

Public Utilities Commission

2015 SLAA REPORT

December 30, 2015

Michael Cohen, Director
California Department of Finance
915 L Street
Sacramento, CA 95814

Dear Mr. Cohen,

In accordance with the State Leadership Accountability Act (SLAA), the Public Utilities Commission submits this report on the review of our systems of internal control and monitoring processes for the biennial period ended December 31, 2015.

Should you have any questions please contact Barbara Owens, Enterprise Risk and Compliance Officer, at (415) 703-1072, barbara.owens@cpuc.ca.gov.

BACKGROUND

The California Public Utilities Commission (CPUC) is dedicated to ensuring that consumers have safe, reliable utility service at reasonable rates, protecting against fraud, and promoting the health of California's economy. The CPUC is a constitutional agency with broad constitutional and statutory powers to regulate investor-owned electric, natural gas, telecommunications, and water utilities. The CPUC has licensing authority over household goods carriers (moving companies) and charter party and passenger stage carriers (limousines, shuttles, etc.). In addition, the CPUC has substantial safety enforcement responsibilities and is charged with investigating the cause of all accidents on the property of any public utility and all rail accidents, including those involving public transit vehicles. The CPUC has five Governor-appointed Commissioners, a staff of approximately 1,000, and a Division of Ratepayer Advocates with a statutory mission of obtaining the lowest possible rate for service consistent with reliable and safe service levels.

California has three major investor-owned electric utilities (Pacific Gas and Electric Company (PG&E), Southern California Edison, and San Diego Gas and Electric Company (SDG&E) and four smaller electric utilities. The CPUC has broad authority over the operations of the electric utilities and sets and designs their retail rates through General Rate Cases as well as allocating rate-paying obligations among utility customers in other types of proceedings. In addition, the CPUC ensures that electric utilities meet the Governor's goal of procuring 50 percent of their power by renewable sources by 2030. The CPUC also regulates electric safety and the state's electric distribution safety standards through its General Orders. For major electric transmission lines within California, the CPUC serves as the lead agency under the California Environmental Quality Act to review the environmental effects of the proposed project and propose mitigation measures. The CPUC also administers the state's Public Purpose Programs for electricity such as utility sponsored energy efficiency efforts and renewable energy programs. The CPUC also coordinates its regulatory activities with those of the California Energy Commission and the California Independent System Operator. On the federal level, the CPUC represents California and its ratepayers in proceedings before the Federal Energy Regulatory Commission (FERC).

Similar to the electric industry, California has three major and one smaller investor-owned natural gas utilities. Two of these, PG&E and SDG&E are combined electric and natural gas utilities; whereas, Southern California Gas Company is part of Sempra, which also owns SDG&E. Southwest Gas is a much smaller gas utility that provides gas in the Lake Tahoe Basin and in parts of Southern California. Similar to the electric industry, the CPUC sets retail natural gas rates and allocates rate-paying obligations for all different categories of gas customers through General Rate Cases and/or cost allocation proceedings. The CPUC also administers gas-related Public Purpose conservation programs and approves sites for gas storage fields through the Certificate of Public Convenience and Necessity (CPCN) process.

The CPUC develops and implements policies for the telecommunications industry, including ensuring fair, affordable universal access to necessary services; removing barriers that prevent a fully competitive market; and reducing or eliminating burdensome regulation. The CPUC's California Advanced Services Fund provides matching grants for the deployment of broadband infrastructure in unserved and underserved areas in California. The CPUC's communications work also includes licensing video franchises; addressing area code and number conservation issues; licensing wireline, wireless, two-way paging, cable telephony, and mobile radio providers serving residential and business customers; representing California in proceedings before the Federal Communications Commission; overseeing the Consumer Protection Initiative to help consumers manage their phone services in a changing marketplace; and investigating illegal activity by industry participants, including prepaid phone card providers.

Approximately 120 investor-owned utilities provide approximately 20 percent of the residential water used in California. The CPUC regulates this industry in a cost-of-service fashion and sets rates for the largest 10 water utilities through General Rate Cases. The CPUC also ensures that water provided by these companies meets all applicable state and federal water quality standards.

The CPUC licenses charter party carriers, passenger stage carriers, and household goods carriers. Companies interested in entering into these businesses must demonstrate that their drivers are properly licensed and participate in the state's drug and alcohol testing program; have adequate liability and property damage insurance coverage; and have paid all applicable fees to the CPUC. The CPUC's staff investigates unlicensed operators and issue citations and other enforcement measures to remove unlicensed firms from business. In the area of rail safety, the CPUC is responsible for licensing new rail crossings, safety enforcement for traditional rail freight and passenger traffic, as well as rail-based public transit including unmanned trains such as at the San Francisco International Airport.

RISK ASSESSMENT PROCESS

In September 2014, the CPUC developed a risk register through broad consultation with agency staff, management and Commissioners. It contained 73 distinct risks, broken into six categories: Core Processes; People; Policies and Programs; External Drivers; External Affairs and Oversight; and Agency Operations/Management. Associated controls were included as well. Subsequently, a risk severity chart was developed that addresses five levels of adverse outcomes or impacts (Incidental, Minor, Moderate, Major, and Extreme), and six categories of impacts (Physical – damage to people or property; Economic – harm to customers or the economy; Financial/Fiduciary – loss of funds or resources entrusted to the CPUC's care; Legal – litigation exposure to the agency; Environmental; and Mission Integrity – political, media, or reputational issues that may impair or threaten the agency's ability to function). Representative descriptions were provided for each level and category of impact. Senior management devoted considerable attention to refining representative descriptions and relative levels of impacts.

In Fall 2015, the senior management team convened to review and update the risk register, and to rank the risks in terms of a combined rating of likelihood and impact. The updated risk register was then presented to the Commissioner Committee on Finance and Administration, a subcommittee of the five-member Commission charged with oversight of agency operations. The Commissioners suggested edits to the risks and control descriptions, requested additional risks be added to the register, and ranked the risks in terms of likelihood and impact.

Upon completion of the updated risk register, the Executive Director's office assigned each risk to a "risk owner" with subject matter expertise in the relevant area. The risk owner conducted a review of the controls associated with their assigned risk, and communicated to their management and the Executive Director's Office the status of existing controls and whether new controls were needed. Management is currently determining how to effect improvements to controls based on input from risk owners. The following risks and controls are presented in priority order.

EVALUATION OF RISKS AND CONTROLS

Operations- External- Staff—Recruitment, Retention, Staffing Levels

Staffing limitations creating inefficiencies or preventing achievement of entity mission or objectives. Examples: inability to find or retain viable candidates due to pay, location, or experience; lengthy selection (testing and hiring) process compounded by increasing retirements.

The Human Resources Office is in the beginning phases of a reorganization that will better utilize existing resources by redefining roles of HR staff and Division Liaisons, eliminating redundancies and bottlenecks in the selection process, and begin Workforce and Succession Planning.

Operations- Internal- Staff—Training, Knowledge, Competence

Operational inefficiency due to inadequate or outdated training or other limitations of staff knowledge. Examples: inadequate or outdated training resources, process or procedure change not communicated to existing staff, staff not applying training/resources.

The Learning & Development (L&D Unit has created a task force that includes representatives from each Division to identify core training curricula as well as continuing education. L&D is building an onboarding program that is expected to launch in its first phase in early 2016.

Operations- Internal- Staff—Key Person Dependence, Succession Planning

Loss of institutional knowledge due to heavy reliance on staff who may become temporarily or permanently unavailable. Examples: Staff expert is relied upon exclusively without any backup to assist in his/her absence; staff retires without someone ready to take on responsibilities.

The Learning & Development (L&D Unit offers interviews with key staff before an expected departure, a knowledge transfer questionnaire, and other assistance when needed. Due to resource limitations, this service is only made available upon request.

The Learning and Development Unit will identify resources to assist in developing rotational programs, documenting processes and procedures and expanding mentoring and coaching programs.

Operations- Internal- Technology—Inadequate Support, Tools, Design, or Maintenance

Inefficiency due to insufficient use of IT capabilities to support agency operations and / or customer service, operational delays, cyber-security-related threats to integrity of agency data or operations, threats to customer privacy or confidentiality of protected data, loss of productivity due to inappropriate employee use of the Internet, shortages of IT staff due to uncompetitive compensation, waste of time and / or money due to ill-conceived IT projects, also unnecessary delays and problems with costs or functionality due to complications of IT contracting process and related safeguards.

IT personnel engage in the following activities: List all the services provided by IT on intranet, update and publish policies and procedures. Periodic training sessions for staff to use available technologies. Provide Internet usage report for management. Involve the Business analysts from the beginning of project to get more specific requirements and be involved in the project as a SME. Have the IT infrastructure and IT Security participate from the beginning of the project to ensure compatibility, appropriate design and security controls are integrated proper safeguards are in place. The IT positions need to be upgraded to a higher classification in order to be competitive with local government and private sector.

In response to cyber security and confidentiality risk, the CPUC IT has deployed secure file transfer and email encryption. CPUC IT is also in the process of deploying Security Incident and Event Management system (SIEM) along with malicious threat identification and remediation solution.

In response to unnecessary delays in IT projects, CPUC IT is closely working with California Department of Technology Project oversight to expedite the approval of submitted projects and also submitted BCP to DOF to seek approval for new positions to help application development and IT infrastructure teams to overcome the lack of resources. CPUC IT updated the project intake process to expedite the project review and approval process.

Compliance- External- Complexity or Dynamic Nature of Laws or Regulations

Difficult-to-interpret or changing requirements of laws or regulations. Enacted legislation that poses impediments to fulfilling the Commission's constitutional and statutory duties, thus diverting Commission attention, staff, and political capital.

Timely input from commissioners and staff on legislative actions. Strategic planning and coordination on legislation within the Commission. Proactive communication, informational outreach, and advocacy with the Legislature and Administration (including gubernatorial vetos). Commission participation in the legislative deliberative process. Fostering of positive relationships with the Legislature. Subjecting Commission and legislative actions to public stakeholder input and media scrutiny. Building and leveraging Commission credibility and expertise.

Operations- External- Business Interruption, Safety Concerns

Agency's loss of immediate or longer-term capability to act in the face of a disaster or emergency situation, including access to physical facilities, communications and records. Inadequate or counterproductive responses to emergency circumstances by building management, guards, police, or other personnel. Potential need to temporarily house, feed and provide emergency medical treatment to employees or visitors.

Emergency supplies on site (both agency and employee-provided), provisions for back-up communications and electronic records access (including contact lists), employee emergency preparedness training, established communication channels with local police and responders, regular drills and practice for emergencies. Work closing with DGS building and property management to strengthen and build on current processes.

Operations- Internal- Program/Activity—Changes, Complexity

Excessive electric, gas or water rates: Harm to consumers and the economy and backlash from consumers or their representatives due to excessive utility costs, inequitable allocation of revenue requirements to particular customer classes, or abrupt changes to rate structures that significantly shifts costs among or within customer classes.

Note: This risk has been categorized to align with risk groupings developed by the Office of State Audits and Evaluations. The categorization may not fully reflect the risk's origins or potential areas of impacts.

Effective ratemaking review regarding utility expenses, including ensuring adequate staff expertise in regulatory economics and auditing; implementing mechanisms to amortize large rate increases; effective design of utility incentive and bill assistance programs based on sound economic and marketing principles and informed by rigorous evaluation; gradual transitions when approving substantial rate shifts; proactive communications with affected interests, the legislature, and the media; input from customers and their representatives; openness to improved rate-setting procedures; increased regulation or deregulation where circumstances warrant.

Operations- Internal- Oversight, Monitoring, Internal Control Systems

Document Management and Retention: Disorganized or poorly-managed document handling, retention and disposal can impair efficiency, cause operational errors or inconsistency, permit needed information

to be lost while useless information is kept, and impair efforts to analyze or improve agency regulatory or business processes. Out of compliance with state mandates, regulations, requirements. Document duplication and use of outdated information.

Note: This risk has been categorized to align with risk groupings developed by the Office of State Audits and Evaluations. The categorization may not fully reflect the risk's origins or potential areas of impacts.

Use / enforcement of applicable practices and standards for document organization and retention, institutional knowledge programs and policies. Executive and Division support in implementing requirements. Training for key division staff (supervisor, liaisons, or assigned staff).

Reporting- Internal- Information Collected—Inadequate, Inaccurate, Misinterpreted, Untimely

Quality of records in formal proceedings: Shortcomings in decisions due to records lacking relevant information and/or reliance on weak analysis, delayed or ill-timed decisions.

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ALJs review and assess sufficiency of parties' proposed issues, explore with parties at prehearing conference, consult with AC to report on issues raised by parties, and recommend the scope of issues, conduct CALJ Review, set aside submission as necessary to add to the record; Tickler system reminds ALJs of deadlines (e.g. issue PDs within 90 days/PODs within 60 days of submission; vote on PD within 18 mos of scoping memo), and for ACALJ to monitor and enforce; ALJs keep AC apprised of status of proceeding submittal, anticipated agenda for PD/POD; ALJ Division offers Quarterly Legal Drafting training.

Compliance- Internal- Staff Not Adhering to Policies, Procedures, or Standards

Staff behaving in a way that does not ensure full compliance with laws, regulations or standards governing conduct in the workplace.

Publication of applicable rules and regulations governing behavior on internal website; dissemination of information on applicable laws and regulations governing behavior to new employees; supervisor training on applicable laws and regulations and how to communicate expectations to employees; compliance with CalHR policies governing corrective action in the event of an episode of non-compliance.

Operations- Internal- Workplace Environment

Lack of productivity or low morale due to poor employee attitudes, lack of needed skills, unattractive duties, weak supervision or management, perceived politics of agency actions, misapplication of protections against adverse personnel actions, lack of opportunities for promotion or pay increases, furloughs.

Quality of supervision and management (including "soft skills" and leadership), training to remediate skill gaps, career planning (e.g. ADP process), redesign of problematic duties, quality of formal decisions and communication of reasons for them, proficiency in appropriate use of formal discipline, cross-training and related internal transfer opportunities, state budget process, control agency modifications to classifications / pay ranges.

Operations- External- Business Interruption, Safety Concerns

Utility pole attachments and loadings: Multiple providers can collectively attach more facilities than poles are designed to support, leading to risks of service outages or fires.

Note: This risk has been categorized to align with risk groupings developed by the Office of State Audits

and Evaluations. The categorization may not fully reflect the risk's origins or potential areas of impacts.

General orders and enforcement, data collection and analysis, audits and inspections.

Operations- External- Business Interruption, Safety Concerns

Gas infrastructure safety: Harm to persons or property from fires or explosions due to gas leaks (including from terrorism) from utility facilities, home plumbing or appliances.

Note: This risk has been categorized to align with risk groupings developed by the Office of State Audits and Evaluations. The categorization may not fully reflect the risk's origins or potential areas of impacts.

Competence and focus of utility management and line workers, relevant General Orders, investment in infrastructure / spending on maintenance, competence and awareness of workers who are digging, public safety agencies, public awareness of risks, agency monitoring / enforcement activities, litigation / liability risks on utilities, ratemaking process and related analysis / showings.

Operations- External- Business Interruption, Safety Concerns

Electric Infrastructure Safety: Personal injury, loss of life and / or damage to property due to contact with energized electrical facilities (including wildfires); risks exist to customers, utility workers, the public, to property and the environment. Service outages, fires due to contact between trees and wires.

Note: This risk has been categorized to align with risk groupings developed by the Office of State Audits and Evaluations. The categorization may not fully reflect the risk's origins or potential areas of impacts.

- Relevant General Orders and enforcement, CPUC audits and inspections of utility facilities and records, professionalism of utility labor and management, safety knowledge of those in proximity to facilities (e.g. customers, utility workers, contractors, construction workers), informational campaigns, emergency responses to hazard reports, planning and provisioning of response efforts to natural disasters (e.g. earthquakes, wildfires, windstorms).
- Competence and focus of utility management and line workers, relevant General Orders, building codes and enforcement, investment in infrastructure / spending on maintenance, public safety agencies, public awareness of risks, agency monitoring / enforcement activities, litigation / liability risks on utilities, allowances for safety in ratemaking process and related analysis / showings.

Operations- External- Partner Agencies/Grantees—Conflicting Objectives, Program Coordination

Shortcomings in program performance due to lack of coordination with other agencies / municipalities with implementation roles, reputational harm due to perceived indifference towards other authorities and the constituents and concerns they represent, shortcomings in decisions due to impediments to participation / input by other authorities.

Formal and informal collaboration and coordination efforts with other agencies, Governor's Office and control agency communications, legislative oversight, outreach efforts to jurisdictions potentially affected by agency actions, ex parte communications, oral arguments, participation of affected jurisdictions as parties in proceedings, public input.

Compliance- External- Funding—Sources, Levels

Audit findings that impede fulfillment of duties: Imposition of resource limitations, methods of operation or other constraints on the agency in ways that pose impediments to the achievement of legitimate Commission objectives and are not balanced by offsetting benefits. Political or budgetary implications of adverse audit findings of the Commission by external agencies. Harm to agency reputation if accounting weaknesses are identified (such as by external audit), possibly causing problems in budget process. Inaccurate or delayed financial information can complicate agency management efforts.

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Effective management of CPUC relationships and communication with control agencies, specifically DOF, LAO, DGS and Governor's Office: DOF: New position within OGA interacts directly with DOF staff in Sacramento, and coordinates with Budget Office and CPUC Divisions to help DOF's understanding of CPUC budget issues, BCP advancement, etc. LAO and Gov Office: (Improved efforts for communication, analysis lobbying) Success measurement: Improvement/success will be measured in this area by (qualitative) feedback from the control agencies regarding interaction/ communication with CPUC representatives, as well as control agency tone and response to BCPs, CPUC Legislation and other issues.

Operations- External- Political, Reputation, Media

Adverse coverage and opinion pieces regarding the agency (actions, operations, leadership) leading to a loss of credibility, dissemination of inaccurate information to the public about important issues or actions they should take.

Maintenance of good professional relationships with media outlets/reporters; ability to recognize and respond quickly to important inaccuracies; an agency reputation for honesty and candor; subject matter experts throughout the agency who can explain issues and agency actions clearly.

Operations- Internal- Program/Activity—Changes, Complexity

Procurement of goods and services: Failure to follow approved State contracting procedures may result in increased cost of services, adverse audit findings, and/or reputational harm. At the same time, compliance with approved State contracting procedures also may raise costs or cause reduced quality and availability of desired services in some instances. Multiple pathways within the agency for contracting (e.g. IT, non-IT) may complicate internal oversight. Employee unions may take issue with extent of contracting. Non-compliance could result in CPUC losing its purchasing authority due to consistent lack of compliance to state regulations, statutes, and requirements.

Note: This risk has been categorized to align with risk groupings developed by the Office of State Audits and Evaluations. The categorization may not fully reflect the risk's origins or potential areas of impacts.

Capabilities, training and management of professional contract administration staff. Training and experience of line staff and management in defining desired services, reviewing bids accurately and fairly, and managing contractors. Implementation of random compliance checks. Effective automation of all procurement and contracting processes.

Operations- External- Business Interruption, Safety Concerns

Utility service reliability: Service outages due to adverse weather or natural events / disasters, terrorism, construction or excavation accidents, insufficient investment in infrastructure or spending on maintenance, problematic behavior by market participants, problematic regulatory actions.

Note: This risk has been categorized to align with risk groupings developed by the Office of State Audits and Evaluations. The categorization may not fully reflect the risk's origins or potential areas of impacts.

Relevant General Orders, agency monitoring / enforcement activities (including penalties where warranted), resource adequacy oversight, utility management competence and focus, oversight by market operators and monitors (e.g. CAISO, NERC), ratemaking process and related analysis / showings, "call before you dig" publicity and services, litigation against bad actors, legislative / media / judicial oversight of agency actions, Commissioner appointments.

Operations- Internal- Program/Activity—Changes, Complexity

Deliberative or decisional processes: Formal decisions that are potentially delayed, less-than-fully analyzed, incorrect or inconsistent due to: limits on deliberation (e.g. Bagley-Keene requirements), dispersal of effective decisional authority among multiple locations (or individuals) across the agency, lack of familiarity with record information, lack of opportunity for parties to address decision makers, expertise gaps, overreliance on established viewpoints or preferences despite changed facts or circumstances.

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Provide briefings to all advisors about PDs prior to being on agenda; In quasi-leg proceedings, defer all rulings to AC unless the AC expressly delegates to the ALJ;ALJ to offer all commissioners offices briefings upon issuance of PDs/PODs; ALJ Division bi-weekly briefing meeting with advisors on agenda PDs; set full panel oral argument upon party's request and/or consult with AC to see if oral argument should be set (rule 13/13 requires quorum); recruit ALJs with regulatory/accounting/engineering specific backgrounds and expertise; rotate assignments so that same ALJs do not continuously handle same types of cases; provide training to develop expertise.

Compliance- Internal- Monitoring external compliance with CPUC decisions

Harm to the public or other regulatory objectives due to non-compliance of regulated entities and grantees with CPUC-ordered actions or requirements.

Incentives of most parties to comply with decisions, further development of ordering paragraph compliance tracking system (COPs database), audits and inspections, required reports (including staff review of their contents), review of prior compliance in follow-on proceedings, actions of enforcement staff.

Operations- Internal- Program/Activity—Changes, Complexity

Electricity procurement: Rate level (cost) or reliability concerns due to excessive or insufficient procurement of capacity, energy, or ancillary services; Rate level (cost) or reliability concerns due to excessive or insufficient transmission authorizations; Rising rate levels due to missed opportunities due to prolonged or uncertain regulatory approval processes; Rising rate levels due to insufficient regulatory oversight of utility compliance with Commission established procurement rules; Rising rate levels due to actual cost of procurement (including nuclear, gas, renewable, CHP, or other electricity generation resources); Rising rate levels due to excess procurement of electricity due to overly conservative (or technically complex, technically inadequate) reviews of future expectations of reliability that lead to unneeded procurement; Environmental damage due to siting / operation of electrical, electricity generation or transmission; Potential for increased GHG emissions from fossil fuel plants, if needed to operate to backstop lower emitting resources; increased costs to maintain reliability; Agency reputational risks (including perceptions of "capture" by industry) associated with a failure to manage or mitigate any of the above mentioned costs.

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Articulation of Commission policies for levels of reliability that are acceptable (such as maintain NERC criteria, etc.) and for which expected levels of insufficient generation justify additional procurement authorization.

Demand response load impacts evaluation

Energy efficiency portfolio cost effectiveness evaluation. (EE portfolio budgets must be found

cost-effective, using CPUC-approved cost-effectiveness tools and methods, before ratepayer expenditures are authorized. In addition, EE evaluation results show portfolio cost-effectiveness on an ex-post (evaluated) basis)

Demand response program cost effectiveness evaluation. (DR programs must be found cost-effective, using CPUC-approved cost-effectiveness tools and methods, before ratepayer expenditures are authorized.)

Interagency commitment (with ISO and CEC) to coordinate and agree on “managed” demand forecast inputs (including EE and DR load impacts) from the CEC’s IEPR process to the CPUC’s generation (procurement) and the ISO’s transmission planning processes, ultimately responsible for maintaining resource adequacy and grid reliability. (See joint agency response to 2013 Senate hearing on energy efficiency. A joint agency steering committee established to coordinate this process is ongoing.)

Staff training and development to increase staff expertise on technical modelling related to reliability assessment modelling and transmission planning modelling.

Conducting environmental review of projects by CPUC (and/or other state and local agencies in most instances of generation and some instances of transmission) to include the maximum feasible mitigation measures to reduce environmental impact as required by California Environmental Quality Act (CEQA).

Establishment of procurement review and approval procedures (e.g. Procurement rule book). Regularized training and development of staff to understand utility procurement practices, Commission procurement rules, and Commission procurement review and approval procedures.

Commission Order General Order 131-D establishes clear rules for transmission facilities that involve permitting, including detailed rules for projects that are exempt from permitting.

Ongoing staff monitoring of supply and demand balance of resources, including annual development of assumptions and scenarios for use in long-term planning. Inter-agency process alignment agreements that articulate specific interactions between California Energy Commission, CAISO, and CPUC around the use of shared information including demand forecasting, long-term planning assumptions (including reasonable expectations of future renewable supply portfolios), and transmission planning results.

Compliance- External- Complexity or Dynamic Nature of Laws or Regulations

Cost and reliability impacts of EE, DR policies: Rising electricity and natural gas rates due to program costs, failure to ensure that EE and DR programs are economic (cost-effective) and a good use of ratepayer dollars, reliability impacts (if EE and DR are relied upon and fail to deliver expected load impacts).

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Energy efficiency evaluation measurement and verification (EM&V)

California Climate Credit – The electric utilities distribute GHG allowance proceeds as the Climate Credit to residential customers on their April and October bills and to small business customers on their monthly bills. The gas utilities will similarly distribute a Climate Credit to their residential customers on their April bills. CPUC decisions directed the utilities to issue on-bill credits to reduce the risk that a customer does not receive the credit value and to minimize administrative costs, which could reduce the credit value. CPUC oversees implementation of Climate Credit to ensure it meets Cap-and-Trade and CPUC program requirements.

CA Industry Assistance – Certain industrial facilities that are emissions-intensive and trade-exposed (EITE) are eligible to receive an annual credit. The purpose of the credit is to mitigate the risk of “emissions leakage,” which occurs when emissions decrease within California, but increase outside of California. In D.14-12-037, as modified by D.15-08-006, the CPUC established the formulas and methodologies to calculate the credit. The credit will be distributed on customer electric bills, or for those who request it, via check.

Demand response program cost effectiveness evaluation. (DR programs must be found cost-effective, using CPUC-approved cost-effectiveness tools and methods, before ratepayer expenditures are authorized.)

Interagency commitment (with ISO and CEC) to coordinate and agree on “managed” demand forecast inputs (including EE and DR load impacts) from the CEC’s IEPR process to the CPUC’s generation (procurement) and the ISO’s transmission planning processes, ultimately responsible for maintaining resource adequacy and grid reliability. (See joint agency response to 2013 Senate hearing on energy efficiency. A joint agency steering committee established to coordinate this process is ongoing.)

Compliance- External- Complexity or Dynamic Nature of Laws or Regulations

Cap-and-trade implementation: The electric and gas utilities and other large industrial facilities are major participants in California’s Greenhouse Gas Cap-and-Trade Program. Major risks include the following: Cap-and-Trade Program compliance costs result in unreasonably high utility costs/rates; Cap-and-Trade allowance proceeds do not benefit ratepayers; the state experiences “emissions leakage” where a decrease in GHG emissions in California is compensated for by an increase in out-of-state emissions.

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Ensure GHG costs in electric and gas rates are fair and reasonable. Decision (D.) 12-12-033 established the overall framework for how Cap-and-Trade would affect customers of electric utilities and subsequently, D.14-10-033 established transparent accounting methodologies for utilities to calculate each year’s GHG costs and allowance proceeds. D.14-12-040 adopted similar rules for natural gas IOUs. These methodologies ensure costs are calculated and included in rates using a reasonable accounting methodology. The CPUC and interested parties review utility calculations each year.

California Climate Credit – The electric utilities distribute GHG allowance proceeds as the Climate Credit to residential customers on their April and October bills and to small business customers on their monthly bills. The gas utilities will similarly distribute a Climate Credit to their residential customers on their April bills. CPUC decisions directed the utilities to issue on-bill credits to reduce the risk that a customer does not receive the credit value and to minimize administrative costs, which could reduce the credit value. CPUC oversees implementation of Climate Credit to ensure it meets Cap-and-Trade and CPUC program requirements.

CA Industry Assistance – Certain industrial facilities that are emissions-intensive and trade-exposed (EITE) are eligible to receive an annual credit. The purpose of the credit is to mitigate the risk of “emissions leakage,” which occurs when emissions decrease within California, but increase outside of California. In D.14-12-037, as modified by D.15-08-006, the CPUC established the formulas and methodologies to calculate the credit. The credit will be distributed on customer electric bills, or for those who request it, via check.

Operations- External- Water utility supply adequacy

Reduced water supplies from decades of over-drafting ground water resources and non-sustainable demands on surface water resources, exacerbated by the recent drought, forcing water utilities subject to the Commission’s jurisdiction and others to seek lower-quality and higher-cost water resources. These

water supplies then contribute to: 1) ever increasing and more unaffordable water rates given stagnating real income growth and 2) decreasing economic growth rates given demographics, overall resource constraints, income inequality, capital formation, and rising environmental costs.

Capital expenditures to fund utility recycled water projects, reductions in pipeline leaks, and development of desalinization projects where cost effective, as well as utility requested program funding for conservation and improvements in the efficiency of water use are reviewed and authorized in general rate case applications and other formal applications filed by utilities. Utility planning efforts are supported by adequate ratepayer-supported funding to develop and construct the proposed infrastructure improvements.

Operations- External- Business Interruption, Safety Concerns

Rail crossing safety: Numerous injuries and deaths occur annually at grade crossings or other locations where tracks are accessible to pedestrians and trespassers, including accidents and apparent suicides. Expansions of rail service can increase public exposure to risk.

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Grade crossing separations, crossing signals warning devices and barriers (installation, maintenance and upgrades)[partially implemented]; isolation of track from pedestrian and trespasser access (e.g. fencing)[partially implemented]; preventative actions and trespasser enforcement by railroad personnel and rail transit police and employees [partially implemented]; enforcement of related rules (including effective discipline specific inspections, regulatory communication and guidance, monitoring, mentoring, citations and civil penalties) [implemented]; public education, public law enforcement participation (e.g. trespassing)[partially implemented]. Initiate proactive safety efforts that look beyond the regulations and focus on any perceived and potentially unsafe act, condition or situation and seek remediation of same [implemented].

Operations- External- Business Interruption, Safety Concerns

Rail carrier safety: Train derailments and accidents can cause fatalities, injuries and property direct physical damage, as well as the release of hazardous materials from rail cars affecting nearby people and activities. Oil by rail shipments are/will continue increasing in volume, although other volatile hazardous materials also are routinely shipped in bulk. Certain routes (e.g. tracks through East Bay and Los Angeles and other crude oil unit train routes) go through densely-populated areas or centers of towns. While densely populated areas and towns are a primary concern, derailments involving hazardous materials can negatively impact waterways and endanger agricultural areas, as well.

Note: This risk has been categorized to align with risk groupings developed by the Office of State Audits and Evaluations. The categorization may not fully reflect the risk's origins or potential areas of impacts.

Effective track maintenance efforts, well trained and vetted railroad and rail transit maintenance and inspection personnel [partially implemented]; investments in track upgrades, investments in control or safety system upgrades, preventative actions by rail personnel [implemented]; enforcement of related rules (including effective discipline specific inspections, regulatory communication and guidance, monitoring, mentoring, citations and civil penalties) [implemented]. Initiate proactive safety efforts that look beyond the regulations and focus on any perceived and potentially unsafe act, condition or situation and seek remediation of same [implemented].

Operations- External- Business Interruption, Safety Concerns

Passenger carrier and ride-share insurance/safety: Injury to the public or damage to property due to commercial passenger operations, lack of compensation for damages due to inadequate or invalid

insurance coverage.

Note: This risk has been categorized to align with risk groupings developed by the Office of State Audits and Evaluations. The categorization may not fully reflect the risk's origins or potential areas of impacts.

DMV driver licensing process, enforcement of traffic laws, insurance and vehicle suitability requirements and enforcement.

Operations- Internal- Organizational Structure

Management span of control: Effective management can be compromised by a need for individuals to oversee large numbers of units and / or direct reports.

Note: This risk has been categorized to align with risk groupings developed by the Office of State Audits and Evaluations. The categorization may not fully reflect the risk's origins or potential areas of impacts.

Reasonable staffing ratios, BCP process, monitoring and ongoing analysis of effective limits of management control within Divisions.

Operations- Internal- Physical Resources—Maintenance, Upgrades, Replacements, Security

Increased upkeep / repair costs or loss in value of agency buildings or other facilities due to lack of maintenance, or abuse.

Skills, capabilities, and attitudes of State facilities-management agencies, interest and concerns of agency employees in upkeep of facilities, State budget process, legislative and control agency oversight. Work closing with DGS building and property management to strengthen and build on current processes.

ONGOING MONITORING

Through our ongoing monitoring processes, the Public Utilities Commission reviews, evaluates, and improves our systems of internal controls and monitoring processes. The Public Utilities Commission is in the process of formalizing and documenting our ongoing monitoring and as such, we have determined we partially comply with California Government Code sections 13400-13407.

Roles and Responsibilities

As the head of Public Utilities Commission, Timothy J. Sullivan, Executive Director, is responsible for the overall establishment and maintenance of the internal control system. We have identified Barbara Owens, Enterprise Risk and Compliance Officer, as our designated agency monitor(s).

Frequency of Monitoring Activities

CPUC monitoring activities occur in a variety of manners and at multiple levels. Risks associated with regulatory policies and programs are monitored through formal proceedings in which CPUC staff, regulated entities and interested parties report on associated risks and issues, and recommend controls and improvements for formal Commission adoption. From a governance and administration standpoint, the CPUC Commissioners convene biweekly meetings of subcommittees which discuss agency risks, control issues and potential administrative deficiencies along with remedial actions. Executive and divisional management participate in weekly directors and Executive Safety Council meetings at which risks and control issues are analyzed and discussed and resources are reallocated as needed. Analogous management meetings take place at all levels of CPUC management on a weekly, bi-weekly, or monthly basis as needed. Further communications between executive management and staff regarding daily operations and needed controls occur through many different venues such as the formal Commission decision meetings (that always include a safety report,) Director's blog, CPUC Newsletter, staff workshops, surveys and staff meetings.

Reporting and Documenting Monitoring Activities

Many types of documentation are generated and reviewed as part of the CPUC's monitoring and control systems. These include filed testimony and comments in formal proceedings, monitoring reports from utilities, investigative and audit reports, and memos and other materials provided to Commissioners and division directors in committee and management meetings. In some instances, deputies report to their division director and the Commission regarding the status of work plans in their area. These reports inform the Commission and executive management of relevant risks, monitoring practices being conducted, improvements needed, and the overall status of the areas in which they perform oversight. The CPUC's first enterprise risk assessment occurred in 2014, was updated for this report and will be performed on a continuing basis. The system will continue to monitor the status of these risks and report to management regarding their corrective actions. In addition, CPUC has established an Internal Audit Unit and Enterprise Risk and Compliance Office that will put into place a tracking mechanism to ensure the Department is addressing all priority risks, control deficiencies and mandatory reporting issues in a timely manner.

Procedure for Addressing Identified Internal Control Deficiencies

Control deficiencies are currently addressed by management in the relevant division, often by providing corrective action plans. The Deputy Executive Director plays a key role in coordinating many such responses. The recent appointment of the Enterprise Risk and Compliance Officer is intended to upgrade these procedures to help ensure that once a risk has been identified, a corrective action plan should be provided by the relevant management area. This process is intended to address risks and control deficiencies identified by the enterprise risk program as well as internal/external audits. State control agencies such as Dept. of Finance, State Controller's Office and Dept. of General Services audit the CPUC with the expectation that control deficiencies will be addressed by corrective actions, and Internal Audit also pursues follow-up audits along these lines. In addition, corrective actions taken by management will be tested to ensure effective and efficient remediation and their status will be reported at the Director level. The CPUC is in the process of formulating a policy and methodology of communicating these issues to management and keeping the Executive Director informed of their status.

CONCLUSION

The Public Utilities Commission strives to reduce the risks inherent in our work through ongoing monitoring. The Public Utilities Commission accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies. I certify our systems of internal control and monitoring processes are adequate to identify and address material inadequacies or material weaknesses facing the organization.

Timothy J. Sullivan, Executive Director

cc: Department of Finance
Legislature
State Auditor
State Library
State Controller
Secretary of Government Operations