

RE (xx) e-FILING REPORT COVER SHEET

REPORT NAME:

PGE's Division 38 Code of Conduct Audit

COMPANY NAME:

Portland General Electric

DOES REPORT CONTAIN CONFIDENTIAL INFORMATION?

No

If known, please select designation:

RE (Electric)

Report is required by:

OAR 860-038-0640

Is this report associated with a specific docket/case?

No

Key words:

PGE's Division 38 Code of Conduct Audit

If known, please select the PUC Section to which the report should be directed:

Electric Rates and Planning



Portland General Electric Company
121 SW Salmon Street • Portland, Oregon 97204
PortlandGeneral.com

October 13, 2017

Public Utility Commission of Oregon
Attn: Filing Center
201 High Street, S.E., Suite 100
P.O. Box 1088
Salem, OR 97308-1088

RE: Division 38 Code of Conduct Audit

Pursuant to OAR 860-038-0640, PGE's Internal Audit Services, facilitated by a third party, prepared the enclosed report on the Company's OAR Division 38 Code of Conduct Compliance (OAR 860-038-0500 through 860-038-0620).

Should you have any questions or comments regarding this compliance filing, please contact Kalia Savage at (503) 464-7432.

Please direct all formal correspondence and requests to the following email address pge.opuc.filings@pgn.com

Sincerely,

A handwritten signature in black ink, appearing to read "Karla Wenzel". The signature is written in a cursive, flowing style.

Karla Wenzel
Manager, Pricing and Tariffs

Enclosure



Internal Audit Services

Division 38 Code of Conduct Review

Issued: October 6, 2017

As of: August 30, 2017

Officer: Jim Lobdell, Carol Dillin

Client:



Table of Contents



Executive Summary

3



Detailed Audit Report

- Background Information
- Conclusion
- Detailed Observations & Management Responses
- Acknowledgements

6
7
8
12



Appendix

- Competitive Operations Listing
- Internal Audit Services Overview
- Audit Ratings Definitions
- Alignment with PGE's Mission, Core Business Strategy and Enterprise Risk Management

A-2
A-3
A-4
A-5

Executive Summary

Division 38 Code of Conduct Review

Issued: October 6, 2017

Auditor: [Redacted]

Officers: Jim Lobdell, Carol Dillin

Clients: [Redacted]

Overall Rating ¹	Inherent Risk Rating ¹
Strong	High
Satisfactory	Moderate
Needs Improvement	Low
Unsatisfactory	

Background – The Code of Conduct rules (Oregon Administrative Rules (“OAR”) 860-038-0500 through 860-038-0640) govern the interactions and transactions among the electric company, its Oregon affiliates, and its competitive operations. The Code of Conduct is designed to protect against market abuses and anti-competitive practices by electric companies in the Oregon retail electricity markets.

Objectives & Scope – The objective of this review was to assess PGE’s compliance with sections of the OAR Chapter 860 Division 38 Code of Conduct Rules (“Division 38 Rules”) for the period 1/1/2015 to 12/31/2016, limited to OAR 860-038-0500 through 860-038-0620. Additionally, Internal Audit Services (“IAS”) assessed whether PGE’s affiliates, as determined by PGE, engaged in the types of activities that would make the affiliates “Oregon affiliates” as defined by OAR 860-038-0005.

The engagement was conducted in conformance with the Institute of Internal Auditors’ *International Professional Practices Framework*.

Results – PGE has satisfactorily met requirements for Division 38 Rules.

- No PGE affiliates were determined to engage in activities that would make them “Oregon affiliates” as defined by 860-038-0005.
- Two instances of potential non-compliance with Division 38 Rules were identified.
- One opportunity to enhance the Division 38 compliance program was identified.

Action Items – Management is implementing action plans to address the recommendations scheduled for completion by December 2018.

¹ See definitions on page A-4.



Executive Summary, Continued

Summary of Observations by Areas of Scope

<u>Division 38 Rules</u>	<u>Area Rating</u>	<u>Division 38 Rules Description</u>
1 0500 – Code of Conduct Purpose	Strong	Defines the purpose of Division 38 Rules
2 0520 – Electric Company Name and Logo	Needs Improvement	Disclaimer language requirements for competitive operations when using PGE’s brand
3 0560 – Treatment of Competitors	Satisfactory	Protections against anti-competitive behavior between PGE and competitors
4 0580 – Prevention of Cross-subsidization Between Competitive Operations and Regulated Operations	Needs Improvement	Protections against anti-competitive behavior between PGE and PGE’s competitive operations
5 0590 – Transmission and Distribution Access	Satisfactory	Protections against anti-competitive behavior between PGE and Electricity Service Suppliers
6 0600 – Joint Marketing and Referral Arrangements	Not Applicable ¹	Protections against anti-competitive behavior between PGE and Oregon affiliates
7 0620 – Access to Books and Records	Strong	Record maintenance requirements for transactions between PGE and competitive operations

¹ Section 0600 pertains to Oregon affiliates. No PGE affiliates were determined to engage in activities that would make them “Oregon affiliates”.





Detailed Audit Report



Background Information

The Public Utility Commission of Oregon (“OPUC”) has enacted Code of Conduct rules found in the OAR 860-038-0500 through 860-038-0640. These rules were put into place to provide important safeguards that:

- Govern the interactions/transactions between electric companies and affiliates that engage in electricity services, as well as in-house departments engaged in competitive operations, and to
- Avoid potential market power abuses and cross-subsidization between regulated and unregulated activities.

OAR 860-038-0640 requires that an electric company file a verified report prepared by an independent third-party regarding the electric company’s compliance with Division 38 Rules during odd numbered years for the prior two calendar years. The last report PGE filed was in 2011 for the 2009-2010 period. PGE obtained waivers from this requirement from the OPUC during 2013, for the 2011-2012 period, and 2015, for the 2013-2014 period. Among the reasons for seeking a waiver were the number of competitive operations subject to Division 38 Rules was minimal and an audit was performed by the OPUC in 2012 that did not result in findings related to affiliated interests or competitive operations.

Due to changes to personnel and the time period since the last report was filed, PGE elected to not seek a waiver in 2017 for the 2015-2016 period. A waiver was obtained from the OPUC from the requirement that a third-party file the report. Instead, IAS performed the assessment of PGE’s compliance with Division 38 Rules as an independent function of the organization. IAS performed procedures to assess PGE compliance with Division 38 Rules that included:

- Obtaining and analyzing existing policies, procedures and documentation related to Division 38 compliance activities.
- Conducting interviews of key personnel, identified by management, who were responsible for establishing and maintaining compliance.
- Assessing existing processes against our knowledge of good practices, and providing observations and high-level recommendations considering industry standards for management to consider in addressing non-compliance instances identified.



Conclusion

Overall Rating: Satisfactory ¹

Inherent Risk Rating: Moderate ¹

Summary Results – IAS reached the following conclusions based on the procedures performed:

1. IAS did not identify PGE affiliates that engaged in the sale or marketing of electricity services or directly related products that would meet the standard of an “Oregon affiliate” as defined by OAR 860-038-0005 during the period 1/1/2015 to 12/31/2016.
2. During the period 1/1/2015 to 12/31/2016, the following instances of potential non-compliance with Division 38 Rules were identified:
 - **860-038-0520: Electric Company Name and Logo** – Web advertisements for two of four competitive operations using PGE’s company name and logo did not have required disclaimer language. Web advertisements for one of four competitive operations using PGE’s company name and logo had disclaimer language but was not in bold as required.
 - **860-038-0580: Prevention of Cross-Subsidization Between Competitive Operations and Regulated Operations** – PGE did not identify and separately account for costs to assemble a customer list provided to its competitive operation, Energy Expert. A rule waiver was obtained from the OPUC that allowed proprietary customer information to be shared with this competitive operation as long as the cost incurred by regulated operations personnel to generate the information is charged to the competitive operation.
3. IAS also identified one observation that did not represent potential non-compliance with Division 38 Rules but should be addressed to enhance PGE’s Division 38 compliance program:
 - **Division 38 Training** – Seven employees in the Geospatial Information Systems (“GIS”) Group that have access to operational information that is not routinely made public were excluded from the 2016 Division 38 Training.

¹ See definitions on page A-4.



Detailed Observations and Management Responses (1 of 3)

860-038-0520: Electric Company Name and Logo

Observation – Web advertisements for two of four competitive operations (Clean Wind and Energy Expert) using PGE’s company name and logo did not have disclaimer language, as required by 860-038-0520. Web advertisements for one of four competitive operations (High Voltage Services) using PGE company name and logo had disclaimer language but was not in bold as required by 860-038-0520.

Risk – Existing or potential customers buy services from PGE’s competitive operations under the impression that they must do so to continue to receive their current electricity service from PGE. This may have resulted in anti-competitive practices as defined by Division 38 Rules.

Recommendation – IAS recommends that a review of all web advertisements for competitive operations be performed to confirm advertisements using PGE’s name and logo contains the disclaimer language required by 860-038-0520.

Management Response – Management agrees with this recommendation. We have reviewed all web advertisements for competitive operations and confirmed that the 860-038-0520 disclaimer language is included and appropriately conspicuous.

Schedule 54 - Clean Wind: <https://www.portlandgeneral.com/business/power-choices-pricing/renewable-power/clean-wind>

Schedule 320 - Meter Information Services: <https://www.portlandgeneral.com/business/control-my-energy-costs/energy-monitoring/energy-expert>

Schedule 715 – High Voltage Services: <https://www.portlandgeneral.com/business/grow-my-business/business-distribution-services>

- Responsible Party – [REDACTED]
- Timeline – September 2017



Detailed Observations and Management Responses (2 of 3)

860-038-0580: Prevention of Cross-Subsidization Between Competitive Operations and Regulated Operations

Observation – PGE did not identify and separately account for costs to assemble a customer list provided to its competitive operation, Energy Expert. A rule waiver was obtained from the OPUC that allowed proprietary customer information to be shared with this competitive operation as long as the cost incurred by regulated operations personnel to generate the information is charged to the competitive operation.

Risk – The customer list was provided to the competitive operation free-of-charge and the cost of regulated personnel to assemble the customer list was incurred by rate payers. This may have resulted in anti-competitive practices as defined by Division 38 Rules.

Recommendation – IAS recommends that management evaluate the need to identify and separately account for costs associated with assembling this customer list, and make any adjustments necessary. IAS also recommends that management inventory operational and marketing information that is likely to be requested by competitive operations and determine appropriate processes to control the dissemination of such data. Additional training should also be provided to competitive operations personnel with regards to accounting for costs of information requests from regulated operations.



Detailed Observations and Management Responses (2 of 3), Continued

860-038-0580: Prevention of Cross-Subsidization Between Competitive Operations and Regulated Operations, Continued

Management Response – Management agrees with the recommendation. By March 31, 2018, management will conduct an inventory of PGE’s operational information¹ by interviewing competitive operations and identifying the information they request. If any operational information should not be provided to competitive operations, this identified information, or categories of information that should not be provided to competitive operations, will be called out in the revised Division 38 training to be provided in 2018. Management will also review the Division 38 training for coverage of the accounting requirement and if unclear, will make more explicit and clear. This also will be completed by March 31 2018, in time to inform 2018 training.

- Responsible Party – [REDACTED]
- Timeline – March 2018

¹ Operational information is defined in Division 38 as: “information obtained by an electric company as part of its provision of services or products, as long as such products or services are not defined as ‘competitive operations.’ Such information includes, but is not limited to, data relating to the interconnection of customers to an electric company’s transmission or distribution systems; trade secrets; competitive information relating to internal processes; market analysis reports; market forecasts; and information about an electric company’s transmission or distribution system, processes, operations, or plans or strategies for expansion.”



Detailed Observations and Management Responses (3 of 3)

Division 38 Compliance Program

Observation – Seven employees in the GIS Group that have access to operational information that is not routinely made public were excluded from the 2016 Division 38 Training.

Risk – Personnel in the GIS Group do not know the requirements of Division 38 Rules and provide operation information that is not routinely made public to competitive operations. This may result in anti-competitive practices as defined by Division 38 Rules.

Recommendation – IAS recommends that once an inventory of operational and marketing information is defined, personnel with access to the data should take the Division 38 Training provided by PGE.

Management Response – Management notes that the GIS personnel received training on the requirements of Division 38 following the identification of this item by the reviewers. Management agrees with this recommendation and sees its relationship to the second recommendation. Management agrees to complete a process of inventorying operational and marketing information provided to competitive operations. Once that is completed, by March 31, 2018, personnel with access to that data will be considered for enrollment in the regularly offered even-year Division 38 training in 2018.

- Responsible Party – [REDACTED]
- Timeline – December 2018



Acknowledgements

We would like to thank you and your teams for your support and cooperation throughout this review process.

During our review, we noted the following positive observations:

- PGE has established a biennial training programs to emphasize compliance with Division 38 rules and monitors employee participation. During the 2016 training cycle, PGE achieved a 98.9% completion percentage.
- Employees responsible for compliance with Division 38 Rules are knowledgeable of requirements and have established communication channels to address non-compliance concerns.
- PGE has well-defined processes to maintain separate books and records of transactions between PGE and its affiliates, and its competitive operations.
- The interviewees and other key contacts assisting IAS with the review were open and provided information and document requests timely, which helped meet the planned review timeline.



Appendix



Competitive Operations Listing

PGE's Competitive Operations (1/1/2015 through 12/31/2016)

Schedule 54 - Large Nonresidential Tradeable Renewable Credits Rider

Schedule 320 - Meter Information Services

Schedule 715 - Electrical Equipment Service

Schedule 730 - Power Quality Products and Services¹

¹ Schedule 730 was dissolved in December 2015.

860-038-0005:

“Competitive operations means any electric company's activities involving the sale or marketing of electricity services or directly related products in an Oregon retail market.”



Internal Audit Services Overview

Mission, Vision, & Values
The Team

Mission

To provide independent, risk-based assurance and advisory services that stakeholders can depend on to propel PGE in achieving its strategic objectives.

Vision

To illuminate our clients' potential.

Values

We uphold the Standards and Ethics of our profession.

We optimize change by being strategic and relevant.

We are accountable, trusted and client-focused.

IAS Lead Auditor

Role: Planning, fieldwork, and reporting reviewer; Client expectation management; Observation and recommendation development and client agreement.

IAS Manager

Role: Audit quality review; Final review; Audit committee and leadership communications.



Audit Ratings Definitions

The audit report includes an Overall Rating and an Inherent Risk Rating. These are intended to provide greater insight in evaluating the importance of the area audited and urgency needed in addressing recommendations.

Overall Ratings

The Overall Rating assigned is based upon the risk associated with the present environment as derived from testing of information accuracy, compliance with policies and procedures and/or the quality of the control environment.

STRONG

No structural, process and/or control deficiencies nor unacceptable residual risks were identified, providing strong assurance that business objectives will be achieved. Present control environment is considered mature.

SATISFACTORY

Current structure, processes and/or controls provide reasonable assurance that business objectives will be achieved and/or allow for timely issue identification.

NEEDS IMPROVEMENT

Structure, process and/or control issues exist which may negatively impact business objectives and/or could result in moderate losses if improvements are not made.

UNSATISFACTORY

Structure, process and/or control issues exist which may negatively impact business objectives and/or result in significant losses without timely detection.

Inherent Risk Ratings

Inherent risk is the susceptibility of an area to error that could be material to the business, assuming no related internal controls.

Characteristics of inherent risk include, but are not limited to:

- A. Strategic Importance;
- B. Regulatory Trends;
- C. Financial Significance; and
- D. Transaction Volume.

The greater the inherent risk rating, the more urgency needed in addressing higher ranked issues in order to mitigate risks to acceptable levels.

The rating scale for inherent risk is as follows:

High Risk

Moderate Risk

Low Risk

All engagements are conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.



Alignment with PGE’s Mission, Core Business Strategy and Enterprise Risk Management

PGE’s Mission

To be a company our customers and communities can depend on to provide electric service in a safe, sustainable and reliable manner, with excellent service, at a reasonable price.

PGE’s Core Business Strategy

Operational Excellence, Business Growth and Corporate Responsibility comprise PGE’s business strategy to deliver on our mission. Our customers are at the center of this strategy. Every employee plays a role in delivering on our aspiration to power customers’ potential. The sustainability of our company is dependent upon delivering exceptional value to our customers, and in turn, to all of our stakeholders.

Audit Alignment with Core Business Strategy & PGE’s Top Risk Events Identified by Enterprise Risk Management

This project aligns with our Core Business Strategy of Corporate Responsibility by assessing PGE’s compliance with sections of the OAR Chapter 860 Division 38 Code of Conduct Rules designed to protect against market abuses and anti-competitive practices by electric companies in the Oregon retail electricity markets.

Enterprise Risk Management Identified Top Risk Events								
Generation Outage/T&D or IT System Disruption	Significant Financial Under - performance	Regulatory Non-Compliance	Employee Productivity	Experience Varies from Expectations	Decline in Reputation	Unfavorable Changes in Public Policy	Critical 3 rd Party Failure to Perform	Strategy and Execution Failure
		✓			✓			

