance and to pass a test concerning practical application of the Rules. Union employees are exposed to practical aspects of the Rules through non-mandatory small group meetings conducted by their supervisors.¹⁷³
 - Sempra Energy's intranet site, SempraNet, and the Sempra Energy utilities' intranet site, UtiliNet, both contain Affiliate Compliance information and provide access to the Affiliate Compliance and Corporate Compliance departments and necessary affiliate and corporate compliance forms, information, and training material.¹⁷⁴
4. In 2006, the Border Price Spike Investigation in CPUC I. 02-11-040 was closed with prejudice, meaning that the investigation cannot be reopened.
 - The Commission initiated an investigation of gas price spikes experienced at the California border on November 21, 2002, to examine reasons for the natural gas price spikes that occurred in California from March 2000 through May 2001 during the California energy crisis.
 - In D. 06-12-034, effective December 14, 2006, the Commission closed this investigation and terminated all conditions on shareholder awards.
 - ⇒ The shareholder awards approved for SoCalGas under its Gas Cost Incentive Mechanism (GCIM), SDG&E under its gas procurement Performance Based Ratemaking mechanism, and PG&E (Pacific Gas and Electric Company) under its gas Core Procurement Incentive Mechanism were declared no longer subject to revision with regard to this investigation.

Rule VIII. Complaint Procedures and Remedies

- ⇒ The motion to withdraw claims filed by Southern California Edison Company (SCE) in this investigation was granted, as was the motion by SCE to withdraw claims in I. 03-02-033 (Sempra Energy Affiliate OII), initiated to evaluate the business activities of SDG&E, SoCalGas, and Sempra Energy.
- ⇒ Closure was based, in part, on the fact that all parties involved had already entered into the Continental Forge and SCE settlement agreements outside of Commission proceedings.
- ⇒ The Continental Forge Settlement Agreement, dated January 4, 2006, between Sempra, SoCalGas, SDG&E and other Sempra affiliates and Continental Forge Company and other class action representatives was a settlement of certain class action antitrust and unfair competition claims.
- ⇒ The SCE Settlement Agreement, entered into on May 30, 2006, between Sempra, SoCalGas, SDG&E and other Sempra affiliates and SCE and Edison International contains proposed changes to the operation of, and services provided, by SoCalGas and SDG&E and provides that SCE will support the changes to gas operations contained in the Continental Forge Settlement Agreement.¹⁷⁵

Recommendations

None

Endnotes

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- 27 DR 2006-01-129, Advice Letter, tariffs in effect during 2006.
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- 34 DR 2006-06-013 and DR 2006-03-006, Affiliate Compliance Plan training reference documents.
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- 36 ACG observation of SoCalGas Call Center 11/09/2006.
- 37 Interview with Customer Service Operations Manager, 12/07/2006.
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- 40 DR 2006-03-009, SoCalGas Call Center Online Help Reference Manual.
- 41 DR 2006-01-036, Call Monitoring Evaluation Form.
- 42 DR 2006-01-080, List of evaluations involving ESP customers.
- 43 DR 2006-20-002, and ACG analysis.
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Appendix I

**Affiliate Transaction Rules
D.97-12-088 (12/16/1997)**

**(And Subsequent Decisions Modifying the Rules:
D.98-08-035 (8/06/1998); D.98-11-027 (11/05/1998);
D.98-12-075 (12/17/1998); D.99-04-069 (4/22/1999);
D.99-09-033(9/02/1999))**

I. DEFINITIONS	A-2
II. APPLICABILITY OF RULES	A-3
III. NON-DISCRIMINATION STANDARDS	A-5
IV. DISCLOSURE AND INFORMATION	A-9
V. SEPARATION	A-11
VI. REGULATORY OVERSIGHT	A-18
VII. UTILITY PRODUCTS AND SERVICES	A-19
VIII. COMPLAINT PROCEDURES AND REMEDIES	A-23

I. DEFINITIONS

Unless the context otherwise requires, the following definitions govern the construction of these Rules:

- A. **“Affiliate”** means any person, corporation, utility, partnership, or other entity 5 percent 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 mechanism and procedures that the utility and holding company have in place to assure that the utility is not utilizing the holding company or any of its affiliates not covered by these Rules as a conduit to circumvent 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 as a vehicle to: (1) disseminate information transferred to them by the utility to an affiliate covered by these Rules in contravention of these Rules, (2) provide services to its affiliates covered by these Rules in contravention of these Rules, or (3) to transfer employees to its affiliates covered by these Rules in contravention of these Rules. In the compliance plan, a corporate officer from the utility and holding company shall verify the adequacy of these specific mechanisms and procedures to ensure that the utility is not utilizing the holding company or any of its affiliates not covered by these Rules as a conduit to circumvent any of these Rules.

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

- B. **“Commission”** means the California Public Utilities Commission or its succeeding state regulatory body.
- 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.
- 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.
- E. **“FERC”** means the Federal Energy Regulatory Commission.
- F. **“Fully Loaded Cost”** means the direct cost of good or service plus all applicable indirect charges and overheads.
- G. **“Utility”** means any public utility subject to the jurisdiction of the Commission as an Electrical Corporation or Gas Corporation, as defined in California Public Utilities Code Sections 218 and 222.

II. APPLICABILITY OF RULES

- 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.
- 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.
- C. 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.

- D. 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.
- E. **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 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.
- F. **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.
- G. **Exemption (Advice Letter):** A Commission-jurisdictional utility may be exempted from these Rules if it files an advice letter with the Commission requesting exemption. The utility shall file the advice letter within 30 days after the effective date of this decision adopting these Rules and shall serve it on all parties to this proceeding. In the advice letter filing, the utility shall:
1. Attest that no affiliate of the utility provides services as defined by Rule II B above; and
 2. Attest that if an affiliate is subsequently created which provides services as defined by Rule II B above, then the utility shall:
 - a. Notify the Commission, at least 30 days before the affiliate begins to provide services as defined by Rule II B above, that such an affiliate has been created; notification shall be accomplished by means of a letter to the Executive Director, served on all parties to this proceeding; and
 - b. Agree in this notice to comply with the Rules in their entirety.
- H. **Limited Exemption (Application):** A California utility which is also a multi-state utility and subject to the jurisdiction of other state regulatory commissions, may file an application, served on all parties to this proceeding, requesting a limited exemption from these Rules or a part thereof, for transactions between the utility solely in its capacity serving its jurisdictional areas wholly outside of California, and its affiliates. The applicant has the burden of proof.

- I. 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 the Rules, or the application of such provision to other persons, companies, or circumstances, shall not be affected thereby.

III. NON-DISCRIMINATION STANDARDS

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:

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
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.

B. Affiliate Transactions:

Transactions between a utility and its affiliates shall be limited to tariffed products and services, the sale or purchase of goods, property, products or services made generally available by the utility or affiliate to all market participants through an open, competitive bidding process, or as provided for in sections V D and V E (joint purchases and corporate support) and Section VII (new products and services) below, provided the transactions provided for in Section VII comply with all of the other adopted Rules.

1. **Provision of Supply, Capacity, Services or Information:** Except as provided for in Sections V D, V E, and VII, provided the transactions provided for in Section VII comply with all of the other adopted Rules, 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.

2. **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 all 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.
3. **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.
4. **No Tariff Discretion:** If a utility has no discretion in the application of a tariff provision, the utility shall strictly enforce that tariff provision.
5. **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.

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.

D. No Assignment 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.

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 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.

F. Affiliate Discount Reports:

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

1. the name of the affiliate involved in the transaction;
2. the rate charged;
3. the maximum rate;
4. the time period for which the discount or waiver applies;
5. the quantities involved in the transaction;
6. the delivery points involved in the transaction;
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

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:

9. the name of the entity being provided services provided by the utility in the transaction;
10. the affiliate's role in the transaction (i.e., shipper, marketer, supplier, seller);
11. the duration of the discount or waiver;
12. the maximum rate;
13. the rate or fee actually charged during the billing period; and
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.

IV. DISCLOSURE AND INFORMATION

A. Customer Information:

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

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, 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. Utilities are also permitted to exchange proprietary information on an exclusive basis with their 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 services, and is not permitted for any other use. Nothing in this Rule precludes the exchange of information pursuant to D.97-10-031.

C. Service Provider Information:

1. Except upon request by a customer or as otherwise authorized by the Commission, or approved by 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. A utility shall submit lists approved by other governmental bodies in the first semi-annual advice letter filing referenced in Rule IV.C.2 following such approval, but may provide customers with such lists pending action on the advice letter.

2. If a customer requests information about any affiliated service provider, the utility shall provide a list of all providers of gas-related, electricity-related or other utility-related goods and services operating in its service territory, including its affiliates. The Commission shall authorize, by semi-annual utility advice letter filing, and either the utility, the Commission, or a Commission-authorized third party provider shall maintain on file with the Commission a copy of the most updated lists of service providers which have been created to disseminate to a customer upon a customer's request. Any service provider may request that it be included on such list, and, barring Commission direction, the utility shall honor such requests. Where maintenance of such list would be unduly burdensome due to the number of service providers, subject to Commission approval by advice letter filing, the utility shall direct the customer to a generally available listing of service providers (e.g., the Yellow Pages). In such cases, no list shall be provided. If there is no Commission authorized list available, utilities may refer customers to a generally available listing of service providers (e.g., the Yellow Pages.) The list of service providers should make clear that the Commission does not guarantee the financial stability or service quality of the service providers listed by the act of approving this list.

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.

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.

F. Record Keeping:

A utility shall maintain contemporaneous records documenting all tariffed and non-tariffed transactions with its affiliates, including but not limited to, all waivers of tariff or contract provisions and all discounts. A utility shall maintain such records for a minimum of three years and longer if this Commission or another government agency so requires. The utility shall make such records 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 request for confidentiality within 24 hours of service.

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 to and from the utility to its affiliates for no less than a period of three years, and longer if this Commission or another government agency so requires.

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.

V. SEPARATION

A. Corporate Entities:

A utility and its affiliates shall be separate corporate entities.

B. Books and Records:

A utility and its affiliate(s) shall keep separate books and records.

1. Utility books and records shall be kept in accordance with the applicable Uniform System of Accounts (USOA) and Generally Accepted Accounting Procedures (GAAP).
2. The books and records of affiliates shall be open for examination by the Commission and its staff consistent with the provisions of Public Utilities Code Section 314.

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 Section 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).

D. Joint Purchases:

To the extent not precluded by any other Rule, the utilities and their affiliates may make joint purchases of good 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. Example of joint purchases not permitted include gas and electric purchasing for resale, purchasing of gas transportation and storage capacity, purchasing of electric transmission, systems operations, and marketing. The utility must insure that all joint purchases are priced, reported, and conducted in a manner that permits clear identification of the utility and affiliate portions of such purchases, and in accordance with applicable Commission allocation and reporting rules.

E. Corporate Support:

As a general principle, a utility, its parent holding company, or a separate affiliate created solely to perform corporate support services may share with its affiliates joint corporate oversight, governance, support systems, and personnel. 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.

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.

F. Corporate Identification and Advertising:

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 legible¹ or audible language, on the first page or at the first point where the utility name or logo appears that^{2,3}
 - a) the affiliate “is not the same company as [i.e., PG&E, Edison, the Gas Company, etc.], the utility,”;
 - b) the affiliate is not regulated by the California Public Utilities Commission^{4,5}; and
 - 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 use of the name or logo in California.
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.

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.
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:
 - 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;
 - 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;
 - c) A utility shall not participate with its affiliates in trade shows, conferences, or other information or marketing events held in California.
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.

G. Employees:

1. Except as permitted in Section 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). Where the utility is 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 verify in the utility's compliance plan 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 required in Rule VI, 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.

2. All employee movement between a utility and its affiliates shall be consistent with the following provisions:
 - a) A utility shall track and report to the Commission all employee movement between the utility and affiliates. The utility shall report this information annually pursuant to our Affiliate Transaction Reporting Decision, D.93-02-019, 48 CPUC2d 163, 171-172 and 180 (Appendix A, Section I and Section II H.).
 - 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.
 - 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. The Board of Directors must vote to classify these employees as "impacted" by electric restructuring- and these employees must be transferred no later than December 31, 1998, except for the transfer of employees working at divested plants. In that instance, the Board of Directors must vote to classify these employees as "impacted" by electric restructuring and these employees must be transferred no later than within 60 days after the end of the O&M contract with the new plant owners. 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.

- 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.
- 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:
 - 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.
 - ii. Utility needs for utility employees always take priority over any affiliate requests;
 - iii. No more than 5% of full time equivalent utility employees may be on loan at a given time;
 - iv. Utility employees agree, in writing, that they will abide by these Affiliate Transaction Rules; and
 - v. Affiliate use of utility employees must be conducted pursuant to a written agreement approved by appropriate utility and affiliate officers.

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 regulates 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% of direct labor cost.
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.

VI. REGULATORY OVERSIGHT

A. Compliance Plans:

No later than December 31, 1997, each utility shall file a compliance plan demonstrating to the Commission that there are adequate procedures in place that will preclude the sharing of information with its affiliates that is prohibited by these Rules. The utility should file its compliance plan as an advice letter with the Commission's Energy Division and serve it on the parties to this proceeding. 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 served on all parties to this proceeding where there is some change in the compliance plan (i.e., when a new affiliate has been created, or the utility has changed the compliance plan for any other reason).

B. New Affiliate Compliance Plans:

Upon the creation of a new affiliate which is addressed by these Rules, 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, served on the parties to this proceeding. The advice letter shall demonstrate how the utility will implement these Rules with respect to the new affiliate.

C. Affiliate Audit:

No later than December 31, 1998, and every year thereafter, the utility shall have audits performed by independent auditors that cover the calendar year which ends on December 31, and that verify that the utility is in compliance with the Rules set forth herein. The utilities shall file the independent auditor's report with the Commission's Energy Division beginning no later than May 1, 1999, and serve it on all parties to this proceeding. The audits shall be at shareholder expense.

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 Section 314.

VII. UTILITY PRODUCTS AND SERVICES

A. General Rule:

Except as provided for in these Rules, new products and services shall be offered through affiliates.

B. Definitions:

The following definitions apply for the purposes of this section (Section VII) of these Rules:

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.
2. “Existing” products and services are those which a utility is offering on the effective date of these Rules.
3. “Products” include use of property, both real and intellectual, other than those uses authorized under General Order 69-C.
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.

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 tariffed basis. A utility may only offer for sale the following products and services.

1. Existing products and services offered by the utility pursuant to tariff;
2. Unbundled versions of existing utility products and services, with the unbundled versions being offered on a tariffed basis;
3. New products and services that are offered on tariffed basis; and

4. Products and services which are offered on a nontariffed basis and which meet the following conditions:
 - a) The nontariffed product or service utilizes a portion of a utility asset or capacity;
 - b) such asset or capacity has been acquired for the purpose of and is necessary and useful in providing tariffed utility services;
 - 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;
 - 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
 - e) the utility's offering of such nontariffed product or service does not violate any law, regulation, or Commission policy regarding anticompetitive practices.

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:

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;
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.
3. Periodic reporting requirements regarding pertinent information related to nontariffed products and services; and
4. Period auditing of the costs allocated to and the revenues derived from nontariffed products and services.

E. Requirement to File an Advice Letter:

Prior to offering a new category of nontariffed products or services as set forth in Section VII C above, a utility shall file an advice letter in compliance with the following provisions of this paragraph.

1. The advice letter shall:
 - a) demonstrate compliance with these rules;
 - 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;
 - c) demonstrate that the utility has not received competition transition charge (CTC) recovery in the Transition Cost Proceeding, A.96-08-001, or other related CTC Commission proceeding, for the portion of the utility asset dedicated to the non-utility venture; and
 - d) 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.
 - e) 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.
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.
3. A protest of an advice letter filed in accordance with this paragraph shall include:
 - 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
 - b) An explanation of the specific harm the protestant will allegedly suffer.

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.
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.

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.

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.

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 reports on the service lists of this proceeding. The periodic reports shall contain the following information.

1. A description of each existing or new category of nontariffed products and services and the authority under which it is offered;
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);
3. The costs allocated to and revenues derived from each category; and
4. Current information on the proportion of relevant utility assets used to offer each category of product and service.

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.

VIII. COMPLAINT PROCEDURES AND REMEDIES⁶

- 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.
- B. Standing:
 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.
 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.

C. Procedure:

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.
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.
 - 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.
 - 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.
 - c. Each utility shall file annually with the Commission a report detailing the nature and status of all complaints.
 - 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.
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.
 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.
 5. The Commission shall maintain on its web page 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.
 6. Preliminary Decisions:
 - 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.
 - 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.)

D. Remedies

1. When enforcing these rules or any order of the Commission regarding these rules, the Commission may do any or all of the following:
 - a. Order a utility to stop doing something that violates these rules;
 - b. Prospectively limit or restrict the amount, percentage, or value of transactions entered into between the utility and its affiliate(s);
 - c. Assess fines or other penalties;
 - 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;
 - e. Apply any other remedy available to the Commission.

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 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.
 - a. **Reparations:** 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.
 - b. **Fines:** 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.

- i. **The Severity of the Offense:** 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.

- ii. **Conduct of the Utility:** This factor recognizes the important role of the public utility’s conduct in (1) preventing the violation, (2) detecting the violation, and (3) disclosing and rectifying the violation. The public utility is responsible for the acts of all its officers, agents, and employees:
- “In construing and enforcing the provisions of this part relating to penalties, the act, omission, or failure of any officer, agent or employee of any public utility, acting within the scope of his [or her] official duties or employment, shall in every case be the act, omission, or failure of such public utility.” Public Utilities Code §2109.
- 1) **The Utility’s Actions to Prevent a Violation:** 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.
 - 2) **The Utility’s Actions to Detect a Violation:** 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.
 - 3) **The Utility’s Actions to Disclose and Rectify a Violation:** When a public utility is aware that a violation has occurred, the Commission expects the public utility to promptly bring it to the attention of the Commission. 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.

- iii. **Financial Resources of the Utility:** 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 United States and others are extremely modest, 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.
- iv. **Totality of Circumstances in Furtherance of the Public Interest:** 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.
- v. **The Role of Precedent:** 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.

¹ D.98-11-027 clarified the meaning of "legible," in the context of printed materials, to mean that the disclaimer must be sized and displayed commensurate with the 'signature' (ie. 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'. The disclaimer shall not be displayed upside down, sideways, in a different language, or in any other way which would have the effect of minimizing its appearance.

² D.98-11-027 clarified Rule V.F.1's disclaimer requirement, so that it shall not apply in the following limited instances: (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; (2) annual reports to shareholders; or (3) internal written communications between the holding company, the utility, and any of the affiliates covered by the Rules, provided that the internal communications are not also sent to third parties outside of the company. The situations covered by item one, listed above, are legal and regulatory proceedings, written communications with governmental bodies regarding actual or proposed legislation, and written communications to federal, state, or municipal agencies which are related to an agency requirement or power (other than the power of the agency to buy products and services).

³ D.99-04-069 modified Rule V.F.1 to provide a limited exemption from the disclaimer requirement in the following situations: (1) Building Signage, provided that these signs are used as identification, and not to expressly market a product or service of the company: (a) Outdoor signs located on a building in which the affiliate is located; (b) Monument signs outside buildings in which the affiliate is located. These signs are usually freestanding signs jutting up from lawns or concrete walkways; (c) Building entrance signs in a building in which the affiliate is located, or in an adjacent or nearby parking structure serving the affiliate's offices. These signs include those placed on buildings and adjacent to entry doors as well as signs placed directly on such doors (e.g., the company's name applied by paint, decal, adhesive placard, or through etched glass.) The intent of these signs is to indicate the correct entrance to use for a particular facility; (d) Lobby signs located in a building which is occupied by the affiliate; (e) Reception area signs in the affiliate's business offices, which offices do not also operate as retail stores or other similar types of areas open to the general public. These types of signs include signs at suite door entrances, directional signs, reception desk name plates, etc. (2) Company Vehicles and Employee Uniforms, provided that the name or logo is used as identification, and not to expressly market a product or service of the company. For example, such signs should not routinely include telephone numbers, promotional banners, or other product advertisements. In the event it is necessary to include an affiliate telephone number on a company vehicle (such as a security patrol car) to indicate where the consumer can call if there are any problems, the number should connect to an affiliate's "trouble shooting" desk. A utility shall not use company vehicles or uniforms to co-advertise or co-brand with its affiliate. The affiliate company vehicles and employee uniforms included within this exemption include: (a) Uniforms worn by a retail affiliate's field service employees (i.e., repair persons, installers and security officers) while performing their duties within California; (b) Field service trucks, patrol cars, and similar vehicles used by a retail affiliate in the course of installation or repair of customer premises equipment or response to security alarms within California. (3) Affiliate-installed equipment provided that the customer has been exposed to the disclaimer in the affiliate's marketing of the product, and provided that the utility name or logo on the equipment is not accompanied by additional marketing information (i.e., that it is not accompanied by a phone number where the customer can buy similar products or receive compatible services, etc.).

⁴ D.98-11-027 clarified Rule V.F.1.b so that, in the case of electric service provider (ESP) affiliates, the second line of the disclaimer may read as follows: "The California Public Utilities Commission does not regulate the terms of that affiliate's products and services."

⁵ D.99-09-033 further revised the Rule V.F.1 disclaimer to read: "[The affiliate] is not the same company as the utility, SDG&E or SoCalGas, and [the affiliate] is not regulated by the California Public Utilities Commission." In the case of energy service provider affiliates, D.99-09-033 revised the Rule V.F.1 disclaimer to read: "[The affiliate] is not same company as the utility,

SDG&E or SoCalGas, and the California Public Utilities Commission does not regulate the terms of [the affiliate's] products and services.”

⁶ D98-12-075 added Section VIII, Complaint Procedures and Remedies to the Affiliate Transaction Rules.

