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

SCCE Compliance & Ethics Institute
September 27, 2016

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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 PG&E and Our Business

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

<table>
<thead>
<tr>
<th>More than 22,000 employees</th>
<th>5.3 million electric customers</th>
<th>4.4 million gas distribution customers</th>
<th>49 counties served in California</th>
</tr>
</thead>
<tbody>
<tr>
<td>243 cities served in California</td>
<td>7,677 MWh of owned electric generation capacity</td>
<td>$55 billion in assets</td>
<td>$15 billion in revenue</td>
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</table>

PG&E’s Overall Compliance Organization Structure

- Board of Directors and CEO
- Chief Ethics & Compliance Officer
- Compliance & Ethics Committee
- Compliance & Ethics
- C&E Leadership Team
- Compliance Liaisons
- LOBs’ Risk & Compliance Committees (RCCs)
**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

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

- See Regulatory Affairs Compliance and Continuous Improvement as valuable compliance partners
- Agree compliance is a shared responsibility
- Feel empowered to “Speak Up” to raise issues and improve processes
- Embrace 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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# Lines of Business’ Compliance Challenge Areas

- **Ownership/Accountability**
- **Controls Testing**
- Unique Needs of line of business
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.

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

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Controls Testing
Lines of Business’ Compliance Challenge Areas

- Ownership/Accountability
- Controls Testing
- Unique Needs of line of business

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

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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