A View from the Other Side: Tales from a Compliance Liaison

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Goals of Presentation

- Explain how Pacific Gas & Electric Company's compliance function is structured and the roles of the different components.
- Review challenge areas for the line of business compliance programs and some of the ways the presenters' organizations have dealt with them.
- Engage in discussion that may identify other compliance challenge areas and solutions.

About Pacific Gas & Electric Company

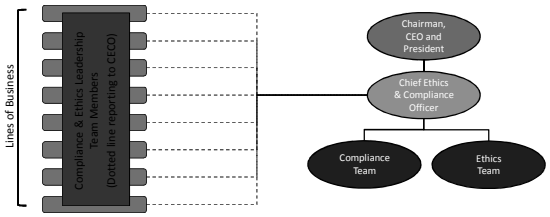
PG&E is focused on providing safe, reliable, and affordable natural gas and electricity to nearly **16 million** Californians

more than **22,000** employees	**5.3 million** electric customers	**4.4 million** gas distribution customers	**49** counties served in California
243 cities served in California	**7,677** MWh of owned electric generation capacity	**$55 billion** in assets	**$15 billion** in revenue

PG&E's Overall Compliance Organization Structure

PG&E's Matrixed Framework

Compliance and Ethics Leadership Team members are identified in each line of business at the Director level, with dotted line reporting to the Chief Ethics and Compliance Officer.



Roles and Responsibilities

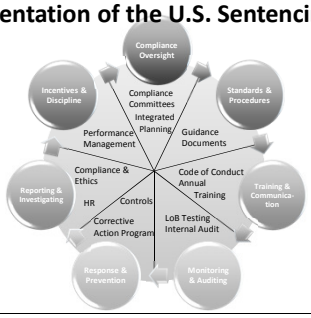
Enterprise Compliance & Ethics

- Framework development, guidance and support
- Long-term planning and strategy
- Coordination of enterprise-wide activities
- Benchmarking and communication of best practices

Lines of Business

- Implement enterprise framework
- Own, operationalize and test requirements
- Coordinate with peers
- Identify and maintain a current inventory of requirements
- Monitor compliance performance

Implementation of the U.S. Sentencing Guidelines



Lines of Business' Compliance Challenge Areas

Ownership/Accountability

Controls Testing

Unique Needs of line of business

Three Lines of Defense

PG&E's C&E Enterprise Program employs the "Three Lines of Defense" approach to compliance management. This provides multiple levels of controls and backup.

First Line of Defense

- ***Line of Business Management:*** Own compliance requirements and ensures work processes are designed to achieve all desired objectives and are supported by strong controls to manage risks

Second Line of Defense

- ***Line of Business Compliance:*** Monitor controls, metrics, and quality activities that inform the adequacy of the design and effective operation of the First Line of Defense

Third Line of Defense

- ***Internal Audit:*** Perform independent assessments of the business' system of controls used to manage the risks inherent in achieving the desired outcomes

Leadership Engagement

- **Risk and Compliance Committees** – Monthly meeting chaired by SVP to discuss current issues related to risk, compliance and audits
- **Compliance Sign-Off** – Quarterly certification and review of compliance program, exceptions and remediation plans by Customer Care Managers, Directors, and Vice Presidents
- **Centralized Team** – Risk management, compliance and audit support is centralized to one team providing comprehensive guidance to the business

Responsibilities — Compliance Team vs. Business

	Compliance Oversight	Compliance Testing	Guidance Document Management	Metrics
Business Responsibilities	• Identify new or changed requirements • Establish and document controls • Analyze identified exceptions and develop remediation • Certify compliance management	• Coordinate with tester to provide evidence and answer any arising questions	• Identify new policies & procedures for documentation • Document processes • Update and maintain existing documents in a timely manner	• Develop clear metrics to indicate process effectiveness • Provide metric updates as required
Compliance Team Responsibilities (provide guidance and support across all areas)	• Maintain central requirement inventory • Provide guidance to develop effective & sustainable remediation	• Establish testing schedule • Perform testing and report on results • Track any required corrective actions	• Maintain central document inventory • Provide guidance/advice as to proper Guidance Document structure	• Report metric status through appropriate channels

Compliance Culture

What do we want to achieve?

A compliance culture in which employees:

- ✓ Understand their roles with compliance requirements
- ✓ View testing and remediation as opportunities to improve processes and procedures
- ✓ Feel encouraged to raise issues and to improve processes through speaking up
- ✓ Understand the importance of having every compliance requirement embodied in a procedure
- ✓ Proactively identify when updates to processes and procedures they own are needed

Culture: Regulatory Affairs' Case for Change

The SAFE Vision

Regulatory Affairs Employees:

- ***S**ee Regulatory Affairs Compliance and Continuous Improvement as valuable compliance partners*
- ***A**gree compliance is a shared responsibility*
- ***F**eel empowered to "Speak Up" to raise issues and improve processes*
- ***E**mbrace procedures as a way to integrate compliance*

Culture change effort to inform and educate the rest of Regulatory Affairs about what's involved in being compliant and what their roles are.

- Formal change management effort by compliance group; led by two co-chairs;
- Developed Executive Summary, Drivers of Change, Desired Outcomes and Vision Statement;
- Created Project Community Map to determine who we needed to engage with, then performed Stakeholder Analysis on these parties; and
- Defined Scope, Success Criteria, Next Steps and Engagement Strategy.

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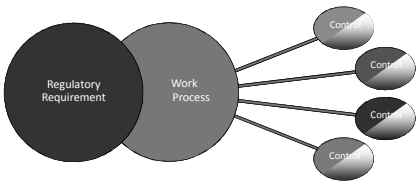
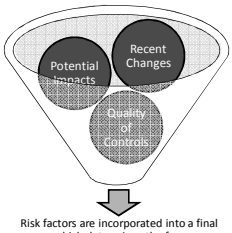
Customer Care Compliance Inventory and Test Plans



A central line of business inventory lists regulatory details, associated work processes and existing compliance controls.

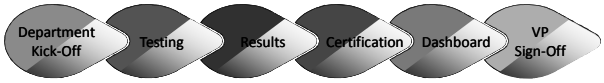
Using this information, test plans are developed for each requirement by establishing at least one test step for each documented control.

Customer Care Risk-Based Scheduling



Risk factors are incorporated into a final score which determines the frequency of controls testing

Customer Care Quarterly Testing Cycle



Department Kick-Off	Testing	Results	Certification	Dashboard	VP Sign-Off
Compliance team meets with points of contact within the business to review scheduled testing	Scheduled testing is completed by Compliance team	Testing results are reviewed. Exceptions found are documented and remediation plans are developed with the business	All Directors and Managers respond to a 12-question certification regarding their knowledge of compliance for their area of responsibility	Testing results, new or changed regulatory requirements, and open exception remediation plans are summarized	Compliance Manager meets with each organization's Vice President to review results and obtain certification

Regulatory Affairs' Control Testing Readiness

Regulator	Compliance Category (or Requirement)	Number of Req.	Risk Score	Control Testing Readiness					
				Req. Owner Confirmed	Process Owner Confirmed	Procedure	Process Map	Controls Confirmed	Test Data Avail.
CPUC	Category 1	4	125						
CPUC	Category 2	7	112						
FERC	Category 3	1	98						
CARB	Category 4	1	88						
CPUC	Category 5	2	88						
CPUC	Category 6	11	88						
CPUC	Category 7	1	88						

Table shows sample data.

"Control Testing Readiness:" each block under heading must be green before testing can be performed.

Other Columns:

- Regulator
- Compliance Category
- Number of Requirements
- Risk Score

	Completed
	In Progress
	Not Started

Suggested Test Frequency	
Frequency	RET Score
Monthly	200+
Quarterly	100-199
Bi-annually	50-99
Annually	2 - 49
Biennial	1

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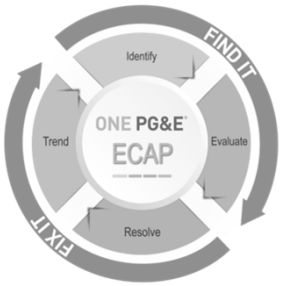
PG&E's Enterprise Corrective Action Program

Empowering PG&E employees to make a difference

ECAP will provide **standardized governance and innovative tools** for PG&E personnel to easily report, prioritize, track, trend and resolve issues, resulting in an enhanced safety culture, **reduced risk and a more efficient and compliant organization**.



Regulatory Affairs' Bright Ideas

Bright Ideas - Regulatory Affairs' version of Corrective Action Program (CAP)

- Regulatory Affairs employees submit ideas about ways to improve processes or identify areas that need to be improved or corrected.
- All submitters are contacted later with the resolution of their submission.

Submissions generally fall into these categories:

1. Standards and Procedures;
2. Tools & Processes;
3. Training; and
4. Compliance Issues.

Example: Regulatory Record Corrections

Regulatory Affairs will get ECAP next year.

- ECAP will enhance Bright Ideas technologically with reporting tools, interface with other areas of the business, etc.
- Regulatory Affairs employees will already be accustomed to using a CAP.

Thank you!

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